



# PALADIN RESOURCES LTD

A.C.N. 061 681 098

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5 December 2006

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

**By Electronic Lodgement**

Dear Sir/Madam

## **Convertible Bond Prospectus**

Attached please find Prospectus as lodged with the Australian Securities and Investments Commission today in respect of the convertible bond issue announced 30 November 2006. While the Bonds are being issued primarily to institutional, professional and sophisticated investors offshore, a prospectus has been lodged to ensure Australian resale restrictions do not apply to any shares later issued on conversion of the Bonds.

Yours faithfully  
Paladin Resources Ltd

**GILLIAN SWABY**  
Company Secretary

*Not for distribution to United States newswire services or for dissemination in the United States.*



## **PALADIN RESOURCES LTD**

**A.C.N. 061 681 098**

**U.S.\$250,000,000**

**4.50 per cent. Convertible Bonds Due 2011**

**Convertible into Ordinary Shares of Paladin Resources Ltd**

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*Joint Bookrunners and Joint Lead Managers*

**RBC Capital Markets**

**UBS Investment Bank**

## **IMPORTANT NOTICE**

### **GENERAL**

#### **About this document**

This document is a prospectus as that term is defined in the Corporations Act 2001 (Cth) of Australia (the "Corporations Act"). The offering of Bonds in Australia is made under this Offering Circular and is open only to select investors who are sophisticated or professional investors within sections 708(8), (10) and (11) of the Corporations Act.

This Offering Circular is dated 5 December 2006. A copy of this Offering Circular was lodged with the Australian Securities and Investments Commission ("ASIC") on that date. The Corporations Act prohibits the acceptance of applications for, or the issue or transfer of, Bonds offered under this Offering Circular during the seven day period after the date this prospectus was lodged with ASIC. ASIC may extend this period by up to a further seven days (that is, to a total of 14 days). No securities will be issued on the basis of this Offering Circular later than 31 December 2006 (the "Expiry Date").

None of ASIC, the Australian Stock Exchange Limited ("ASX") nor their respective officers take any responsibility for the contents of this Offering Circular or the merits of the investment to which this Offering Circular relates. The fact that ASX have quoted the Company's "Ordinary Shares" and may quote the Ordinary Shares into which the Bonds are convertible is not to be taken in any way as an indication of the merits of the Ordinary Shares, the Bonds or the Company.

This Offering Circular should be read in its entirety. It contains general information only and does not take into account your specific objectives, financial situation or needs. In the case of any doubt, you should seek the advice of a stock broker or other professional advisor.

None of the Company, any member of its Group, or their respective associates or directors guarantees the success of the offering of the Bonds, the repayment of capital or any particular rate of capital or income return. Investment-type products are subject to investment risk, including possible loss of income and capital invested.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Bonds other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Bond shall in any circumstances create any implications that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Group since the date of this Offering Circular.

In this Offering Circular, unless otherwise specified, references to "U.S.\$" or "U.S. dollars" are to United States dollars, references to "\$" are to Singapore dollars and references to "A\$" are to Australian dollars.

#### **No representations or recommendations**

No representation or warranty, express or implied, is made by the Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular, and nothing contained or incorporated in this Offering Circular is, or shall be relied upon, as a promise or representation by the Joint Lead Managers or The Bank of New York (the "Trustee"). This Offering Circular should not be considered as a recommendation by the Issuer, the Joint Lead Managers or the Trustee that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the

relevance of the information contained in this Offering Circular and its purchase of Bonds should be based upon such investigations as it deems necessary.

#### **Restrictions in foreign jurisdictions**

This Offering Circular does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

The distribution of this Offering Circular and the offering, sale and delivery of Bonds and the Ordinary Shares to be issued on conversion of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of this Offering Circular and other offering material relating to the Bonds, see "Subscription and Sale".

The Bonds and the Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act"). The Bonds and the Ordinary Shares may not be offered or sold within the United States or to or for the account or benefit of a U.S. person (as defined in Regulation S under the Securities Act), except pursuant to registration under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

#### **Listing on the Singapore Exchange Securities Trading Limited**

The Issuer has received approval in-principle from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Bonds, but not the Ordinary Shares, on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Bonds to the SGX-ST is not to be taken as an indication of the merits of the Issuer or the Bonds.

#### **Global Bond**

The Bonds will be in registered form. The Bonds will be represented on issue by a global bond (the "Global Bond"). The Global Bond will be deposited on or around 15 December 2006 (the "Closing Date") with a common depositary, and registered in the name of a common nominee for, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The Global Bond will be exchangeable, in whole or in part, for individual definitive Bonds in registered form serially numbered in denominations of U.S.\$200,000 and integral multiples thereof in certain limited circumstances only as described therein and herein.

#### **Stabilisation**

In connection with the issue of the Bonds, UBS Limited (the "Stabilising Manager") (or any person acting for the Stabilising Manager) may effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

#### **Risk Factors**

Prospective purchasers of Bonds should carefully consider the risks and uncertainties described or referred to in this Offering Circular. An investment in the Bonds should be considered speculative due to various factors, including the nature of the Company's business. See "Cautionary Statement Regarding Forward-Looking Statements" (below) and the "Risk Factors" outlined in Section 5.



## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements concerning anticipated developments in the Company's operations in future periods, planned exploration activities, the adequacy of the Company's financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "targeted", "plans", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. Information concerning the interpretation of drill results and mineral resource estimates also may be deemed to be forward-looking statements, as such information constitutes a prediction of what mineralisation might be found to be present if and when a project is actually developed.

Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this document under the heading "Risk Factors". The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and, except as required by law, the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

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# 1. KEY FEATURES

## Summary of offer

*The following is a summary of the principal features of the Bonds and the offering. Terms defined under "Terms and Conditions of the Bonds" (the "Conditions") or elsewhere in this Offering Circular shall have the same respective meanings in this summary.*

*The following summary is qualified in its entirety by the more detailed information appearing in the attached Conditions.*

<b>Issuer</b>	Paladin Resources Ltd.
<b>The Bonds</b>	U.S.\$250,000,000 4.50 per cent. Convertible Bonds due 2011.
<b>The Offering</b>	The Bonds are being offered and sold by the Joint Lead Managers outside the United States in accordance with Regulation S under the Securities Act ("Offer" or "Offering"). The Offering in Australia is only open to select investors who are sophisticated or professional investors within sections 708(8), (10) and (11) of the Corporations Act.
<b>Issue Price</b>	100 per cent. of the principal amount.
<b>Denomination</b>	U.S.\$200,000 and integral multiples thereof.
<b>Closing Date</b>	15 December 2006 (the "Closing Date").
<b>Interest Rate</b>	The rate of interest payable on the Bonds will be 4.50 per cent. per annum. Interest will be payable on the Bonds semi-annually in arrear in equal instalments, on 15 June and 15 December in each year (each an "Interest Payment Date"), commencing with the Interest Payment Date falling on 15 June 2007.
<b>Status</b>	The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 2 of the Conditions) unsecured obligations of the Issuer, as provided in the Conditions, ranking <i>pari passu</i> without any preference among themselves and equally with all other existing and future unsecured and unsubordinated obligations of the Issuer save for such obligations that may be preferred by provisions of law that are mandatory and of general application.
<b>Conversion Right</b>	Unless previously redeemed or purchased and cancelled, Bondholders will have the right to convert Bonds into Ordinary Shares at the then applicable Conversion Price at any time on or after 25 January 2007, provided that the relevant Conversion Date shall fall no later than the date falling six New York business days prior to the Final Maturity Date or, if such Bond is to be redeemed pursuant to Condition 7(b) or 7(c) prior to the Final Maturity Date, then not later than the sixth New York business day before the date fixed for redemption thereof.
<b>Conversion Price</b>	The initial Conversion Price shall be U.S.\$7.685. The Conversion Price will be subject to adjustment in certain circumstances described in Condition 6(b) ( <i>Conversion of Bonds — Adjustment of Conversion Price</i> ), including upon the making of a Dividend by the Issuer and upon the occurrence of a Change of Control.
<b>Final Maturity</b>	Unless previously purchased and cancelled, redeemed or converted, the Bonds will be redeemed in cash on 15 December 2011 (the "Final Maturity Date") at their principal amount.

<b>Optional Redemption by the Issuer</b>	The Issuer will be entitled to redeem the outstanding Bonds, in whole but not in part, at their principal amount plus accrued interest to but excluding the date fixed for redemption (i) at any time on or after 5 January 2010, if on each of at least 20 consecutive dealing days (as defined in the Conditions) ending not earlier than five days prior to the giving of the notice of redemption, the Parity Value shall have been at least U.S.\$260,000; or (ii) if at any time prior to the date on which the relevant notice of redemption is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any further bonds issued pursuant to Condition 18 and consolidated and forming a single series with the Bonds); or (iii) within 45 days after the end of the Change of Control Period. See Condition 7(b) of the Bonds ( <i>Redemption and Purchase —Redemption at the Option of the Issuer</i> ).
<b>Optional Redemption by Bondholders</b>	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Bondholder shall have the right, at such Bondholder's option, following the occurrence of a Change of Control (as defined in the Conditions) to require the Issuer to redeem such Bondholder's Bonds at their principal amount together with accrued interest.
<b>Withholding Taxes</b>	All payments in respect of the Bonds shall be made without deduction of or withholding for or on account of any present or future taxes imposed or levied by or on behalf of the Commonwealth of Australia unless such deduction or withholding is required by law. In the event that any such deduction or withholding is required, the Issuer shall pay additional amounts in respect thereof, subject to certain customary exceptions. See "Taxation".
<b>Tax Redemption</b>	<p>In the event of certain changes affecting taxes of the Commonwealth of Australia, the Issuer may, subject to certain conditions being satisfied, give notice to redeem the Bonds in whole, but not in part, at any time at their principal amount, together with accrued but unpaid interest to such date.</p> <p>Upon such notice being given, a Bondholder may elect not to have his Bond redeemed, in which case such holder will not be entitled to receive payment of such additional amounts as are referred to in "Withholding Taxes" above in respect of any payments on the Bonds.</p>
<b>Negative Pledge</b>	The Bonds will contain a negative pledge provision given by the Issuer and its Subsidiaries in respect of Relevant Indebtedness (as defined in the Conditions). See Condition 2 ( <i>Negative Pledge</i> ).
<b>Cross Default</b>	The Bonds will contain a cross default provision, subject to a threshold of U.S.\$10,000,000 and excluding default in respect of Project Finance Indebtedness. See Condition 10(c) ( <i>Events of Default</i> ).
<b>Other Events of Default</b>	For a description of certain events that will permit acceleration of the Bonds, see Condition 10 ( <i>Events of Default</i> ). Upon acceleration for any such event, the Bonds will become immediately due and repayable at their principal amount, together with accrued but unpaid interest.
<b>Trust Deed</b>	The Bonds will be constituted by a trust deed expected to be dated 15 December 2006 ("Trust Deed") between the Issuer and the Trustee.

<b>Trustee</b>	The Bank of New York.
<b>Governing Law</b>	The Bonds and the Trust Deed will be governed by, and construed in accordance with, English law.
<b>Principal Paying, Transfer and Conversion Agent</b>	The Bank of New York.
<b>Registrar</b>	The Bank of New York.
<b>Form of the Bonds and Delivery</b>	The Bonds will be in registered form without coupons attached and will be represented by a Global Bond registered in the name of a nominee of, and deposited with a common depository for, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream Luxembourg") on or about the Closing Date.
<b>Sales Restrictions</b>	There are restrictions on offers and sales of the Bonds, <i>inter alia</i> , in the United States, the United Kingdom, Canada, Australia, the European Economic Area and Singapore. See "Subscription and Sale".
<b>Listing</b>	<p>Application has been made, and approval in-principle has been received, for the listing of the Bonds on the SGX-ST.</p> <p>The Bonds will be traded on the SGX-ST in a minimum board lot size of U.S.\$200,000 for so long as any of the Bonds are listed on the SGX-ST.</p> <p><b>The Company has not applied to have the Bonds admitted to dealing on the ASX or listed on the Toronto Stock Exchange ("TSX").</b></p>
<b>Lock up</b>	The Issuer has agreed to certain restrictions on its ability and the ability of its subsidiaries to issue or dispose of Ordinary Shares or related securities during the period commencing on the date of the Subscription Agreement (as defined herein) and ending 90 days after the Closing Date (both days inclusive). See "Subscription and Sale".
<b>ISIN</b>	XS0277770151.
<b>Common Code</b>	027777015.
<b>Use of Proceeds</b>	The net proceeds of the issue of the Bonds are expected to amount to approximately U.S.\$242.7 million, subject to adjustment for certain expenses in connection with the Offering. The net proceeds will be used to advance further the development of the Kayelekera Project in Malawi, establish a uranium marketing subsidiary, fund opportunities as they arise to support acquisitions and corporate growth and for general corporate purposes. The Company's uranium marketing subsidiary will, amongst other things, establish its own uranium inventory to afford the Paladin Group flexibility and stability of ongoing supply, in a dynamic uranium market.

**Currency and  
Exchange Rate  
Information**

The Company reports in Australian dollars. Accordingly, unless otherwise indicated, all references to "\$", or "A\$" or "dollars" in this offering document refer to Australian dollars. References to "U.S.\$" and "\$\$" in this offering document refer to United States dollars and Singapore dollars, respectively. The exchange rate at 4.00 pm on 4 December 2006 as reported by the Reserve Bank of Australia for the conversion of Australian dollars into other currencies was as follows:

A\$1.00 = U.S.\$0.7866      (U.S.\$1.00 = A\$1.2713)  
A\$1.00 = S\$1.2141      (S\$1.00 = A\$0.8237)

**Rights and Liabilities of Ordinary Shares**

*The following is a broad summary (though not necessarily an exhaustive or definitive statement) of the rights attaching to fully paid Ordinary Shares as set out in the Company's constitution ("Constitution").*

**Ranking**

The Ordinary Shares issuable upon the conversion of the Bonds will rank *pari passu* with all the other Ordinary Shares that have been issued.

**Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of shares:

- (i) at meetings of shareholders, each shareholder entitled to vote may vote in person or by proxy, attorney or representative; and
- (ii) on a show of hands, every shareholder present in person or by proxy, attorney or representative has one vote and on a poll, every shareholder present in person or by proxy, attorney or representative has one vote for each share that shareholder holds.

A person who holds a share that is not fully paid up (that is, a contributing share) shall be entitled to a fraction of a vote equal to that proportion that the amount paid up bears to the total issue price.

**Dividend Rights**

Subject to the rights of holders of any preference share and to the rights of the holders of any shares created or raised under any special arrangement as to dividends, dividends declared shall be payable on all shares in accordance with the Corporations Act.

**Rights on Winding Up**

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the shareholders in kind, the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided and may determine how the division is to be carried out as between the shareholders or different classes of shareholders.

The liquidator may, with the authority of a special resolution, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities on which there is any liability.

Subject to the rights of the shareholders (if any) entitled to shares with special rights in a winding-up, all moneys and property that are to be distributed among shareholders on a winding up, shall be so distributed in proportion to the shares held by them respectively, irrespective of the amount paid up or credited as paid up on the shares.

**Transfer of Shares** Subject to the Company's Constitution, the Corporations Act and any other laws and the ASX Listing Rules, Ordinary Shares are freely transferable.

**Future Issues** Without prejudice to any special rights conferred on the holders of any existing shares or class of shares, shares for the time being unissued shall be under the control of the directors of the company ("Directors"), and subject to the Corporations Act, the ASX Listing Rules, the TSX Company Manual and the Constitution, the Directors may at any time and from time to time issue such number of shares either as Ordinary Shares or shares of a named class or classes (being either an existing class or a new class) and with such preferred, deferred, or other special rights or such restrictions, whether with regard to dividend, return of capital or otherwise, and whether as preference shares that are or at the option of the Company are liable to be redeemed, as the Directors shall, in their absolute discretion, determine.

**Variation of Rights** If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied, whether or not the Company is being wound up, with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class. Any variation of rights shall be subject to Sections 246B and 246E of the Corporations Act. The provisions of the Constitution relating to general meetings shall apply so far as they are capable of application and with necessary alterations to every such separate meeting except that a quorum is constituted by two persons who together hold or represent by proxy one-third of the issued shares of the class.

Full details of the rights attaching to the Ordinary Shares are set out in the Company's Constitution, a copy of which can be inspected at the Company's registered office at Grand Central, First Floor, 26 Railway Road, Subiaco, Western Australia, 6008, Australia during normal business hours.

## 2. FURTHER INFORMATION ON THE COMPANY

The Company is a 'disclosing entity' for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules of the ASX. Copies of documents regarding the Company lodged with the ASIC or the ASX respectively may be obtained from, or inspected at, any ASIC office or the ASX respectively.

In addition, you have the right to obtain a copy of the following documents:

- the annual financial reports of the Company most recently lodged with ASIC by the Company (including the audited consolidated financial statements of the Company for the year ended 30 June 2006 and audited consolidated financial statements of the Company for the year ended 30 June 2005); and
- any continuous disclosure notices given by the Company after the lodgement of the annual financial report and before the lodgement of this Offering Circular with ASIC including:
  - o notice of annual general meeting and management information circular dated 17 October 2006 prepared in connection with the annual and special meeting of shareholders held on 21 November 2006;
  - o Bidder's Statement dated 7 September 2006 in connection with the Company's offer to acquire all of the issued and outstanding shares of Valhalla Uranium Ltd ("Valhalla");
  - o update dated 24 November 2006 regarding the Langer Heinrich Uranium Project, Namibia mineral resource estimates upgraded;
  - o update dated 24 November 2006 regarding the Langer Heinrich Uranium Project, Namibia prospective tenement granted;
  - o update dated 27 November 2006 regarding the Bigriyi Project Joint Venture, Northern Territory, Australia significant intercepts from initial drilling; and
  - o update dated 1 December 2006 regarding inclusion of Paladin in the ASX S&P 100 index.

These documents may be obtained from the Company, free of charge, during the period up to and including 31 December 2006 by contacting the Company Secretary at the head office of the Company at Grand Central, First Floor, 26 Railway Road, Subiaco, Western Australia, 6008, Australia, telephone +61 (8) 9381 4366. These documents, and all other regular reporting and disclosure documents of the Company, are also available electronically on the website of the Australian Stock Exchange, at [www.asx.com.au](http://www.asx.com.au).

The notice of annual general meeting and management information circular dated 17 October 2006 prepared in connection with the annual and special meeting of shareholders held on 21 November 2006 (including information in relation to the interests of the Directors of in the securities of the Company) is incorporated by reference in this Offering Circular. A copy can be obtained as set out above.

Each document incorporated herein by reference is current only as at the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of the Issuer and affiliates taken as a whole, as the case may be, since the date thereof or that the information contained therein is current as at any time subsequent to its date. Any statement contained therein shall be deemed to be modified or superseded for the purposes of this Offering Circular to the extent that a subsequent statement contained in another incorporated document herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. The modifying or superseding statement need not



state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes.

The making of a modifying or superseding statement is not to be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Prospective investors are advised to obtain and read the documents incorporated by reference herein before making their investment decision in related to the Bonds.

### 3. ABOUT THE COMPANY

#### History

The Company was incorporated under the name "Paladin Resources NL" in Australia on 24 September 1993 as a "no liability" company. The Company was originally incorporated under a Memorandum and Articles of Association. In February 1994, the Company completed its initial public offering pursuant to a prospectus in Australia and on 29 March 1994, the Company commenced trading on the ASX. Following changes in Australian corporate law, the Company's Memorandum and Articles of Association were replaced by a Constitution in November 1999.

On 21 January 2000, the Company changed from a no liability company to a limited liability company. At that time, its name changed to "Paladin Resources Ltd". Paladin Resources Ltd dual listed on the Toronto Stock Exchange ("TSX") on 29 April 2005.

Further information about the Company and its business is publicly available at its website [www.paladinresources.com.au](http://www.paladinresources.com.au), on the ASX's website ([www.asx.com.au](http://www.asx.com.au)) and under the Company's profile on the SEDAR website maintained by Canadian securities regulatory authorities ([www.sedar.com](http://www.sedar.com)). A brief overview of the business is set out below.

#### The Business

The Company operates in the resources industry with a principal business of evaluation and development of uranium projects in Africa and Australia. The Company is currently focussing on its southern African development projects.

The Company's current uranium resource inventory is set out in the following table:

Project	Langer Heinrich Project	Kyeleleka Project	Manyingee Project	Oobagooma Project	Valhalla Project	Skal Project	Biggryl Project
Company Equity	100%	100%	100%	100%	50%	50%	41.7%
Location	Namibia, Southern Africa	Malawi, Southern Africa	West Pilbara, Western Australia	West Kimberley, Western Australia	Queensland, Australia	Queensland, Australia	Northern Territory, Australia
Deposit Type	Calcrete	Sandstone	Sandstone	Sandstone	Metasomatic	Metasomatic	Sandstone
Measured & Indicated Resources	37.1Mt of ore @ 0.06% U <sub>3</sub> O <sub>8</sub> (22,500t U <sub>3</sub> O <sub>8</sub> )	15Mt of ore @ 0.09% U <sub>3</sub> O <sub>8</sub> (13,630t U <sub>3</sub> O <sub>8</sub> )	7.9Mt of ore @ 0.1% U <sub>3</sub> O <sub>8</sub> (8,080t U <sub>3</sub> O <sub>8</sub> )	—	21.3Mt of ore @ 0.08% U <sub>3</sub> O <sub>8</sub> (16,900t U <sub>3</sub> O <sub>8</sub> )	—	1.05Mt of ore @ 0.23% U <sub>3</sub> O <sub>8</sub> (2,450t U <sub>3</sub> O <sub>8</sub> )
Inferred Resources	43Mt of ore @ 0.06% U <sub>3</sub> O <sub>8</sub> (25,308t U <sub>3</sub> O <sub>8</sub> )	3.4Mt of ore @ 0.06% U <sub>3</sub> O <sub>8</sub> (2,040t U <sub>3</sub> O <sub>8</sub> )	4.2Mt of ore @ 0.07% U <sub>3</sub> O <sub>8</sub> (2,810t U <sub>3</sub> O <sub>8</sub> )	—	12Mt of ore @ 0.075% U <sub>3</sub> O <sub>8</sub> (9,000t U <sub>3</sub> O <sub>8</sub> )	—	0.78Mt of ore @ 0.17% U <sub>3</sub> O <sub>8</sub> (1,340t U <sub>3</sub> O <sub>8</sub> )
Historical Resources (see JORC Handbook)	—	—	—	8.3Mt of ore @ 0.12%-0.14% U <sub>3</sub> O <sub>8</sub> (9,945t U <sub>3</sub> O <sub>8</sub> )	—	4.2Mt of ore @ 0.1%-0.13% U <sub>3</sub> O <sub>8</sub> (5,000t U <sub>3</sub> O <sub>8</sub> )	—

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

The Company's advanced uranium projects are geographically diversified and include the Langer Heinrich Uranium Project in Namibia, the Kayelekera Uranium Project in Malawi and the Manyingee Uranium Project in Western Australia. These projects have had feasibility studies carried out by previous owners in the 1970s and 1980s.

#### **Langer Heinrich Uranium Project (100%) - Namibia**

The Langer Heinrich Uranium Project is located 90km east of the Namibian deep sea port of Walvis Bay. The Project is covered by Mining Licence 140 with an initial 25 year term. Exploration Prospecting Licence 3500 was granted in October 2006, protecting the interpreted western extension of the Langer Heinrich Uranium Deposit. The Langer Heinrich Uranium Project is the Company's flagship project and mining is underway, with staged commissioning of the ore treatment plant having commenced in August 2006 and plant handover targeted for December 2006. The Langer Heinrich Uranium Project will, at design capacity, treat 1.5 million tonnes of ore to produce 2.6 million pounds of  $U_3O_8$ . A proposed stage 2 expansion in late 2008 is designed to increase capacity by an additional 1.1 million pounds of  $U_3O_8$  per year, targeted for completion in late 2008/early 2009.

A recent drilling program of 6,355m of RC drilling from 231 holes (confined to Details 3, 4, 5 and 6 targeting the mineralised palaeochannel extending east from the Detail 1 orebody) has returned encouraging results. Mineral resource specialists Hellman and Schofield (H&S) have completed a revised mineral resource estimate for these Details. Updated results for the Langer Heinrich Deposit and the results are reported below using a 250ppm  $U_3O_8$  cut-off. The Competent Person's Statement in relation to these estimates and details of the new estimates were released by the Company to the ASX on 24 November 2006.

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

<b>250ppm Cut-off</b>	<b>Million Tonnes</b>	<b>Grade % <math>U_3O_8</math></b>	<b>Tonnes <math>U_3O_8</math></b>	<b>Million lbs <math>U_3O_8</math></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

The potential for increasing the resource base even further within ML140 is regarded as high. All Details contain mineralisation which remains in the Inferred category and future drilling will concentrate on raising resource confidence in these areas. In addition, the resource has yet to be closed off in Details 4 and 6. Also the newly granted EPL 3500, situated immediately west of ML140 (which contains the Langer Heinrich orebodies), offers additional potential to expand the resource base of Langer Heinrich.

The Company has secured sales contracts which account for 7.475Mlbs of Langer Heinrich production over the period 2007 to 2012. Pricing in all contracts is market-related at the time of delivery and is subject to escalating floor and ceiling components.

#### **Kayelekera Uranium Project (100%) – Northern Malawi**

The Kayelekera Uranium Project is the Company's second advanced project and is located 53km by road west of the northern Malawi lakeside township of Karonga. The Project is covered by Exclusive Prospecting Licence 070 with its term expiring in July 2007. The Company expects to apply for a Mining Licence in the first quarter of 2007.

An 18-month Bankable Feasibility Study ("BFS") for the Kayelekera Uranium Project in Malawi began in May 2005 and is expected to be completed in December 2006. This study is expected to lead to the phase-in of the Company's second uranium operation, in a market where shortages are predicted for the next decade or more. Production start-up for the Kayelekera Uranium Project is envisaged for third quarter 2008. The Kayelekera Project Pre-Feasibility Study completed in February 2005 determined a potential viable operation producing 2.3 million pounds of U<sub>3</sub>O<sub>8</sub> with an expected mine life of 10 years and was the basis for the Bankable Feasibility Study currently being conducted.

The draft Environmental Impact Assessment (EIA), as part of the BFS, was submitted to government in October 2006 for technical committee review. All necessary public participation meetings have been held and comments from these activities are now being assessed and, where appropriate, included in the final EIA.

The Company is in the final stages of negotiation of a Development Agreement with the Malawi Government to provide a 10 year fiscal and operating stability period. This is expected to be finalised by mid December 2006.

#### **Valhalla/Skal and Bigriyi Uranium Projects**

The Company completed its take-over of Valhalla on 27 October 2006. Through its wholly owned subsidiary, Mt Isa Uranium Pty Ltd, Valhalla holds a 50% interest in the Valhalla/Skal Uranium Joint Venture Project in Queensland, Australia and a 41.7% interest in the Bigriyi Joint Venture Project in the Northern Territory, Australia. See "Valhalla Acquisition".

#### **Other Projects**

As of the date of this offering document, the Company has two other uranium projects in its resource asset base, being Manyingee Project and Oobagooma Project in Western Australia. These two projects are currently on hold due to the current restrictive uranium policies of the State Government in Western Australia.

#### **Investment – Deep Yellow Limited**

The Company also holds an 11.11% equity interest in Deep Yellow Ltd., a junior Australian uranium exploration company which has extensive properties in both Australia and Namibia ("DYL"). DYL is currently undertaking a non-renounceable entitlement issue in which the Company is participating. Upon completion of the entitlement issue, it is anticipated that the Company will hold approximately 11.11% of the outstanding shares of DYL (assuming that all entitlements are taken up).

#### **The Valhalla Acquisition**

On 10 July 2006, the Company announced a takeover offer for all of the shares in Valhalla Uranium Limited ("VUL") in consideration for 1 share of the Company for each 3.16 Valhalla shares. The takeover offer closed on 15 September 2006 and the Company compulsorily acquired the remaining shares on 27 October 2006.

The Company has noted the commencement of legal proceedings in Supreme Court of Western Australia by Summit Resources (Australia) Pty Limited alleging breaches of the Mt Isa Uranium Joint Venture Agreement by Resolute Limited, a wholly-owned subsidiary of ASX listed Resolute Mining Limited ("RML"), and Mt Isa Uranium Pty Ltd ("Mt Isa Uranium"), a wholly-owned subsidiary of VUL which, following the takeover of VUL, is also a wholly-owned subsidiary of the Company.

It is to be noted that the Company has entered into a Deed of Indemnity with RML pursuant to which RML indemnified the Company against any loss suffered by it (or Mt Isa or VUL) as a consequence of, amongst other things, these proceedings. The loss is deemed to include an amount determined in accordance with a formula based upon the value (as agreed between the Company and RML) provided under the Company's takeover offer for VUL which is attributable to Mt Isa's joint venture interest. The indemnity is subject to a

cap of \$75 million or \$50 million depending on the determined value of joint venture interest. By reason of the existence of the indemnity, RML has primary conduct of the defence of the proceedings for both RML and Mt Isa.

At this stage, based on the allegations in the plaintiff's statement of claim, and having regard to the indemnity from RML, the Company does not believe the proceedings are material to the Company. However, it will continue to manage its involvement in the proceedings in the ordinary course.

Principal assets owned by VUL included a 50% interest in the Valhalla/Skal Uranium Deposits located in Queensland and a 41.7% interest in the Bigrlyi Uranium Deposit in Northern Territory.

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

The Valhalla and Skal uranium deposits are within the Mt Isa Uranium Joint Venture Agreement ("IUJV") area where Summit is manager and holds a 50% interest. The Company's wholly-owned subsidiary, 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 was modelled, calculated and reported for the Valhalla uranium deposit as follows and as previously announced. The Skal Deposit was predominantly drilled in the period 1969-1972 by previous explorers, with resources publicly reported as set out below.

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

JORC Category	Million Tonnes	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. 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:

#### **SKAL DEPOSIT— Historic Resource**

Non JORC/NI 43-101 Compliant	Million Tonnes	Grade % U <sub>3</sub> O <sub>8</sub>	Tonnes U <sub>3</sub> O <sub>8</sub>	VUL share
Historic Resources*	4.2 (approx)	0.1% to 0.13%	5,000t or 11Mlb	50%

\* Information in relation to the historic resources has been provided as it is believed to be material information of interest to potential investors.

Two mineralised shoots have now been defined at Skal. The uranium mineralisations in both the northern and southern shoots at Skal is yet to be closed off by drilling either along strike or at depth. Sufficient holes have now been drilled into the southern shoot and JORC compliant resource estimates are currently being modelled and calculated with estimates expected to be finalised in early 2007. The historic resource for the Skal Deposit does not conform to either Canadian National Instrument 43-101 or JORC requirements for reporting

purposes and, as such, the Company is not treating these historic resource estimates as current reserves or resources. These estimates should not be relied upon until they have been verified by further due diligence and by a "Qualified Person" for the purposes of NI 43-101 and a "Competent Person" for purposes of JORC.

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

The Bigirlyi Project comprises 10 granted exploration retention licences located approximately 350km northwest of Alice Springs. The project is a joint venture with Energy Metals Ltd (53.3% and project manager) and Southern Cross Exploration (5%) and 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 Energy Metals Limited) are summarised below.

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

<b>JORC Category</b>	<b>Million 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>VUL share</b>
Indicated Resources	1.054	0.23	2,450t or 5.4Mlb	41.7%
Inferred Resources	0.781	0.17	1,340t or 2.9Mlb	41.7%

Initial results from the 30 holes drilled during the current drilling campaign have returned encouraging results (announced by Energy Metals Limited on the ASX 24 November 2006). 13 holes returned intersections greater than 0.16% eU<sub>3</sub>O<sub>8</sub> and included intercepts of 2.45m @ 1.01% eU<sub>3</sub>O<sub>8</sub> from a depth of 161.2m in Anomaly 15 and 5.95m @ 1.01% eU<sub>3</sub>O<sub>8</sub> from a depth of 157.7m in Anomaly 4. This drilling is focussing on extending the resource status both along strike and down plunge of the known deposits.

The above results are radiometrically determined grades (eU<sub>3</sub>O<sub>8</sub>) and validation of these equivalent grades is pending verification by geochemical assay. In uranium exploration and mining, the grade of a uranium orebody is often determined by radiometric means. The radiometric grade so determined is referred to as the equivalent uranium oxide grade or eU<sub>3</sub>O<sub>8</sub>. This is to distinguish it from the "true" uranium oxide grade determined by assay methods in a laboratory which is usually referred to as U<sub>3</sub>O<sub>8</sub>. With careful measurement and properly calibrated instrumentation the eU<sub>3</sub>O<sub>8</sub> grade should be very close to the U<sub>3</sub>O<sub>8</sub> grade. The Company is currently preparing a NI 43-101 resource report for the Valhalla and Bigirlyi Deposits and expects this to be completed in December 2006.

## 4. DIRECTORS

Brief profiles of the directors of the Company as at the date of this Offering Circular are as follows:

### **Mr Rick Wayne Crabb (Non-Executive Chairman) Age 49**

B. Juris (Hons), LLB, MBA, FAICD, M.AusIMM

Mr Crabb holds degrees of Bachelor of Jurisprudence (Honours), Bachelor of Laws and Master of Business Administration from the University of Western Australia. He has practiced 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 for 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 presently also a director of Alcaston Mining NL (since 2001), Ashburton Minerals Ltd (since 1999), Otto Energy Ltd (since 2004), Port Bouvard Ltd (since 1996), Royal Resources Limited (since 2004) and Thundelarra Exploration Ltd (since 2003).

Mr Crabb was appointed a director on 8 February 1994 and Chairman on 27 March 2003.

### **Mr John Borshoff (Managing Director) Age 61**

B.Sc., F.AusIMM, FAICD

Mr Borshoff is a geologist who has been involved in the Australian and African exploration and mining industry for 34 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 founded Paladin Resources Ltd and was appointed a Director on 24 September 1993. He has extensive knowledge of the uranium industry and experience in company management, strategic planning and administration.

### **Mr Sean Reveille Llewelyn (Non-Executive Director) Age 58**

LLB

Mr Llewelyn first qualified as a solicitor in Australia and subsequently England. His life work however has been in finance and merchant banking having worked for more than 20 years in this capacity in Australia, the UK, the USA and South Africa. His considerable experience has been in derivatives, structured finance and early stage investment relating to the metal markets. He has been involved with the uranium industry for over 12 years and has a comprehensive understanding of its structure and dynamics.

Mr Llewelyn was involved as a key player in the formation of a joint venture company between Anglo Gold and First Rand International to assume marketing responsibility for uranium on behalf of Nuclear Fuels Corporation of South Africa (Nufcor).

Mr Llewelyn was appointed to the Board of Directors of the Company on 12 April 2005.

**Mr George Edward Pirie (Non-Executive Director) Age 53**

**B.Com (Hons)**

Mr Pirie has 24 years experience in the mining business. In 1980 he was with Pamour Porcupine Mines, a division of Noranda, and then joined Dome Mines Limited in 1985, holding various positions until April 1999 when he was promoted to Chief Financial Officer for Placer Dome North America, where he was responsible for re-establishing both Placer Dome U.S. and Placer Dome Canada. In January 2000, he joined Placer Dome Canada as Chief Financial Officer and was appointed Acting President and Chief Executive Officer of Placer Dome Canada in October 2001.

He was responsible for the formation of the Porcupine Joint Venture in July of 2002 and was promoted to Executive Vice President of Placer Dome Inc. and President and Chief Executive Officer of Placer Dome Canada in December 2002. Mr Pirie resigned his position with Placer Dome effective 31 December 2004.

Mr Pirie currently serves on several boards including: Ontario Mining Association, Mining Association of Canada, Canadian Mineral Industry Education Foundation, Mirarco Mining Innovation, Co-Chair of the Mining Cluster Initiative for the Ministry of Northern Development & Mines, and effective 4 July 2005 appointed President and Chief Executive Officer of Breakwater Resources Inc.

Mr Pirie was appointed to the Board of Directors of the Company on 1 June 2005.

**Mr Ian Urquhart Noble (Non-Executive Director) Age 65**

**BSc (Metallurgy), ARCST**

Mr Noble has more than 40 years experience covering the mining, chemical and nuclear industries with a strong emphasis in the mining and mineral processing fields. He is an internationally recognised consultant, specialising in hydrometallurgy and comminution, and has been involved in many of the major mining developments within Australia and overseas. He has 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's initial involvement with uranium was with Wright Engineers Pty Limited on the Rabbit Lake project in Canada. In Australia, in 1976, he was Lead Engineer on the Ranger Uranium Feasibility Study, followed by a three year involvement in the design & construction phase, initially as Process Engineering Manager, and then a period as Project Engineer for the hydrometallurgical plant, and finally a year on site as Pre-Commissioning and Commissioning Manager. He was subsequently Lead Process Engineer for the design of the then Western Mining Corporation's Olympic Dam Project.

Mr Noble was appointed to the Board of Directors of the Company on 29 June 2005.



## **5. RISK FACTORS**

There are numerous widespread risks associated with investing in any form of business and with investing in bonds and the share market generally. There are also a range of specific risks associated with the Company's business and its involvement in the exploration and mining industry. Many of these risk factors are largely beyond the control of the Company and its Directors because of the nature and location of the existing and proposed business activities of the Company.

Investors should carefully consider the risks described below before making a decision to invest in the Bonds.

### **INVESTMENT SPECIFIC RISKS**

The following summary outlines some of the major risk factors in respect of an investment in the Bonds.

#### **Market for Bonds**

There is currently no formal market through which the Bonds may be sold and purchasers may not be able to resell the Bonds purchased under this offering document. There can be no assurance that an active trading market will develop for the Bonds after the Offering, or if developed, that such a market will sustain a price level at the Offering price.

#### **Other Indebtedness**

The Bonds will rank *pari passu* with all other unsecured and unsubordinated obligations of the Company save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

#### **Absence of Covenant Protection**

Other than as described herein, the Trust Deed will not limit the Company's ability to incur additional debt or liabilities (including secured indebtedness). The Trust Deed will not contain any provision specifically intended to protect holders of the Bonds in the event of a future leveraged transaction by the Company (other than secured capital markets transactions).

Certain Subsidiaries (as defined in the Conditions) of the Company have significant outstanding indebtedness, including Project Finance Indebtedness (as defined in the Conditions), and may in future incur further indebtedness, including Project Finance Indebtedness (including if it becomes apparent from the Kayelekera BFS that further capital expenditure is required). The Company has and may in the future provide guarantees and/or indemnities in respect of such indebtedness and Project Finance Indebtedness. The Company is a holding company with no significant assets other than the shares of its wholly-owned and non wholly-owned Subsidiaries. The ability of the Company's Subsidiaries to pay dividends and make other transfers to the Company may be limited by various regulatory, contractual, legal and tax constraints or the Subsidiaries' debt or other agreements with lenders. If as a result of these restrictions the Company is unable to ensure the continued transfer of dividends and other income to it from these Subsidiaries, this may materially and adversely impair the Company's ability to pay dividends and interest, and to service its debt obligations, including its obligations under the Bonds.

#### **Limitation in Ability to Redeem Bonds**

The Company must redeem the Bonds on the Maturity Date, on the request of a Bondholder if a Change of Control occurs or on the occurrence of an Event of Default. The Company cannot assure Bondholders that, if required, it would have sufficient cash or other financial resources at any such time or would be able to arrange financing to redeem the Bonds in cash.

### **Market Price of the Bonds**

The market price of the Bonds will be based on a number of factors, including:

- (a) the prevailing interest rates being paid by companies similar to the Company;
- (b) the overall condition of the financial and credit markets;
- (c) prevailing interest rates and interest rate volatility;
- (d) the markets for similar securities;
- (e) the financial condition, results of operation and prospects of the Company;
- (f) the publication of earnings estimates or other research reports and speculation in the press or investment community;
- (g) the market price and volatility of the Ordinary Shares;
- (h) changes in the industry and competition affecting the Company; and
- (i) general market and economic conditions.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Bonds.

### **Volatility of Market Price of Ordinary Shares**

The market price of the Ordinary Shares may be volatile. The volatility may affect the ability of holders of Bonds to sell the Bonds at an advantageous price. Additionally, this may result in greater volatility in the market price of the Bonds than would be expected for nonconvertible debt securities. Market price fluctuations in the Ordinary Shares may be due to the operating results of the Company failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "Cautionary Statement Regarding Forward-Looking Statements". In addition, stock markets, including the SGX, ASX and TSX, from time to time suffer significant price and volume fluctuations that affect the market price for securities and which may be unrelated to the operating performance of the Company. Any of these events could result in a decline in the market price of the Bonds or the Ordinary Shares.

## **GENERAL RISKS**

The following summary, which is not exhaustive, represents some of the more general major risk factors for the Company.

### **Speculative Nature of Mineral Exploration and Development**

Development of the Company's mineral exploration properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. The degree of risk increases substantially when a company's properties are in the exploration as opposed to the development phase. There is no assurance that commercial quantities of ore will be discovered on any of the Company's exploration properties. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production.

The discovery of mineral deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit, once discovered, is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. In addition, assuming discovery of a commercial ore-body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of the Company.

#### **Production risk**

The Company's principal business to date has been the evaluation and development of uranium projects in Africa and Australia. Commissioning of production, including at Langer Heinrich, may not proceed to plan with potential for delay in the timing of targeted production and/or for not achieving the level of targeted production. As the Company moves into production its activities may be affected by numerous other factors beyond the Company's control. Mechanical failure of the Company's operating plant and equipment, and general unanticipated operational and technical difficulties, may adversely affect the Company's operations. There is little operating history available from the Company's sites. Operating risks beyond the Company's control may expose it to uninsured liabilities. The business of mining, exploration and development is subject to a variety of risks and hazards such as cave-ins and other accidents, flooding, environmental hazards, the discharge of toxic chemicals and other hazards and the use of contractors including contract miners. Such occurrences may delay production, increase production costs or result in damage to and destruction of, mineral properties or production facilities, personal injury, environmental damage and legal liability. The Company has insurance to protect itself against certain risks of mining and processing within ranges of coverage consistent with industry practice. However, the Company may become subject to liability for hazards that it cannot insure against or that it may elect not to insure against because of high premium costs or other reasons. The occurrence of an event that is not fully covered, or covered at all, by insurance, could have a material adverse effect on its financial condition and results of operations.

#### **Political Stability**

Many of the Company's activities are conducted in southern Africa. In southern Africa, the Company's projects may be subject to the effect of political changes, war and civil conflict, changes in government policy, lack of law enforcement and labour unrest and the creation of new laws. These changes (which may include new or modified taxes or other government levies as well as other legislation) may impact on the profitability and viability of its properties. The balance of the Company's activities are currently conducted in Australia. In Australia, government policy from time to time may not be favourable to uranium mining and export.

#### **Liquidity Concerns and Future Financing**

Further exploration and development of the various mineral properties in which the Company holds interests depend upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that the Company will be successful in obtaining the financing required as and when needed. Volatile markets for mineral commodities may make it difficult or impossible for the Company to obtain debt financing or equity financing on favourable terms or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone its development plans, forfeit rights in some or all of its properties or joint ventures or reduce or terminate some or all of its operations.

### **Logistics**

Logistical risk relates to long supply lines, and lack of engineering and other support facilities close to the Company's operating sites. In Africa, the transshipment of uranium concentrate through neighbouring countries for export could be subject to disruptions through political disputes and natural disasters.

### **Uninsurable Risks**

The Company may become subject to liability for accidents, pollution and other hazards against which it cannot insure or against which it may elect not to insure because of premium costs or for other reasons, or in amounts, which exceed policy limits.

### **Mineral Resources and Ore Reserves**

No assurance can be given that the anticipated tonnages and grades of ore will be achieved during production or that the indicated level of uranium recovery will be realised. Uranium price fluctuations, as well as increased production costs or reduced recovery rates, may render ore reserves containing relatively lower grades uneconomic and may ultimately result in a restatement of such ore reserves. Moreover, short-term operating factors relating to ore reserves, such as the need for sequential development of ore bodies and the processing of new or different ore types or grades may cause a mining operation to be unprofitable in any particular accounting period.

