

 *MARATHON RESOURCES LIMITED*  
Annual report 2005



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**Marathon Listed on the Australian Stock Exchange**

The Company listed on the Australian Stock Exchange (ASX) on the 15th March 2005 having raised \$4.6 million with the issue of 37.8 million shares at \$0.20.

**Paralana Mineral System**

The Company completed the integration of previous explorers drilling results and developed a 3D computer model of the Mt Gee deposit with the system which demonstrated an inferred resource of nearly 57 million tonnes of mineralisation with an average grade of 0.6 kg/tonne of U<sub>3</sub>O<sub>8</sub>.



## Dear Shareholder,

The company listed with the Australian Stock Exchange (“ASX”) on 17 March 2005 following a successful Initial Public Offering. It was necessary to issue a Supplementary Prospectus so that the minimum subscription and minimum number of securities could be raised. Additionally the Supplementary Prospectus was able to provide additional information in respect of uranium in its Mt Gee tenement.

The Supplementary Prospectus created increased interest despite the market for junior mining explorers generally being soft. The increase in the world price for uranium and the overall support for uranium stocks resulted in your company being successful in raising \$4.64 million. A broad base of shareholder interest has been retained and the register has presently in excess of 1000 members.

As part of the ASX Listing Rules, the company is required to comply with the Australasian Code for Reporting of Exploration Results, Mineral Resources & Ore Reserves (the “JORC Code”). The JORC Code sets out minimum standards, recommendations & guidelines for public reporting of exploration, mineral resources and ore reserves. Your company accepts and adheres to the three main principles governing the operation and application of the JORC Code, namely :

- *transparency*
- *materiality*
- *competence*

The Prospectus issued on 20 October 2004 and the Supplementary Prospectus issued on 19 January 2005 contained information relating to previous exploration on the company’s tenements. The Prospectus contained a complete tenement review and an Independent Geologist’s Report. The company commissioned further reports and undertook its own analysis prior to the release to the ASX on 2 August 2005. This release and the subsequent clarification issued on 12 August 2005 are significant post balance date events which I have mentioned later in this address and are separately reported in the Directors’ Review of Operations. The short time frame from listing until year end did not enable sophisticated modelling and tectogenetic analysis to be concluded in that time. The company accepted that Prospectus estimates of drilling did not constitute Jorc compliant reporting; the historical reporting for the company

to 30 June 2005 satisfies a statutory requirement but is incomplete without emphasis on the significant post balance date events.

The Prospectus contained a tenement review and exploration program, the latter showing a plan should the maximum subscription be received. Funds were to be applied to all projects to ensure a spread of risk and completion of joint venture commitments.

The level of expenditure during this period satisfied the exploration plans but concentration of effort has been made where greater potential benefits can be realised. The management risk in exploration requires response to analysis, changing market conditions and subjective factors. Your company has embarked on an ambitious but manageable program which was, as expected, on track at year end. The first full year of operations may require allocation of funds to those projects offering better prospects but at year end the company is satisfied that all tenements are worthy of further investment and exploration.

During the year the company has engaged new professional staff, it has established an efficient corporate office and opened a field office in Coober Pedy. Our plans have been implemented and drilling schedules confirmed or contracted. Of particular interest has been the consulting work done at the University of Mining and Metallurgy in Krakow, Poland on the data integration and modelling of the Paralana mineral system. This has required considerable effort by our executive directors and the results are referred to below.

In my letter to you in the Prospectus, I referred to regional focus and the use of state of the art technology. I indicated that the company would use advances in technology to assist with geophysical work previously done and planned by us. The interpretations of geological and geophysical data have encouraged us to pursue our plans to the next stage and our prospects are good. I also referred to the strong, experienced management team which was essential for the success of the company and I am pleased to report to you that Dr John Santich and Dr Vic Bogacz have clearly demonstrated their commitment and vision.

Other opportunities and new prospects have been offered to us and the company will examine them all, and assess the benefits accordingly. The application of advanced technology techniques combined with the expertise of our professional team, should create further growth in the coming year.



Marathon Resources Limited is committed to achieving the highest standards of corporate governance and our statement relating to those matters is included in this report. The company acknowledges that there are legitimate interests of stakeholders in the company's operations and therefore the company has acted, and will act, responsibly in its commitment to the environment and with all parties who have interests in our affairs.

#### *Significant Post Balance Date Events*

The company announced on 2 August 2005 that the Paralana mineral system modelling contained large indicated and inferred resources. EL3258 is a 100% owned uranium-REE- polymetallic project located in the North Flinders Ranges, South Australia. At least seven mineral deposits are identifiable across the tenements over a distance of 11-12 kms along the north easterly trend of the Paralana Fault System.

The total indicated and inferred uranium resource is 31,200 tonnes from 56,676,000 tonnes of mineralisation. The inferred resource of Lanthanum –Cerium is 51,800 tonnes from 44,198,000 tonnes of mineralisation.

The cut-off grades selected represent limits at which the large Mt Gee deposit may prove to be economic in the future. The lower figure, 300 ppm, is above that currently being mined internationally and the higher figure, 500 ppm, provides contingency against uncertainties inherent in any mining project. At the present time, preliminary work for a drilling program has commenced, and the program will take 3-4 months in 3 selected locations on the tenements, including the higher-grade U<sub>3</sub>O<sub>8</sub> deposit at Hodgkinson.

The company has eminent and competent persons to undertake analysis of resources and is intent on compliance with the JORC Code. As I indicated earlier, the three principles governing the operation and application of this Code are fully supported by Marathon Resources Limited.

I would like to thank the Executive Directors for their enormous efforts and the Board for their determination and inspiration in getting to the listing stage and beyond. The staff of the company has contributed enthusiastically and professionally in the short time of activities; we are all looking forward to creating value in the company. Lastly, I would like to thank you, the shareholders, for your support.

Peter L Williams  
*Chairman*



### Paralana Mineral System - Mt Gee

During the financial year to 30 June 2005 field visits were undertaken to EL 3258 for familiarisation purposes, and consultants from the Economic Geology Centre of the University of Mining and Metallurgy in Krakow, Poland, were engaged to carry out deposit modelling and to produce a resource estimate for the Mt Gee deposit. By the end of the financial year a track based regional gravity survey had been completed and the modelling being undertaken was well on the way to completion.

On 2 August 2005 the Company announced the result of the modelling and resource estimate and clarified the announcement with a further release on the 12 August 2005. The results demonstrated that the Paralana mineral system is a very large uranium-rare earth-polymetallic mineral system located within the 100% owned Marathon tenement. The deposit at Mt Gee, one of a number in the Paralana mineral system, was estimated to contain an inferred resource of nearly 57 million tonnes of uranium mineralisation at an average grade of 0.06%. The breakdown of tonnage and grade (including some tonnage of material classified as indicated) is set out in the table below.

Project	JORC Classification	Cut-off Grade	Million Tonnes Mineralisation	U <sub>3</sub> O <sub>8</sub> Avg Grade	U <sub>3</sub> O <sub>8</sub> Av tonnes
Mt Gee	Indicated resource	500 ppm	4.0	.094%	3,800
Mt Gee	Inferred resource	500 ppm	30.0	.073%	21,000
Mt Gee	Inferred resource	300 ppm (<500 ppm)	22.7	.037%	8,400
<b>Total</b>	<b>Indicated &amp; Inferred</b>	-	<b>56.7</b>	<b>.060%</b>	<b>33,200</b>

Aside from the Mt Gee deposit, the whole Paralana mineral system demonstrates strong uranium potential, at the neighbouring Armchair and Streitberg as well as further west at Radium Ridge and east at Hodgkinson. The location of the Mt Gee and other deposits and prospects within the Paralana mineral system are shown in Figure 1.

