PALADIN ENERGY LTD

ACN 061 681 098

Ref: 414896

24 August 2016

ASX Market Announcements
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

By Electronic Lodgement

Dear Sir/Madam

Paladin Energy Ltd
30 June 2016 Annual Report

Attached please find the 2016 Annual Report including audited financial statements for the year ended 30 June 2016 together with Appendix 4E and Management, Discussion and Analysis.

Yours faithfully
Paladin Energy Ltd

ALEXANDER MOLYNEUX
CEO

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NEWS RELEASE

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016 AND OUTLOOK

Perth, Western Australia – 24 August 2016: Paladin Energy Ltd ("Paladin" or "the Company") **(ASX:PDN / TSX:PDN)** announces the release of its Consolidated Financial Report for the year ended 30 June 2016. The Consolidated Financial Report is appended to this News Release.

HIGHLIGHTS

Operations

- **Langer Heinrich Mine (LHM) produced*[(1)]* 4.763Mlb U_3O_8 for the year ended 30 June 2016, down 5% from 2015.**
- **C1 unit cost of production*[(2)]* for the year ended 30 June 2016 was a record low of US$25.88/lb and a decrease of 11% from US$29.07/lb in 2015.**
- **TSF3 water return issue largely resolved and not expected to impact future quarters.**

Sales and revenue

- **Sales revenue of US$184.9M for the year ended 30 June 2016, selling 4.899Mlb U_3O_8.**
- **Average realised uranium sales price for the year was US$37.75/lb U_3O_8 compared to the average TradeTech weekly spot price for the year of US$33.19/lb U_3O_8, a premium to spot of US$4.56/lb.**

Corporate

- **Cost reduction initiatives deliver:**
  - **Underlying EBITDA[(3)] for the year ended 30 June 2016 of US$24.8M, a US$45.7M improvement from a negative underlying EBITDA of US$20.9M for the year ended 30 June 2015.**
  - **Gross profit for the year ended 30 June 2016 of US$13.7M, an increase of 661% compared to the year ended 30 June 2015 of US$1.8M.**
  - **Underlying all-in cash expenditure[(4)] per pound of uranium production for the year ended 30 June 2016 was US$38.75/lb (vs. guidance of US$38.00/lb to US$40.00/lb), a decrease of 24% compared to the year ended 30 June 2015 of US$50.75/lb.**
- **Cash and cash equivalents at 30 June 2016 of US$59.2M (vs. guidance in the range of US$45M to US$65M) decreased by US$124.5M from US$183.7M at 30 June 2015, primarily as a result of the repayment of debt.**

[1] LHM production volumes and unit C1 cost of production include an adjustment to in-circuit inventory relating to leached uranium within process circuit.
[2] C1 cost of production = cost of production excluding product distribution costs, sales royalties and depreciation and amortisation before adjustment for impairment. C1 cost, which is non-IFRS information, is a widely used 'industry standard' term.
[3] EBITDA = The Company's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) represents profit before finance costs, taxation, depreciation and amortisation, impairments, foreign exchange gains/losses, restructure costs and other income. EBITDA, which is non-IFRS information, is a widely used 'industry standard' term.
[4] Underlying All-In Cash Expenditure = total cash cost of production plus capital expenditure, KM care & maintenance expenses, corporate costs, exploration costs and debt servicing costs and repayments. Underlying All-In Cash Expenditure, which is a non-IFRS measure, is widely used in the mining industry as a benchmark to reflect operating performance.

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- **Achieved objective of being cash flow positive on an 'all in' basis for FY2016 excluding one-off restructuring costs and capital management.**
- **Progress on capital management during the year (US$122.9M of debt repaid):**
  - **Repurchased US$62M of Convertible Bonds due April 2017 to reduce outstanding amount to US$212M.**
  - **Repaid and terminated the US$60.9M LHM Syndicated Facility.**
  - **US$25.0M LHM Revolving Credit Facility put in place and was undrawn as at 30 June 2016.**
- **Progress on strategic initiatives (over US$200M to be raised):**
  - **A non-binding terms sheet has been signed with CNNC Overseas Uranium Holding Ltd (COUH) (the existing 25% minority shareholder in LHM), to sell a 24% interest in LHM. The sale, if it proceeds, will raise US$175M in cash for the Company with Paladin working towards a formal close of the transaction in the fourth quarter of CY2016.**
  - **A binding terms sheet signed with MGT Resources Limited (MGT) for sale of up to a 75% interest in the Company's 100% owned Manyingee project. On closing of the transaction, MGT will acquire a 30% initial interest in Manyingee for US$10M cash with an option to acquire an additional 45% interest within twelve months for US$20M cash. The transaction is conditional on definitive documentation and a vote of MGT's shareholders expected to be concluded in the fourth quarter of CY2016.**