### **Uncertainty Relating to Inferred Mineral Resources**

Inferred mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty which may attach to inferred mineral resources, there is no assurance that inferred mineral resources will be upgraded to measured or indicated resources or proven or probable mineral reserves as a result of continued exploration.

### **Security of Tenure**

All tenements in which the Company has interests are subject to renewal conditions or are yet to be granted, which will be at the discretion of the relevant Ministries in Australia, Namibia and Malawi. The maintaining of tenements, obtaining renewals, or getting tenements granted, often depends on the Company being successful in obtaining required statutory approvals for proposed activities. While the Company anticipates that subsequent renewals will be given as and when sought, there is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith.

### **Government Regulations**

The Company's activities are subject to extensive laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment and upon interests of native and/or indigenous peoples. Permits from a variety of regulatory authorities are required for many aspects of mine operation and reclamation. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development of the Company's properties, the extent of which cannot be predicted.

In the context of environmental permitting, including the approval of reclamation plans, the Company must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and

their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

While it is possible that costs and delays associated with compliance with such laws, regulations and permits could become such that the Company will not proceed with the development or operation of a mine, the Company is not aware of any material environmental constraint affecting its proposed mining activities or exploration properties that would preclude the economic development or operation of any specific mine or property.

### **Foreign Operations**

The Company's operations in Namibia and Malawi are exposed to various levels of political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction. These risks and uncertainties vary from country to country and include, but are not limited to, currency exchange rates; high rates of inflation; labour unrest; renegotiation or nullification of existing concessions, licenses, permits and contracts; changes in taxation policies; restrictions on foreign exchange; changing political conditions; currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in any of the countries in which it operates may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

### **Operating History**

The Company has no operating history and there can be no assurance of its ability to operate its projects profitably. While the Company intends to generate working capital through operation of its proposed uranium mines, there is no assurance that the Company will be capable of producing positive cash flow on a consistent basis or that any such funds will be available for exploration and development programs.

### **Volatility of Uranium Prices**

The mining industry is competitive and there is no assurance that, even if commercial quantities of a mineral resource are discovered, a profitable market will exist for the sale of the same. There can be no assurance that uranium prices will be such that the Company's properties can be mined at a profit. Factors beyond the control of the Company may affect the marketability of any minerals discovered. Uranium prices are subject to volatile price changes from a variety of factors including international economic and political trends, expectations of inflation, global and regional demand, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods.

### **Key Personnel**

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense.

As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff on the operations side. The Company will be required to hire additional personnel in Namibia and Malawi. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

#### **Labour and Employment Matters**

While the Company has good relations with its employees, these relations may be impacted by changes in the scheme of labour relations which may be introduced by the relevant governmental authorities. Adverse changes in such legislation may have a material adverse effect on the Company's business, results of operations and financial condition.

#### **Subsidiaries**

The Company conducts certain of its operations through subsidiaries and holds certain of its assets in such subsidiaries. Accordingly, any limitation on the transfer of cash or other assets between the Company and its subsidiaries could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist now or in the future, could have an adverse impact on the Company's valuation and stock price.

#### **Mineral Exploration and Mining Carry Inherent Risks**

Mining operations are subject to hazards normally encountered in exploration, development and production. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment or the environment and which could impact production throughput. Although it is intended to take adequate precautions to minimise risk, there is a possibility of a material adverse impact on the Company's operations and its financial results.

#### **Currency Risk**

The Company's operations incur expenditures in the local currencies of Australia, Namibia, Malawi and South Africa. Revenue from operations and certain other capital and operating costs will be in US dollars. As a result of the use of these different currencies, the Company is subject to foreign currency fluctuations which may materially affect its financial position and operating results.

#### **Competition**

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result of this competition, some of which is with large, better established mining companies with substantial capabilities and greater financial and technical resources, the Company may be unable to acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company will acquire any interest in additional operations that would yield reserves or result in commercial mining operations.

#### **Dilution**

The Company may undertake additional offerings of securities in the future. The increase in the number of fully paid shares issued and the possibility of sales of such shares may have a depressive effect on the price of fully paid shares already on issue. The Conditions provide for an adjustment to the Conversion Price in relation to some but not all future offerings of securities. In addition, as a result of the issue of such additional fully paid shares, the voting power of the Company's existing shareholders will be diluted.

**Dividend Policy**

The Company has paid no dividends on its ordinary shares since its date of incorporation and the Company does not anticipate paying dividends on its Ordinary Shares in the foreseeable future. The Company anticipates that it will retain all future earnings and other cash resources for the future operation and development of its business and the Company does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Company's board of directors after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

The risks described above do not necessarily comprise all those faced by the Company and are not intended to be presented in any assumed order of priority.

The investment referred to in this Offering Circular may not be suitable for all of its recipients. Investors are accordingly advised to consult an investment advisor before making a decision to subscribe for Bonds.

## 6. FINANCIAL INFORMATION

### Overview

The Issuer is an Australian company. Accordingly, its audited consolidated financial statements are currently presented in Australian dollars and in accordance with Australian equivalents to International Financial Reporting Standards ("A-IFRS"). The Issuer intends to move to a US dollar presentation currency.

Set out below are:

- a table setting out the consolidated capitalisation of the Company as at 30 September 2006 as adjusted after giving effect to the issue of the Bonds under the Offering;
- a table setting out the consolidated capitalisation of the Company as at 30 June 2006, as adjusted to show the effect of completion of the acquisition of all the Valhalla shares by the Company only, and as adjusted for both this acquisition and the issue of the Bonds under the Offering;
- the proforma unaudited consolidated financial statements of the Issuer as at 30 June 2006 to reflect the effect of both completing the Valhalla acquisition and the Offering on the Issuer's financial position. These statements are based on the audited consolidated financial statements for the Issuer for the year ended 30 June 2006 which are prepared in accordance with A-IFRS. The audited financial statements most recently lodged by the Issuer with ASIC can be obtained as set out in the "Important Notice";
- information on assumptions and adjustments;
- information on use of proceeds; and
- information on earnings coverage.

In this Offering Circular, the terms "Issuer", "Company", "we", "us", "our" and "Group" refer to Paladin Resources Ltd and its subsidiaries, unless the context otherwise requires.

As a result of rounding adjustments, the figures or percentages in a column may not add up to the total for that column.

The audited financial reports of the Company, most recently lodged with ASIC, may be obtained from the Company or the ASX as set out in the "Important Notice". Prospective investors are advised to obtain and read these documents before making their investment decision in relation to the Bonds.

### Consolidated capitalisation and share capital after Offering

The following table sets forth the consolidated capitalisation of the Company as at 30 September 2006 and 30 June 2006 as adjusted after giving effect to the issue of the Bonds under the Offering. This table should be read in conjunction with the Company's audited consolidated financial statements for the year ended 30 June 2006 and related notes thereto and management's discussion and analysis thereon.



	As at 30 September 2006 (Unaudited – A\$000's)	As at 30 June 2006 on a pro forma basis(1) (Unaudited – A\$000's)	As at 30 September 2006 after giving effect to the issue of the Bonds(2) (Unaudited – A\$000's)	As at 30 June 2006 on a pro forma basis(1) and after giving effect to the issue of the Bonds(2) (Unaudited – A\$000's)
Cash and cash equivalents	A\$43,465	A\$65,080	A\$351,548	A\$373,163
Ordinary Shares issued (unlimited authorised)	A\$343,605 (493,865,969 shares)	A\$343,604 (492,209,969 shares)	A\$343,605 (493,865,969 shares)	A\$343,604 (492,209,969 shares)
Long term debt	A\$39,860	A\$19,334	A\$300,270	A\$279,744

Notes:

- (1) After giving effect to the acquisition of Valhalla.
- (2) After deduction of the Joint Lead Managers' fee and estimated expenses of the Offering. Assumes proceeds of Bonds are converted to A\$ at an exchange rate of US\$1.00 = A\$1.2713.

### **Pro-forma consolidated financial statements for the Group including Valhalla ("Merged Group") and reflecting effect of the Offer**

#### **(a) Introduction**

This section provides an overview of the audited financial position of the Company as at 30 June 2006 together with the unaudited pro-forma balance sheet of the Merged Group as at 30 June 2006, to show the effect of:

- completion of the acquisition of all the Valhalla shares by the Company; and
- completion of the Offer.

The balance sheets as at 30 June 2006 have been prepared in accordance with A-IFRS.

#### **(b) Summarised Balance Sheets**

Set out below are a summary of the audited balance sheet of the Company and the proforma balance sheet of the consolidated Merged Group, as at 30 June 2006.

This table should be read in conjunction with the financial statements for the Company and other information contained in this document or released to ASX in accordance the Company's continuous disclosure obligations.

# SUMMARISED UNAUDITED PRO-FORMA BALANCE SHEET AS AT 30 JUNE 2006

	Paladin Resources Ltd	Valhalla Uranium Limited	Proforma Adjustments	Merged Group
	AS (000's)	AS (000's)	AS (000's)	AS (000's)
<b>Current assets</b>				
Cash and cash equivalents	59,778	5,302	308,083	373,163
Trade and other receivables	3,695	166	-	3,861
<b>Total current assets</b>	<b>63,473</b>	<b>5,468</b>	<b>308,083</b>	<b>377,024</b>
<b>Non-current assets</b>				
Other financial assets	7,703	-	-	7,703
Property, plant and equipment	80,442	-	-	80,442
Exploration and evaluation expenditure	8,690	42,185	147,988	198,863
<b>Total non-current assets</b>	<b>96,835</b>	<b>42,185</b>	<b>147,988</b>	<b>287,008</b>
<b>Total assets</b>	<b>160,308</b>	<b>47,653</b>	<b>456,071</b>	<b>664,032</b>
<b>Current liabilities</b>				
Trade and other payables	11,074	219	-	11,293
Unearned revenue	242	-	-	242
Provisions	328	-	-	328
<b>Total current liabilities</b>	<b>11,644</b>	<b>219</b>	<b>-</b>	<b>11,863</b>
<b>Non-current liabilities</b>				
Trade and other payables	41	-	-	41
Unearned revenue	979	-	-	979
Provisions	3,585	-	-	3,585
Interest bearing loans and borrowings	19,334	-	260,410	279,744
<b>Total non-current liabilities</b>	<b>23,939</b>	<b>-</b>	<b>260,410</b>	<b>284,349</b>
<b>Total liabilities</b>	<b>35,583</b>	<b>219</b>	<b>260,410</b>	<b>296,212</b>
<b>Net assets</b>	<b>124,725</b>	<b>47,434</b>	<b>195,661</b>	<b>367,820</b>
<b>Equity</b>				
Contributed equity	148,182	47,597	147,825	343,604
Reserves	11,311	-	47,673	58,984
Accumulated losses	(34,768)	(163)	163	(34,768)
<b>Total equity</b>	<b>124,725</b>	<b>47,434</b>	<b>195,661</b>	<b>367,820</b>

## Basis of preparation of the unaudited pro-forma balance sheet.

For the purposes of preparing the unaudited pro-forma balance sheets, the Company has utilised the audited balance sheet of Valhalla as at 30 June 2006. Pro-forma adjustments and assumptions have been made to

present the balance sheet as at 30 June 2006. These adjustments and assumptions are detailed in the section immediately below.

The Company has utilised its own audited balance sheet as at 30 June 2006.

Acquisition accounting entries have then been made, consistent with the terms of the Offer and the assumptions set out below, in order to arrive at an unaudited pro-forma consolidated balance sheet of the Merged Group as at 30 June 2006.

The pro-forma balance sheets are indicative only. The directors of the Company have drawn their conclusions based on the known facts and other information publicly available. If the facts, circumstances, assumptions or other information should prove to be different to that described, the conclusions may change accordingly.

All adjustments have been made in accordance with A-IFRS.

#### **Adjustments and assumptions used in preparing the unaudited pro-forma consolidated balance sheets**

The following adjustments and assumptions have been made in the preparation of the pro-forma unaudited consolidated balance sheet of the Merged Group, as set out in the section immediately above:

- The issue of 37,974,256 Company shares (at an issue price of A\$5.09 which was the price at 7 September 2006) to shareholders of Valhalla pursuant to the offer for Valhalla shares, and before issue costs.
- The excess of the consideration paid over the fair value of Valhalla's non mineral assets resulting from the transaction has been attributed in full to Mining and Exploration Properties. This has resulted in the recognition of exploration expenditure acquired in the proposed transaction of A\$147,987,842. The accounting for the proposed transaction has been treated as the acquisition of an asset as the directors are of the opinion that the proposed transaction does not fall within the scope of AASB 3 "Business Combinations".
- Approximately A\$2,132,879 in costs were incurred by the Company in relation to the offer for Valhalla shares and have been capitalised as a component of the cost of acquiring Valhalla as part of the Company's investment in Valhalla.
- The issue of U.S.\$250,000,000 in aggregate principal amount of convertible bonds in accordance with the Offer, after deduction of the Joint Lead Managers' fee of 2.75% and estimated expenses of A\$1,000,000 for the Offering. The allocation of the convertible bond in accordance with A-IFRS has been assumed to be a liability for 85% of the gross proceeds less fees and expenses; and the balance allocated to an equity reserve. An exchange rate assumption of U.S.\$1.00 = A\$1.2713 has been used.

#### **September 2006 Quarterly Report**

On 8 November 2006 the Company released its September 2006 Quarterly Report which contains a Report to Shareholders, Management Discussion and Analysis and Interim Consolidated Financial Statements.

Since 30 June 2006 the Company has maintained its focus on uranium projects and corporate activities which has resulted in the use of cash and drawdown of U.S.\$22,105,480 in project finance for the Langer Heinrich Uranium Project.

#### **Use of Proceeds**

The net proceeds of the issue of the Bonds are expected to amount to approximately U.S.\$242.3 million, subject to adjustment for certain expenses in connection with the Offering. The net proceeds will be used by the Issuer to further advance the development of the Kayelekera Project in Malawi, establish a uranium marketing subsidiary, fund opportunities as they arise to support acquisitions and corporate growth and for general corporate purposes. The Company's uranium marketing subsidiary will, amongst other things

establish its own uranium inventory to afford the Paladin Group flexibility and stability of ongoing supply in a dynamic uranium market.

#### **Earnings Coverage**

The Company's earnings coverage ratio for the year ended 30 June 2006 is less than one-to-one. The Company's pro forma earnings coverage ratio for the year ended 30 June 2006 after giving effect to the acquisition of Valhalla is also less than one-to-one. The Company's consolidated net loss for the year ended 30 June 2006 was A\$7,486,000.

Assuming the issuance of the Bonds based on an exchange rate of U.S.\$1.00 = A\$1.2713, the incremental amount of consolidated net earnings required to achieve an earnings coverage ratio of one-to-one would be A\$21.9 million for the year ended 30 June 2006.

## 7. GLOBAL BOND PROVISIONS

*This section summarises the provisions relating to the Bonds while represented by the Global Bonds.*

### **Initial Issue of Bonds**

Upon the initial registration of the Bonds in the name of a nominee of Euroclear and Clearstream, Luxembourg and delivery of the Global Bond to a common depository for Euroclear and Clearstream, Luxembourg (the "Common Depository"), Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid.

### **Relationship of Accountholders with Clearing Systems**

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Bond represented by the Global Bond must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the underlying Bond and in relation to all other rights arising under the Global Bond, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are represented by the Global Bond and such obligations of the Issuer will be discharged by payment to the holder of the underlying Bond, as the case may be, in respect of each amount so paid.

Bonds that are initially issued to purchasers in Canada will be subject to a hold period of 4 months following the Closing Date, during which time such Bonds will only be transferable pursuant to a further exemption from the prospectus requirements of applicable Canadian securities laws. For a further description of these restrictions see "9. Subscription and Sale - Sales Restrictions - Canada".

### **Exchange**

The Global Bond will be exchangeable (free of charge to the holder of the Global Bond and the Bondholders) in whole, but not in part, for the definitive Bonds described below if, but only if, (i) the Global Bond is held on behalf of Clearstream, Luxembourg and/or Euroclear and either such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) there shall have occurred and be continuing an Event of Default. Thereupon the holder may give notice to the Trustee of its intention to exchange the Global Bond for definitive certificates in respect of the Bonds on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds in registered form, printed in accordance with any applicable legal and stock exchange requirements and in, or substantially in, the form set out in the Trust Deed. Such definitive Bonds will be registered in the name of the accountholders at Clearstream, Luxembourg and Euroclear which previously had Bonds credited to the accounts.

"Exchange Date" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which the banks are open for business in the city in which the specified office of the Registrar is located.

### **Conversion Rights**

Subject to the requirements of Euroclear and Clearstream, Luxembourg, the Conversion Rights attaching to the Bonds in respect of which the Global Bond is issued may be exercised by the presentation to or to the order of the Principal Paying, Transfer and Conversion Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. . The exercise of the Conversion Right shall be notified by the Principal Paying, Transfer and Conversion Agent to the Registrar and the holder of the Global Bond.

A holder of an interest in Bonds that were initially issued to a purchaser in Canada and who exercises the Conversion Right in respect of such Bonds within the hold period of 4 months following the Closing Date will receive Ordinary Shares in certificated form on the Company's share register in Canada. The certificate in respect of such Ordinary Shares will contain a legend relating to the four month hold (from the Closing Date) and will relate to the applicable Canadian transfer restrictions. Such Ordinary Shares will not be freely tradeable with the Issuer's other outstanding Ordinary Shares for so long as such transfer restrictions apply and will only be transferable pursuant to a further exemption from the prospectus requirements of applicable Canadian securities laws. For a further description of these restrictions see "9. Subscription and Sale - Sales Restrictions - Canada".

### **Redemption at the Option of the Issuer**

The options of the Issuer provided for in Condition 7(b) and 7(c) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in, and containing the information required by, that Condition.

### **Tax Election Option of the Bondholders**

The option of the Bondholders provided for in Condition 7(c) may be exercised by the holder of the Global Bond by giving notice to any Paying, Transfer and Conversion Agent within the time limits relating to the deposit of Bonds in Condition 7(c) and substantially in the form of the Bondholders Tax Election Notice as set out in Schedule 3 to the Paying, Transfer and Conversion Agency Agreement. Such notice shall be obtainable from the specified office of any Paying, Transfer and Conversion Agent and shall state the number of Bonds in respect of which the option is exercised. Upon exercise of the option the relevant Bondholder shall present the Global Bond to the Registrar for annotation in Schedule A thereto accordingly.

### **Redemption at Option of the Bondholders**

The Bondholders' put option in Condition 7(e) may be exercised by the holder of the Global Bond giving notice to the Principal Paying, Transfer and Conversion Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Bond for endorsement or exercise within the time limits specified in such Conditions and the principal amount of the Bonds will be reduced in the Register accordingly.

### **Trustee's Powers**

In considering the interests of Bondholders the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds represented by this Global Bond.

**Enforcement**

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Bonds represented by the Global Bond shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder as if they were themselves the holders of Bonds in such principal amounts.

**Payments**

Payments of principal in respect of Bonds represented by the Global Bond will be made against presentation and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Bond to or to the order of the Principal Paying, Transfer and Conversion Agent or such other Agent as shall have been notified to the holder of the Global Bond for such purpose.

**Notices**

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of a clearing system, notice to holders of the Bonds may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions, except that the Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed and/or admitted to trading.

**Prescription**

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Global Bond will become prescribed after a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in the Conditions).

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

**Redemption or Purchase and Cancellation**

Cancellation of any Bonds to be cancelled following their purchase will be effected by endorsement by or on behalf of the Principal Paying, Transfer and Conversion Agent of the reduction in the principal amount of the Global Bond and by an appropriate entry made in the Register maintained in respect of the Bonds.

**Meetings**

At any meeting of Bondholders, the holder of the Global Bond will be treated as having one vote in respect of each U.S.\$200,000 in principal amount of Bonds.

The Trustee may allow to attend and speak (but not to vote) at any meeting of Bondholders any accountholder (or the representative of any such person) of a clearing system with an interest in the Bonds represented by this Global Bond on confirmation of entitlement and proof of his identity.

## **8. TAX IMPLICATIONS**

### **AUSTRALIAN TAXATION**

#### **INTRODUCTION**

##### **Scope**

The following is a general summary of the material Australian income tax and capital gains tax ("CGT") consequences arising under the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* (the "Tax Acts") and any relevant regulations, rulings, or judicial or administrative interpretations as at the date of this Offering Circular in relation to an investment in the Bonds by purchaser of the Bonds ("Bondholder").

This general summary is not intended to be nor should it be construed to be legal or tax advice to any particular investor. Prospective investors are urged to contact their tax advisers for specific advice relating to their particular circumstances, in particular in relation to local taxes in their home jurisdictions.

While the Issuer has sought legal advice on the Australian taxation implications of the Bonds, it has not sought, and does not intend to seek, a ruling from the Australian Taxation Office or any other revenue authority in relation to this matter.

##### **Payments under the Bonds**

It should be noted that the Bonds should be properly characterised as debt interests in the Issuer for Australian tax purposes on the basis that the Issuer is under an effectively non-contingent obligation to pay the Bondholders (in the form of interest and the redemption price) an amount at least equal to the amount paid by Bondholders for the Bonds.

Accordingly, payments made under the Bonds will constitute interest or amounts in the nature of interest in the hands of the Bondholders.

#### **NON-RESIDENT INVESTORS**

##### **Scope**

The following paragraphs deal with the consequences to a Bondholder who:

- is not a resident of Australia for tax purposes;
- does not carry on business in Australia or have a permanent establishment or fixed base in Australia;
- purchased the Bonds pursuant to the offer detailed in this Offering Circular; and
- holds the Bonds on capital account.

This summary assumes that the issue of the Bonds by the Issuer will satisfy one of the public offer tests that is described in section 128F(3) of the Tax Act.

##### **Australian withholding taxation**

Payments of interest or amounts in the nature of interest to a Bondholder will be subject to a 10% withholding tax unless either the exemption provided by section 128F of the Tax Act applies or an exemption is available under a double tax treaty. As it is assumed that an exemption under section 128F will be available, no further consideration is given to exemptions under double tax treaties. If section 128F of the Tax Act does apply, there will be no Australian withholding tax on payments of interest or amounts in the nature of interest.



The exemption in section 128F of the Tax Act is not available where Bonds are issued or interest is paid to an associate, as defined in section 128F of the Tax Act, of the Issuer if the Issuer knew or had reasonable grounds to suspect the payee was an associate at the time of the issue of the Bonds (other than in the capacity of a dealer, manager, or underwriter in relation to the placement of the Bonds or a clearing house, custodian, funds manager or responsible entity of a registered scheme) or at the time the interest is paid.

The Issuer intends to issue the Bonds in a manner which will satisfy the public offer test and which otherwise meets all relevant requirements of section 128F of the Tax Act. If that is done, then based on the current legislation and administration policy of the Australian Taxation Office, the exemption will be available.

### **Profits or Gains on Disposal or Redemption of the Bonds**

#### **General**

Any profit or gain made on a disposal or a redemption of the Bonds will not be subject to Australian tax provided that such profit or gain does not have an Australian source (as described under "Australian Source" below).

#### **Australian Source**

Whether a profit or gain on a disposal or a redemption of the Bonds has an Australian source is a question of fact that will be determined on the basis of the circumstances existing at the time of the disposal or redemption.

In general, the profit or gain should not have an Australian source provided that the Bonds are:

- acquired and held outside Australia;
- held in connection with a business conducted exclusively outside Australia; and
- are disposed of to a non-resident directly or to a non-resident through a non-resident agent.

However, this is not an exhaustive list of the factors that can determine source, nor would the absence of one of these elements, of itself, mean that there is an Australian source, as it will depend on all the relevant circumstances.

#### **Double Tax Treaty**

If the profit or gain on disposal or redemption of a Bond is deemed to have an Australian source, a Bondholder may be eligible for relief from Australian tax on such profit or gain under a double tax treaty between Australia and the Bondholder's country of residence. Prospective purchasers should consult their tax advisers regarding their entitlement to benefits under a tax treaty.

#### **Conversion of Bonds into Ordinary Shares**

A Bondholder will be entitled to exercise Conversion Rights and receive Ordinary Shares upon surrendering the relevant Bond to the Issuer.

For income tax and CGT purposes, no taxable gain or profit should arise to the Bondholder on the conversion of the Bond into Ordinary Shares even if the gain or profit has an Australian source, as the conversion is not regarded as a taxable event.

#### **Ordinary Shares**

The Ordinary Shares issued to a Bondholder on an exercise of the Conversion Rights are CGT assets.

The cost base of the Ordinary Shares for CGT purposes will be the cost base of the Bonds at the time of conversion plus any amounts paid to convert the Bonds. A subsequent disposal of Ordinary Shares by a

Bondholder should not give rise to any capital gains or capital losses on disposal unless the Ordinary Shares have the necessary connection with Australia. The Ordinary Shares should not have the necessary connection with Australia for a Bondholder unless:

- the Bondholder acquired the Ordinary Shares in the course of carrying on a business in Australia at or through a permanent establishment in Australia; or
- the Bondholder (together with its associates) owns or has owned at any time during the five years before a disposal, at least 10% by value of the Ordinary Shares.

We note that proposed legislation has been introduced into Parliament which amends the current legislation such that non residents of Australia will only be subject to tax on the disposal of assets (such as the Ordinary Shares) if the assets are held through a permanent establishment in Australia, or the assets are actually or predominantly real estate or shares or units in entities whose assets are wholly or predominantly real estate. It is proposed that the changes will apply to disposals occurring on or after the date the legislation receives Royal Assent.

Australia has an imputation system where tax paid at the company level is imputed to shareholders in determining the taxation consequences of dividends paid by the company. A dividend will be treated as "franked" where the dividend is paid out of profits of the company that have already been subject to tax. The Bondholders would be subject to Australian dividend withholding tax at a rate of 30% to the extent that the dividends paid by the Issuer on its Ordinary Shares were unfranked (the rate of withholding tax may be reduced in accordance with any double tax treaty between the Bondholder's home jurisdiction and Australia). However, the Bondholders would not be subject to Australian dividend withholding tax or other Australian income tax in relation to fully franked dividends paid on the Ordinary Shares.

## **RESIDENTS**

### **Scope**

The following is a summary for a Bondholder who:

- is a resident of Australia for income tax purposes or is a non-resident who carries on business in Australia or through a permanent establishment or fixed place in Australia and the holding of the Bonds is connected with such place of business; and
- purchased the Bonds pursuant to the offer detailed in this Offering Circular.

### **Interest**

Interest income paid under the Bonds will be included in a Bondholder's assessable income.

### **Profits or Gains on Disposal or Redemption of the Bonds**

#### **General**

Any profit or gain made on a disposal or a redemption of the Bonds will be included in a Bondholder's assessable income.

#### **Conversion of Bonds into Ordinary Shares**

A Bondholder will be entitled to exercise Conversion Rights and receive Ordinary Shares upon surrendering the relevant Bond to the Issuer.

For income tax and CGT purposes, no taxable gain or profit should arise to the Bondholder on the conversion of the Bond into Ordinary Shares as the conversion is not regarded as a taxable event.

### **Ordinary Shares**

The Ordinary Shares issued to a Bondholder on an exercise of the Conversion Rights are CGT assets. The cost base of the Ordinary Shares for CGT purposes will be the cost base of the Bonds at the time of conversion plus any amounts paid to convert the Bonds. A subsequent disposal of Ordinary Shares by a Bondholder may give rise to ordinary income or capital gains on disposal.

### **GOODS AND SERVICES TAX ("GST")**

GST should not be payable by the Bondholders in respect of the issue or redemption of Bonds by the Issuer or the conversion of Bonds into Ordinary Shares.

### **STAMP DUTY**

The issue or transfer of the Bonds will not be subject to stamp duty in any Australian jurisdiction. As the Issuer is listed on the ASX, the conversion of the Bonds into Ordinary Shares, or the transfer of the Ordinary Shares after conversion, will not be subject to stamp duty except in certain circumstances. In the event that the Ordinary Shares are suspended from quotation, stamp duty may be assessed in an Australian jurisdiction where the Issuer holds interests in land at the time of the conversion or transfer, if the Issuer is "land rich" and the conversion or transfer results in a person and its defined associates holding an interest of 50% or more in the Issuer. In the event that the Ordinary Shares remain quoted on the ASX, stamp duty may be chargeable if the Issuer is "land rich" in Western Australia and the conversion or transfer results in a person and its defined associates holding an interest of 90% or more in the Issuer. In general, a company will be land rich in a particular jurisdiction if it is entitled to land in that jurisdiction with a value equal to or greater than a specified amount (usually A\$1 million) and its worldwide land has a total value equal to or greater than a specified percentage (usually 60%) of the value of all property (other than certain excluded items) to which it is entitled.

Further stamp duty advice should be sought before any conversion of Bonds or transfer of Ordinary Shares which may result in a person and its associates holding an interest of 50% or more in the Issuer.

## 9. SUBSCRIPTION AND SALE

*This section summarises the Subscription Agreement entered into by the Company and the Joint Lead Managers. It also sets out restrictions on the Offering in various jurisdictions.*

### SUBSCRIPTION AGREEMENT

Royal Bank of Canada Europe Limited and UBS Limited (the "Joint Lead Managers") have entered into a subscription agreement dated 30 November 2006 with the Issuer (the "Subscription Agreement"). Upon the terms and subject to the conditions contained therein, the Joint Lead Managers have agreed to subscribe or procure subscribers either directly or through any of their respective affiliates for the aggregate principal amount of the Bonds at the issue price of 100 per cent. of their principal amount (the "Issue Price"). The obligations of the Joint Lead Managers are several, as to half the aggregate principal amount of the Bonds each.

The Issuer has agreed to pay to the Joint Lead Managers a combined management and underwriting commission and selling commission of 2.75 per cent. of the gross proceeds raised from the issue of the Bonds.

The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Bonds. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

The Issuer has undertaken that during the period commencing on the date of the Subscription Agreement and ending 90 days after the Closing Date, it will not, and the Issuer has undertaken to procure that none of its subsidiaries will, without the prior written consent of the Joint Lead Managers, (i) directly or indirectly, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase, purchase any option or contract to issue or sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible into or exercisable or exchangeable for Ordinary Shares or announce an intention to do any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of Ordinary Shares, whether any such swap or transaction described in paragraph (i) or (ii) above is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise. The foregoing sentence shall not apply (a) to the Bonds or (b) in connection with transactions which have already been publicly announced or (c) pursuant to conversion of the Bonds or the conversion or exchange of any existing bonds or other securities which carry the right of conversion or exchange into Ordinary Shares or (d) pursuant to any redemption or repurchase of existing bonds which carry the right of conversion or exchange into Ordinary Shares or (e) upon exercise of existing options in respect of Ordinary Shares or (f) to the issue or grant of securities under any employees' or directors' incentive scheme (whether or not in existence as at the date of the Subscription Agreement) or (g) to an issue of securities as consideration for any merger or acquisition provided that the Issuer obtains the prior written consent of the Joint Lead Managers (such consent not to be unreasonably withheld).

The Joint Lead Managers and each of their affiliates have or may have, in the past, performed investment banking and advisory services for the Issuer and the Group, for which they have received customary fees and expenses. The Joint Lead Managers and each of their affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and the Group in the ordinary course of their businesses.

## **SALE RESTRICTIONS**

### **United States of America**

The Bonds and the Ordinary Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Under the terms of the Subscription Agreement each Joint Lead Manager represents that it has not offered or sold, and agrees that it will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds.

The Bonds are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S under the Securities Act.

### **United Kingdom**

Each Joint Lead Manager has also represented, warranted and agreed in the Subscription Agreement that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

### **Australia**

Each Joint Lead Manager has represented and agreed in the Subscription Agreement that it:

- (a) has not made or invited, and will not make or invite, an offer of the Bonds for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, the Offering Circular or any other offering material or advertisement relating to any Bonds in Australia,

unless (i) the offeree is a sophisticated or professional investor within sections 708(8), (10) and (11) of the Corporations Act, and (ii) such action complies with applicable laws and directives.

### **Canada**

Under the terms of the Subscription Agreement each Joint Lead Manager has acknowledged that no prospectus in relation to the Bonds has been or will be prepared and filed with any Canadian securities regulatory authority. Each Joint Lead Manager has also represented and agreed in the Subscription Agreement that it:

- (a) will provide to each prospective purchaser of Bonds in Canada a copy of this Offering Circular together with the form of wrap agreed between the parties for use in Canada (collectively, the "Canadian Wrap");
- (b) will ensure that each purchaser of Bonds in Canada executes and delivers to the Company a copy of the form of subscription agreement agreed between the parties for use in Canada;

- (c) will ensure that a confirmation of purchase is given to each purchaser of Bonds in Canada and that each such confirmation bears the legend set forth in clause (b) of the paragraph immediately below; and
- (d) has not distributed or published, and will not distribute or publish any offering material or advertisement relating to the Bonds in Canada, other than the delivery of a copy of the Canadian Wrap to each prospective purchaser of Bonds.

The distribution of the Bonds in Canada is being made on a private placement basis. Accordingly, any resale of the Bonds or the underlying Ordinary Shares issued upon the conversion of the Bonds must be made through an appropriately registered dealer or in accordance with an exemption from the dealer registration requirements of applicable provincial securities laws. As well, any resale of the Bonds or the underlying Ordinary Shares issued upon the conversion of the Bonds must be made in accordance with, or pursuant to an exemption from, the prospectus requirements of those laws, unless the following conditions are satisfied:

- (a) at least four months have elapsed since the date of the distribution of the Bonds;
- (b) the confirmation of trade in respect of the Bonds and the share certificate in respect of any underlying Ordinary Shares issued on conversion of the Bonds by the purchaser prior to the date that is four months and a day after the date of the initial distribution of the Bonds issued to the purchaser bears the following legend restriction notation stating "Unless permitted by securities legislation the holder of this security must not trade the security before 16 April 2007";
- (c) the trade is not a "control distribution" as defined in applicable securities law;
- (d) no unusual effort is made to prepare the market or to create a demand for the Bonds or the underlying Ordinary Shares, as the case may be; and
- (e) no extraordinary commission or consideration is paid to a person or company in respect of the trade of the Bonds or the underlying Ordinary Shares, as the case may be.

These resale restrictions may in some circumstances apply to resales made outside of Canada.

A Canadian resident purchaser seeking to resell the underlying Ordinary Shares issued upon the conversion of the Bonds *prior* to the end of the four month period referred to in paragraph (a) above should contact the Issuer and its Canadian transfer agent, Computershare Investor Services Inc., to establish that the necessary Canadian prospectus exemption is available and to make arrangements to remove the legend from its share certificate to permit resale of the Ordinary Shares.

#### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Joint Lead Manager has represented, warranted and agreed in the Subscription Agreement that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of the Bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to such offer which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Bonds to the public in that Relevant Member State at any time: (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities, (ii) to any legal entity which has two or more of (a) an average of at least 250 employees during the last financial year, (b) a total balance sheet of more than euro 43,000,000, and (c) an annual net

turnover of more than euro 50,000,000, as shown in its last annual or consolidated accounts, (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), or (iv) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3(2) of the Prospectus Directive, provided in each case outlined in (i) to (iv) above inclusive that no such offer of Bonds shall result in a requirement for the publication of the Issuer or the Joint Lead Managers of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the preceding paragraph, the expression "an offer of Bonds to the public" in relation to the Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### Singapore

Under the terms of the Subscription Agreement each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed in the Subscription Agreement that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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### Notes:

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law.

**General**

Under the terms of the Subscription Agreement no action has been or will be taken in any jurisdiction by the Joint Lead Managers or the Issuer that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed in the Subscription Agreement that it will comply (to the best of its knowledge and belief) with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Offering Circular or any other such material, in all cases at its own expense.



## **10. ADDITIONAL INFORMATION**

### **OWNERSHIP RESTRICTIONS**

#### **FATA**

The acquisition of interests in the Company is regulated by the Australian Foreign Acquisitions and Takeovers Act (FATA) and Corporations Act.

FATA generally prohibits (with the sanction of penalties) the acquisition by a "foreign person" of certain interests in the Company, and gives the Treasurer of the Commonwealth of Australia power to make a divestment order in respect of such an acquisition, if a single foreign person (alone or together with its associates) would have an interest in 15% or more of the shares or votes of the Company, or a number of foreign persons (alone or together with their respective associates) would have in aggregate an interest in 40% or more of the shares or votes of the Company, unless prior notice of the acquisition has been given to the Treasurer and the Treasurer has either stated that there is no objection to the acquisition or a statutory period has expired without the Treasurer objecting.

#### **Takeover Restrictions**

The takeover provisions in chapter 6 of the Corporations Act prohibit (with the sanction of penalties) the acquisition of certain interests in the Company, if as a result of the acquisition the acquirer's (or another party's) "voting power" in the Company would increase to above 20%, or would increase from a starting point that is above 20% and below 90%. That prohibition is subject to a number of exceptions, including for acquisitions pursuant to a regulated takeover bid. Chapter 6C of the Corporations Act also contains provisions requiring market disclosure of certain interests (and changes in interests) in the Company by persons holding voting power in the Company of 5% or more.

#### **ASX Listing Rules**

The ASX Listing Rules prohibit the issue of equity or convertible securities if the value of those securities, when aggregated with the value of any other securities of the same class issued during the previous 12 months, exceeds 15% of the value of the same class of security on issue at the commencement of that period of 12 months, *inter alia*, except with prior shareholder approval, or to ordinary shareholders pro rata, or pursuant to a takeover or scheme of arrangement, or to finance a takeover or scheme of arrangement, or an exercise by the directors of a declared right to dispose of the shortfall remaining after a pro rata equity offering.

### **INTERESTS AND FEES**

#### **Interests of Directors**

Other than as set out below or elsewhere in this Offering Circular, no Director or a candidate for election as Director has, or has had within the two years prior to lodgement of this Offering Circular, any interest in:

- the promotion or formation of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offering; or
- the Offering,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director or any candidate for election as a Director:

- to induce him or her to become, or to qualify him or her as, a Director; or
- for services rendered by him or her in connection with the formation or promotion of the Company or the Offering.

Details of the interests of the Directors in the securities of the Company as at the date hereof, including those held directly and indirectly, are disclosed in the Company's most recent Management Information Circular dated 17 October 2006 in a table on pages 8 and 9 and in the section entitled "Statement of Executive Compensation" starting at page 16.

As disclosed in the Management Information Circular, at the annual general meeting of the shareholders of the Company held on 21 November 2006 the shareholders approved the grant of up to 3,000,000 options to John Borshoff, the Managing Director of the Company, at an exercise price that was the market value of a share of the Company as at the date of grant.

Details on the Directors' remuneration are contained in the most recently lodged annual report for the Company.

The information described above can be obtained from the Company, ASIC or the ASX respectively, as set out in the "Important Notice".

#### **Interests of Promoters, Advisers and Experts**

Other than as set out in the Offering Circular, no promoter, no professional, adviser or expert named as such in this Offering Circular and no Underwriter to the Offering or financial services licensee named as a financial services licensee involved in the Offering has, or has had within the two years prior to lodgement of this Offering Circular, any interest in:

- the promotion or formation of the Company;
- property acquired or proposed to be acquired by the Company in connection with its promotion or formation or the Offering; or
- the Offering.

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any such persons for services rendered by him or her in connection with the formation or promotion of the Company or the Offering.

Royal Bank of Canada Europe Limited and UBS Limited have acted as the Joint Lead Managers to the Offer. Their fees in connection with the Offering are as set out under "Subscription Agreement" in Section 9 above.

Ernst & Young, Chartered Accountants (Australia) have acted as auditors of the Company. Their fee is expected to be approximately A\$80,000 for services provided in connection with the Offering.

Freehills have acted as legal advisers of the Company on matters of Australian law (excluding taxation law) in relation to the Offering. Their fee is expected to be approximately A\$200,000 for services provided in connection with the Offering.

#### **Expenses and Fees of Professional Advisors**

The total estimated expenses and fees of the Offering (including underwriting fees, legal fees and other consulting fees, registration and listing fees and other expenses) will be approximately A\$1,000,000, which is payable by the Company and will be deducted from the proceeds of the Offering.

#### **AUTHORISATIONS AND CONSENTS**

Written consents have been given and, at the time of lodgement of this Prospectus with ASIC, have not been withdrawn by the parties identified below on the terms stated below. Each of the parties set out below:

- does not make, or purport to make, any statement in this Offering Circular and is not aware of any statement in this Offering Circular, which purports to be based on a statement made by them; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Offering Circular other than a reference to its name.

#### **Directors' Authorisations**

This Offering Circular is issued by Paladin Resources Ltd A.C.N. 061 681 098. Each Director consents to the lodgement of this Offering Circular with ASIC.

#### **Auditors' Consent**

Ernst & Young, Chartered Accountants (Australia) have consented to the inclusion in this Offering Circular of their reports to the shareholders of the company on the financial reports of the Company for the years ended 30 June 2006 and 2005.

#### **Legal adviser's consent**

Freehills has given its consent to be named in this Offering Circular in the form and context in which it is named.

#### **Expert's consents**

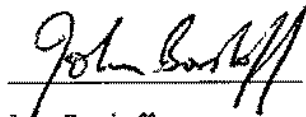
Energy Metals Limited has given its consent to be named in this Offering Circular in the form and context in which it is named as set out in Section 3.

Hellman and Schofield has given its consent to be named in this Offering Circular in the form and context in which it is named as set out in Section 3.

**DIRECTORS' AUTHORISATION**

The Directors have authorised the issue of the Offering Circular.

Signed for and on behalf of the Company by:

A handwritten signature in black ink, appearing to read 'John Borshoff', is written over a horizontal line.

John Borshoff  
Director

## 11. GENERAL INFORMATION

- (1) The Company's corporate head office and principal place of business is located at Grand Central, First Floor, 26 Railway Road, PO Box 201, Subiaco, WA 6008, Australia.
- (2) The auditors of the Company in Australia are Ernst & Young, Chartered Accountants.
- (3) The transfer agent and registrar for the Ordinary Shares is Computershare Investor Services Inc. at its offices in Toronto, Ontario located at 100 University Avenue, 11th Floor, North Tower and Computershare Investor Services Pty Ltd at its offices located at Level 2, 45 St. Georges Terrace, Perth, Western Australia.
- (4) The issue of the Bonds and the Ordinary Shares to be issued on conversion of the Bonds and the terms of the offering and the issue of the Bonds were approved by resolutions of the Board of Directors of the Company passed on 5 December 2006.
- (5) Copies of the constitutive documents of the Company and copies of the Trust Deed and the Agency Agreement (upon execution) will be available for inspection, and the published financial statements of the Company will be available for collection at the specified office of the Principal Paying, Transfer and Conversion Agent during normal business hours, so long as any of the Bonds is outstanding.
- (6) The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The International Securities Identification Number for the Bonds is XS0277770151. The Common Code for the Bonds is 027777015.
- (7) The Company has obtained or will at the date of issue obtain all consents, approvals and authorisations in Australia and Singapore required to be obtained in connection with the issue and performance of the Bonds.
- (8) Except as set out in this Offering Circular or in the Company's ASX and TSX disclosure, there has been no significant change in the financial or trading position of the Company and its subsidiaries as a whole since 30 June 2006 and no material adverse change in the financial position or prospects of the Company and its subsidiaries as a whole since 30 June 2006.
- (9) Except as described in this Offering Circular or in the Company's ASX and TSX disclosure, none of the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings or any regulatory investigations relating to claims or amounts which are material in the context of the issue of the Bonds nor, so far as the Company is aware, is any such litigation or arbitration pending or threatened.
- (10) The financial statements of the Company as at and for the year ended 30 June 2006 and the year ended 30 June 2005 as set out in this Offering Circular have been audited by Ernst & Young, Chartered Accountants, auditors to the Company, as stated in their reports appearing therein.
- (11) Application has been made to list the Bonds on the SGX-ST. So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Bond is exchanged for individual definitive Bonds. In addition, in the event that the Global Bond is exchanged for individual definitive Bonds, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual definitive Bonds, including details of the paying agent in Singapore.