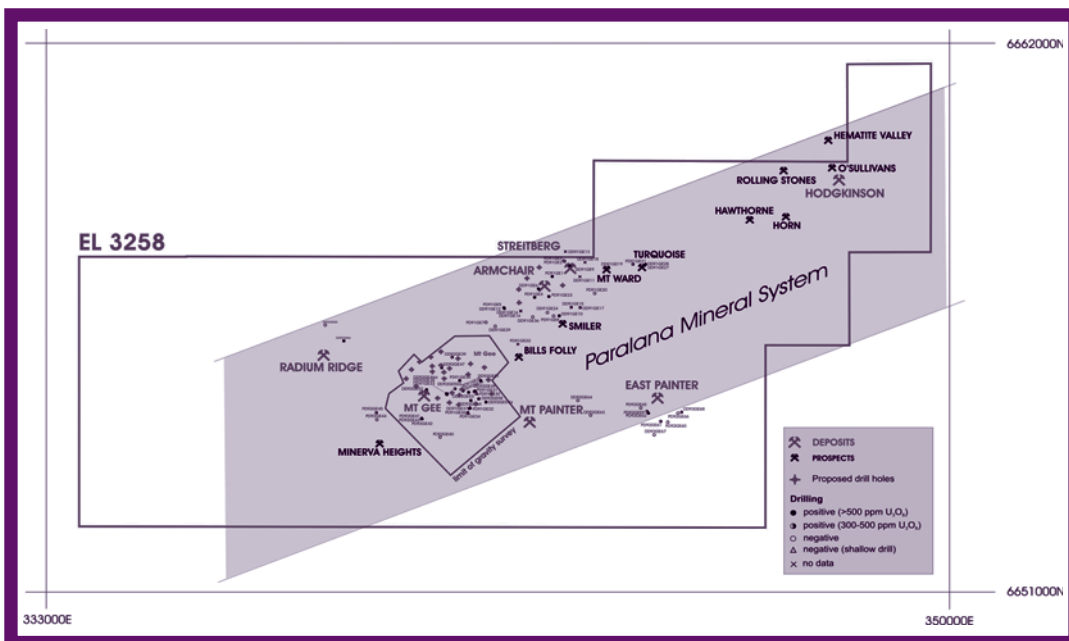


Figure 1: Tenement Plan EL 3258, Paralana mineral system.



In addition to uranium, the Mt Gee deposit comprises a significant rare earth resource. The breakdown of tonnage and grade is set out in the table below.

<i>Project</i>	<i>JORC Classification</i>	<i>Cut-off Grade</i>	<i>Tonnes Mineralisation</i>	<i>La-Ce Avg Grade</i>	<i>La-Ce tonnes</i>
Mt Gee	Inferred resource	In >500 U zone only	44,198,000	.12%	51,800
<b>Total La-Ce</b>	<b>Inferred</b>	<b>-</b>	<b>44,198,000</b>	<b>-</b>	<b>51,800</b>

The drilling on which Marathon based its modelling and resource estimate was carried out by earlier explorers, including an Exoil led consortium (1960s and '70s), CRA Exploration (1991-94) and Goldstream Mining (1998-99). Exoil drilled some 625 holes of total length approximately 53,000 metres, CRAE 68 holes of total length approximately 14,500 metres, and Goldstream 7 holes of total length some 1,500 metres.

In 2002 Marathon's subsidiary drilled a single diamond hole of 636 metres in 2002 (the deepest ever drilled within the exploration license), which confirmed the presence of uranium mineralisation from surface to the end of hole.

It was obvious that assessment of previously obtained drill hole data had to be the first step toward Company exploration, before committing to drilling expenditure. The data was of sufficient quality to give us the confidence for the development of the 3D model of the Mt Gee deposit which, in turn, yielded the inferred resource containing 33,200 tonnes of U<sub>3</sub>O<sub>8</sub>. The 3D model is shown in Figure 2.

Computer modelling was carried out in the context of Marathon's tectogenetic analysis of the Parana mineral system. Tectogenetic analysis is a specific methodology developed by Dr Vic Bogacz and applied to the understanding and re-establishment of many ore systems and orebody discoveries in Australia and internationally.

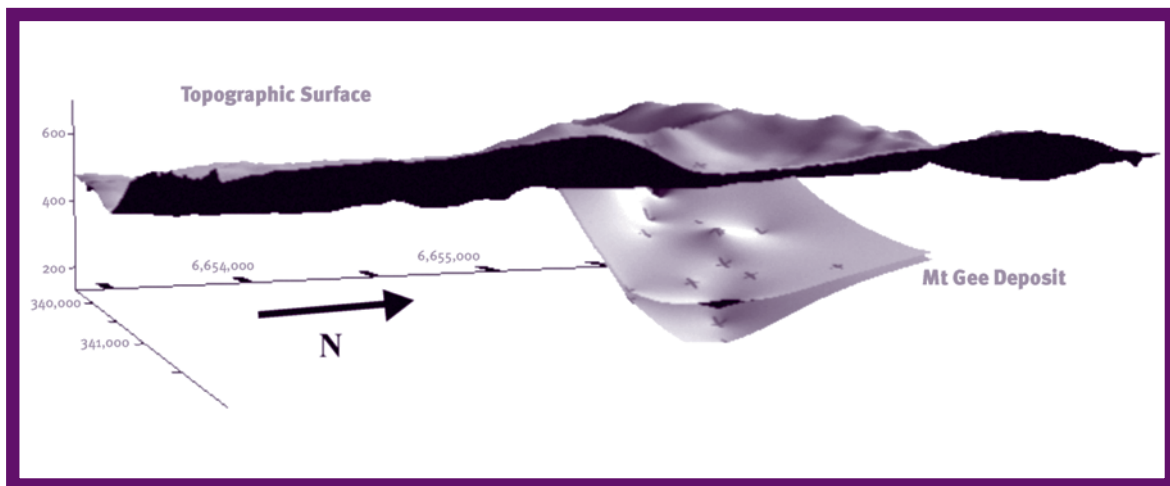


Figure 2: The Mt Gee deposit model.

## Exploration

Marathon intends next to drill Mt Gee as well as the Hodgkinson and Armchair - Streitberg deposits. The rationale behind the program is:

- a) *to increase the tonnage (size) of and confidence in the Mt Gee inferred resource estimate towards an indicated resource*
- b) *to establish a resource estimate for the Armchair and Streitberg deposits, and*
- c) *to examine the mineralisation, distribution and grade for the Hodgkinson deposit, particularly high grade intersections previously reported by open hole drilling by Exoil.*

It is proposed that drilling commence at Hodgkinson followed by drilling at Mt Gee, and heritage clearances over both these areas have been finalised. Clearance at Armchair-Streitberg has been initiated. The overall program comprises some 19 holes, of which 8 at Hodgkinson, 6 at Mt Gee and 5 at Armchair-Streitberg.

At the completion of the drilling program, and prior the next phase of drilling, size, grade and tonnage of the Mt Gee deposit will be re-assessed. It is anticipated that the program may yield sufficient drill hole/assay data for assessment of the resource at Armchair-Streitberg.

## Development

The Company is now undertaking studies on petrology and petrogenesis of ore as well as further geological programs aimed at completing a scoping and engineering study for the development of the Mt Gee deposit. The Company is also developing alliances with parties who have expressed interest in the project with a view to examining options for the future development of the project, which would clearly be beyond the capacity of the Company in its present form.

## Coober Pedy

The Company's tenements at Coober Pedy are Woorong Creek and Mabel Creek (Figure 3), held through a joint venture with Minotaur Exploration Ltd (see page 29 of this document). The Company carried out exploration over both tenements during the financial year and to the date of this report, with most of the emphasis being on Woorong Creek.

At Woorong Creek a gravity survey (Haines Surveys) was undertaken in the western limits of the exploration license to complete the gravity coverage of the tenement. A geophysical review of gravity and magnetic data was initiated and completed late in the financial year. A geochemical orientation survey was also undertaken and partially completed, with three target areas (G3, M8 & PER3) being geochemically sampled using Mobil Metal Ion analysis (MMI) as well as calcrete sampling.

Although based on a limited number of samples, both calcrete and MMI geochemical techniques showed anomalous responses over a gravity and magnetic high north of MC5. The MMI response was particularly encouraging, showing a multiple sample response, whereas the calcrete response was at a single sample point (coincident with the MMI maxima).