Outlook

- **Key elements of guidance for quarter to 30 September 2016 include:**
  - **Uranium Sales – Anticipated to be in the range of 650,000lb to 750,000lb U_3O_8.**
  - **LHM C1 unit cash costs – Expected to be within the range of US$20/lb to US$22/lb.**
  - **Cash and cash equivalents balance as at 30 September 2016 – Forecast to be in the range of US$35M to US$55M.**
- **Proposed LHM mine plan adjustment involving reduced mining material movement combined with processing plant feed coming from stockpiled low and medium grade ores:**
  - **Effectively shifts higher-grade ore processing into later years when uranium prices are expected to be higher.**
  - **Reduces production of finished U_3O_8 by up to 1.0Mlb to 1.5Mlb per year for next two years but comes with a material reduction in cash operating costs.**
  - **Using Paladin internal assumptions, generates approximately US$40M of cumulative incremental cash flow in FY2017 and FY2018.**
- **FY2017 Guidance has been reviewed after changes to the LHM mine plan as follows:**
  - **LHM production of approximately 3.8Mlb U_3O_8 to 4.0Mlb U_3O_8.**
  - **LHM C1 cash costs in the range of US$19/lb to US$22/lb (US$20/lb to 22/lb for 1H FY2017 and US$19/lb to US$21/lb for 2HFY2017).**
  - **All-in cash expenditure for the full-year FY2017 in the range of US$32/lb to US34/lb.**
- **Previously announced strategic initiatives continue to progress towards formal transaction closure.**

Results

(References below to 2016 and 2015 are to the equivalent year ended 30 June 2016 and 2015 respectively).

Safety and sustainability

The Company's 12 month moving average Lost Time Injury Frequency Rate[5] (LTIFR) was 1.8 as compared to 2.4 for the previous year to 30 June 2015.

Paladin's safety record has continued to improve in the past year as a result of a long-term commitment to identify new initiatives and improvements, increases in in-house and external training, more formal risk assessments, more rigorous permits to work and more thorough site inductions. The Company remains fully focussed on improving on this positive trend.

Langer Heinrich Mine (LHM)

Langer Heinrich Mine (LHM) produced 4.763Mlb U_3O_8 for the year ended 30 June 2016, down 5% from the previous year (2015: 5,037Mlb U3O8).

- Ore milled of 3,574,147t, up 5% (FY2015: 3,397,659t).
- Average plant feed grade of 699ppm U_3O_8, down 9% (FY2015: 768ppm).
- Overall recovery of 86.3%, down 1% (FY2015: 87.6%).

C1 unit cost of production for the year decreased by 11% to US$25.88/lb from US$29.07/lb in 2015 as a result of the lower production volume. In the September quarter, plant production was affected by a decrease in throughput caused by reduced availability associated with planned annual maintenance and equipment reconfiguration (e.g. scrubber relining and reconfiguration of BRP). Overall recovery was also lower, caused principally by an atypical ore type which was unexpected, but fed for the whole quarter due to mine scheduling constraints. In the June quarter, production was impacted by a decrease in ore milled that was associated with a lack of recycled water from the tailings system and unplanned mechanical plant breakdowns. This issue was largely resolved by the end of the June quarter by drilling and preparation of new return water wells. It is not expected to have a material impact on production going forward.

Kayelekera Mine (KM) remains on care and maintenance

In FY2016 activities at site focused on the water treatment programme.

Profit and Loss

Total sales volume for the year was 4.899Mlb U_3O_8 (2015: 5.367Mlb).

Sales revenue for the year decreased by 7% from US$198.6M in 2015 to US$184.9M in 2016, as a result of a 9% decrease in sales volume which has been partially offset by a 2% increase in realised sales price.

The average realised uranium sales price for the year ended 30 June 2016 was US$37.75/lb U_3O_8 (2015: US$37.00/lb U_3O_8), compared to the TradeTech weekly spot price average for the year of US$33.19/lb U_3O_8.

Gross Profit for the year increased by 661% from US$1.8M in 2015 to US$13.7M in 2016.

Impairments of US$173.9M were recognised in 2016 (2015: US$241.4M)

- Impairment of LHM ore stockpiles US$168.9M, resulting from a revaluation of stockpiles of unprocessed ore.
- Impairment of aircraft ahead of its sale US$0.3M.
- Impairment of investment in Deep Yellow Limited US$1.5M.
- Obsolescence write down of stores and consumables at KM US$2.4M.
- Impairment of Summit's office building in Mount Isa US$0.8M.

[5] *All frequency rates are per million personnel hours.*

Net loss after tax attributable to members of the Parent for the year of US$122.0M (2015: Net loss US$267.8M).

