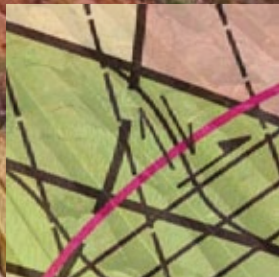
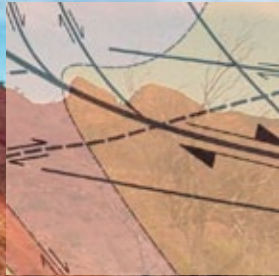




A feat of endurance





Directors' report
Directors' report



*From left to right:
William Latimer, Stuart
Appleyard, John Santich, Peter
Williams and Wieslaw Bogacz.*

The directors' present their report on the results of Marathon Resources Ltd for the year ended 30 June 2006 and the state of the affairs of the Company at that date.

Persons who have been Directors in the Company during the financial year are:

*Peter Leonard Williams
John Reginald Santich
Wieslaw Bogacz
William Sydney Latimer
Stuart McRae Appleyard*

Directors' brief details are as follows:

- **Peter Williams** BE c 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 of venture capital company Playford Capital Pty Ltd. 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. Building on a technical and legal background, he has been founder and director of a number of successful exploration and mining companies. He has also established companies in other technological areas, including bottled water, machine vibration analysis and renewable energy. He has been CEO of Marathon since inception.

- **Wieslaw Bogacz** MSc Eng PhD Eng
Executive Director

Dr Wieslaw Bogacz is a highly qualified geologist and engineer and a former academic from the University of Mining and Metallurgy in Cracow, Poland, with more than 35 year's experience in successful orebody exploration and development. The last 20 years he has consulted to the mineral industry in Australia and overseas. Vic developed a research technique known as tectogenetic analysis of mineral system leading to grassroots discoveries such as Arenal gold deposit in Uruguay, and successful reinterpretation of Telfer, Mt Keith and Argyle orebodies in Australia. He is co-founder of mining and exploration companies, including Minotaur.

- **William Latimer** LLB
Director (non-executive)

William (Bill) Latimer is a litigation consultant 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. He was a director of Bonanza Gold Pty Ltd, which Marathon 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. He was a director of Bonanza Gold Pty Ltd, which Marathon acquired. He is a member of the Company's Audit Committee.



Corporate governance

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

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.

As noted in the Chairman's review the Company benefited from a share placement in March 2006.

Subsequent events

On 6th July 2006 Crosby Capital Partners Inc (Crosby) announced a proposed takeover bid for 100% of the issued Marathon shares, together with any shares to be issued upon the exercise of Marathon options. The bidder, an indirect wholly owned subsidiary of Crosby served its bidder's statement on Marathon on 15th August 2006.

On 12th July 2006 Directors advised shareholders that they control 22.8% of Marathon's fully diluted issued capital and that they do not intend to accept the offer. Further, Directors advised shareholders to take no action in respect of the offer which Directors consider to be opportunistic and undervalue Marathon's assets and future prospects.

Prior to the date of this report, Marathon has forwarded a Target Statement to shareholders in response to the bidder's statement which formally recommended that shareholders reject the offer.

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.

Review of Operations and Operating results

The Company's Directors have set out a review of operations for the year in a separate report commencing on page 7. The consolidated operating loss of the Company for the financial year to 30 June 2006 after applicable income taxes was \$1,454,267.

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 outcomes 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, 360,000 options, to subscribe for shares in the company, were issued as detailed in Note 8 of the Financial Report.

None of the options entitles the holders to participate, by virtue of the options, in any dividend or share issue of any other corporation.

Auditors independence

The auditor has not been engaged during the year for any non-audit services which may have impaired the auditor's independence. The auditor's independence declaration for the year ended 30 June 2006 has been received and is included in this report.



Directors' and executives' remuneration

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

The company has determined that fees for Non-Executive Directors be set in aggregate at \$150,000 for the year, ended 30 June 2006, accruing on a weekly basis.

The two executive Directors have elected on the 1st April 2006 to convert to a consultancy based emolument arrangement from salaried benefits in accordance with the relevant terms and conditions of their employment contracts. Refer to Note 15 of the financial report.

	Year	Directors fees	Salary and wages	Super contributions	Total
P.L. Williams	2006	39,583	-	3,562	43,145
	2005	25,000	-	2,500	27,520
J. Santich	2006	-	114,968	9,525	124,493
	2005	10,000	48,441	4,359	52,800
W. Bogacz	2006	-	113,814	9,525	123,339
	2005	10,000	48,441	4,359	52,800
W.S. Latimer	2006	25,833	-	2,325	28,158
	2005	20,000	-	1,800	21,800
S. M. Appleyard	2006	25,833	-	2,325	28,158
	2005	20,000	-	1,800	21,800

The nature of the Company's activities are such that there are no earnings performance criteria and the size of the organisation is such that all decisions that affect the whole or a substantial part of the business and the Company's financial standing are made by Directors.

There are no elements of Directors remuneration that are performance related.

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

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

Directors' and officers interests in shares and options

	Year	Ordinary Shares		Options	
		direct	indirect	direct	indirect
Peter Williams	2006	-	70,000	-	1,000,000
	2005	-	70,000	-	1,000,000
John Santich	2006	10,000	2,080,000	-	500,000
	2005	10,000	2,080,000	-	500,000
Wieslaw Bogacz	2006	30,000	2,180,000	-	500,000
	2005	30,000	2,180,000	-	500,000
William Latimer	2006	-	887,500	-	1,540,000
	2005	-	1,025,000	-	1,540,000
Stuart Appleyard*	2006	-	910,000	-	1,525,000
	2005	-	910,000	-	1,525,000

* Additionally Mr Appleyard has an interest in a service trust entitlement to 23,256 Shares and 9,300 Options.