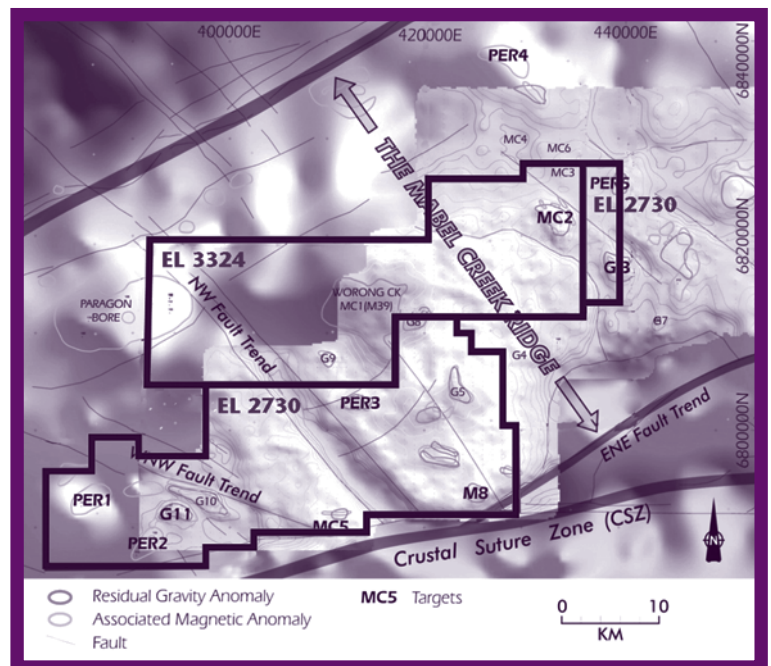


Figure 3; Coober Pedy Tenements, Woorong Creek EL 3324 and Mabel Creek EL 2730.



## Glendambo

The Company's tenements at Glendambo are Coondambo (Figure 4), held through a joint venture with Platsearch NL (see page 29 of this document), and Mulga Well, 100% owned by Marathon. The Company carried out exploration over both tenements during the financial year and to the date of this report.

At Coondambo a gravity survey (Haines Surveys) was undertaken to increase the regional gravity coverage to approximately 75% of the tenement. A geophysical review of the gravity and magnetic data has been initiated. MMI (Mobile Metal Ion) samples were also collected along the AMT traverse carried out by the Company, with a view to comparison of MMI data with geophysics and calcrete samples. A field orientation visit was also conducted. An EWA for drilling of the shear zone defined by the AMT survey was lodged and approval has been received.

At Mulga Well, a geochemical orientation survey was completed to compare MMI and calcrete sampling. A broad spaced gravity program was also undertaken to refine targets already located using aeromagnetic data. The geochemical data has proved useful and further traverses will be conducted. In particular, strong uranium responses were defined along the margins of the palaeochannel indicating the potential of this system to host secondary uranium deposits. As a result of this work, two additional tenements have been applied for covering extensions to the Kingoonya Palaeochannel, which traverses the Mulga Well tenement (see page 10 of this document)

## Mongolata

Little work was carried out at Mongolata during the financial year and to the date of this report. Field orientation visits were undertaken and historical data collated, preparatory to exploration expected later in the financial year.

## Pinda Springs

Little work was carried out at Pinda Springs during the financial year and to the date of this report. Historical data was collected and collated, the historical sample data was located and the relevant geological mapping digitised. A Notice of Entry has been lodged with landowners in southern area of the tenement and field exploration is expected to commence early in the next calendar year.

## Western Victoria

At Kalymna, an air core drilling program was completed during the financial year to define the position of the Moyston Fault Zone. A Mini TEM survey was also completed around 'interesting' holes.

The drilling returned a strongly anomalous response of 0.38g/t Au at end-of-hole (MS03; 35-36m) on the estimated position of the Moyston Fault Zone, which appears encouraging and a confirmation of the model on which the program was based.

Deeper RC drill testing of the Au response obtained in the aircore drilling will commence shortly, under a new Work Program approved by the Victorian Mines Department.

The Company may earn an interest in Kalymna and Glenlyle in western Victoria through its exploration of the tenements.

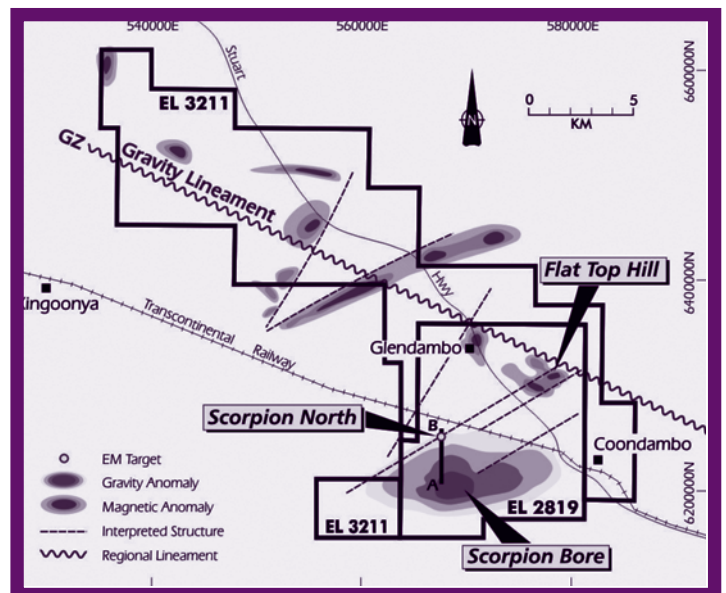


Figure 4: Glendambo Tenements, Coondambo EL 2819 and Mulga Well EL 3211.

### New tenements

During the period between the end of the financial year and the date of this report the Company applied for three additional exploration licenses in South Australia. Two of the tenements are extensions of the uranium palaeochannel potential at Mulga Well near Glendambo in the central Gawler Craton while the third is a primary uranium project in the Fleurieu Peninsula to the south of Adelaide (Figures 5 and 6). As at the date of this report, one tenement (ELA 358/05) has been offered to and accepted by the Company while the remaining two applications are still pending.

ELAs 358/05 and 359/05 over the Kingoonya Palaeo-channel System show potential for palaeo-channel uranium mineralization near Marathon's Glendambo tenements in the central Gawler Craton. The Glendambo tenements are at the eastern end of the Harris Greenstone Belt and the complex palaeo-channel structures, forming part of the regional Kingoonya Palaeo-channel System, are strongly developed within these tenements and their surroundings. The potential for palaeo-channel related uranium mineralization in the area is considered high and Marathon now controls approximately 150km of the Kingoonya Palaeo-channel system.

ELA 252/05 covers the old Wild Dog underground mine, from which some 346 tonnes of ore averaging 0.36%  $U_3O_8$  was extracted during 1954-1955 from a deposit of massive pitchblende. The area surrounding the deposit remains essentially unexplored and the strong uranium-related geochemistry, structural control and potential for high-grade lodes with a primary uranium mineralisation suggest that the area has excellent exploration potential.

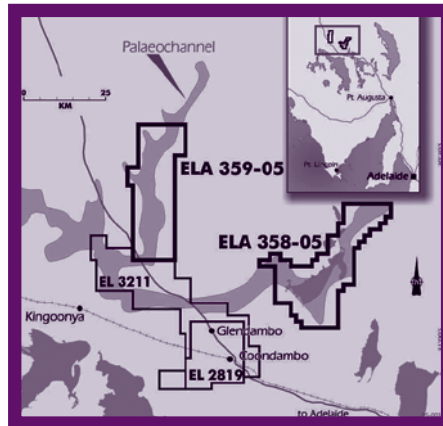


Figure 5; Kingoonya Tenement applications.

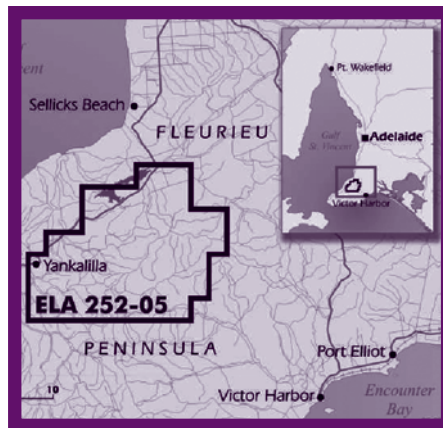


Figure 6; Wild Dog Tenement application.



**The directors present their report on the results of Marathon Resources Ltd for the year ended 30 June 2005 and the state of the affairs of the Company at that date.**

### **Directors**

Persons who have been Directors in the Company during the financial year are Peter Leonard Williams, John Reginald Santich, Wieslaw Bogacz, William Sydney Latimer and Stuart McRae Appleyard. Directors' brief details are as follows:

#### **Peter Williams BEc FCA**

*Chairman (non-executive)*

Peter Williams is a chartered accountant with extensive professional and commercial experience. He has broad experience as managing director and chairman of public companies. He was a partner of Deloitte for 17 years and managing director of the Lloyd Helicopter group then Enterprise Solutions Asia Pacific Limited. Since then he has acted as a non-executive director with venture capital companies (Momentum Ventures Limited and Playford Capital Pty Ltd) and is Chairman of Agrilink Holdings Pty Ltd and Hardy Milazzo. He is a member of the Company's Audit Committee.

