PALADIN

PALADIN ENERGY LTD
ACN 061 681 098

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

By Electronic Lodgement

Dear Sir/Madam

Suspension of Production at Kayelekera Mine, Malawi

Paladin Energy Ltd (**Paladin or the Company**) advises that its subsidiary company, Paladin (Africa) Limited **(PAL**), is suspending production at its Kayelekera Mine (**KM** or the **Operation**) in Malawi. The suspension will involve placing the Operation on care and maintenance until the price of uranium recovers. This decision will preserve the remaining ore body until a sustained price recovery occurs and Paladin determines that production may be resumed on a profitable basis.

The Government of Malawi (**GoM**), which has a 15% interest in PAL, has been notified of this decision and PAL will be working with the relevant GoM authorities on implementation of the suspension of operations.

Reasons for Decision

The decision to suspend production at KM was based on two factors, both beyond the control of PAL and the Company:

1. The continuing depressed price for uranium oxide, which has been severely negatively impacted since March 2011 following the nuclear reactor damage caused by the Fukushima earthquake and tsunami; and

2. The unsustainable cash demand to maintain the loss-making Operation at KM.

The Managing Director/CEO of Paladin, Mr John Borshoff, said that the decision to place KM on care and maintenance would be in the best long-term interest of all stakeholders, as the Operation would resume only when it was profitable to do so.

"The Kayelekera Mine has performed exceptionally well technically, with production levels recorded at or near nameplate capacity over the past 12 months and significant achievements made in PAL's cost reduction programme. That is a credit to all the staff at KM and something of which they can be very proud. Nevertheless, despite these considerable efforts, KM continues to operate at a loss due to the low prevailing uranium price. Paladin is unable to continue to provide the level of financial support that PAL has required in recent years, hence the decision at this time."

"By placing Kayelekera on care and maintenance now, we are preserving the remaining value of the ore body until it can be mined profitably to make a positive contribution to the Paladin Group. This is in the best interest of all PAL stakeholders, including the Government of Malawi," Mr Borshoff said.

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Impact of Low Prices

PAL has maintained operations at KM since the Fukushima earthquake and tsunami of March 2011 at considerable financial cost to Paladin. During this period, the spot uranium price has more than halved from its pre-Fukushima level of US$72.63/lb to a current price of US$35.50/lb. While PAL has achieved successive cost reductions quarter by quarter, these efforts have not been sufficient to achieve cash break-even at KM. For example, during financial year 2012-13, PAL reduced KM's year-on-year direct cost of production (C1) by 24% to US$39.20/lb, while maintaining uranium production at optimal, near-nameplate levels. In the same period, the uranium spot price declined by 32% — from US$50.75/lb in June 2012 to US$34.50/lb in July 2013.

While PAL has successfully installed and commissioned one of two major cost-reduction initiatives at KM for FY 2013-14 – the Nano-filtration acid recovery plant; the second measure - aimed at significantly reducing KM's cost of power by connecting the Operation to Malawi's national power distribution grid - has not been achieved to date. During the 18-month negotiating period, uranium prices have continued to fall, making grid power - even if available at this time - ineffectual in achieving profitability at KM.

Since Fukushima, the negative impact on KM of the very low uranium spot price was partially offset initially by several higher-priced term sales contracts put in place before March 2011; however, KM delivered its last product under these contracts in September 2013. Subsequent uranium produced from KM is now fully exposed to the depressed uranium spot market. The very low continuing uranium spot price, together with the Operation's cash cost of production, which remains above the spot price, makes continued operation at KM unsustainable in both current market conditions and in conditions projected in the medium term.

Production Rundown

While mining operations at KM are being suspended, processing of ore will continue during a transitional rundown phase until reagents and consumables on site have been depleted and the production circuit has been emptied and cleaned. At this time, the plant will be sterilised, shut down and placed on care and maintenance. This rundown/sterilisation phase is expected to be completed by April/May of this year.

PAL is committed to maintaining the mine and infrastructure at KM in good working order to facilitate a rapid resumption of production when market conditions dictate that it is possible to profitably do so. For this reason, PAL will retain some 194 Malawi national employees and 27 expatriate staff to maintain the site, including staff to strengthen physical security measures at the Operation.