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:

	<i>Appointed</i>	<i>Meetings Held</i>	<i>Meetings Attended</i>
Peter Williams	21 May 2004	11	10
John Santich	28 January 2004	11	11
Wieslaw Bogacz	28 January 2004	11	11
William Latimer	28 January 2004	11	11
Stuart Appleyard	28 January 2004	11	11

Committee Meetings: Audit Committee	<i>Meetings Held</i>	<i>Meetings Attended</i>
William Latimer	3	3
Peter Williams	3	3
Stuart Appleyard	3	3

Adoption of international financial reporting standards

As a result of the introduction of Australian Equivalents to International Financial Reporting Standards the Company's financial report has been prepared in accordance with those standards. A reconciliation is included in Note 22.

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.

Signed in accordance with a resolution of the Board.

John Santich
Director

Peter L Williams
Director

Dated this 29th day of September 2006



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 continue to 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 provides 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 requests the external auditor to attend all 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.

Non-executive Directors each receive annual fees of \$30,000 plus 9% superannuation for fulfilling their duties as Directors of the Company, with the exception of the Chairman who receives an annual fee of \$50,000 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 \$150,000 per annum at the last AGM held on 25 November 2005.

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 2006 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 29th day of September 2006



Chartered Accountants and Business Advisers

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF MARATHON RESOURCES LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Marathon Resources Limited for the year ended 30 June 2006, 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 Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

P S PATERSON
Partner

Signed at *Adelaide* this *29* day of *September* 2006

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Chartered Accountants and Business Advisers

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF MARATHON RESOURCES LIMITED**

Scope and summary of our role

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Marathon Resources Limited (the company) and its Controlled Entity (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entity it controlled during the year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

The auditor's role and work

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 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 financial position, and of its performance as represented by the results of its 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We read the other information in the annual report to determine whether it contained any material inconsistencies with the financial report.

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Independence

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

Audit opinion

In our opinion, the financial report of Marathon Resources Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - i) giving a true and fair view of the company's and consolidated entities financial position as at 30 June 2006 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
South Australian Partnership
Chartered Accountants



P S PATERSON
Partner

Signed at *Adelaide* this *29* day of *September* 2006

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Notes	Consolidated		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue	2	185,380	84,818	185,380	84,818
Depreciation	5	(38,396)	(4,662)	(38,396)	(4,662)
Exploration expenditure		(72,973)	(60,916)	(72,973)	(60,916)
Capitalised Exploration Expenditure Impairment	6	(221,873)	-	(148,720)	-
Option Over Interest in Tenement		(32,268)	-	(32,268)	-
Employee Expenses		(441,084)	(298,923)	(441,084)	(298,923)
Share Based Payment Expenses		(77,400)	-	(77,400)	-
Occupancy Expenses		(39,364)	(27,944)	(39,364)	(27,944)
Consulting expense		(178,139)	-	(178,139)	-
Travel expense		(117,381)	(24,113)	(117,381)	(24,113)
ASX listing and registry expenses		(80,334)	-	(80,334)	-
Corporate administration		(270,224)	(85,304)	(270,224)	(83,293)
Profit (Loss) from ordinary activities before income tax expense		(1,384,056)	(417,044)	(1,310,903)	(415,033)
Income Tax	3	(70,211)	(158,857)	(70,211)	(158,857)
Profit (Loss) from ordinary activities after income tax expense		(1,454,267)	(575,901)	(1,381,114)	(573,890)
Net Profit (Loss) attributable to the members of Marathon Resources Ltd		(1,454,267)	(575,901)	(1,381,114)	(573,890)
Earnings per share					
Basic (cents per share)	21	(3.7)	(1.4)	-	-
Diluted (cents per share)		(3.7)	(1.4)	-	-

The accompanying notes form part of these financial statements

BALANCE SHEET

AS AT 30 JUNE 2006

	Notes	Consolidated		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
CURRENT ASSETS					
Cash at Bank	14	4,200,484	3,828,513	4,130,484	3,818,340
Receivables	4	36,047	6,959	8,540	925
Total Current Assets		4,236,531	3,835,472	4,139,024	3,819,265
NON-CURRENT ASSETS					
Related party receivable	20	-	-	1,774,261	124,819
Investment in Contolled entity	20	-	-	230,000	230,000
Property, Plant & Equipment	5	184,989	121,543	184,989	121,543
Exploration & Evaluation costs	6	2,221,703	406,654	390,113	70,053
Total Non-Current Assets		2,406,692	528,197	2,579,363	546,415
TOTAL ASSETS		6,643,223	4,363,669	6,718,387	4,365,680
CURRENT LIABILITIES					
Trade and other payables	7	307,801	152,607	307,801	152,607
Provisions for employee entitlements	19	15,277	25,951	15,277	25,951
Total Current Liabilities		323,078	178,558	323,078	178,558
NET ASSETS		6,320,145	4,185,111	6,395,309	4,187,122
EQUITY					
Contributed Equity	8	8,344,585	4,832,684	8,344,585	4,832,684
Reserves	8a	77,400	-	77,400	-
Retained Losses	9	(2,101,840)	(647,573)	(2,026,676)	(645,562)
TOTAL EQUITY		6,320,145	4,185,111	6,395,309	4,187,122