#### **John Santich BE MEngSc PhD DipLaw MSocSc**

*Chief Executive Officer*

Dr John Santich is an engineer and lawyer with over three decades experience in mining, geoscience and industry. He has been founder and director of a number of successful exploration and mining companies, including Burmine Ltd and Minotaur Gold Ltd (precursor of Minotaur Resources Ltd). He has also established companies in other technological areas, including bottled water (Palm Springs Ltd), machine vibration analysis (IPACS Australia Pty Ltd) and renewable energy (Solarshop Pty Ltd).

#### **Wieslaw Bogacz Msc Eng PhD Eng**

*Executive Director*

Dr Wieslaw Bogacz is a highly qualified geologist and engineer with more than 30 year's experience in successful orebody exploration and development in Australia and worldwide. He has an established reputation in the development of advanced interpretations of structural geological controls on mineralisation and in tectonic genesis of metalliferous deposits. He is co-founder of mining and exploration companies, including Minotaur Gold Ltd (precursor of Minotaur Resources) and, more recently, Oroya Mining Ltd.

#### **William Latimer LLB**

*Director (non-executive)*

William (Bill) Latimer is a dispute resolution and litigation specialist with Lynch Meyer, Lawyers. During the 1990's he spent several years in Malaysia as an executive director of Clisby Industries Ltd in joint venture with the HICOM Berhad Group Malaysia. In recent years he has concentrated more effort in his role as a consultant with Lynch Meyer, specialising in litigation and in the creation of a resources division within the firm. Since 2002 he has also been a director of Bonanza Gold Pty Ltd, which Marathon has acquired. He is the Chairman of the Company's Audit Committee.

#### **Stuart Appleyard LLB**

*Director (non-executive and secretary)*

Stuart Appleyard is a practising lawyer with extensive experience in corporate, commercial and property law. A partner at Lynch Meyer, Lawyers, he has a particular focus on complex commercial agreements, joint ventures, property advising and development, and due diligence associated with those areas. He has advised on mining, resource and native title issues in both South Australia and the Northern Territory. Since 2002 he has also been a director of Bonanza Gold Pty Ltd, which Marathon has acquired. He is a member of the Company's Audit Committee.

### Corporate governance statement

The Board of Marathon Resources Limited is committed to achieving and demonstrating the highest standards of corporate governance and has adopted practices and policies in accordance with the ASX Corporate Governance Best Practice Recommendations. The Corporate Governance Statement forms a separate part of the Financial Report.

### Significant changes in the state of affairs

The company was admitted to the Official List of the Australian Stock Exchange on 15 March 2005 and following the successful completion of an initial public offering by way of a prospectus raising \$4.64 million by the allotment of and issue of 23.2 million shares. Official quotation of 29,067,895 securities commenced on 17 March 2005.

Other than as referred to in the financial statements or notes thereto, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, 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 future years

### Subsequent events

Subsequent to year end, the company announced on 2 August 2005 to the ASX that the Paralana mineral system contained large indicated or inferred resources. EL 3258 is a 100% owned uranium – REE – polymetallic project located in the North Flinders ranges, South Australia. A further release on 12 August 2005 clarified the tonnages and grades of the indicated or inferred resource. The company will continue its planned exploration program and report its findings on a regular basis.

### Principal activities

The principal activity of the consolidated entity during the year was mineral exploration and there were no significant changes in activities during the year.

### Operating results

The consolidated operating loss of the Company for the financial year to 30 June 2005 after applicable income taxes was \$417,044.

### Dividends

The directors do not recommend the payment of a dividend and no amount has been paid or declared since the end of the previous financial year.

### Likely developments

The Company is a mineral explorer and, potentially, a miner of uranium, gold and other metals in future years. The results of these operations cannot be predicted at this time. The Company may or may not require further capital to sustain these activities.

### Environmental issues

The Company's operations are subject to environmental regulation. The Company is satisfied that no breaches of environmental regulation have occurred. No notification of any breach of any environmental regulation has been received from any relevant agency in Australia or New Zealand.

### Options

During the year under review, 500,000 options, to subscribe for shares in the company, were issued as detailed in Note 5 of the Financial Report.

All options expire on 30 June 2009, are exercisable at 20 cents and will be unlisted. Each option entitles the holder to one fully paid share in the Company. None of the options entitles the holders to participate, by virtue of the options, in any dividend or share issue of any other corporation.

### Auditor's independence

The auditor has not been engaged during the year for any non-audit services which may have impaired independence. The auditor's independence declaration for the year ended 30 June 2005 has been received and is included in this report.

### Directors' and executives remuneration

The Board, where appropriate, seeks independent advice on remuneration policies and practices for directors and executives, and packages are benchmarked against comparable industry levels.

The company has determined that fees for non-Executive Directors be set in aggregate at \$85,000 per annum, accruing on a weekly basis.

The two executive Directors have entered into service agreements for a period of 3 years commencing on 15 March 2005. The terms of these agreements provide for total salary packages including a base salary of \$130,000 per annum.



	Directors fees	Salary and wages	Super contributions	Total
P.L. Williams	25,000	-	2,500	27,250
J. Santich	10,000	48,441	4,359	52,800
W. Bogacz	10,000	48,441	4,359	52,800
W.S. Latimer	20,000	-	1,800	21,800
S. M. Appleyard	20,000	-	1,800	21,800

There have been no options issued during the year to directors. The disclosures in Directors' Interests relate to options issued in the prior year.

There are no termination or retirement benefits for non-Executive Directors (other than statutory superannuation)

### Directors' and officers interests in shares and options

	Ordinary Shares		Options	
	direct	indirect	direct	indirect
Peter Williams	-	80,000	-	1,000,000
John Santich	-	2,180,000	-	500,000
Wieslaw Bogacz	-	2,180,000	-	500,000
William Latimer	-	987,500	-	1,675,000
Stuart Appleyard	-	910,000	-	1,640,000

### Meetings of directors

During the financial year, the number of Board meetings held at which a director was eligible to attend and the number actually attended by each director were:

	Appointed	Meetings Held	Meetings Attended
Peter Williams	21 May 2004	10	10
John Santich	28 January 2004	10	10
Wieslaw Bogacz	28 January 2004	10	8
William Latimer	28 January 2004	10	9
Stuart Appleyard	28 January 2004	10	9

### Indemnities insurance

Arrangements for directors and officers insurance had not been finalised at year end and no insurance premiums have been paid during the year.

### Proceedings

The company has not been a party to any legal proceedings during the year. Directors are not aware of any proceeding initiated during the year or contemplated against or on behalf of the company.



*John Santich*  
Director



*Peter L Williams*  
Director

*Dated this 30th day of September 2005*



The Board of Marathon Resources Ltd is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board is responsible to the shareholders for the performance of the Company and is focused on:

- *enhancing the interests of shareholders and other key stakeholders;*
- *ensuring the Company is properly managed.*

The Board believes that sound Corporate Governance practices will assist in the creation of shareholder wealth and provide accountability and control systems commensurate with the risks involved.

This Statement outlines the main corporate governance practices in place during the financial year, noting where practices depart from the ASX Corporate Governance Council Recommendations and the Board's reasons for an alternate approach. The Company has complied with the majority of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations as detailed below.

This Corporate Governance Statement sets out the Company's current compliance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (Best Practice Recommendations). Although the Best Practice Recommendations are not mandatory, the Company is required to provide a statement in its annual reports disclosing the extent to which the Company has followed the Best Practice Recommendations.

## The Corporate Governance Plan

### 1 *Lay solid foundations for management and oversight*

The Company's Corporate Governance Plan includes a Board Charter, which discloses the specific responsibilities of the Board and provides that the Board shall delegate responsibility for the day-to-day operations and administration of the Company to the Chief Executive Officer.

### 2 *Structure the board to add value*

More than half of the current Board are independent directors.

The chairperson (Mr Peter Williams) is an independent director

The roles of chairperson (Mr Peter Williams) and chief executive officer (Dr John Santich) are exercised by different people.

The Board is of the opinion that it is not of a sufficient size to warrant the establishment of a nomination committee at this time.

The Company will provide details of each director, such as their skills, experience and expertise relevant to their position, together with an explanation of any departures from best practice, in its future annual reports.

### 3 *Promote ethical and responsible decision making*

The Company's Corporate Governance Plan includes a corporate code of conduct which provides a framework for decisions and actions in relation to ethical conduct in employment.