## 12. TERMS AND CONDITIONS OF THE BONDS

*The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Bonds.*

The issue of the U.S.\$250,000,000 4.50 per cent. Convertible Bonds due 2011 (the “**Bonds**”), which expression shall, unless otherwise indicated, include any further bonds issued pursuant to Condition 18 and consolidated and forming a single series with the Bonds) was (save in respect of any such further bonds) authorised by a resolution of the board of directors of Paladin Resources Ltd (ACN 061 681 098) (the “**Issuer**”) passed on 5 December 2006. The Bonds are constituted by a trust deed dated 15 December 2006 (the “**Trust Deed**”) between the Issuer and The Bank of New York (the “**Trustee**”, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. The statements set out in these Terms and Conditions (the “**Conditions**”) are summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Bonds. The Bondholders (as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions applicable to them which are contained in the Paying, Transfer and Conversion Agency Agreement dated 15 December 2006 (the “**Agency Agreement**”) relating to the Bonds between the Issuer, the Trustee and The Bank of New York (the “**Principal Paying, Transfer and Conversion Agent**”, which expression shall include any successor as principal paying, transfer and conversion agent under the Agency Agreement), the paying, transfer and conversion agents for the time being (such persons, together with the Principal Paying, Transfer and Conversion Agent, being referred to below as the “**Paying, Transfer and Conversion Agents**”, which expression shall include their successors as Paying, Transfer and Conversion Agents under the Agency Agreement) and The Bank of New York in its capacity as registrar (the “**Registrar**”, which expression shall include any successor as registrar under the Agency Agreement). Copies of the Trust Deed and the Agency Agreement are available for inspection at the office of the Trustee at One Canada Square, 48th Floor, London E14 5AL, and at the specified offices of the Paying, Transfer and Conversion Agents and the Registrar.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

### 1 Form, Denomination, Title and Status

#### (a) *Form and Denomination*

The Bonds are in registered form, serially numbered, in principal amounts of U.S.\$200,000 and integral multiples thereof (“**authorised denominations**”).

#### (b) *Title*

Title to the Bonds will pass by transfer and registration as described in Condition 4. The holder (as defined below) of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as appropriate) or anything written on it or on the certificate representing it) and no person will be liable for so treating the holder.

#### (c) *Status*

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 2) unsecured obligations of the Issuer ranking *pari passu* and rateably, without any preference among themselves.

The payment obligations of the Issuer under the Bonds rank equally with all its other existing and future unsecured and unsubordinated obligations, save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

## 2 Negative Pledge

So long as any of the Bonds remain outstanding (as defined in the Trust Deed), the Issuer will not create or permit to subsist, and will ensure that none of its Subsidiaries will create or permit to subsist, any mortgage, charge, lien, pledge or other form of encumbrance or security interest (each a "Security Interest") upon the whole or any part of its present or future property or assets (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness (other than a Permitted Security Interest) unless in any such case, before or at the same time as the creation of the Security Interest, any and all action necessary shall have been taken to the satisfaction of the Trustee to ensure that:

- (i) all amounts payable by the Issuer under the Bonds and the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee or indemnity, as the case may be, to the satisfaction of the Trustee; or
- (ii) such other Security Interest or guarantee or indemnity or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Bonds and the Trust Deed either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

"Permitted Security Interest" means a Security Interest in respect of property or assets of a Subsidiary of the Issuer, which Security Interest existed before the relevant entity became a Subsidiary of the Issuer and was not created in contemplation of such entity becoming a Subsidiary of the Issuer and provided that the principal amount of such Relevant Indebtedness is not increased.

## 3 Definitions

In these Conditions, unless otherwise provided:

"Additional Ordinary Shares" has the meaning provided in Condition 6(c).

"Auditors" means the auditors for the time being of the Issuer or, if they are unable or unwilling to carry out any action requested of them under the Trust Deed or the Bonds, such other firm of accountants as may be nominated by the Issuer and approved in writing by the Trustee for the purpose or, failing such nomination, as selected by the Trustee.

"Australian dollars" and "A\$" means the lawful currency of the Commonwealth of Australia.

"Australian Stock Exchange" means the Australian Stock Exchange Limited (ABN 98008624691).

"Bondholder" and "holder" mean the person in whose name a Bond is registered in the Register (as defined in Condition 4(a)).

"business day" means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place.

"Cash Dividend" has the meaning provided in Condition 6(b)(iii).

"Change of Control" has the meaning provided in Condition 6(b)(x);

"Change of Control Notice" has the meaning provided in Condition 6(g).

"Change of Control Period" has the meaning provided in Condition 6(b)(x).

"Closing Date" means 15 December 2006.

"Conversion Date" has the meaning provided in Condition 6(h).

"Conversion Notice" has the meaning provided in Condition 6(h).

"Conversion Price" has the meaning provided in Condition 6(a).

"Conversion Right" has the meaning provided in Condition 6(a).

"Corporations Act" means the Corporations Act 2001 of Australia.

"Current Market Price" means, in respect of an Ordinary Share at a particular date, the average of the Volume Weighted Average Price of an Ordinary Share for the five consecutive dealing days ending on such date; provided that if at any time during the said five-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

- (a) if the Ordinary Shares to be issued or transferred and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend (or entitlement); or
- (b) if the Ordinary Shares to be issued or transferred and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend (or entitlement),

and provided further that if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued or transferred and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or other entitlement per Ordinary Share as at the date of the first public announcement of such Dividend or entitlement,

and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five dealing days, then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined in good faith by a Financial Adviser.

"dealing day" means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business, other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time.



**"Dividend"** means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares, or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves) provided that:

- (a) where a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then for the purposes of this definition the Dividend in question shall be treated as a Cash Dividend of the greater of (i) such cash amount and (ii) the Current Market Price of such Ordinary Shares or, as the case may be, Fair Market Value of such other property or assets (as at the date of the first public announcement of such Dividend or capitalisation (as the case may be) or if later, the date on which the number of Ordinary Shares (or amount of property or assets, as the case may be) which may be issued or transferred and delivered is determined);
- (b) any issue of Ordinary Shares falling within Condition 6(b)(ii) shall be disregarded;
- (c) a purchase or redemption or buy back of share capital of the Issuer by the Issuer or any Subsidiary of the Issuer shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of the Issuer or its Subsidiaries, the weighted average price per Ordinary Share (before expenses) on any one day (a **"Specified Share Day"**) in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the closing prices of the Ordinary Shares on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange) on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price, on the five dealing days immediately preceding the date of such announcement, in which case such purchase, redemption or buy back shall be deemed to constitute a dividend in cash in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by the Issuer or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the average closing price of the Ordinary Shares determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back; and
- (d) if the Issuer or any of its Subsidiaries shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by a Financial Adviser.

**"equity share capital"** means, in relation to a company, its issued share capital excluding any part of that capital which, neither as regards dividends nor as regards capital, carries any right to participate beyond a specified amount in a distribution.

**"Exempt Newco Scheme"** means a Newco Scheme (as defined below) where immediately after completion of the relevant scheme of arrangement (as defined below) the ordinary shares of Newco (as defined below)

are (1) admitted to trading on the Relevant Stock Exchange or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange or securities market as the Issuer or Newco may determine.

**"Fair Market Value"** means, with respect to any property on any date, the fair market value of that property as determined in good faith by a Financial Adviser provided, that (i) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Spin-Off Securities, Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by a Financial Adviser), the fair market value (a) of such Spin-Off Securities or Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Spin-Off Securities or Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Spin-Off Securities, Securities, options, warrants or other rights are publicly traded); (iv) where Spin-Off Securities, Securities, options, warrants or other rights are not publicly traded (as aforesaid), the Fair Market Value of such Spin-Off Securities, Securities, options, warrants or other rights shall be determined in good faith by a Financial Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Spin-Off Securities, Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof; (v) in the case of (i) translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Relevant Currency; and in any other case, translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date and (vi) in the case of (i) and (ii) disregarding any withholding or deduction required to be made on account of tax and any associated tax credit.

**"Final Maturity Date"** means 15 December 2011.

**"Financial Adviser"** means an investment bank of international repute appointed by the Issuer and approved in writing by the Trustee or, if the Issuer fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee), appointed by the Trustee following notification to the Issuer provided that the Trustee has no obligation to make such appointment unless it has been indemnified and/or provided with security to its satisfaction in respect of the costs, fees and expenses of such adviser.

**"Indebtedness for borrowed money"** means any present or future indebtedness (whether being principal, interest or other amounts) for or in respect of (i) money borrowed or raised (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

**"Interest Payment Date"** has the meaning provided in Condition 5(a).

**"Loan Notes"** means notes, bonds, debentures, debenture stock, loan stock or other securities issued to commercial banks or other participants in loan syndication markets which are not intended to be listed or ordinarily dealt in on any recognised listing authority, stock exchange or over-the-counter or other securities market and which for the avoidance of doubt shall not include any notes, bonds, debentures, debenture stock, loan stock or other securities issued in the capital markets, whether by way of public offer or private placement.

**"Newco Scheme"** means a scheme of arrangement or analogous proceeding (a **"scheme of arrangement"**) which effects the interposition of a limited liability company (**"Newco"**) between the Shareholders of the Issuer immediately prior to the scheme of arrangement (the **"Existing Shareholders"**) and the Issuer; provided that only ordinary shares of Newco are issued to Existing Shareholders and that immediately after completion of the scheme of arrangement the only shareholders of Newco are the Existing Shareholders and that all Subsidiaries of the Issuer immediately prior to the scheme of arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after the scheme of arrangement and that the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and Voting Rights of or in respect of those Subsidiaries as was held by the Issuer immediately prior to the scheme of arrangement, and that such scheme of arrangement, does not envisage or contemplate and was not proposed or adopted in contemplation of any change in respect of such holdings.

**"Non-Cash Dividend"** has the meaning provided in Condition 6(b)(iii).

**"Optional Redemption Date"** has the meaning provided in Condition 7(b).

**"Optional Redemption Notice"** has the meaning provided in Condition 7(b).

**"Ordinary Shares"** means fully paid ordinary shares in the capital of the Issuer.

**"Parity Value"** means, in respect of any dealing day, the U.S. dollar amount calculated as follows:

$$PV = OS \times MP$$

where:

PV = the Parity Value

OS = the number of Ordinary Shares that would fall to be delivered on the exercise of Conversion Rights in respect of a Bond in the principal amount of U.S.\$200,000, assuming the Conversion Date to be such dealing day

MP = the closing price for the Ordinary Shares as published by or derived from the Relevant Stock Exchange on such dealing day (provided that if on any such dealing day the Ordinary Shares shall have been quoted cum-Dividend or cum-any other entitlement the closing price on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement of such Dividend or entitlement), translated, if not in U.S. dollars, into U.S. dollars at the Prevailing Rate on such dealing day.

a **"person"** includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity).

**"Prevailing Rate"** means, in respect of any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 p.m. (London time) on that date as appearing on the Relevant Page or if such rate cannot be determined on that day, the rate prevailing as at or about 12 p.m. (London time) on the immediately preceding day on which such rate can be so determined.

**"Principal Subsidiary"** of the Issuer at any time shall mean any Subsidiary of the Issuer (not being a Subsidiary falling within sub-paragraph (iv) of the definition of **"Project Finance Indebtedness"** and whose only indebtedness for borrowed money is Project Finance Indebtedness):

- (i) whose (a) profits on ordinary activities before tax or (b) net assets represent 10 per cent. or more of the consolidated profits on ordinary activities before tax of the Issuer and its Subsidiaries or, as the case

may be, consolidated net assets of the Issuer and its Subsidiaries, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary and the then latest audited consolidated financial statements of the Issuer provided that (i) in the case of a Subsidiary acquired or an entity which becomes a Subsidiary after the end of the financial period to which the then latest audited consolidated financial statements of the Issuer relate, the reference to the then latest audited consolidated financial statements of the Issuer for the purposes of the calculation of the above shall until the consolidated audited financial statements of the Issuer are published for the financial period in which the acquisition is made or, as the case may be, in which such entity becomes a Subsidiary, be deemed to be a reference to the then latest consolidated financial statements of the Issuer adjusted in such manner as may be appropriate to consolidate the latest audited financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary in such financial statements, (ii) if, in the case of any Subsidiary, no audited financial statements are prepared, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be determined by reference to its unaudited annual financial statements (if any) or on the basis of *pro forma* financial statements, (iii) if the financial statements of any Subsidiary (not being a Subsidiary referred to in (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Issuer and (iv) if the latest financial statements of any Subsidiary of the Issuer are not prepared on the basis of the same accounting principles, policies and practices of the latest consolidated audited financial statements of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on *pro forma* financial statements or, as the case may be, consolidated financial statements of such Subsidiary prepared on the same accounting principles, policies and practices as adopted in the latest consolidated audited financial statements of the Issuer, or an appropriate restatement or adjustment to the relevant financial statements of such Subsidiary; or

- (ii) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary of the Issuer, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary of the Issuer and the transferee Subsidiary shall cease to be a Principal Subsidiary of the Issuer under the provisions of this sub-paragraph (ii) upon publication of its next audited financial statements but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Issuer on or at any time after the date on which such audited financial statements have been published by virtue of the provisions of sub-paragraph (i) above or (as a result of another transfer to which this sub-paragraph (ii) applies) before, on or at any time after such date by virtue of the provisions of this sub-paragraph (ii).

A report by the Auditors that, in their opinion, a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee and the Bondholders.

**"Project Finance Indebtedness"** means any present or future indebtedness incurred to finance the ownership, acquisition, construction, creation, development, maintenance and/or operation of an asset (whether or not an asset of the Issuer or any of its Subsidiaries), or any associated rehabilitation works, in respect of which the person or persons to whom any such indebtedness is or may be owed by the relevant borrower (whether or not the Issuer or any of its Subsidiaries) has or have no recourse whatsoever to the Issuer or any of its Subsidiaries for the repayment thereof other than:

- (i) recourse for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from such asset or the business of owning, acquiring, constructing, developing, maintaining and/or operating such asset; and/or

- (ii) (A) recourse for the purpose only of enabling amounts to be claimed in respect of such indebtedness in an enforcement of any encumbrance given over such asset (and/or any other assets primarily used in the business of owning, acquiring, constructing, creating, developing, maintaining and/or operating such asset) or the income, cash flow or other proceeds deriving therefrom (or given over shares or the like in the capital of the borrower or owner of the asset or any Subsidiary described in paragraph (iv)) to secure such indebtedness, provided that (aa) the extent of such recourse is limited solely to the amount of any recoveries made on any such enforcement and (bb) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness, to commence proceedings for the winding up or dissolution of the Issuer or any of its Subsidiaries (other than a Subsidiary described in paragraph (iv)) or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the Issuer or any of its Subsidiaries (other than a Subsidiary described in paragraph (iv)) or any of its assets (save for the assets the subject of such encumbrance); and/or (B) recourse against the assets, income, cashflow, proceeds or shares or the like subject to an encumbrance referred to in this paragraph (ii); and/or
- (iii) recourse under any form of assurance, undertakings or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) or under an indemnity for breach of an obligation or representation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition other than costs to complete tests or project completion tests) of the Issuer or any of its Subsidiaries; and/or
- (iv) recourse against (aa) any Subsidiary, or the assets of any Subsidiary, whose principal business comprises the ownership, acquisition, construction, creation, development, maintenance and/or operation of the asset concerned; or (bb) any Subsidiary, or the assets of any Subsidiary, whose principal business comprises the ownership or financing, directly or indirectly, of any Subsidiary described in paragraph (iv)(aa); and/or
- (v) recourse under any guarantee and/or indemnity of such indebtedness or completion of construction or development of an asset, provided that in any such case the guarantee and/or indemnity is (to the extent not permitted by any of the foregoing paragraphs) released or discharged if completion of the relevant construction or development occurs on or prior to the agreed date for completion referred to in or in connection with the guarantee and/or indemnity and no default under or in connection with such indebtedness, guarantee or indemnity or any agreement relating thereto is then subsisting.

"Record Date" has the meaning provided in Condition 8(c).

"Reference Date" has the meaning provided in Condition 6(a).

"Relevant Currency" means Australian dollars or, if at the relevant time or for the purposes of the relevant calculation or determination, the Australian Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares are quoted or traded on the Relevant Stock Exchange.

"Relevant Date" means, in respect of any Bond, whichever is the later of (i) the date on which payment in respect of it first becomes due and (ii) if any amount of the money payable is improperly withheld or refused the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given by the Issuer or to the Bondholders in accordance with Condition 17 that, upon further

presentation of the Bond, where required pursuant to these Conditions, being made, such payment will be made, provided that such payment is in fact made as provided in these Conditions.

**"Relevant Indebtedness"** means any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which (in any case) are or are capable of being quoted, listed or ordinarily dealt in on any recognised listing authority, stock exchange, securities quotation system or over-the-counter or other securities market, but shall in any event not include Project Finance Indebtedness or any indebtedness in the form of or represented by Loan Notes.

**"Relevant Page"** means the relevant page on Bloomberg or such other information service provider that displays the relevant information.

**"Relevant Stock Exchange"** means (i) in respect of the Semi-Annual Period commencing on the Closing Date, the Australian Stock Exchange; and (ii) in respect of any subsequent Semi-Annual Period, the Relevant Stock Exchange in respect of the preceding Semi-Annual Period, unless the Issuer shall on the London business day immediately succeeding the last day of such preceding Semi-Annual Period have delivered to the Trustee a certificate of the Issuer signed by two Directors of the Issuer that the average daily trading volume in respect of the Ordinary Shares on any other stock exchange or securities market on which the Ordinary Shares are listed or quoted or dealt in (and have been so listed or quoted or dealt in throughout the preceding Semi-Annual Period) shall for such preceding Semi-Annual Period have been greater than 150 per cent. of the average daily trading volume in respect of the Ordinary Shares on such Relevant Stock Exchange, in which case the Relevant Stock Exchange in respect of the relevant Semi-Annual Period shall be such other stock exchange or securities market and such Relevant Stock Exchange as so determined shall be the Relevant Stock Exchange for the purposes of any relevant calculation or determination to be made (including a determination of Current Market Price) as at any date falling within the relevant Semi-Annual Period (including any constituent calculation or determination, including a determination of Volume Weighted Average Price for the purposes of determining Current Market Price, to be made for the purpose of such calculation or determination). For the purposes of determining the average daily trading volume of the Ordinary Shares where the Ordinary Shares are represented by certificates or depositary or other receipts which are listed or quoted or dealt in on the relevant stock exchange or securities market, such average daily trading volume shall be determined by dividing the average daily trading volume of such certificates or depositary or other receipts by the number of Ordinary Shares represented by such certificate or depositary or other receipts at the relevant time.

**"Retroactive Adjustment"** has the meaning provided in Condition 6(c).

**"Securities"** means any securities including, without limitation, Ordinary Shares, or options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares.

**"Semi-Annual Date"** means 15 June and 15 December in each year.

**"Semi-Annual Period"** means the period commencing on (and including) a Semi-Annual Date and ending on (but excluding) the next following Semi-Annual Date, with the first Semi-Annual Period commencing on 15 December 2006.

**"Shareholders"** means the holders of Ordinary Shares.

**"Specified Date"** has the meaning provided in Condition 6(b)(vii) and (viii).

**"Spin-Off"** means:

- (a) a distribution of Spin-Off Securities by the Issuer to Shareholders as a class; or

- (b) any issue, transfer or delivery of any property or assets (including cash or shares or securities of or in or issued or allotted by any entity) by any entity (other than the Issuer) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Issuer or any of its Subsidiaries.

**"Spin-Off Securities"** means equity share capital of an entity other than the Issuer or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Issuer.

**"Subsidiary"** means, in relation to the Issuer, any entity which is a subsidiary of the Issuer within the meaning of Part 1.2 Division 6 of the Corporations Act or is a subsidiary of or otherwise controlled by the Issuer within the meaning of any approved accounting standard applicable to the Issuer.

**"Tax Redemption Date"** has the meaning provided in Condition 7(c).

**"Tax Redemption Notice"** has the meaning provided in Condition 7(c).

**"TSX"** means the Toronto Stock Exchange.

**"U.S. dollars"** and **"U.S.\$"** means United States dollars.

**"Volume Weighted Average Price"** means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page AQR or (in the case of a Security (other than an Ordinary Share) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined to be appropriate by a Financial Adviser on such dealing day, provided that if on any such dealing day where such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined.

**"Voting Rights"** means the right generally to vote at a general meeting of shareholders of the Issuer.

References to any provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders **"as a class"** or **"by way of rights"** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as a Financial Adviser considers appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Conditions 6(b), (c), (h) and (i), Condition 7(h) and Condition 11 only, (a) references to the **"issue"** of Ordinary Shares shall include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any of its Subsidiaries, and

(b) Ordinary Shares held by or on behalf of the Issuer or any of its respective Subsidiaries (and which, in the case of Condition 6(b)(iv) and (vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as “in issue”.

## **4 Registration and Transfer of Bonds**

### **(a) Registration**

The Issuer will cause a register (the “Register”) to be kept at the specified office of the Registrar outside the United Kingdom on which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and exchanges of Bonds.

### **(b) Transfer**

Bonds may, subject to the terms of the Agency Agreement and to Conditions 4(c) and 4(d), be transferred in whole or in part in an authorised denomination by lodging the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying, Transfer and Conversion Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days, in the place of the specified office of the Registrar, of any duly made application for the transfer of a Bond, deliver a new Bond to the transferee (and, in the case of a transfer of part only of a Bond, deliver a Bond for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

### **(c) Formalities Free of Charge**

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

### **(d) Closed Periods**

Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 days ending on and including the day immediately prior to the Final Maturity Date or any earlier date fixed for redemption of the Bonds pursuant to Condition 7(b) or 7(c); (ii) in respect of which a Conversion Notice has been delivered in accordance with Condition 6(h); (iii) in respect of which a holder shall have exercised its option to require the Issuer to redeem pursuant to Condition 7(e) or (iv) during the period of 15 days ending on (and including) any Record Date (as defined in Condition 8(c)) in respect of any payment of interest on the Bonds.

## **5 Interest**

### **(a) Interest Rate**



The Bonds bear interest from and including the Closing Date at the rate (the “Interest Rate”) of 4.50 per cent. per annum calculated by reference to the principal amount thereof and payable semi-annually in equal instalments in arrear on 15 June and 15 December in each year (each an “Interest Payment Date”), commencing with the Interest Payment Date falling on 15 June 2007.

If interest is required to be calculated for a period other than an Interest Period it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the number of days elapsed

“Interest Period” means the payment period beginning on (and including) the Closing Date and ending on (but excluding) 15 June 2007, being the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

*(b) Accrual of Interest*

Each Bond will cease to bear interest (i) where the Conversion Right shall have been exercised by a Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Closing Date (subject in any such case as provided in Condition 6(j)) or (ii) where such Bond is redeemed or repaid pursuant to Condition 7 or Condition 10, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused, in which event interest will continue to accrue at the rate specified in Condition 5(a) (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying, Transfer and Conversion Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

## **6 Conversion of Bonds**

*(a) Conversion Right and Conversion Price*

Subject as provided below, each Bond shall entitle the holder to convert into new Ordinary Shares, credited as fully paid, subject to and as provided in these Conditions (a “Conversion Right”).

The number of Ordinary Shares to be issued or transferred and delivered on exercise of a Conversion Right shall (subject as aforesaid) be determined by dividing the principal amount of the Bonds to be converted by the conversion price (the “Conversion Price”) in effect on the relevant Conversion Date.

The initial Conversion Price is U.S.\$7.685 per Ordinary Share. The Conversion Price is subject to adjustment in the circumstances described in Condition 6(b).

A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond to the specified office of any Paying, Transfer and Conversion Agent in accordance with Condition 6(h) whereupon the Issuer shall (subject as provided in these Conditions) procure the delivery, to or as directed by the relevant Bondholder of Ordinary Shares credited as paid up in full as provided in this Condition 6.

Subject to, and as provided in these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, subject to any applicable fiscal or other laws or regulations and as hereinafter provided) at any time on or after 25 January 2007, provided that the relevant Conversion Date shall not fall later than on the date falling six New York business days prior to the Final Maturity Date or, if such Bond is to be redeemed pursuant to Condition 7(b) or 7(c) prior

to the Final Maturity Date, not later than the sixth New York business day before the date fixed for redemption thereof pursuant to Condition 7(b) or 7(c), unless there shall be default in making payment in respect of such Bond on such date fixed for redemption, in which event the Conversion Right may be exercised up to the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given in accordance with Condition 17 or, if earlier, the date falling six New York business days prior to the Final Maturity Date.

Conversion Rights in respect of a Bond may not be exercised following the giving of a notice by the holder thereof pursuant to Condition 7(e).

Conversion Rights may not be exercised following the giving of notice by the Trustee pursuant to Condition 10.

Conversion Rights may not be exercised by a Bondholder in circumstances where the relevant Conversion Date would fall during the period commencing on the Record Date in respect of any payment of interest on the Bonds and ending on the relevant Interest Payment Date (both days inclusive).

Conversion Rights may only be exercised in respect of an authorised denomination. Where Conversion Rights are exercised in respect of part only of a Bond, the old Bond shall be cancelled and a new Bond for the balance thereof shall be issued in lieu thereof without charge but upon payment by the holder of any taxes, duties and other governmental charges payable in connection therewith and the Registrar will within seven business days, in the place of the specified office of the Registrar, following the relevant Conversion Date deliver such new Bond to the Bondholder at the specified office of the Registrar or (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary mail, at the expense of the Bondholder) mail the new Bond by uninsured mail to such address as the Bondholder may request.

Fractions of Ordinary Shares will not be delivered on conversion or pursuant to Condition 6(c) and no cash payment or other adjustment will be made in lieu thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Ordinary Shares to be delivered on conversion or pursuant to Condition 6(c) are to be registered in the same name, the number of such Ordinary Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Ordinary Shares.

The Issuer will procure that Ordinary Shares to be issued or transferred and delivered on conversion will be issued or transferred and delivered to the holder of the Bonds completing the relevant Conversion Notice or his nominee. Such Ordinary Shares will be deemed to be issued or transferred and delivered as of the relevant Conversion Date. Any Additional Ordinary Shares to be issued or transferred and delivered pursuant to Condition 6(c) will be deemed to be issued or transferred and delivered as of the date the relevant Retroactive Adjustment takes effect or as at the date of issue or transfer and delivery of Ordinary Shares if the adjustment results from the issue or transfer and delivery of Ordinary Shares (each such date, the "Reference Date").

*(b) Adjustment of Conversion Price*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification or subdivision in relation to the Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in

force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and
- B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive or (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such issue; and
- B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

- (iii) If and whenever the Issuer shall pay or make any Dividend to Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the relevant Dividend by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the dealing day immediately preceding the first date the Ordinary Shares are traded on the Relevant Stock Exchange ex- the relevant Dividend or, in the case of a purchase, redemption or buy-back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, on which such Ordinary Shares (or depositary or other receipts or certificates) are purchased, redeemed or bought back or, in the case of

a Spin-Off, is the Current Market Price of an Ordinary Share on the dealing day immediately preceding the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off; and

- B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, by the number of Ordinary Shares in issue immediately prior to such purchase, redemption or buy back).

Such adjustment shall become effective on the date on which the Dividend is paid or made or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares, on the date such purchase, redemption or buy back is made or, in any such case if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein.

For the purposes of the above, the Fair Market Value of a Cash Dividend shall (subject as provided in paragraph (a) of the definition of "Dividend" and in the definition of "Fair Market Value") be determined as at the date of the first public announcement of the relevant Dividend, and in the case of a Non-Cash Dividend, the Fair Market Value of the relevant Dividend shall be the Fair Market Value of the relevant Spin-Off Securities or, as the case may be, the relevant property or assets.

"Non-Cash Dividend" means any Dividend which is not a Cash Dividend, and shall include a Spin-Off.

"Cash Dividend" means (i) any Dividend which is to be paid or made in cash (in whatever currency), but other than one falling within paragraph (b) of the definition of "Spin-Off" and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (a) of the definition of "Dividend", and for the avoidance of doubt, a Dividend falling within paragraph (c) or (d) of the definition of "Dividend" shall be treated as being a Non-Cash Dividend.

- (iv) If and whenever the Issuer shall issue Ordinary Shares to Shareholders as a class by way of rights, or issue or grant to Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase any Ordinary Shares, in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the first date on which the Ordinary Shares are traded on the Relevant Stock Exchange ex-options, ex-warrants or ex-rights (the "ex-date") of the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Ordinary Shares in issue at close of business on the dealing day immediately preceding the ex-date;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the date of issue of such Ordinary Shares, options, warrants or other rights.

- (v) If any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares) shall be issued to Shareholders as a class by way of rights or there shall be granted to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the dealing day immediately preceding the first date on which the Ordinary Shares are traded on the Relevant Stock Exchange ex-rights, ex-options or ex-warrants (the "ex-date"); and

B is the Fair Market Value on the dealing day immediately preceding the ex-date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the date of issue of the Securities or grant of such rights.

- (vi) If and whenever the Issuer shall issue (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;

- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

- (vii) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity (otherwise than as mentioned in sub-paragraphs (b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Bonds), which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares or shall issue or grant any options, warrants or rights to convert into, purchase or subscribe for Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription, purchase or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued by the Issuer for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or upon the exercise of any such options, warrants or rights or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share; and
- C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto or upon exercise of such options, warrants or rights at the initial conversion, exchange, exercise or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation;

provided that if at the time of issue of the relevant Securities or date of issue or grant of such options, warrants or rights (as used in this sub-paragraph (b)(vii) the "Specified Date") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be

when such Securities are converted or exchanged or rights of subscription, purchase or conversion are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided) then for the purposes of this sub-paragraph (b)(vii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue of such Securities or, as the case may be, the grant of such rights.

- (viii) If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such Securities (other than the Bonds) as are mentioned in sub-paragraph (b)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued, purchased or acquired by the Issuer or any Subsidiary of the Issuer (or at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange or subscription price of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as a Financial Adviser shall consider appropriate for any previous adjustment under this sub-paragraph or sub-paragraph (b)(vii) above;

provided that if at the time of such modification (as used in this sub-paragraph (b)(viii) the "Specified Date") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of

subscription are exercised or at such other time as may be provided) then for the purposes of this paragraph (b)(viii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange or subscription had taken place on the Specified Date.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such Securities.

- (ix) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under sub-paragraphs (b)(ii), (iii), (iv), (vi) or (vii) above or (x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day) or under sub-paragraph (b)(v) above and other than in relation to an Offer or a Scheme, as defined in sub-paragraph (b)(x) below)) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A-B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the dealing day immediately preceding the date on which the terms of such offer are first publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

- (x) If:
- (i) an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associate (as defined in section 12 of the Corporations Act) of the offeror) to acquire the whole or any part of the issued ordinary share capital of the Issuer (an "Offer"); or
  - (ii) any person proposes a scheme of arrangement with regard to such acquisition (other than an Exempt Newco Scheme) (a "Scheme");

and (such offer or scheme having become or been declared unconditional in all respects) more than 50 per cent. of the Voting Rights of the issued share capital of the Issuer have or will become unconditionally vested in the offeror and/or such associate(s) as aforesaid, or an event occurs which has a like or similar effect (a "Change of Control"), then upon any exercise of Conversion Rights where the Conversion Date falls during the period (the "Change of Control Period") commencing on the occurrence of the Change of Control and ending 30 calendar days following the Change of Control or, if later, 30 calendar days following the date on which a Change of Control Notice as required by Condition 6(g) is given, the Conversion Price (the



"Change of Control Conversion Price") shall be as determined pursuant to the following formula:

$$\text{COCCP} = \text{OCP} / (1 + (\text{CP} \times c/t))$$

where:

- COCCP = means the Change of Control Conversion Price
- OCP = means the Conversion Price in effect on the relevant Conversion Date, disregarding the application of this paragraph (b)(x)
- CP = means 38.0 per cent. (expressed as a fraction)
- c = means the number of days from and including the date the Change of Control occurs to but excluding the Final Maturity Date
- t = means the number of days from and including the Closing Date to but excluding the Final Maturity Date

- (xi) If the Issuer (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this Condition 6(b) (even if the relevant circumstance is specifically excluded from the operation of sub-paragraphs (b)(i) to (x) above), the Issuer shall, at its own expense and acting reasonably, request a Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph (b)(xi) if such Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

Notwithstanding the foregoing provisions, where the events or circumstances giving rise to any adjustment pursuant to this Condition 6(b) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be advised by a Financial Adviser to be in its opinion appropriate to give the intended result and provided further that, for the avoidance of doubt, the issue of Ordinary Shares pursuant to the exercise of Conversion Rights shall not result in an adjustment to the Conversion Price.

For the purpose of any calculation of the consideration receivable or price pursuant to sub-paragraphs (iv), (vi), (vii) and (viii), the following provisions shall apply:

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and

(y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the date of the first public announcement of the terms of issue of such Securities or, as the case may be, such options, warrants or rights, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights of subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency it shall be converted into the Relevant Currency at the Prevailing Rate on the date of the first public announcement of the terms of issue of such Ordinary Shares or, as the case may be, Securities; and
- (d) in determining consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith.

(c) *Retroactive Adjustments*

If the Conversion Date in relation to the conversion of any Bond shall be after any consolidation, reclassification or sub-division as is mentioned in Condition 6(b)(i), or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Condition 6(b)(ii), (iii) (iv), (v) or (ix), or after any such issue or grant as is mentioned in Condition 6(b)(vi) and (vii), in any case in circumstances where the relevant Conversion Date falls before the relevant adjustment becomes effective under Condition 6(b) (such adjustment, a “**Retroactive Adjustment**”), then the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued or transferred and delivered to the converting Bondholder, in accordance with the instructions contained in the Conversion Notice, such additional number of Ordinary Shares (if any) (the “**Additional Ordinary Shares**”) as, together with the Ordinary Shares issued or to be transferred and delivered on conversion of the relevant Bond (together with any fraction of an Ordinary Share not so issued), is equal to the number of Ordinary Shares which would have been required to be issued or delivered on conversion of such Bond if the relevant adjustment (more particularly referred to in the said provisions of Condition 6(b)) to the Conversion Price had in fact been made and become effective immediately prior to the relevant Conversion Date.

*(d) Decision of a Financial Adviser*

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or as to the occurrence of a Change of Control, the Issuer shall consult a Financial Adviser and the written opinion of such Financial Adviser in respect of such adjustment to the Conversion Price shall be conclusive and binding on all parties, save in the case of manifest error.

*(e) Employees' Share Schemes*

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, transferred, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees or contractors or former employees or contractors (including Directors or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its Subsidiaries or any associated company or to trustees to be held for the benefit of any such person, in any such case pursuant to any employees' share or option scheme.

*(f) Rounding Down and Notice of Adjustment to the Conversion Price*

On any adjustment, the resultant Conversion Price, if not an integral multiple of U.S.\$0.001, shall be rounded down to the nearest whole multiple of U.S.\$0.001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time.

Notice of any adjustments to the Conversion Price shall be given by the Issuer to Bondholders in accordance with Condition 17 and the Trustee promptly after the determination thereof.

The Issuer undertakes that it shall not take any action, and shall procure that no action is taken, that would otherwise result in the inability to issue Ordinary Shares on conversion as fully paid.

*(g) Change of Control*

Within 14 calendar days following the occurrence of a Change of Control, the Issuer shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 17 (a "Change of Control Notice"). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to require the Issuer to redeem their Bonds as provided in Condition 7(e).

The Change of Control Notice shall also specify:

- (i) the nature of the Change of Control;
- (ii) the Conversion Price immediately prior to the occurrence of the Change of Control and the Change of Control Conversion Price (on the basis of such Conversion Price) applicable pursuant to Condition 6(b)(x) during the Change of Control Period;
- (iii) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of such notice;
- (iv) the Change of Control Put Date and the last day of the Change of Control Period;
- (v) details of the right of the Issuer to redeem any Bonds which shall not previously have been converted or redeemed pursuant to Condition 7(e); and

- (vi) such other information relating to the Change of Control as the Trustee may reasonably require.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to a Change of Control has occurred or may occur and will not be responsible to Bondholders or any other person for any loss arising from any failure by it to do so.

*(h) Procedure for exercise of Conversion Rights*

The Conversion Right may be exercised by a Bondholder by delivering the relevant Bond to the specified office of any Paying, Transfer and Conversion Agent, during its usual business hours, accompanied by a duly completed and signed notice of conversion (a "Conversion Notice") in the form (for the time being current) obtainable from any Paying, Transfer and Conversion Agent. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying, Transfer and Conversion Agent to whom the relevant Conversion Notice is delivered is located. If such delivery is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Paying, Transfer and Conversion Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the "Conversion Date") shall be the second Perth business day following the date of the delivery of the Bonds and the Conversion Notice.

A Bondholder exercising a Conversion Right shall be responsible for paying directly to the relevant authorities any taxes and capital, stamp, issue and registration and transfer taxes and duties arising on conversion (other than any taxes or capital, stamp, issue and registration and transfer taxes and duties payable in Australia or Canada (or any province, state or territory thereof) in respect of the allotment and issue of any Ordinary Shares on such conversion or in respect of the delivery of any Ordinary Shares on such conversion (including any Additional Ordinary Shares), which shall be paid by the Issuer) and such Bondholder shall be responsible for paying all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with such conversion. For the avoidance of doubt, none of the Agents and the Trustee shall be responsible for determining whether such taxes or capital, stamp, issue and registration and transfer taxes and duties are payable or the amount thereof and it shall not be responsible or liable for any failure by the Issuer to pay such taxes or capital, stamp, issue and registration and transfer taxes and duties.

Ordinary Shares to be issued on exercise of Conversion Rights will be issued, at the option of the Bondholder exercising its Conversion Right as specified in the Conversion Notice, either:

- (a) in uncertificated form through the securities trading system known as the Clearing House Electronic Sub-register System operated by ASX Settlement and Transfer Corporation Pty Ltd ("CHESS") or in "book-entry-only" form eligible for deposit at The Canadian Depository for Securities Limited ("CDS") (or any successor licensed clearance and settlement facility applicable to the Ordinary Shares), or
- (b) in certificated form registered in the name of or as directed by the Bondholder in the relevant Conversion Notice,

and in the case of (a) the Ordinary Shares will be credited to the CHESS account or the CDS Participant account specified in the Conversion Notice, or in the case of (b) the certificate for the Ordinary Shares will be mailed to the relevant Bondholder (at the risk of such Bondholder) to the

address specified in the Conversion Notice, or if a Bondholder does not specify a valid CHES account or CDS Participant account in the Conversion Notice, a certificate for the Ordinary Shares will be mailed to the relevant Bondholder (at the risk of such Bondholder) to the address specified in the Register, in each case by a date which is generally expected to be not later than three Toronto business days (in the case of Ordinary Shares to be issued in "book-entry only" form eligible for deposit at CDS) or three Perth business days (in the case of Ordinary Shares to be issued through CHES or in certificated form) after the relevant Conversion Date.

Statements of holdings for Ordinary Shares issued on exercise of Conversion Rights through CHES will be dispatched by the Issuer by mail free of charge as soon as practicable but in any event within 10 Perth business days after the relevant Conversion Date.

(i) *Ordinary Shares*

- (i) Ordinary Shares issued or transferred and delivered upon conversion of the Bonds will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Conversion Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the relevant Conversion Date or, as the case may be, the relevant Reference Date.
- (ii) Save as provided in Condition 6(j), no payment or adjustment shall be made on conversion for any interest which otherwise would have accrued on the relevant Bonds since the last Interest Payment Date preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Closing Date).

(j) *Interest on Conversion*

If any notice requiring the redemption of any Bonds is given pursuant to Condition 7(b) or 7(c) on or after the fifteenth calendar day prior to a record date in respect of any Dividend or distribution payable in respect of the Ordinary Shares which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Closing Date) and where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall accrue at the applicable Interest Rate on Bonds in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date in respect of such Dividend or distribution, in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from the Closing Date) to but excluding such Conversion Date. The Issuer shall pay any such interest by not later than 14 days after the relevant Conversion Date by transfer to, a U.S. dollar account with a bank in New York City in accordance with instructions given by the relevant Bondholder in the relevant Conversion Notice.

(k) *Purchase or Redemption of Ordinary Shares*

The Issuer may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back its own shares (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Bondholders.

*(l) No duty to Monitor*

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price and will not be responsible or liable to the Bondholders for any loss arising from any failure by it to do so.

## **7 Redemption and Purchase**

*(a) Final Redemption*

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Bonds will be redeemed at their principal amount on the Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Condition 7(b) or 7(c).

*(b) Redemption at the Option of the Issuer*

On giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and to the Bondholders (which notice shall be irrevocable) in accordance with Condition 17, the Issuer may redeem all but not some only of the Bonds on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at their principal amount, together with accrued but unpaid interest to but excluding such date:

- (i) at any time on or after 5 January 2010, if the Parity Value on each of at least 20 consecutive dealing days ending not earlier than 5 days prior to the giving of the relevant Optional Redemption Notice, shall have been at least U.S.\$260,000; or
- (ii) if, at any time prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any further bonds issued pursuant to Condition 18 and consolidated and forming a single series with the Bonds); or
- (iii) within the period of 45 days after the end of the Change of Control Period.

*(c) Redemption for Taxation Reasons*

At any time the Issuer may, having given not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders (which notice shall be irrevocable) redeem (subject to the second following paragraph) all, and not some only, of the Bonds on the date ("**Tax Redemption Date**") at their principal amount, together with accrued but unpaid interest to such date, if (i) the Issuer certifies to the Trustee immediately prior to the giving of such notice that the Issuer has or will become obliged to pay additional amounts in respect of payments on the Bonds pursuant to Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and (b) an opinion of independent legal or tax advisers of recognised international standing to the effect that such change or amendment

has occurred and that the Issuer has or will be obliged to pay such additional amounts as a result thereof (irrespective of whether such amendment or change is then effective) and the Trustee shall accept without any liability for so doing such certificate and opinion as sufficient evidence of the matters set out in (i) and (ii) above which shall be conclusive and binding on the Bondholders.

Upon the expiry of a Tax Redemption Notice, the Issuer shall (subject to the next following paragraph) redeem the Bonds at their principal amount, together with accrued interest to such date.

If the Issuer gives a notice of redemption pursuant to this Condition 7(c), each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment to be made on such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts on the Bonds shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by the Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying, Transfer and Conversion Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying, Transfer and Conversion Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

*(d) Optional and Tax Redemption Notices*

Any Optional Redemption Notice or Tax Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date or, as the case may be, the Tax Redemption Date, (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice or, as the case may be, the Tax Redemption Notice and (iii) the last day on which Conversion Rights may be exercised by Bondholders.

*(e) Redemption at the option of Bondholders*

Following the occurrence of a Change of Control, the holder of each Bond will have the right to require the Issuer to redeem that Bond on the Change of Control Put Date at its principal amount, together with accrued interest to such date. To exercise such right, the holder of the relevant Bond must, at any time in the Change of Control Period, deliver a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying, Transfer and Conversion Agent (a "Change of Control Put Exercise Notice") to the specified office of any Paying, Transfer and Conversion Agent. The "Change of Control Put Date" shall be the 14th calendar day after the expiry of the Change of Control Period.

Payment in respect of any such Bond shall be made by transfer to a U.S. dollar account with a bank in New York City specified by the relevant Bondholder in the Change of Control Put Exercise Notice.

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of the Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

*(f) Purchase*

Subject to the requirements (if any) of any stock exchange on which the Bonds may be admitted to listing and trading at the relevant time and subject to compliance with applicable laws and regulations,

the Issuer or any Subsidiary of the Issuer may at any time purchase Bonds in the open market or otherwise at any price. Any purchase by tender shall, subject to compliance with applicable laws and regulations, be made available to all Bondholders alike.

*(g) Cancellation*

All Bonds which are redeemed or in respect of which Conversion Rights are exercised will be cancelled and may not be reissued or resold. Bonds purchased by the Issuer or any of its Subsidiaries shall be surrendered to the Principal Paying, Transfer and Conversion Agent for cancellation and may not be reissued or re-sold.

*(h) Multiple Notices*

If more than one notice of redemption is given pursuant to this Condition 7, the first of such notices to be given shall prevail, save that a notice of redemption given by a Bondholder pursuant to Condition 7(c) shall prevail over any other notice of redemption given pursuant to this Condition 7, whether given before, after or at the same time as any notice of redemption under Condition 7(e).