Generous Redundancy Package

This decision will result in a significant level of redundancy at KM and the process has commenced to retrench employees not required during the period of care and maintenance. In appreciation of their endeavours to drive down costs and improve efficiency, retrenched national employees will receive generous redundancy packages that exceed Malawi's minimum legal requirements. Based on length of service, allowances and entitlements and an ex-gratia payment, the average payout for national employees will be the equivalent of 10.7 months' salary. It is the Company's hope that this gesture will assist employees in their transition from employment at KM. In addition, national employees will be offered financial planning advice and training in business skills.

Financial and Guidance Impact on Paladin

Supporting KM has been a substantial drain on Paladin's cash resources during the past three years. Based on a uranium price of U$35/lb, Paladin would have had to inject a further US$20M-US$25M in cash for each of the next two calendar years to maintain the Operation.

Placing KM on care and maintenance will improve Paladin's forecast cash flow position by US$7-10M in calendar year 2014 and US$20-25M in calendar year 2015. Paladin anticipates that the ongoing cost of maintaining KM on care and maintenance of approximately US$12M per annum will be funded from proceeds to be received from the sale of uranium oxide on hand and produced during the rundown phase. The previously announced repayment of PAL's Project Financing Facility has saved an additional US$30M cash requirement in 2014.

Production and cost guidance at Paladin's Langer Heinrich Mine in Namibia, which has a significantly lower cost profile than KM, will not be affected by this move.

Following the decision to place KM on care and maintenance, Paladin is revising its FY14 production guidance from 8.3-8.7Mlb U_3O_8 to 7.8-8.0Mlb U_3O_8.

Commitment to Malawi

Paladin remains committed to its vision of the long-term viability and strength of the nuclear sector and to its presence in Malawi. Paladin intends to maintain its presence in Malawi and to continue exploration activities in the country, with the objective of identifying and delineating additional uranium resources in order to assure the long-term future of KM.

The Company will also sustain its commitment to PAL's Corporate Social Responsibility programme in Malawi, albeit at a reduced expenditure level in line with KM's non-producing status.

PAL will also maintain its strict environmental management of the Operation.

Impact on Supply Side

Paladin has consistently stated that current pricing levels for uranium oxide are unsustainable. KM is one of numerous uranium mines currently operating at or below break-even. PAL's decision to place KM on care and maintenance is the latest in a sequence of closures, production suspensions and deferrals of major planned greenfield and brownfield expansions in the uranium sector, including Paladin's decision in 2012 to suspend evaluation of a major Stage 4 expansion of the Langer Heinrich Mine in Namibia.

Mr Borshoff stated: "*We will not contemplate any such an expansion until uranium prices reach at least US$75/lb and are sustainable at or above this level*." He added that, consistent with that decision, Paladin would invest in future production only when it made economic sense to do so – and this included recommencement of production in Malawi, as well as expansion in Namibia.

"This unfortunate but necessary curtailment of world uranium production will have impacts well into the future. Even when uranium prices improve, it is inevitable that the lead-time to return mothballed operations to production and re-evaluate the development timeframe for deferred brownfield and greenfield projects will exacerbate the uranium supply-demand imbalance that will become increasingly evident in the course of this decade."

Positioning for the Future

During its dynamic period of growth and expansion, Paladin has demonstrated that it could simultaneously develop and commission two state-of-the-art uranium projects utilising technological innovations. During its consolidation phase, Paladin demonstrated that its operations units could perform consistently near or better than nameplate capacity in an African environment, while attaining commendable safety standards. Paladin retains its installed capacity of 8.5Mlb pa, including the 3.3Mlb pa at KM that will be available for the future.

"Electing to take Kayelekera "off-line" at this time is a prudent and sensible step to preserve shareholder value and position Paladin to take best advantage of the opportunities that will present to the Company when the uranium sector enters its next exciting phase of growth and profitability," Mr Borshoff said.

Yours faithfully
Paladin Energy Ltd

JOHN BORSHOFF
Managing Director/CEO

Attachment: Appendix 1 in relation to determination by the ASX pursuant to Chapter 11 of the Listing Rules

Appendix 1: ASX Determination Required under Chapter 11 of the Listing Rules

Paladin does not intend to seek the approval of shareholders to the suspension of operations at KM unless ASX requires it under Listing Rule 11.1.2 or 11.2.