The Company's Corporate Governance Plan includes guidelines for buying and selling securities in the Company.

### 4 *Safeguard integrity in financial reporting*

The Board will require the Chief Executive Officer and, upon appointment, the Chief Financial Officer (or equivalent) to make a statement (at the relevant times) that the Company's financial systems are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respect.

The Company does not currently have a Chief Financial Officer.

The Board has established an audit committee, the Chairman of which is Mr William Latimer, who is not the chairman of the board. The audit committee currently has 3 members.

The Corporate Governance Plan requires a formal charter for the audit committee. The Company will provide details of the members of the audit committee, the number of meetings of the audit committee and the names of the attendees, in its annual reports.

*5 Make timely and balanced disclosure*

The Company's Corporate Governance Plan requires a continuous disclosure policy.

*6 Respect the rights of shareholders*

The Company's Corporate Governance Plan includes a shareholder communications strategy which aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

The Board will request the external auditor to attend all future annual general meetings of the Company, to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

*7 Recognise and manage risk*

The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the audit committee responsibility for implementing the risk management system

*8 Encourage enhanced performance*

The Board has not developed a formal process for performance evaluation at this time.

*9 Remunerate fairly and responsibly*

The Board is of the opinion that it is not of a sufficient size to warrant the establishment of a remuneration committee at this time. The Company has not developed a formal remuneration policy at this time.

Non-executive Directors each receive annual fees of \$20,000 plus 9% superannuation for fulfilling their duties as Directors of the Company, with the exception of the Chairman who receives an annual fee of \$25,000 plus 9% superannuation.

The Company's Constitution provides that the remuneration of non-executive Directors will be not more than the aggregate fixed sum determined by a general meeting. The aggregate remuneration has been set at an amount of \$85,000 per annum.

The Board is responsible for determining the remuneration of the Chief Executive Officer and senior executives.

The Company has no plans in relation to payment of equity based executive remuneration at this time.

*10 Recognise the legitimate interests*

The Company seeks to be a good corporate citizen and protect and preserve all stakeholders' interests we are currently in the process of establishing a formal Code of Conduct, which will establish principles by which both Directors and employees can appropriately balance, protect and preserve all stakeholders' interests.

The Company is committed to a policy of environmental management and monitoring of environmental compliance.

Exploration activities require consultation with various claimants including communities affected by Native Title, landowners and authorities. The company aspires to be a good corporate citizen through consultation and involvement of those parties.



**The Directors declare that:**

- 1) The financial statements and notes set out in this Annual Report are in accordance with the requirements of the Corporations Act 2001 and:
  - a) comply with Australian Accounting Standards and other mandatory professional reporting requirements;
  - b) give a true and fair view of the Company's financial position as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
- 2) The Chief Executive Officer has declared that:
  - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b) the financial statements and notes for the financial year comply with the accounting standards; and
  - b) the financial statements and notes for the financial year give a true and fair view; and
- 3) In the Directors opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

John Santich  
*Director*

Peter L Williams  
*Director*

*Dated at Adelaide, South Australia this 30th day of September 2005*

Chartered Accountants and Business Advisers

**AUDITOR'S INDEPENDENCE DECLARATION**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Marathon Resources Ltd for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Regulations 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

**GRANT THORNTON**  
CHARTERED ACCOUNTANTS



**P S PATERSON**  
Partner

Dated this 30th day of September 2005

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Chartered Accountants and Business Advisers

## INDEPENDENT AUDIT REPORT TO MEMBERS OF MARATHON RESOURCES LTD AND CONTROLLED ENTITIES

### Scope

#### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration of Marathon Resources Ltd and Controlled Entities (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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.

#### Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, 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, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- 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.

#### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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**Audit opinion**

In our opinion, the financial report of Marathon Resources Ltd and Controlled Entities is in accordance with:

- (a) the Corporations Act 2001, including:
  - i) giving a true and fair view of Marathon Resources Ltd and the consolidated entity's financial position as at 30 June 2005, and of its 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.

**GRANT THORNTON**  
CHARTERED ACCOUNTANTS



**P S PATERSON**  
Partner

Signed at Adelaide this 30<sup>th</sup> day of September 2005

 **STATEMENT OF FINANCIAL PERFORMANCE**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

	<i>Notes</i>	Consolidated Entity	Parent Entity	
		2005	2005	2004
			<i>(5 months)</i>	
Revenue	2	84,818	84,818	-
Depreciation		(4,662)	(4,662)	-
Exploration expenditure		(60,916)	(60,916)	-
Employee Expenses		(298,923)	(298,923)	-
Occupancy Expenses		(27,944)	(27,944)	-
Other expenses from ordinary activities		(111,432)	(107,406)	(71,672)
<b>Profit (Loss) from ordinary activities before income tax expense</b>		<b>(417,044)</b>	<b>(415,033)</b>	<b>(71,672)</b>
<b>Income Tax</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit (Loss) from ordinary activities after income tax expense</b>		<b>(417,044)</b>	<b>(415,033)</b>	<b>(71,672)</b>
<b>Net Profit (Loss) attributable to the members of Marathon Resources Ltd</b>		<b>(417,044)</b>	<b>(415,033)</b>	<b>(71,672)</b>
<b>Earnings per share</b>				
Basic (cents per share)	20	(0.010)		(0.014)

MARATHON RESOURCES LIMITED ANNUAL REPORT 2005

The accompanying notes form part of these financial statements



STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2005

MARATHON RESOURCES LIMITED ANNUAL REPORT 2005

		Consolidated Entity 2005	Parent Entity 2005 2004	
	<i>Notes</i>			
<b>CURRENT ASSETS</b>				
Cash at Bank		3,828,513	3,818,340	18,797
Receivables		6,959	925	2,440
Other Financial Assets	19		124,819	-
<b>Total Current Assets</b>		<b>3,835,472</b>	<b>3,944,084</b>	<b>21,237</b>
<b>NON-CURRENT ASSETS</b>				
Other Financial Assets	12(b)	-	230,000	-
Property, Plant & Equipment	4	121,543	121,543	2,736
Exploration & Evaluation costs	5	406,654	70,053	23,650
<b>Total Non-Current Assets</b>		<b>528,197</b>	<b>421,596</b>	<b>26,386</b>
<b>TOTAL ASSETS</b>		<b>4,363,669</b>	<b>4,365,680</b>	<b>47,623</b>
<b>CURRENT LIABILITIES</b>				
Payables		152,607	152,607	44,295
Provisions	18	25,951	25,951	-
<b>Total Current Liabilities</b>		<b>178,558</b>	<b>178,558</b>	<b>44,295</b>
<b>NET ASSETS</b>		<b>4,185,111</b>	<b>4,187,122</b>	<b>3,328</b>
<b>EQUITY</b>				
Contributed Equity	6	4,673,827	4,673,827	75,000
Retained Losses	7	(488,716)	(486,705)	(71,672)
<b>TOTAL EQUITY</b>		<b>4,185,111</b>	<b>4,187,122</b>	<b>3,328</b>

The accompanying notes form part of these financial statements

 **STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED 30 JUNE 2005

	<i>Notes</i>	Consolidated Entity 2005	Parent Entity 2005      2004	
<b>Cash flows from operating activities</b>				
Interest Received		84,818	84,818	
Payments to suppliers		(364,086)	(359,412)	(24)
<b>Net cash provided by (used in) operating activities</b>	12(c)	<u>(279,268)</u>	<u>(274,594)</u>	<u>(24)</u>
<b>Cash flows from investing activities</b>				
Purchase of plant & equipment	4	(123,469)	(123,469)	(2,736)
Payment for exploration activities	5	(147,256)	(26,403)	(3,443)
Amount advanced to related party		-	(124,819)	-
Cash acquired on purchase of subsidiary	12(b)	10,881	-	-
<b>Net cash provided by (used in) investing activities</b>		<u>(259,844)</u>	<u>(274,691)</u>	<u>(6,179)</u>
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares	6	4,917,079	4,917,079	25,000
Payment of expenses of the issue of shares	6	(568,252)	(568,252)	-
<b>Net cash provided by (used in) financing activities</b>		<u>4,348,827</u>	<u>4,348,827</u>	<u>25,000</u>
Net increase in cash held		3,809,715	3,779,542	18,797
<b>Cash at 30 June 2004</b>		<u>18,797</u>	<u>18,797</u>	<u>18,797</u>
<b>Cash at 30 June 2005</b>	12(a)	<u>3,828,512</u>	<u>3,818,339</u>	<u>-</u>

The accompanying notes form part of these financial statements

## NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

**Financial Reporting Framework**

The financial statements are a general purpose financial report which has been prepared in accordance with applicable Accounting Standards, UIG Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements have also been prepared on an accruals basis and are except where indicated, based on historical costs and do not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

**Significant Accounting policies**

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

**a) Principles of Consolidation**

The consolidated financial statements are prepared by combining the financial statements of Marathon Resources Limited and its controlled entity referred in this financial report. Consistent accounting principles are employed in the preparation and presentation of the consolidated financial statements.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

**b) Accounts payable**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

**c) Acquisition of assets**

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

**d) Date of incorporation**

The company was incorporated on 28 January 2004. The company acquired a wholly owned subsidiary, Bonanza Gold Pty Ltd on 9 July 2004.