## **8 Payments**

*(a) Principal*

Payment of principal in respect of the Bonds and accrued interest payable on a redemption of the Bonds other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date and subject to the surrender of the Bonds at the specified office of the Registrar or of any of the Paying, Transfer and Conversion Agents.

*(b) Interest and other Amounts*

- (i)* Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.
- (ii)* Payments of all amounts other than as provided in Condition 8(a) and (b)(i) will be made as provided in these Conditions.

*(c) Record Date*

“**Record Date**” means the sixth New York business day before the due date for the relevant payment.

*(d) Payments*

Each payment in respect of the Bonds pursuant to Condition 8(a) and (b)(i) will be made by transfer to a U.S. dollar account with a bank in New York City as notified to the Registrar by the relevant Bondholder by no later than the relevant Record Date.

The Issuer will not be required to make any such payment in respect of the Bonds until 6 business days after the Bondholder has provided the necessary account details for payment in accordance with this Condition 8(d).

*(e) Payments subject to fiscal laws*

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Bondholders in respect of such payments.



*(f) Delay in payment*

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day, (ii) if the Bondholder is late in surrendering the relevant Bond or (iii) if the Bondholder does not provide the necessary account details for payment in accordance with these Conditions.

*(g) Business Days*

In this Condition, "business day" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business, in New York City and (where such surrender is required by these Conditions) in the place of the specified office of the Registrar or relevant Paying, Transfer and Conversion Agent, to whom the relevant Bond is or surrendered.

*(h) Paying, Transfer and Conversion Agents, etc.*

The initial Paying, Transfer and Conversion Agents and Registrar and their initial specified offices are listed below. The Issuer reserves the right under the Agency Agreement at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying, Transfer and Conversion Agent or the Registrar and appoint additional or other Paying, Transfer and Conversion Agents or Registrar, provided that it will (i) maintain a Principal Paying, Transfer and Conversion Agent or another Registrar, (ii) maintain Paying, Transfer and Conversion Agents having specified offices in at least two major European cities including a Paying, Transfer and Conversion Agent having a specified office in London, (iii) a Paying, Transfer and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, (iv) so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require, a Paying, Transfer and Conversion Agent having a specified office in Singapore and (v) maintain a Registrar with a specified office outside the United Kingdom. Notice of any change in the Paying, Transfer and Conversion Agents or the Registrar or their specified offices will promptly be given by the Issuer to the Bondholders in accordance with Condition 17.

*(i) Fractions*

When making payments to Bondholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

## **9 Taxation**

All payments made by or on behalf of the Issuer in respect of the Bonds will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is required to be made by law.

In the event that any such withholding or deduction is required to be made, the Issuer will pay such additional amounts as will result in the receipt by the Bondholders of the amounts which would otherwise have been receivable had no such withholding or deduction been required, except that no such additional amount shall be payable in respect of any Bond:

- (a) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Commonwealth of Australia otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond or where the withholding or deduction is required on account of a tax liability that the holder has or may have otherwise than as a result of such holding or receipt; or
- (b) (in the case of a payment on redemption) if the Bond is surrendered more than 30 days after the Relevant Date, or in any case if the relevant Bondholder does not provide the necessary account details for payment in accordance with these Conditions within 24 days after the Relevant Date, except to the extent that the holder would have been entitled to such additional amount had the Issuer been obliged, following the surrendering of the Bond (in the case of payment on redemption) and providing the necessary account details for payment in accordance with these Conditions, to make the payment on the last day of the period of 30 days following the Relevant Date; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying, Transfer or Conversion Agent in a Member State of the European Union; or
- (e) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges by reason of the holder being an associate of the Issuer for the purposes of section 128F of the Income Tax Assessment Act 1936 of Australia (as amended).

References in these Conditions and the Trust Deed to principal and interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

This Condition 9 shall not apply in respect of payments on any Bonds which are the subject of an election by the relevant Bondholder pursuant to Condition 7(c) (*Redemption for Taxation Reasons*).

## 10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified and/or secured to its satisfaction and provided that in the case of paragraphs (b), (c), (d) and (g) (and, to the extent analogous, (h)) or, in relation to a Principal Subsidiary, paragraphs (e) and (f) (and, to the extent analogous, (h)) the Trustee shall have certified to the Issuer that in its opinion such event is materially prejudicial to the interests of the Bondholders), give notice to the Issuer that the Bonds are, and they shall accordingly thereby immediately become, due and repayable at their principal amount together with accrued interest if any of the following events (each an “**Event of Default**”) shall have occurred:

- (a) default is made for more than 10 days in the payment on the due date of any amount payable in respect of the Bonds; or
- (b) the Issuer does not perform or comply with any one or more of its other obligations under the Bonds or the Trust Deed and (unless in the opinion of the Trustee, certified in writing to the Issuer, the default is incapable of remedy) is not remedied within 45 days (or such longer period as the Trustee may permit)

after the Issuer shall have received from the Trustee written notice of such default requiring it to be remedied; or

(c)

- (i) any other present or future indebtedness for borrowed money of the Issuer or any Subsidiary of the Issuer becomes due and payable prior to its stated maturity by reason of an event of default (however described); or
- (ii) any such indebtedness is not paid when due or within any originally applicable grace period; or
- (iii) the Issuer or any Subsidiary of the Issuer fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money; or
- (iv) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Principal Subsidiary of the Issuer for any indebtedness for borrowed money (or any guarantee of, or indemnity in respect of, indebtedness for borrowed money) that has become payable becomes enforceable and steps are taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager, judicial manager, controller or other similar person),

and the aggregate amount of the indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.\$10,000,000 (or its equivalent in other currencies). For the purposes of this paragraph (c), "indebtedness for borrowed money" shall exclude Project Finance Indebtedness; or

- (d) a distress, attachment, execution or other legal process is levied or enforced on or against all or any substantial part of the property, assets or revenues of the Issuer or any Principal Subsidiary of the Issuer which is not discharged, removed, stayed or paid within 30 days; or
- (e) the Issuer or any Principal Subsidiary of the Issuer (i) is or states that it is insolvent or unable to pay its debts, (ii) is presumed under the Corporations Act to be insolvent (other than as a result of a failure to pay a statutory demand in relation to a claim the subject of a bona-fide dispute), (iii) stops, suspends or threatens to stop or suspend payment of its debts generally, or (iv) makes or enters into a general assignment or an arrangement or composition or compromise with or for the benefit of its creditors (other than in connection with a reconstruction, amalgamation, reorganisation, merger or consolidation permitted under paragraph (f)); or
- (f) an administrator (as defined in the Corporations Act) or liquidator or a like or similar officer is appointed in respect of the Issuer or any Principal Subsidiary or a court order is made or a resolution passed for the winding-up or dissolution of the Issuer or any Principal Subsidiary of the Issuer, or the Issuer or any Principal Subsidiary of the Issuer ceases or threatens to cease to carry on business (other than in the case of a Principal Subsidiary, as a result of a *bona fide* disposal of such business or its assets), except in any such case for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Principal Subsidiary of the Issuer, where that Principal Subsidiary is solvent or its undertaking and assets are transferred to or otherwise vested in the Issuer or another Subsidiary of the Issuer; or
- (g) a final judgment or judgments of a court or courts of competent jurisdiction for the payment of money aggregating in excess of U.S.\$10,000,000 (or its equivalent in the relevant currency of payment) are rendered against the Issuer or any Principal Subsidiary of the Issuer and which judgments are not bonded, discharged or stayed pending appeal within 60 days (or such longer period as the Trustee may

permit) after the Latest Date, or are not discharged within 60 days (or such longer period as the Trustee may permit) after the later of the expiration of such stay and the Latest Date; or

- (h) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) to (f) above.

"Latest Date" means the latest of (i) the entry of such judgment; (ii) if such judgment specifies a date by which it must be satisfied, the date so specified; and (iii) the time allowed or specified under applicable law for such judgment to be bonded, discharged or stayed pending appeal.

## 11 Undertakings

Whilst any Conversion Right remains exercisable, the Issuer will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (a) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
  - (i) by the issue of fully paid Ordinary Shares to Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Ordinary Shares; or
  - (ii) by the issue of Ordinary Shares paid up in full (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a cash dividend; or
  - (iii) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or
  - (iv) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or contractor or former employee or contractor (including Directors or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its Subsidiaries or any associated company or to trustees to be held for the benefit of any such person, in any such case pursuant to an employees' share or option scheme whether for all employees, directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or otherwise gives rise (or would, but for the provisions of Condition 6(f) relating to the carry forward of adjustments, give rise) to an adjustment to the Conversion Price; or

- (b) not modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than the rights attaching to the Ordinary Shares but so that nothing in this Condition 11(b) shall prevent:
  - (i) any consolidation, reclassification or subdivision of the Ordinary Shares; or
  - (ii) any modification of such rights which is not, in the opinion of a Financial Adviser, materially prejudicial to the interests of the holders of the Bonds; or
  - (iii) any issue of equity share capital where the issue of such equity share capital results, or would, but for the provisions of Condition 6(f) relating to the carry forward of adjustments or the fact that the consideration per Ordinary Share receivable therefore is at least 95 per cent. of the

Current Market Price per Ordinary Share, otherwise result, in an adjustment to the Conversion Price; or

- (iv) any issue of equity share capital or modification of rights attaching to the Ordinary Shares, where prior thereto the Issuer shall have instructed a Financial Adviser to determine what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Financial Adviser shall have determined either that no adjustment is required or that an adjustment resulting in an decrease in the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);
- (c) procure that no Securities (whether issued by the Issuer or any Subsidiary of the Issuer or procured by the Issuer or any Subsidiary of the Issuer to be issued or issued by any other person pursuant to any arrangement with the Issuer or any Subsidiary of the Issuer) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 6(f) relating to the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;
- (d) not make any issue, grant or distribution or any other action taken if the effect thereof would be that, on the exercise of Conversion Rights, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (e) not reduce its issued share capital, or any uncalled liability in respect thereof, or any non-distributable reserves, except:
  - (i) pursuant to the terms of issue of the relevant share capital; or
  - (ii) by means of a purchase or redemption of share capital of the Issuer to the extent permitted by applicable law; or
  - (iii) by way of transfer to reserves as permitted under applicable law; or
  - (iv) where the reduction is permitted by applicable law and the Trustee is advised by a Financial Adviser, acting as expert, that the interests of the Bondholders will not be materially prejudiced by such reduction; or
  - (v) where the reduction is permitted by applicable law and results in (or would, but for the provisions of Condition 6(f) relating to the carry forward of adjustments, result in) an adjustment to the Conversion Price,

provided that, without prejudice to the other provisions of these Conditions, the Issuer may exercise such rights as they may from time to time enjoy pursuant to applicable law to purchase its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Bondholders;

- (f) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associate (as defined in Section 11 of the Corporations Act)) to acquire the whole or any part of the issued Ordinary Shares, or if any person proposes a scheme with regard to such acquisition, give notice of such offer or scheme to the

Bondholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying, Transfer and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of the Issuer, or where such an offer has become or been declared unconditional in all respects, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Bondholders;

- (g) in the event of a Newco Scheme the Issuer shall take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of the scheme of arrangement (i) such amendments are made to these Conditions and the Trust Deed as are necessary, in the opinion of the Trustee, to ensure that the Bonds may be converted into or exchanged for ordinary shares in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed and (ii) the ordinary shares of Newco are:
  - (A) admitted to listing on the Relevant Stock Exchange; or
  - (B) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market;
- (h) use its best endeavours to ensure that the Ordinary Shares issued upon exercise of Conversion Rights will, as soon as is practicable, be admitted to listing and to trading on the Australian Stock Exchange and the TSX and will be listed, quoted or dealt in, as soon as is practicable, on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;
- (i) not change the jurisdiction in which it is domiciled or resident or to whose taxing authority it is subject generally unless it would not thereafter be required pursuant to then current laws and regulations to withhold or deduct for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of such jurisdiction or any political subdivision thereof or therein having power to tax in respect of any payment on or in respect of the Bonds;
- (j) if there is a change in the Relevant Stock Exchange, notify the Trustee and the Bondholders in accordance with Condition 17 by not later than 7 days after the commencement of the relevant Semi-Annual Period; and
- (k) for so long as any Bond remains outstanding and subject to the occurrence of a Change of Control, use its reasonable endeavours to ensure that its issued and outstanding Ordinary Shares shall be admitted to listing and to trading on the Australian Stock Exchange and the TSX.

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually a certificate of the Issuer, as to there not having occurred an Event of Default or Potential Event of Default since the date of the last such certificate or if such event has occurred as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer with the undertakings set forth in this Condition 11, nor be liable to any person for not so doing.

## 12 Prescription

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of such payment and thereafter any principal, interest or other sums payable in respect of such Bonds shall be forfeited and revert to the Issuer.

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

### **13 Replacement of Bonds**

If any Bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying, Transfer and Conversion Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

### **14 Meetings of Bondholders, Modification and Waiver, Substitution**

#### *(a) Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if requested in writing by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds (other than deferring the earliest date on which the Bonds may be redeemed pursuant to Condition 7(b)(i)) or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount, or interest on, the Bonds or to reduce the amount payable on redemption of the Bonds or modifying or cancelling the Conversion Rights, (iii) to increase the Conversion Price other than in accordance with these Conditions, (iv) to change the currency of any payment in respect of the Bonds, (v) to change the governing law of the Bonds, the Trust Deed or the Agency Agreement (other than in the case of a substitution of the Issuer (or any previous substitute or substitutes) under Condition 14(c)), or (vi) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than three-quarters, or at any adjourned meeting not less than one-half, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed). An Extraordinary Resolution is a resolution in respect of which not less than three-quarters of the votes cast shall have been in favour at a meeting of Bondholders duly convened and held in accordance with the Trust Deed.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held.

#### *(b) Modification and Waiver*

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions which in the

Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, and (ii) any other modification to the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bond or these Conditions which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders, determine any Event of Default or a Potential Event of Default should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders promptly in accordance with Condition 17.

(c) *Substitution*

The Trustee may, without the consent of the Bondholders, agree with the Issuer to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition) as the principal debtor under the Bonds and the Trust Deed of any Subsidiary of the Issuer subject to (a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer and (b) the Bonds continuing to be convertible or exchangeable into Ordinary Shares as provided in these Conditions *mutatis mutandis* as provided in these Conditions, with such amendments as the Trustee shall consider appropriate provided that in any such case, (x) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (y) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders.

(d) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

## 15 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Bonds unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured to its satisfaction. No Bondholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.



## 16 The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking any action or proceedings unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any accountants (including the Auditors), financial advisers or investment bank, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee shall be obliged to accept and be entitled to rely on any such report, confirmation or certificate or advice where the Issuer procures delivery of the same pursuant to its obligation to do so under a condition hereof or any provision of the Trust Deed and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders in the absence of manifest error.

## 17 Notices

All notices regarding the Bonds will be valid if published in a leading daily newspaper having circulation in (i) Asia (which is expected to be the *Asian Wall Street Journal*) and (ii) Europe (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in all the required newspapers or in each required manner. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

*So long as the Bonds are represented by a Global Bond and such Global Bond is held on behalf of a clearing system, and where the rules of the Singapore Exchange Securities Trading Limited so permit, notices to Bondholders shall be given by delivery of the relevant notice to such clearing system for communication by them to their respective accountholders instead of in accordance with Condition 17.*

## 18 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Bonds) or in all respects except for the first payment of interest on them and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures consolidated and forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

## **19 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999 (United Kingdom).

## **20 Governing Law and Jurisdiction**

### *(a) Governing Law*

The Trust Deed, the Agency Agreement and the Bonds are governed by, and shall be construed in accordance with, English law.

### *(b) Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds ("**Proceedings**") may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

### *(c) Agent for Service of Process*

The Issuer has irrevocably appointed Hackwood Secretaries Limited at its registered office for the time being, currently at One Silk Street, London EC2Y 8HQ as its agent in England to receive service of process in any Proceedings in England. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

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# ➤ Financial Report



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# Consolidated Income Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	CONSOLIDATED		PARENT ENTITY	
		2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
<b>REVENUE FROM CONTINUING OPERATIONS</b>	5(a)	4,298	772	4,251	1,165
Other income	5(b)	1,057	810	2,487	-
Share based payments expense	5(c)	(3,650)	(3,009)	(3,650)	(3,009)
Interest expense		(149)	(354)	(16)	(354)
Exploration and evaluation expenditure	13	(4,233)	(5,113)	-	-
Write down of convertible note		-	(894)	-	(894)
Write down of intercompany loans		-	-	(11,464)	(3,624)
Write off of intercompany investment		-	-	(261)	-
Write down of intercompany investments		-	-	(58)	-
Depreciation and amortisation	12	(223)	(90)	(95)	(32)
Employee benefits expense		(1,346)	(482)	(1,346)	(482)
Operating lease expense		(204)	(118)	(204)	(102)
Other expenses		(3,036)	(1,060)	(2,765)	(1,114)
<b>LOSS BEFORE INCOME TAX</b>		<b>(7,486)</b>	<b>(9,538)</b>	<b>(13,121)</b>	<b>(8,446)</b>
Income tax expense	6(a)	-	-	-	-
Loss after tax from continuing operations		<b>(7,486)</b>	<b>(9,538)</b>	<b>(13,121)</b>	<b>(8,446)</b>
Profit after tax from discontinued operations	7(a)	-	128	-	-
<b>LOSS ATTRIBUTABLE TO MEMBERS OF PALADIN RESOURCES LTD</b>		<b>(7,486)</b>	<b>(9,410)</b>	<b>(13,121)</b>	<b>(8,446)</b>
Loss per share attributed to ordinary equity holders - basic and diluted	30	<b>A\$ (0.02)</b>	<b>A\$ (0.03)</b>	-	-

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

# Consolidated Balance Sheets

AS AT 30 JUNE 2006

		CONSOLIDATED		PARENT ENTITY	
	Notes	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	8	59,778	39,489	22,677	39,000
Trade and other receivables	9	3,695	568	151	472
<b>TOTAL CURRENT ASSETS</b>		<b>63,473</b>	<b>40,057</b>	<b>22,828</b>	<b>39,472</b>
<b>Non current assets</b>					
Trade and other receivables	9	-	-	44,231	4,650
Other financial assets	10	7,703	2,430	49,637	426
Deferred borrowing costs	11	-	170	-	-
Property, plant and equipment	12	80,442	1,098	456	390
Exploration and evaluation expenditure	13	8,690	1,686	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>96,835</b>	<b>5,384</b>	<b>94,324</b>	<b>5,466</b>
<b>TOTAL ASSETS</b>		<b>160,308</b>	<b>45,441</b>	<b>117,152</b>	<b>44,938</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	14	11,074	727	1,103	591
Unearned revenue	15	242	-	-	-
Interest bearing loans and borrowings	16	-	533	-	533
Provisions	17	328	65	266	65
<b>TOTAL CURRENT LIABILITIES</b>		<b>11,644</b>	<b>1,325</b>	<b>1,369</b>	<b>1,189</b>
<b>Non current liabilities</b>					
Trade and other payables	14	41	-	41	334
Unearned revenue	15	979	-	-	-
Interest bearing loans and borrowings	16	19,334	-	-	-
Provisions	17	3,585	-	54	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>23,939</b>	<b>-</b>	<b>95</b>	<b>334</b>
<b>TOTAL LIABILITIES</b>		<b>35,583</b>	<b>1,325</b>	<b>1,464</b>	<b>1,523</b>
<b>NET ASSETS</b>		<b>124,725</b>	<b>44,116</b>	<b>115,688</b>	<b>43,415</b>
<b>Equity</b>					
Contributed equity	18(a)	148,182	65,992	148,182	65,992
Reserves	18(d)	11,311	5,406	6,890	3,586
Accumulated losses		(34,768)	(27,282)	(39,384)	(26,263)
<b>TOTAL EQUITY</b>		<b>124,725</b>	<b>44,116</b>	<b>115,688</b>	<b>43,415</b>

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



## Consolidated Statements Of Changes In Equity

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Contributed Equity A\$000	Reserves A\$000	Accumulated Losses A\$000	Total A\$000
<b>CONSOLIDATED</b>					
At 1 July 2004		24,265	719	(17,872)	7,112
Change in fair value of available for sale financial assets			1,720		1,720
(Loss) for the year ended			-	(9,410)	(9,410)
Recognised value of unlisted employee options that have vested			3,009		3,009
Grant of Société Générale Australia Branch share options			321		321
Exercise of Société Générale Australia Branch share options	18(b)	321	(321)		
Exercise of unlisted employee options	18(b)	42	(42)		
Contributions of equity, net of transaction costs	18(b)	41,364			41,364
At 30 June 2005		65,992	5,406	(27,282)	44,116
<b>CONSOLIDATED</b>					
At 1 July 2005		65,992	5,406	(27,282)	44,116
Changes in fair value of available for sale financial assets			2,758		2,758
(Loss) for the year ended				(7,486)	(7,486)
Recognised value of unlisted employee options that have vested			3,650		3,650
Exercise of unlisted employee options	18(b)	503	(503)		
Contributions of equity, net of transactions costs	18(b)	81,687			81,687
At 30 June 2006		148,182	11,311	(34,768)	124,725

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

## Parent Entity Statements Of Changes In Equity

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Contributed Equity A\$000	Reserves A\$000	Accumulated Losses A\$000	Total A\$000
<b>PARENT ENTITY</b>					
At 1 July 2004		24,265	719	(17,817)	7,167
(Loss) for the year ended				(8,446)	(8,446)
Recognised value of unlisted employee options that have vested			3,009	-	3,009
Grant of Société Générale Australia Branch share options			321	-	321
Exercise of Société Générale Australia Branch share options	18(b)	321	(321)	-	-
Exercise of unlisted employee options	18(b)	42	(42)	-	-
Contributions of equity, net of transaction costs	18(b)	41,364	-	-	41,364
At 30 June 2005		65,992	3,686	(26,263)	43,415
<b>PARENT ENTITY</b>					
At 1 July 2005		65,992	3,686	(26,263)	43,415
Change in fair value of available for sale financial assets			57	-	57
(Loss) for the year ended				(13,121)	(13,121)
Recognised value of unlisted employee options that have vested			3,650	-	3,650
Exercise of unlisted employee options	18(b)	503	(503)	-	-
Contributions of equity, net of transactions costs	18(b)	81,687	-	-	81,687
At 30 June 2006		148,182	6,890	(39,384)	115,688

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

# Consolidated Cash Flows Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	CONSOLIDATED 2006 A\$000	2005 A\$000	PARENT ENTITY 2006 A\$000	2005 A\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Payments to suppliers and employees		(3,658)	(1,831)	(3,506)	(1,665)
Interest received		4,315	414	4,122	414
Interest received from controlled entities		-	-	402	-
Interest paid		(49)	(58)	(49)	-
Dividend received from controlled entities		-	-	348	-
Property rental income		-	116	-	-
Other receipts		40	78	40	76
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>8(a)</b>	<b>648</b>	<b>(1,281)</b>	<b>1,357</b>	<b>(1,175)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Exploration and evaluation expenditure		(4,711)	(5,151)	-	-
Payments for property, plant and equipment		(71,165)	(946)	(161)	(396)
Loans to controlled entities		-	-	(47,314)	(6,311)
Loans from controlled entities		-	-	-	500
Additional investment in controlled entities		-	-	(47,478)	-
Payments for available for sale financial assets		(620)	-	-	-
Payments for controlled entities net of cash acquired		-	(203)	-	-
Proceeds on sale of land and buildings		-	1,200	-	-
Proceeds on sale of tenements		-	100	-	-
<b>NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES</b>		<b>(76,496)</b>	<b>(5,000)</b>	<b>(94,953)</b>	<b>(6,207)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Share placement		77,000	40,800	77,000	40,800
Proceeds from exercise of share options		3,380	1,574	3,380	1,574
Equity fundraising costs		(4,305)	(1,010)	(4,305)	(1,010)
Project finance facility establishment costs		(3,736)	-	-	-
Repayment of borrowings		(500)	(733)	(500)	-
Proceeds from borrowings		23,241	500	-	500
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b>95,080</b>	<b>41,131</b>	<b>75,575</b>	<b>41,864</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>19,232</b>	<b>34,850</b>	<b>(18,021)</b>	<b>34,482</b>
Cash and cash equivalents at the beginning of the financial year		39,489	4,639	39,000	4,518
Effects of exchange rate changes on cash and cash equivalents		1,057	-	1,698	-
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD</b>	<b>8</b>	<b>59,778</b>	<b>39,489</b>	<b>22,677</b>	<b>39,000</b>

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

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 1. CORPORATE INFORMATION

The financial report of Paladin Resources Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Directors on 11 August 2006 subject to final audit clearance.

Paladin Resources Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on Australian Stock Exchange Ltd, with additional listings on the Toronto Stock Exchange in Canada, and Munich, Berlin, Stuttgart and Frankfurt stock exchanges in Germany.

The nature of the operations and principal activities of the Group are described in Note 4.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

In addition to these Australian requirements further information has been included in the Consolidated Financial Statements for the year ended 30 June 2006 in order to comply with applicable Canadian securities law.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (A\$1000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

### (b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 31.

The following Australian Accounting Standards that have recently been issued or amended but are not yet effective, have not been applied by Paladin Resources Ltd:

AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard	Application date to Group
2004-3	AASB 1 <i>First-time Adoption of AIFRS</i> , AASB 101 <i>Presentation of Financial Statements</i> , and AASB 124 <i>Related Party Disclosures</i>	No change to accounting policy required. Therefore no impact	1-Jan-06	1-July-06
2005-1	AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1-Jan-06	1-July-06
2005-4	AASB 1 <i>First-time Adoption of AIFRS</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 132 <i>Financial Instruments: Disclosure and Presentation</i>	No change to accounting policy required. Therefore no impact	1-Jan-06	1-July-06
2005-5	AASB 1 <i>First-time Adoption of AIFRS</i> , and AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1-Jan-06	1-July-06
2005-6	AASB 3 <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact.	1-Jan-06	1-July-06
2005-10	AASB 132 <i>Financial Instruments: Presentation and Disclosure</i> , AASB 101 <i>Presentation of Financial Statements</i> , AASB 114 <i>Segment Reporting</i> , AASB 117 <i>Leases</i> , AASB 133 <i>Earnings per Share</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 1 <i>First-time adoption of AIFRS</i>	No change to accounting policy required. However there will be changes to the the level of disclosures required in respect of financial instruments.	1-Jan-07	1-July-07
2006-1	AASB 121 <i>The Effects Of Change in Foreign Currency Rates</i>	No change to accounting policy required. Therefore no impact.	1-Jan-06	1-July-06

AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard	Application date to Group
New Standard	AASB 7 <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. However there will be changes to the level of disclosures required in respect of financial instruments.	1-Jan-07	1-July-07
UIG	UIG 4 <i>Determining whether an Arrangement contains a Lease</i>	No change to accounting policy required. Therefore no impact.	1-Jan-06	1-July-06
UIG	UIG 5 <i>Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	No change to accounting policy required. Therefore no impact.	1-Jan-06	1-July-06
The following amendments are not applicable to the Group and therefore have no impact:				
AASB Amendment	Affected Standard (s)			
New Standard	AASB 119 <i>Employee Benefits</i> (Revised Dec 04) – Accounting policy options contained within the revised standard affect accounting for defined benefit schemes only. As Paladin Resources Ltd does not contribute to a defined benefit scheme, there is no impact of this change.			
2005-4	AASB 1023 <i>General Insurance Contracts</i> and AASB 1028 <i>Life Insurance Contracts</i>			
2005-9	AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General Insurance Contracts</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> and AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> .			
2005-10	AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General Insurance Contracts</i> and AASB 1038 <i>Life Insurance Contracts</i>			
UIG	UIG 7 <i>Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies</i>			
UIG	UIG 8 <i>Scope of AASB 2</i>			
UIG	UIG 9 <i>Reassessment of Embedded Derivatives</i>			

### (c) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Paladin Resources Ltd (Company or Parent Entity) as at 30 June 2006 and the results of all subsidiaries for the twelve months then ended. Paladin Resources Ltd and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 2(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (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) Impairment of exploration and evaluation expenditure; and property, plant and equipment

The Group determines whether exploration and evaluation expenditure; and property, plant and equipment are impaired at least on an annual basis. This requires an estimation of the recoverable amount of cash-generating units to which the exploration and evaluation expenditure; and property, plant and equipment are allocated.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

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

### (ii) 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 a binomial model using assumptions detailed in Note 26.

### (iii) Available for sale financial assets

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 options is determined by an external valuer using a binomial model.

### (iv) Restoration provision

As set out in Note 2(v), the value of this provision represents the discounted value of the present obligation 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 used to determine the provisions could have a material impact to the carrying value of the provision (refer to Note 17).

### (e) Segment reporting

A geographical segment is a group of assets and operations engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

### (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 Australian dollars, which is Paladin Resources Ltd's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated 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, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

#### (iii) Group companies

All Group entities have a functional currency of Australian dollars which is consistent with the presentation currency of this financial report.

### (g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

#### (i) Interest revenue

Interest revenue from investments in cash and convertible notes is recognised in the Income Statement in the periods in which it is receivable, as this represents the pattern of legal benefit to the Group.

#### (ii) Database licence revenue

Licence revenue generated from granting third parties access to proprietary databases information on mineral property regions is recognised in the Income Statement on a straight line basis over the licence term.

#### (iii) Rental revenue

Rental revenue from leasing of the investment property is recognised in the Income Statement in the periods in which it is receivable, as this represents the pattern of service rendered through the provision of the property.

### (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 notional 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.

Paladin Resources Ltd and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian tax law. Paladin Resources Ltd is the head entity in the tax-consolidated group. Tax expense, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

#### (j) Leases

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.

#### (i) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

#### (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. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

#### (m) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days for other debtors.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

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

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

### (n) Investments and other financial assets

The Group classifies its investments in the following categories: loans and receivables, held to maturity investments, and available for sale financial assets. 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.

#### (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.

#### (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.

#### (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 – 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 derecognised 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. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognised in equity in the available for sale reserve. 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.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset 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 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 – 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.

### (o) Fair value estimation

The fair value of financial assets must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, convertible notes and unlisted options) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Estimated discounted cash flows are used to determine the fair value of most financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.



**(p) Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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.

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is the shorter.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost amount, net of their residual values, over their estimated useful lives, as follows:

- Buildings	20 years
- Databases	10 years
- Plant and equipment	3-6 years
- Leasehold improvements	2-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

**(q) Exploration and evaluation expenditure**

The Company has made a voluntary change to its accounting policy for exploration and evaluation expenditure – refer to Note 31(3)(vi) for disclosure regarding this change.

Exploration and evaluation expenditure is charged against earnings as incurred.

Exploration and evaluation expenditure is allocated separately to specific areas of interest. Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation. 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. These costs are capitalised until the viability of the area of interest is determined.

If no mineable ore body is discovered, capitalised acquisition costs are expensed in the period in which it is determined that the area of interest has no future economic value.

When a decision to proceed to development is made, 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 if discounted future cash flows related to the area of interest are projected to be less than its carrying value.

**(r) Trade and other payables**

Trade payables and other payables are carried at amortised costs 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.

**(s) Interest bearing loans and borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. 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.

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.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) 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.

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.

The fair value of unlisted options granted in relation to establishment of a loan facility is recognised as a borrowing cost with a corresponding increase in equity and is measured at the date a commitment for the loan facility is obtained. The fair value at measurement date is independently determined using the Cox, Ross and Rubinstein Binomial Tree Model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradable nature of the option, the share price at measurement 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.

Upon the exercise of options, the balance of the Option Premium Reserve relating to these options is transferred to share capital.

### (u) 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 expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

#### (ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions to defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (iii) Share-based payments

Share-based compensation benefits are provided to employees via the Paladin Resources Ltd Employee Share Incentive Option Plan.

#### Share options granted on or before 7 November 2002

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

#### Share options granted after 7 November 2002

The fair value of options granted under the Paladin Resources Ltd Employee Share Incentive Option Plan after 7 November 2002 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.

The fair value at grant date is independently determined using the Cox, Ross and Rubinstein Binomial Tree option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradable nature of the option, 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 fair value of the options granted excludes the impact of any non market vesting conditions (for example, positive outcome of bankable feasibility study and completion of acceptable project funding). Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options 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, the balance of the share based payments reserve relating to those options is transferred to share capital.

### (v) Mine closure and restoration

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 and restoration 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 and restoration 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 assessments of the time value of money and the risks specific to the liability.

**(w) 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. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

**(x) 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 of interest and other financing costs 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 exploration and evaluation expenditure accounting policy.

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 – refer Note 2(g) for the full detail of the new accounting policy.

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 was made at 31 December 2005 as the Group is undergoing a transition from explorer to producer. AASB 6 Exploration for and Evaluation of Mineral Resources allows both the previous and the new accounting policies of the Group.

The impact of this change in accounting policy up to 30 June 2005 on the Group is represented in Note 31 (3)(vi).

The carry forward exploration and evaluation asset at 31 December 2005 was decreased by A\$8,635,055 to reflect the application of the new accounting policy. Of this adjustment A\$7,315,408 represents an increase to accumulated losses at 30 June 2005 in the Balance Sheet and A\$1,319,647 as an increase in exploration and evaluation expense for the six months ended 31 December 2005 in the Income Statement.

Basic and diluted earnings per share have also been restated. The amount of the impact of the change in accounting policy is a reduction of 0.31 cents per share for the six months ending 31 December 2005, and a reduction of 0.73 cents per share for the six months ending 31 December 2004.

**NOTE 4. 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. Secondary segment information is reported by business segments.

**Geographical segments - primary reporting**

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

**Business segments – secondary reporting**

**Resources**

The resource segment includes ownership of a proprietary database with primary focus on uranium.

**Financial Investments (consequential activity)**

This segment consists of investment in listed company shares and options over listed company shares, and in 2005 an unlisted convertible note.

The Company has shares and options in Deep Yellow Ltd, a company listed on the Australian Stock Exchange, from the sale of non-core uranium properties – refer Note 10(b).

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 4: SEGMENT INFORMATION (continued)

### Property (consequential activity)

Ownership and lease of commercial premises consisting of buildings and telecommunications tower located in Belmont, Perth, Western Australia. The commercial premises were sold on 24 June 2005 – refer Note 7.

### Geographical segments – primary reporting

The Group's geographical segments are determined based on the location of the Group's assets.

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

Year Ended: 30 June 2006	Australia A\$000	Namibia A\$000	Malawi A\$000	Consolidated A\$000
Other revenue	4,105	192	1	4,298
Total segment revenue	4,105	192	1	4,298
Loss from ordinary activities before income tax expense	(2,340)	(1,304)	(3,842)	(7,486)
Income tax expense				
Loss from ordinary activities after income tax expense/segment result	(2,340)	(1,304)	(3,842)	(7,486)
Total assets/segment assets	62,551	91,585	6,172	160,308
Segment liabilities	26,077	8,616	890	35,583
Acquisitions of non current assets	79	80,540	5,694	86,313
Cash flow information				
Net cash inflow/(outflow) from operating activities	558	129	(39)	648
Net cash (outflow) from investing activities	(1,419)	(72,136)	(2,941)	(76,496)
Net cash inflow from financing activities	95,080			95,080
Non cash expenses:				
Depreciation and amortisation	155	37	31	223
Year Ended: 30 June 2005	Australia A\$000	Namibia A\$000	Malawi A\$000	Consolidated A\$000
Other revenue	965	-	-	965
Total segment revenue	965	-	-	965
Loss from ordinary activities before income tax expense	(4,441)	(4,145)	(824)	(9,410)
Income tax expense				
Loss from ordinary activities after income tax expense/segment result	(4,441)	(4,145)	(824)	(9,410)
Total assets/segment assets	43,831	1,145	465	45,441
Segment liabilities	1,195	125	5	1,325
Acquisitions of non current Assets	1,105	843	112	2,060
Cash flow information				
Net cash (outflow) from operating activities	(1,258)	(13)	(10)	(1,281)
Net cash inflow/(outflow) from investing activities	768	(4,851)	(917)	(5,000)
Net cash inflow from financing activities	41,131			41,131
Non cash expenses:				
Depreciation and amortisation	90	-	-	90
Provision for doubtful debts	17	-	-	17
Bad debts written off	5	-	-	5
Write down of convertible note	894	-	-	894

### Business segments – secondary reporting

The following tables present revenue, expenditure and certain asset information regarding business segments for the years ended 30 June 2006 and 30 June 2005.

Year Ended 30 June 2006	Resources A\$000	Financial Investments A\$000	Discontinued Operations Property A\$000	Consolidated A\$000
Total segment revenue	4,298			4,298
Total assets/segment assets	152,605	7,703	-	160,308
Acquisitions of non current assets	85,693	620		86,313
Year Ended 30 June 2005	Resources A\$000	Financial Investments A\$000	Discontinued Operations Property A\$000	Consolidated A\$000
Total segment revenue	742	30	193	965
Total assets/segment assets	42,996	2,430	15	45,441
Acquisitions of non current assets	1,350	710	-	2,060

### NOTE 5. REVENUES AND EXPENSES

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
a) Revenue from continuing operations				
Interest income from non related parties	4,026	769	3,809	768
Interest income from wholly owned Group	-	-	402	322
Database licence revenue	232	-	-	-
Other revenue	40	3	40	75
	4,298	772	4,251	1,165
b) Other income				
Other income includes the following specific income:				
Profit on sale from tenements	441	810	441	-
Dividends received from wholly owned Group	-	-	348	-
Foreign exchange gains (net)	616	-	1,698	-
	1,057	810	2,487	-
c) Share-based payments expense	3,650	3,009	3,650	3,009

This 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 which impacts all periods presented.

A greater impact exists for the twelve months ended 30 June 2006 for share based payments expense when compared to 2005, as a result of the larger proportion of options vesting in 2006.

The valuation of options under AIFRS does not allow the consideration of non-market related vesting conditions, which precludes the Company from discounting the option valuations to reflect the vesting conditions relating to positive outcome for the Langer Heinrich Uranium Project bankable feasibility study and completion of acceptable project funding. This has the result of increasing the option valuation when compared to the previously disclosed valuations by the Company, which were prepared based on the normal commercial practice of discounting valuations for non-market related vesting conditions.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 6: INCOME TAX

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	A\$000	A\$000	A\$000	A\$000
<b>(a) Income tax expense</b>				
<i>Current income tax</i>				
Current income tax charge	(1,564)	(2,229)	(3,174)	(1,368)
<i>Deferred income tax</i>				
Tax losses not brought to account as future income tax benefits	801	1,913	-	160
Temporary differences not brought to account as future income tax benefits	1,176	332	3,435	1,208
Prior year tax losses brought to account as current income tax	(413)	(16)	(261)	-
Income tax expense reported in the income statement	-	-	-	-
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Loss from continuing operations before income tax expense	(7,486)	(9,538)	(13,121)	(8,446)
Profit from discontinued operations before income tax expense	-	128	-	-
	(7,486)	(9,410)	(13,121)	(8,446)
Tax at the Australian tax rate of 30% (2005 - 30%)	(2,246)	(2,823)	(3,936)	(2,534)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Depreciation and amortisation	18	18	-	-
Share-based payments	1,095	902	1,095	902
Grant of options to Société Générale Australia Branch	-	95	-	95
Write down of convertible note	-	268	-	258
Other expenditure not allowable	15	11	15	11
Capital gain on sale of Belmont Property	-	(103)	-	-
Other income not assessable	-	(21)	-	(21)
Specific tax expenditure allowable	(348)	(90)	(348)	(90)
	(1,466)	(1,742)	(3,174)	(1,368)
Difference in overseas tax rates	(98)	(487)	-	-
Prior year tax losses not recognised now recouped	(413)	(16)	(261)	-
Current year tax benefits not recognised	1,977	2,245	3,435	1,368
Income tax expense reported in the income statement	-	-	-	-



	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
<b>(c) Deferred income tax</b>				
<i>Deferred tax liabilities</i>				
Revaluations of available for sale investments to fair value	(1,344)	(516)	(17)	-
Recognition of restoration asset for accounting purposes	(1,325)	-	-	-
Accelerated depreciation for tax purposes	(165)	(98)	(102)	(27)
Delayed revenue recognition for tax purposes	(107)	-	-	-
<i>Deferred tax assets</i>				
Delayed exploration expenditure recognition for tax purposes	702	267	-	-
Revenue losses available for offset against future taxable income	6,543	5,766	2,260	2,521
Capital losses available for offset against revaluations of investments to fair value	1,344	516	17	-
Recognition of restoration liability for accounting purposes	1,325	-	-	-
Provisions for employee benefits	115	20	96	20
Lease incentive recognition for accounting purposes	17	20	17	20
Provisions for write down of intercompany receivables	-	-	6,080	2,641
Provisions for write down of intercompany investments	-	-	478	461
	7,105	5,975	8,824	5,636
Net deferred tax assets not recognised as not probable	(7,105)	(5,975)	(8,824)	(5,636)
Net deferred tax assets recognised	-	-	-	-
<b>(d) Tax losses</b>				
Australian unused tax losses for which no deferred tax asset has been recognised	7,028	8,404	7,535	8,404
Namibia unused tax losses for which no deferred tax asset has been recognised	10,556	8,226	-	-
Malawi unused tax losses for which no deferred tax asset has been recognised*	1,588	534	-	-
Total unused tax losses for which no deferred tax asset has been recognised	19,172	17,164	7,535	8,404
Potential tax benefit at tax rates between 30% - 37.5%	6,543	5,766	2,260	2,521

\* In addition to Malawi unused tax losses the Group has available Malawi accumulated tax exploration expenditure of A\$3.5 million at 30 June 2006 (2005: A\$1.2 million).

This benefit for tax losses will only be obtained if:

- (i) the Consolidated Entity derives 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 Entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in tax legislation adversely affect the Consolidated Entity in realising the benefit from the deductions for the losses.

**(e) Tax Consolidation Legislation**

The Company and its wholly owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision. The accounting policy on implementation of the legislation is set out in Note 2(h).

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 7. DISCONTINUED OPERATION

On 24 June 2005 settlement occurred on the sale of land and buildings at 5-7 Belmont Avenue, Belmont which represented the property business segment operations of the Group.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

- (a) Financial performance and cash flow information for the year ended 30 June 2006 and the period 1 July 2004 to 24 June 2005

	CONSOLIDATED	
	2006 A\$000	2005 A\$000
Revenue	-	193
Expenses	-	(65)
Profit before income tax expense	-	128
Income tax expense	-	-
Profit from discontinued operation	-	128
Basic and diluted earnings per share (cents)	-	0.04
Net cash inflow from ordinary activities	-	60
Net cash inflow from sale of commercial premises	-	1,200
Net cash outflow from repayment of secured bank loans	-	(733)
Net cash outflow from other financing activities	-	(99)
Net increase in cash generated by the commercial premises	-	428

- (b) Carrying amount of assets and liabilities

	As at 30 June 2006 A\$000	As at 24 June 2005 A\$000
Cash and cash equivalents	-	10
Trade and other receivables	-	6
Property, plant and equipment	-	1,114
Total assets	-	1,130
Trade and other payables	-	(3)
Interest bearing loans and borrowings	-	(738)
Intercompany loan	-	(324)
Total liabilities	-	(1,065)
Net assets	-	65

- (c) Details of the sale of the commercial premises for the year ended 30 June 2006 and the period 1 July 2004 to 24 June 2005 are as follows:

	CONSOLIDATED	
	2006 A\$000	2005 A\$000
Cash consideration received	-	1,200
Carrying amount of net assets sold	-	(1,114)
Gain on sale before related income tax	-	86
Income tax expense	-	-
Gain on sale after related income tax expense	-	86



## NOTE 8. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Cash at bank and in hand	5,247	1,244	160	755
Bank bills	21,995	38,185	21,995	38,185
Short-Term deposit	32,536	60	522	60
	59,778	39,489	22,677	39,000

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-Term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 30 June 2006, the Group had available A\$74,005,000 (2005: A\$1,467,000) of undrawn committed borrowing facilities in respect of which all conditions precedent have been met.

