



PALADIN RESOURCES LTD

A.C.N. 061 681 098

GRAND CENTRAL 1ST FLOOR, 26 RAILWAY ROAD
SUBIACO WESTERN AUSTRALIA 6008
PO BOX 201, SUBIACO WESTERN AUSTRALIA 6904

TELEPHONE: (+61 8) 9381 4366 FAX: (+61 8) 9381 4978
EMAIL: paladin@paladinresources.com.au
Web: www.paladinresources.com.au

Ref:40018

30 August 2006

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

By Electronic Lodgement

Dear Sir/Madam

2006 Annual Report

Attached please find the 2006 Annual Report including the Management Discussion and Analysis and CEO/CFO certification as required in accordance with Canadian reporting requirements. The printed version is expected to be released early October with the Annual General Meeting scheduled for 9 November 2006.

Yours faithfully
Paladin Resources Ltd

JOHN BORSHOFF
Managing Director



PALADIN RESOURCES LTD

ACN 061 681 098

ANNUAL

REPORT

2006

CONTENTS

CORPORATE DIRECTORY.....	3
PALADIN – THE COMPANY.....	4
COMPANY SNAPSHOT.....	5
CHAIRMAN’S LETTER	6
NUCLEAR ENERGY – A PARADIGM SHIFT	7
MANAGEMENT DISCUSSION AND ANALYSIS	11
REVIEW OF OPERATIONS.....	13
FINANCIAL REVIEW	21
CORPORATE GOVERNANCE STATEMENT	29
DIRECTORS’ REPORT.....	39
REMUNERATION REPORT	44
CONTENTS OF THE FINANCIAL REPORT.....	59
CONSOLIDATED INCOME STATEMENTS	61
CONSOLIDATED BALANCE SHEETS.....	62
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	63
CONSOLIDATED CASH FLOWS STATEMENTS.....	65
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	66
DIRECTORS’ DECLARATION.....	143
INDEPENDENT AUDIT REPORT - AUSTRALIA.....	144
INDEPENDENT AUDIT REPORT - CANADA.....	146
ADDITIONAL INFORMATION.....	147

The annual report covers both Paladin Resources Ltd as an individual entity and the Consolidated Entity consisting of Paladin Resources Ltd and its controlled entities.

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

***Paladin Resources Ltd
Grand Central, 1st Floor, 26 Railway Road
SUBIACO WA 6008***

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

CORPORATE DIRECTORY

DIRECTORS

Non-executive Chairman

Mr Rick Crabb

Managing Director

Mr John Borshoff

Non-executive Directors

Mr Sean Llewelyn

Mr George Pirie

Mr Ian Noble

COMPANY SECRETARY

Ms Gillian Swaby

REGISTERED OFFICE

Grand Central, 1st Floor, 26 Railway Road
Subiaco Western Australia 6008
(PO Box 201, Subiaco, 6904)

Telephone: (+61 8) 9381 4366

Facsimile: (+61 8) 9381 4978

Email: paladin@paladinresources.com.au

Web: www.paladinresources.com.au

SHARE REGISTERS

Australia

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
Perth Western Australia 6000

Telephone: (+61 8) 9323 2000

Facsimile: (+61 8) 9323 2033

Canada

Computershare Investor Services Pty Ltd
100 University Avenue, 11th Floor
Toronto Ontario M5J 2Y1

Telephone: (+1) 416 263 9200

Facsimile: (+1) 416 263 9261

INVESTOR RELATIONS

Australia – Head Office

Ms Gillian Swaby

Grand Central, 1st Floor, 26 Railway Road

Subiaco Western Australia 6008

(PO Box 201, Subiaco, 6904)

Telephone: (+61 8) 9381 4366

Facsimile: (+61 8) 9381 4978

Email: gillian.swaby@paladinresources.com.au

North America

Mr Greg Taylor

Ontario Canada

Business/Cell: (416) 605 5120

Facsimile: (905) 844 - 6532

Email: greg.taylor@paladinresources.com.au

AUDITORS

Ernst & Young

11 Mounts Bay Road

Perth Western Australia 6000

SOLICITORS TO THE COMPANY

Blakiston & Crabb

1202 Hay Street

West Perth Western Australia 6005

STOCK EXCHANGE LISTINGS

**Australian Stock Exchange and
Toronto Stock Exchange**

Code: PDN

**Munich, Berlin, Stuttgart and
Frankfurt Stock Exchanges**

Code: PUR

PALADIN – THE COMPANY

THE MEANING AND SIGNIFICANCE OF “PALADIN”

Charlemagne (742-814AD) was a Germanic King who ruled with the assistance of his *Paladins*, a legendary company of knights who formed the elite of the King’s army. These *Paladins* later became a source of inspiration for the romantic poets for whom they symbolised the highest virtues of chivalry and valour.

The word *Paladin* was originally derived from the early Byzantine era to signify those who were the highest dignitaries of the Court and usually referred to a lord or chieftain, and later a knight errant – a champion on a quest for adventure.

Paladin came to describe a person or a special group possessing superlative qualities of loyalty, diligence, and honesty, which is firm and united in support of an honourable cause or objective.

Paladin is an apt name for our Company.

CORPORATE VALUES

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

PALADIN TODAY

- Strong project pipeline
- Extensive uranium experience
- Strong project development team
- In good position to expand and attain advantage through M&A by
 - successfully leading development for new U production
 - proving up a highly competent management team
 - attaining essential recognised company credibility
 - maintaining clear vision for global market outlook

COMPANY SNAPSHOT

The New Energy in the Market

- Emerging producer with a primary focus in Southern Africa
 - Paladin clearly differentiated in its market space
- Focused uranium energy company
 - Large resource base in 4 deposits with excellent upside
 - Strength through geographic diversification
 - Expertise and funding to deliver
- Staged commissioning of Langer Heinrich operations
 - commenced end August 2006 – 1 MONTH EARLY
 - project handover late December 2006 as anticipated
 - ramp up to initial stated production of 2.6Mlb U₃O₈ by June 2007
- BFS completion on Kayelekera December 2006
- Strategy for expansion in place
- Uranium price at all time high
 - Mid to long term supply shortages

Paladin Share Price Performance

AUD



CHAIRMAN'S LETTER

Dear Shareholder

In my past two annual Chairman's letters, I noted that our Company had experienced and expected to continue to experience exciting times. This has of course been true of the past year but what I wish to now focus on is our Company's evolution into a "major".

Such was the dire state of the uranium production industry and the rapid change in the global dynamics of fuels for electricity generation, that in the past 2 years (particularly last year) Paladin Resources Limited has emerged as virtually a household name in this business.

Our Company occupies a unique position, as the only publicly listed company capable in the short term of creating new uranium supply of sufficient quantity to make a real contribution to world needs. The stock markets in Australia, Canada and Europe have recognised this and accordingly from July 2005 to June 2006 Paladin's market capitalisation grew from A\$471,040,712 to A\$1,866,908,708.

Paladin's Directors, staff and consultants are highly conscious of the focus that is upon our Company. Under the strong leadership of Mr John Borshoff, our team is committed to meeting the targets set for the Company's growth. We have a goal for Paladin to become a major world supplier of uranium with an international multi-mine profile. This involves a long term strategy which recognises, amongst other things, that our Company must achieve world's best practice in all activities, particularly operating efficiency, mine safety and environment practices.

As explained elsewhere in this Annual Report, our Company's 2 leading Projects (Langer Heinrich and Kayelekera) are progressing on schedule and our growth strategy, through mergers and acquisitions, is in play. Paladin will hold a significant amount of Australian uranium resources in Western Australia (its existing projects) and potentially elsewhere in Australia. With its strong production profile from its African projects and opportunities elsewhere in the world, Paladin can afford to take a patient approach in Australia. Given, as mentioned, the world dynamics for energy fuels, it is in my view inevitable that the opportunity for Paladin to produce Australian sourced uranium will arise in due course.

I must express my gratitude to the many loyal shareholders who have supported us; particularly over recent years and those who have injected further equity capital into our Company.

Congratulations and thanks to the growing team of Paladin employees and consultants who have all worked, I know, with genuine devotion and drive to what I believe is a noble cause. We are primarily a business enterprise dedicated to achieving a solid return for shareholders but we will also contribute to improving the world environment, by delivering a clean source of fuel. We will also make a valuable contribution to the wellbeing of the peoples of Namibia and Malawi with the establishment of mining operations at Langer Heinrich and Kayelekera.

I look forward to sharing the ongoing journey with all shareholders, as Paladin commences production and delivery of uranium from Langer Heinrich.

Mr Rick Crabb

CHAIRMAN

NUCLEAR ENERGY – A PARADIGM SHIFT

The availability of energy, particularly electricity, dictates economic well-being. The world as a whole is undergoing drastic reappraisal of its energy needs and the mix of fuels that will sustain production.

High oil prices have focused attention on the inexorable growth in demand for energy, and made even the most indifferent of people think about the global implications of continued economic growth in China, and India, as well as the emergence of Russia as a global energy supplier and consumer.

In last year's Annual Report we described the milestones which marked the world's acceptance and implementation of nuclear electricity. It is now obvious that the change in attitudes to nuclear power reflects a fundamental shift in thinking about the provision of energy worldwide. This change, a paradigm shift, will have enormous implications for the uranium industry.

Nuclear power will be, in many countries, the preferred technology for significant new base-load electricity generation. Nuclear power offers energy security without compromising climate change defences or undermining economic performance. The uranium industry must adjust to this new paradigm in terms of undertaking more exploration, creating more production, improving technical and operational efficiency, and developing a sophisticated dialogue with nuclear power utilities to ensure the market adequately reflects the costs of providing nuclear fuel on a sustainable and secure basis.

Demand – needs re-appraisal

Thirty-one countries currently operate 441 nuclear power reactors, contributing 16% of world electricity production. Electricity production represents 40% of world primary energy consumption, and is growing at an annual rate of 2.7%, which is twice the rate of growth for all energy sources.

Last year we said that world uranium requirements for the existing, and currently planned new reactors is about 77,000 mt U_3O_8 per year, rising by about 1.5% each year to reach a forecast peak of 125,000 mt U_3O_8 by the early 2020's.

We identified the historical importance of inventories and down-blended weapons grade material in maintaining a market "balance" between primary uranium production, 49,000 mt U_3O_8 in 2005, and reactor consumption. There was a clear uranium supply deficit which we predicted would exert considerable upwards pressure on uranium prices. In fact, the spot uranium price has risen from US\$29 per lb U_3O_8 in June 2005 to over \$47 per lb U_3O_8 in June 2006. However, these figures do not take account of the new paradigm.

NUCLEAR ENERGY – A PARADIGM SHIFT (continued)

The challenge of the new paradigm, and Paladin's opportunities –

Supply continues to lag demand

Despite the significant rise in reported uranium prices, world primary uranium production only increased by 2,540 mt U₃O₈ (5%) in calendar year 2005. In fact, in the first six months of 2006, uranium production in the two dominant production centres, Canada and Australia, actually declined by 2,610 mt U₃O₈ (19.5%), demonstrating the fragility of the existing supply chain.

Worldwide the only new uranium production facility built and brought on line in 2006 as part of the industry's supply response is Paladin's Langer Heinrich Uranium Project. This illustrates both the difficulty of bringing new production to market, and the skill and dedication of the Paladin people who have made it happen.

New reactors and a new nuclear industry

There are significant developments at international and national levels which will facilitate the building of new nuclear power stations and increase our reliance on nuclear energy.

- **USA *Resurgence of a major influence***
 - Wide public acceptance with at least 68% of Americans favouring the use of nuclear power
 - New national Enrichment facility granted construction and operation licence
 - Global Energy Partnership proposed to facilitate world nuclear fuel trade
 - 19 applicants expected to seek licences for construction of up to 25 new reactors
- **Canada *Refurbishing a successful program***
 - Refurbishment and recommissioning of 2 nuclear power plants
 - Applications filed possible 4 new plants
- **EU *Revising nuclear energy policies***

Finland – New 1600 MWe plant under construction

UK ***Complete turnaround***

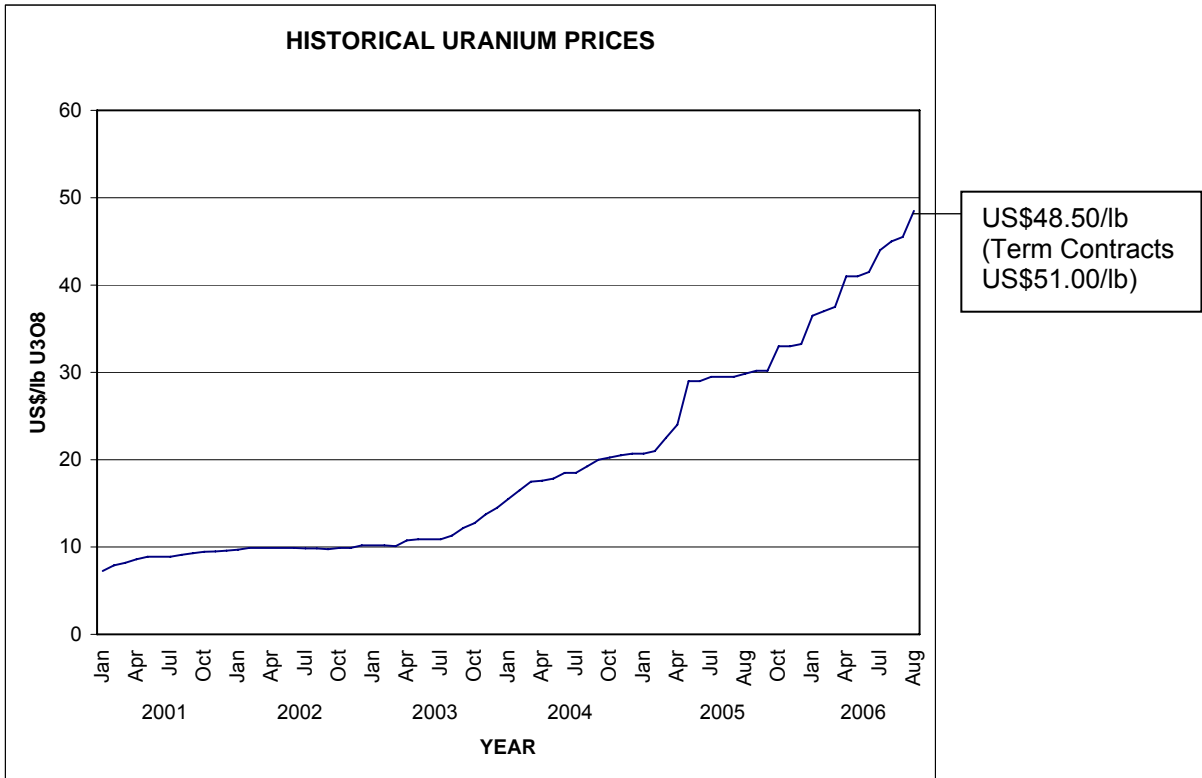
UK Energy Review supports building new nuclear power plants and recommends streamlining licensing process to facilitate construction by private operators.
- **France *Committed to renewing its fleet***
 - New 1600 MWe reactor at Flamanville begins construction

NUCLEAR ENERGY – A PARADIGM SHIFT (continued)

- Turkey ***Recognising nuclear's value***
 - Plans for up to 5 new nuclear plants
- Russia ***World's most ambitious nuclear energy plans***
 - Structural reorganization of the civil nuclear sector to reflect world's most ambitious nuclear energy plans
 - 10 new reactors to be built by 2015, with plans for a further 10 announced
 - High Enriched Uranium program terminates in 2013
 - Significant investments needed to secure long term uranium supplies will impact world market
- China ***Powering up its nuclear energy needs***
 - Plans to increase nuclear power to 40 GWe by 2020 (30 new reactors)
 - Entering world uranium market with significant new demand
 - Bi-lateral safeguards agreement signed with Australia
- Japan ***Revitalised plans***
 - 3 yearly revision of the Basic Energy Plan reaffirms commitment to nuclear power in order to meet Kyoto Protocol CO₂ targets
- India ***Joining the world nuclear community***
 - US-India Nuclear Agreement will end nuclear sanctions and open market for uranium and civil technology
 - Significant domestic nuclear program will expand rapidly
- Australia ***A major supplier growing bigger***
 - Prime Minister's Taskforce established to review entire nuclear fuel cycle
 - Bi-lateral safeguards agreement signed with China opens market for Australian uranium sales
 - Federal Labor Party Leader announces proposed abandonment of restrictive "no new uranium mines" policy at 2007 National Conference

NUCLEAR ENERGY – A PARADIGM SHIFT (continued)

URANIUM SPOT PRICE GRAPH (HISTORICAL)



MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) for Paladin Resources Ltd should be read in conjunction with the Directors' Report and Financial Report for the year ended 30 June 2006. The effective date of this discussion and analysis is 29 August 2006.