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Share capital \$	Retained earnings \$	Option reserve \$	Total \$
Consolidated					
BALANCE 01/07/2004		75,000	(71,672)	-	3,328
Share Issues		4,757,684	-	-	4,757,684
Loss attributable to members of parent company		-	(575,901)	-	(575,901)
BALANCE AT 30/06/2005		4,832,684	(647,573)	-	4,185,111
A-IFRS 30/06/2005		4,832,684	(647,573)	-	4,185,111
Share Issues		3,511,901	-	-	3,511,901
Option Issues		-	-	77,400	77,400
Loss attributable to members of parent company		-	(1,454,267)	-	(1,454,267)
BALANCE AT 30/06/06		8,344,585	(2,101,840)	77,400	6,320,145
Parent					
BALANCE 01/07/2004		75,000	(71,672)	-	3,328
Share Issues		4,757,684	-	-	4,757,684
Loss attributable to members of parent company		-	(573,890)	-	(573,890)
BALANCE AT 30/06/2005		4,832,684	(645,562)	-	4,187,122
A-IFRS 30/06/2005		4,832,684	-	-	4,187,122
Share Issues		3,511,901	-	-	3,511,901
Option Issues		-	-	77,400	77,400
Loss attributable to members of parent company		-	(1,381,114)	-	(1,381,114)
BALANCE AT 30/06/06		8,344,585	(2,026,676)	77,400	6,395,309

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Consolidated		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
Cash flows from operating activities					
Interest and Sundry Income Received		185,380	84,818	185,380	84,818
Payments to suppliers		(1,137,543)	(364,086)	(1,116,070)	(359,412)
Net cash provided by (used in) operating activities	<i>14d</i>	(952,163)	(279,268)	(930,690)	(274,594)
Cash flows from investing activities					
Purchase of plant & equipment	5	(101,842)	(123,469)	(101,842)	(123,469)
Payment for exploration activities	6	(2,015,713)	(147,256)	(447,571)	(26,403)
Amount advanced to Controlled entity		-	-	(1,649,442)	(124,819)
Cash acquired on purchase of subsidiary	<i>14c</i>	-	10,881	-	-
Net cash provided by (used in) investing activities		(2,117,555)	(259,844)	(2,198,855)	(274,691)
Cash flows from financing activities					
Proceeds from issue of shares	8	3,637,000	4,917,079	3,637,000	4,917,079
Payment of expenses of the issue of shares	8	(195,310)	(568,252)	(195,310)	(568,252)
Net cash provided by (used in) financing activities		3,441,690	4,348,827	3,441,690	4,348,827
Net increase in cash held		371,972	3,809,715	312,145	3,779,542
Cash at 30 June 2005		3,828,512	18,797	3,818,339	18,797
Cash at 30 June 2006	<i>14a</i>	4,200,484	3,828,512	4,130,484	3,818,339

The accompanying notes form part of these financial statements

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards and the Corporations Act 2001.

The financial report covers the consolidated entity of Marathon Resources Limited and controlled entities, and Marathon Resources Limited as an individual parent entity. Marathon Resources Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Marathon Resources Limited and controlled entities, and Marathon Resources Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards.

Marathon Resources Limited and controlled entities, and Marathon Resources Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1st July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures. These consolidated accounts are the first financial statements of Marathon Resources Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 22 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs and does 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.

Accounting policies

a) Principles of Consolidation

A controlled entity is any entity of which Marathon Resources Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

The controlled entities are disclosed in Note 20 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Consistent accounting principles are employed in the preparation and presentation of the consolidated financial statements.

b) Income Tax

Current tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

(Continued)

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the condition of deductibility imposed by the law.

Tax consolidation

The Company and its wholly-owned Australian resident entity are part of a tax-consolidated group under Australian taxation law. Marathon Resources Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the separate tax payer within the group approach.

c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net

cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is calculated on a straight-line basis over the useful life of those assets to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
<i>Plant and equipment</i>	5-33%
<i>Office equipment</i>	10-20%
<i>Motor vehicles</i>	15%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

(Continued)

d) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

Where a decision is made to proceed with development the accumulated costs for the relevant area of interest will be amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

e) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

f) Impairment of Assets

At each reporting date, the group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

g) Interests in Joint Ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. Details of the economic entity's interest are shown at Note 10.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interest in joint venture entities are brought to account using the cost method.

h) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

i) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet where applicable.

k) Revenue

Interest revenue is recognised on an accrual basis.

l) Good and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financial activities, which are disclosed as operating cash flows.

m) Comparative Figures

Unless otherwise required by an accounting standard comparative information is disclosed in respect of the previous corresponding period, including for narrative and descriptive information. To the extent that items are amended or reclassified comparative amounts are also amended or reclassified. Prior period errors are retrospectively corrected in the next financial report following discovery.

n) Share Based Payments

The Company issues shares and options from time to time for no consideration. Equity-settled share based payments issued after 1st January 2005 are measured at fair value at the date of grant. Fair value is determined by the use of a binomial model. The fair value is fully expensed on a straight line basis by the date of vesting.