### (a) Reconciliation of net loss after tax to net cash flows from operating activities

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Net loss	(7,486)	(9,410)	(13,121)	(8,446)
<i>Adjustments for:</i>				
Depreciation and amortisation	223	90	95	32
Exploration expenditure	4,233	5,113	-	-
Provision for non-recovery of intercompany loan	-	-	11,464	3,624
Provision for non-recovery of intercompany investments	-	-	319	-
Provision for non-recovery of convertible note	-	894	-	894
Profit on disposal of land and buildings	-	(86)	-	-
Profit on disposal of tenements	(441)	(810)	(441)	-
Bad debts written off	-	5	-	-
Provision for doubtful debts	-	17	-	-
Database licence revenue	(232)	-	-	-
Grant of options on establishment of loan facility	-	321	-	321
Net exchange differences	(616)	-	(1,698)	-
Share options expensed	3,650	3,009	3,650	3,009
<i>Changes in assets and liabilities:</i>				
Decrease/(increase) in trade and other receivables	362	(492)	321	(799)
Increase in trade and other payables	672	4	546	126
Increase in provisions	316	31	255	31
(Decrease)/increase in borrowings	(33)	33	(33)	33
Net cash from operating activities	648	(1,281)	1,357	(1,175)

### (b) Disclosure of financing facilities

Refer to Note 16.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 9: TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
<b>Current</b>				
Trade receivables - (a)	-	27	-	-
Less provision for doubtful debts	-	(17)	-	-
Net trade receivables	-	10	-	-
Interest receivable	36	324	11	324
Deferred lease rental	-	33	-	33
Prepayments	70	84	47	7
GST and VAT - (b)	3,583	97	91	90
Sundry debtors - (c)	6	20	2	18
<b>Total current receivables</b>	<b>3,695</b>	<b>568</b>	<b>151</b>	<b>472</b>

(a) Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of A\$NIL (2005: A\$17,469) has been recognised as an expense for the current year for specific debtors for which such evidence exists.

(b) GST and VAT debtor primarily arises from the Langer Heinrich Uranium Project in Namibia. Interest is not normally charged and collateral is not normally obtained.

(c) Sundry debtors generally arise from transactions outside the usual operating activities of the Consolidated Entity and Company. Interest is not normally charged and collateral is not normally obtained.

### Non Current

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Unsecured loans to wholly owned Group - (d)	-	-	64,498	13,453
Less provision for non-recovery	-	-	(20,267)	(8,803)
Net unsecured loans to the wholly owned Group	-	-	44,231	4,650
Interest receivable - (e)	-	94	-	94
Less provision for non-recovery	-	(94)	-	(94)
Net interest receivable	-	-	-	-
<b>Total non current receivables</b>	<b>-</b>	<b>-</b>	<b>44,231</b>	<b>4,650</b>

(d) Of the unsecured loans to the wholly owned Group, the Company charges interest only on the loan to Paladin Finance Pty Ltd (2005: Langer Heinrich Uranium (Pty) Ltd). The interest rate payable is the standard commercial lending rate of National Australia Bank plus 2% (2005: NAB plus 2%). In the year ending 30 June 2006 the average rate charged was 11.4% (2005: 11.2%) and disclosure of interest revenue earned is set out in Note 5(a).

(e) During the year ended 30 June 2006 the Company resolved to write-off the interest receivable from Didasko Technologies Pty Ltd. These amounts had been fully provided for in previous periods.

# **NOTE 10: OTHER FINANCIAL ASSETS**

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
<b>Non Current</b>				
Investments in controlled entities - (a)	-	-	49,180	1,961
Less provision for non-recovery	-	-	(1,593)	(1,535)
Net investment in controlled entities	-	-	47,587	426
Available-for-sale financial assets - (b)	7,703	2,430	2,050	-
Held-to-maturity investment - (c)	-	800	-	800
Less provision for non-recovery	-	(800)	-	(800)
Net held-to-maturity investment	-	-	-	-
Total non-current other financial assets	7,703	2,430	49,637	426

## (a) Investments in material controlled entities

NAME	COUNTRY OF INCORPORATION INVESTMENT	PERCENTAGE INTEREST HELD		COST OF PARENT ENTITY'S INTEREST	
		2006 %	2005 %	2006 A\$000	2005 A\$000
Paladin Finance Pty Ltd <sup>1</sup>	Australia	100	-	47,480	-
Paladin Energy Minerals NL <sup>2</sup>	Australia	100	100	-	-
Eden Creek Pty Ltd <sup>3</sup>	Australia	100	100	1,700	1,700
Etron Properties Pty Ltd <sup>4</sup>	Australia	-	100	-	261
Paladin (Africa) Ltd <sup>5</sup>	Malawi	100	100	-	-
Lahndrik Holdings SA <sup>6</sup>	Luxembourg	-	100	-	-
Langer Heinrich Uranium (Pty) Ltd	Namibia	100	100	-	-
Tarquin Investments (Pty) Ltd <sup>7</sup>	Namibia	100	100	-	-

Total Investments in controlled entities	49,180	1,961
Less provision for non-recovery of investments	(1,593)	(1,535)
Net investments in controlled entities	47,587	426

All investments comprise ordinary shares and all shares held are unquoted.

<sup>1</sup> Held by Paladin Resources Ltd

<sup>2</sup> Held by Langer Heinrich Uranium (Pty) Ltd

<sup>3</sup> These entities are not required to prepare or lodge audited accounts

<sup>4</sup> Held by Paladin Energy Minerals NL

<sup>5</sup> Liquidated in June 2006

<sup>6</sup> Acquired on 27 September 2004 for N\$900,000 (Namibian dollars) (A\$202,548). The only asset in this company is land and building in the form of an office and apartment with a fair value of A\$202,548 which equates to the cash consideration paid. No goodwill has arisen on acquisition of this entity.

<sup>7</sup> Incorporated on 22 November 2005.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 10. OTHER FINANCIAL ASSETS (continued)

### Acquisition Disclosure

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Outflow of cash to acquire controlled entities, net of cash acquired				
Cash consideration	-	203	-	-
Less: balances acquired	-	-	-	-
Cash	-	-	-	-
Outflow of cash	-	203	-	-

### (b) Available-for-Sale Financial Assets

The Consolidated Entity has an investment in Deep Yellow Ltd (Deep Yellow) as a result of the sale of non-core uranium properties. The Consolidated Entity holds 30,450,000 (2005: 15,000,000) fully paid ordinary shares, 25,000,000 (2005: 25,000,000) unlisted options exercisable at one cent on or before 31 December 2007, and 12,500,000 (2005: Nil) unlisted options exercisable at twelve cents on or before 15 July 2008. The holding of these fully paid ordinary shares represents less than 5% (2005: less than 5%) of the ordinary shares of Deep Yellow, a uranium explorer. The quoted market value of the shares and options in Deep Yellow at 30 June 2006 is A\$2,703,000 (2005: A\$2,430,000) based on a share price of 12.5 cents per share (2005: 6.7 cents).

### (c) Held-to-Maturity Investment

During the year ended 30 June 2006 the Company resolved to write off the amounts owing from Didasko Technologies Pty Ltd. These amounts had been fully provided for in previous periods.

## NOTE 11. DEFERRED BORROWING COSTS

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Non Current				
Deferred borrowing costs	-	170	-	-

Deferred borrowing costs represent the capitalised costs of establishing the secured bank loan disclosed in Note 16.

## NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Plant and equipment – at cost	1,008	753	674	527
Less provision for depreciation	(562)	(480)	(445)	(410)
Total plant and equipment	446	273	229	117
Leasehold improvements – at cost	324	294	301	287
Less provision for depreciation	(85)	(74)	(74)	(74)
Total leasehold improvements	239	280	227	213
Technical database – at cost	270	262	-	-
Less provision for amortisation	(263)	(262)	-	-
Total technical database	7	-	-	-
Project generation database – at cost	579	579	-	-
Less provision for amortisation	(475)	(415)	-	-
Total project generation database	104	164	-	-
Land and buildings – at cost	203	203	-	-
Less provision for depreciation	(15)	(6)	-	-
Total land and buildings	188	197	-	-
Construction work in progress – at cost	79,458	184	-	-
Total non current property, plant and equipment	80,442	1,098	456	390

## 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	Plant and Equipment	Databases	Land and Building	Leasehold Improvements	Construction Work in Progress
	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000
<b>Consolidated – 2006</b>						
Carrying amount at start of year	1,098	273	164	197	280	184
Additions	79,567	255	8	-	30	79,274
Depreciation and amortisation expense	(223)	(82)	(61)	(9)	(71)	-
Depreciation capitalised	-	-	-	-	-	-
Carrying amount at end of year	80,442	446	111	188	239	79,458
<b>Parent Entity – 2006</b>						
Carrying amount at start of year	390	117	-	-	273	-
Additions	161	147	-	-	14	-
Depreciation and amortisation expense	(95)	(35)	-	-	(60)	-
Carrying amount at end of year	456	229	-	-	227	-
<b>Consolidated – 2005</b>						
Carrying amount at start of year	249	26	223	-	-	-
Additions	979	298	-	203	294	184
Depreciation and amortisation expense	(90)	(17)	(59)	-	(14)	-
Depreciation capitalised	(40)	(34)	-	(6)	-	-
Carrying amount at end of year	1,098	273	164	197	280	184
<b>Parent Entity – 2005</b>						
Carrying amount at start of year	26	26	-	-	-	-
Additions	396	109	-	-	287	-
Depreciation and amortisation expense	(32)	(18)	-	-	(14)	-
Carrying amount at end of year	390	117	-	-	273	-

## NOTE 13: EXPLORATION AND EVALUATION EXPENDITURE

Canadian securities law requires the following description of the Consolidated Entity's interests in mineral property tenements:

### Langer Heinrich Uranium Project (Namibia) – Paladin 100%

The Langer Heinrich Uranium Project consists of one Mining Licence – ML 140 – covering 4,375 hectares in the Namibia Naukluft Desert 180km west of Windhoek, the capital of Namibia, and 80 kilometres 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 on prospecting operations. The project was purchased from Acclaim Uranium NL (now Aztec Mining Ltd) in August 2002. The Langer Heinrich Uranium Project is owned through a wholly owned Namibian entity, Langer Heinrich Uranium (Pty) Ltd.

### Kayelekera Uranium Project (Malawi) – Paladin 100%

The Kayelekera Uranium Project consists of one exclusive prospecting licence – EPL 070 – covering 15,700 hectares in northern Malawi 650 kilometres north of Lilongwe, the capital of Malawi, and 40 kilometres west of the provincial town of Karonga on the shore of Lake Malawi. Rights conferred by the licence include the exclusive right to carry on prospecting operations for uranium and associated minerals. EPL 070 was granted on 26 January 1998 and the licence was renewed on 25 July 2005 for a further two years to 25 July 2007. The Consolidated Entity acquired its interest in the Kayelekera Uranium Project in February 1998 when it entered into a joint venture with Balmain Resources Pty Ltd, an unlisted company based in Perth Western Australia. In 2000, the Consolidated Entity increased its interest in the Kayelekera Project to 90% and in July 2005 acquired the remaining 10% interest held by Balmain Resources Pty Ltd. The Kayelekera Uranium Project is now held 100% through a wholly owned Malawian entity, Paladin (Africa) Limited.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)

### 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, 1,100 kilometres north of Perth, the State Capital and 90 kilometres south of the township of Onslow on the North West coast. The Consolidated Entity 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\$750,000 is payable to AFMEX when all development approvals have been obtained. Royalties of 2.5% for the first 2,000 tonnes of uranium oxide and 1.5% for the following 2,000 tonnes 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 May 18, 1989 for a 21-year term renewable for a further term or terms of 21 years. 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.

### Oobagooma Uranium Project (Australia) – Paladin 100%

The Oobagooma Uranium Project consists of four applications for exploration licences covering 45,200 hectares in the West Kimberley region of northern Western Australia, 1,900 kilometres north-north-east of Perth, the State Capital and 70 kilometres north east of the regional town of Derby. The four applications for exploration licences are 04/145 and 04/146 lodged on December 28, 1983 and 04/776 and 04/777 lodged on November 28, 1991 which largely overlie the earlier applications. The Consolidated Entity purchased the Oobagooma Project in 1998 from AFMEX. Under the terms of the purchase agreement a final payment of A\$750,000 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.

### Other mineral property interests

The Consolidated Entity 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 schedules of information.

### Environmental contingency

The Consolidated Entity's exploration, evaluation and development 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 Consolidated Entity 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.

The following table summarises the Consolidated Entity's interest in mineral properties as at 30 June 2006:

Areas of interest	Acquisition A\$000	Expenditure A\$000	Carrying value A\$000
Langer Heinrich Uranium Project	15	1,559	1,574
Kayelekera Uranium Project	5,785	-	5,785
Manyingee Uranium Project	1,157	-	1,157
Oobagooma Uranium Project	174	-	174
Other Projects	-	-	-
Balance 30 June 2006	7,131	1,559	8,690

The following table summarises the Consolidated Entity's interest in mineral properties as at 30 June 2005:

Areas of interest	Acquisition A\$000	Expenditure A\$000	Carrying value A\$000
Langer Heinrich Uranium Project	15	169	184
Kayelekera Uranium Project	171	-	171
Manyingee Uranium Project	1,157	-	1,157
Oobagooma Uranium Project	174	-	174
Other Projects	-	-	-
Balance 30 June 2005	1,517	169	1,686

The following table details the Consolidated expenditures (Parent Entity expenditures \$Nil) on interests in mineral properties by area of interest for the year ended 30 June 2006:

Areas of Interest	Langer Heinrich Project AS\$000	Kayelekera Project AS\$000	Maryangee Project AS\$000	Oobagooma Project AS\$000	Other Projects AS\$000	Total Projects AS\$000
Balance						
30 June 2005	184	171	1,157	174	-	1,686
Acquisition						
Property Payments	-	5,614	-	-	-	5,614
Project exploration and evaluation expenditure						
Interest received	(12)	-	-	-	-	(12)
Joint venture contributions	-	-	-	-	-	-
Tenement costs	-	1	30	-	5	36
Labour	255	381	-	-	137	773
Consultants and contractors	73	431	1	-	110	615
Materials and utilities	35	68	-	-	4	107
Transportation and communications	93	321	-	-	147	561
Outside services	873	2,029	-	-	-	2,902
Legal and accounting	1	182	-	-	1	184
Insurance	-	25	-	-	-	25
Camp expenses	13	93	-	-	17	123
Overheads	-	-	-	-	-	-
Other	59	209	-	-	41	309
Total expenditure	1,390	3,740	31	-	462	5,623
Exploration expenditure expensed	-	(3,740)	(31)	-	(462)	(4,233)
Exploration expenditure capitalised	1,390	-	-	-	-	1,390
Cost of tenements sold	-	-	-	-	-	-
Balance						
30 June 2006	1,574	5,785	1,157	174	-	8,590



# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)

The following table details the Consolidated expenditures (Parent Entity expenditures \$Nil) on interests in mineral properties by area of interest for the year ended 30 June 2005:

Areas of Interest	Langer Heinrich AS\$000	Kayelekera Project AS\$000	Manyingee Project AS\$000	Oobagooma Project AS\$000	Other Projects AS\$000	Total Projects AS\$000
Balance						
30 June 2004	15	171	1,157	174	-	1,517
Acquisition						
Property Payments						
Project exploration and evaluation expenditure						
Interest received	(5)	-	-	-	-	(5)
Joint venture contributions	-	-	-	-	(9)	(9)
Tenement costs	6	-	30	-	20	56
Labour	431	201	2	-	38	672
Consultants and contractors	202	19	-	-	37	258
Materials and utilities	47	34	-	-	4	85
Transportation and communications	293	149	-	-	19	461
Outside services	2,661	157	-	-	2	2,820
Legal and accounting	109	21	-	-	5	135
Insurance	31	5	-	-	2	38
Camp expenses	50	32	-	-	3	85
Overheads	228	136	5	-	19	388
Other	225	58	2	1	12	298
Total expenditure	4,278	812	39	1	152	5,282
Exploration expenditure expensed	(4,109)	(812)	(39)	(1)	(152)	(5,113)
Exploration expenditure capitalised	169	-	-	-	-	169
Cost of tenements sold	-	-	-	-	-	-
Balance						
30 June 2005	184	171	1,157	174	-	1,686

## NOTE 14. TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT ENTITY	
	2006 AS\$000	2005 AS\$000	2006 AS\$000	2005 AS\$000
Current				
Trade and other payables	11,059	660	1,088	524
Lease incentive	15	67	15	67
Total current payables	11,074	727	1,103	591
Trade payables are non-interest bearing and are normally settled on 60 day terms.				
Non Current				
Lease incentive	41	-	41	-
Unsecured loans from wholly owned Group	-	-	-	334
Total non current payables	41	-	41	334

The unsecured loans from wholly owned Group are interest free and have no fixed terms of repayment.



## NOTE 15. UNEARNED REVENUE

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
<b>Current</b>				
Unearned revenue	242	-	-	-
<b>Non Current</b>				
Unearned revenue	979	-	-	-

Unearned revenue represents the database licence revenue received from Deep Yellow Ltd for the use of the Frome Basin database from 15 July 2005 for a period of 6 years.

## NOTE 16. INTEREST BEARING LOANS AND BORROWINGS

	Maturity	CONSOLIDATED		PARENT ENTITY	
		2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
<b>Current</b>					
Unsecured bank loans	2007	-	533	-	533
<b>Non Current</b>					
Secured bank loan	2012	23,241	-	-	-
Deferred borrowing costs		(3,907)	-	-	-
<b>Total non current</b>		19,334	-	-	-

### Fair value disclosures

Details of the fair value of the Group's interest bearing liabilities are set out in Note 20.

### Unsecured bank loan

The bank loan from Société Générale Australia Branch related to funding the Bankable Feasibility Study for the Langer Heinrich Uranium Project and was repaid during the year. This facility was unsecured but had a negative pledge which imposed certain covenants on the Consolidated Entity. The bank loan bears interest at the bank bill standard yield plus 3%. At 30 June 2005 A\$500,000 plus interest had been drawn of the total facility of A\$2,000,000.

### Secured bank loan

During the year the Consolidated Entity completed project finance facilities amounting to US\$71 million for construction of the Langer Heinrich Uranium Project. The financing has been provided by Société Générale Australia Branch (as lead arranger), Nedbank Capital and Standard Bank Plc and consists of a 7 year Project Finance Facility of US\$65 million and a Standby Cost Overrun Facility of US\$6 million. The Project Finance facility bears interest at the London Interbank Offered Rate (LIBOR) plus 3.5% up to and including practical completion of the project, and the interest cost reduces to LIBOR plus 2.5% after practical completion. No requirement for political risk insurance exists under the terms of the Project Finance Facility. The facilities are secured with fixed and floating charges over the assets of Langer Heinrich Uranium (Pty) Ltd and its immediate holding companies. Paladin Resources Ltd has provided a project completion guarantee as part of the facilities.

At 30 June 2006 US\$17 million had been drawn of the project finance facilities, leaving available facilities of US\$54 million. The deferred borrowing costs represent the capitalised costs of establishing the facilities.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 16. INTEREST BEARING LOANS AND BORROWINGS (continued)

### Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Total facilities:				
Unsecured bank loans	-	2,000	-	2,000
Secured bank loans	97,246	-	-	-
	97,246	2,000	-	2,000
Facilities used at reporting date				
Unsecured bank loans	-	533	-	533
Secured bank loans	23,241	-	-	-
	23,241	533	-	533
Facilities unused at reporting date				
Unsecured bank loans	-	1,467	-	1,467
Secured bank loans	74,005	-	-	-
	74,005	1,467	-	1,467
Total facilities				
Facilities used at reporting date	23,241	533	-	533
Facilities unused at reporting date	74,005	1,467	-	1,467
	97,246	2,000	-	2,000

### Assets pledged as security

The carrying amounts of assets pledged as security for current and non current interest bearing liabilities are:

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Current				
Floating charge				
Cash and cash equivalents	36,862	-	-	-
Trade and other receivables	3,543	-	-	-
Total current assets pledged as security	40,405	-	-	-
Non current				
Property, plant and equipment	79,719	-	-	-
Exploration and evaluation expenditure	1,574	-	-	-
Total non current assets pledged as security	81,293	-	-	-
Total assets pledged as security	121,698	-	-	-

## NOTE 17. PROVISIONS

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2005 A\$000	2005 A\$000
<b>Current</b>				
Employee benefits (Note 24)	328	65	266	65
<b>Non Current</b>				
Employee benefits (Note 24)	54		54	
Restoration	3,531			
<b>Total non current provisions</b>	<b>3,585</b>		<b>54</b>	

	CONSOLIDATED 2006 A\$000
<b>Restoration - non current</b>	
At 1 July 2005	
Arising during the year	3,574
Utilised	
FX Movements	(43)
Discount rate adjustment	
<b>At 30 June 2006</b>	<b>3,531</b>

### Restoration

A provision for restoration has been recorded in relation to the Langer Heinrich uranium plant operations for 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. Final restoration is not expected until the cessation of operations, currently estimated to be beyond 2020.

### Employee Benefits

Please refer to Note 24.

## NOTE 18. CONTRIBUTED EQUITY AND RESERVES

### (a) Issued and paid up capital

	Number of Shares		CONSOLIDATED AND PARENT ENTITY	
	2006	2005	2006 A\$000	2005 A\$000
<b>Ordinary shares</b>				
Issued and fully paid	454,235,713	400,885,713	148,182	65,992

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital nor par value in respect of its issued shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

### (b) Movements in ordinary shares on issue

Date		Number of Shares	Issue Price A\$	Total A\$000
	Balance 30 June 2004	333,685,713		24,265
August 2004	Options conversions	4,200,000	0.01	50
August 2004	Options conversions	3,800,000	0.01	49
September 2004	Placement	7,500,000	0.40	3,000
December 2004	Options conversions	4,700,000	0.15	705
December 2004	Options conversions	10,000,000	0.06	550
March 2005	Options conversions	1,000,000	0.22	220
April 2005	Placement	36,000,000	1.05	37,800
	Transfer from reserves			363
	Less: Transaction costs arising on share issues			(1,010)
	Balance 30 June 2005	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	Kayefedera acquisition	4,350,000	1.29	5,612
October 2005	Option conversions	2,250,000	0.22	495
October 2005	Option conversions	750,000	0.32	240
October 2005	Placement	35,000,000	2.28	77,000
February 2006	Option conversions	100,000	0.22	22
May 2006	Option conversions	7,600,000	0.22	1,672
May 2006	Option conversions	2,250,000	0.32	720
	Transfer from reserves			503
	Less: Transaction costs arising on share issues			(4,305)
	Balance 30 June 2006	454,235,713		148,182

(c) Issued Options

	Number of Options 2006	2005
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**Unlisted Options**

(i) Exercisable at 1.2 cents, on or before 31 December 2004

Balance at 1 July	4,200,000
Exercised during year	(4,200,000)

Balance at 30 June

The options above were exercised in August 2004 raising A\$50,400 in contributed equity and at the time of exercise the shares had a market value of A\$651,000.

(ii) Exercisable at 1.3 cents, on or before 30 November 2005

Balance at 1 July	3,800,000
Exercised during year	(3,800,000)

Balance at 30 June

The options above were exercised in August 2004 raising A\$49,400 in contributed equity and at the time of exercise the shares had a market value of A\$570,000.

(iii) Exercisable at 5.5 cents, on or before 30 September 2007

Balance at 1 July	10,000,000
Granted during year	10,000,000
Exercised during year	(10,000,000)

Balance at 30 June

These options above were granted to Societe Generale Australia Branch as part of the establishment of a A\$2,000,000 loan facility on 30 September 2004, refer Note 16. The options were exercised in December 2004 raising A\$550,000 in contributed equity and at the time of exercise the shares had a market value of A\$4,850,000.

**Unlisted Options – Directors, Employees and Consultants**

On 23 March 2004 the Directors approved the Employee Share Incentive Option Plan (Plan) for which up to ten percent of the ordinary shares on issue can be on offer at any one time to Directors, employees and consultants directly engaged in corporate, project development, exploration and evaluation work for the Company. The maximum term of the options is 5 years, with the vesting requirements and exercise price of the options determined by the Directors at the time of grant. The options are convertible into fully paid ordinary shares of the Company on a one for one basis and may not be exercised within 12 months of their date of grant, except in the case of a takeover bid or a scheme of arrangement. Options are granted at no cost under the plan and carry no dividend or voting rights.

On 23 February 2006 the Board resolved that Non-executive Directors would be remunerated solely by way of fees and statutory superannuation and would not be eligible to receive an allocation of incentive options.

	Number of Options 2006	2005
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(iv) Exercisable at 15 cents, on or before 30 November 2004 (granted 20 June 2002)

(No vesting requirements)

Balance at 1 July	4,700,000
Exercised during year	(4,700,000)

Balance at 30 June

The options above were exercised in December 2004 raising A\$705,000 in contributed equity and at the time of exercise the shares had a market value of A\$2,279,500.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

### (c) Issued Options (continued)

#### Unlisted Options – Directors, Employees and Consultants (continued)

	Number of Options	
	2006	2005
(v) Exercisable at 22 cents, on or before 26 May 2006 (granted 28 May 2004 to 30 June 2004) (No vesting requirements)		
Balance at 1 July	11,000,000	12,000,000
Exercised during year	(11,000,000)	(1,000,000)
Balance at 30 June		11,000,000
In July 2005 150,000 options above were exercised raising A\$33,000 in contributed equity and at the time of exercise the shares had a market value of A\$208,500.		
In August 2005 350,000 options above were exercised raising A\$77,000 in contributed equity and at the time of exercise the shares had a market value of A\$546,000.		
In September 2005 550,000 options above were exercised raising A\$121,000 in contributed equity and at the time of exercise the shares had a market value of A\$1,078,000.		
In October 2005 2,250,000 options above were exercised raising A\$495,000 in contributed equity and at the time of exercise the shares had a market value of A\$4,905,000.		
In February 2006 100,000 options above were exercised raising A\$22,000 in contributed equity and at the time of exercise the shares had a market value of A\$340,000.		
In May 2006 7,600,000 options above were exercised raising A\$1,672,000 in contributed equity and at the time of exercise the shares had a market value of A\$34,428,000.		
In March 2005 1,000,000 options above were exercised raising A\$220,000 in contributed equity and at the time of exercise the shares had a market value of A\$1,160,000.		
(vi) Exercisable at 32 cents, on or before 26 May 2006 (granted 28 May 2004 to 30 June 2004) (No vesting requirements)		
Balance at 1 July	3,000,000	3,000,000
Exercised during year	(3,000,000)	
Balance at 30 June		3,000,000
In October 2005 750,000 options above were exercised raising A\$240,000 in contributed equity and at the time of exercise the shares had a market value of A\$1,635,000.		
In May 2006 2,250,000 options above were exercised raising A\$720,000 in contributed equity and at the time of exercise the share has a market value of A\$10,192,500.		
(vii) Exercisable at \$1.00, on or before 30 November 2007 (granted 30 November 2004)*		
Balance at 1 July	8,050,000	
Granted during year		8,050,000
Balance at 30 June	8,050,000	8,050,000
(viii) Exercisable at \$1.00, on or before 20 December 2007 (granted 20 December 2004)*		
Balance at 1 July	10,250,000	
Granted during year		10,250,000
Balance at 30 June	10,250,000	10,250,000
(ix) Exercisable at \$1.25, on or before 30 November 2007 (granted 30 November 2004)*		
Balance at 1 July	1,300,000	
Granted during year		1,300,000
Balance at 30 June	1,300,000	1,300,000
(x) Exercisable at \$1.50, on or before 15 July 2008 (granted 15 July 2005)*		
Balance at 1 July		
Granted during year	250,000	
Lapsed during year	(50,000)	
Balance at 30 June	200,000	

\* Vest on positive outcome for Langer Heinrich Uranium Project Bankable Feasibility Study together with completion of acceptable project funding. Vesting conditions were met by 30 June 2006.

	Number of Options	
	2006	2005
(xi) Exercisable at \$2.80, on or before 13 January 2009 (granted 13 January 2006 to 16 February 2006) (900,000 vest 13 January 2007 and 1,950,000 vest 13 January 2008).		
Balance at 1 July		
Granted during year	2,850,000	
Balance at 30 June	2,850,000	
(xii) Exercisable at \$5.50, on or before 28 April 2009 (granted 27 April 2006) (782,500 vest 31 October 2007 and 782,500 vest October 2008).		
Balance at 1 July		
Granted during year	1,565,000	
Balance at 30 June	1,565,000	

(d) Reserves

	CONSOLIDATED				PARENT			
	Listed option application reserve A\$000	Share based payments reserve A\$000	Available for sale reserve A\$000	Total A\$000	Listed option application reserve A\$000	Share based payments reserve A\$000	Available for sale reserve A\$000	Total A\$000
At 1 July 2004:	174	545	-	719	174	545	-	719
Net unrealised gains/ (losses) on available- for sale investments			1,720	1,720				
Share based payments		2,967		2,967		2,967		2,967
At 30 June 2005	174	3,512	1,720	5,406	174	3,512	-	3,686
Net unrealised gains/ (losses) on available- for sale investments			2,758	2,758			57	57
Share based payments		3,147		3,147		3,147		3,147
At 30 June 2006	174	6,659	4,478	11,311	174	6,659	57	6,890

**Nature and Purpose of Reserves**

*Listed option application reserve*

This reserve consists of proceeds for 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 26 for further details of the share option plan.

*Available for sale reserve*

This reserve records the fair value changes on the available for sale financial assets as set out in Note 10(b).



# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash, short-term deposits, commercial bank bills and investment in shares.

The main purpose of these financial instruments is to either raise finance, or maintain finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the Financial Statements.

### (a) Credit Risk Exposure

The credit risk on financial assets of the Group which have been recognised on the Consolidated Balance Sheets, other than investments in shares, equates to the carrying amount, net of any provisions for doubtful debts or non-recovery. 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. With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of those instruments.

During the year ended 30 June 2005 the Company made full provision for non-recovery of the Didasko Technologies Pty Ltd convertible note and interest receivable, refer Note 10(c). These amounts have been written off in the year to 30 June 2006.

### (b) Interest Rate Risk Exposure

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash, short-term deposits, commercial bank bills and long term debt obligations with floating interest rates. These financial assets and liabilities, with variable rates expose the Group to cash flow 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.

### (c) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash, convertible note, both secured and unsecured bank loans and non-interest bearing financial assets and financial liabilities of the Group equates to their carrying amount, net of any provision for doubtful debts or non-recovery.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risks profiles.

The net fair value of equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date. For non-traded equity investments, the net fair value is an assessment of circumstances pertaining to a particular investment.

### (d) Price risk

The Group is exposed to uranium price risk. Uranium prices can be volatile and are influenced by factors beyond the Group's control. In order to reduce the exposure to extreme price volatility the Group enters into sales contracts for future production which contain floor prices set at reasonable levels to provide protection in the event of significant price reduction.

### (e) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

### (f) Foreign currency risk

The Group 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 Group had no significant monetary foreign currency assets and liabilities during the year apart from South African rand cash term deposits and United States dollar bank loans held for the purposes of funding a portion of the mine construction for the Langer Heinrich Uranium Project.

The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk.

## NOTE 20. FINANCIAL INSTRUMENTS

### Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements, including those classified under discontinued operations.

Market values have been used to determine the fair value of listed available-for-sale investments.

The fair values of interest bearing loans and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates.



	CARRYING AMOUNT/FAIR VALUE			
	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
<b>FINANCIAL ASSETS</b>				
<b>Current financial assets</b>				
Cash and cash equivalents	59,778	39,489	22,677	39,000
Trade and other receivables	3,695	568	151	472
<b>Non current financial assets</b>				
Trade and other receivables	-	-	44,231	4,650
Other financial assets	-	-	47,587	426
Available for sale financial assets	7,703	2,430	2,050	-
<b>FINANCIAL LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	11,074	727	1,103	591
Interest bearing loans and borrowings	-	533	-	533
<b>Non current liabilities</b>				
Trade and other payables	41	-	41	334
Interest bearing loans and borrowings	19,334	-	-	-

#### Interest rate risk

The following tables sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

Year ended 30 June 2006	<1 year A\$000	>1-<2 years A\$000	>2-<3 years A\$000	>3-<4 years A\$000	>4-<5 years A\$000	>5 years A\$000	Total A\$000	Weighted Average Effective Interest rate %
<b>CONSOLIDATED</b>								
<b>FINANCIAL ASSETS</b>								
<i>Floating rate</i>								
Cash assets	59,778	-	-	-	-	-	59,778	5.6%
Weighted average effective interest rate	5.6%							
<b>FINANCIAL LIABILITIES</b>								
<i>Floating rate</i>								
Secured bank loans	19,334	-	-	-	-	-	19,334	9.1%
Weighted average effective interest rate	9.1%							
<b>PARENT</b>								
<b>FINANCIAL ASSETS</b>								
<i>Floating rate</i>								
Cash assets	22,677	-	-	-	-	-	22,677	5.9%
Intercompany	43,519	-	-	-	-	-	43,519	11.6%
	66,196	-	-	-	-	-	66,196	9.7%
Weighted average effective interest rate	9.7%							

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 20. FINANCIAL INSTRUMENTS (continued)

Year ended 30 June 2005	<1 year A\$000	>1-<2 years A\$000	>2-<3 years A\$000	>3-<4 years A\$000	>4-<5 years A\$000	>5 years A\$000	Total A\$000	Weighted Average Effective Interest rate %
<b>CONSOLIDATED</b>								
<b>FINANCIAL ASSETS</b>								
<i>Fixed rate</i>								
Convertible notes								5%
Weighted average effective interest rate		5%						
<i>Floating rate</i>								
Cash assets	39,489						39,489	5.6%
Weighted average effective interest rate	5.6%							
<b>FINANCIAL LIABILITIES</b>								
<i>Floating rate</i>								
Unsecured bank loans	533						533	8.9%
Weighted average effective interest rate	8.9%							
<b>PARENT</b>								
<b>FINANCIAL ASSETS</b>								
<i>Fixed rate</i>								
Convertible notes								5%
Weighted average effective interest rate		5%						
<i>Floating rate</i>								
Cash assets	39,000						39,000	5.6%
Intercompany receivables	1,066						1,066	11.2%
	40,066						40,066	5.8%
Weighted average effective interest rate	5.8%							
<b>FINANCIAL LIABILITIES</b>								
<i>Floating rate</i>								
Unsecured bank loans	533						533	8.9%
Weighted average effective interest rate	8.9%							

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate until maturity of instrument. The other financial instruments of the Group and Parent Entity that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

## NOTE 21. DIRECTOR AND EXECUTIVE DISCLOSURES

### (a) Details of Key Management Personnel

#### (i) Directors

Mr Rick Crabb	Chairman (Non-executive)
Mr John Borshoff	Managing Director
Mr Sean Llewelyn	Director (Non-executive)
Mr George Pirie	Director (Non-executive)
Mr Ian Noble	Director (Non-executive)

#### (ii) Executives

Mr Garnet Halliday	Executive General Manager – Operations and Development
Ms Gillian Swaby	Company Secretary
Mr Ron Chamberlain	Chief Financial Officer
Mr Wyatt Buck	General Manager – Langer Heinrich Operations
Mr James Eggins	Executive General Manager – Sales and Contract Administration – appointed 01/01/06
Mr Dustin Garrow	Director of Marketing – commenced as Key Management Personnel on 01/01/06
Mr David Marsh	Executive General Manager – New Business Development – appointed 01/07/06

### (b) Compensation of Key Management Personnel: Compensation by Category

	CONSOLIDATED/ PARENT ENTITY	
	2006 A\$	2005 A\$
Short-Term	2,156,964	883,012
Post Employment	68,743	22,781
Share-Based Payment	2,561,940	2,573,800
	4,787,647	3,479,593

The Company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their Key Management Personnel in the annual financial reports by Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in the Remuneration Report contained in the Directors' Report and are designated as audited.

### (c) Options Holdings of Key Management Personnel (Consolidated and Parent Entity)

	Balance at beginning of period 01 Jul 05	Granted as Remunera- tion	Options Exercised	Net Change Other	Balance at end of period 30 Jun 06	Total	Exercisable	Not Exercisable
30 June 2006								
<b>Directors</b>								
Mr Rick Crabb	6,250,000	-	(3,000,000)	-	3,250,000	3,250,000	3,250,000	-
Mr John Borshoff	7,250,000	-	(3,500,000)	-	3,750,000	3,750,000	3,750,000	-
<b>Executives</b>								
Mr Garnet Halliday	3,000,000	-	-	-	3,000,000	3,000,000	3,000,000	-
Ms Gillian Swaby	5,250,000	-	(2,500,000)	-	2,750,000	2,750,000	2,750,000	-
Mr Ron Chamberlain	800,000	200,000	-	-	1,000,000	1,000,000	800,000	200,000
Mr Wyatt Buck	-	1,000,000	-	-	1,000,000	1,000,000	-	1,000,000
Mr James Eggins	-	650,000	-	350,000	1,000,000	1,000,000	350,000	650,000
Mr Dustin Garrow	-	600,000	-	400,000	1,000,000	1,000,000	400,000	600,000
Mr David Marsh	-	1,000,000	-	-	1,000,000	1,000,000	-	1,000,000
<b>Total</b>	22,550,000	3,450,000	(9,000,000)	750,000	17,750,000	17,750,000	14,300,000	3,450,000

Mr James Eggins commenced as a Key Management Personnel on 1 January 2006 and as such the required disclosure at this date in the above table has been reflected in the net change other column.

Mr Dustin Garrow commenced as a Key Management Personnel on 1 January 2006 and as such the required disclosure at this date in the above table has been reflected in the net change other column.

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 21. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

### (c) Options Holdings of Key Management Personnel (Consolidated and Parent Entity) (continued)

	Balance at beginning of period 01 Jul 04	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 Jun 05	Total	Exercisable	Not Exercisable
<b>30 June 2005</b>								
<b>Directors</b>								
Mr Rick Crabb	4,000,000	3,250,000	(1,000,000)	-	6,250,000	6,250,000	3,000,000	3,250,000
Mr John Borshoff	5,000,000	3,750,000	(1,500,000)	-	7,250,000	7,250,000	3,500,000	3,750,000
Dr Leon Pretorius	3,000,000	3,250,000	-	(6,250,000)	-	-	-	-
<b>Executives</b>								
Mr Garnet Halliday	-	3,000,000	-	-	3,000,000	3,000,000	-	3,000,000
Ms Gillian Swaby	3,700,000	2,750,000	(1,200,000)	-	5,250,000	5,250,000	2,500,000	2,750,000
Mr Ron Chamberlain	-	800,000	-	-	800,000	800,000	-	800,000
<b>Total</b>	<b>15,700,000</b>	<b>16,800,000</b>	<b>(3,700,000)</b>	<b>(6,250,000)</b>	<b>22,550,000</b>	<b>22,550,000</b>	<b>12,000,000</b>	<b>16,800,000</b>

Dr Leon Pretorius resigned from the Board on 12 April 2005 and as such is no longer required to be disclosed in the above table and this fact has been reflected in the net change other column.

### (d) Shareholdings of Key Management Personnel (Consolidated and Parent Entity)

Shares held in Paladin Resources Ltd (number)

	Balance 01 Jul 05	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 06
<b>30 June 2006</b>					
<b>Directors</b>					
Mr Rick Crabb	6,464,746	-	3,000,000	(500,000)	8,964,746
Mr John Borshoff	14,591,394	-	3,500,000	-	18,091,394
Mr Ian Noble	-	-	-	16,000	16,000
<b>Executives</b>					
Mr Garnet Halliday	-	-	-	125,000	125,000
Ms Gillian Swaby	6,600,000	-	2,500,000	1,116,140	10,216,140
Mr James Eggins (1)	-	-	-	25,000	25,000
<b>Total</b>	<b>27,656,140</b>	<b>-</b>	<b>9,000,000</b>	<b>782,140</b>	<b>37,438,280</b>

No other Key Management Personnel held shares during the year ended 30 June 2006.

	Balance 01 Jul 04	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 05
<b>30 June 2005</b>					
<b>Directors</b>					
Mr Rick Crabb	5,464,746	-	1,000,000	-	6,464,746
Mr John Borshoff	13,091,394	-	1,500,000	-	14,591,394
Dr Leon Pretorius (2)	8,550,000	-	-	(8,550,000)	-
<b>Executives</b>					
Ms Gillian Swaby	5,595,515	-	1,200,000	(195,515)	6,600,000
<b>Total</b>	<b>32,701,655</b>	<b>-</b>	<b>3,700,000</b>	<b>(8,745,515)</b>	<b>27,656,140</b>

No other Key Management Personnel held shares during the year ended 30 June 2005.

(1) Mr James Eggins commenced as a Key Management Personnel on 1 January 2006 and as such this fact has been reflected in the net change other column.

(2) Dr Leon Pretorius resigned from the Board on 12 April 2005 and as such is no longer required to be disclosed in the above table and this fact has been reflected in the net change other column.

#### e) Other Transactions and Balances with Key Management Personnel

Fees paid in the normal course of business in 2006 for geological and consulting services totalling A\$NIL (2005: A\$212,184) were paid/payable (balance outstanding at 30 June 2006 and included in trade creditors A\$NIL (2005: A\$NIL)) to a company of which Mr John Borshoff is a director and shareholder.

Fees paid in the normal course of business in 2006 for geological and consulting services totalling A\$N/A (2005: A\$120,000) were paid/payable (balance outstanding at 30 June 2006 and included in trade creditors A\$N/A (2005: A\$NIL)) to a company of which Dr Leon Pretorius is a director and shareholder.

Fees paid in the normal course of business in 2006 for legal services totalling A\$N/A (2005: A\$24,689) were paid/payable (balance outstanding at 30 June 2006 and included in trade creditors A\$N/A (2005: A\$ NIL)) to a firm in which Mr Michael Blakiston is a partner. Mr Michael Blakiston was an Alternate Director for Mr Rick Wayne Crabb up until 20 December 2004 and as such ceases to be a Key Management Personnel from this date.

Fees paid in the normal course of business in 2006 for company secretarial services totalling A\$153,000 (2005: A\$70,000) were paid/payable (balance outstanding at 30 June 2006 and included in trade creditors A\$34,000 (2005: A\$19,800)) to a company of which Ms Gillian Swaby is a director and shareholder.

Fees paid in the normal course of business from 1 January 2006 for marketing consulting services totalling A\$143,856 (2005: A\$N/A) were paid/payable (balance outstanding at 30 June 2006 and included in trade creditors A\$NIL (2005: A\$N/A)) to a company of which Mr Dustin Garrow is a director and shareholder.

Amounts recognised at the reporting date in relation to other transactions:

	CONSOLIDATED/ PARENT ENTITY	
	2006 A\$000	2005 A\$000
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	47	20
<b>Expenses</b>		
Other expenses	297	427

#### NOTE 22. AUDITORS' REMUNERATION

The auditor of the Paladin Resources Ltd Group is Ernst & Young:

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$	2005 A\$	2006 A\$	2005 A\$
<i>Amounts received or due and receivable by Ernst &amp; Young (Australia) for:</i>				
• an audit or review of the financial report of the entity and any other entity in the consolidated Group	93,000	66,500	87,000	63,000
• other services in relation to the entity and any other entity in the consolidated Group				
- tax compliance	11,547	-	11,183	-
<b>Sub-total</b>	<b>104,547</b>	<b>66,500</b>	<b>98,183</b>	<b>63,000</b>
<i>Amounts received or due and receivable by related practices of Ernst &amp; Young (Australia) for:</i>				
• an audit or review of the financial report of subsidiaries	33,565	27,343	18,000	22,503
	<b>138,112</b>	<b>93,843</b>	<b>116,183</b>	<b>85,503</b>
<i>Amounts received or due and receivable by non Ernst &amp; Young audit firms for:</i>				
Review of the financial report	-	13,516	-	10,350
Taxation services	-	14,095	-	9,800
Other non-audit services	-	2,836	-	285
	-	<b>30,447</b>	-	<b>20,435</b>
<i>Amounts received or due and receivable by related practices of non Ernst &amp; Young audit firms for:</i>				
Other non-audit services				

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 23: COMMITMENTS AND CONTINGENCIES

There were no outstanding commitments or contingencies, which are not disclosed in the financial report of the Consolidated Entity and the Company as at 30 June 2006 other than:

### (a) Tenements

	CONSOLIDATED		PARENT ENTITY	
	2006 AS000	2005 AS000	2006 AS000	2005 AS000
Commitments for tenements contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	483	1,776	-	-
Later than one year but not later than 5 years	-	1,300	-	-
More than 5 years	-	-	-	-
Total tenements commitment	483	3,076	-	-

These include commitments relating to tenement lease rentals and, the minimum expenditure requirements of the Namibia, Malawi, Western Australian, and South Australian 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 Consolidated Entity 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 and Australia.