Underlying EBITDA for the year ended 30 June 2016 of US$24.8M improved by US$45.7M from a negative underlying EBITDA of US$20.9M for the year ended 30 June 2015. The improved EBITDA was primarily due to cost reduction initiatives that were implemented during the year.

Cash flow

Cash inflow from operating activities for the year was US$4.3M (2015: cash outflow US$24.7M), primarily due to receipts from customers of US$186.0M, which were partially offset by payments to suppliers and employees of US$153.8M and net interest paid of US$27.3M.

Cash outflow from investing activities for the year totalled US$5.3M (2015: cash outflow US$15.6M):

- plant and equipment acquisitions of US$3.8M.
- capitalised exploration expenditure of US$4.2M.
- partially offset by receipt of US$2.5M from the sale of aircraft and receipt of US$0.2M from sale of investments.

Cash outflow from financing activities for the year of US$122.5M is attributable to the repurchase of US$62M April 2017 Convertible Bonds for US$56.4M (excluding accrued interest), repayment of US$60.9M under the LHM Syndicated Facility and US$5.2M distribution to CNNC by way of repayment of intercompany loans assigned to CNNC.

Cash position and capital management

At 30 June 2016, the Group's cash and cash equivalents were US$59.2M, a decrease of US$124.5M from US$183.7M at 30 June 2015 primarily as a result of the repayment of debt. Guidance previously provided was for the 30 June 2016 cash balance to be in the range of US$45M to US$65M. The Company has achieved its objective of being cash flow positive on an 'all in' basis for FY2016 excluding one-off restructuring costs and capital management.

During the year ended 30 June 2016, the Company repurchased US$62M of the US$274M Convertible Bonds due April 2017 for approximately US$56.4M (excluding accrued interest) and repaid US$60.9M under the LHM Syndicated Facility.

In June 2016, a US$25.0M 24-month Revolving Credit Facility was implemented at LHM. The purpose is to provide a buffer facility that can be drawn in periods where LHM-level working capital requirements are in deficit, mainly due to the timing of sales receipts. The provider of the Revolving Credit Facility is Nedbank Limited, through its UK registered subsidiary, N.B.S.A. Limited. Nedbank has also taken on the role of exclusive provider of the Kayelekera Environmental Performance Bond. At 30 June 2016 the Company had not drawn any funds under this facility.

The documents comprising the Annual Report including the audited Financial Statements for the year ended 30 June 2016 together with Appendix 4E and Management Discussion and Analysis are attached and will be filed with the Company's other documents on Sedar (sedar.com) and on the Company's website (paladinenergy.com.au).

Outlook

Uranium market

The TradeTech U_3O_8 Spot Price at the end of June 2016 was US$26.80/lb, approximately 27% lower than at the end of June 2015.

Demand

Conflicting developments continue to characterise the restart programme for the Japanese reactor fleet. On the positive side, in August, the Ikata Unit 3 became the fifth restarted nuclear unit in Japan. Meanwhile the Japanese Nuclear Regulation Authority has approved 20-year lifespan extensions for Takahama Units 1 & 2, making these the first reactors to obtain life extension approval since the introduction of tighter regulations in 2013. Progress with Units 1 & 2 is in contrast to the status of Units 3 & 4 at the Takahama NPP, which remain offline following an injunction issued and subsequently upheld by the Otsu District Court. Kansai Electric's appeal against the injunction is progressing but is expected to take several months to reach a resolution.

The US nuclear industry has been impacted by negative sentiment in the last six months. During the June quarter Pacific Gas and Electric announced it would not seek to extend the operation of its two Diablo Canyon nuclear units beyond their current operating licence expiry in 2025 and Entergy announced it proposed to close its James A. Fitzpatrick nuclear power plant in New York. However, the more recent news flow is improving. On 1 August the New York Public Service Commission approved a Clean Energy Standard, which supports nuclear as a form of clean energy and provides subsidies to reflect the value of carbon dioxide emissions avoided by clean nuclear power generation. As an immediate response to this, Exelon Generation announced it would take over ownership of the James A. FitzPatrick nuclear power plant that Entergy Corporation had previously determined to close. A number of other US states are now considering similar rule changes or legislation.

Growth in emerging markets continues unabated. China brought three new reactors online during the June quarter and India started up its second unit at Kudankulam on 10 July.

Supply

As CY2016 progresses, it's becoming clear that uranium production will be lower than expected. In April Cameco announced production cuts at three of its mine / mill complexes, which Paladin estimates to have removed 4.9Mlb from CY2016 uranium supply. On 11 July 2016, Sibanye Gold announced the closure of its Cooke mine, which will remove a further 600,000lb equivalent of annualised uranium equivalent supply from the market. In addition, prior to the commencement of the year analysts expected China General Nuclear's Husab mine to produce approximately 6Mlb of uranium for CY2016, with a February start for finished product shipments as per statements made in CY2015 by that company's Namibian unit. However, shipments are yet to commence from that mine.