**e) Exploration, evaluation and development expenditure**

Exploration, evaluation and development expenditures in relation to separate areas of interest are brought to account in the period in which they are incurred and are carried at cost.

The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest is carried forward as an asset in the Statement of Financial Position where:

*it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest or by its sale; or*

*exploration activities are continuing in an area of interest and activities have not yet reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves.*

Where a decision is made to proceed with development, accumulated expenditure will be amortised over the life of the reserves associated with the area of interest.

**f) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

*where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or*

for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

#### g) Income Tax

Tax effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting results after adjustment for permanent differences.

The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable. Deferred tax assets are only brought to account when their recovery is virtually certain.

The consolidated entity is able to consolidate and be treated as a single entity for income tax purposes. The implementation of the tax consolidation system has not yet been formally notified to the Australian Taxation Office. The head entity is Marathon Resources Limited and each entity in the group has agreed to pay a tax equivalent payment to or from the head entity based on the net accounting profit or loss of the entity and the current tax rate.

#### h) Investments

Investments in controlled entities are recorded at cost. Dividend revenue is recognised on an accruals basis.

#### i) Joint ventures

Interests in joint venture operations are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to joint ventures and the share of any expenses incurred in relation to joint ventures in their respective classification categories.

#### j) Receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

#### k) Recoverable amount of non-current assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have been discounted to their present value.

#### l) Revenue Recognition

##### *Disposal of Assets*

Revenue from the disposal of assets is recognised when the Company has passed control of the assets to the buyer.

##### *Interest*

Interest revenue is recognised on an accrual basis.

#### m) Depreciation

Depreciation is provided on property, plant and equipment, commencing from the time the asset is held ready for use. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. An estimated useful life of 5-15 years is used in the calculation of depreciation on plant and equipment.

#### n) Consolidated Comparative Figures

The company acquired a wholly owned subsidiary Bonanza Gold Pty Ltd on 9 July 2004. There are no consolidated comparative figures.

#### o) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

#### p) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

## NOTE 2 - REVENUE FROM OPERATIONS AND OPERATING ACTIVITIES

	<i>Consolidated 2005 \$</i>	<i>Consolidated 2005 \$</i>	<i>Parent 2004 \$</i>
Revenue from ordinary activities			
Interest	84,818	84,818	-

## NOTE 3 - INCOME TAX EXPENSE

	<i>Consolidated 2005 \$</i>	<i>Consolidated 2005 \$</i>	<i>Parent 2004 \$</i>
i) Prima Facie income tax expense on pre-tax accounting loss reconciles to income tax expense in the Statement of Financial Performance as follows:			
Income tax benefit calculated at 30%	125,113	124,510	21,502
Tax effect of permanent difference - expenses paid via share issue	34,095	34,095	-
Timing differences and tax losses not brought to account as future income tax benefits	(91,018)	(90,415)	-
Income tax expense relating to ordinary activities	-	-	-
ii) Net future income tax benefits (FITB) not brought to account as assets:			
Tax losses – revenue	91,018	90,415	-
Timing differences	129,782	28,801	7,095
Total FITB not brought to account	220,800	119,216	7,095

The taxation benefits of tax losses and timing differences not brought to account will only be obtained if:

- a) assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
- b) conditions for deductibility imposed by the law are complied with; and
- c) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

## NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

	<i>Consolidated</i> 2005 \$	<i>Consolidated</i> 2005 \$	<i>Parent</i> 2004 \$
Plant and equipment, offices			
equipment and vehicles	126,205	126,205	2,736
Less Accumulated Depreciation	4,662	4,662	-
<b>Total Plant and Equipment</b>	<b>121,543</b>	<b>121,543</b>	<b>2,736</b>
<b>Movement</b>			
Balance at 1 July 2004	2,736	2,736	-
Additions	123,469	123,469	2,736
Disposals	-	-	-
Depreciation	(4,662)	(4,662)	-
Carrying amount at year end	121,543	121,543	2,736

## NOTE 5 - EXPLORATION AND EVALUATION COSTS

	<i>Consolidated</i> 2005 \$	<i>Consolidated</i> 2005 \$	<i>Parent</i> 2004 \$
Exploration and Evaluation Costs	406,654	70,053	23,650
Less Accumulated Amortisation	-	-	-
<b>Total Exploration and Evaluation Costs</b>	<b>406,654</b>	<b>70,053</b>	<b>23,650</b>
<b>Movement</b>			
Balance at 1 July 2004	23,650	23,650	-
Balance at 1 July 2004	23,650	23,650	-
Exploration and evaluation Additions	172,496	46,403	23,650
Exploration and evaluation costs recognised on acquisition of subsidiary	210,508	-	-
<b>Closing balance</b>	<b>406,654</b>	<b>70,053</b>	<b>23,650</b>

The ultimate recoupment of costs carried forward is dependant upon the successful development and/or commercial exploitation or alternatively, sale of respective area of interest. For details of the Company's interests in Joint Ventures, refer to Note 7.

## NOTE 6 - CONTRIBUTED EQUITY

## Share capital

	<i>Consolidated 2005 \$</i>	<i>Consolidated 2005 \$</i>	<i>Parent 2004 \$</i>
Fully paid ordinary shares	4,673,827	4,673,827	75,000

Fully paid ordinary shares entitle the holders to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

## Movements in ordinary share capital

	<i>Number</i>	<i>\$</i>
1 July 2004	5,250,000	75,000
Issued at 1 cent (July 2004)	2,000,000	20,000
Issued at 5 cents (July 2004)	4,600,000	230,000
Issued at 10 cents (July 2004)	2,500,000	250,000
Issued at 10 cents (August 2004)	250,000	25,000
Issued at 20 cents (March 2005)	23,210,295	4,642,079
		5,242,079
Less share issue and capital raising expenses to 30 June 2005		(568,252)
Balance at 30 June 2005	37,810,295	4,673,827

Options granted prior to 30 June 2004 on 5,000,000 shares expire on 30 June 2009, have an exercise price of 20 cents and are exercisable at any time from grant date to expiry date. 500,000 options were granted during the year, on the same terms as above, as part consideration for the acquisition of the issued capital of Bonanza Gold Pty Ltd.

No options have been exercised during the year ended 30 June 2005

## NOTE 7 - ACCUMULATED LOSSES

	<i>Consolidated 2005 \$</i>	<i>Consolidated 2005 \$</i>	<i>Parent 2004 \$</i>
Opening balance	(71,672)	(71,672)	-
Net loss	(417,044)	(415,033)	(71,672)
Accumulated losses at the end of the period	(488,716)	(486,705)	(71,672)

**NOTE 8 - JOINT VENTURE OPERATIONS**

The Company has interests in unincorporated joint venture operations at the date of this report as follows:

<i>Name of entity</i>	<i>Principal activity</i>	<i>Joint venture Partner</i>	<i>30 June 2005</i>	<i>30 June 2004</i>
Woorong Creek*	Mineral exploration	Minotaur Exploration Ltd	51%	51%
Mabel Creek*	Mineral exploration	Minotaur Exploration Ltd	51%	51%
Pinda Springs	Mineral exploration	Modern Exploration Pty Ltd	100%	90%
Coondambo	Mineral exploration	Platsearch NL	50%	50%

\* *The interests in unincorporated joint venture operations with Woorong Creek and Mabel Creek are subject to the Company spending a total of \$1 million on exploration of the tenements.*

The company's interest in assets and liabilities employed in the above joint venture operations is detailed below. The amounts are included in the financial statements and consolidated financial statements under their respective asset categories:

	<i>Consolidated 2005 \$</i>	<i>Consolidated 2005 \$</i>	<i>Parent 2004 \$</i>
<b>Non-current assets:</b>			
Balance of exploration development costs at beginning of financial year	23,650	23,650	0
Exploration development costs incurred	383,004	46,403	23,650
Balance of exploration development costs at end of financial year	406,654	70,053	23,650

**NOTE 9 - COMMITMENTS FOR EXPENDITURE AND CONTINGENT LIABILITIES**

**Exploration Expenditure Commitments**

The Company has certain statutory obligations to perform exploration work and expend minimum amounts of money on such works on mineral exploration tenements.