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

This MD&A 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.

Overview

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

The main activities undertaken during the year were:

- commencement of construction at the Langer Heinrich Uranium Project in Namibia after granting of a 25 year mining licence and finalisation of US\$71 million in bank project finance;
- acquisition of the remaining 10% joint venture interest in the Kayelekera Uranium Project in Malawi;
- continuing negotiation of development agreement and the Bankable Feasibility Study for the Kayelekera Uranium Project;
- completion of resource drilling programs at both Langer Heinrich and Kayelekera Uranium Projects with additional resources discovered;
- sale of non-core uranium exploration property and grant of licence over Frome Basin database to Deep Yellow Ltd;
- repayment and cancellation of the debt facility established for the Langer Heinrich Bankable Feasibility Study; and
- allotment of 35 million fully paid shares via private placement raising A\$77 million principally to complete the funding for construction of the Langer Heinrich Uranium Project, fund worldwide uranium project generation activities and provide general working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview (continued)

On 10 July 2006, the Company announced an off-market takeover bid for all the fully paid ordinary shares in Valhalla Uranium Ltd ("Valhalla"). The offer was subject to various conditions, some of which are currently still outstanding.

Valhalla is a Western Australian based resource company listed on the ASX with interests in a number of uranium projects in Queensland and the Northern Territory. The most advanced project in Valhalla's portfolio is the Valhalla/Skal uranium deposits situated in northern Queensland. Valhalla has a 50% interest in these deposits with Summit Resources Limited ("Summit"), which is the manager of the project. Valhalla also holds 41% interests in the Ngalia Basin uranium project containing the Bigrlyi Deposit as well as the Pine Creek uranium project in the East Alligator River area.

Valhalla's share of resources via the Mt Isa Joint Venture according to Summit market releases is 28.5Mlbs U_3O_8 (230ppm cut off) in the JORC compliant Inferred Resources category. In addition, Valhalla's share of incremental historical estimates for the adjacent Skal Deposit is 5.5Mlbs U_3O_8 (based on information released by Valhalla's joint venture partners). In addition JORC resources have been released for the Bigrlyi Deposit and Valhalla's shares are 3.5Mlbs U_3O_8 (100ppm cut off). Should the offer be accepted, Paladin will significantly increase its global uranium resource base.

The proposed acquisition is an excellent opportunity to add up to three potential projects to Paladin's medium to long term project development pipeline. Paladin believes the Valhalla/Skal deposits are deposits with significant resource potential at reasonable grades. While ultimate development of the resource depends not only on further technical and resource definition but also on a change of policy in Queensland, Paladin plans to support Summit in progressing the exploration and appraisal of this deposit to ensure readiness if and when this policy change occurs.

The on market, all scrip offer will comprise 1 fully paid ordinary Paladin share for every 3.16 fully paid ordinary Valhalla shares.

On 28 August 2006 the Company announced that commencement of commissioning of the Langer Heinrich plant had been achieved one month earlier than originally planned with the successful commissioning of the crusher and associated conveyers to produce a crushed ore stockpile. Staged commissioning will progressively continue through the scrubber and attrition, leach and CCD, the uranium precipitation and reagent areas and the Company is confident that the remaining construction work will be finalised in line with the program.

Forward Looking Statements

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

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

MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS

Uranium Resources

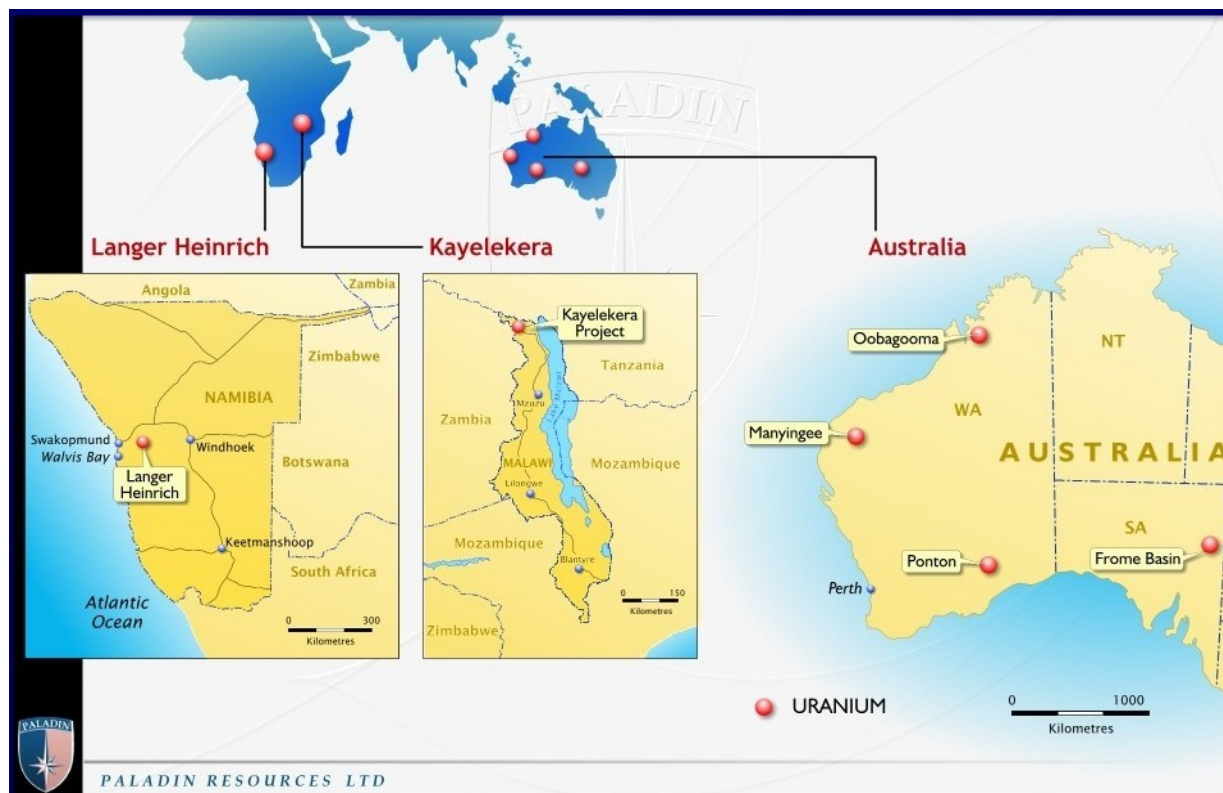
Paladin's total mineral resource inventory includes 41910t of U₃O₈ (92.4Mlbs of U₃O₈) at 0.076% U₃O₈ in the Indicated and Measured categories and 38.600t of U₃O₈ (85Mlbs of U₃O₈) at 0.061% U₃O₈ in the Inferred Resource category. The summary of status for each of the advanced projects is detailed in the following table.

Uranium Project Summary Table

CRITERIA	LANGER HEINRICH PROJECT	KAYELEKERA PROJECT	MANYINGEE PROJECT	OOBAGOOMA PROJECT
Paladin equity	100%	100%	100%	100%
Location	Namibia, Southern Africa	Malawi, Southern Africa	West Pilbara (West Australia)	West Kimberley (West Australia)
Deposit Type	Calcrete	Sandstone	Sandstone	Sandstone
Measured & Indicated Resources	32.2Mt of ore @ 0.07% U ₃ O ₈ (20,200t U ₃ O ₈)	15Mt of ore @ 0.09% U ₃ O ₈ (13,630t U ₃ O ₈)	7.9Mt of ore @ 0.1% U ₃ O ₈ (8,080t U ₃ O ₈)	-----
Inferred Resource	40Mt of ore @ 0.06% U ₃ O ₈ (23,800t U ₃ O ₈)	3.4Mt of ore @ 0.06% U ₃ O ₈ (2,040t U ₃ O ₈)	4.2Mt of ore @ 0.07% U ₃ O ₈ (2,810t U ₃ O ₈)	9,950t U ₃ O ₈ @ 0.12%
Mining Method	Conventional open pit	Conventional open pit	In-Situ Leach	In-Situ Leach
Previous Owners	Gencor Limited (South African Mining Company) and Acclaim	Central Electricity Generating Board (UK utility)	Cogema (French utility)	Cogema (French utility)
Past Expenditure	A\$20M	A\$9M	A\$16M	A\$5M
Activity Periods	1973 - 1980, 1999 to present	1982 - 1990, 1998 to present	1979 - 1988 Acquired 1998	1982 - 1985 Acquired 1998
Project Status	<ul style="list-style-type: none"> Staged commissioning commenced August 2006. 	<ul style="list-style-type: none"> Bankable Feasibility Study for completion December 2006. 	<ul style="list-style-type: none"> Advanced development project. On hold. Feasibility Study in readiness. 	<ul style="list-style-type: none"> Advanced exploration project. On hold. Resource definition drilling completed.
Project Significance	<ul style="list-style-type: none"> Globally first new uranium mine and mill in 25 years 	<ul style="list-style-type: none"> Revised mining concept positive indicating potential for development 	<ul style="list-style-type: none"> One of only three Australian advanced ISL projects 	<ul style="list-style-type: none"> Large resource potential
Timeframe	<ul style="list-style-type: none"> Production to commence in 2006 17 year project life 	<ul style="list-style-type: none"> Production to commence in 2008 10 year project life 	<ul style="list-style-type: none"> 3 year staged feasibility study required 	<ul style="list-style-type: none"> 2 year reserve / resource drilling required

MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

Project Locations



LANGER HEINRICH URANIUM PROJECT

The Langer Heinrich Uranium Project in Namibia is owned 100% by Paladin through its wholly owned Namibian subsidiary, Langer Heinrich Uranium (Pty) Ltd. Paladin purchased the Langer Heinrich Project in August 2002.

Langer Heinrich is a surficial, calcrete type uranium deposit containing a mineral resource of 40,000t U_3O_8 at a grade of 0.06% (250ppm cut off) in seven designated mineralised zones, named as Details 1 to 7, within a 15 kilometre length of an extensive palaeodrainage system. The deposit is located in the Namib Desert, 80 kilometres east of the major seaport of Walvis Bay. The attached Figure shows the location of the uranium mineralisation along the Langer Heinrich valley.

A positive Bankable Feasibility Study for the project was completed in April 2005, a 25 year mining lease was obtained in July 2005 and construction started in September 2005 with the Namibian Minister of Mines and Energy commemorating the event with a ground breaking ceremony at the LHU mine site.

In 2005 Paladin carried out a 11.534mRC drilling program to test prospective targets along 5km of previously unknown palaeochannel discovered in the 2004 drilling program. The drilling programme consisted of 245 RC drill holes and was confined to certain areas in Detail 2 and Detail 7. Mineral resource specialists Hellman and Schofield (H&S) have completed and independently verified a revised JORC (2004) Code mineral resource estimate of Langer Heinrich.

MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

The Mineral Resource estimation has been calculated by H&S as follows:-

All Details: 1 to 7 (including new channel drilling)

250ppm Cut-off	Mt	Grade % U₃O₈	Tonnes U₃O₈
Measured Resources	19.9	0.07	13,250
Indicated Resources	12.4	0.06	6,950
Total Measured & Indicated	32.3	0.07	20,200
Inferred Resources	40.0	0.06	23,800

Currently a 4000 metre drilling program is in progress to evaluate similar targets within the palaeochannel in Details 3, 4, 5 and 6.

Current total reserves based on a \$30/lb U₃O₈ price are as follows:-

	Mt	Grade % U₃O₈	Tonnes U₃O₈
Proven Ore Reserves	16.74	0.069	11,580
Probable Ore Reserves	8.63	0.063	5,451

The mining operation is designed to produce 1,180 tonnes (2.6Mlbs) per annum (tpa) of uranium oxide concentrate (U₃O₈) from 1.5Mtpa of calcrete associated ores by ore beneficiation, alkaline leaching (heating to 75°C), counter-current decantation, ion exchange, precipitation and calcining to produce saleable U₃O₈.

Project construction is progressing within budget and on schedule for project completion by end December 2006. By the end of June 2006, the total project was 83% complete with engineering at 99% complete and all contracts awarded. The 600 strong construction workforce deployed at Langer Heinrich has worked with no lost time incidents and recorded over 600,000 man hours without a Loss of Time through Injury (LTI) for the project to date.

Commencement of commissioning of the Langer Heinrich plant was achieved in August 2006, one month earlier than originally planned, with the successful commissioning of the crusher and associated conveyers to produce a crushed ore stockpile. Staged commissioning will now progressively continue through the scrubber and attrition, leach and CCD, the uranium precipitation and reagent areas.

The on site high voltage substation and transformers were commissioned and energised early in August 2006, with water flowing along the 85km pipeline from the coast to fill the onsite reservoirs. The contract miner is established on site and has commenced mining the initial pit undertaking topsoil removal and supplying feed for the crusher commissioning while establishing the mine infrastructure.

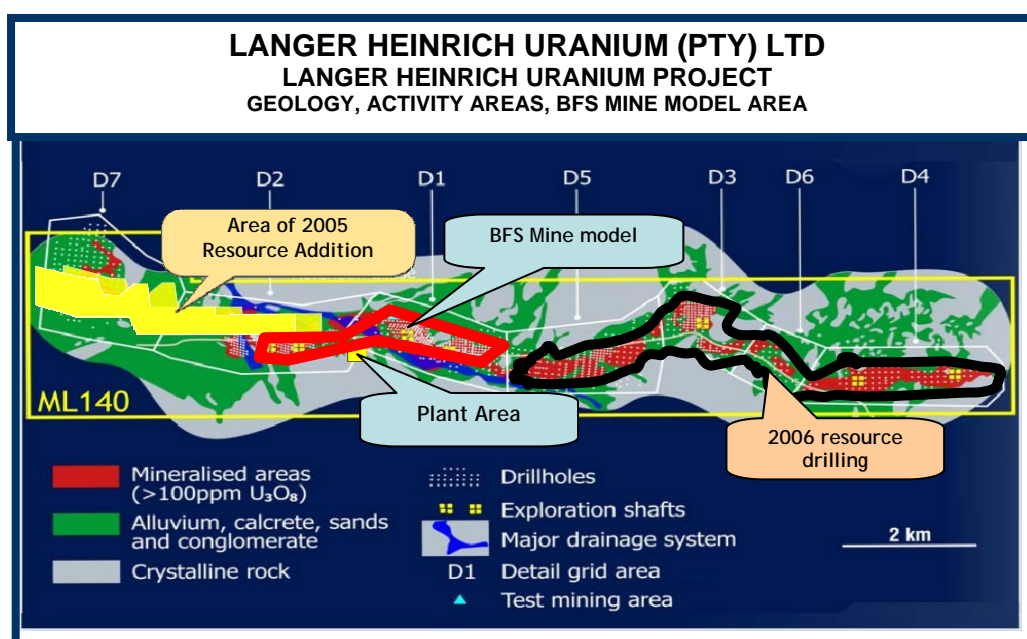
MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

Continual optimisation of the BFS alkaline leach process and subsequent positive confirmatory work by the internationally regarded Australian Nuclear Science and Technology Organisation (“ANSTO”) metallurgical laboratories has resulted in several upgrades in the uranium precipitation and reagent areas. Although the enhancements have impacted the construction schedule they are not expected, at this stage, to impact the staged commissioning of the plant or the project completion date.