**NOTE 2 - REVENUE FROM OPERATIONS AND
OPERATING ACTIVITIES**

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Revenue from ordinary activities				
Interest	182,736	84,818	182,736	84,818
Sundry income	2,644	-	2,644	-
	<u>185,380</u>	<u>84,818</u>	<u>185,380</u>	<u>84,818</u>

NOTE 3 - INCOME TAX EXPENSE

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
a) Income tax recognised in profit or loss				
Current tax expense/(income)	70,211	158,857	70,211	158,857
Adjustments recognised in the current year in relation to the current tax of prior years	-	-	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-	-	-
Total tax expense/(income)	<u>70,211</u>	<u>158,857</u>	<u>70,211</u>	<u>158,857</u>
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:				
Profit/(loss) from continuing operations	(1,384,056)	(417,044)	(1,310,903)	(415,033)
Income tax expense/(income) calculated at 30%	(415,216)	(125,113)	(393,271)	(124,510)
Non-deductible expenses	24,180	472	24,180	410
Non recognised temporary differences	(3,935)	(3,935)	(3,935)	(3,935)
Movement in recognised tax assets and liabilities	(517,438)	57,050	(67,576)	130,254
Current Year tax loss	982,620	230,383	510,813	156,638
(Over)/under provision of income tax in previous years	-	-	-	-
	<u>70,211</u>	<u>158,857</u>	<u>70,211</u>	<u>158,857</u>
Income tax recognised directly in equity:				
Deferred tax share issue expenses	70,211	158,857	70,211	158,857

NOTE 3 - INCOME TAX EXPENSE (Continued)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	<i>Assets</i>		<i>Liabilities</i>		<i>Net</i>	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
b) Recognised tax assets and liabilities:						
Deferred tax assets and liabilities are attributable to the following:						
	<i>Consolidated</i>					
Share issue expenses	151,484	127,086	-	-	151,484	127,086
Exploration and evaluation expenditure	-	-	(651,870)	(113,597)	(651,870)	(113,597)
Trade and other payables	5,103	5,464	-	-	5,103	5,464
Employee benefits	4,583	7,785	-	-	4,583	7,785
	161,170	140,335	(651,870)	(113,597)	(490,700)	26,738
Less temporary differences not recognised	7,870	11,805	-	-	7,870	11,805
	153,300	128,530	(651,870)	(113,597)	(498,570)	14,933
Tax value of losses carried forward	1,340,864	358,242	-	-	1,340,864	358,242
Tax (assets/liabilities)	1,494,164	486,772	(651,870)	(113,597)	842,294	373,175
Set off of tax losses	(1,494,164)	(486,772)	651,870	113,597	(842,294)	(373,175)
Net tax (assets/liabilities)	-	-	-	-	-	-

NOTE 3 - INCOME TAX EXPENSE (Continued)

	<i>Assets</i>		<i>Liabilities</i>		<i>Net</i>	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
b) Recognised tax assets & liabilities (continued)						
Deferred tax assets and liabilities are attributable to the following:						
	<i>Parent</i>					
Share issue expenses	151,484	127,086	-	-	151,484	127,086
Exploration and evaluation expenditure	-	-	(147,009)	(12,616)	(147,009)	(12,616)
Trade and other payables	5,103	5,464	-	-	5,103	5,464
Employee benefits	4,583	7,785	-	-	4,583	7,785
	161,170	140,335	(147,009)	(12,616)	14,161	127,719
Less temporary differences not recognised	7,870	11,805	-	-	7,870	11,805
	153,300	128,530	(147,009)	(12,616)	6,291	115,914
Tax value of losses carried forward	713,781	202,968	-	-	713,781	202,968
Tax (assets/liabilities)	867,081	331,498	(147,009)	(12,616)	720,072	318,882
Set off of tax losses	(867,081)	(331,498)	147,009	12,616	(720,072)	(318,882)
Net tax (assets/liabilities)	-	-	-	-	-	-

Unrecognised deferred tax assets:

Deferred tax assets have not been recognised in respect of the following items:

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Tax losses - revenue	413,007	-	-	-
- capital	85,563	75,883	9,680	-
Temporay differences	7,870	11,805	7,870	11,805

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from them.

NOTE 3 - INCOME TAX EXPENSE (Continued)

	<i>Balance at 1 July 2005</i>	<i>Recognised in</i>		<i>Balance at 30 June 2006</i>
	\$	<i>Income</i> \$	<i>Equity</i> \$	\$
c) Movement in temporary differences during the year				
Deferred tax assets and liabilities are attributable to the following:				
	<i>Consolidated</i>			
Share issue expenses	127,086	-	24,398	151,484
Exploration and evaluation expenditure	(113,597)	(538,273)	-	(651,870)
Trade and other payables	5,464	(361)	-	5,103
Employee benefits	7,785	(3,202)	-	4,583
	26,738	(541,836)	24,398	(490,700)
Less temporary differences not recognised	11,805	(3,935)	-	7,870
	14,933	(537,901)	24,398	(498,570)
Tax value of losses carried forward	358,242	982,620	-	1,340,864
	<i>Parent</i>			
Share issue expenses	127,086	-	24,398	151,484
Exploration and evaluation expenditure	(13,982)	(88,411)	-	(102,393)
Trade and other payables	5,464	(361)	-	5,103
Employee benefits	7,785	(3,202)	-	4,583
	126,353	(91,974)	24,398	58,777
Less temporary differences not recognised	11,805	(3,935)	-	7,870
	114,548	(88,039)	24,398	50,907
Tax value of losses carried forward	202,968	510,813	-	713,781

NOTE 3 - INCOME TAX EXPENSE (Continued)