The terms of the current and future joint ventures, grant of new licences and changes to existing licences will impact on the Company's expenditure commitments.

Total annual expenditure commitments at balance date in respect of minimum expenditure requirements not provided for in the financial statements are approximately:

	<i>30 June 2005</i>
Not longer than 1 year	828,000
Longer than 1 year and not longer than 5 years	81,000
Longer than 5 years	-

These are maximum commitments that will vary depending on future decisions on tenement management.

**NOTE 10 - SEGMENT INFORMATION**

The consolidated entity operates in the mining and exploration industry in Australia.

**NOTE 11 - FINANCIAL INSTRUMENTS***Forward Foreign Currency Contracts*

As at 30 June 2005 the company does not have any outstanding forward foreign currency contracts.

*Forward Interest Rate Contracts*

As at 30 June 2005 the company does not have any outstanding forward interest rate contracts.

*Interest Rate Risk***Financial assets**

The company has term deposits of \$3,800,000 as at 30 June 2005 which are deposited for less than one year at an average weighted interest rate of 5.59%.

The company's overdraft is subject to an interest rate of 9.85%.

*Credit Risk*

The company does not have any significant exposure to credit risk.

*Net Fair Value*

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1.

**NOTE 12 - NOTES TO THE STATEMENT OF CASH FLOWS****Reconciliation of cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	<i>Consolidated 2005 \$</i>	<i>Consolidated 2005 \$</i>	<i>Parent 2004 \$</i>
Cash	3,860,733	3,850,560	18,797
Overdraft - Interest Bearing	(32,220)	(32,220)	-
	3,860,733	3,850,560	18,797

**Non Cash Investing Activities**

On the 9th July 2004 all the issued capital of Bonanza Gold Pty Ltd was acquired. The Fair Value of assets acquired was:

Exploration and evaluation costs	215,748
Cash	10,881
Receivables	3,371
<b>Total</b>	<b>230,000</b>

**NOTE 12 - Continued**

Consideration for the acquisition was the issue by the company of 4,600,000 fully paid ordinary shares and 500,000 options, to the beneficial owners of the Bonanza Gold Pty Ltd shares and options.

	<i>Consolidated 2005 \$</i>	<i>Consolidated 2005 \$</i>	<i>Parent 2004 \$</i>
<b>Net cash flow on acquisition</b>			
Cash balances acquired	10,881	-	-

**c) Reconciliation of loss from operating activities after related income tax to net cash flows from operating activities**

Loss from ordinary activities after income tax	417,044	415,033	71,672
Depreciation	4,662	4,662	-
Non-cash operating expenses	-	-	(50,000)
Increase / (Decrease) in receivables	(1,515)	(1,515)	2,440
(Increase) / Decrease in payables	(131,599)	(134,262)	(24,088)
Net Cash provided by (used in) operating activities	(279,268)	(274,594)	24

**NOTE 13 - RELATED PARTIES**

The directors of Marathon Resources Ltd during the year ended 30 June 2005, were:

Peter Williams	<i>Chairman (non-executive)</i>	<i>appointed 21/5/2004</i>
John Santich	<i>Chief Executive Officer</i>	<i>appointed 28/1/2004</i>
Wieslaw Bogacz	<i>Executive Director</i>	<i>appointed 28/1/2004</i>
William Latimer	<i>(non-executive)</i>	<i>appointed 28/1/2004</i>
Stuart Appleyard	<i>(non-executive)</i>	<i>appointed 28/1/2004</i>

**Directors' remuneration**

	Directors fees	Salary and wages	Super contributions	Total
P.L. Williams	25,000	-	2,500	27,250
J. Santich	10,000	48,441	4,359	52,800
W. Bogacz	10,000	48,441	4,359	52,800
W.S. Latimer	20,000	-	1,800	21,800
S. M. Appleyard	20,000	-	1,800	21,800

No directors' fees were paid in the year ended 30 June 2004.

### Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those to other parties, unless otherwise stated. The company has paid Cluan Capital Management Pty Ltd \$8250, and this company is associated with Mr P.L. Williams, the Chairman of Marathon Resources Limited. The company's lawyers are Lynch Meyer of which firm Mr S M.Appleyard is a partner and Mr W.S Latimer is a consultant. Lynch Meyer received payments for professional services during the year of \$20,355.

The two Executive Directors, Dr J.R. Santich and Dr W. Bogacz, are directors of Archon Pty Ltd and Archon Technologies Pty Ltd respectively. Both companies were engaged to provide consulting services to Marathon Resources Limited and were each paid \$105,600 during the year. These services related to professional and consulting costs and were contingent upon the successful listing of the company on the ASX. From 15 March 2005, the executive Directors were employed on contracts of service as disclosed below.

### Directors' and officers interest in shares and options

	Ordinary Shares		Options	
	direct	indirect	direct	indirect
Peter Williams	-	80,000	-	1,000,000
John Santich	-	2,180,000	-	500,000
Wieslaw Bogacz	-	2,180,000	-	500,000
William Latimer	-	987,500	-	1,675,000
Stuart Appleyard	-	910,000	-	1,640,000

### Contracts of service

The two Executive Directors, Dr J.R. Santich and Dr W. Bogacz, have entered into service agreements whereby they will be employed by the company for a period of 3 years commencing on 15 March 2005. The terms of these agreements provide for total salary packages including a base salary of \$130,000 per annum.

### NOTE 14 - EXECUTIVE SHARE OPTION PLAN

The Company has established an Employees Share Option Plan ('the Plan') to assist in the attraction, retention and motivation of employees or officers of the Company. All employees (full and part-time) and consultants will be eligible to participate in the Plan after a qualifying period of 6 months' employment (or, in the case of a consultant, having provided consulting services on a continuous basis for at least 6 months). The allocation of options to each employee, officer or consultant is in the discretion of the Board. Each option is to subscribe for one fully paid ordinary share in the Company and will expire 5 years from its date of issue. An option is exercisable at any time from its date of issue. The total number of shares the subject of options issued under the plan, when aggregated with issues during the previous five years pursuant to the plan, must not exceed 10% of the Company's issued share capital. No options have been granted under this plan as at the date of this report.

**NOTE 15 - ADDITIONAL COMPANY INFORMATION**

Marathon Resources Ltd is a public company incorporated and operating in Australia. The registered office and principal place of business is:

*10 George Street  
Stepney South Australia 5069*

**NOTE 16 - AUDITOR'S REMUNERATION**

	<i>Consolidated 2005 \$</i>	<i>Consolidated 2005 \$</i>	<i>Parent 2004 \$</i>
Amounts received or due & receivable by the Auditor of the company for:			
auditing the Financial Statements	10,000	10,000	3,850
other services			

**NOTE 17 - MATTERS SUBSEQUENT TO THE END OF THE YEAR**

There is no matter or circumstance that has arisen since 30 June 2005 that has significantly affected, or may significantly affect:

- a) the consolidated entity's operations in future financial years, or
- b) the results in future financial years, or
- c) the consolidated entity's state of affairs in future financial years.

**NOTE 18 - CURRENT PROVISIONS**

	<i>Consolidated 2005 \$</i>	<i>Consolidated 2005 \$</i>	<i>Parent 2004 \$</i>
Employee Entitlements	25,951	25,951	-
Number of Employees	6	6	-

**NOTE 19 - INVESTMENT IN CONTROLLED ENTITY**

Marathon Resources Ltd is a public company incorporated and operating in Australia. The registered office and principal place of business is:

10 George Street  
Stepney South Australia 5069

	<i>Country of incorporation</i>	<i>Class of share</i>	<i>Interest held</i>		<i>Cost of Investment</i>
			<i>2004</i>	<i>2005</i>	<i>2004</i>
Bonanza Gold Pty Ltd	Australia	100%	-	\$230,000	-

All the issued capital in Bonanza Gold Pty Ltd was acquired on 9 July 2004. The subsidiary owns various tenements and the operating results have been included in the consolidated Statement of Financial Performance since acquisition.