An 8000m grade control drilling program was carried out to define the reserves for the first 6 months of mining the results showed strong correlation to the resource model used in the BFS.

A skilled operational team has been recruited, led by Wyatt Buck (ex Cameco production chief) with necessary business systems and operating processes in place. This group is ready to assist GRD Minproc in the planned commissioning of the plant and then seamlessly accept full responsibility at the operational handover late December 2006. Ramp up to initial annualised design output of 2.6Mlb U_3O_8 remains as planned for 3rd quarter 2007. The first contracted shipment of uranium oxide concentrate is expected to be shipped late 1st quarter 2007.

Paladin was successful in securing three sales contracts which account for more than 6.6 million pounds of Langer Heinrich production over the period 2007 to 2012 and underline Paladin’s confidence in the success of this project. Pricing in all three contracts is market-related at the time of delivery and is subject to escalating floor and ceiling components.



MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

KAYELEKERA PROJECT

The Kayelekera Uranium Project is located in northern Malawi, 40 kilometres west of the provincial town of Karonga and 11 kilometres south of the main road that connects Karonga with the township of Chitipa to the west.

The Kayelekera Uranium Project is owned 100% by Paladin through its wholly owned Malawi subsidiary Paladin (Africa) Ltd having purchased the remaining 10% equity interest in August 2005 from Balmain Resources Pty Ltd for a consideration of 4,350,000 fully paid shares in Paladin, valued at the time at A\$1.235 per share.

In 2004 the original Paladin 2000 Pre-Feasibility Study was updated in the light of increasing uranium prices and in April 2005, Paladin announced the go-ahead of a US\$2.3M BFS as a result of the improved economics shown by the pre-feasibility work. Overall project management of the BFS has been awarded to GRD Minproc, based in Johannesburg.

On current scheduling it is anticipated the BFS will be completed by December 2006. With early approvals, production start-up is expected in mid to late 2008 with annual production of 1,000t of U₃O₈ (2.3Mlb) over the currently planned ten-year mine life.

A 5394m, 120 hole RC drilling programme commenced in August 2005 to more clearly define the peripheral mineralisation for pit optimisation purposes and increase the resource base.

New Mineral Resource estimations, carried out by independent Mineral Resource specialist Hellman and Schofield to JORC (2004) standards, are based on the use of a combination of analytical assays (XRF) and downhole gamma logging results, following the application of standard practice radiometric calibration methods for U₃O₈. Approximately 50% of the mineralized holes were assayed for U₃O₈ using analytical methods (XRF) for check purposes and to establish disequilibrium parameters for subsequent application to un-assayed radiometrically logged drill hole intervals.

At 300ppm U₃O₈ Cut-off

	Mt	Grade % U ₃ O ₈	Tonnes U ₃ O ₈
Measured Resources	2.20	0.12	2,730
Indicated Resources	13.11	0.08	10,880
Total Measured & Indicated	15.31	0.09	13,630
Inferred Resources	3.40	0.06	2,040

At 600ppm U₃O₈ Cut-off

	Mt	Grade % U ₃ O ₈	Tonnes U ₃ O ₈
Measured Resources	1.58	0.16	2,460
Indicated Resources	6.98	0.12	8,240
Total Measured & Indicated	8.56	0.13	10,690
Inferred Resources	1.19	0.09	1,110

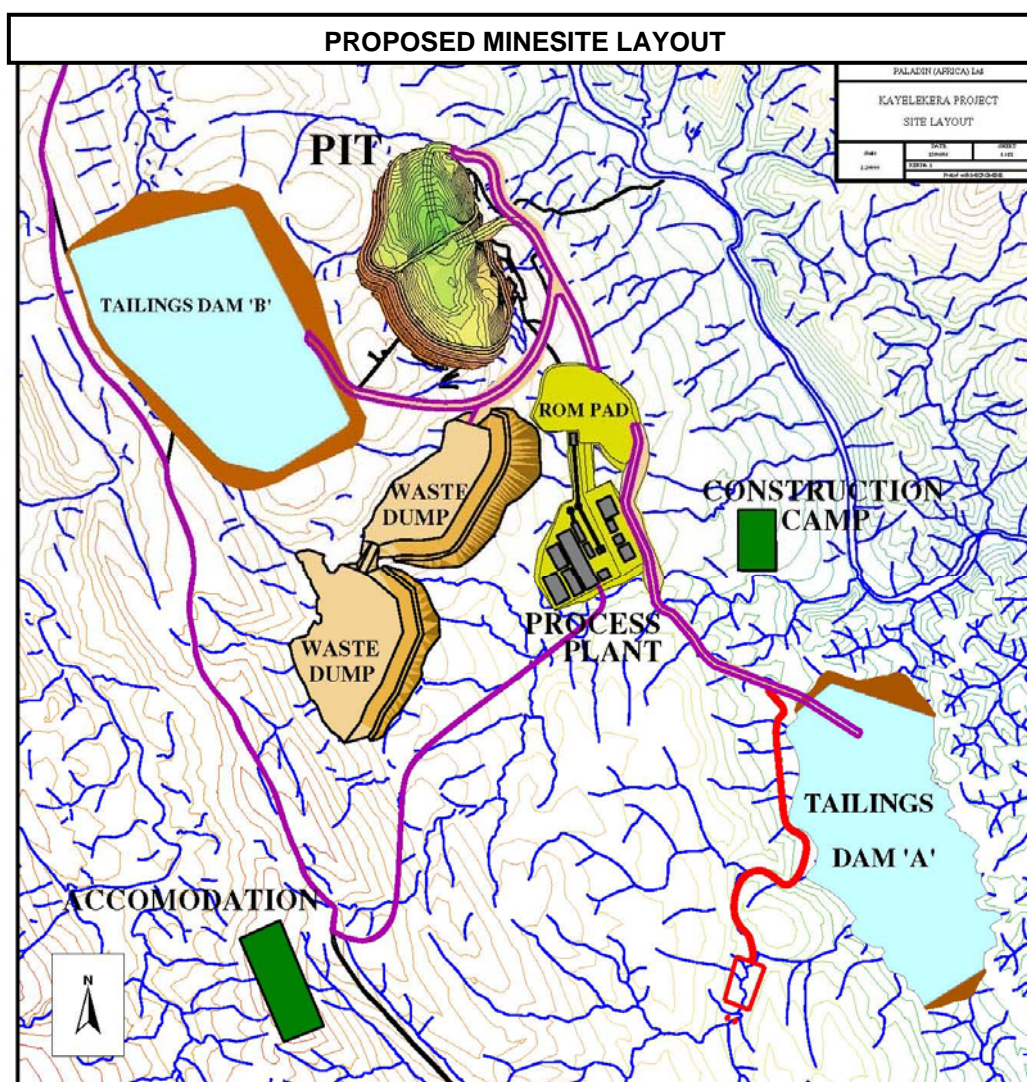
MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

The BFS is progressing well. The metallurgical test work is progressing through South Africa metallurgical laboratory Mintek with encouraging results that should lead to a more simplified process based on the conventional acid leaching and solvent extraction process and flow sheet. For the environmental, geotechnical, hydrological and tailings evaluation, Knights Piesold, a highly reputable South African firm, were selected to carry out this work. Their work is progressing as scheduled with 25 groundwater monitoring wells completed and the geotechnical drilling currently being carried out.

The attached Figure shows the current layout of the Kayelekera mine site.

The BFS and EIA are planned to be completed for the final submission to the Government and application for a mining licence in December 2006.

Paladin (Africa) Limited has been granted three exclusive prospecting licences in Malawi covering an aggregate 1,139 km². Two of these are contiguous with the Kayelekera exclusive prospecting licence while the third lies along the western shore of Lake Malawi. All three cover areas of Karroo Sandstone which hosts the Kayelekera orebody and the three areas are considered prospective for Kayelekera type uranium deposits. Airborne radiometric and geochemical anomalies were identified during previous work in the 1980's.



MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS (continued)

MANYINGEE PROJECT

The Manyingee Uranium Project is located in the north west of Western Australia, 1,100 kilometres north of Perth, the State Capital and 85 kilometres inland from the coastal township of Onslow. The property is comprised of three mining leases covering 13 square kilometres.

Paladin purchased the Manyingee Project in 1998 from Afmeco Mining and Exploration Pty Ltd (**AFMEX**), a subsidiary company of Cogema of France. Paladin's 100% interest in Manyingee is held through its wholly owned subsidiary, Paladin Energy Minerals NL.

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

The Manyingee Project contains JORC (1999) Code compliant resources as follows:

At 300ppm U₃O₈ Cut-off

	Mt	Grade % U ₃ O ₈	Tonnes U ₃ O ₈
Indicated Resources	7.9	0.10	8,080
Inferred Resources	4.2	0.07	2,810

The Manyingee project is currently mothballed due to the negative uranium policies of the State Government and feasibility work has been deferred until the policies are reversed by government.

OOBAGOOMA PROJECT

The Oobagooma Project is located in the West Kimberley Region of Western Australia, 1,900 kilometres north-north-east of Perth, the State Capital, and 75 kilometres north east of Derby on freehold land owned by the Commonwealth Government and used by the military for training purposes. The area is covered by two applications for exploration licences covering 392 square kilometres. Consent of the Commonwealth Government and the Department of Defence will be required before mining tenements can be granted by the State.

Paladin acquired a call option in 1998 in relation to the purchase of the Oobagooma Project and, in turn, granted a put option to the original holder of the Project. Both options are subject to the exploration licences being granted by the State.

The Oobagooma project area was explored by AFMEX from 1983 to 1986 during which time extensive zones of uranium mineralisation were discovered.

Using geostatistical methods AFMEX calculated a historical estimate of uranium mineralisation at Oobagooma. This work was done before the JORC Code had been formulated and was thus not carried out in accordance with the Code. The AFMEX estimate is as follows:

At 300ppm U₃O₈ Cut-off

	Mt	Grade % U ₃ O ₈	Tonnes U ₃ O ₈
Historic Resources	8.2	0.12	9,950

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS (continued)

The main exploration effort, once the tenements have been granted, will be to confirm continuity of the uranium mineralisation by infill drilling concentrating on mineralised redox fronts as re-interpreted and allow JORC compliant resource estimates to be made. The mineralisation is open and potential exists to increase the currently known resource base. The style of mineralisation is believed to be amenable to recovery of uranium in a future ISL mining operation.

QUASAR URANIUM JOINT VENTURE

The Joint Venture with Quasar Resources Pty Ltd covers two exploration licences in the northern Frome Basin in South Australia. The two licences cover 1,051 square kilometres. Paladin holds a 15% free carried interest in Exploration Licence 3001 and a 20% free carried interest in Exploration Licence 3078. Quasar is a wholly owned subsidiary of Heathgate Resources Pty Ltd, operator of the Beverley ISL uranium mine which is situated immediately south of the Joint Venture tenements. Quasar is operator and manager of the Joint Venture. Heathgate Resources is an Australian affiliate of General Atomics of the USA.

The exploration licences are considered prospective for palaeochannel uranium mineralisation and Quasar has conducted a number of exploration campaigns on the ground.

URANIUM DATABASE

Paladin owns a unique uranium database, compiled over 30 years of investigations by the international uranium mining house Uranerzbergbau in Germany. The database incorporates all aspects of the uranium mining and exploration industry and includes detailed exploration data for Africa and Australia. It can be used to quickly research uranium prospects, deposits and mineralisation on a country by country basis. Paladin continues to evaluate opportunities for acquiring additional uranium projects from this database.

DEEP YELLOW LTD

In 2005 Paladin sold three non-core Australian uranium projects to Deep Yellow Ltd which is an Australian company listed on the ASX. As a result of these sales Paladin now holds 6,550,000 fully paid shares in Deep Yellow Ltd, 25,000,000 one-cent options expiring on 31 December 2007 and 12,500,000 twelve-cent options expiring on 15 July 2008. Paladin is also entitled to a 2% gross royalty on production from the Napperby and North East Arunta projects in the Northern Territory.

Deep Yellow Ltd is a dedicated uranium exploration company with exploration holdings covering over 75,000 square kilometres in Northern Territory, Queensland and South Australia.

MANAGEMENT DISCUSSION AND ANALYSIS FINANCIAL REVIEW

INCOME STATEMENTS	YEAR ENDED 30 JUNE	
	2006 A\$000	2005 A\$000
Revenue from Continuing Operations	4,298	772
Other Income	1,057	810
Shared Based Payments Expense	(3,650)	(3,009)
Exploration and Evaluation Expenditure	(4,233)	(5,113)
Write Down of Convertible Note	-	(894)
Other Expenses from Continuing Operations	(4,958)	(2,104)
Loss from Continuing Operations	(7,486)	(9,538)
Profit from Discontinued Operations	-	128
Loss Before and After Income Tax	(7,486)	(9,410)
Loss Per Share (Australian Dollars) - basic and diluted	(0.02)	(0.03)

Revenue from Continuing Operations has increased to A\$4,298,364 in 2006 as a result of an increase in interest revenue derived from higher cash holdings in 2006 when compared to 2005, and the revenue earned from the Frome Basin database licence to Deep Yellow in 2006.

Other Income in 2006 relates to a A\$441,117 profit on sale of non-core uranium exploration property to Deep Yellow and a A\$615,642 foreign exchange gain primarily attributable to cash holdings in South African rand and Namibian dollars for the funding of construction activities of the Langer Heinrich Uranium Project. In 2005 the other income represented a A\$810,000 profit on sale of non-core uranium exploration properties to Deep Yellow.

Share Based Payments Expense relates to the requirement to recognise the cost of granting options to Directors, employees and consultants under AIFRS over the option vesting period. The first options granted by the Company with vesting periods were in November and December 2004, as a result the expense was lower in 2005 at A\$3,008,850. The expense in 2006 of A\$3,650,260 reflects the full year impact of the costs of granting options over their vesting periods.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

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.

A change in *Exploration and Evaluation Expenditure* accounting policy has been retrospectively applied during the year. 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. A decrease in exploration and evaluation expenditure in the Income Statement to A\$4,232,651 has occurred in 2006 as a decision to proceed to development has been made for the Langer Heinrich Uranium Project, which results in the capitalisation of this project's expenditure.

Write Down of Convertible Note in 2005 of \$894,438 related to the provision for non-recovery of convertible note and interest receivable owing from Didasko Technologies Pty Ltd.