### (b) Mine Construction Commitments

	CONSOLIDATED		PARENT ENTITY	
	2006 AS000	2005 AS000	2006 AS000	2005 AS000
Commitments for mine construction contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	31,248	-	-	-
Later than one year but not later than 5 years	-	-	-	-
More than 5 years	-	-	-	-
Total mine construction	31,248	-	-	-

These commitments relate to mine construction in Namibia.

### (c) Operating Lease Commitments

The Group has entered into commercial property leases relating to rental of offices.

These non-cancellable leases have remaining terms of between 1 and 4 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		PARENT ENTITY	
	2006 AS000	2005 AS000	2006 AS000	2005 AS000
Within one year	222	143	183	100
Later than one year but not later than 5 years	503	542	503	511
More than 5 years	-	-	-	-
Total operating lease commitment	725	685	686	611

### (d) Acquisition Costs

The Consolidated Entity 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 Department of Minerals & Energy granting tenements comprising 2 exploration licence applications. The A\$750,000 is payable by the Consolidated Entity 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.

In relation to the Manyingee Uranium Project, the re-negotiated acquisition terms provide for a payment of A\$750,000 by the Consolidated Entity to the vendors when all project development approvals are further obtained.



#### (e) Bank Guarantees

As at 30 June 2006 the Group has outstanding A\$2.75 million (2005:A\$Nil) in current bank guarantees issued to contractors in relation to the mine construction activities for the Langer Heinrich Uranium Project, and a A\$60,000 (2005:A\$60,000) current bank guarantee for the corporate office lease.

### NOTE 24. EMPLOYEE BENEFITS

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Provision for Annual Leave and Long Service Leave				
Aggregate employment benefit liability	382	65	320	65

#### Employee numbers

	Number	Number
Average number of employees during the financial year	31	14

#### 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 26.

### NOTE 25. RELATED PARTIES

#### Directors and Specified Executives

Disclosures relating to Directors and Specified Executives are set out in the Directors' Report under the section entitled Remuneration Report and in Note 21.

#### Wholly Owned Group

The wholly owned Group consists of the Company and its wholly owned controlled entities set out in Note 10(a).

Transactions between the Company and other entities in the wholly owned Group during the years ended 30 June 2006 and 2005 consisted of:

- (a) loans advanced by the Company (Note 9(d));
- (b) loans advanced to the Company (Note 14);
- (c) the payment of interest on the loans advanced by the Company (Note 5(a)); and
- (d) the receipt of dividends by the Company (Note 5(b)).

#### Controlled Entities

The ultimate Parent Entity in the wholly owned Group is Paladin Resources Ltd.

### NOTE 26. SHARE BASED PAYMENT PLAN

#### Employee Share Incentive Option Plan

Options are granted under the Company Employee Share Incentive Option Plan which was approved by the Directors on 23 March 2004. Staff eligible to participate in the plan is those who have been continuously employed by the Company for a period of at least one year.

Options are granted under the plan for no consideration. Options are granted for a three year period, and 100% of each new tranche becomes exercisable after one year of the date of grant. Entitlements to the options are vested as soon as they become exercisable and performance conditions have been met. There are no cash settlement alternatives. Options granted under the plan carry no dividend or voting rights.

The expense recognised in the income statement in relation to share-based payments is disclosed in Note 5(c).

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 26: SHARE BASED PAYMENT PLAN (continued)

The following table illustrates the number (No.) and weighted average exercise prices (WAEF) of and movements in share options issued during the year:

	2006 No.	2006 WAEF	2005 No.	2005 WAEF
Outstanding at the beginning of the year	33,600,000	0.69	19,700,000	0.22
Granted during the year	4,665,000	3.64	19,600,000	1.02
Forfeited during the year	(50,000)	1.50	-	-
Exercised during the year	(14,000,000)	1	(5,700,000)	2
Expired during the year	-	-	-	-
Outstanding at the end of the year	24,215,000	1.52	33,600,000	0.69
Exercisable at the end of the year	20,225,000	1.03	14,000,000	0.24

1. The weighted average share price at the date of exercise is A\$3.81

2. The weighted average share price at the date of exercise is A\$0.60

The outstanding balance as at 30 June 2006 is represented by:

Date options granted	Exercisable	Expiry date	Exercise price of options	Number under option
30 November 2004	30 June 2006	30 November 2007	A\$1.00	8,050,000
30 November 2004	30 June 2006	30 November 2007	A\$1.25	1,300,000
20 December 2004	30 June 2006	20 December 2007	A\$1.00	10,250,000
15 July 2005	30 June 2006	15 July 2008	A\$1.50	200,000
13 January 2006	13 January 07	13 January 2009	A\$2.80	200,000
13 January 2006	13 January 08	13 January 2009	A\$2.80	850,000
19 January 2006	13 January 08	13 January 2009	A\$2.80	600,000
16 February 2006	13 January 07	13 January 2009	A\$2.80	700,000
16 February 2006	13 January 08	13 January 2009	A\$2.80	500,000
27 April 2006	31 October 07	28 April 2009	A\$5.50	782,500
27 April 2006	31 October 08	28 April 2009	A\$5.50	782,500
<b>Total</b>				<b>24,215,000</b>

Please refer to Shares Under Option table in the Directors' Report for movements since the year end.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2006 is between 1 and 3 years (2005: 1 and 3 years).

The range of exercise prices for options outstanding at the end of the year was A\$1.00 – A\$5.50 (2005: A\$0.22 – A\$1.25).

The weighted average fair value of options granted during the year was A\$1.87 (2005: A\$0.25).

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the years ended 30 June 2005 and 30 June 2006:

	2006	2005
Dividend yield (%)	Nil%	Nil%
Expected volatility (%)	83%-126%	100%-112%
Risk-free interest rate (%)	5.13%-5.67%	4.90%-4.97%
Expected life of option (years)	2.5 years	2.5 years
Option exercise price (\$)	\$1.50-\$5.50	A\$1.00-A\$1.25
Weighted average share price at grant date (\$)	\$1.36-\$4.88	A\$0.52-A\$0.53

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The fair value of the cash-settled options is measured at the grant date using the Cox, Ross and Rubinstein Binomial Tree option pricing model taking into account the terms and conditions upon which the instruments were granted. The services received are recognised over the expected vesting period.



## NOTE 27: INTERESTS IN JOINT VENTURES

### (a) Kayelekera Uranium Project – Malawi

On 6 July 2005, the Company announced the purchase of the remaining 10% joint venture interest in the Kayelekera Uranium Project in Malawi. The consideration of A\$5,611,500 was satisfied by the issue by the Company of 4,350,000 ordinary fully paid shares at an issue price of A\$1.29 per share. The purchase was conditional upon the joint venture partner entering into a private escrow agreement in dealing with the 4,350,000 shares in the Company.

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Non current assets				
Other - mineral properties		171		
Share of assets employed in joint venture		171		

For exploration tenement commitments relating to the Kayelekera Uranium Project refer to Note 23(a).

(b) The Consolidated Entity also has a number of interests in joint ventures to explore for uranium and other minerals. The Consolidated Entity's share of expenditure in respect of these exploration activities is expensed in accordance with the accounting policy stated in Note 2(g) and no revenue is generated. The Consolidated Entity's share of the assets and liabilities in respect of these joint ventures is not material.

## NOTE 28: EVENTS AFTER THE BALANCE SHEET DATE

Since the end of the financial period, 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 Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in subsequent years with the exception of the following, the financial effects of which have not been provided for in the 30 June 2006 Financial Report:

### Takeover Bid for Valhalla Uranium Ltd

On 10 July 2006, the Company announced an off-market takeover bid for all the fully paid ordinary shares in Valhalla Uranium Ltd (Valhalla). Under the terms of the offer, each Valhalla shareholder will receive one share of Paladin in exchange for every 3.16 shares of Valhalla held. The offer is subject to various conditions which are currently still outstanding. The directors of Valhalla have unanimously recommended that Valhalla shareholders accept the Company's offer in the absence of a superior offer. On 24 July 2006 the Company lodged the Bidder's Statement for the offer with the Australian Securities and Investment Commission. The proposed acquisition represents a significant step forward in the Company's growth strategy.

### Allotment of Shares and issue of Employee Options

On 5 July 2006, the Company announced the granting of one million unlisted incentive options, exercisable at \$5.50, with 500,000 vesting after 18 months and 500,000 vesting after 30 months with a 3 year expiry. On 20 July 2006, the Company announced the allotment of 650,000 fully paid ordinary shares after exercise of employee options and the granting of 400,000 unlisted incentive options, exercisable at \$5.50, with 200,000 vesting after 18 months and 200,000 vesting after 30 months with a 3 year expiry. On 18 August 2006, the Company announced the allotment of 400,000 fully paid ordinary shares after exercise of employee options.

## NOTE 29: NON CASH FINANCING AND INVESTMENT ACTIVITIES

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Non Cash Financing and Investment Activities				
Issue of shares to acquire remaining 10% joint venture interest in the Kayelekera Uranium Project	5,612		5,612	
Value of Deep Yellow shares and options acquired from the sale of exploration properties	441	810	441	
Options granted to Société Générale Australia Branch on establishment of loan facility		321		321
Value of Deep Yellow shares and options acquired from grant of licence over the Frone Basin database	1,453			

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## 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 of interest and other financing costs 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 2006 and 2005 as the Consolidated Entity is in a loss position.

The following reflects the income and share data used in the basic and diluted earnings per share computations

	CONSOLIDATED	
	2006 AS\$000	2005 AS\$000
Net loss attributable to ordinary equity holders of the Parent from continuing operations	(7,486)	(9,538)
Profit attributable to ordinary equity holders of the Parent from discontinued operations	-	128
Net loss attributable to ordinary equity holders of the Parent	(7,486)	(9,410)
	2006 #	2005 #
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share	433,062,353	363,040,234

## NOTE 31. TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian Generally Accepted Accounting Principles (AGAAP). These annual financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

### Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemption:

- \* AASB 2 Share-based Payment has not been applied to any equity instruments that were granted on or before 7 November 2002.

### Change in accounting policy

In addition the financial report has been prepared on the basis of a retrospective application of a voluntary change in exploration and evaluation expenditure accounting policy.

### Explanation of material adjustments to the cash flow statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

(1) Reconciliation of Equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to Equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
<b>CONSOLIDATED</b>					
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents		4,639	-	-	4,639
Trade and other receivables		49	-	-	49
Property, plant and equipment	i	1,114	(1,114)	-	-
		5,802	(1,114)	-	4,688
Assets held for sale	i	-	1,114	-	1,114
<b>TOTAL CURRENT ASSETS</b>		<b>5,802</b>			<b>5,802</b>
<b>Non-current assets</b>					
Trade and other receivables		64	-	-	64
Held to maturity investments		800	-	-	800
Property, plant and equipment		249	-	-	249
Exploration and evaluation expenditure	vi	3,815	-	(2,298)	1,517
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4,928</b>		<b>(2,298)</b>	<b>2,630</b>
<b>TOTAL ASSETS</b>		<b>10,730</b>		<b>(2,298)</b>	<b>8,432</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables		554	-	-	554
Interest bearing loans and borrowings		733	-	-	733
Provisions		33	-	-	33
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,320</b>			<b>1,320</b>
<b>TOTAL LIABILITIES</b>		<b>1,320</b>			<b>1,320</b>
<b>NET ASSETS</b>		<b>9,410</b>		<b>(2,298)</b>	<b>7,112</b>
<b>EQUITY</b>					
Contributed equity		24,265	-	-	24,265
Reserves	ii	174	545	-	719
Accumulated losses	ii, vi	(15,029)	(545)	(2,298)	(17,872)
<b>TOTAL EQUITY</b>		<b>9,410</b>		<b>(2,298)</b>	<b>7,112</b>

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 31: TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY (continued)

(1) Reconciliation of Equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to Equity under Australian equivalents to IFRS (AIFRS) (continued)

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
<b>PARENT ENTITY</b>					
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents		4,518	-	-	4,518
Trade and other receivables		24	-	-	24
Property, plant and equipment		-	-	-	-
		4,542	-	-	4,542
Assets held for sale		-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>4,542</b>	<b>-</b>	<b>-</b>	<b>4,542</b>
<b>Non current assets</b>					
Trade and other receivables	vii	4,106	-	(2,231)	1,875
Held to maturity investments	vii	1,352	-	(67)	1,285
Available for sale financial assets		-	-	-	-
Property, plant and equipment		26	-	-	26
Exploration and evaluation expenditure		-	-	-	-
<b>TOTAL NON CURRENT ASSETS</b>		<b>5,484</b>	<b>-</b>	<b>(2,298)</b>	<b>3,186</b>
<b>TOTAL ASSETS</b>		<b>10,026</b>	<b>-</b>	<b>(2,298)</b>	<b>7,728</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables		528	-	-	528
Interest bearing loans and borrowings		-	-	-	-
Provisions		33	-	-	33
<b>TOTAL CURRENT LIABILITIES</b>		<b>561</b>	<b>-</b>	<b>-</b>	<b>561</b>
<b>TOTAL LIABILITIES</b>		<b>561</b>	<b>-</b>	<b>-</b>	<b>561</b>
<b>NET ASSETS</b>		<b>9,465</b>	<b>-</b>	<b>(2,298)</b>	<b>7,167</b>
<b>EQUITY</b>					
Contributed equity		24,265	-	-	24,265
Reserves	ii	174	545	-	719
Accumulated losses	ii, vii	(14,974)	(545)	(2,298)	(17,817)
<b>TOTAL EQUITY</b>		<b>9,465</b>	<b>-</b>	<b>(2,298)</b>	<b>7,167</b>

(1) Reconciliation of Equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to Equity under Australian equivalents to IFRS (AIFRS) (continued)

(b) At the end of the reporting period under previous AGAAP: 30 June 2005

	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
<b>CONSOLIDATED</b>					
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents		39,489	-	-	39,489
Trade and other receivables		568	-	-	568
Property, plant and equipment		-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>40,057</b>	<b>-</b>	<b>-</b>	<b>40,057</b>
<b>Non current assets</b>					
Trade and other receivables		-	-	-	-
Held to maturity investments		-	-	-	-
Available for sale financial assets	iii	710	1,720	-	2,430
Deferred borrowing costs		170	-	-	170
Property, plant and equipment		1,098	-	-	1,098
Exploration and evaluation expenditure	vi	9,001	-	(7,315)	1,686
<b>TOTAL NON CURRENT ASSETS</b>		<b>10,979</b>	<b>1,720</b>	<b>(7,315)</b>	<b>5,384</b>
<b>TOTAL ASSETS</b>		<b>51,036</b>	<b>1,720</b>	<b>(7,315)</b>	<b>45,441</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables		727	-	-	727
Interest bearing loans and borrowings		533	-	-	533
Provisions		65	-	-	65
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,325</b>	<b>-</b>	<b>-</b>	<b>1,325</b>
<b>TOTAL LIABILITIES</b>		<b>1,325</b>	<b>-</b>	<b>-</b>	<b>1,325</b>
<b>NET ASSETS</b>		<b>49,711</b>	<b>1,720</b>	<b>(7,315)</b>	<b>44,116</b>
<b>EQUITY</b>					
Contributed equity	iv	65,950	42	-	65,992
Reserves	ii, iii, v	174	5,232	-	5,406
Accumulated losses	v, vi	(16,413)	(3,554)	(7,315)	(27,282)
<b>TOTAL EQUITY</b>		<b>49,711</b>	<b>1,720</b>	<b>(7,315)</b>	<b>44,116</b>

# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

## NOTE 31. TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY (continued)

(1) Reconciliation of Equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to Equity under Australian equivalents to IFRS (AIFRS) (continued)

(b) At the end of the reporting period under previous AGAAP: 30 June 2005.

	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
<b>PARENT ENTITY</b>					
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents		39,000	-	-	39,000
Trade and other receivables		472	-	-	472
Property, plant and equipment		-	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>39,472</b>	<b>-</b>	<b>-</b>	<b>39,472</b>
<b>Non current assets</b>					
Trade and other receivables	vii	10,183	1,720	(7,253)	4,650
Held to maturity investments	vii	488	-	(62)	426
Available for sale financial assets		-	-	-	-
Deferred borrowing costs		-	-	-	-
Property, plant and equipment		390	-	-	390
Exploration and evaluation expenditure		-	-	-	-
<b>TOTAL NON CURRENT ASSETS</b>		<b>11,061</b>	<b>1,720</b>	<b>(7,315)</b>	<b>5,466</b>
<b>TOTAL ASSETS</b>		<b>50,533</b>	<b>1,720</b>	<b>(7,315)</b>	<b>44,938</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables		591	-	-	591
Interest bearing loans and borrowings		533	-	-	533
Provisions		65	-	-	65
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,189</b>	<b>-</b>	<b>-</b>	<b>1,189</b>
<b>Non current liabilities</b>					
Trade and other payables		334	-	-	334
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>334</b>	<b>-</b>	<b>-</b>	<b>334</b>
<b>TOTAL LIABILITIES</b>		<b>1,523</b>	<b>-</b>	<b>-</b>	<b>1,523</b>
<b>NET ASSETS</b>		<b>49,010</b>	<b>1,720</b>	<b>(7,315)</b>	<b>43,415</b>
<b>EQUITY</b>					
Contributed equity	iv	65,950	42	-	65,992
Reserves	ii, iv	174	3,512	-	3,686
Accumulated losses	ii, vii	(17,114)	(1,834)	(7,315)	(26,263)
<b>TOTAL EQUITY</b>		<b>49,010</b>	<b>1,720</b>	<b>(7,315)</b>	<b>43,415</b>

(2) Reconciliation of Loss under previous AGAAP to Loss under AIFRS

(a) Reconciliation of Loss for the year ended 30 June 2005

	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
<b>CONSOLIDATED</b>					
<b>REVENUE FROM CONTINUING OPERATIONS</b>	v	1,582	(810)	-	772
Other income	v	-	786	24	810
Cost of tenements sold	v	(24)	24	-	-
Share based payments expense	ii	-	(3,009)	-	(3,009)
Interest expense		(354)	-	-	(354)
Exploration and evaluation expenditure	vi	(72)	-	(5,041)	(5,113)
Write down of convertible note		(894)	-	-	(894)
Depreciation and amortisation		(90)	-	-	(90)
Employee benefits expense		(482)	-	-	(482)
Other expenses		(1,178)	-	-	(1,178)
<b>LOSS BEFORE INCOME TAX</b>		(1,512)	(3,009)	(5,017)	(9,538)
Income tax expense		-	-	-	-
Loss from continuing operations		(1,512)	(3,009)	(5,017)	(9,538)
Profit from discontinued operations	i	128	-	-	128
<b>LOSS ATTRIBUTABLE TO MEMBERS OF PALADIN RESOURCES LTD</b>		(1,384)	(3,009)	(5,017)	(9,410)

(2) Reconciliation of Loss under previous AGAAP to Loss under AIFRS

(a) Reconciliation of Loss for the year ended 30 June 2005

	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
<b>PARENT ENTITY</b>					
<b>REVENUE FROM CONTINUING OPERATIONS</b>		1,165	-	-	1,165
Other income		-	-	-	-
Cost of tenements sold		-	-	-	-
Share based payments expense	ii	-	(3,009)	-	(3,009)
Interest expense		(354)	-	-	(354)
Exploration and evaluation expenditure		-	-	-	-
Write down of convertible note		(894)	-	-	(894)
Write down of intercompany loan	vii	(327)	1,720	(5,017)	(3,624)
Depreciation and amortisation		(32)	-	-	(32)
Employee benefits expense		(482)	-	-	(482)
Other expenses		(1,216)	-	-	(1,216)
<b>LOSS BEFORE INCOME TAX</b>		(2,140)	(1,289)	(5,017)	(8,446)
Income tax expense		-	-	-	-
Loss from continuing operations		(2,140)	(1,289)	(5,017)	(8,446)
Profit from discontinued operations		-	-	-	-
<b>LOSS ATTRIBUTABLE TO MEMBERS OF PALADIN RESOURCES LTD</b>		(2,140)	(1,289)	(5,017)	(8,446)



# Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## NOTE 31. TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY (continued)

### (3) Notes to the reconciliations

#### (i) Non current assets held for sale

Under AASB 5 Non-current Assets Held for Sale and Discontinuing Operations, a non-current asset will be classified as held for sale if its carrying amount is to be recovered principally through a sale transaction rather than through continued use. The asset will be measured at the lower of carrying amount and fair value, less costs to sell.

Under AASB 5 a non-current asset once classified as held for sale is no longer required to be depreciated up to the date of sale.

The Group met the definition under AASB 5 of a non-current asset held for sale in relation to commercial property located in Belmont, Western Australia at 1 July 2004, with settlement on the property occurring on 24 June 2005.

#### At 1 July 2004

For the Group A\$1,114,242 (Company: not applicable) of current property, plant and equipment has been reclassified to assets held for sale.

#### At 30 June 2005 and for the Year Ended 30 June 2005

For the Group there has been a decrease in accumulated losses of A\$18,404 (increase in profit from discontinued operation – depreciation expense) (Company: not applicable) and a corresponding decrease in profit on sale (decrease in profit from discontinued operation).

#### (ii) Share-based payment transactions

Under AASB 2 Share-based Payment, from 1 July 2004 the Group is required to recognise an expense for those options that were issued to employees under the Company Employee Share Incentive Option Plan after 7 November 2002 but that had not vested by 1 January 2005. The valuations for the options have been determined using the Cox, Ross and Rubinstein Binomial Tree Model. The expense for the options is recognised over the vesting period of the options.

#### At 1 July 2004

For the Group and Company there has been an increase in accumulated losses of A\$545,000 and a corresponding increase in reserves.

#### At 30 June 2005 and for the Year Ended 30 June 2005

For the Group and Company there has been an increase in accumulated losses of A\$3,552,851 (including recognition of a share-based payments expense of \$3,008,851) and a increase in reserves of A\$3,552,851.

#### (iii) Financial instruments

The Group has applied AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2004.

Under AASB 132, the existing classification of financial instruments issued by the Group does not change.

Under AASB 139, financial assets held by the Group will be classified as either at fair value through the profit and loss, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost.

Non-traded equity securities will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised.

#### At 1 July 2004

There is no effect on the Group and Company.

#### At 30 June 2005 and for the Year Ended 30 June 2005

For the Group there has been an increase in available for sale financial assets of A\$1,720,000, (Company: not applicable) and a corresponding increase in reserves.

#### (iv) Exercise of unlisted employee options

Under AASB 2 Share-based Payment the Group is required to recognise an expense for options that are issued to employees under the Company Employee Share Incentive Option Plan, with a corresponding increase to reserves.

Where options are exercised the balance of the reserve relating to the options is required to be transferred to contributed equity.

#### At 1 July 2004

There is no effect on the Group and Company.

#### At 30 June 2005 and for the Year Ended 30 June 2005

In March 2005 1,000,000 shares were issued in relation to the exercise of unlisted employee options with an exercise price of A\$0.22. In relation to this for the Group and Company there has been an increase in contributed equity of A\$21,000 and a corresponding decrease in reserves.



*(v) Revenue disclosures in relation to sale of tenements*

Under AIFRS the net gain on the sale of tenements is required to be recognised as other income, which is in contrast to the Australian GAAP treatment under which the gross proceeds from the sale are recognised as revenue and the carrying amount of the tenements sold is recognised as an expense.

No net impact exists on the Income Statement in relation to these adjustments.

**At 1 July 2004**

There is no effect on the Group and Company.

**At 30 June 2005 and for the Year Ended 30 June 2005**

For the Group there has been a decrease in revenue from continuing operations of A\$810,000, (Company: not applicable) a decrease in cost of assets sold of A\$24,425 and an increase in other income of A\$785,575.

*(vi) 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.

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 – refer Note 2(q) for the full detail of the new accounting policy.

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 is planned to commence in September 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.

This does not represent a change in accounting policy as a result of AIFRS, as AASB 6 Exploration for and Evaluation of Mineral Resources allows both the previous and the new accounting policies of the Group.

Under AIFRS, 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 1 July 2004**

For the Group there has been an increase in accumulated losses of A\$2,298,834 (Company: not applicable) and a decrease in exploration and evaluation expenditure asset of A\$2,298,834.

**At 30 June 2005 and for the Year Ended 30 June 2005**

For the Group there has been an increase accumulated losses of A\$7,315,408 (including increases in exploration and evaluation expense from continuing operations of A\$5,042,202; and other income of A\$24,425 relating to the sale of tenements now written off) (Company: not applicable) and a decrease in exploration and evaluation expenditure asset of A\$7,315,408.

Basic and diluted earnings per share have also been restated.

*(vii) Impact on Parent Entity of change in accounting policy and AIFRS*

The voluntary change of exploration and evaluation expenditure accounting policy and AIFRS impacts the Parent Entity's assessment of the net tangible asset backing of both intercompany receivables and intercompany investments.

**At 1 July 2004**

As a consequence of the voluntary change in accounting policy the Company has had to reduce intercompany receivables by A\$2,231,476 and intercompany investments by A\$67,358 (Group: not applicable) by way of write down of these assets which impacted accumulated losses by A\$2,298,834, as the net tangible assets of subsidiaries has decreased.

**At 30 June 2005 and for the Year Ended 30 June 2005**

As a consequence of the voluntary change in accounting policy, the Company has had to reduce intercompany receivables by A\$7,253,191 and intercompany investments by A\$62,217 (Group: not applicable) by way of write down of these assets which impacted accumulated losses by A\$7,315,408 (including increase in write down of intercompany loan from continuing operations of A\$5,016,574) as the net tangible assets of subsidiaries has decreased.

As a consequence of AIFRS, the Company has increased intercompany receivables by A\$1,720,000 (Group: not applicable) by way of reducing the write down of intercompany receivables by A\$1,720,000 (and as such accumulated losses decreased by the same amount).

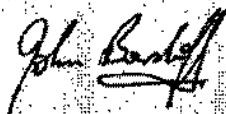
## Directors' Declaration

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In accordance with a resolution of the Directors of Paladin Resources Ltd, I state that:

1. In the opinion of the Directors:
  - (a) the financial report and the additional disclosures included in the Directors' Report designated as audited, of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporation Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with sections 295A of the Corporations Act 2001 for financial period ending 30 June 2006.

On behalf of the Board



Mr John Borshoff  
Managing Director

Perth, Western Australia  
29 August 2006

# Independent Audit Report - Australia

to the members of Paladin Resources Ltd

## Scope

### *The financial report, remuneration disclosures and directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Paladin Resources Ltd (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of key management personnel ("remuneration disclosures"), as required by Accounting Standard 124 Related Party Disclosures, under the heading "Remuneration Report" on pages 42 to 49 of the directors' report, as permitted by ASIC CO 06/50.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards and International Standards on Auditing, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

## Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and 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. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed.

## Audit opinion

In our opinion:

1. the financial report of Paladin Resources Ltd is in accordance with:
  - (a) the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of Paladin Resources Ltd and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained on pages 42 to 49 of the directors' report comply with Accounting Standard AASB 124.

Ernst & Young

V V V Tidy  
Partner

Perth  
29 August 2006

## Auditors' Report - Canada

To the Shareholders of Paladin Resources Ltd

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We have audited the consolidated balance sheet of Paladin Resources Ltd as at June 30, 2006 and the consolidated statement of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Australian generally accepted accounting principles.

Vancouver, Canada  
Ernst & Young LLP  
Chartered Accountants

August 29, 2006

## Additional Information

Pursuant to the Listing Requirements of Australian Stock Exchange Limited as at 28 August 2006:

(a) Distribution and number of holders

		SHAREHOLDERS
1	1,000	3,230
1,001	5,000	3,728
5,001	10,000	944
10,001	100,000	923
100,001	maximum	148
		8,973

104 shareholders hold less than a marketable parcel of shares.

(b) The twenty largest shareholders hold 80.74% of the total shares issued.

Holder	No. of Shares	%
CDS & CO	136,971,068	30.08
Westpac Custodian Nominees Limited	48,566,500	10.67
J.P. Morgan Nominees Australia Limited	28,938,990	6.36
National Nominees Limited	27,034,710	5.94
ANZ Nominees Limited Cash Income AVC	26,977,900	5.93
Citicorp Nominees Pty Limited	25,044,768	5.50
Aylworth Holdings Pty Ltd	15,976,237	3.51
Mr Robert Anthony Healy & Mrs Helen Marce Healy	13,012,159	2.86
Gillian Swaby	9,411,655	2.07
HSBC Custody Nominees (Australia) Limited-GSCO ECSCA	7,793,857	1.71
Mr Rick Wayne Crabb & Mrs Carol Jean Crabb	6,198,050	1.36
CEDE & CO	5,117,294	1.12
Queensland Investment Corporation	3,356,683	0.74
Mr James U Blanchard II C/- Jefferson Financial Inc	2,777,778	0.61
HSBC Custody Nominees (Australia) Limited	2,572,462	0.57
John Borshoff	1,605,157	0.35
Mr Zaccaria Rossi & Mrs Thelma Rossi	1,601,000	0.35
Neoprotect Pty Limited	1,600,000	0.35
Societe Generale	1,530,966	0.34
UBS Nominees Pty Ltd	1,481,640	0.32
	367,568,874	80.74

(c) Voting rights

For all shares, voting rights are one vote per member on a show of hands and one vote per share in a poll.

## Additional Information

Pursuant to the Listing Requirements of Australian Stock Exchange Limited as at 28 August 2006:

(d) Tenements held –

### URANIUM PROJECTS

#### NAMIBIA – AFRICA

Project	Tenement	Interest %	JV Partner/s	Operator
Langer Heinrich	1 MLI	100%		
Gawib	1 EPL (A)	100%		

#### MALAWI – AFRICA

Project	Tenement	Interest %	JV Partner/s	Operator
Kayelekera	1 EPL	100%		
Chilumba	1 EPL	100%		
Chilongo	1 EPL	100%		
Mpata	1 EPL	100%		

#### WESTERN AUSTRALIA

Project	Tenement	Interest %	JV Partner/s	Operator
Manyingee	3 ML's	100%		
Spinifex Well	1 EL	100%		
Oobagooma	4 EL's (A)	100%		
Potlton	1 EL (A)	100%		

#### SOUTH AUSTRALIA

Project	Tenement	Interest %	JV Partner/s	Operator
Petermorra	1 EL	20%	Quasar Resources Pty Ltd	Quasar Resources Pty Ltd
Mt Yerilla	1 EL	15%	Quasar Resources Pty Ltd Red Metal Limited J E Risinger	Quasar Resources Pty Ltd Red Metal Limited

### NON-URANIUM PROJECTS

#### SOUTH AUSTRALIA

Project	Tenement	Interest %	JV Partner/s	Operator
Mt Lofty Ranges	1 EL	90%	Absolut Resources Corporation	Paladin Resources Ltd
Reaphook JV	1 EL	7.5%	Perilya Limited Signature Resources NL	Perilya Limited

#### Tenement Types

EL	Exploration Licence (Australia)
EPL	Exclusive Prospecting Licence (Africa)
ML	Mining Lease (Australia)
MLI	Mining Licence (Africa)
(A)	Pending Application



**Paladin Resources Ltd**  
**Financial Report**  
for the year ended 30 June 2005



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# Statements of Financial Performance

for the year ended 30 June 2005

	Notes	CONSOLIDATED		PARENT ENTITY	
		2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
Revenue from ordinary activities	3	2,975	785	1,165	662
Borrowing costs	4	(412)	(59)	(354)	(2)
Depreciation and amortisation	4	(109)	(92)	(32)	(5)
Provision for doubtful debts	4	(17)	-	-	-
Exploration costs written off	4	(72)	-	-	-
General and administration		(1,736)	(429)	(1,698)	(473)
Write down of convertible note	4	(894)	-	(894)	-
Write down of intercompany loan	4	-	-	(327)	(3)
Cost of land and buildings sold		(1,095)	-	-	-
Costs of tenements sold		(24)	(15)	-	-
Cost of investments sold		-	-	-	(589)
Expenses from ordinary activities		(4,359)	(595)	(3,305)	(1,072)
Profit/(loss) from ordinary activities before income tax	20	(1,384)	190	(2,140)	(410)
Income tax expense	5	-	-	-	-
Profit/(loss) from ordinary activities after income tax		(1,384)	190	(2,140)	(410)
Share issue costs	18(b)	(1,010)	(39)	(1,010)	(39)
Total revenues, expenses and valuation adjustments attributable to members of Paladin Resources Ltd and recognised directly in equity		(1,010)	(39)	(1,010)	(39)
Total changes in equity other than those resulting from transactions with owners as owners	21	(2,394)	151	(3,150)	(449)
		Cents	Cents		
Basic and diluted earnings per share	32	(0.38)	0.07		

The above Statements of Financial Performance should be read in conjunction with the accompanying notes.

# Statements of Financial Position

as at 30 June 2005

	Notes	CONSOLIDATED 2005 A\$000	2004 A\$000	PARENT ENTITY 2005 A\$000	2004 A\$000
<b>Current assets</b>					
Cash	7	39,489	4,639	39,000	4,518
Receivables	8	568	49	472	24
Property, plant and equipment	9	-	1,114	-	-
<b>Total current assets</b>		<b>40,057</b>	<b>5,802</b>	<b>39,472</b>	<b>4,542</b>
<b>Non current assets</b>					
Receivables	10	-	64	10,183	4,106
Other financial assets	11	710	800	488	1,352
Property, plant and equipment	12	1,268	249	390	26
Other - mineral properties	13	9,001	3,815	-	-
<b>Total non current assets</b>		<b>10,979</b>	<b>4,928</b>	<b>11,061</b>	<b>5,484</b>
<b>Total assets</b>		<b>51,036</b>	<b>10,730</b>	<b>50,533</b>	<b>10,026</b>
<b>Current liabilities</b>					
Payables	14	727	554	591	528
Provisions	15	65	33	65	33
Interest bearing liabilities	16	533	733	533	-
<b>Total current liabilities</b>		<b>1,325</b>	<b>1,320</b>	<b>1,189</b>	<b>561</b>
<b>Non current liabilities</b>					
Payables	17	-	-	334	-
<b>Total non current liabilities</b>		<b>-</b>	<b>-</b>	<b>334</b>	<b>-</b>
<b>Total liabilities</b>		<b>1,325</b>	<b>1,320</b>	<b>1,523</b>	<b>561</b>
<b>Net assets</b>		<b>49,711</b>	<b>9,410</b>	<b>49,010</b>	<b>9,465</b>
<b>Equity</b>					
Contributed equity	18(a)	65,950	24,265	65,950	24,265
Reserves	19	174	174	174	174
Accumulated losses	20	(16,413)	(15,029)	(17,114)	(14,974)
<b>Total equity</b>	21	<b>49,711</b>	<b>9,410</b>	<b>49,010</b>	<b>9,465</b>

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

# Statements of Cash Flows

for the year ended 30 June 2005

	Notes	CONSOLIDATED		PARENT ENTITY	
		2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
<b>Cash flows from operating activities</b>					
Payments to suppliers and employees		(1,831)	(378)	(1,665)	(279)
Interest received		414	32	414	33
Borrowing costs paid		(58)	(59)	-	(2)
Rental income		116	169	-	-
Other receipts		78	137	76	137
<b>Net cash outflow from operating activities</b>	30	<b>(1,281)</b>	<b>(99)</b>	<b>(1,175)</b>	<b>(111)</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(946)	(19)	(396)	(19)
Project exploration, evaluation and development expenditure		(5,151)	(572)	-	-
Loans to controlled entities		-	-	(6,311)	(679)
Loans from controlled entities		-	-	500	-
Sale of land and buildings		1,200	-	-	-
Sale of investments		-	538	-	538
Payment for controlled entities net of cash acquired	11(a)	(203)	-	-	-
Sale of tenements and exploration data		100	15	-	-
<b>Net cash outflow from investing activities</b>		<b>(5,000)</b>	<b>(38)</b>	<b>(6,207)</b>	<b>(160)</b>
<b>Cash flows from financing activities</b>					
Share placement		40,800	4,762	40,800	4,762
Proceeds from exercise of share options		1,575	-	1,575	-
Fundraising costs		(1,011)	(38)	(1,011)	(38)
Proceeds from borrowings		500	-	500	-
Repayment of borrowings		(733)	(70)	-	(50)
<b>Net cash inflow from financing activities</b>		<b>41,131</b>	<b>4,654</b>	<b>41,864</b>	<b>4,674</b>
<b>Net increase in cash held</b>		<b>34,850</b>	<b>4,517</b>	<b>34,482</b>	<b>4,403</b>
Cash at the beginning of the financial year		4,639	122	4,518	115
<b>Cash at the end of the financial year</b>	7	<b>39,489</b>	<b>4,639</b>	<b>39,000</b>	<b>4,518</b>
Non cash financing and investing activities	31				

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Report

for the year ended 30 June 2005

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Nature of Operations

Paladin Resources Ltd ("Company") operates primarily in the resource industry with some consequential activity in the financial investment and property industries. The principal business of the Company is the 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 Company's principal place of business and registered office is Grand Central, First Floor, 26 Railway Road, Subiaco, Western Australia, 6008.

### (b) Basis of Preparation

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus View, the Corporations Act 2001 and the historical cost convention.

This financial report also includes additional information in order for the Company to comply with reporting requirements of applicable Canadian securities law, as the Company is listed on the Toronto Stock Exchange.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

Comparative information has been changed where appropriate to be consistent with the presentation adopted in the current year.

### (c) Use of 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.

### (d) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities and equity of Paladin Resources Ltd and of all entities controlled by the Company as at 30 June 2005 and the results of the Company and all controlled entities for the year then ended. The Company and its controlled entities together are referred to in this financial report as the Consolidated Entity. The effects of all transactions between entities in the Consolidated Entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated Statement of Financial Performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed. The financial statements of controlled entities are prepared for the same reporting period as the Company, using consistent accounting policies.

### (e) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

The Company and its wholly-owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003. As a consequence, the Company, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax sharing agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense/(revenue).

### (f) Foreign Currency Translation

#### 1) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit and loss for the year.

**(f) Foreign Controlled Entities**

The activities undertaken in Namibia and Malawi are integrated with the activities of the Company. The assets, liabilities and equity of the Namibia and Malawi operations are consolidated into the Company using the temporal method of translation whereby non-monetary assets and liabilities and equity items, including revenue and expenses, are translated into Australian currency using historic rates of exchange, and monetary assets and liabilities are translated using rates of exchange current at the reporting date. Any resultant exchange differences are recorded as revenue or expense by the Consolidated Entity.

**(g) Acquisition of Assets**

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise.

**(h) Revenue Recognition**

Interest revenue from investments in cash and convertible notes is recognised in the Statements of Financial Performance in the periods in which it is receivable, as this represents the pattern of legal benefit to the Company.

Rental revenue from leasing of the investment property is recognised in the Statements of Financial Performance in the periods in which it is receivable, as this represents the pattern of service rendered through the provision of the property.

**(i) Receivables**

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

All receivables from the wholly owned group are recognised in the Statements of Financial Position when receivable and are accounted for in accordance with the principles of consolidation. Interest is charged on certain receivables from the wholly owned group. A provision for non-recovery is raised in relation to receivables from the wholly owned group when the asset is not substantiated by the net tangible assets of the controlled entity.

**(j) Recoverable Amount of Non Current Assets**

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non current assets are discounted to their present values using a market-determined, risk-adjusted discount rate. The discount rate used for all assets was 10% (2004: 10%).

**(k) Investments**

Interests in listed securities and convertibles notes are brought to account at cost and dividend or interest revenue is recognised in the Statements of Financial Performance when receivable. The carrying value of listed securities is compared to market value at each reporting period, and any necessary write downs are recorded where cost exceeds market value. The carrying value of convertible notes is reviewed on an ongoing basis and a provision for non-recovery is raised when some doubt as to collection exists.

Investments in controlled entities are brought to account at cost and are accounted for in accordance with the policy for principles of consolidation. A provision for non-recovery is raised in relation to investments in controlled entities when the asset is not substantiated by the net tangible assets of the controlled entity.

# Notes to the Financial Report

for the year ended 30 June 2005

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Depreciation of Property, Plant and Equipment

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment (excluding land) over its expected useful life to the Consolidated Entity. Estimates of remaining useful lives are made on a regular basis for all assets. The expected useful lives remained unchanged from the prior year and are as follows:

Buildings - twenty years

Databases - ten years

Plant and equipment - four to six years

### (m) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Consolidated Entity, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 5 years.

### (n) Operating Leases

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the liability on a straight line basis over the period of the lease.

### (o) Project Exploration, Evaluation and Development Expenditure

Exploration and evaluation expenditure is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to operational activities in the area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Expenditure is carried forward when incurred if the Directors consider that the costs are expected to be fully recouped through the successful development of the area, or where activities to date have not reached a stage to allow reasonable assessment regarding existence of economically recoverable reserves. Each area of interest is reviewed regularly.

Expenditure is not carried forward in respect of any area of interest unless the Company's rights of tenure to that area of interest are current.

If the project is abandoned or if it is considered unlikely the project will proceed to development, accumulated costs to that point are written off immediately.

Projects are advanced to development status upon positive outcome from feasibility studies and at this stage all expenditure is carried forward up to commencement of operations.

### (p) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### (q) Interest Bearing Liabilities

Bank loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors and as an expense.

### (r) Joint Ventures

The proportionate interests in assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings.

### (s) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. Employee benefit expenses and revenues arising in respect of wages and salaries, annual leave, sick leave, long service leave, non monetary benefits, and other benefits are recognised against profits on a net basis in their respective categories.

#### i) Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, annual leave and accumulating sick leave expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liabilities are settled.



**ii) Long Service Leave**

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds which have terms to maturity approximating the terms of the related liability are used.

**iii) Employee Benefit On-costs**

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

**iv) Equity-based Compensation Benefits**

Equity-based compensation benefits are provided to employees via the Company Employee Share Incentive Option Plan.

No accounting entries are made in relation to the Employee Share Incentive Option Plan until the options are exercised, at which time the amounts received from employees are recognised in the Statements of Financial Position as share capital. The amounts disclosed for remuneration of Directors and Executives include the assessed fair value of options at the date they were granted.

**(t) 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. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

**(u) Borrowing Costs**

Borrowing costs are recognised as expenses in the period in which they are incurred.

Borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, fair value of unlisted options granted and ancillary costs incurred in connection with the arrangement of borrowings.

The fair value of unlisted options granted in relation to establishment of a loan facility is recognised as a borrowing cost with a corresponding increase in equity and is measured at the date a commitment for the loan facility is obtained. The fair value at measurement date is independently determined using the Cox, Ross and Rubinstein Binomial Tree Model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradable nature of the options, the share price at measurement 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.

Upon the exercise of options, the balance of the Option Premium Reserve relating to these options is transferred to share capital.

**(v) Cash**

Cash on hand and in banks, short term deposits, and bank bills are stated at nominal value. For the purposes of the Statements of Cash Flows, cash includes deposits which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

**(w) Earnings per Share**

**i) Basic Earnings Per Share**

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than dividends, by the weighted average number of ordinary shares outstanding during the financial year.

**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 of interest and other financing costs 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.

**(x) Rounding of Amounts**

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases to the nearest dollar.

# Notes to the Financial Report

for the year ended 30 June 2005

## 2. SEGMENT INFORMATION

### Accounting policy

Segment information is prepared in conformity with the accounting policies of the Company as disclosed in Note 1 and accounting standard AASB 1005 Segment Reporting.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, property, plant and equipment and project exploration, evaluation and development expenditure, net of related provisions. Segment liabilities consist primarily of trade and other creditors, employee benefits and bank loans. Segment assets and liabilities do not include income taxes.