Paladin's move to process more stockpiled material (as described in the Company outlook section) is more about increasing cash flows and preserving value but it will also have the effect of adding to the supply reductions in the market place.

Company strategy

Paladin believes that the uranium market will improve though FY2017 due to the combination of: improving regulatory and market environment for nuclear utilities in the US; more Japanese restarts; and the continued aggressive build programme of new nuclear reactors globally.

Despite the Company's belief in a uranium industry turnaround, its current strategies are focused on optimising actions to maximise cash flow whilst also prudently enacting capital management actions. Paladin's strategies are aimed at maximising shareholder value through the uranium price downturn whilst remaining positioned for a future normalisation of the uranium market and price. Key elements of the Company's strategy include:

- Maximising LHM operating cash flows through optimisation initiatives that preserve the integrity of the long-term life of mine plan.
- Maintaining KM and the Company's exploration assets on a minimal expenditure, care and maintenance basis.
- Minimise corporate and administrative costs.

- Progress strategic initiatives with respect to partnerships, strategic investment, funding and corporate transactions, that result in de-risking Paladin's funding structure or provide clear value accretion for shareholders.

Company outlook

Paladin is working on a proposed LHM mine plan adjustment involving reduced mining material movement combined with processing plant feed coming from stockpiled low and medium grade ores. The revised mine plan effectively shifts higher-grade ore processing into later years when uranium prices are expected to be higher. The FY2017 average feed grade will be reduced into the range of 550ppm to 570ppm vs our previous internal Company budget of 700ppm. The impact of the change will reduce finished U_3O_8 production by up to 1.0Mlb to 1.5Mlb per year for each of the next two years. However, the requirement for less movement of mined material on site during the period reduces cash operating costs by well in excess of any lost revenue. Using Paladin's internal assumptions the initiative will generate approximately US$40M of cumulative incremental operating cash flow for FY2017 and FY2018. The proposed LHM mine plan adjustment requires a number of third-party consents and Paladin intends to initiate the plan in a phased approach over the next three months.

Taking into account the proposed revised LHM mine plan, key relevant guidance items for FY2017 include:

- LHM Production – Annual production guidance in the range of approximately 3.8Mlb U_3O_8 to approximately 4.0Mlb U_3O_8.
- LHM C1 cash costs – C1 unit cash cost for FY2017 is expected to be in the range of US$19/lb to US$22/lb, being US$20/lb to US$22/lb in 1HFY2017 and then US$19/lb to US$21/lb in 2HFY2017 once the revised mine plan is fully implemented.
- Corporate costs, exploration and KM – Guidance for combined expenditure on corporate costs, exploration and KM care and maintenance is forecast to be approximately US$14M. This is a further reduction of US$5M compared to FY2016.
- The Company expects FY2017 that the all-in cash expenditure for the full-year FY2017 will be in the range of US$32/lb to US$34/lb.

Key relevant guidance items for the quarter to 30 September 2016 include:

- Uranium Sales – Anticipated to be in the range of 650,000lb to 750,000lb U_3O_8.
- LHM C1 cash costs – Expected to be within the range of US$20/lb to US$22/lb (previously US$23/lb to US$25/lb).
- Cash and cash equivalents balance as at 30 September 2016 – Forecast to be in the range of US$35M to US$55M.

The previously announced strategic initiatives regarding the COUH acquisition of an additional 24% interest in LHM for US$175M and sale of an interest in Manyingee project to MGT continue to be progressed in the documentation stage. Paladin has also received legal advice confirming that COUH's investment in LHM will not require an application to the Australian Foreign Investment Review Board. Paladin intends to use funds received from the strategic initiatives together with existing cash reserves to fully repay the US$212M outstanding amount of the Convertible Bonds due April 2017.

GENERALLY ACCEPTED ACCOUNTING PRACTICE

The news release includes non-GAAP performance measures: C1 cost of production, EBITDA, non-cash costs as well as other income and expenses. The Company believes that, in addition to the conventional measures prepared in accordance with GAAP, the Company and certain investors use this information to evaluate the Company's performance and ability to generate cash flow. The additional information provided herein should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

DECLARATION

The information in this announcement that relates to minerals exploration and mineral resources is based on information compiled by David Princep BSc, P.Geo FAusIMM (CP) who has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mr Princep is a full-time employee of Paladin Energy Ltd. Mr. Princep consents to the inclusion of the information in this announcement in the form and context in which it appears.

CONFERENCE CALL

Conference Call and Investor Update is scheduled for 07:30 Perth & Hong Kong, Thursday 25 August 2016; 00:30 London, Thursday 25 August 2016 and 19:30 Toronto, Wednesday 24 August 2016. Details are included in a separate news release dated 15 August 2016.

CONTACTS

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