Other Expenses from Continuing Operations have increased to A\$4,958,397 in 2006 as a result of the expanded corporate activities attributable to the significant growth of the Company in the last year.

The *Profit from Discontinued Operations* in 2005 of A\$127,739 relates to the commercial property sold on 24 June 2005.

The *Loss* for the year ended 30 June 2006 of A\$7,486,185 compares favourably to the loss for the year ended 30 June 2005 of A\$9,410,228 as a result of higher revenue and other income, lower exploration and evaluation expenditure and no write down of convertible note in the 2006 Income Statement; despite the higher Share Based Payment Expense and the expanded corporate activities attributable to the significant growth of the Company in the last year.

Earnings Per Share

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

Segment Disclosure

In the Namibia geographical segment the Company reflected a foreign exchange loss (primarily on cash holdings of Namibian dollars) as exploration expenditure for the Langer Heinrich Uranium Project has been capitalised as an asset. The Malawi geographic segment primarily reflected the exploration and evaluation expenditure for the Kayelekera Uranium Project. In the Australian geographic segment the Company reflected the remaining Income Statement activities.

MANAGEMENT DISCUSSION AND ANALYSIS
FINANCIAL REVIEW (continued)

BALANCE SHEETS	30 JUNE 2006 A\$000	30 JUNE 2005 A\$000
Total Current Assets	<u>63,473</u>	<u>40,057</u>
Total Non Current Assets	<u>96,835</u>	<u>5,384</u>
Total Assets	<u>160,308</u>	<u>45,441</u>
Total Current Liabilities	<u>11,644</u>	<u>1,325</u>
Total Non Current Liabilities	<u>23,939</u>	<u>-</u>
Total Liabilities	<u>35,583</u>	<u>1,325</u>
Net Assets	<u>124,725</u>	<u>44,116</u>

Current Assets have increased to A\$63,472,754 at 30 June 2006 as a result of the A\$77 million private placement completed in October 2005 and US\$17 million (A\$23.2 million) project finance debt drawdown for Langer Heinrich Uranium in June 2006; less the cash spend on construction activities for the Langer Heinrich Uranium Project, bankable feasibility study expenditure for the Kayelekera Uranium Project, project generation exploration and evaluation activities and corporate costs for the year ended 30 June 2006. Of the A\$59,777,956 held in cash as at 30 June 2006, A\$54,530,658 has been invested in short term commercial bank bills and term deposits.

Non Current Assets have increased to A\$96,835,232 during the year as a result of mine construction activities/exploration and evaluation expenditure for the Langer Heinrich Uranium Project, acquisition of the remaining 10% joint venture interest in the Kayelekera Uranium Project and increased investment in and financial value of Deep Yellow shares and options.

The consideration for the acquisition of the remaining 10% joint venture interest in the Kayelekera Uranium Project from Balmain Resources Pty Ltd was satisfied by the issue of 4,350,000 fully paid ordinary shares which is valued at A\$5,611,500.

During the year ended 30 June 2006 the Company acquired an additional 15,450,000 shares and 12,500,000 unlisted options (with an exercise price of A\$0.12 and expiry of 31 July 2008) in Deep Yellow – 6,950,000 shares from participation in a non-renounceable entitlement issue, 1,000,000 shares from on-market purchase, and the balance of 7,500,000 shares and the options from the sale of a non-core uranium exploration property and grant of licence over the Frome Basin database. Under AIFRS the investments in Deep Yellow are required to be stated at fair value at each reporting date, and the Company has adopted a policy of recording the revaluation amount in Reserves. At 30 June 2006 the Company has a revaluation increment for the investments in Deep Yellow as a result of its share price increasing to A\$0.125 from A\$0.067 at 30 June 2005.

Current Liabilities increased to A\$11,643,641 at 30 June 2006 as a result of Langer Heinrich Uranium Project mine construction activities. This increase occurred despite the repayment and cancellation of the debt facility established for the Langer Heinrich Bankable Feasibility Study on 31 October 2005 - the principal repayment was A\$500,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Non Current Liabilities of A\$23,938,271 exist as at 30 June 2006 relating primarily to the US\$17 million (A\$23.2 million) project finance debt drawdown for the Langer Heinrich Uranium Project in June 2006. The total facilities available are US\$71 million consisting of a US\$65 million project finance facility and US\$6 million cost over-run facility.

In addition non current liabilities also relate to the grant of licence for the Frome Basin database to Deep Yellow, and the Company has allocated Deep Yellow shares and options to the value of A\$1,452,633 to the granting of this licence which is for a six year period commencing 15 July 2005. Of this unearned licence revenue A\$978,510 is non current at 30 June 2006. Non current liabilities also include the recognition of a mine closure and restoration provision for the construction activities of the Langer Heinrich Uranium Project.

Segment Disclosure

In the Balance Sheet in 2006 the Company reflected a significant increase in the Namibia geographical segment attributable to the focus on the Langer Heinrich Uranium Project. In the Malawi geographical segment the main activity was the acquisition of the remaining 10% joint venture interest in the Kayelekera Uranium Project.

STATEMENTS OF CHANGES IN EQUITY

	YEAR ENDED 30 JUNE	
	2006 A\$000	2005 A\$000
Total Equity at the Beginning of the Financial Period	44,116	7,112
Loss for the Year Ended 30 June	(7,486)	(9,410)
Movement in Reserves	5,905	4,687
Movement in Equity	82,190	41,727
Total Equity at the End of the Financial Period	124,725	44,116

Loss for the Year Ended 30 June 2006 is discussed under the Income Statements section.

Movement in Reserves increased to A\$5,905,699 in 2006 relating to both the revaluation increment attributable to the increase in Deep Yellow share price to A\$0.125 from A\$0.067 at 30 June 2005 and the recognised value of unlisted employee options. This increase is after deduction for the exercise of 14,000,000 unlisted employee options – 11,000,000 exercisable at A\$0.22 on or before 26 May 2006 and 3,000,000 exercisable at A\$0.32 on or before 26 May 2006.

Movements in Equity increased to A\$82,190,030 in 2006 from the completion of a 35,000,000 share global private placement, exercise of unlisted employee options and issue of shares to acquire the remaining 10% joint venture interest in the Kayelekera Uranium Project. The number of fully paid ordinary shares on issue at 30 June 2006 is 454,235,713, an increase of 53,350,000 during the year. Share options of 24,215,000 remain outstanding at 30 June 2006 to Directors, employees, and consultants directly engaged in corporate, construction and exploration and evaluation work for the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

CASH FLOW STATEMENTS	YEAR ENDED 30 JUNE	
	2006 A\$000	2005 A\$000
Net Cash Inflow/(Outflow) from Operating Activities	648	(1,281)
Net Cash Outflow from Investing Activities	(76,496)	(5,000)
Net Cash Inflow from Financing Activities	95,080	41,131
Net Increase in Cash Held	19,232	34,850
Cash at the Beginning of Financial Period	39,489	4,639
Effects of Exchange Rate Changes	1,057	-
Cash at the End of the Financial Period	59,778	39,489

The *Net Cash Inflow from Operating Activities* in 2006 of A\$648,517 is attributable to the increase in interest received from higher cash holdings in 2006 when compared to 2005, despite higher payments to suppliers and employees relating to expanded corporate activities attributable to the significant growth of the Company in the last year.

In 2006 *Net Cash Outflow from Investing Activities* increased to A\$76,496,148 as a result of mine construction/exploration and evaluation expenditure for the Langer Heinrich Uranium Project, bankable feasibility study for the Kayelekera Uranium Project, project generation exploration and evaluation activities and acquisition of additional shares in Deep Yellow.

Net Cash Inflow from Financing Activities represented a net cash inflow of A\$95,079,960 in 2006 as a result of the A\$77 million private placement completed in October 2005, net proceeds from exercise of 14,000,000 unlisted employee options, and US\$17 million (A\$23.2 million) project finance debt drawdown for the Langer Heinrich Uranium Project in June 2006. This inflow was net of share issue costs, establishment costs for the Langer Heinrich project finance facility, and repayment in October 2005 of the debt facility established for the Langer Heinrich Bankable Feasibility Study. The number of shares issued in 2006 was 53,350,000 (including 4,350,000 relating to the non cash acquisition of the remaining 10% joint venture interest in the Kayelekera Uranium Project) a decrease from the 67,200,000 issued in 2005.

Overall the *Net Increase in Cash* in 2006 was A\$19,232,329 lower than the net increase in cash in 2005 as a result of the significantly higher cash outflows from investing activities, despite higher cash inflows from financing activities.

In 2006 an A\$1,056,601 *Effects of Exchange Rate Changes* exists from the translation of foreign currency holdings of South African rand and Namibian dollars for the funding of construction activities of the Langer Heinrich Uranium Project.

The cash at 30 June 2006 of A\$59,777,956 represents a considerable increase in cash compared to the year ended 30 June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity as at 30 June 2006 is cash of A\$59,777,956 (30 June 2005 – A\$39,489,026) and project finance debt. Of the total cash an amount of A\$54,530,658 has been invested in short term commercial bank bills and term deposits.

The Company's principal sources of cash for the year ended 30 June 2006 were proceeds from a private placement, project finance debt drawdown, receipts from exercise of unlisted employee options and interest received from cash investments.

During the year the Company completed Langer Heinrich project finance facilities of US\$71 million and a total of US\$17 million had been drawn by 30 June 2006, leaving available facilities of US\$54 million.

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

Payments due by period	Total \$A	Less than 1 yr \$A	1 to 5 yrs A\$	Unknown A\$
Mine construction	31,248,279	31,248,279	-	-
Mineral properties	482,800	482,800	-	-
Operating leases	724,940	221,558	503,382	-
Manyingee acquisition	750,000	-	-	750,000
Total commitments	33,206,019	31,952,637	503,382	750,000

In relation to the Manyingee Uranium Project, the acquisition terms provide for a payment of A\$750,000 by the Company to the vendors when all project development approvals are obtained.

In addition to the outstanding commitments above, the Company acquired a call option on 19 June 1998 in relation to the purchase of the Oobagooma Uranium Project and, in turn, granted a put option to the original holder of the Project. Both the call and put options have an exercise price of A\$750,000 and are subject to the Western Australian Department of Minerals & Energy granting tenements comprising 2 exploration licence applications. The A\$750,000 is payable by the Company within 10 business days of the later of the grant of the tenements or the exercise of either the call or put option. The options will expire 3 months after the date the tenements are granted.

As at 30 June 2006 the Group has outstanding A\$2,750,628 in current bank guarantees issued to contractors in relation to the mine construction activities for the Langer Heinrich Uranium Project.

The Company has no other off Balance Sheet arrangements.

OUTSTANDING SHARE INFORMATION

As at 29 August 2006 the Company had 455,285,713 fully paid ordinary shares issued and outstanding. The following table sets out the fully paid ordinary shares issuable under the Company Employee Share Incentive Option Plan:

As at 29 August 2006	Number
Outstanding shares	455,285,713
Issuable under Employee Share Option Plan	24,565,000
Total	479,850,713

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the carrying value or impairment of interests in mineral properties, financial investments, and property, plant and equipment.

FINANCIAL INSTRUMENTS

At 30 June 2006 the Company has exposure to interest rate risk which is limited to the floating market rate for cash.

The Company does not have foreign currency risk for non-monetary assets and liabilities of the Namibia and Malawi operations as these are deemed to have a functional currency of Australian dollars. The Company had no significant monetary foreign currency assets and liabilities 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 Company currently does not engage in any hedging or derivative transactions to manage interest rate or foreign currency risks.

TRANSACTIONS WITH RELATED PARTIES

During the year ended 30 June 2006 no payments were made to Director-related entities as all Directors throughout this period were employees of the Company and received employee based compensation.

INTERNAL CONTROLS

The Company has made no changes to its internal controls over financial reporting since 30 June 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

DISCLOSURE CONTROLS

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

SUBSEQUENT EVENTS

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, some of 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

On 20 July 2006, the Company announced the allotment of 650,000 fully paid ordinary shares after exercise of employee options. On 18 August 2006, the Company announced the allotment of 400,000 fully paid ordinary shares after exercise of employee options.

Appointment of Mr Brendan O'Hara

On 3 July 2006, the Company announced the appointment of Mr Brendan O'Hara as General Manager – Special Projects, based in Perth. Mr O'Hara graduated with Bachelors of Laws and Jurisprudence (with First Class Honours) from the University of Western Australia in 1988, before joining a national Australian law firm specialising in mergers and acquisitions, fundraising, securities industry law and corporate regulation, and then spent 13 years with the Australian Stock Exchange in various roles including Manager, Companies (WA) and WA State Executive Director. Mr O'Hara will assist with the Company's global expansion strategy and is responsible for development and implementation of a global investor relations strategy. Mr O'Hara has been offered 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.

Appointment of Mr David Princep

On 20 July 2006, the Company announced the appointment of Mr David Princep as Principal Geologist, based in Perth. Mr Princep graduated with a degree in Geology from the University of Liverpool in the UK in 1976 and has had extensive experience in the mineral resource industry including analytical laboratory work. In 2003 he joined Hellman and Schofield, a mineral resource specialist group, as a consulting geologist specialising in resource estimation and assessment, grade control practices and project data management. Mr Princep has been issued 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.

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

CORPORATE GOVERNANCE FRAMEWORK

The Board of Directors of Paladin Resources Ltd is responsible for the corporate governance of the Consolidated Entity.

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

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

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

The Company has complied with each of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the ASX Corporate Governance Council. Further the Company has also complied with the Ontario Securities Commission's corporate governance requirements as set out in National Instrument 58-101, Disclosure of Corporate Governance Practices, which came into force on June 30, 2005.

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

RELATIONSHIP WITH SHAREHOLDERS

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

To safeguard the effective dissemination of information, the Board has implemented a Disclosure Control Policy, detailed later in this Statement, and adopted a Shareholder Communications Policy. These reinforce the Company's commitment to its continuous disclosure obligations imposed by law.

Information will be communicated to shareholders by:-

- Ensuring that published financial and other statutory reports are prepared in accordance with applicable laws and industry best practice;
- Ensuring the disclosure of full and timely information about the Company's activities in accordance with the general and continuous disclosure principles in the ASX Listing Rules, the Corporations Act in Australia and all relevant legislation in Canada;
- Providing detailed reports from the Chairman and the Managing Director at the Annual General Meeting;
- Placing all material information released to the market (including notices of meeting and explanatory materials) on the Company's website as soon as practical following release; and

CORPORATE GOVERNANCE STATEMENT (continued)

RELATIONSHIP WITH SHAREHOLDERS (continued)

- Placing the Company's market announcements and financial data for the preceding three years on its website. Earlier announcements are available on request.

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

Shareholders are encouraged to attend Annual General Meetings and ask questions of Directors and senior management and also the Company's external auditors, who are required to be in attendance. In the event that shareholders are unable to attend meetings, they are encouraged to lodge proxies signifying their approval or otherwise of the business to be considered.

BOARD OF DIRECTORS

Role of the Board

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

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

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

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

Composition of the Board

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

The structure of the Board has evolved over time to reflect the changing needs of the Company to ensure an appropriate mix of skills and experience are available to oversee the growth of Paladin to its full potential. This was particularly relevant given the progress towards becoming a uranium supplier and, in the last quarter of the 2005 financial year, Board membership underwent a major restructure.