The Consolidated Entity operates in the following segments:

### Business segments – primary reporting

#### Resources

Principal focus on evaluation and development of uranium projects in Africa and Australia. The resource segment includes ownership of a proprietary database with focus on uranium, gold, copper and platinum resources.

#### Financial Investments (consequential activity)

This segment consists of investment in convertible notes, listed company shares, and options over listed company shares.

The Company holds a convertible note from Didasko Technologies Pty Ltd which has a maturity date of 20 November 2006 and accrues interest to the Company at 5% per annum payable upon maturity. The Company has made full provision for non-recovery of the convertible note and accrued interest up to 31 March 2005 – refer Note 11(c).

The Company acquired shares and options on 9 December 2004 in Deep Yellow Ltd, a company listed on the Australian Stock Exchange, from the sale of non core uranium properties – refer Note 11(b).

The Company sold a 23% investment in ST Synergy Ltd, a knowledge management software company listed on the Australian Stock Exchange, during the year ended 30 June 2004.

#### Property (consequential activity)

Ownership and lease of commercial premises consisting of buildings and telecommunications tower located in Belmont, Perth, Western Australia. The commercial premises were sold on 24 June 2005 – refer Note 6.

### Business segments – primary reporting

Year Ended 30 June 2005	Resources A\$000	Financial Investments A\$000	Discontinuing Operations: Property A\$000	Consolidated A\$000
Other revenue	1,552	30	1,393	2,975
<b>Total segment revenue</b>	<b>1,552</b>	<b>30</b>	<b>1,393</b>	<b>2,975</b>
Profit/(loss) from ordinary activities before income tax expense	(648)	(864)	128	(1,384)
Income tax expense	-	-	-	-
<b>Profit/(loss) from ordinary activities after income tax expense/segment result</b>	<b>(648)</b>	<b>(864)</b>	<b>128</b>	<b>(1,384)</b>
<b>Total assets/segment assets</b>	<b>50,311</b>	<b>710</b>	<b>15</b>	<b>51,036</b>
<b>Segment liabilities</b>	<b>1,322</b>	<b>-</b>	<b>3</b>	<b>1,325</b>
<b>Acquisitions of non current assets</b>	<b>6,431</b>	<b>710</b>	<b>-</b>	<b>7,141</b>
<b>Non cash expenses:</b>				
Depreciation and amortisation	90	-	19	109
Provision for doubtful debts	-	-	17	17
Bad debts written off	-	-	5	5
Write down of convertible note	-	894	-	894
Exploration costs written off	72	-	-	72



**Business segments – primary reporting**

 Year Ended  
30 June 2004

	Resources A\$000	Financial Investments A\$000	Discontinuing Operations Property A\$000	Consolidated A\$000
Other revenue	203	413	169	785
Total segment revenue	203	413	169	785
Profit/(loss) from ordinary activities before income tax expense	(281)	413	58	190
Income tax expense	-	-	-	-
Profit/(loss) from ordinary activities after income tax expense/segment result	(281)	413	58	190
Total assets/segment assets	8,720	800	1,210	10,730
Segment liabilities	583	-	737	1,320
Acquisitions of non current assets	669	-	-	669
Non cash expenses:				
Depreciation and amortisation	73	-	19	92

**Geographical segments – secondary reporting**

 Year Ended  
30 June 2005

	Australia A\$000	Africa* A\$000	Consolidated A\$000
Other revenue	2,974	1	2,975
Total segment revenue	2,974	1	2,975
Loss from ordinary activities before income tax expense	(1,362)	(22)	(1,384)
Income tax expense	-	-	-
Loss from ordinary activities after income tax expense/segment result	(1,362)	(22)	(1,384)
Total assets/segment assets	42,941	8,095	51,036
Segment liabilities	1,195	130	1,325
Acquisitions of non current assets	1,263	5,878	7,141
Non cash expenses:			
Depreciation and amortisation	109	-	109
Provision for doubtful debts	17	-	17
Bad debts written off	5	-	5
Write down of convertible note	894	-	894
Exploration costs written off	72	-	72

**Geographical segments – secondary reporting**

30 June 2004

Other revenue	785	-	785
Total segment revenue	785	-	785
Profit from ordinary activities before income tax expense	190	-	190
Income tax expense	-	-	-
Profit from ordinary activities after income tax expense/segment result	190	-	190
Total assets/segment assets	8,987	1,743	10,730
Segment liabilities	1,300	20	1,320
Acquisitions of non current assets	111	558	669
Non cash expenses:			
Depreciation and amortisation	92	-	92

\* Namibia and Malawi

# Notes to the Financial Report

for the year ended 30 June 2005

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
<b>3. REVENUE</b>				
Revenue from outside the operating activities:				
Interest received from non-related parties	769	73	768	73
Interest received from the wholly owned group (Note 10 (a))	-	-	322	47
Proceeds on sale of tenements	810	-	-	-
Property rental	121	129	-	-
Proceeds on sale of land and buildings	1,200	-	-	-
Proceeds on sale of investments	-	538	-	538
Building contribution	-	40	-	-
Net foreign exchange gain/unrealised	2	-	3	-
Other	73	5	72	4
<b>Total revenue from ordinary activities</b>	<b>2,975</b>	<b>785</b>	<b>1,165</b>	<b>662</b>
<b>4. OPERATING PROFIT/(LOSS)</b>				
Profit/(loss) from ordinary activities before income tax expense includes the following specific net gains and expenses:				
<b>Net gains/(losses):</b>				
Net gain on disposal of investments	-	538	-	125
Net gain on disposal of land and buildings	105	-	-	-
Net gain on disposal of tenements	786	-	-	-
Net loss on disposal of investments	-	-	-	(176)
<b>Expenses:</b>				
Depreciation and amortisation:				
- plant and equipment	17	6	18	5
- buildings	19	19	-	-
- technical database	-	9	-	-
- project generation database	59	59	-	-
- leasehold improvements	14	-	14	-
<b>Total depreciation and amortisation</b>	<b>109</b>	<b>92</b>	<b>32</b>	<b>5</b>
Interest paid to non-related parties	412	59	354	2
Employee benefits	48	(3)	48	(3)
Operating lease rental expense	49	-	33	-
Bad debts written off	5	-	-	-
Exploration costs written off	72	-	-	-
<b>Other charges against assets:</b>				
Provision for non-recovery of:				
- intercompany loan	-	-	327	3
- investment in controlled entity	-	-	64	65
- investment in convertible note	894	-	894	-
- doubtful debts to non-related parties	17	-	-	-

## 5. INCOME TAX

The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the profit/(loss) from ordinary activities. The differences are reconciled as follows:

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
Operating profit/(loss) before income tax	(1,384)	190	(2,140)	(410)
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30% (2004:30%)				
- economic entity	(415)	57		
- parent entity	-	-	(642)	(123)
- other members of the income tax consolidation group net of intercompany transactions	-	-	285	-
	(415)	57	(357)	(123)
Tax effect of permanent differences:				
Capital (profits)/losses not subject to income tax	(71)	(197)	46	-
Non-deductible expenditure	242	15	242	12
Income tax adjusted for permanent differences	(244)	(125)	(69)	(111)
Tax benefit not recognised	244	125	69	111
Income tax attributable profit/(loss) from ordinary activities	-	-	-	-
The Directors estimate that the potential future income tax benefit at 30 June not brought to account is:				
Tax losses *	5,820	4,039	2,637	1,051
Capital losses	1,186	1,257	1,303	1,257

\*Includes eligible exploration expenditures

This benefit for tax and capital losses will only be obtained if:

- the Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the Consolidated Entity continues to comply with the conditions for deductibility imposed by tax legislation (no expiry date exists for tax and capital losses); and
- no changes in tax legislation adversely affect the Consolidated Entity in realising the benefit from the deductions for the losses.

### Tax Consolidation Legislation

The Company and its wholly owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision. The accounting policy on implementation of the legislation is set out in Note 1(e). The impact on the income tax expense for the year is disclosed in the tax reconciliation above.

# Notes to the Financial Report

for the year ended 30 June 2005

## 6. DISCONTINUING OPERATION

On 11 March 2005 an offer and acceptance was signed for the sale of the premises for A\$1,200,000 subject to due diligence. On 2 May 2005 this offer became unconditional and settlement occurred on 24 June 2005. This thereby discontinues the Company's operations in the property business segment.

Financial information relating to the discontinuing operation for the period to the date of disposal is set out below. Further information is set out in Note 2.

	CONSOLIDATED	
	2005	2004
	A\$000	A\$000
Financial performance information for the period 1 July 2004 to 24 June 2005 and the year ended 30 June 2004		
Revenue from ordinary activities, excluding the sale of commercial premises	193	169
Revenue from the sale of commercial premises	1,200	-
<b>Total revenue from ordinary activities</b>	<b>1,393</b>	<b>169</b>
Expenses from ordinary activities, excluding the carrying amount of assets of commercial premises	170	111
Carrying amount of the assets of commercial premises	1,095	-
<b>Total expenses from ordinary activities</b>	<b>1,265</b>	<b>111</b>
<b>Profit from ordinary activities before related income tax</b>	<b>128</b>	<b>58</b>
Income tax expense	-	-
<b>Net profit</b>	<b>128</b>	<b>58</b>
Carrying amount of assets and liabilities as at 24 June 2005 and 30 June 2004		
Cash	10	72
Trade debtors	5	24
Other debtors	1	-
Property, plant and equipment	1,095	1,114
<b>Total assets</b>	<b>1,111</b>	<b>1,210</b>
Trade creditors	3	4
Interest bearing liabilities	738	733
Intercompany loan	324	424
<b>Total liabilities</b>	<b>1,065</b>	<b>1,161</b>
<b>Net assets</b>	<b>46</b>	<b>49</b>
Cash flow information for the period 1 July 2004 to 24 June 2005 and the year ended 30 June 2004		
Net cash inflow from ordinary activities	60	74
Net cash inflow from sale of commercial premises	1,200	-
Net cash outflow from repayment of secured bank loans	(733)	-
Net cash outflow from other financing activities	(99)	(8)
<b>Net increase in cash generated by the commercial premises</b>	<b>428</b>	<b>66</b>
Details of the sale of the commercial premises are as follows:		
Cash consideration received	1,200	-
Carrying amount of net assets sold	(1,095)	-
<b>Gain on sale before related income tax</b>	<b>105</b>	<b>-</b>
Income tax expense	-	-
<b>Gain on sale after related income tax expense</b>	<b>105</b>	<b>-</b>
Earnings per share information for the period 1 July 2004 to 24 June 2005 and the year ended 30 June 2004		
	Cents	Cents
Basic and diluted earnings per share for discontinued operations	0.04	0.02

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
<b>7. CASH</b>				
Cash at bank and on hand	1,244	4,639	755	4,518
Bank bills - (a)	38,185	-	38,185	-
Term deposit	60	-	60	-
<b>Total cash</b>	<b>39,489</b>	<b>4,639</b>	<b>39,000</b>	<b>4,518</b>

(a) The bank bills are bearing interest rates between 5.62% and 5.68% (2004: not applicable).

#### 8. CURRENT RECEIVABLES

Trade debtors	27	27	-	-
Less provision for doubtful debts	(17)	-	-	-
<b>Net trade debtors</b>	<b>10</b>	<b>27</b>	<b>-</b>	<b>-</b>
Interest receivable	324	-	324	-
Deferred lease rental	33	-	33	-
Prepayments	84	-	7	-
GST and VAT	97	22	90	21
Sundry debtors - (a)	20	-	18	3
<b>Total current receivables</b>	<b>568</b>	<b>49</b>	<b>472</b>	<b>24</b>

(a) These amounts generally arise from transactions outside the usual operating activities of the Consolidated Entity and Company. Interest is not normally charged and collateral is not normally obtained.

#### 9. CURRENT PROPERTY, PLANT AND EQUIPMENT

Land and buildings - at cost	-	1,175	-	-
Less provision for depreciation	-	(61)	-	-
<b>Total current property, plant and equipment</b>	<b>-</b>	<b>1,114</b>	<b>-</b>	<b>-</b>

The land and buildings at 5-7 Belmont Avenue, Belmont were previously classified as a current asset in light of active negotiations to sell the property. On 24 June 2005 the sale of the property was finalised for A\$1,200,000 and as a result no current property plant and equipment exists as at 30 June 2005.

##### Reconciliations

Reconciliations of the carrying amounts of land and buildings at the beginning and end of the year are set out below:

Carrying amount at start of year	1,114	1,133	-	-
Depreciation (Note 4)	(19)	(19)	-	-
Cost of land and buildings sold	(1,095)	-	-	-
<b>Carrying amount at end of year</b>	<b>-</b>	<b>1,114</b>	<b>-</b>	<b>-</b>

#### 10. NON CURRENT RECEIVABLES

Unsecured loans to wholly owned group - (a)	-	-	13,453	6,985
Less provision for non-recovery	-	-	(2,270)	(2,943)
<b>Net unsecured loans to the wholly owned group</b>	<b>-</b>	<b>-</b>	<b>10,183</b>	<b>4,042</b>
Interest receivable - (b)	94	64	94	64
Less provision for non-recovery	(94)	-	(94)	-
<b>Net interest receivable</b>	<b>-</b>	<b>64</b>	<b>-</b>	<b>64</b>
<b>Total non current receivables</b>	<b>-</b>	<b>64</b>	<b>10,183</b>	<b>4,106</b>

(a) Of the unsecured loans to the wholly owned group the Company charges interest only on the loan to Langer Heinrich Uranium (Pty) Ltd. The interest rate payable is the standard commercial lending rate of National Australia Bank plus 2%. In the year ending 30 June 2005 the average rate charged was 11.2% (2004: 8.6%) and disclosure of interest revenue earned is set out in Note 3.

(b) This represents interest at 5% per annum on the A\$800,000 convertible note effective from 22 November 2002. At 31 March 2005 the Company ceased to accrue interest on the convertible note and made full provision for interest receivable at this date; refer Note 11(c).

# Notes to the Financial Report

for the year ended 30 June 2005

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
<b>11. NON CURRENT OTHER FINANCIAL ASSETS</b>				
Shares at cost - in the wholly owned group	-	-	1,961	1,961
Less provision for non-recovery	-	-	(1,473)	(1,409)
Net shares at cost - in the wholly owned group - (a)	-	-	488	552
Shares at cost - non related party - (b)	710	-	-	-
Convertible note	800	800	800	800
Less provision for non-recovery	(800)	-	(800)	-
Net convertible note - (c)	-	800	-	800
<b>Total non current other financial assets</b>	<b>710</b>	<b>800</b>	<b>488</b>	<b>1,352</b>

## (a) Investments in Material Controlled Entities

NAME	COUNTRY OF INCORPORATION	PERCENTAGE INTEREST HELD		COST OF PARENT ENTITY'S INTEREST	
		2005 %	2004 %	2005 A\$000	2004 A\$000
Paladin Energy Minerals NL <sup>f</sup>	Australia	100	100	-	-
Eden Creek Pty Ltd <sup>* f</sup>	Australia	100	100	1,700	1,700
Etron Properties Pty Ltd <sup>* f</sup>	Australia	100	100	261	261
Paladin (Africa) Ltd <sup>#</sup>	Malawi	100	100	-	-
Lahndrik Holdings SA <sup># 1</sup>	Luxembourg	100	100	-	-
Langer Heinrich Uranium (Pty) Ltd <sup>+</sup>	Namibia	100	100	-	-
Tarquin Investments (Pty) Ltd <sup>^ 2</sup>	Namibia	100	-	-	-
<b>Total investments in controlled entities</b>				<b>1,961</b>	<b>1,961</b>
Less provision for non-recovery of investments				<b>(1,473)</b>	<b>(1,409)</b>
<b>Net investments in controlled entities</b>				<b>488</b>	<b>552</b>

All investments comprise ordinary shares and all shares held are unquoted.

<sup>f</sup> Held by Paladin Resources Ltd

<sup>^</sup> Held by Langer Heinrich Uranium (Pty) Ltd

<sup>\*</sup> These entities are not required to prepare or lodge audited accounts

<sup>#</sup> Held by Paladin Energy Minerals NL

<sup>+</sup> Held by Lahndrik Holdings SA

<sup>1</sup> Not audited by Ernst & Young

<sup>2</sup> Acquired on 27 September 2004 for N\$900,000 (Namibian dollars) (A\$202,548). The only asset in this company is land and building in the form of an office and apartment with a fair value of A\$202,548 which equates to the cash consideration paid. No goodwill has arisen on acquisition of this entity.

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
<b>Outflow of cash to acquire controlled entities, net of cash acquired</b>				
Cash consideration	203			
Less: balances acquired				
Cash				
<b>Outflow of cash</b>	<b>203</b>			

**(b) Investments in Non Related Parties**

On 9 December 2004, the Consolidated Entity acquired an investment in Deep Yellow Ltd (Deep Yellow) as a result of the sale of non-core uranium properties. The Consolidated Entity holds 15,000,000 fully paid ordinary shares and 25,000,000 unlisted options exercisable at one cent on or before 31 December 2007. The holding of these fully paid ordinary shares represents less than 5% of the ordinary shares of Deep Yellow, an emerging uranium explorer. The quoted market value of the shares and options in Deep Yellow at 30 June 2005 is A\$2,430,000 based on a share price of 6.7 cents per share (2004: not applicable).

**(c) Convertible Note**

As a result of the Company's previous investment in the telecommunications business segment the Company retains a convertible note of A\$800,000 with Didasko Technologies Pty Ltd for a term of 4 years with a maturity date of 20 November 2006. The convertible note accrues interest at a rate of 5% per annum which is payable at maturity and the Company retains the right to convert the note into Didasko Ltd (100% holding company of Didasko Technologies Pty Ltd) shares.

During the year the Company made a provision for non-recovery of the convertible note and interest receivable of A\$894,438 as a result of Didasko Ltd and Didasko Technologies Pty Ltd entering into Deeds of Company Arrangements with their respective creditors. However, the Company will use all legal means available to seek full recovery of amounts owing from Didasko Technologies Pty Ltd.



# Notes to the Financial Report

for the year ended 30 June 2005

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
<b>12. NON CURRENT PROPERTY, PLANT AND EQUIPMENT</b>				
Plant and equipment - at cost	753	420	527	420
Less provision for depreciation	(480)	(394)	(410)	(394)
Total plant and equipment	273	26	117	26
Leasehold improvements - at cost	294	-	287	-
Less provision for depreciation	(14)	-	(14)	-
Total leasehold improvements	280	-	273	-
Technical database - at cost	262	262	-	-
Less provision for amortisation	(262)	(262)	-	-
Total technical database	-	-	-	-
Project generation database - at cost	579	579	-	-
Less provision for amortisation	(415)	(356)	-	-
Total project generation database	164	223	-	-
Land and buildings - at cost	203	-	-	-
Less provision for depreciation	(6)	-	-	-
Total land and buildings	197	-	-	-
Construction work in progress - at cost	354	-	-	-
Total non current property, plant and equipment	1,268	249	390	26

## 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 A\$000	Plant and Equipment A\$000	Database A\$000	Building A\$000	Leasehold Improvements A\$000	Construction Work in Progress A\$000
<b>Consolidated - 2005</b>						
Carrying amount at start of year	249	26	223	-	-	-
Additions	1,149	298	-	203	294	354
Depreciation and amortisation expense (Note 4)	(90)	(17)	(59)	-	(14)	-
Depreciation capitalised	(40)	(34)	-	(6)	-	-
Carrying amount at end of year	1,268	273	164	197	280	354
<b>Parent Entity - 2005</b>						
Carrying amount at start of year	26	26	-	-	-	-
Additions	396	309	-	-	287	-
Depreciation and amortisation expense (Note 4)	(32)	(18)	-	-	(14)	-
Carrying amount at end of year	390	117	-	-	273	-



### 13. NON CURRENT OTHER ASSETS – MINERAL PROPERTIES

Canadian GAAP and securities law requires the following disclosure for the Consolidated Entity's interests in mineral property tenements:

#### **Langer Heinrich Uranium Project (Namibia) – Paladin 100%**

The Langer Heinrich Uranium Project consists of one Mineral Deposit Retention Licence – MDRL 2236 – covering 4,375 hectares in the Namib Naukluft Desert 180km west of Windhoek, the capital of Namibia, and 80 kilometres east of the major seaport of Walvis Bay. The project was purchased from Acclaim Uranium NL (now Aztec Mining Ltd) in August 2002. The licence was granted on 16 August 1994 with the current term expiring on 15 August 2005. Rights conferred by the licence include the right to retain the retention area for future mining operations, carry on prospecting operations and remove minerals for any purpose other than sale or disposal. In April 2005 the Consolidated Entity applied for a mining licence covering the Langer Heinrich Uranium Project. Subsequent to year end on 26 July 2005 the Ministry of Mines and Energy in Namibia approved the granting of a Mining Licence for a 25 year term – refer Note 29(a). The Langer Heinrich Uranium Project is owned through a wholly owned Namibian entity, Langer Heinrich Uranium (Pty) Ltd.

#### **Kayelekera Uranium Project (Malawi) – Paladin 90%**

(Subsequent to 30 June 2005 – Paladin 100%, refer to Note 29(c))

The Kayelekera Uranium Project consists of one exclusive prospecting licence – EPL 070 – covering 15,700 hectares in northern Malawi 650 kilometres north of Lilongwe, the capital of Malawi, and 40 kilometres west of the provincial town of Karonga on the shore of Lake Malawi. The Consolidated Entity acquired its interest in the Kayelekera Uranium Project in February 1988 when it entered into a joint venture with Balmain Resources Pty Ltd, an unlisted company based in Perth Western Australia. At 30 June 2005 Balmain Resources Pty Ltd retained a 10% free-carried interest in the project until completion of a bankable feasibility study. Rights conferred by the licence include the exclusive right to carry on prospecting operations for uranium and associated minerals. EPL 070 was granted on 26 January 1998 with the current term expiring on 25 July 2005 and on 7 July 2005, the licence was renewed for a further two years to 25 July 2007. On 6 July 2005, agreement was reached whereby the Consolidated Entity will acquire the 10% interest of Balmain Resources Pty Ltd – refer Note 29(b). The Kayelekera Uranium Project is held through a wholly owned Malawian entity, Paladin (Africa) Limited.

#### **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, 1,100 kilometres north of Perth, the State Capital and 90 kilometres south of the township of Onslow on the North West coast. The Consolidated Entity 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\$750,000 is payable to AFMEX when all development approvals have been obtained. Royalties of 2.5% for the first 2,000 tonnes of uranium oxide and 1.5% for the following 2,000 tonnes 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 May 18, 1999 for a 21-year term renewable for a further term or terms of 21 years. 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.

#### **Oobagooma Uranium Project (Australia) – Paladin 100%**

The Oobagooma Uranium Project consists of four applications for exploration licences covering 45,200 hectares in the West Kimberley region of northern Western Australia, 1,900 kilometres north-north-east of Perth, the State Capital and 70 kilometres north east of the regional town of Derby. The four applications for exploration licences are 04/145 and 04/146 lodged on December 28, 1983 and 04/776 and 04/777 lodged on November 28, 1991 which largely overlap the earlier applications. The Consolidated Entity purchased the Oobagooma Project in 1998 from AFMEX. Under the terms of the purchase agreement a final payment of A\$750,000 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.

#### **Other mineral property interests**

The Consolidated Entity 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 schedules of information.

# Notes to the Financial Report

for the year ended 30 June 2005

## 13. NON CURRENT OTHER ASSETS – MINERAL PROPERTIES (continued)

### Environmental contingency

The Consolidated Entity's exploration activities are subject to various 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 Consolidated Entity 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.

The following table summarises the Consolidated Entity's interest in mineral properties as at 30 June 2005:

Areas of Interest	Acquisition A\$000	Expenditure A\$000	Carrying value A\$000
Langer Heinrich Uranium Project	15	5,031	5,046
Kayelekera Uranium Project	171	1,603	1,774
Manyingee Uranium Project	1,157	646	1,803
Oobagooma Uranium Project	174	20	194
Other Projects	-	184	184
Balance 30 June 2005	1,517	7,484	9,001

The following table summarises the Consolidated Entity's interest in mineral properties as at 30 June 2004:

Areas of Interest	Acquisition A\$000	Expenditure A\$000	Carrying value A\$000
Langer Heinrich Uranium Project	15	753	768
Kayelekera Uranium Project	171	791	962
Manyingee Uranium Project	1,157	607	1,764
Oobagooma Uranium Project	174	19	193
Other Projects	-	128	128
Balance 30 June 2004	1,517	2,298	3,815

The following table details the consolidated expenditures (parent entity expenditures \$Nil) on interests in mineral properties by area of interest for the year ended 30 June 2005:

Area of Interest	Langer Heinrich Project A\$000	Kayelekera Project A\$000	Manyinge Project A\$000	Oobagooma Project A\$000	Other Projects A\$000	Total Projects A\$000
Balance 30 June 2004	768	962	1,764	193	128	3,815
<b>Acquisition</b>						
Property payments	-	-	-	-	-	-
Total Acquisition	-	-	-	-	-	-
<b>Project evaluation and development expenditure</b>						
Interest received	(5)	-	-	-	-	(5)
Joint venture contributions	-	-	-	-	(9)	(9)
Tenement costs	6	-	30	-	20	56
Labour	431	201	2	-	38	672
Consultants and contractors	202	19	-	-	37	258
Materials and utilities	47	34	-	-	4	85
Transportation and communications	293	149	-	-	19	461
Outside services	2,661	157	-	-	2	2,820
Legal and accounting	109	21	-	-	5	135
Insurance	31	5	-	-	2	38
Camp expenses	50	32	-	-	3	85
Overheads	228	136	5	-	19	388
Other	225	58	2	1	12	298
Total expenditure	4,278	812	39	1	152	5,282
Write off of expenditure (Note 4)	-	-	-	-	(72)	(72)
Cost of tenements sold	-	-	-	-	(24)	(24)
Balance 30 June 2005	5,046	1,774	1,803	194	184	9,001

# Notes to the Financial Report

for the year ended 30 June 2005

## 13. NON CURRENT OTHER ASSETS – MINERAL PROPERTIES (continued)

The following table details the consolidated expenditures (parent entity \$Nil) on interests in mineral properties by area of interest for the year ended 30 June 2004:

Areas of Interest	Langer Heinrich Project A\$000	Kayelekera Project A\$000	Manyingee Project A\$000	Oobagooma Project A\$000	Other Projects A\$000	Total Projects A\$000
Balance 30 June 2003	257	890	1,714	191	114	3,166
<b>Acquisition</b>						
Property payments	-	-	-	-	-	-
Total Acquisition	-	-	-	-	-	-
<b>Project evaluation and development expenditure</b>						
Joint venture contributions	-	-	-	-	(17)	(17)
Tenement costs	(17)	-	42	-	2	27
Labour	189	28	1	-	10	228
Consultants and contractors	79	1	1	-	6	87
Materials and utilities	3	-	-	-	-	3
Transportation and communications	58	5	-	-	2	65
Outside services	4	-	-	-	-	4
Legal and accounting	44	-	-	-	1	45
Insurance	7	2	-	-	2	11
Camp expenses	15	1	-	-	1	17
Overheads	85	14	4	-	7	110
Other	44	21	2	2	-	69
Total Expenditure	511	72	50	2	14	649
Write off of expenditure	-	-	-	-	-	-
Balance 30 June 2004	768	962	1,764	193	128	3,815

## 14. CURRENT PAYABLES

	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
Trade creditors and accruals	660	554	524	528
Lease incentive	67	-	67	-
Total current payables	727	554	591	528

## 15. CURRENT PROVISIONS

	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
Employee benefits (Note 26)	65	33	65	33

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
<b>16. CURRENT INTEREST BEARING LIABILITIES</b>				
Bank loans – secured (a)	-	733	-	-
Bank loans – unsecured (b)	533	-	533	-
<b>Total current interest bearing liabilities</b>	<b>533</b>	<b>733</b>	<b>533</b>	<b>-</b>

(a) The bank loans used to finance the purchase of 5-7 Belmont Avenue, Belmont were classified as current liabilities at 30 June 2004 in light of active negotiations to sell the property and then repay the bank loans. On 24 June 2005 the sale of the property was finalised for A\$1,200,000, and the bank loans repaid prior to 30 June 2005. The bank loans referred to above of the Consolidated Entity were secured by a first mortgage over the Consolidated Entity's freehold land and buildings, being charged interest at the rate of 8.16% on A\$260,000 and 8.16% on A\$472,500 (2004: 7.7% on A\$260,000 and 8.05% on A\$472,500).

(b) The bank loans from Société Générale Australia Branch are unsecured; however, a negative pledge exists that imposes certain covenants on the Consolidated Entity. The negative pledge states that subject to certain conditions, the Consolidated Entity will not provide any security over its assets, will not incur indebtedness other than agreed, will not dispose of an interest in any of its assets, undertaking or property and will not provide indebtedness guarantee to or on behalf of any entity or person except in certain agreed circumstances. The bank loans bear interest at the bank bill standard yield plus 3%. At 30 June 2005 A\$500,000 plus interest has been drawn of the total facility of A\$2,000,000. Refer Note 29 (f) for details of draw down under the facility after 30 June 2005.

**Assets pledged as security**

The carrying amounts of non current assets pledged as security are:

**First mortgage**

Freehold land and buildings 1,114

**17. NON CURRENT PAYABLES**

Unsecured loans from wholly owned group - (a)

334

(a) The unsecured loans from wholly owned group are interest free and have no fixed terms of repayment.

# Notes to the Financial Report

for the year ended 30 June 2005

## 18. CONTRIBUTED EQUITY

### (a) Issued and paid up capital

	NUMBER OF SHARES	CONSOLIDATED PARENT ENTITY	
		2005 A\$000	2004 A\$000
Ordinary shares fully paid	400,885,713	333,685,713	65,950
			24,265

### (b) Movements in ordinary share capital

(b) Movements in ordinary share capital		NUMBER OF SHARES	Issue Price Cents	Total A\$000
Date	Balance 30 June 2003	265,585,713		19,470
August 2003	Placement	5,000,000	1¢	50
September 2003	Issue in lieu of fees	3,000,000	1¢	30
October 2003	Placement	6,350,000	2.1¢	133
October 2003	Issue in lieu of fees	1,000,000	2.58¢	26
February 2004	Placement	10,000,000	5.25¢	525
February 2004	Option conversions	4,500,000	1.1¢	50
February 2004	Placement	6,250,000	8¢	500
May 2004	Placement	32,000,000	11¢	3,520
	Less: Transaction costs arising on share issues			(39)
	Balance 30 June 2004	333,685,713		24,265

		NUMBER OF SHARES	Issue Price	Total
		Cents	A\$000	
August 2004	Options conversions	4,200,000	1.2¢	50
August 2004	Options conversions	3,800,000	1.3¢	49
September 2004	Placement	7,500,000	40¢	3,000
December 2004	Options conversions	4,700,000	15¢	705
December 2004	Options conversions	10,000,000	5.5¢	550
December 2004	Transfer from reserves refer Note 19(b)		-	321
March 2005	Options conversions	1,000,000	22¢	220
April 2005	Placement	36,000,000	A\$1.05	37,800
	Less: Transaction costs arising on share issues			(1,010)
	Balance 30 June 2005	400,885,713		65,950

		NUMBER OF OPTIONS	
		2005	2004
<b>(c) Issued Options</b>			
<b>Unlisted Options</b>			
<b>(i) Exercisable at 1.1 cents, on or before 31 March 2004</b>			
Balance at 1 July	-	-	-
Issued during year	-	-	4,500,000
Exercised during year	-	-	(4,500,000)
Balance at 30 June	-	-	-
The options were exercised in February 2004 raising A\$49,500 in contributed equity and at the time of exercise the shares had a market value of A\$400,500.			
<b>(ii) Exercisable at 1.2 cents, on or before 31 December 2004</b>			
Balance at 1 July	4,200,000	-	-
Issued during year	-	-	4,200,000
Exercised during year	(4,200,000)	-	-
Balance at 30 June	-	-	4,200,000
The options were exercised in August 2004 raising A\$50,400 in contributed equity and at the time of exercise the shares had a market value of A\$651,000.			
<b>(iii) Exercisable at 1.3 cents, on or before 30 November 2005</b>			
Balance at 1 July	3,800,000	-	-
Issued during year	-	-	3,800,000
Exercised during year	(3,800,000)	-	-
Balance at 30 June	-	-	3,800,000
The options were exercised in August 2004 raising A\$49,400 in contributed equity and at the time of exercise the shares had a market value of A\$570,000.			
<b>(iv) Exercisable at 5.5 cents, on or before 30 September 2007</b>			
Balance at 1 July	-	-	-
Issued during year	10,000,000	-	-
Exercised during year	(10,000,000)	-	-
Balance at 30 June	-	-	-

These options were issued to Société Générale Australia Branch as part of the establishment of a A\$2,000,000 loan facility on 30 September 2004, refer Note 19(b). The options were exercised in December 2004 raising A\$550,000 in contributed equity and at the time of exercise the shares had a market value of A\$4,850,000.

#### Unlisted Options – Directors, Employees and Consultants

On 23 March 2004 the Directors approved the Employee Share Incentive Option Plan for which up to ten percent of the ordinary shares on issue can be on offer at any one time to Directors, employees and consultants directly engaged in corporate, project development, exploration and evaluation work for the Company. The maximum term of the options is 5 years, with the vesting requirements and exercise price of the options determined by the Directors at the time of grant. The options are convertible into fully paid ordinary shares of the Company on a one for one basis and may not be exercised within 12 months of their date of grant, except in the case of a takeover bid or a scheme of arrangement or if otherwise approved by shareholders. Options are granted at no cost under the plan and carry no dividend or voting rights.



# Notes to the Financial Report

for the year ended 30 June 2005

## 18. CONTRIBUTED EQUITY (continued)

### (c) Issued Options (continued)

	Number of Options	
	2005	2004
<b>Unlisted Options – Directors, Employees and Consultants (continued)</b>		
<b>(v) Exercisable at 15 cents, on or before 30 November 2004 (granted 20 June 2002)</b>		
<b>(No vesting requirements)</b>		
Balance at 1 July	4,700,000	4,700,000
Exercised during year	(4,700,000)	-
Balance at 30 June	-	4,700,000
The options were exercised in December 2004 raising A\$705,000 in contributed equity and at the time of exercise the shares had a market value of A\$2,279,500		
<b>(vi) Exercisable at 22 cents, on or before 26 May 2006</b>		
<b>(granted 28 May 2004 to 30 June 2004)</b>		
<b>(No vesting requirements)</b>		
Balance at 1 July	12,000,000	-
Issued during year	-	12,000,000
Exercised during year	(1,000,000)	-
Balance at 30 June	11,000,000	12,000,000
The options were exercised in March 2005 raising A\$220,000 in contributed equity and at the time of exercise the shares had a market value of A\$1,160,000		
<b>(vii) Exercisable at 32 cents, on or before 25 May 2006</b>		
<b>(granted 28 May 2004 to 30 June 2004)</b>		
<b>(No vesting requirements)</b>		
Balance at 1 July	3,000,000	-
Issued during year	-	3,000,000
Balance at 30 June	3,000,000	3,000,000
<b>(viii) Exercisable at \$1.00, on or before 30 November 2007</b>		
<b>(granted 30 November 2004)</b>		
<b>(Vest on positive outcome for Langer Heinrich Uranium Project bankable feasibility study together with completion of acceptable project funding)</b>		
Balance at 1 July	-	-
Issued during year	8,050,000	-
Balance at 30 June	8,050,000	-
<b>(ix) Exercisable at \$1.00, on or before 20 December 2007 (granted 20 December 2004)</b>		
<b>(Vest on positive outcome for Langer Heinrich Uranium Project bankable feasibility study together with completion of acceptable project funding)</b>		
Balance at 1 July	-	-
Issued during year	10,250,000	-
Balance at 30 June	10,250,000	-
<b>(x) Exercisable at \$1.25, on or before 30 November 2007 (granted 30 November 2004)</b>		
<b>(Vest on positive outcome for Langer Heinrich Uranium Project bankable feasibility study together with completion of acceptable project funding)</b>		
Balance at 1 July	-	-
Issued during year	1,300,000	-
Balance at 30 June	1,300,000	-



	Number of Options	
	2005	2004
<b>Listed Options</b>		
(a) Exercisable at 10 cents, on or before 21 January 2004		
Balance at 1 July	-	63,000,000
Expired during year	-	(63,000,000)
Balance at 30 June	-	-

**(d) Ordinary Shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000

## 19. RESERVES

Listed option application reserve - (a)	174	174	174	174
Option premium reserve - (b)				
<b>Total reserves</b>	<b>174</b>	<b>174</b>	<b>174</b>	<b>174</b>

(a) No movement for the years ended 30 June 2005 or 30 June 2004. The Listed Option Application 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.

(b) Increase of A\$321,000 for the year ending 30 June 2005 (2004 not applicable). The Option Premium Reserve arose from granting of 10,000,000 unlisted options exercisable at 5.5 cents on or before 30 September 2007 to Société Générale Australia Branch as part of the establishment of a A\$2,000,000 loan facility on 30 September 2004. These unlisted options have been fair valued using the Cox, Ross and Rubinstein Binomial Tree Model at the date the Company obtained commitment for the loan facility. As the options were exercised in December 2004 the amount of A\$321,000 in Option Premium Reserve has been transferred to contributed equity.

## 20. ACCUMULATED LOSSES

Accumulated losses at beginning of financial year	(15,029)	(15,219)	(14,974)	(14,564)
Net profit/(loss) attributable to members of Paladin Resources Ltd	(1,384)	190	(2,140)	(410)
<b>Accumulated losses at the end of the financial year</b>	<b>(16,413)</b>	<b>(15,029)</b>	<b>(17,114)</b>	<b>(14,974)</b>

## 21. TOTAL EQUITY

Total equity at beginning of financial year	9,410	4,425	9,465	5,080
Total changes in equity recognised in the Statements of Financial Performance	(2,394)	151	(3,150)	(449)
Transactions with owners as owners:				
Contributions of equity	42,695	4,834	42,695	4,834
<b>Total equity at the end of the financial year</b>	<b>49,711</b>	<b>9,410</b>	<b>49,010</b>	<b>9,465</b>

# Notes to the Financial Report

for the year ended 30 June 2005

## 22. FINANCIAL INSTRUMENTS

### (a) Credit Risk Exposure

The credit risk on financial assets of the Consolidated Entity which have been recognised on the Statements of Financial Position, other than investments in shares, equates to the carrying amount, net of any provisions for doubtful debts or non-recovery.

The Consolidated Entity has a concentration of credit risk with Didasko Technologies Pty Ltd at 30 June 2004. At 30 June 2005 the Company has made full provision for non-recovery of the convertible note and interest receivable, refer Note 11(c).

### (b) Interest Rate Risk Exposure

The Consolidated Entity's exposure to interest rate risk is limited to the floating market rate for cash and both secured and unsecured bank loans. The convertible note financial asset bears interest at a fixed rate of 5%, matures on 20 November 2006 and as a result does not provide exposure to interest risk as the Company intends to hold the note until maturity. All other financial assets and liabilities, in the form of receivables, investments in shares, payables and provisions, are non-interest bearing. The weighted average interest rate on cash, convertible note and both secured and unsecured bank loans is 5.6% (2004: 4%), 5% (2004: 5%) and 8.9% (2004: 8%) respectively.

### (c) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash, convertible note, both secured and unsecured bank loans and non-interest bearing financial assets and financial liabilities of the Consolidated Entity equates to their carrying amount, net of any provision for doubtful debts or non-recovery. The net fair value of investments in shares exceeds carrying amount and the net fair value is disclosed in Note 11(b).

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risks profiles.

The net fair value of equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date. For non-traded equity investments, the net fair value is an assessment by circumstances pertaining to a particular investment.

## 23. DIRECTORS' AND EXECUTIVES' DISCLOSURE

The Company has applied the exemption under Corporations Amendments Regulation 2005 which exempts listed companies from providing remuneration disclosures in relation to Directors and specified Executives in the Financial Report by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Details of Remuneration and are designated as audited.

### Shareholdings of Directors and Specified Executives

	Balance 1 July 2004	Net Change	Balance 30 June 2005
Mr Rick Crabb	5,464,746	1,000,000	6,464,746
Mr John Borshoff	13,091,394	1,500,000	14,591,394
Mr Sean Llewelyn	-	-	-
Mr George Pirie	-	-	-
Mr Ian Noble	-	-	-
Mr Michael Blakiston <sup>(1)</sup>	-	-	-
Dr Leon Pretorius <sup>(2)</sup>	8,550,000	(8,550,000)	-
Mr Cliff Davis <sup>(3)</sup>	-	-	-
Mr Garnet Halliday	-	-	-
Ms Gillian Swaby	5,595,515	1,004,485	6,600,000
Mr Ron Chamberlain	-	-	-

(1) Mr Michael Blakiston's appointment as Alternate Director ceased on 20 December 2004.

(2) Dr Leon Pretorius resigned from the Board on 12 April 2005 and as such is no longer required to be disclosed in the above table and this fact has been reflected in the net change column.

(3) Mr Cliff Davis resigned from the Board on 31 May 2005.

# Option Holdings of Directors

	Balance 1 July 2004	Options Granted	Options Exercised	Balance 30 June 2005	Vested and exercisable at 30 June 2005
<b>Mr Rick Crabb</b>					
A\$0.15*	1,000,000	-	(1,000,000)	-	-
A\$0.22**	2,250,000	-	-	2,250,000	2,250,000
A\$0.32***	750,000	-	-	750,000	750,000
A\$1.00****	-	3,250,000	-	3,250,000	-
<b>Total</b>	<b>4,000,000</b>	<b>3,250,000</b>	<b>(1,000,000)</b>	<b>6,250,000</b>	<b>3,000,000</b>
<b>Mr John Borshoff</b>					
A\$0.15*	1,500,000	-	(1,500,000)	-	-
A\$0.22**	2,500,000	-	-	2,500,000	2,500,000
A\$0.32***	1,000,000	-	-	1,000,000	1,000,000
A\$1.00****	-	3,750,000	-	3,750,000	-
<b>Total</b>	<b>5,000,000</b>	<b>3,750,000</b>	<b>(1,500,000)</b>	<b>7,250,000</b>	<b>3,500,000</b>
<b>Dr Leon Pretorius <sup>(1)</sup></b>					
A\$0.22**	2,250,000	-	-	2,250,000	2,250,000
A\$0.32***	750,000	-	-	750,000	750,000
A\$1.00****	-	3,250,000	-	3,250,000	-
<b>Total</b>	<b>3,000,000</b>	<b>3,250,000</b>	<b>-</b>	<b>6,250,000</b>	<b>3,000,000</b>

(1) Dr Leon Pretorius resigned from the Board on 12 April 2005.

\* Unlisted and exercisable at A\$0.15 on or before 30 November 2004

\*\* Unlisted and exercisable at A\$0.22 on or before 26 May 2006

\*\*\* Unlisted and exercisable at A\$0.32 on or before 26 May 2006

\*\*\*\* Unlisted and exercisable at A\$1.00 on or before 20 December 2007

Messrs Sean Llewelyn, George Pirie, Ian Noble, Michael Blakiston and Cliff Davis have not been granted options and therefore do not hold any options at 30 June 2005. Mr Michael Blakiston's appointment as Alternate Director ceased on 20 December 2004. Mr Cliff Davis resigned from the Board on 31 May 2005.