	<i>Balance at 1 July 2004</i>	<i>Recognised in</i>		<i>Balance at 30 June 2005</i>
	\$	<i>Income</i> \$	<i>Equity</i> \$	\$
c) Movement in temporary differences during the year				
Deferred tax assets and liabilities are attributable to the following:				
	<i>Consolidated</i>			
Share issue expenses	-	-	127,086	127,086
Exploration and evaluation expenditure	(30,312)	(83,285)	-	(113,597)
Trade and other payables	-	5,464	-	5,464
Employee benefits	-	7,785	-	7,785
	(30,312)	(70,036)	127,086	26,738
Less temporary differences not recognised	(15,740)	(3,935)	-	11,805
	(46,052)	(66,101)	127,086	14,933
Tax value of losses carried forward	127,859	230,383	-	358,242
	<i>Parent</i>			
Share issue expenses	-	-	127,086	127,086
Exploration and evaluation expenditure	(3,901)	(10,081)	-	(139,982)
Trade and other payables	-	5,464	-	5,464
Employee benefits	-	7,785	-	7,785
	(3,901)	3,168	127,086	126,353
Less temporary differences not recognised	(15,740)	(3,935)	-	11,805
	(19,641)	7,103	127,086	114,548
Tax value of losses of the Company	9,662	156,638	-	-
Tax value of exploration costs of subsidiary	-	36,668	-	-
Tax value of losses of head entity in the tax consolidated group	-	193,306	-	202,968

NOTE 4 - RECEIVABLES

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
GST recoverable	35,122	6,034	7,615	-
Other debtors	925	925	925	925
	36,047	6,959	8,540	925

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Plant & equipment, office equipment & vehicles	228,047	126,205	228,047	126,205
Less Accumulated Depreciation	(43,058)	(4,662)	(43,058)	(4,662)
Total Plant and Equipment	184,989	121,543	184,989	121,543
Movement				
Balance at 1 July 2005	121,543	2,736	121,543	2,736
Additions	101,842	123,469	101,842	123,469
Disposals	-	-	-	-
Depreciation	(38,396)	(4,662)	(38,396)	(4,662)
Carrying amount at year end	184,989	121,543	184,989	121,543

NOTE 6 - EXPLORATION & EVALUATION COSTS

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Exploration and Evaluation Costs	2,443,576	406,654	538,833	70,053
Less Provision for Impairment	(221,873)	-	(148,720)	-
Total Exploration and Evaluation Costs	2,221,703	406,654	390,113	70,053
Movement				
Balance at 1 July 2005	406,654	23,650	70,053	23,650
Exploration and evaluation Additions	2,036,922	172,496	468,780	46,403
Exploration and evaluation costs recognised on acquisition of subsidiary	-	210,508	-	-
Impairment	(221,873)	-	(148,720)	-
Closing balance	2,221,703	406,654	390,113	70,053

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 and Joint Ventures, refer to Note 10.

NOTE 7 - TRADE AND OTHER PAYABLES

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Trade payables	239,870	115,804	239,870	115,804
Other payables	46,722	36,803	46,722	36,803
Accrued commitments	21,209	-	21,209	-
	307,801	152,607	307,801	152,607

NOTE 8 - CONTRIBUTED EQUITY

Share capital

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Fully paid ordinary shares	8,344,585	4,832,684	8,344,585	4,832,684

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>2006</i>		<i>2005</i>	
	<i>Number</i>	<i>\$</i>	<i>Number</i>	<i>\$</i>
1 July 2005	37,810,395	4,832,684	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 (22/12/05)	25,000	5,000	23,210,395	4,642,079
Issued at 66 cents (21/03/06)	5,500,000	3,630,000	-	-
Issued at 20 cents (05/04/06)	5,000	1,000	-	-
Issued at 20 cents (09/05/06)	5,000	1,000	-	-
	43,345,395	8,469,684	37,810,395	5,242,079
Less share issue and capital raising expenses to 30 June 2006	-	(125,099)	-	(409,395)
Balance at 30 June 2006	43,345,395	8,344,585	37,810,395	4,832,684

Options

Options granted prior to 30 June 2006 and unexercised total 5,825,000 as follows:

	<i>2006</i>	<i>2005</i>
Having an exercise price of 20 cents and exercisable at anytime from grant date to expiry date of 30 June 2009	5,465,000	5,500,000
<ul style="list-style-type: none"> • Options were exercised on 22 December 2005 • Options were exercised on 5 April 2006 • Options were exercised on 9 May 2006 	25,000 5,000 5,000	
Granted under employee share option plan on 31 December 2005 and having an exercise price of 20 cents. Exercisable at any time from grant date to expiry date of 30 June 2010	200,000	
Granted under employee share option plan on 31 March 2006 and having an exercise price of 45 cents, exercisable at any time from grant date to expiry date of 30 June 2010	160,000	

The grant dates on the 360,000 ESOP options recognise employee qualifying service periods.

NOTE 8a - RESERVES

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Share option reserve	77,400	-	77,400	-

NOTE 9 - ACCUMULATED LOSSES

	Note	<i>Consolidated</i>		<i>Parent</i>	
		2006 \$	2005 \$	2006 \$	2005 \$
Opening balance		(647,573)	(71,672)	(645,562)	(71,672)
Net loss		(1,454,267)	(575,901)	(1,381,114)	(573,890)
Accumulated losses at the end of the period		(2,101,840)	(647,573)	(2,026,676)	(645,562)

NOTE 10 - TENEMENTS and JOINT VENTURES

The Company's interests in tenements and unincorporated joint venture operations at the date of this report are as follows:

<i>Project</i>	<i>Tenement</i>	<i>Commodity</i>	<i>Consolidated</i>		<i>Parent</i>	
			2006 \$	2005 \$	2006 \$	2005 \$
<i>100% Interest: South Australia</i>						
Mulga Well	EL 3211	IOCG, Copper, Gold, Uranium	60,992	7,513	60,992	7,513
Pinda Springs	EL 3159	Base Metals, Copper, Gold	46,539	12,406	46,539	12,406
Mongalata	EL 3164	Gold, Copper	48,585	4,555	48,585	-
Mt Gee	EL 3258	Uranium, Rare earths	1,746,471	285,700	-	-
MacDowell Hill	EL 3474	Uranium, Copper, Gold	3,026	-	3,026	-
Talaringa	EL 3497	Uranium, Copper, Gold	1,677	-	1,677	-
Bon Bon	EL 3540	Uranium, Copper, Gold	2,886	-	2,886	-
Paragon Bore	EL 3562	Uranium, Copper, Gold	1,700	-	1,700	-
Myponga	EL 3582	Uranium, Copper, Gold	2,599	-	2,599	-
<i>Joint Ventures: South Australia</i>						
Coondambo	EL 2819	IOCG, Copper, Gold, Uranium	200,720	42,920	200,720	42,920
Mabel Creek	EL 3324	IOCG, Copper, Gold, Uranium	81,760	3,006	81,760	3,006
Woorong Creek	EL 3455	IOCG, Copper, Gold, Uranium	67,546	3,893	67,546	3,893
<i>Joint Ventures: Victoria</i>						
Kalymna	EL 4526	Gold	85,119	31,169	-	-
Glenlyle	EL 4621	Gold, Copper	73,153	15,177	-	-
			2,422,773	406,339	518,030	69,738

NOTE 10 - TENEMENTS and JOINT VENTURES (Continued)

	Note	<i>Consolidated</i>		<i>Parent</i>	
		2006 \$	2005 \$	2006 \$	2005 \$
Application Monies for Grants of New Tenements		-	315	-	315
Accrued commitments		20,803	-	20,803	-
Total exploration costs		2,443,576	406,654	538,833	70,053
Less provided for impairment		(221,873)	-	(148,720)	-
Carrying value of exploration costs	6	2,221,703	406,654	390,113	70,053

Interests in unincorporated joint venture operations at the date of this report were as follows:

Name of entity	Principal activity	Joint Venture Partner	2006	2005
Coondambo	Mineral exploration	Platsearch NL 50%	50%	50%
Mabel Creek*	Mineral exploration	Minotaur Exploration Ltd	51%	51%
Woorong Creek*	Mineral exploration	Minotaur Exploration Ltd	51%	51%
Kalymna	Mineral exploration	PS & GF Forwood90%	90%	90%
Glenlyle	Mineral exploration	PS & JA Forwood90%	90%	90%

The company's interest in the unincorporated joint ventures are earned pursuant to agreements providing for minimum exploration expenditures all of which are to be met by the Company over defined time lines.

* 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 by 18 March 2007.

NOTE 11 - 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 its mineral exploration tenements.

The terms of current and future joint ventures, granting 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>Consolidated</i>	
	2006 \$	2005 \$
Not longer than 1 year	932,400	828,000
Longer than 1 year and not longer than 5 years	50,000	81,000
Longer than 5 years	-	-

NOTE 12 – SEGMENT INFORMATION

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

NOTE 13 – FINANCIAL INSTRUMENTS

Forward Foreign Currency Contracts

As at 30 June 2006 the company does not have any outstanding forward foreign currency contracts.

a) Forward Interest Rate Contracts

As at 30 June 2006 the company does not have any outstanding forward interest rate contracts.

b) Interest Rate Risk

Financial assets

The company has term deposits of \$ 4,187,184 as at 30 June 2006 (\$3,800,00 at 30 June 2005) which are deposited for less than one year at an average weighted interest rate of 5.64% (5.59% 2005).

The Company has no formal overdraft facility and no term borrowing arrangements.

All other financial assets and liabilities are non-interest bearing.

c) Credit Risk

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

d) Net Fair Value

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

NOTE 14 – NOTES TO THE STATEMENT OF CASH FLOWS

a) 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:

Note	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Cash on Hand	500	-	500	-
Cash at Call	12,800	-	12,800	-
Cash on short term deposit - deposited for less than 12 months at 5.64% interest	4,187,184	3,860,733	4,117,184	3,850,560
Overdraft - Interest Bearing	-	(32,220)	-	(32,220)
	4,200,484	3,828,513	4,130,484	3,818,340

b) 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
Total	230,000

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.

c) Net cash flow on acquisition

Cash balances acquired	10,881	-
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NOTE 14 - NOTES TO THE STATEMENT OF CASH FLOWS (continued)

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

Note	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
(Loss) from ordinary activities after income tax	(1,454,267)	(575,901)	(1,381,114)	(573,890)
Depreciation	38,396	4,662	38,396	4,662
Impairment	221,873	-	148,720	-
Non-cash operating expenses -				
Income tax attributable to share issue expenses	70,211	158,857	70,211	158,857
Share based expenses	77,400	-	77,400	-
(Increase) Decrease in receivables	(29,087)	1,515	(7,614)	1,515
Increase (Decrease) in payables	133,985	131,599	133,985	134,262
Increase (Decrease) in provisions	(10,674)	-	(10,674)	-
Net Cash provided by (used in) operating activities	(952,163)	(279,268)	(930,690)	(274,594)

NOTE 15 - KEY MANAGEMENT PERSONNEL COMPENSATION

The directors of Marathon Resources Ltd during the year ended 30 June 2006, were:

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

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

The company has determined that fees for Non-Executive Directors be set in aggregate at \$ 150,000 for the year, ended 30th June 2006 accruing on a weekly basis.