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

CORPORATE GOVERNANCE STATEMENT (continued)

Director Independence

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

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

Mr Rick Wayne Crabb was a principal of the legal firm, Blakiston and Crabb, until 30 June 2004. Blakiston and Crabb is the main provider of legal services to the Company in respect of matters concerning Australian law. Accordingly, Mr Crabb does not fit within paragraph 3 of the Independence Test as determined by box 2.1 of ASX Corporate Governance Council Principles ("Independence Test") because this paragraph excludes any person who has been a principal of a material advisor within the previous 3 year period. Mr Crabb passes all other aspects of the Independence Test. The Board of Paladin (in the absence of Mr Crabb) considered Mr Crabb demonstrates he consistently makes decisions and takes actions which are designed to be in the best interest of the Company. The Board notes the fees paid to Blakiston and Crabb are not material to the Company and were not high enough to be material to Mr Crabb's practice at the firm Blakiston and Crabb during the time he was a partner there and are not relevant at all past his date of retirement from that firm. Therefore, the Board considers Mr Crabb to be independent.

Meetings of the Board

The Board meets formally at least four times a year (each over a 2 day period) and on other occasions, as required. On the invitation of the Board, members of senior management attend and make presentations to the Board. Non-executive Directors are able to meet without the Managing Director and management being present, as considered appropriate. Each of the four principle Board meetings provided this opportunity.

The Board holds an annual strategic planning session with management at which the Company's strategic plans for each operating activity and the Group as a whole are presented. This was held in February 2006 over a 2 day period, on site at the Langer Heinrich Project in Namibia. The Managing Director encourages full access to executive Managers by the Board to ensure transparency at a senior management level.

Retirement and Re-election

The Constitution of the Company requires one third of the Directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire by rotation at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring Directors are eligible for re-election by shareholders. Details of those Directors seeking re-election at the 2006 Annual General Meeting are set out in the Directors' Report.

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

In reaching this conclusion, the Board has noted that each of R Crabb (the Chairman) and J Borshoff (the Managing Director) will have each served on the Board for 12 years. Notwithstanding their period of service, the Board concluded that both Directors retain independence of character and judgement and continue to make outstanding contributions at Board level. Both bring their unique skills to the Board and participate in robust constructive debate.

CORPORATE GOVERNANCE STATEMENT (continued)

Nomination and Appointment of New Directors

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

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

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

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

Evaluation of Board Performance

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

An evaluation of the performance of the Board was carried out in the last quarter of the 2006 financial year. This process involved completion of individual questionnaires focused on process, structure, effectiveness and contributions. Responses to the questionnaire were collated and discussed by the Board and recommendations for improvement considered.

CORPORATE GOVERNANCE STATEMENT (continued)

Knowledge, Skills and Experience

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

Directors are also provided with papers, presentations and briefings on the Company's operations and on matters which may affect the Company. These are provided in addition to Board papers and are designed to assist the Directors to gain relevant and timely information to assist in their decision making process. Directors are also encouraged to undertake continuing education relevant to the discharge of their obligations as Directors of the Company. Subject to prior approval by the Company Secretary, the reasonable cost of such education is met by the Company.

Position Descriptions

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

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

Conflicts of Interest

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

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

Remuneration

Details of the remuneration policies and practices of the Company and the remuneration paid to the Directors (Executive and Non-executive) and Senior Executives are set out in the Remuneration Report included in the Directors' Report. Shareholders will be invited to consider and to approve the Remuneration Report at the Annual General Meeting in November 2006.

In relation to the Non-executive Directors there are no termination or retirement benefits.

Independent advice

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

CORPORATE GOVERNANCE STATEMENT (continued)

BOARD COMMITTEES

The Board has established Audit, Nomination and Remuneration Committees which assist in the discharge of the Board's responsibilities.

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

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities to ensure that the Company complies with appropriate and effective accounting, auditing, internal control, business risk management, compliance and reporting practices in accordance with the Audit Committee Charter.

The role of the Audit Committee is to:

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

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

- George Pirie – Chairman
Non-executive, Independent Director
- Sean Llewelyn – Non-executive Director
Independent Director
- Ian Noble – Non-executive Director
Independent Director

The Audit Committee meets at least once a quarter and at any other time requested by a Board member, Company Secretary or external auditor. The external auditors attend at least twice a year and on other occasions where circumstances warrant.

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

The external auditors are Ernst and Young who were appointed as the Company's auditors in June 2005.

CORPORATE GOVERNANCE STATEMENT (continued)

Nomination Committee

The responsibilities of the Nomination Committee include:-

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

The Chairman of the Board chairs the Nomination Committee and having regard to the size of the Board, it is considered appropriate that all members of the Board are members of the Nomination Committee.

No meetings of the Nomination Committee were held during the financial year to 30 June 2006 as the Board underwent a comprehensive restructure to accommodate the needs of the Company in the last quarter of the 2005 financial year.

Remuneration Committee

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

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

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

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

The Remuneration Committee comprises three members, all of whom are independent Directors. The Chairman of the Board is the Chairman of the Remuneration Committee and the Committee shall meet at least twice a year and otherwise as required.

CORPORATE GOVERNANCE STATEMENT (continued)

Remuneration Committee (continued)

The current members of the Remuneration Committee are:-

- Rick Crabb – Chairman
Non-executive, Independent Director
- Sean Llewelyn – Non-executive Director
Independent Director
- George Pirie – Non-executive Director
Independent Director

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

FINANCIAL REPORTING

CEO and CFO Sign-offs

In accordance with the Corporations Act 2001, ASX Corporate Governance Principle 4 (Safeguard Integrity in Financial Reporting) and Canadian Securities Law, relevant declarations, statements and certifications have been provided by the Managing Director and the Chief Financial Officer in relation to the Company's 30 June 2006 Annual Report, including financial statements.

DISCLOSURE CONTROLS

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

RISK MANAGEMENT

The Company has established a Risk Management Policy which sets out a framework for a system of risk management and internal compliance and control, whereby the Board delegates day-to-day management of risk to the Managing Director. The Managing Director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the Board on risk management.

A master risk register has been compiled and is subject to periodic review by senior management to ensure adequate risk control measures have been identified. An operational risk assessment system is in place at Langer Heinrich which is continuously reviewed and updated.

ENVIRONMENT

The Company seeks to prevent, minimise, mitigate and remediate any harmful effects of its operations on the environment and strives to achieve continuous improvement in environmental performance. The Company promotes an excellent standard of environmental performance across its business and has adopted an environmental policy which includes compliance with all applicable environmental laws as a minimum standard, development and implementation of Environmental Management Systems, including Environmental and Radiological Management Plans to identify, assess and manage environmental risks, ensuring its employees and contractors are aware of their environmental responsibilities, consulting with government and community in relation to the Company's operations and proposed projects, and undertaking regular audits and reviews on environmental performance.

SAFETY AND OCCUPATIONAL HEALTH

The safety, health and wellbeing of employees, contractors and the community are of core value to Paladin Resources' operations. A healthy workforce contributes to business success and Paladin's aim is for zero injuries. The safety and health performance of Paladin will be measured through internal and external internationally recognised auditing and reporting processes.

SECURITIES OWNERSHIP AND DEALINGS

The Company has a Policy for Trading in Company Securities which is binding on all Directors and employees. The purpose of this policy is to provide a brief summary of the law on insider trading and other relevant laws, set out the restrictions on dealing in securities by people who work for or are associated with Paladin and assist in maintaining market confidence in the integrity of dealings in Paladin's securities.

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

CODES OF CONDUCT

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

These Codes demonstrate and codify Paladin's commitment to appropriate and ethical corporate practices. Compliance with the Codes will also assist the Company to effectively manage its operating

CORPORATE GOVERNANCE STATEMENT (continued)

CODES OF CONDUCT (continued)

risks and meeting its legal and compliance obligations, as well as enhancing Paladin's corporate reputation.

The principles outlined in this document are intended to:

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

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

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

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

The purpose of the Whistleblower Policy is to:

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

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

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

DIRECTORS' REPORT

The Directors present their report on the Consolidated Entity consisting of Paladin Resources Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2006.

Directors

The following persons were Directors of Paladin Resources Ltd ("Company") and were in office for this entire period:

Current

Mr Rick Wayne Crabb (Non-executive Chairman)

Mr John Borshoff (Managing Director)

Mr Sean Llewelyn (Non-executive Director)

Mr George Pirie (Non-executive Director)

Mr Ian Noble (Non-executive Director)

Principal Activity

The principal activity of the Consolidated Entity was evaluation and development of uranium projects in Africa and Australia.

Review and Results of Operations

A detailed operational and financial review of the Consolidated Entity is set out on pages 11 to 28 of this report under the section entitled Management Discussion and Analysis.

Dividends

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

Significant Changes in the State of Affairs

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

DIRECTORS' REPORT (continued)

Significant 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, some of 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

On 20 July 2006, the Company announced the allotment of 650,000 fully paid ordinary shares after exercise of employee options. On 18 August 2006, the Company announced the allotment of 400,000 fully paid ordinary shares after exercise of employee options.

Appointment of Mr Brendan O'Hara

On 3 July 2006, the Company announced the appointment of Mr Brendan O'Hara as General Manager – Special Projects, based in Perth. Mr O'Hara graduated with Bachelors of Laws and Jurisprudence (with First Class Honours) from the University of Western Australia in 1988, before joining a national Australian law firm specialising in mergers and acquisitions, fundraising, securities industry law and corporate regulation, and then spent 13 years with the Australian Stock Exchange in various roles including Manager, Companies (WA) and WA State Executive Director. Mr O'Hara will assist with the Company's global expansion strategy and is responsible for development and implementation of a global investor relations strategy. Mr O'Hara has been offered 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.

Appointment of Mr David Princep

On 20 July 2006, the Company announced the appointment of Mr David Princep as Principal Geologist, based in Perth. Mr Princep graduated with a degree in Geology from the University of Liverpool in the UK in 1976 and has had extensive experience in the mineral resource industry including analytical laboratory work. In 2003 he joined Hellman and Schofield, a mineral resource specialist group, as a consulting geologist specialising in resource estimation and assessment, grade control practices and project data management. Mr Princep has been issued 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.

Likely Developments

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

DIRECTORS' REPORT (continued)

Environmental Regulations

The Consolidated Entity is subject to significant environmental regulation in respect to its evaluation and development activities.

The Company aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The Directors of the Company reviewed the Company's projects during the year and are not aware of any breach of environmental legislation for the financial year under review.

Information on Directors

Mr Rick Wayne Crabb (*Non-executive Chairman*) Age 49
B. Juris (Hons), LLB, MBA, FAICD

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.

Former directorships of listed companies in last three years
 ST Synergy Ltd from 2001 to 2005
 Deep Yellow Ltd from 2003 to 2004
 Aldershot Resources Ltd from 2004 to 2005

Special Responsibilities

Chairman of the Board
 Chairman of Remuneration Committee from 1 June 2005
 Chairman of Nomination Committee from 1 June 2005

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.

Special Responsibilities

Managing Director
 Member of Nomination Committee from 1 June 2005

DIRECTORS' REPORT (continued)

Information on Directors (continued)

Mr Sean Reveille Llewelyn (Non-executive Director) Age 58
LL.B

Mr Llewelyn, first qualified as a solicitor in Australia and 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 on derivatives, structured finance and early stage investment relating to the metal markets. He has been involved with uranium for over 10 years and has a comprehensive understanding of the uranium market.

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 on 12 April 2005.

Special Responsibilities

Member of Audit Committee from 12 April 2005

Member of Remuneration Committee from 1 June 2005

Member of Nomination Committee from 1 June 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 on 1 June 2005.

Special Responsibilities

Chairman of Audit Committee from 1 June 2005

Member of Remuneration Committee from 1 June 2005

Member of Nomination Committee from 1 June 2005

DIRECTORS' REPORT (continued)

Information on Directors (continued)

Mr Ian Urquhart Noble (*Non-executive Director*) Age 65
BSc (Metallurgy), F.AusIMM, 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 Western Mining Corporation's Olympic Dam Project.

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

Special Responsibilities

Member of Audit Committee from 29 June 2005

Member of Nomination Committee from 29 June 2005

Company Secretary

Ms Gillian Swaby Age 46
B.Bus, FCIS, FAICD

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

Ms Swaby is past Chair of the Western Australian Council of Chartered Secretaries of Australia, a former Director on their National Board and lecturer for the Securities Institute of Australia. Ms Swaby is the principal of a corporate consulting company and was a member of the Paladin Board for a period of 9 years.

DIRECTORS' REPORT (continued)

Directors' Meetings

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

Name	Board of Directors' meetings		Audit Committee meetings		Remuneration Committee meetings	
	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend
Mr Rick Crabb	8	8	-	-	5	5
Mr John Borshoff	8	8	-	-	-	-
Mr Sean Llewelyn	8	8	5	5	5	5
Mr George Pirie	8	8	5	5	3	5
Mr Ian Noble	6	8	5	5	-	-

Resignation, Election and Continuation in Office of Directors

In accordance with the Constitution of the Company Messrs Crabb and Llewelyn retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

Remuneration Report

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 1 January 2006
Mr Dustin Garrow	Director of Marketing – commenced as Key Management Personnel on 1 January 2006
Mr David Marsh	Executive General Manager – New Business Development – appointed 1 July 2006

Compensation of Key Management Personnel

i) Compensation Policy (audited)

The Remuneration Committee, on behalf of the Board of Directors, monitors compensation of Directors and Executives of the Company.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

i) Compensation Policy (audited)(continued)

Generally, compensation is provided by the Company to its Executives (including the Managing Director), by way of base salary, short-term bonus, granting of employee options and superannuation. The overall objective is to ensure that remuneration is fair and reasonable and sufficient to attract and retain qualified and experienced Directors and Executives.

The compensation program for the Executives of the Company is designed to ensure that the level and form of compensation achieves certain objectives, including:

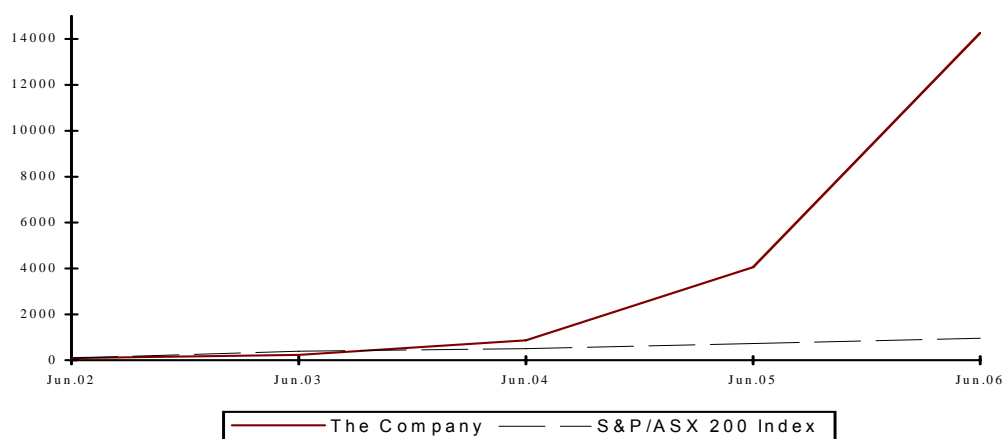
- (a) attracting and retaining talented, qualified and effective Executives;
- (b) motivating their short and long-term performance; and
- (c) aligning their interests with those of the Company's shareholders.

In line with Corporate Governance principles, Non-executive Directors are remunerated solely by way of fees and statutory superannuation. The total pool of fees available is set by shareholders in general meeting.