The parent entity provides financial support to the subsidiary to ensure it can pay its debts as and when they fall due and payable. As at 30 June 2005 the loan account from Marathon Resources Ltd to Bonanza Gold Pty Ltd was \$124,819

**NOTE 20 - EARNINGS PER SHARE**

	<i>2005</i>	<i>2004</i>
	<i>\$</i>	<i>\$</i>
Basic earnings per share	(0.010)	(0.010)
Weighted average number of ordinary shares outstanding	39,810,295	5,250,000
Diluted earnings per share	(0.010)	(0.014)
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	39,810,295	5,250,000
Earnings/(loss) used in calculating basic and diluted earnings/(loss) per share	(417,044)	(71,672)

The company has 5,500,000 options on issue which are not dilutive.

#### NOTE 21 - IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

Marathon Resource Ltd is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the consolidated and parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated.

The consolidated entity's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that there are no material differences in the consolidated entity's accounting policies on conversion to AIFRS. Users of the financial statements should note, however, that this could change if there are any amendments by standard-setters to the current AIFRS, or interpretation of the AIFRS requirements changes from the continuing work of the consolidated entity's management.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

##### *Exploration and Evaluation*

AASB 6 was issued in December 2004 to facilitate the introduction of Australian equivalents to IFRS in respect of the treatment of exploration and evaluation expenditure. There is still no comprehensive international standard covering the extractive industries and AASB 6 provides no real guidance other than allowing entities to "grandfather" previous accounting policies adopted for the extractive industries. The new AASB 6 retains the Area of Interest approach as contained in AASB 1022.

The board has elected to adopt the key policies keeping strictly in line with AASB 6, and in the transition to AASB 6 during the Financial Year, the consolidated entity has completed Impairment Testing on all of its Exploration and Evaluation Expenditure previously capitalised which has not resulted in any write-down.

##### *Recoverable Amount of Non-Current Assets*

The consolidated entity's existing approach to impairment is consistent with the requirements of AASB 136. As a result the introduction of this standard will have no impact on the consolidated entity's financial statements.

##### *Impairment of Assets*

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of the fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generate cash flows that are largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

NOTE 21 - *continued*

*Share Based Payments*

Under AASB 2: Share Based Payments, the consolidated entity is required to recognise an expense for those options that were issued to employees or executives. This will result in a change to the current accounting policy under which no expense is recognised for equity based remuneration.

Similarly, options issued as purchase consideration would be valued and the value attributed to the assets with a corresponding increase in the share based payment reserve. 500,000 options issued as part of the consideration for Bonanza Gold Pty Ltd were assigned nil value.

*Income Tax*

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method, which calculates temporary differences based on the differences between the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax base.

This will result in a change to the accounting policy under which deferred tax balances are determined using the income statement method. The standard requires the recognition of temporary differences when it is probable that the Consolidated entity will generate sufficient taxable profit in the same period as the reversal of the deductible temporary difference or taxation loss (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward) At the date of this report it is considered that the Consolidated entity would not meet this criteria.

AASB 112 requires the recognition of temporary differences associated with revenues and expenses taken directly to equity. The Consolidated entity has previously recognised transaction costs associated with capital raising directly in equity. The effect of this recognition is to increase share capital by \$170,475 and increase accumulated losses by \$170,475. The adjustment to accumulated losses reflects the directors view that the criteria for recognition of deferred tax assets has not been met.

**a) Reconciliation of equity as presented under AGAAP to that under AIFRS**

	<i>Consolidated 30 June 2005 \$</i>	<i>Parent entity 30 June 2005 \$</i>
Employee Entitlements	4,185,111	4,187,122
AASB 112 adjustment in regards to capital raising costs	170,475	170,475
Decrease in current year profit resulting from transition to AIFRS	-	-
<b>Total equity under AIFRS</b>	<b>4,355,586</b>	<b>4,357,597</b>

**b) Reconciliation of net profit under AGAAP to that under AIFRS**

	Notes	<i>Consolidated 30 June 2005 \$</i>	<i>Parent entity 30 June 2005 \$</i>
Net profit as reported under AGAAP	0	(417,044)	(415,033)
Net profit under AIFRS	0	(417,044)	(415,033)



### Substantial Shareholders at 30 September 2005

<i>Name</i>	<i>Fully Paid Shares</i>	<i>Ordinary Shares %</i>
Archon Resource Technologies Pty Ltd	2,000,000	5.29
Mr Justin Bernard Sunman Freytag	2,000,000	5.29
Sheoak Runner Pty Ltd	2,000,000	5.29

### Distribution of Shareholdings at 30 September 2005

<i>Range</i>	<i>Total holders</i>	<i>Number of shares</i>
1 – 1,000	28	23,660
1,001 – 5,000	230	777,363
5,001 – 10,000	342	3,122,969
10,001 – 100,000	412	14,068,457
100,001 – maximum	49	19,817,946
<i>Total</i>	<i>1,061</i>	<i>37,810,395</i>
<i>Less than marketable parcel of shares</i>	<i>8</i>	<i>4,050</i>

### Twenty Largest Shareholders at 30 September 2005

<i>Name</i>	<i>Fully Paid Ordinary Shares</i>	<i>% of Issued capital</i>
Archon Resource Technologies Pty Ltd	2,000,000	5.29
Mr Justin Bernard Sunman Freytag	2,000,000	5.29
Sheoak Runner Pty Ltd	2,000,000	5.29
Peninsula Exploration Pty Ltd	1,700,000	4.50
JP Morgan Nominees Australia Limited	1,500,000	3.97
William Sydney Latimer	987,500	2.61
FMS Pty Ltd	660,000	1.75
Industrial & Commercial Developments	500,000	1.32
Pegmont Mines NL	500,000	1.32
PM Dight & Assoc Pty Ltd	500,000	1.32
Synergy Services Pty Ltd	500,000	1.32
Sales & Marketing Consulting Pty Ltd	358,141	0.95
Rornik Capital Pty Ltd	340,000	0.90
ANZ Nominees Limited	326,571	0.86
Mrs Lydia Lai Hung Robinson	320,210	0.85
Basecamp Pty Ltd	250,000	0.66
Scimitar Resources Limited	250,000	0.66
Tarmic Pty Ltd	250,000	0.66
Westtin Pty Ltd	250,000	0.66
Carol Ann Agnew	208,640	0.55
<b>Total</b>	<b>15,401,062</b>	<b>40.73</b>



## SUMMARY OF MINING TENEMENTS

	<i>Project</i>	<i>Tenement</i>	<i>Joint ventures Partner</i>	<i>Commodity</i>
<b>South Australia</b>	Coondambo	EL 2819	Platsearch NL	IOCG, Copper, Gold, Uranium
	Mulga Well	EL 3211	-	IOCG, Copper, Gold, Uranium
	Mabel Creek	EL 2682	Minotaur Exploration Ltd	IOCG, Copper, Gold, Uranium
	Woorong Creek	EL 2730	Minotaur Exploration Ltd	IOCG, Copper, Gold, Uranium
	Pinda Springs	EL 3159	-	Base metals, Copper, Gold
	Mongalata	EL 3164	-	Gold, Copper
	Mt Gee	EL 3258	-	Uranium, Rare earths
<b>Victoria</b>	Kalymna	EL 4526	PS & GF Forwood Pty Ltd and Chivelle Pty Ltd	Gold
	Glenlyle	EL 4621	PS Forwood, JA Forwood and Chivelle Pty Ltd	Gold, Copper

## Directors

Peter Williams	<i>Chairman</i>
Dr John Santich	<i>Chief Executive Officer</i>
Dr Wieslaw Bogacz	<i>Executive Director</i>
William Latimer	<i>Director</i>
Stuart Appleyard	<i>Director</i>

## Marathon Resources Limited

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Facsimile 08) 8362 5955  
admin@marathonresources.com.au  
www.marathonresources.com.au

## Company Secretary

Stuart Appleyard

## Registered & Principal Business Office

10 George Street  
Stepney SA 5069

## Lawyers

Lynch Meyer  
190 Flinders Street  
Adelaide SA 5000

## Auditors

Grant Thornton  
Chartered Accountants  
67 Greenhill Road  
Wayville South Australia 5066

## Share Registrar

Computershare Registry Services Pty Ltd  
Level 5, 115 Grenfell Street  
Adelaide, South Australia 5000  
Telephone: 08 8366 2500  
Email: admin@marathonresources.com.au