## Option Holdings of Specified Executives

	Balance 1 July 2004	Options Granted	Options Exercised	Balance 30 June 2005	Vested and exercisable at 30 June 2005
<b>Mr Garnet Halliday</b>					
A\$1.00****	-	2,000,000	-	2,000,000	-
A\$1.25*****	-	1,000,000	-	1,000,000	-
<b>Total</b>	<b>-</b>	<b>3,000,000</b>	<b>-</b>	<b>3,000,000</b>	<b>-</b>
<b>Ms Gillian Swaby</b>					
A\$0.15*	1,200,000	-	(1,200,000)	-	-
A\$0.22**	2,000,000	-	-	2,000,000	2,000,000
A\$0.32***	500,000	-	-	500,000	500,000
A\$1.00****	-	2,750,000	-	2,750,000	-
<b>Total</b>	<b>3,700,000</b>	<b>2,750,000</b>	<b>(1,200,000)</b>	<b>5,250,000</b>	<b>2,500,000</b>
<b>Mr Ron Chamberlain</b>					
A\$1.00****	-	500,000	-	500,000	-
A\$1.25*****	-	300,000	-	300,000	-
<b>Total</b>	<b>-</b>	<b>800,000</b>	<b>-</b>	<b>800,000</b>	<b>-</b>

\* Unlisted and exercisable at A\$0.15 on or before 30 November 2004

\*\* Unlisted and exercisable at A\$0.22 on or before 26 May 2006

\*\*\* Unlisted and exercisable at A\$0.32 on or before 26 May 2006

\*\*\*\* Unlisted and exercisable at A\$1.00 on or before 30 November 2007

\*\*\*\*\* Unlisted and exercisable at A\$1.25 on or before 30 November 2007

# Notes to the Financial Report

for the year ended 30 June 2005

## 24. AUDITORS' REMUNERATION

Ernst & Young were appointed auditors for the Company on 21 June 2005, which is subject to approval by shareholders at the 2005 Annual General Meeting. RSM Bld Cameron were the previous auditors for the Company and resigned effective 21 June 2005 as the Canadian member firm of RSM International was unable to provide the professional services required.

During the year the following services were paid to the auditor of the Company, its related practices and non-related audit firms:

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
(a) Audit services				
Auditors of the Company				
Ernst & Young	37,923	-	37,923	-
RSM International	29,610	14,650	29,610	14,650
Other auditors of the Consolidated Entity				
Audit and review of financial reports	3,166	5,538	-	-
Total audit services	70,699	20,188	67,533	14,650
(b) Non audit services				
Auditors of the Company				
Taxation services	2,650	7,090	2,650	7,090
Other auditors of the Consolidated Entity				
Taxation services	5,846	-	-	-
Total non audit services	8,496	7,090	2,650	7,090

## 25. COMMITMENTS AND CONTINGENT LIABILITIES

There were no outstanding commitments or contingent liabilities, which are not disclosed in the financial report of the Consolidated Entity and the Company as at 30 June 2005 other than:

### (a) Exploration Tenements

Commitments for the exploration tenements of contracted for at the reporting date but not recognised as liabilities, payable:

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
Within one year	1,776	-	-	-
Later than one year but not later than 5 years	1,300	-	-	-
Total exploration tenements commitment	3,076	-	-	-

These include commitments relating to tenement lease rentals and, the minimum expenditure requirements of the Namibian, Malawi, Western Australian, and South Australian 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 Consolidated Entity 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 and Australia.

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
(b) <b>Operating Leases</b>				
Commitments for minimum lease payments in relation to non-cancellable operating leases relating to rental of offices are payable as follows:				
Within one year	143	-	100	-
Later than one year but not later than 5 years	542	-	511	-
Total operating lease commitment	685	-	611	-

(c) **Acquisition Costs**

The Consolidated Entity 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 Department of Minerals & Energy granting tenements comprising 2 exploration licence applications. The A\$750,000 is payable by the Consolidated Entity 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.

In relation to the Manyingee Uranium Project, the re-negotiated acquisition terms provide for a payment of A\$750,000 by the Consolidated Entity to the vendors when all project development approvals are further obtained.

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000

## 26. EMPLOYEE BENEFITS

**Provision for Annual Leave and Long Service Leave**

Aggregate employment benefit liability	65	33	65	33
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**Employee numbers**

	Number	Number
Average number of employees during the financial year	14	4

**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 18(c).

## 27. RELATED PARTIES

**Directors and Specified Executives**

Disclosures relating to Directors and Specified Executives are set out in the Directors' Report under the section entitled Remuneration Report and in Note 23.

**Wholly Owned Group**

The wholly owned group consists of the Company and its wholly owned controlled entities set out in Note 11(a).

Transactions between the Company and other entities in the wholly owned group during the years ended 30 June 2005 and 2004 consisted of:

- (a) loans advanced by the Company (Note 10);
- (b) loans advanced to the Company (Note 17); and
- (c) the payment of interest on the loans to Langer Heinrich Uranium (Pty) Ltd (Note 10(a))

**Controlled Entities**

The ultimate parent entity in the wholly owned group is Paladin Resources Ltd.

# Notes to the Financial Report

for the year ended 30 June 2005

## 28. INTERESTS IN JOINT VENTURES

### (a) Kayelekera Uranium Project – Malawi

A controlled entity (Paladin (Africa) Ltd) has entered into a joint venture operation for the Kayelekera Uranium Project to develop exclusive prospecting licence – EPL 070 – located in Malawi. The controlled entity has a 90% participating interest in this joint venture with Balmain Resources Pty Ltd retaining a 10% free carried interest in the project until completion of a bankable feasibility study. The Consolidated Entity's interests in the assets employed in this joint venture are included in the Statements of Financial Position, in accordance with the accounting policy described in Note 1(c) under the following classifications:

	CONSOLIDATED		PARENT ENTITY	
	2005 A\$000	2004 A\$000	2005 A\$000	2004 A\$000
Non current assets:				
Other – mineral properties	1,774	962	-	-
Share of assets employed in joint venture	1,774	962	-	-

For exploration tenement commitments relating to the Kayelekera Uranium Project refer to Note 25(a).

The Consolidated Entity has increased its ownership in the Kayelekera Uranium Project to 100% after 30 June 2005 – refer Note 29(b).

- (b) The Consolidated Entity also has a number of interests in joint ventures to explore for uranium and other minerals. The Consolidated Entity's share of expenditure in respect of these exploration activities is capitalised in accordance with the accounting policy stated in Note 1(c) and no revenue is generated. The Consolidated Entity's share of the assets and liabilities in respect of these joint ventures is not material.

## 29. EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen since the end of the financial year any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect substantially the operations of the Consolidated Entity in subsequent financial years with the exception of the following the financial effects of which have not been provided for in the 30 June 2005 Financial Report:

### (a) Langer Heinrich Uranium Project, Namibia – Mining Licence Approval Granted

On 27 July 2005, the Company announced that the Minister of Mines in Namibia approved the granting of a 25 year Mining Licence to Langer Heinrich Uranium (Pty) Ltd, wholly owned by the Company, allowing full scale development of the mining operation to proceed. During the Mining Licence approval process a significant amount of preparatory work has been carried out, including negotiations with construction engineers, water and power utilities, identification and ordering of long lead time equipment items, establishment of office facilities in Swakopmund, and identification of key development personnel.

### (b) Langer Heinrich Uranium Project, Namibia – Bank Approval for Project Finance

On 29 August 2005, the Company announced that it had accepted credit committee approved offers of financing totalling US\$71,000,000 for the Langer Heinrich Uranium Project in Namibia. The financing is being provided by Société Générale Australia Branch (as lead arranger), Nedbank Ltd and Standard Bank of South Africa Ltd and consists of a 7 year Project Finance Facility of US\$65,000,000 and a Standby Cost Overrun Facility of US\$6,000,000. Draw down of the financing is subject to completion of legal due diligence and documentation, and fulfilment of other conditions precedent usual for this type of funding.

### (c) Kayelekera Uranium Project, Malawi – Purchase 10% interest

On 6 July 2005, the Company announced the purchase of the remaining 10% joint venture interest in the Kayelekera Uranium Project in Malawi. The consideration of A\$5,372,250 will be satisfied by the issue by the Company of 4,350,000 ordinary fully paid shares at an issue price of A\$1.235 per share. The purchase is conditional upon the joint venture partner entering into a private escrow agreement in dealing with the 4,350,000 shares in the Company.

### (d) Sale of Non-Core South Australian Uranium Property Database

On 18 July 2005, the Company announced the sale of a non-core uranium exploration property in the Frome Basin in South Australia together with the licence for a comprehensive regional database to Deep Yellow Ltd (Deep Yellow). The consideration received comprises 7,500,000 fully paid ordinary shares in Deep Yellow and 12,500,000 unlisted Deep Yellow options exercisable at 12 cents on or before 15 July 2008.



(e) **Allotment of Shares and Issue of Employee Options**

On 15 July 2005, the Company announced the allotment of 150,000 fully paid ordinary shares after exercise of employee options, and the granting of 250,000 unlisted employee options exercisable at A\$1.50 on or before 15 July 2008. On 5 August 2005, the Company announced the allotment of 350,000 fully paid ordinary shares after exercise of employee options.

(f) **Langer Heinrich Uranium Project, Namibia – Bank Guarantee**

On 26 July 2005, the Company issued a N\$5,000,000 (Namibian dollars) (A\$998,279) bank guarantee as part of the mine construction activities, on behalf of Langer Heinrich Uranium (Pty) Ltd, wholly owned by the Company. The guarantee was issued from the loan facility established with Société Générale Australia Branch on 30 September 2004, leaving the Company with a current approximate available facility for draw down of A\$500,000.

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
	A\$000	A\$000	A\$000	A\$000
<b>30. RECONCILIATION OF OPERATING PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>				
Operating profit/(loss) after income tax	(1,384)	190	(2,140)	(410)
<b>Non cash items:</b>				
Depreciation and amortisation	109	92	32	5
Exploration expenditure written off	72	-	-	-
Provision for non-recovery of intercompany loan	-	-	327	3
Provision for non-recovery of intercompany investments	-	-	64	65
Write back of provision for non-recovery of convertible note	894	-	894	-
(Profit)/loss on sale of investments	-	(538)	-	51
Profit on sale of tenements	(786)	-	-	-
Profit on sale of land and buildings	(105)	-	-	-
Bad debts written off	5	-	-	-
Provision for doubtful debts	17	-	-	-
Grant of options on establishment of loan facility	321	-	321	-
<b>Change in operating assets and liabilities:</b>				
Increase/(decrease) in operating assets	(488)	6	(797)	82
Decrease in operating liabilities	64	151	124	93
<b>Net cash outflow from operating activities</b>	<b>(1,281)</b>	<b>(99)</b>	<b>(1,175)</b>	<b>(111)</b>

**31. NON CASH FINANCING AND INVESTMENT ACTIVITIES**

(a) **Non Cash Financing and Investment Activities**

Issue of shares in lieu of technical consulting fees

Options granted to Société Générale Australia Branch on establishment of loan facility

(b) **Unused Loan Facilities**

On 30 September 2004 a A\$2,000,000 loan facility was established with Société Générale Australia Branch to assist with funding the bankable feasibility study of the Langer Heinrich Uranium Project. At 30 June 2005, A\$500,000 plus capitalised interest has been drawn down in relation to this facility – refer Note 16(b).

# Notes to the Financial Report

for the year ended 30 June 2005

	CONSOLIDATED	
	2005	2004
	A\$000	A\$000
<b>32. EARNINGS PER SHARE</b>		
(a) Basic and Diluted Profit/(Loss) Per Share	(0.38)	0.07
	Number	Number
Weighted average number of ordinary shares on issue during the year used as the denominator in calculating basic earnings per share	363,040,234	288,130,097
	A\$000	A\$000
Earnings used in calculating basic and diluted earnings per share	(1,384)	190

(b) Diluted Earnings Per Share

Diluted earnings per share is the same as basic earnings per share in 2005 as the Consolidated Entity is a loss position, and diluted earnings per share is the same in 2004 as there are no potential ordinary shares that are dilutive.

## 33. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the Consolidated Entity's financial statements for the first quarter ended 30 September 2005, half year ended 31 December 2005, third quarter ended 31 March 2006 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made retrospectively against opening retained earnings as at 1 July 2004.

The Company's management has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the Consolidated Entity.

The known or reliably estimated impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are shown for each line item in the Statements of Financial Performance and Statements of Financial Position, with descriptions of the differences. No material impacts are expected in relation to the Statements of Cash Flows.

The figures disclosed in this note are based on the Company management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 Financial Report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to:

- (1) Ongoing work being undertaken by the AIFRS project teams;
- (2) Potential amendments to AIFRS and Interpretations thereof being issued by the standard setters and IFRIC; and
- (3) Emerging accepted practice in the interpretation and application of AIFRS and Urgent Issues Group interpretations.



(a) Impact on the Statements of Financial Performance for the year ended 30 June 2005

	NOTES	CONSOLIDATED EXISTING GAAP A\$000	EFFECT OF CHANGE A\$000	AIFRS A\$000	EXISTING GAAP A\$000	PARENT ENTITY EFFECT OF CHANGE A\$000	AIFRS A\$000
Revenue from ordinary activities	iv/v	2,975	(2,010)	965	1,165	-	1,165
Other income	iii/iv/v	-	872	872	-	-	-
Borrowing costs		(412)	-	(412)	(354)	-	(354)
Depreciation and amortisation	iii	(109)	19	(90)	(32)	-	(32)
Provision for doubtful debts		(17)	-	(17)	-	-	-
Exploration costs written off		(72)	-	(72)	-	-	-
General and administration	i	(1,736)	(2,969)	(4,705)	(1,698)	(2,969)	(4,667)
Write down of convertible note		(894)	-	(894)	(894)	-	(894)
Write down of intercompany loan		-	-	-	(327)	-	(327)
Cost of land and buildings sold	iv	(1,095)	1,095	-	-	-	-
Costs of tenements sold	v	(24)	24	-	-	-	-
Expenses from ordinary activities		(4,359)	(1,831)	(6,190)	(3,305)	(2,969)	(6,274)
Loss from ordinary activities before income tax		(1,384)	(2,969)	(4,353)	(2,140)	(2,969)	(5,109)
Income tax expense		-	-	-	-	-	-
Loss from ordinary activities after income tax		(1,384)	(2,969)	(4,353)	(2,140)	(2,969)	(5,109)
Share issue costs		(1,010)	-	(1,010)	(1,010)	-	(1,010)
Total revenues, expenses and valuation adjustments attributable to members of Paladin Resources Ltd and recognised directly in equity		(1,010)	-	(1,010)	(1,010)	-	(1,010)
Total changes in equity other than those resulting from transactions with owners as owners		(2,394)	(2,969)	(5,363)	(3,150)	(2,969)	(6,119)
		Cents	Cents	Cents			
Basic and diluted earnings per share		(0.38)	(0.82)	(1.20)			

# Notes to the Financial Report

for the year ended 30 June 2005

## 33. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

### (b) Impact on the Statements of Financial Position as at 30 June 2005

	NOTES	CONSOLIDATED EXISTING GAAP A\$000	EFFECT OF CHANGE A\$000	AIFRS A\$000	EXISTING GAAP A\$000	PARENT ENTITY EFFECT OF CHANGE A\$000	AIFRS A\$000
<b>Current assets</b>							
Cash		39,489	-	39,489	39,000	-	39,000
Receivables	i	568	1,806	2,374	472	1,806	2,278
<b>Total current assets</b>		<b>40,057</b>	<b>1,806</b>	<b>41,863</b>	<b>39,472</b>	<b>1,806</b>	<b>41,278</b>
<b>Non current assets</b>							
Receivables		-	-	-	10,183	-	10,183
Other financial assets	ii	710	1,720	2,430	488	-	488
Property, plant and equipment		1,268	-	1,268	390	-	390
Other - mineral properties		9,001	-	9,001	-	-	-
<b>Total non current assets</b>		<b>10,979</b>	<b>1,720</b>	<b>12,699</b>	<b>11,061</b>	<b>-</b>	<b>11,061</b>
<b>Total assets</b>		<b>51,036</b>	<b>3,526</b>	<b>54,562</b>	<b>50,533</b>	<b>1,806</b>	<b>52,339</b>
<b>Current liabilities</b>							
Payables		727	-	727	591	-	591
Provisions		65	-	65	65	-	65
Interest bearing liabilities		533	-	533	533	-	533
<b>Total current liabilities</b>		<b>1,325</b>	<b>-</b>	<b>1,325</b>	<b>1,189</b>	<b>-</b>	<b>1,189</b>
<b>Non current liabilities</b>							
Payables		-	-	-	334	-	334
<b>Total non current liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>334</b>	<b>-</b>	<b>334</b>
<b>Total liabilities</b>		<b>1,325</b>	<b>-</b>	<b>1,325</b>	<b>1,523</b>	<b>-</b>	<b>1,523</b>
<b>Net assets</b>		<b>49,711</b>	<b>3,526</b>	<b>53,237</b>	<b>49,010</b>	<b>1,806</b>	<b>50,816</b>
<b>Equity</b>							
Contributed equity		65,950	-	65,950	65,950	-	65,950
Reserves	iii	174	7,040	7,214	174	5,320	5,494
Accumulated losses		(16,413)	(3,514)	(19,927)	(17,114)	(3,514)	(20,628)
<b>Total equity</b>		<b>49,711</b>	<b>3,526</b>	<b>53,237</b>	<b>49,010</b>	<b>1,806</b>	<b>50,816</b>

### (c) Notes explaining the impacts on the Statements of Financial Performance for the year ended 30 June 2005 and the Statements of Financial Position as at 30 June 2005

#### (i) Equity-based payment transactions

Under AASB 2 Share-based Payment, from 1 July 2004 the Consolidated Entity and Company are required to recognise an expense for those options that were issued to employees under the Company Employee Share Incentive Option Plan after 7 November 2002 but that had not vested by 1 January 2005.

This will result in a change to the current accounting policy under which no expense is recognised for equity-based payment transactions to employees.

If the policy required by AASB 2 had been applied during the year ended 30 June 2005, options to the value of A\$5,320,055 would have been recognised as an increase in the Consolidated Entity and Company share-based payment reserve as at 30 June 2005. This valuation has been determined using the Cox, Ross and Rubinstein Binomial Tree Model. A corresponding increase of A\$3,514,096 would occur to accumulated losses at 30 June 2005 to reflect the current year expense portion (A\$2,969,096) of the issued options and the transition date 1 July 2004 adjustment (A\$545,000) of the issued options. In addition, as a result of vesting conditions of the options issued to employees, at 30 June 2005 A\$1,805,959 would remain deferred in receivables, to be expensed in future periods.

For the year ended 30 June 2005, the Consolidated Entity and Company employee benefits expense would have been A\$2,969,096 higher, with a corresponding increase in the net movement in the share-based payment reserve.

**(ii) Financial instruments**

The Consolidated Entity and Company have opted to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2004.

Under AASB 132, the current classification of financial instruments issued by entities in the Consolidated Entity does not change.

Under AASB 139, financial assets held by entities in the Consolidated Entity will be classified as either at fair value through the profit and loss, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost.

Non-traded equity securities will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised. If the policy required by AASB 139 had been applied during the year ended 30 June 2005, Consolidated Entity financial assets as at 30 June 2005 would have been A\$1,720,000 higher (Company: not applicable), with a corresponding increase in the investment asset reserve.

The convertible note will be classified as held-to-maturity and measured at amortised cost, using the effective interest rate method.

Loans, receivables and financial liabilities classifications will remain unchanged. Measurement of these instruments will be at amortised cost, using the effective interest rate method.

**(iii) Non current assets held for sale**

Under AASB 5 Non current Assets Held for Sale and Discontinuing Operations, a non current asset will be classified as held for sale if its carrying amount is to be recovered principally through a sale transaction rather than through continued use. The asset will be measured at the lower of carrying amount and fair value, less costs to sell.

Under AASB 5 Non current Assets Held for Sale and Discontinuing Operations, a non current asset once classified as held for sale is no longer required to be depreciated up to the date of sale. This will result in a change to the current accounting policies under which the asset is measured at the lower of carrying value and recoverable amount, and depreciation expense is recognised up to date of sale.

If the policy required by AASB 5 had been applied during the year ended 30 June 2005, the Consolidated Entity's measurement of the asset remains the same (Company: not applicable) – at carrying amount, and consolidated depreciation would have been A\$18,404 lower, with a corresponding reduction in consolidated other income as the asset was sold prior to 30 June 2005.

**(iv) Disclosure of discontinued operation**

During the year ended 30 June 2005, the land and buildings were sold (refer Note 6 Discontinued Operation). Under AIFRS, the profit or loss relating to the discontinued operation, including both the post tax gain or loss on the sale and the post tax operating profit or loss up until the date of sale, is required to be disclosed as a single amount on the face of the Statements of Financial Performance. Under Australian GAAP, such disclosures may be made either on the face of the Statements of Financial Performance or in the notes. The Company elected to make the required disclosures in the notes in the year ended 30 June 2005, thereby resulting in a difference between Australian GAAP and AIFRS.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the consolidated revenue from ordinary activities would have been A\$1,200,000 lower, the consolidated expenses from ordinary activities, excluding the carrying amount of the commercial premises, would have been A\$1,095,838 lower and the consolidated carrying amount of net assets of the commercial premises sold disclosed as an expense in the Statements of Financial Performance would have been A\$1,095,838 lower. The consolidated profit from discontinued operations would have been disclosed in other income. There would have been no effect on the Company.

**(v) Revenue disclosures in relation to the sale of tenements**

Under AIFRS, the revenue recognised in relation to the sale of tenements is the net gain on the sale. This is in contrast to the current Australian GAAP treatment under which the gross proceeds from the sale are recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on the profit and loss of this difference is nil.

Not including the sale of the discontinuing operation covered in (iv) above, if the policy required under AIFRS had been applied during the year ended 30 June 2005, the consolidated revenue from ordinary activities would have been A\$810,000 lower, the consolidated carrying amount of tenements sold disclosed as an expense in the Statements of Financial Performance would have been A\$24,425 lower. The consolidated profit on sale of tenements would have been disclosed in other income. There would have been no effect on the Company.

# Notes to the Financial Report

for the year ended 30 June 2005

## 34. AUSTRALIAN GAAP TO CANADIAN GAAP REPORTING

The Company is listed on the Toronto Stock Exchange and as a result this Financial Report includes additional information in order for the Company to comply with reporting requirements of applicable Canadian securities law.

The financial report of the Company has been prepared in accordance with Australian accounting and reporting standards ('Australian GAAP') which, as applied in the consolidated financial statements for the years ended 30 June 2005 and 30 June 2004, conform in all material respects to those accounting principles generally accepted in the Canada ('Canadian GAAP'); except for the significant variances from the application of Canadian GAAP on the Company's consolidated financial statements as set out below:

### (a) Consolidated Statements of Income and Accumulated Losses:

	Notes	2005 A\$000	2004 A\$000
<b>Revenue</b>			
Total revenues, as reported in accordance with Australian GAAP		2,975	785
Adjustment to accord with Canadian GAAP relating to:			
Reclassification of land and buildings sold	i	(1,095)	
Reduced profit on land and buildings sold	ii	(18)	
Reclassification of cost of tenements sold		(23)	
Total revenues, as reported in accordance with Canadian GAAP		1,837	785
<b>Expenses</b>			
Total expenses, as reported in accordance with Australian GAAP		(4,359)	(595)
Adjustment to accord with Canadian GAAP relating to:			
Reclassification of land and buildings sold	i	1,095	
Reclassification of cost of tenements sold	i	24	
Reversal of depreciation on asset held for sale	ii	19	
Recognition of employee cost expense relating to stock options granted to employees	iii	(2,969)	(545)
Total expenses, as reported in accordance with Canadian GAAP		(6,190)	(1,140)
Loss for year, before and after tax		(4,353)	(355)
Accumulated losses, beginning of year		(15,574)	(15,219)
Accumulated losses, end of year		(19,927)	(15,574)
		Cents	Cents
Loss per share - basic and dilutive	iv	(1.20)	(0.12)
Weight average number of shares			
- basic and dilutive		363,040,234	288,130,097

	Notes	CONSOLIDATED 2005 A\$000	2004 A\$000
<b>(b) Consolidated Balance Sheets</b>			
<b>Assets</b>			
Total current assets, as reported in accordance with Australian GAAP		40,057	5,802
Adjustment to accord with Canadian GAAP relating to:			
Reclassification of land and buildings to non-current	v	-	(1,114)
Total current assets, as reported in accordance with Canadian GAAP		40,057	4,688
Total non current assets, as reported in accordance with Australian GAAP		10,979	4,928
Adjustment to accord with Canadian GAAP relating to:			
Reclassification of land and buildings to non-current	v	-	1,114
Total non current assets, as reported in accordance with Canadian GAAP		10,979	6,042
Total assets, as reported in accordance with Canadian GAAP		51,036	10,730
<b>Liabilities</b>			
Total current liabilities, as reported in accordance with Australian GAAP		1,325	1,320
Adjustment to accord with Canadian GAAP relating to:			
Specific land and buildings payables	vi	-	(403)
Land and buildings bank loans	vii	-	(733)
Total current liabilities, as reported in accordance with Canadian GAAP		1,325	184
Total non current liabilities, as reported in accordance with Australian GAAP		-	-
Adjustment to accord with Canadian GAAP relating to:			
Specific land and buildings payables	vi	-	403
Land and buildings bank loans	vii	-	733
Total non current liabilities, as reported in accordance with Canadian GAAP		-	1,136
Total liabilities, as reported in accordance with Canadian GAAP		1,325	1,320
<b>Shareholders' equity</b>			
Share capital, as reported in accordance with Australian GAAP		65,950	24,265
Adjustment to accord with Canadian GAAP relating to:			
Grant of warrants	viii	(8)	(8)
Warrants exercised	ix	5	1
Share capital, as reported in accordance with Canadian GAAP		65,947	24,258
Warrants, as reported in accordance with Australian GAAP		-	-
Adjustment to accord with Canadian GAAP relating to:			
Grant of warrants	viii	8	8
Warrants expired unexercised	x	(3)	(3)
Warrants exercised	ix	(5)	(1)
Warrants, as reported in accordance with Canadian GAAP		-	4
Reserves, as reported in accordance with Australian GAAP		174	174
Adjustment to accord with Canadian GAAP relating to:			
Warrants expired unexercised	x	3	3
Fair value of stock options granted to employees in relation to services performed and to be performed	iii	3,514	545
Reserves, as reported in accordance with Canadian GAAP		3,691	722
Accumulated losses, as reported in accordance with Australian GAAP		(16,413)	(15,029)
Adjustment to accord with Canadian GAAP relating to:			
Recognition of employee cost expense relating to stock options granted to employees for services performed	iii	(3,514)	(545)
Accumulated losses, as reported in accordance with Canadian GAAP		(19,927)	(15,574)
Total shareholders' equity, as reported in accordance with Canadian GAAP		49,711	9,410
Total liabilities and shareholders' equity, as reported in accordance with Canadian GAAP		51,036	10,730

# Notes to the Financial Report

for the year ended 30 June 2005

## 34. AUSTRALIAN GAAP TO CANADIAN GAAP REPORTING (continued)

### (c) Notes explaining the adjustments to Consolidated Statements of Income, Accumulated Losses and Balance Sheets

#### (i) Reclassification of assets sold

Under Canadian GAAP the net profit on sale of assets is required to be disclosed in revenue. For Australian GAAP purposes the gross proceeds on sale of assets have been disclosed in revenue and the cost of assets sold in expenses. As a result the proceeds on sale of tenements for Australian GAAP purposes of A\$250,000 and the proceeds on sale of land and buildings for Australian GAAP purposes of A\$1,200,000 are required to be reduced by the cost of tenements sold of A\$24,425 and the cost of land and buildings sold of \$1,095,838, to reflect the Canadian GAAP net profit on sale of tenements of A\$225,575 and the net profit on sale of land and buildings of A\$104,162.

#### (ii) Reversal of depreciation on asset held for sale

Under Canadian GAAP once an asset has been classified as being held for sale, depreciation of the asset ceases. As a result, to accord with Canadian GAAP the depreciation on the land and buildings assets held for sale for the year ended 30 June 2005 of \$18,404 has been reversed. The Canadian requirements for disclosure as an asset held for sale have not been met before 30 June 2004, and as such no adjustment has been made to reverse depreciation on the asset held for sale before this date. As a result of the land and buildings being sold before 30 June 2005, the \$18,404 depreciation reversed is also required to be adjusted against the Canadian GAAP net profit on sale.

#### (iii) Recognition of employee cost expense relating to stock options granted to employees

Under Australian GAAP, a Company is not required to account for the fair value of stockbased compensation. Under Canadian GAAP, stockbased compensation to employees is required to be accounted for using a fair valuebased method of accounting.

The fair value of options granted to employees during the year ended 30 June 2005 amounts to A\$4,775,055 (30 June 2004 - A\$545,000) and has been determined using the Cox, Ross and Rubinstein Binomial Tree Model.

The model inputs for options granted during the year ended 30 June 2005 included:

- a) options are granted for no consideration, 100% of each tranche vests and is exercisable after one year subject to vesting conditions
- b) exercise price: A\$1.00 - A\$1.25
- c) grant date: November-December 2004
- d) expiry date: November-December 2007
- e) expected life: 2 years
- f) share price at grant date: A\$0.52 - A\$0.53
- g) expected price volatility of the company's shares: 100% - 112%
- h) expected dividend yield: Nil%
- i) risk-free interest rate: 4.90% - 4.97%

When compensation costs are expensed for the year ended 30 June 2005, the expense is A\$2,969,096 (year ended 30 June 2004 - A\$545,000) as a result of a vesting period for the options (year ended 30 June 2004 - no vesting period applicable). The balance of the fair value amount of \$1,805,959 at 30 June 2005 is required to be amortised over the remaining vesting period after 30 June 2005.

#### (iv) Earnings per share

Both basic and dilutive earnings per share computations presented in the Consolidated Statements of Income and Accumulated Losses have been based upon the weighted average number of common shares outstanding during the year. Under Canadian GAAP, an entity is required to calculate the dilutive effect of options, warrants and similar instruments on its earnings per share using the treasury stock method. In 2004 the outstanding options and warrants of the Company are not considered dilutive in accordance with the treasury stock method. In 2005 the Company is in a loss position and as such the effects of outstanding options and warrants are anti-dilutive. Therefore, both basic and dilutive profit or loss per share are the same figure for both 2005 and 2004 under Canadian GAAP.

#### (v) Reclassification of current and non current assets - land and buildings

In order to conform to Canadian GAAP the land and buildings asset have been reclassified to non current assets as at 30 June 2004 as they do not meet the Canadian requirements for disclosure as an asset held for sale. As this asset was sold during the year ended 30 June 2005 no adjustment is required as at 30 June 2005.



(vi) **Reclassification of current and non current liabilities – payables**

Specific payables of the Company, to be settled only on sale of land and buildings discussed in Note v above, as at 30 June 2004 have been classified for Australian GAAP purposes as a current liability. To conform to Canadian GAAP this liability has been reclassified to non current liabilities as contractual arrangements have been made for repayment from the proceeds received on sale of land and buildings.

(vii) **Reclassification of current and non current liabilities – bank loans**

Specific land and buildings bank loans of the Company as at 30 June 2004 have been classified for Australian GAAP purposes as a current liability as it related to the land and buildings discussed in Note v above. To conform to Canadian GAAP this liability has been reclassified to non current liabilities as contractual arrangements have been made for repayment from the proceeds received on sale of land and buildings asset.

(viii) **Grant of warrants**

Some of the issued share options granted by the Company historically meets the definition of a warrant in Canada as they were attached to the issue of shares. The warrants are as follows:

During the year ended 30 June 2003, the Company issued 750,000 warrants in lieu of technical consulting services. These warrants were attached to the issue of 1,795,000 shares and each warrant entitled the holder to acquire one additional common share at a price of A\$0.10 per share up to 21 January 2004.

During the year ended 30 June 2004, the Company issued 12,500,000 warrants as part of a private share placement issue of 5,000,000 shares. Of these 4,500,000 warrants entitled the holder to acquire one additional common share at a price of A\$0.011 per share up to 31 March 2004; 4,200,000 warrants entitled the holder to acquire one additional common share at a price of A\$0.012 per share up to 31 December 2004; and 3,800,000 warrants entitled the holder to acquire one additional common share at a price of A\$0.013 per share up to 30 November 2005.

The total fair value of warrants issued by the Company noted above was A\$8,525.

(ix) **Warrants exercised**

During the year ended 30 June 2004, 4,500,000 of the warrants issued during the year ended 30 June 2004 were exercised. The fair value of both these warrants exercised was A\$1,000.

During the year ended 30 June 2005, the 4,200,000 and 3,800,000 warrants issued during the year ended 30 June 2004 were both exercised. The fair value of both these warrants exercised was \$4,000.

(x) **Warrants expired unexercised**

During the year ended 30 June 2004 the 750,000 warrants issued during the year ended 30 June 2003 expired unexercised. The fair value of these warrants that expired unexercised was A\$3,525.

(d) **Consolidated Cash Flow Statements**

There is no difference between Australian and Canadian GAAP in relation to the preparation of statements of cash flows. Under Canadian GAAP information pertaining to non-cash investing and financing activities must be presented as supplemental information on the Statements of Cash Flows and this additional disclosure is presented below:

	Year ended 30 June	
	2005 A\$000	2004 A\$000
<b>Supplementary disclosure of non-cash investing and financing activities required under Canadian GAAP</b>		
Shares issues in lieu of technical consulting fees		55
Stock options granted to non-employees on establishment of loan facility	321	-
Stock options granted to employees for services performed	3,514	545

# Notes to the Financial Report

for the year ended 30 June 2005

## 34. AUSTRALIAN GAAP TO CANADIAN GAAP REPORTING (continued)

### (e) Segment Reporting

As a result of the adjustments made to the Consolidated Statements of Income and the Consolidated Balance Sheets as described above, the restated segmented information as required under Canadian GAAP is set out below:

#### Business segments

Year ended 30 June 2005

	Resources A\$000	Financial Investments A\$000	Discontinuing Operations Property A\$000	Consolidated A\$000
Total segment revenue	1,527	30	280	1,837
Profit/(loss) from ordinary activities before and after income tax expense	(3,617)	(864)	128	(4,353)
Total assets	50,311	710	15	51,036
Depreciation and amortisation	90	-	-	90

#### Geographical segments

Year ended 30 June 2005

	Australia A\$000	Africa* A\$000	Consolidated A\$000
Total segment revenue	1,836	1	1,837
Loss from ordinary activities before and after income tax expense	(4,333)	(22)	(4,353)
Total assets	40,584	10,452	51,036
Depreciation and amortisation	90	-	90

#### Business segments

Year ended 30 June 2004

	Resources A\$000	Financial Investments A\$000	Discontinuing Operations Property A\$000	Consolidated A\$000
Profit/(loss) from ordinary activities before and after income tax expense	(826)	413	58	(355)

#### Geographical segments

Year ended 30 June 2004

	Australia A\$000	Africa* A\$000	Consolidated A\$000
Loss from ordinary activities before and after income tax expense	(355)	-	(355)

\* Namibia and Malawi



(f) **Income Tax**

Under Australian GAAP tax effect accounting procedures are followed whereby the tax expense is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefits accounts at the rates, which are expected to apply when those timing differences reverse.

Under Canadian GAAP, income taxes are accounted for by the asset and liability method. Under this method, future tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying value and the tax basis of assets and liabilities. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognised in income in the period during which the change in rates is considered to be substantially enacted.

Despite the contrast in treatment of income tax under Australian and Canadian GAAP no differences exist for the Company.

(g) **Issued Options**

Canadian GAAP requires the disclosure of the weighted average exercise price and the weighted average contractual life of all issued options outstanding at 30 June 2005. This required disclosure is set out below:

Number of options	Exercise price A\$	Weighted average exercise price A\$	Contractual life years	Weighted average contractual life years
11,000,000	A\$0.22		0.92	
3,000,000	A\$0.32		0.92	
8,650,000	A\$1.00		2.42	
10,250,000	A\$1.00		2.50	
1,300,000	A\$1.25		2.42	
33,600,000		A\$0.69		1.82

Only the A\$0.22 and A\$0.32 exercise price issued options are exercisable at 30 June 2005, the A\$1.00 and A\$1.25 exercise price issued options were granted with vesting conditions which remain outstanding at 30 June 2005. For the issued options exercisable at 30 June 2005 the weighted average exercise price is A\$0.24 and the weighted average contractual life is 0.92 years.

(h) **Foreign Exchange Data**

All amounts included in the Financial Statements are reported in Australian dollars. The following table reflects the low and high rates of exchange for one Australian dollar, expressed in Canadian dollars in effect during the periods noted, the rates of exchange at the end of such periods and the average rates of exchange during such periods, based on the Bank of Canada average noon spot rate of exchange.

Year ended 30 June	2005	2004
Low for period	C\$0.8854:A\$1	C\$0.8784:A\$1
High for period	C\$0.9843:A\$1	C\$1.0490:A\$1
Rate at the end of period	C\$0.9334:A\$1	C\$0.9316:A\$1
Average noon spot rate for year	C\$0.9408:A\$1	C\$0.9580:A\$1

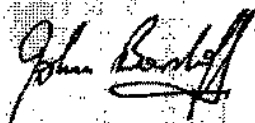
## Directors' Declaration

### In the Directors' opinion

- (a) the financial statements, notes and the additional disclosures included in the Directors' Report designated as audited, of the Company and of the Consolidated Entity are in accordance with the Corporation Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.

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



Mr John Borshoff  
Managing Director

Perth, Western Australia  
1 September 2005

# Independent Audit Report - Australia

## To Members of Paladin Resources Limited

### Scope

#### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Paladin Resources Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report and the additional disclosures in the Remuneration Report Section B included in the directors' report designated as audited ('the additional disclosures') that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report and the additional disclosures.

### Audit approach

We conducted an independent audit of the financial report and the additional disclosures in order to express an opinion on them to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report and the additional disclosures are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report and the additional disclosures present fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the additional disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the additional disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

### Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and 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. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed. In addition to our audit of the financial report and the additional disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### Audit opinion

In our opinion, the financial report and the additional disclosures included in the directors' report designated as audited of Paladin Resources Limited are in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the financial position of Paladin Resources Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Act Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Rudolf Brunovs, Partner  
Perth, 1 September 2005

The Ernst & Young Building  
11 Mounts Bay Road  
Perth WA 6000  
Australia

## Auditors' Report - Canada

### To the Shareholders of Paladin Resources Limited

We have audited the consolidated balance sheet of Paladin Resources Ltd as at June 30, 2005 and the consolidated statements of operations and accumulated losses and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company in accordance with Australian generally accepted accounting principles as at June 30, 2005 and for the year then ended.

Significant differences between the Australian generally accepted accounting principles applied in the accompanying consolidated financial statements and those under Canadian generally accepted accounting principles are quantified and explained in Note 34 to the financial statements.

The consolidated financial statements as at June 30, 2004 and for the year then ended, were audited by other auditors who expressed opinions without reservation on those statements in their reports dated September 29, 2004 and February 28, 2005.

Vancouver, Canada  
September 1, 2005

Ernst & Young LLP (A Member of Ernst & Young Global)  
Chartered Accountants  
Pacific Centre  
700 West Georgia Street  
PO Box 10101  
Vancouver BC V7Y 1C7

## Additional Information

Pursuant to the Listing Requirements of Australian Stock Exchange Limited as at 31 August 2005:

(a) Distribution and number of holders

		SHAREHOLDERS
1 -	1,000	553
1,001 -	5,000	1,611
5,001 -	10,000	906
10,001 -	100,000	1,134
100,001 -	maximum	173
		4,377

26 shareholders hold less than a marketable parcel of shares.

(b) The twenty largest shareholders hold 72.82% of the total shares issued.

Holder	No. of Shares	%
ANZ Nominees Limited	56,650,974	16.46
Westpac Custodian Nominees Limited	49,207,543	14.30
National Nominees Limited	32,319,584	9.39
Citicorp Nominees Pty Limited	18,792,970	5.46
J.P. Morgan Nominees Australia Limited	18,017,472	5.24
Mr Robert Anthony Healy and Mrs Helen Maree Healy	13,256,384	3.85
Aylworth Holdings Pty Ltd	12,476,237	3.63
HSBC Custody Nominees (Australia) Limited-GSCO ECSA	10,761,407	3.13
Merrill Lynch (Australia) Nominees Pty Ltd	6,985,089	2.03
Ms Gillian Swaby	5,795,515	1.68
Société Générale Australia Branch	5,000,000	1.45
Mr Gregory James Buchanan and Mrs Heather Joy Buchanan	3,500,000	1.02
Mr Rick Wayne Crabb and Mrs Carol Jean Crabb	3,198,050	0.93
Queensland Investment Corporation	3,050,000	0.89
Mr James U. Blanchard III CJ- Jefferson Financial Inc	2,777,778	0.81
Dr Leon Eugene Pretorius	2,199,321	0.64
Cogent Nominees Pty Limited	1,728,745	0.50
Mr Zac Rossi and Mrs Thelma Rossi	1,626,000	0.47
John Borshoff	1,605,157	0.47
Mr Leslie Murray McKenzie	1,600,355	0.47
	250,548,581	72.82

(c) Voting rights

For all shares, voting rights are one vote per member on a show of hands and one vote per share in a poll.

## Additional Information

Pursuant to the Listing Requirements of Australian Stock Exchange Limited as at 31 August 2005:

(d) Tenements held –

### URANIUM PROJECTS

Project	Tenement	Interest %	JV Partner/s	Operator
<b>NAMIBIA – AFRICA</b>				
Langer Heinrich	1 MLI	100%		
<b>MALAWI – AFRICA</b>				
Kayelekera	1 EPL	100%		
<b>WESTERN AUSTRALIA</b>				
Manyingee	3 ML's	100%		
Oobagooma	4 EL(A)'s	100%		
<b>SOUTH AUSTRALIA</b>				
Petermorra	1 EL	20%	Quasar Resources Pty Ltd	Quasar Resources Pty Ltd
Mt Yerrila	1 EL	15%	Quasar Resources Pty Ltd Red Metal Limited J E Risinger	Quasar Resources Pty Ltd Red Metal Limited

### NON-URANIUM PROJECTS

<b>SOUTH AUSTRALIA</b>				
Mt Lofty Ranges	1 EL	90%	Absolut Resources Corporation	Paladin Resources Ltd
Reaphook JV	1 EL	7.5%	Perilya Limited Signature Resources NL	Perilya Limited

### Tenement Types

- EL Exploration Licence (Australia)
- EL(A) Exploration Licence Application (Australia)
- EPL Exclusive Prospecting Licence (Malawi)
- ML Mining Lease (Australia)
- MLI Mining Licence (Namibia)

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

	<b>Three Months Ended</b>	
	<b>30 September</b>	
	<b>2006</b>	<b>2005</b>
	<b>A\$000</b>	<b>A\$000</b>
<b>REVENUE (Note 3(a))</b>	<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	(1,255)	(862)
Interest received	487	739
Other receipts	6	4
	<hr/> (772)	<hr/> (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	-
	<hr/> (36,245)	<hr/> (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	-
	<hr/> 22,046	<hr/> (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
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	<hr/> 43,465	<hr/> 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 - IFRS, 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)	(1,308)	(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>
<b>Segment liabilities</b>	<b>2,742</b>	<b>2,739</b>	<b>137</b>	<b>5,618</b>
<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
<b>Total revenue</b>	<u>619</u>	<u>571</u>
 <b>(b) Other income</b>		
Other income includes the following specific income:		
Profit on sale from tenements	-	441
Foreign exchange gains (net)	-	206
<b>Total other income</b>	<u>-</u>	<u>647</u>

**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
Balance 30 June 2006 (audited)	1,574	5,785	1,157	174	-	-	8,690
Acquisition							
Valhalla acquisition (a)	-	-	-	-	191,245	-	191,245
Project exploration and evaluation expenditure							
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
Total expenditure	423	986	23	1	53	46	1,532
Exploration expenditure expensed	-	(986)	(23)	(1)	(53)	(46)	(1,109)
Exploration expenditure capitalised	423	-	-	-	-	-	423
Balance 30 September 2006 (unaudited)	1,897	5,785	1,157	174	191,245	-	200,358

**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	493,865,969	406,285,713	343,605	71,874

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

Date		Number of shares	Issue price A\$	Total A\$'000
	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>

Date		Number of shares	Issue price A\$	Total A\$'000
	Balance 30 June 06	454,236,713		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	37,161,830	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**  
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**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:			
<u>Date options granted</u>	<u>Expiry date</u>	<u>Exercise price</u>	
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 18.5 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**  
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**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.