Given the evolving nature of the Company's business, (particularly as production start-up is scheduled for the 2006/2007 financial year) the Remuneration Committee continues to review and redesign the overall compensation plan for all employees so as to continue to address the objectives identified above. It is currently undertaking a review with the assistance of external consultants to both revise the share option plan and determine parameters for the payment of cash bonuses to be made in the next financial year, following commencement of production.

Company Performance

The overall level of compensation takes into account the growth in shareholder wealth of the Company. The chart below compares, assuming an initial investment of \$100, the yearly percentage change in the cumulative total shareholder return on the Company's Ordinary Shares against the cumulative total shareholder return of the S&P/ASX 200 Index for the Company's five most recently completed financial years.



	30 June 2002	30 June 2003	30 June 2004	30 June 2005	30 June 2006
The Company	A\$100.00	A\$35.15	A\$468.26	A\$4,055.63	A\$14,260.41
S&P/ASX 200 Index	A\$100.00	A\$94.09	A\$109.85	A\$133.01	A\$157.77

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

i) Compensation Policy (audited) (continued)

As a result of the evaluation and development nature of the Company's activities the overall level of compensation does not focus on the earnings of the Company.

Directors' Fees

At the 2005 Annual General Meeting, shareholders approved an increase in the total pool of fees available to be paid to Non-executive Directors to \$400,000. Given the expansion of the Board and the growth of the Company such an increase was considered necessary to attract and retain directors of a calibre required to effectively guide and monitor the business of the Company.

Fees payable to Non-executive Directors are set at A\$80,000 per annum, effective 1 November 2005, inclusive of any superannuation obligations. Exceptions to this fee structure are the Chairman of the Audit Committee who receives an additional A\$5,000 per annum, and the Chairman of the Board who receives an additional A\$35,000 per annum. The increased fees were arrived at on the basis of a review by external independent remuneration consultants looking at companies with similar market capitalisation.

Compensation paid to the Managing Director is set out under (iv) Contracts for Services.

In addition, the Company's Constitution provides for additional compensation to be paid if any of the Directors are called upon to perform extra services or make any special exertions on behalf of the Company or the business of the Company. The Directors may compensate such Director in accordance with such services or exertions, and such compensation may be either in addition to or in substitution for the Directors' fees referred to above.

Base Salary

The first step to attracting and retaining talented, qualified and effective Executives is paying base salaries which are competitive in the markets in which the Company operates. Competitive salary information on companies of a comparable size in the resource industry is compiled from a variety of sources, including surveys conducted by independent consultants and national and international publications.

Expatriate Benefits

Executives who are required to fulfil their responsibilities as an expatriate receive benefits including health insurance, housing and car allowances, educational fees and tax advisory services.

Short-term Bonus

The Company provides short-term bonuses to Executives of up to 20% of base salary. In respect of the Managing Director, a bonus of up to 100% of base salary can be achieved, to be determined by the Remuneration Committee having consideration to outcomes achieved during the year.

Outcomes to be considered include:

- acceptable safety and environmental performance by the Group;
- completion of the Kayelekera Bankable Feasibility Study;
- increases in uranium resource under Company control;
- continued successful recruitment of senior personnel;
- increase in market capitalisation;
- acquisition of new projects; and
- achievement of financial budget targets.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

i) Compensation Policy (audited) (continued)

The short-term bonuses are based on achieving the following measures where these are applicable to the specific Executive:

- (a) performance of the Company in meeting its objectives;
- (b) additional uranium resources delineated;
- (c) financial performance of the Company;
- (d) increase in market capitalisation of the Company; and
- (e) such other matters determined by the Remuneration Committee in its discretion.

These measures have been selected to align the interests of Executives with shareholders. The Remuneration Committee is responsible for assessing whether the measures are met and will take into account, amongst other things, the progress of the Company in meeting its objectives, the increase in uranium resources, the financial performance of the Company, and the growth in market capitalisation.

The short term bonus payments may be adjusted up or down in line with under or over achievement against the measures. This is at the discretion of the Remuneration Committee.

Company Employee Share Incentive Option Plan

The Company believes that encouraging its Executives to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Company's employee option plan which is currently under review to more appropriately deal with the Company's emerging producer status. Options are granted to Executives taking into account a number of factors, including the amount and term of options previously granted, base salary, short-term bonuses and competitive factors. Vesting of options will be subject to attainment of targeted measurements aligned with Total Shareholder Return. One feature will be a minimum vesting period of 3 years.

Information on the Employee Share Incentive Option Plan is set out under Note 26 Share Based Payment Plan. During the financial year, a number of options were granted to attract high calibre executives, in what continues to be a highly competitive and tight market for human capital. These options granted during the year included specific vesting periods.

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

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

ii) Compensation of Key Management Personnel for the year ended 30 June 2006 (audited)(Consolidated and Company)

	Short-term				Post Employment	Share Based Payment	Total	Total Performance Related
	Salary & fees	Cash bonus	Non Monetary Benefits	Other	Superannuation	Options		
	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$
Directors								
Mr Rick Crabb	85,627	-	-	-	7,706	320,942	414,275	320,942
Mr John Borshoff	488,415	200,000	-	-	11,585	370,318	1,070,318	570,318
Mr Sean Llewelyn	61,162	-	-	-	5,505	-	66,667	-
Mr George Pirie	75,417	-	-	-	-	-	75,417	-
Mr Ian Noble	61,162	-	-	-	5,505	-	66,667	-
Executives								
Mr Garnet Halliday	459,625	-	46,408	-	11,585	256,256	773,874	256,256
Ms Gillian Swaby	-	-	-	153,000	-	243,600	396,600	243,600
Mr Ron Chamberlain	162,500	-	-	-	11,585	134,335	308,420	134,335
Mr Wyatt Buck	81,435	-	16,009	-	9,480	506,152	613,076	506,152
Mr James Eggins	110,000	-	12,348	-	5,792	246,534	374,674	246,534
Mr Dustin Garrow	-	-	-	143,856	-	258,996	402,852	258,996
Mr David Marsh	-	-	-	-	-	224,807	224,807	224,807
Total	1,585,343	200,000	74,765	296,856	68,743	2,561,940	4,787,647	2,761,940

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

ii) Compensation of Key Management Personnel for the year ended 30 June 2005 (audited)(Consolidated and Company)

	Short-term			Post Employment	Share Based	Total	Total	
	Salary & fees	Cash bonus	Non Monetary Benefits	Other	Superannuation	Payment Options	Performance Related	
	A\$	A\$	A\$	A\$	A\$	A\$	A\$	
Directors								
Directors								
Mr Rick Crabb	23,991	-	-	-	2,159	500,983	527,133	500,983
Mr John Borshoff	64,736	-	-	212,184	5,826	578,057	860,803	578,057
Mr Sean Llewelyn	7,645	-	-	-	688	-	8,333	-
Mr George Pirie	3,750	-	-	-	-	-	3,750	-
Mr Ian Noble	-	-	-	-	-	-	-	-
Mr Michael Blakiston	-	-	-	69,788	-	-	69,788	-
Dr Leon Pretorius	-	-	-	120,000	-	500,983	620,983	500,983
Mr Cliff Davis	-	-	-	-	-	-	-	-
Executives								
Mr Garnet Halliday	226,576	-	2,675	-	6,758	448,445	684,454	448,445
Ms Gillian Swaby	-	-	-	70,000	-	426,300	496,300	426,300
Mr Ron Chamberlain	81,667	-	-	-	7,350	119,032	208,049	119,032
Total	408,365	-	2,675	471,972	22,781	2,573,800	3,479,593	2,573,800

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

iii) Compensation by Category: Key Management Personnel

	CONSOLIDATED/ COMPANY	
	2006	2005
	A\$	A\$
Short-Term	2,156,964	883,012
Post Employment	68,743	22,781
Share-Based Payment	<u>2,561,940</u>	<u>2,573,800</u>
	<u>4,787,647</u>	<u>3,479,593</u>

iv) Contracts for Services (audited)

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

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

Mr John Borshoff, *Managing Director*

Term of agreement – 3 years commencing 1 March 2005 renewable for a further 2 year term subject to agreement.

Base salary, inclusive of superannuation, of A\$400,000 increased to A\$600,000 effective 1 January 2006.

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

Mr Garnet Halliday, *Executive General Manager - Operations and Development*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation, of A\$400,000 + 20% expatriate allowance from 1 August 2005 to be reviewed annually, together with standard expatriate benefits.

No termination benefit is specified in the agreement.

Ms Gillian Swaby, *Company Secretary*

No contract for service exists for Ms Gillian Swaby and fees are paid in the ordinary course of business for company secretarial services to a company of which Ms Gillian Swaby is a director and shareholder.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

iv) Contracts for Services (audited)(continued)

Mr Ron Chamberlain, *Chief Financial Officer*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation, of A\$151,585 increased to A\$196,585 effective 1 January 2006.

No termination benefit is specified in the agreement.

Mr Wyatt Buck, *General Manager – Langer Heinrich Operations (from 1 February 2006)*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation, of A\$220,000 + 10% expatriate allowance to be reviewed annually, together with standard expatriate benefits.

No termination benefit is specified in the agreement.

Mr James Eggins, *Executive General Manager - Sales and Contract Administration (from 1 January 2006)*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation, of A\$231,585 to be reviewed annually.

No termination benefit is specified in the agreement.

Mr Dustin Garrow, *Director of Marketing (from 1 January 2006)*

A contract for service exists for Mr Dustin Garrow with no fixed term at a rate of US\$210,000 per annum paid in the ordinary course of business for marketing consulting services to a company of which Mr Dustin Garrow is a director and shareholder. No termination benefit or rate review date is specified in the contract.

Mr David Marsh, *Executive General Manager - New Business Development (from 1 July 2006)*

Term of agreement – no fixed term.

Base salary, inclusive of superannuation, of A\$250,000 to be reviewed annually.

No termination benefit is specified in the agreement.

Options were granted on acceptance of position prior to his commencement on 1 July 2006.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

v) Compensation Options: Granted and vested during the year (audited)(Consolidated and Company)

During the financial year options were granted as equity compensation benefits under the long term incentive plan to certain Key Management Personnel. The options were issued at no consideration. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at the exercise price. The contractual life of each option granted is three years. There are no cash settlement alternatives. No options have been granted since the end of the year to the Key Management Personnel listed below. For further details relating to the options, refer to Note 26.

30 June 2006	Vested	Granted	Grant Date	Fair Value per option at grant date (A\$) (Note 26)	Terms & Conditions for each Grant			
	No.	No.			Exercise Price per option (A\$) (Note 26)	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Mr Rick Crabb	3,250,000	-	-	-	-	-	-	-
Mr John Borshoff	3,750,000	-	-	-	-	-	-	-
Executives								
Mr Garnet Halliday	3,000,000	-	-	-	-	-	-	-
Ms Gillian Swaby	2,750,000	-	-	-	-	-	-	-
Mr Ron Chamberlain	800,000	200,000	13/01/06	A\$1.44	A\$2.80	13/01/09	13/01/08	13/01/09
Mr Wyatt Buck	-	1,000,000	16/02/06	A\$1.84	A\$2.80	13/01/09	16/02/07	13/01/09
Mr James Eggins	350,000	650,000	13/01/06	A\$1.44	A\$2.80	13/01/09	19/01/08	13/01/09
Mr Dustin Garrow	400,000	600,000	19/01/06	A\$1.68	A\$2.80	13/01/09	19/01/08	13/01/09
Mr David Marsh	-	1,000,000	27/04/06	A\$2.42	A\$5.50	28/04/09	27/10/07	28/04/09
Total	14,300,000	3,450,000						

30 June 2005	Vested	Granted	Grant Date	Fair Value per option at grant date (A\$) (Note 26)	Terms & Conditions for each Grant			
	No.	No.			Exercise Price per option (A\$) (Note 26)	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Mr Rick Crabb	-	3,250,000	20/12/04	A\$0.25	\$1.00	20/12/07	30/06/06	20/12/07
Mr John Borshoff	-	3,750,000	20/12/04	A\$0.25	\$1.00	20/12/07	30/06/06	20/12/07
Dr Leon Pretorius	-	3,250,000	20/12/04	A\$0.25	\$1.00	20/12/07	30/06/06	20/12/07
Executives								
Mr Garnet Halliday	-	3,000,000	30/11/04	A\$0.23	\$1.08	30/11/07	30/06/06	30/11/07
Ms Gillian Swaby	-	2,750,000	30/11/04	A\$0.24	\$1.00	30/11/07	30/06/06	30/11/07
Mr Ron Chamberlain	-	800,000	30/11/04	A\$0.23	\$1.09	30/11/07	30/06/06	30/11/07
Total		- 16,800,000						

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

vi) Shares Issued on Exercise of Compensation Options (audited)(Consolidated and Company)

30 June 2006	Shares issued No.	Paid per share (Note 26) A\$	Unpaid per share A\$	Value at exercise date A\$
Directors				
Mr Rick Crabb	2,250,000	A\$0.22	-	10,192,500
	750,000	A\$0.32	-	3,397,500
Mr John Borshoff	2,500,000	A\$0.22	-	11,325,000
	1,000,000	A\$0.32	-	4,530,000
Executives				
Ms Gillian Swaby	2,000,000	A\$0.22	-	9,060,000
	<u>500,000</u>	A\$0.32	-	2,265,000
Total	<u>9,000,000</u>			

No other Key Management Personnel exercised options during the year ended 30 June 2006.

30 June 2005	Shares issued No.	Paid per share (Note 26) A\$	Unpaid per share A\$	Value at exercise date A\$
Directors				
Mr Rick Crabb	1,000,000	A\$0.15	-	485,000
Mr John Borshoff	1,500,000	A\$0.15	-	727,500
Executives				
Ms Gillian Swaby	<u>1,200,000</u>	A\$0.15	-	582,000
Total	<u>3,700,000</u>			

No other Key Management Personnel exercised options during the year ended 30 June 2005.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

vii) Options Holdings of Key Management Personnel (Consolidated and Company)

30 June 2006	Balance at beginning of period 01 Jul 05	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of period 30 Jun 06	Total	Exercisable	Not Exercisable
Directors								
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	-
Executives								
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
Total	22,550,000	3,450,000	(9,000,000)	750,000	17,750,000	17,750,000	14,300,000	3,450,000

30 June 2005	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
Directors								
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)	-	-	-	-
Executives								
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
Total	15,700,000	16,800,000	(3,700,000)	(6,250,000)	22,550,000	22,550,000	9,000,000	13,550,000

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.

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.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

viii) Shareholdings of Key Management Personnel (Consolidated and Company)

Shares held in Paladin Resources Ltd (number)

30 June 2006	Balance 01 Jul 05	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 06
Directors					
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
Executives					
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
Total	<u>27,656,140</u>	-	<u>9,000,000</u>	<u>782,140</u>	<u>37,438,280</u>

No other Key Management personnel held shares during the year ended 30 June 2006.

30 June 2005	Balance 01 Jul 04	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 05
Directors					
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)	-
Executives					
Ms Gillian Swaby	<u>5,595,515</u>	-	1,200,000	(195,515)	6,600,000
Total	<u>32,701,655</u>	-	<u>3,700,000</u>	<u>(8,745,515)</u>	<u>27,656,140</u>

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.