Director's remuneration

2006	Directors fees	Salary and wages	Super contributions	Total
P.L. Williams	39,583		3,562	43,145
J. Santich	-	114,968	9,525	124,493
W. Bogacz	-	113,814	9,525	122,339
W.S. Latimer	25,833	-	2,325	28,158
S. M Appleyard	25,833	-	2,325	28,158
2005	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

NOTE 15 - KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

Contracts of service

The two Executive Directors, Dr J.R. Santich and Dr W. Bogacz, had entered into service agreements whereby they would be employed by the company for a period of 3 years commencing on 15 March 2005. The terms of these agreements provided that their services to the Company could at their option be provided by their consulting companies. On 1st April 2006 both Executive Directors elected to provide their services under consultancy company arrangements as set out under related party transaction disclosures below.

The nature of the Company's activities are such that there are no earnings performance criteria and the size of the organisation is such that all decisions that affect the whole or a substantial part of the business and the Company's financial standing are made by Directors. Accordingly there are no key management personnel other than the Directors.

There are no elements of Directors remuneration that are performance related.

Director's and officers interest in Shares and Options

2006	Ordinary Shares		Options	
	direct	indirect	direct	indirect
Peter Williams	-	70,000	-	1,000,000
John Santich	10,000	2,080,000	-	500,000
Wieslaw Bogacz	30,000	2,180,000	-	500,000
William Latimer	-	887,500	-	1,540,000
Stuart Appleyard	-	910,000	-	1,525,000

*Additionally Mr Appleyard has an interest in a service trust entitlement to 23,256 shares and 9,300 Options.

There has been no change in Director's share and option holdings from 30 June 2006 to the date of this report.

2005

Peter Williams	-	70,000	-	1,000,000
John Santich	10,000	2,080,000	-	500,000
Wieslaw Bogacz	30,000	2,180,000	-	500,000
William Latimer	-	1,025,000	-	1,540,000
RStuart Appleyard	-	910,000	-	1,525,000

Executive share option plan

The Company has established an Employee 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. There are 360,000 options granted under this plan as at the date of this report, which had been granted during the year. There were no other option movements in the year under the plan. Refer Note 8 or details.

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 \$ 46,400 (\$8,750 - 2005), 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 \$56,513 (\$20,355 -2005).

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 provided services to Marathon Resources Limited in connection with the provision by them of Executive Directors to the Company and were each paid \$ 40,875, in this regard covering the period 1st April to 30th June 2006 (\$ 105,600 each - 2005 was paid for professional and consulting services).

The Company has written off in full an option fee of \$32,268 and costs associated with a tenement in Europe which is owned by entities associated with the Executive Directors as the Company decided not to take up the option.

The Company has advanced funds to its subsidiary during the year of \$1,774,261 (\$124,819 - 2005) - Refer Note 20.

NOTE 16 - 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 17 - AUDITOR'S REMUNERATION

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Amounts received or due & receivable by the Auditor of the company for:				
- auditing & review services	18,300	10,000	18,300	10,000
- other services	-	-	-	-

NOTE 18 - MATTERS SUBSEQUENT TO THE END OF THE YEAR

There is no matter or circumstance that has arisen since 30 June 2006 that has significantly affected, or may significantly affect :

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

On 6 July 2006 an unsolicited bid for the whole of the issued shares of Marathon was announced. This matter is covered in the subsequent events comments in the Directors' report.

NOTE 19 - PROVISIONS FOR EMPLOYEE ENTITLEMENTS

	<i>Consolidated</i>		<i>Parent</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Annual Leave Provision				
Balance 1 July 2005	25,951	-	25,951	-
Accrued	8,236	25,951	8,236	25,951
Paid	(18,910)	-	(18,910)	-
Balance 30 June 2006	15,277	25,951	15,277	25,951
Number of Employees	2	6	2	6

NOTE 20 - INVESTMENT IN CONTROLLED ENTITY

Entities	Country of incorporation	Class of share	Interest Held		Cost of Investment	
			2006	2005	2006	2005
Bonanza Gold Pty Ltd	Australia	Ordinary	100%	100%	\$230,000	\$230,000

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 2006 the loan account from Marathon Resources Ltd to Bonanza Gold Pty Ltd was \$ 1,774,261 (\$124,819 - 2005).

The parent loan to its subsidiary has no fixed date for repayment and is non interest bearing. The Company will not seek repayment where such repayment would prejudice the subsidiaries ability to meet any obligations as and when they fall due.

NOTE 21 - EARNINGS PER SHARE

	<i>Consolidated</i>	
	2006 \$	2005 \$
Basic earnings per share	(0.037)	(0.014)
Weighted average number of ordinary shares outstanding	39,234,145	37,810,295
Diluted earnings per share	(0.037)	(0.014)
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	39,695,395	37,810,295
Earnings/(loss) used in calculating basic and diluted earnings/(loss) per share	(1,454,267)	(575,901)

The company has 5,265,000 options on issue which are not dilutive.

NOTE 22 - IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The adoption of AIFRS is reflected in the consolidated financial statements for the year ended 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 have been restated.

Directors are of the opinion that there are no material differences in the consolidated entity's accounting policies on conversion to AIFRS.

Set out below are the matters considered in determining if any restatement of balances at 30th June 2005 was required on adoption of AIFRS.