Paladin intends to apply to ASX for a determination as to whether shareholder approval is required under Chapter 11 of the Listing Rules. After ASX has made its determination in respect of Paladin's application, Paladin will update the market accordingly. In the event that ASX determines that the approval of shareholders is required under Listing Rules 11.1.2 or 11.2, Paladin will provide further details regarding the process and timetable for seeking such approval.

Details of the Assets subject to the Suspension

As indicated above, the suspension will involve placing the Kayelekera Mine (**KM**) operation on care and maintenance until a recovery in the price of uranium enables production to resume on a profitable basis. Production at Paladin's Langer Heinrich Mine in Namibia will not be affected.

KM is Paladin's producing uranium mine in Malawi, southern Africa. The Mining Licence (**ML 152**) was granted in April 2007 for a period of 15 years following the signing of a Development Agreement (**DA**) with the Government of Malawi. Construction commenced in June 2007 and was completed in April 2009.

KM is wholly-owned by Paladin (Africa) Limited (**PAL**), a subsidiary of Paladin incorporated in Malawi. Paladin's wholly owned subsidiary, Paladin Energy Minerals NL, holds an 85% interest in PAL. The remaining 15% interest is held by the GoM, pursuant to the terms of the DA.

The mining method used at KM is conventional open pit and the Operation's resin-in-pulp processing plant has operated at or near its design capacity of 3.3Mlb pa. Details of the Kayelekera project's Mineral Resources and Ore Reserves are detailed below.

Mineral Resource at 300ppm U_3O_8 cut-off				
	Mt	**Grade ppm U_3O_8**	**t U_3O_8**	**Mlb U_3O_8**
Measured Resources	0.87	1,071	931	2.05
Indicated Resources	13.43	722	9,694	21.37
Total Measured and Indicated	**14.30**	**743**	**10,625**	**23.42**
Stockpiles	1.54	945	1,454	3.21
Inferred Resources	**5.4**	**623**	**3,336**	**7.4**

Note: Figures may not add due to rounding and are quoted inclusive of any Ore Reserves and are depleted for mining to end of June 2013.

As noted in Paladin's 2013 Annual Report, the Mineral Resource is unchanged from that previously reported except for depletion due to mining activities to 30 June 2013. The Mineral Resource estimate is based on Multi Indicator Kriging techniques with a specific adjustment based on parameters derived from the mining process.

Ore Reserve at 400ppm U_3O_8 cut-off				
	Mt	**Grade ppm U_3O_8**	**t U_3O_8**	**Mlb U_3O_8**
Proved Reserve	0.49	1,230	605	1.33
Probable Reserve	5.98	907	5,423	11.96
Stockpiles	1.54	945	1,454	3.21
Total Ore Reserve	**8.01**	**934**	**7,483**	**16.50**

Note: Figures may not add due to rounding and are depleted for mining to end of June 2013.

As noted in the 2013 Annual Report, the underlying Ore Reserve is unchanged from the one announced in 2008 and has only been depleted for mining until 30 June 2013. With the exception of the prevailing uranium price the parameters and assumption used to estimate the reported Minerals and Ore Reserves have not materially changed since the estimations were undertaken.

This information in the tables above relating to KM was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information that the estimates are derived from has not materially changed since it was last reported.

Financial Impact

The financial impact on Paladin's balance sheet will be immaterial, given that the value of the KM asset has already been written down to zero. The suspension of operations will result in an impairment of inventory, stores and consumables of approximately US$32M.

As noted earlier, Paladin has revised its production guidance for FY14 from 8.3-8.7Mlb U_3O_8 to 7.8-8.0Mlb U_3O_8.

There will be no effect on Paladin's capital structure as a result of the suspension of mining activities at KM.

Indicative timetable

As noted above, PAL is currently in the process of suspending operations at KM, but processing of ore will continue until early in the June 2014 quarter when reagents and consumables on site will have been depleted. All remaining in-circuit inventory will then be recovered and the plant cleaned in preparation for care and maintenance which will commence by the end of the June quarter.

Declaration

The information in this Announcement relating to exploration and mineral resources and ore reserves is, except where stated, based on information compiled by David Princep B.Sc and Andrew Hutson B.E. who are both Fellows of the AusIMM. Messrs Princep and Hutson have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves", and as a Qualified Person as defined in Canadian National Instrument 43-101. Messrs Princep and Hutson are full-time employees of Paladin Energy Ltd and consent to the inclusion of this information in the form and context in which it appears.

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