DIRECTORS' REPORT (continued)

Shares Under Option

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

Date options granted	Expiry date	Exercise price of options	Number under option
30 November 2004	30 November 2007	A\$1.00	7,300,000
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	200,000
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
3 July 2006	3 July 2009	A\$5.50	1,000,000
20 July 2006	20 July 2009	A\$5.50	400,000
Total			24,565,000

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

Shares issued as a result of the exercise of options

During the financial year, employees and executives have exercised options to acquire 14,000,000 fully paid ordinary shares in Paladin Resources Ltd at a weighted average price of \$0.24. Since the end of the financial year, a further 1,050,000 options have been exercised, at a weighted average price of \$1.07.

Insurance of Officers

During the financial year, the Company has paid premiums to insure the Directors and Specified Executives against certain liabilities arising out of their conduct while acting as an officer of the Company. Under the terms and conditions of the insurance contract, the nature of liabilities insured against and the premium paid cannot be disclosed.

Auditor

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

DIRECTORS' REPORT (continued)

Auditor Independence and Non-Audit Services

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



■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia
GPO Box M939
Perth WA 6843

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

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

In relation to our audit of the financial report of Paladin Resources Ltd for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

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

Ernst & Young

A handwritten signature in black ink that reads 'V. W. Tidy'.

V W Tidy
Partner
Perth
29 August 2006


DIRECTORS' REPORT (continued)

Non-Audit Services

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

Ernst & Young received or are due to receive the following amounts for the year ended 30 June 2006 for the provision of non-audit services relating to the provision of Tax Compliance services of A\$11,547.

Signed in accordance with a resolution of the Directors.



Mr John Borshoff
Managing Director

Perth, Western Australia
29 August 2006

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

CONTENTS OF THE FINANCIAL REPORT		
NOTE	TITLE	PAGE NUMBER
	CONSOLIDATED INCOME STATEMENTS	61
	CONSOLIDATED BALANCE SHEETS	62
	CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	63
	PARENT ENTITY STATEMENTS OF CHANGES IN EQUITY	64
	CONSOLIDATED CASH FLOW STATEMENTS	65
	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	66
1.	CORPORATE INFORMATION	66
2.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	66
3.	VOLUNTARY CHANGE IN ACCOUNTING POLICY	78
4.	SEGMENT INFORMATION	79
5.	REVENUES AND EXPENSES	83
6.	INCOME TAX	84
7.	DISCONTINUED OPERATION	86
8.	CASH AND CASH EQUIVALENTS	88
9.	TRADE AND OTHER RECEIVABLES	89
10.	OTHER FINANCIAL ASSETS	91
11.	DEFERRED BORROWING COSTS	93
12.	PROPERTY, PLANT AND EQUIPMENT	93
13.	EXPLORATION AND EVALUATION EXPENDITURE	95
14.	TRADE AND OTHER PAYABLES	100
15.	UNEARNED REVENUE	100
16.	INTEREST BEARING LOANS AND BORROWINGS	101
17.	PROVISIONS	103
18.	CONTRIBUTED EQUITY AND RESERVES	104
19.	FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES	113
20.	FINANCIAL INSTRUMENTS	115
21.	DIRECTOR AND EXECUTIVE DISCLOSURES	119
22.	AUDITORS' REMUNERATION	123
23.	COMMITMENTS AND CONTINGENCIES	124
24.	EMPLOYEE BENEFITS	126
25.	RELATED PARTIES	126

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

CONTENTS OF THE FINANCIAL REPORT

NOTE	TITLE	PAGE NUMBER
26.	SHARE BASED PAYMENT PLAN	127
27.	INTERESTS IN JOINT VENTURES	129
28.	EVENTS AFTER THE BALANCE SHEET DATE	130
29.	NON CASH FINANCING AND INVESTMENT ACTIVITIES	131
30.	EARNINGS PER SHARE	131
31.	TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY	132

PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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
REVENUE FROM CONTINUING OPERATIONS					
	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)
LOSS BEFORE INCOME TAX		(7,486)	(9,538)	(13,121)	(8,446)
Income tax expense	6(a)	-	-	-	-
Loss after tax from continuing operations		(7,486)	(9,538)	(13,121)	(8,446)
Profit after tax from discontinued operations	7(a)	-	128	-	-
LOSS ATTRIBUTABLE TO MEMBERS OF PALADIN RESOURCES LTD		(7,486)	(9,410)	(13,121)	(8,446)
Loss per share attributed to ordinary equity holders - basic and diluted	30	A\$ (0.02)	A\$ (0.03)		

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

PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2006

	Notes	CONSOLIDATED		PARENT ENTITY	
		2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
ASSETS					
Current assets					
Cash and cash equivalents	8	59,778	39,489	22,677	39,000
Trade and other receivables	9	3,695	568	151	472
TOTAL CURRENT ASSETS		63,473	40,057	22,828	39,472
Non current assets					
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	-	-
TOTAL NON CURRENT ASSETS		96,835	5,384	94,324	5,466
TOTAL ASSETS		160,308	45,441	117,152	44,938
LIABILITIES					
Current liabilities					
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
TOTAL CURRENT LIABILITES		11,644	1,325	1,369	1,189
Non current liabilities					
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	-
TOTAL NON CURRENT LIABILITES		23,939	-	95	334
TOTAL LIABILITES		35,583	1,325	1,464	1,523
NET ASSETS		124,725	44,116	115,688	43,415
Equity					
Contributed equity	18(a)	148,182	65,992	148,182	65,992
Reserves	18(d)	11,311	5,406	6,890	3,686
Accumulated losses		(34,768)	(27,282)	(39,384)	(26,263)
TOTAL EQUITY		124,725	44,116	115,688	43,415

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

PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Contributed Equity A\$000	Reserves A\$000	Accumulated Losses A\$000	Total A\$000
CONSOLIDATED					
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
CONSOLIDATED					
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.

PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
PARENT ENTITY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Contributed Equity A\$000	Reserves A\$000	Accumulated Losses A\$000	Total A\$000
PARENT ENTITY					
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
PARENT ENTITY					
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.

PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
CONSOLIDATED CASH FLOWS STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	CONSOLIDATED		PARENT ENTITY	
		2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
CASH FLOWS FROM OPERATING ACTIVITIES					
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
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	8(a)	648	(1,281)	1,357	(1,175)
CASH FLOWS FROM INVESTING ACTIVITIES					
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	-	-
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		(76,496)	(5,000)	(94,953)	(6,207)
CASH FLOWS FROM FINANCING ACTIVITIES					
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
NET CASH INFLOW FROM FINANCING ACTIVITIES		95,080	41,131	75,575	41,864
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		19,232	34,850	(18,021)	34,482
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	-
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	8	59,778	39,489	22,677	39,000

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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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\$'000) 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of Compliance (continued)

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	<i>AASB 1 First-time Adoption of AIFRS, AASB 101 Presentation of Financial Statements, and AASB 124 Related Party Disclosures</i>	No change to accounting policy required. Therefore no impact	1-Jan-06	1-July-06
2005-1	<i>AASB 139 Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1-Jan-06	1- July -06
2005-4	<i>ASSB 1 First-time Adoption of AIFRS, AASB139 Financial Instruments: Recognition and Measurement AASB 132 Financial Instruments: Disclosure And Presentation</i>	No change to accounting policy required. Therefore no impact	1-Jan-06	1- July -06
2005-5	<i>AASB 1 First-time Adoption of AIFRS, and AASB 139 Financial Instruments: Recognition And Measurement</i>	No change to accounting policy required. Therefore no impact.	1-Jan-06	1- July -06
2005-6	<i>ASSB 3 Business Combinations</i>	No change to accounting policy required. Therefore no impact.	1-Jan-06	1- July -06
2005-10	<i>AASB 132 Financial Instruments Presentation and Disclosure, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement AASB 1 First-time adoption of AIFRS</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
2006-1	<i>AASB 121 The Effects Of Change in Foreign Currency Rates.</i>	No change to accounting policy required. Therefore no impact.	1- Jan-06	1- July -06

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of Compliance (continued)

New Standard	<i>AASB 7 Financial Instruments: Disclosures</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
UIG	<i>UIG 4 Determining whether an Arrangement contains a Lease</i>	No change to accounting policy required. Therefore no impact.	1- Jan-06	1- July -06
UIG	<i>UIG 5 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	<i>AASB 119 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	<i>AASB 1023 General Contracts</i> and <i>AASB 1028 Life Insurance Contracts</i>
2005-9	<i>AASB 4 Insurance Contracts</i> , <i>AASB 1023 General Insurance Contracts</i> , <i>AASB 139 Financial Instruments: Recognition and Measurement</i> and <i>AASB 132 Financial Instruments: Disclosure and Presentation</i> .
2005-10	<i>AASB 4 Insurance Contracts</i> , <i>AASB 1023 General insurance Contracts</i> and <i>AASB 1038 Life Insurance Contracts</i>
UIG	<i>UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies</i>
UIG	<i>UIG 8 Scope of AASB 2</i>
UIG	<i>UIG 9 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of Consolidation (continued)

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

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.

(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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the 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.

(i) 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.

(j) 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Acquisitions of assets (continued)

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.

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Investments and other financial assets (continued)

(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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 maybe 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.

(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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Borrowing costs (continued)

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Employee benefits (continued)

(iii) Share-based payments (continued)

Shares 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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(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 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).

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 3. VOLUNTARY CHANGE IN ACCOUNTING POLICY (continued)

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).

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 4. SEGMENT INFORMATION (continued)

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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 4. SEGMENT INFORMATION (continued)

Geographical segments – primary reporting (continued)

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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 4. SEGMENT INFORMATION (continued)

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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 5. REVENUES AND EXPENSES

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	A\$000	A\$000	A\$000	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
	<u>4,298</u>	<u>772</u>	<u>4,251</u>	<u>1,165</u>
(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	-
	<u>1,057</u>	<u>810</u>	<u>2,487</u>	<u>-</u>
(c) Share based payments expense	<u>3,650</u>	<u>3,009</u>	<u>3,650</u>	<u>3,009</u>

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 6. INCOME TAX

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
(a) Income tax expense				
<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) Numerical reconciliation of income tax expense to prima facie tax payable				
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	-	96	-	96
Write down of convertible note	-	268	-	268
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	-	-	-	-

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 6. INCOME TAX (continued)

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	A\$000	A\$000	A\$000	A\$000
(c) Deferred income tax				
<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)	(107)	(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
	<u>7,105</u>	<u>5,975</u>	<u>8,824</u>	<u>5,636</u>
Net deferred tax assets not recognised as not probable	<u>(7,105)</u>	<u>(5,975)</u>	<u>(8,824)</u>	<u>(5,636)</u>
Net deferred tax assets recognised	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(d) Tax losses				
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*	<u>1,588</u>	<u>534</u>	<u>-</u>	<u>-</u>
Total unused tax losses for which no deferred tax asset has been recognised	<u>19,172</u>	<u>17,164</u>	<u>7,535</u>	<u>8,404</u>
Potential tax benefit at tax rates between 30% - 37.5%	<u>6,543</u>	<u>5,766</u>	<u>2,260</u>	<u>2,521</u>

* In addition to Malawi unused tax losses the Group has available Malawi accumulated tax exploration expenditure of \$A3.5 million at 30 June 2006 (2005: A\$1.2 million).

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 6. INCOME TAX (continued)

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).

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	2005
	A\$000	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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 7. DISCONTINUED OPERATION (continued)

(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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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	<u>32,536</u>	<u>60</u>	<u>522</u>	<u>60</u>
	<u>59,778</u>	<u>39,489</u>	<u>22,677</u>	<u>39,000</u>

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

Net loss	<u>(7,486)</u>	<u>(9,410)</u>	<u>(13,121)</u>	<u>(8,446)</u>
<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)	-	-

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 8. CASH AND CASH EQUIVALENTS (continued)

(a) Reconciliation of net profit after tax to net cash flows from operating activities (continued)

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
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	<u>648</u>	<u>(1,281)</u>	<u>1,357</u>	<u>(1,175)</u>

(b) Disclosure of financing facilities

Refer to Note 16.

NOTE 9. TRADE AND OTHER RECEIVABLES

Current

Trade receivables - (a)	-	27	-	-
Less provision for doubtful debts	-	(17)	-	-
Net trade receivables	<u>-</u>	<u>10</u>	<u>-</u>	<u>-</u>
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
Total current receivables	<u>3,695</u>	<u>568</u>	<u>151</u>	<u>472</u>

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 9. TRADE AND OTHER RECEIVABLES (continued)

Current (continued)

- (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	2005	2006	2005
	A\$000	A\$000	A\$000	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	-	-	-	-
Total non current receivables	-	-	44,231	4,650

- (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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 10. OTHER FINANCIAL ASSETS

Non Current

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
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] ³	Australia	100	-	47,480	-
Paladin Energy Minerals NL]	Australia	100	100	-	-
Eden Creek Pty Ltd *]	Australia	100	100	1,700	1,700
Etron Properties Pty Ltd]	Australia	-	100	-	261
Paladin (Africa) Ltd #	Malawi	100	100	-	-
Lahndrik Holdings SA ¹	Luxembourg	-	100	-	-
Langer Heinrich Uranium (Pty) Ltd	Namibia	100	100	-	-
Tarquin Investments (Pty) Ltd ²	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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 10. OTHER FINANCIAL ASSETS (continued)

(a) Investments in controlled entities (continued)

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

]	Held by Paladin Resources Ltd
^	Held by Langer Heinrich Uranium (Pty) Ltd
*	These entities are not required to prepare or lodge audited accounts
#	Held by Paladin Energy Minerals NL
1	Liquidated in June 2006.
2	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.
3	Incorporated on 22 November 2005.

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\$7,703,000 (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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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)	(14)	(74)	(14)
Total leasehold improvements	239	280	227	273
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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 12. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the year are set out below:

	Total A\$000	Plant and Equipment A\$000	Databases A\$000	Land and Building A\$000	Leasehold Improvements A\$000	Construction Work in Progress A\$000
Consolidated – 2006						
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
Parent Entity - 2006						
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	-
Consolidated – 2005						
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
Parent Entity - 2005						
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	-

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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 1988 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.

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)

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 overly 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 13. EXPLORATION AND EVALUATION EXPENDITURE (continued)

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	<u>7,131</u>	<u>1,559</u>	<u>8,690</u>

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	<u>1,517</u>	<u>169</u>	<u>1,686</u>

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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 2006:

Areas of Interest	Langer Heinrich 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 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	-	8,690

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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 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 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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 14. TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
Current				
Trade and other payables	11,059	660	1,088	524
Lease incentive	<u>15</u>	<u>67</u>	<u>15</u>	<u>67</u>
Total current payables	<u>11,074</u>	<u>727</u>	<u>1,103</u>	<u>591</u>

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	<u>-</u>	<u>-</u>	<u>-</u>	<u>334</u>
Total non current payables	<u>41</u>	<u>-</u>	<u>41</u>	<u>334</u>

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
Current				
Unearned revenue	<u>242</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non Current				
Unearned revenue	<u>979</u>	<u>-</u>	<u>-</u>	<u>-</u>

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 16. INTEREST BEARING LOANS AND BORROWINGS

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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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	2005	2006	2005
	A\$000	A\$000	A\$000	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	2005	2006	2005
	A\$000	A\$000	A\$000	A\$000
Current				
<i>Floating charge</i>				
-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	-	-	-

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 17. PROVISIONS

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

	CONSOLIDATED 2006 A\$000
Restoration – Non Current	
At 1 July 2005	-
Arising during the year	3,574
Utilised	-
FX Movements	(43)
Discount rate adjustment	-
At 30 June 2006	3,531

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 18. CONTRIBUTED EQUITY AND RESERVES

(a) Issued and paid up capital

	Number of Shares		CONSOLIDATED PARENT ENTITY	
	2006	2005	2006 A\$000	2005 A\$000
Ordinary shares				
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.

(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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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 (continued)

Date		Number of Shares	Issue Price A\$	Total A\$000
	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	Kayelekera 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	2.20	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
<u>Unlisted Options</u>			
(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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

(c) Issued options (continued)

	Number of Options	
	2006	2005
Unlisted options (continued)		
(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	-	-
Granted during year	-	10,000,000
Exercised during year	-	(10,000,000)
Balance at 30 June	-	-

These options above were granted to Société Générale 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.

PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)**(c) Issued Options (continued)**

	Number of Options	
	2006	2005
<u>Unlisted Options – Directors, Employees and Consultants (continued)</u>		
(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.

(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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

(c) Issued Options (continued)

	Number of Options	
	2006	2005
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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

(c) Issued Options (continued)

		Number of Options	
		2006	2005
<u>Unlisted Options – Directors, Employees and Consultants (continued)</u>			
(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
<hr/>			
(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
<hr/>			
(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
<hr/>			
(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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

(c) Issued Options (continued)

		Number of Options	
		2006	2005
<u>Unlisted Options – Directors, Employees and Consultants (continued)</u>			
(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	-
<hr/>			
	Balance at 30 June	2,850,000	-
<hr/>			
(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	-
<hr/>			
	Balance at 30 June	1,565,000	-
<hr/>			

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

(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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 18. CONTRIBUTED EQUITY AND RESERVES (continued)

(d) Reserves (continued)

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).

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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 these 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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	2005	2006	2005
	A\$000	A\$000	A\$000	A\$000
FINANCIAL ASSETS				
Current financial assets				
Cash and cash equivalents	59,778	39,489	22,677	39,000
Trade and other receivables	<u>3,695</u>	568	<u>151</u>	472
Non current financial assets				
Trade and other receivables	-	-	44,231	4,650
Other financial assets	-	-	47,587	426
Available for sale financial assets	<u>7,703</u>	2,430	<u>2,050</u>	-
FINANCIAL LIABILITIES				
Current liabilities				
Trade and other payables	11,074	727	1,103	591
Interest bearing loans and borrowings	<u>-</u>	533	<u>-</u>	533
Non current liabilities				
Trade and other payables	41	-	41	334
Interest bearing loans and borrowings	<u>19,334</u>	-	<u>-</u>	-

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 20. FINANCIAL INSTRUMENTS (continued)

Interest rate risk (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 %
PARENT								
FINANCIAL ASSETS								
<i>Fixed rate</i>								
Convertible notes	-	-	-	-	-	-	-	5%
<i>Weighted average effective Interest rate</i>	-	5%	-	-	-	-		
<i>Floating rate</i>								
Cash assets	39,000	-	-	-	-	-	39,000	5.6%
Intercompany receivables	1,066	-	-	-	-	-	1,066	11.2%
	<u>40,066</u>	-	-	-	-	-	<u>40,066</u>	<u>5.8%</u>
<i>Weighted average effective Interest rate</i>	5.8%	-	-	-	-	-		
FINANCIAL LIABILITIES								
<i>Floating rate</i>								
Unsecured bank loans	533	-	-	-	-	-	533	8.9%
<i>Weighted average effective Interest rate</i>	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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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	2005
	A\$	A\$
Short-Term	2,156,964	883,012
Post Employment	68,743	22,781
Share-Based Payment	<u>2,561,940</u>	<u>2,573,800</u>
	<u>4,787,647</u>	<u>3,479,593</u>

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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)

	Balance at beginning of period 01 Jul 05	Granted as Remuner- -ation	Options Exercised	Net Change Other #	Balance at end of period 30 Jun 06	Total	Exercisable	Not Exercisable
30 June 2006								
Directors								
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	-
Executives								
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
Total	22,550,000	3,450,000	(9,000,000)	750,000	17,750,000	17,750,000	14,300,000	3,450,000

	Balance at beginning of period 01 Jul 04	Granted as Remuner- -ation	Options Exercised	Net Change Other #	Balance at end of period 30 Jun 05	Total	Exercisable	Not Exercisable
30 June 2005								
Directors								
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)	-	-	-	-
Executives								
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
Total	15,700,000	16,800,000	(3,700,000)	(6,250,000)	22,550,000	22,550,000	9,000,000	13,550,000

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.

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 21. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Shareholdings of Key Management Personnel (Consolidated and Parent Entity)

Shares held in Paladin Resources Ltd (number)

30 June 2006	Balance 01 Jul 05	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 06
Directors					
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
Executives					
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
Total	<u>27,656,140</u>	-	9,000,000	782,140	<u>37,438,280</u>

No other Key Management Personnel held shares during the year ended 30 June 2006.

30 June 2005	Balance 01 Jul 04	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 05
Directors					
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)	-
Executives					
Ms Gillian Swaby	<u>5,595,515</u>	-	1,200,000	(195,515)	6,600,000
Total	<u>32,701,655</u>	-	3,700,000	(8,745,515)	<u>27,656,140</u>

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 21. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(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	2005
	A\$000	A\$000
Liabilities		
<i>Current liabilities</i>		
Trade and other payables	<u>47</u>	<u>20</u>
Expenses		
Other expenses	<u>297</u>	<u>427</u>

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 22. AUDITORS' REMUNERATION

The auditor of the Paladin Resources Ltd Group is Ernst & Young.

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	A\$	A\$	A\$	A\$
<i>Amounts received or due and receivable by Ernst & 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	-
Sub-total	104,547	66,500	98,183	63,000
<i>Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:</i>				
• an audit or review of the financial report of subsidiaries	33,565	27,343	18,000	22,503
	138,112	93,843	116,183	85,503
<i>Amounts received or due and receivable by non Ernst & 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
	-	30,447	-	20,435
<i>Amounts received or due and receivable by related practices of non Ernst & Young audit firms for:</i>				
Other non-audit services	-	-	-	-

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
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 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 23. COMMITMENTS AND CONTINGENCIES (continued)

(c) Operating Lease Commitments (continued)

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	A\$000	A\$000	A\$000	A\$000
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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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).

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2006 No.	2006 WAEP A\$	2005 No.	2005 WAEP A\$
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 0.24	(5,700,000)	2 0.16
Expired during the year	-	-	-	-
Outstanding at the end of the year	<u>24,215,000</u>	<u>1.52</u>	<u>33,600,000</u>	<u>0.69</u>
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 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
Total				24,215,000

Please refer to Shares Under Option table in the Directors' Report for movements since the year end.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 26. SHARE BASED PAYMENT PLAN (continued)

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 binominal 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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	2005	2006	2005
	A\$000	A\$000	A\$000	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(q) and no revenue is generated. The Consolidated Entity's share of the assets and liabilities in respect of these joint ventures is not material.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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, some of 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 29. NON CASH FINANCING AND INVESTMENT ACTIVITIES

	CONSOLIDATED		PARENT ENTITY	
	2006 A\$000	2005 A\$000	2006 A\$000	2005 A\$000
<i>Non Cash Financing and Investment Activities</i>				
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 Frome Basin database	1,453	-	-	-

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 A\$000	2005 A\$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

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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 practices (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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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)

(a) At the date of transition to AIFRS: 1 July 2004

CONSOLIDATED	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
ASSETS					
Current assets					
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
TOTAL CURRENT ASSETS		<u>5,802</u>	-	-	<u>5,802</u>
Non current assets					
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
TOTAL NON CURRENT ASSETS		<u>4,928</u>	-	(2,298)	<u>2,630</u>
TOTAL ASSETS		<u>10,730</u>	-	(2,298)	<u>8,432</u>
LIABILITIES					
Current liabilities					
Trade and other payables		554	-	-	554
Interest bearing loans and borrowings		733	-	-	733
Provisions		33	-	-	33
TOTAL CURRENT LIABILITES		<u>1,320</u>	-	-	<u>1,320</u>
TOTAL LIABILITES		<u>1,320</u>	-	-	<u>1,320</u>
NET ASSETS		<u>9,410</u>	-	(2,298)	<u>7,112</u>
EQUITY					
Contributed equity		24,265	-	-	24,265
Reserves	ii	174	545	-	719
Accumulated losses	ii, vi	(15,029)	(545)	(2,298)	(17,872)
TOTAL EQUITY		<u>9,410</u>	-	(2,298)	<u>7,112</u>

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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

PARENT ENTITY	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
ASSETS					
Current assets					
Cash and cash equivalents		4,518	-	-	4,518
Trade and other receivables		24	-	-	24
Property, plant and equipment		-	-	-	-
		<u>4,542</u>	-	-	<u>4,542</u>
Assets held for sale		-	-	-	-
TOTAL CURRENT ASSETS		<u>4,542</u>	-	-	<u>4,542</u>
Non current assets					
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		-	-	-	-
TOTAL NON CURRENT ASSETS		<u>5,484</u>	-	<u>(2,298)</u>	<u>3,186</u>
TOTAL ASSETS		<u>10,026</u>	-	<u>(2,298)</u>	<u>7,728</u>
LIABILITIES					
Current liabilities					
Trade and other payables		528	-	-	528
Interest bearing loans and borrowings		-	-	-	-
Provisions		33	-	-	33
TOTAL CURRENT LIABILITES		<u>561</u>	-	-	<u>561</u>
TOTAL LIABILITES		<u>561</u>	-	-	<u>561</u>
NET ASSETS		<u>9,465</u>	-	<u>(2,298)</u>	<u>7,167</u>
EQUITY					
Contributed equity		24,265	-	-	24,265
Reserves	ii	174	545	-	719
Accumulated losses	ii, vii	(14,974)	(545)	(2,298)	(17,817)
TOTAL EQUITY		<u>9,465</u>	-	<u>(2,298)</u>	<u>7,167</u>

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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

CONSOLIDATED	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
ASSETS					
Current assets					
Cash and cash equivalents		39,489	-	-	39,489
Trade and other receivables		568	-	-	568
Property, plant and equipment		-	-	-	-
TOTAL CURRENT ASSETS		<u>40,057</u>	-	-	<u>40,057</u>
Non current assets					
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
TOTAL NON CURRENT ASSETS		<u>10,979</u>	1,720	(7,315)	<u>5,384</u>
TOTAL ASSETS		<u>51,036</u>	1,720	(7,315)	<u>45,441</u>
LIABILITIES					
Current liabilities					
Trade and other payables		727	-	-	727
Interest bearing loans and borrowings		533	-	-	533
Provisions		65	-	-	65
TOTAL CURRENT LIABILITES		<u>1,325</u>	-	-	<u>1,325</u>
TOTAL LIABILITES		<u>1,325</u>	-	-	<u>1,325</u>
NET ASSETS		<u>49,711</u>	1,720	(7,315)	<u>44,116</u>
EQUITY					
Contributed equity	iv	65,950	42	-	65,992
Reserves	ii,iii,iv	174	5,232	-	5,406
Accumulated losses	ii, vi	(16,413)	(3,554)	(7,315)	(27,282)
TOTAL EQUITY		<u>49,711</u>	1,720	(7,315)	<u>44,116</u>

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
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

PARENT ENTITY	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
ASSETS					
Current assets					
Cash and cash equivalents		39,000	-	-	39,000
Trade and other receivables		472	-	-	472
Property, plant and equipment		-	-	-	-
TOTAL CURRENT ASSETS		39,472	-	-	39,472
Non current assets					
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		-	-	-	-
TOTAL NON CURRENT ASSETS		11,061	1,720	(7,315)	5,466
TOTAL ASSETS		50,533	1,720	(7,315)	44,938
LIABILITIES					
Current liabilities					
Trade and other payables		591	-	-	591
Interest bearing loans and borrowings		533	-	-	533
Provisions		65	-	-	65
TOTAL CURRENT LIABILITIES		1,189	-	-	1,189
Non current liabilities					
Trade and other payables		334	-	-	334
TOTAL NON CURRENT LIABILITIES		334	-	-	334
TOTAL LIABILITIES		1,523	-	-	1,523
NET ASSETS		49,010	1,720	(7,315)	43,415
EQUITY					
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)
TOTAL EQUITY		49,010	1,720	(7,315)	43,415

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 31. TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY (continued)

(2) Reconciliation of Loss under previous AGAAP to Loss under AIFRS

(a) Reconciliation of Loss for the year ended 30 June 2005

CONSOLIDATED	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
REVENUE FROM CONTINUING OPERATIONS	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)
LOSS BEFORE INCOME TAX		(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
LOSS ATTRIBUTABLE TO MEMBERS OF PALADIN RESOURCES LTD		(1,384)	(3,009)	(5,017)	(9,410)

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 31. TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY (continued)

(2) Reconciliation of Loss under previous AGAAP to Loss under AIFRS

(a) Reconciliation of Loss for the year ended 30 June 2005

PARENT ENTITY	Notes	Previous AGAAP A\$000	Effect of transition A\$000	Accounting policy A\$000	AIFRS A\$000
REVENUE FROM CONTINUING OPERATIONS		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)
LOSS BEFORE INCOME TAX		(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		-	-	-	-
LOSS ATTRIBUTABLE TO MEMBERS OF PALADIN RESOURCES LTD		(2,140)	(1,289)	(5,017)	(8,446)

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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 a 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 31. TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY (continued)

(3) Notes to the reconciliations (continued)

(iii) *Financial instruments (continued)*

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\$41,900 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.

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 31. TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY (continued)

(3) Notes to the reconciliations (continued)

(v) *Revenue disclosures in relation to sale of tenements (continued)*

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:

**PALADIN RESOURCES LTD AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 31. TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY (continued)

(3) Notes to the reconciliations (continued)

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

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

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



■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

GPO Box M939
Perth WA 6843

Independent audit report to 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 44 to 55 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.

INDEPENDENT AUDIT REPORT - AUSTRALIA (continued)



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 44 to 55 of the directors' report comply with Accounting Standard AASB 124.

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

Ernst & Young

A handwritten signature in black ink that reads 'V. W. Tidy'.

V W Tidy
Partner
Perth
29 August 2006

INDEPENDENT AUDIT REPORT - CANADA



Ernst & Young LLP
Chartered Accountants
Pacific Centre
P.O. Box 10101
700 West Georgia Street
Vancouver, Canada V7Y 1C7

Phone: (604) 891-8200
Fax: (604) 643-6422

Auditors' Report

To the Shareholders of Paladin Resources Ltd

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.

Ernst & Young LLP

Vancouver, Canada
August 29, 2006

Chartered Accountants

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 A/C	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 Maree Healy	13,012,159	2.86
Gillian Swaby	9,411,655	2.07
HSBC Custody Nominees (Australia) Limited-GSCO ECSA	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 li 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
Neoprotec 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 (continued)

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%	-	-
Ponton	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 Yerila	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

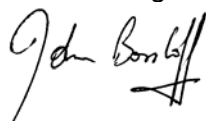
Tenement Types	EL	Exploration Licence (Australia)
	EPL	Exclusive Prospecting Licence (Africa)
	ML	Mining Lease (Australia)
	MLI	Mining Licence (Africa)
	(A)	Pending Application

Form 52-109F1 – Certification of Annual Filings

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

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

Dated: 29 August 2006



John Borshoff
Managing Director

Form 52-109F1 – Certification of Annual Filings

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

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

Dated: 29 August 2006



Ron Chamberlain
Chief Financial Officer