Exploration and Evaluation

The board had elected to keep strictly in line with AASB6, in the 2005 Financial Year. The consolidated entity completed Impairment Testing on all of its Exploration and Evaluation Expenditure capitalised which has not resulted in any write-down.

Impairment

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

Income Tax

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 the recognition is to increase share capital by \$ 158,857 and increase accumulated losses by \$158,857. The adjustment to accumulated losses reflects the directors view that the criteria for recognition of deferred tax assets has not been met.

NOTE 22 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont.)

Consolidated

Impact on the Income Statement for the financial year ended 30 June 2005

	Financial Year ended at 30 June 2005		
	<i>Previous Australian GAAP</i>	<i>Effect of Transition to A-IFRS</i>	<i>A-IFRS</i>
	\$	\$	\$
Revenue	84,818	-	84,818
Depreciation	(4,662)	-	(4,662)
Exploration	(60,916)	-	(60,916)
Employee expenses	(298,923)	-	(298,923)
Occupancy expenses	(27,944)	-	(27,944)
Travel expenses	(24,113)	-	(24,113)
Corporate expenses	(85,304)	-	(85,304)
Profit (loss) from ordinary activities: Before income tax	(417,044)	-	(417,044)
Income Tax Expense	-	(158,857)	(158,857)
Profit (loss) from ordinary activities: After income tax	(417,044)	(158,857)	(575,901)

Consolidated

Impact on the Balance Sheet as at 30 June 2005 at 30 June 2005

	At 30 June 2005		
	<i>Previous Australian GAAP</i>	<i>Effect of Transition to A-IFRS</i>	<i>A-IFRS</i>
	\$	\$	\$
Cash at Bank	3,828,513	-	3,828,513
Receivables	6,959	-	6,959
Other financial assets	-	-	-
Total Current Assets	3,835,472	-	3,835,472
Property, Plant & Equipment	121,543	-	121,543
Exploration & evaluation costs	406,654	-	406,654
Total Non-current Assets	528,197	-	528,197
Total Assets	4,363,669	-	4,363,669
Payables	152,607	-	152,607
Provisions	25,951	-	25,951
Total Current Liabilities	178,558	-	178,558
Net Assets	4,185,111	-	4,185,111
Equity			
Contributed	4,673,827	158,857	4,832,684
Retained losses	(488,716)	(158,857)	(647,573)
Net Equity	4,185,111	-	4,185,111

Effects of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under Australian GAAP superseded policies.

NOTE 22 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont.)

Parent

Impact on the Income Statement for the financial year ended 30 June 2005

	Financial Year ended at 30 June 2005		
	<i>Previous Australian GAAP</i>	<i>Effect of Transition to A-IFRS</i>	<i>A-IFRS</i>
	\$	\$	\$
Revenue	84,818	-	84,818
Depreciation	(4,662)	-	(4,662)
Exploration	(60,916)	-	(60,916)
Employee expenses	(298,923)	-	(298,923)
Occupancy expenses	(27,944)	-	(27,944)
Travel expenses	(24,113)	-	(24,113)
Corporate expenses	(83,293)	-	(83,293)
Profit (loss) from ordinary activities: Before income tax	(415,033)	-	(415,033)
Income Tax Expense	-	(158,857)	(158,857)
Profit (loss) from ordinary activities: After income tax	(415,033)	(158,857)	(573,890)

Parent

Impact on the Balance Sheet as at 30 June 2005 at 30 June 2005

	At 30 June 2005		
	<i>Previous Australian GAAP</i>	<i>Effect of Transition to A-IFRS</i>	<i>A-IFRS</i>
	\$	\$	\$
Cash at Bank	3,818,340	-	3,818,340
Receivables	925	-	925
Other financial assets	124,819	-	124,819
Total Current Assets	3,944,084	-	3,944,084
Other financial assets	230,000	-	230,000
Property, Plant & Equipment	121,543	-	121,543
Exploration & evaluation costs	70,053	-	70,053
Total Non-current Assets	421,596	-	421,596
Total Assets	4,365,680	-	4,365,680
Payables	152,607	-	152,607
Provisions	25,951	-	25,951
Total Current Liabilities	178,558	-	178,558
Net Assets	4,187,122	-	4,187,122
Equity			
Contributed	4,673,827	158,857	4,832,684
Retained losses	(486,705)	(158,857)	(645,562)
Net Equity	4,187,122	-	4,187,122

Effects of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under Australian GAAP superseded policies.



Substantial Shareholders at 31 August 2006

<i>Name</i>	<i>Fully Paid Shares</i>	<i>Ordinary Shares %</i>
MM & E Capital Pty Ltd	2,170,289	5.01
Archon Resources Technologies Pty Ltd	2,000,000	4.61
Mr Justin Bernard Sunman Freytag	2,000,000	4.61
Sheoak Runner Pty Ltd	2,000,000	4.61

Distribution of Shareholdings at 31 August 2006

<i>Range</i>	<i>Total holders</i>	<i>Number of shares</i>
1 – 1,000	211	175,543
1,001 – 5,000	652	2,075,657
5,001 – 10,000	457	4,031,018
10,001 – 100,000	456	14,922,579
100,001 – maximum	52	22,140,598
<i>Total</i>	<i>1,828</i>	<i>43,345,395</i>

Twenty Largest Shareholders at 31 August 2006

<i>Name</i>	<i>Fully Paid Ordinary Shares</i>	<i>% of Issued capital</i>
Archon Resources Technologies Pty Ltd	2,000,000	4.61
Sheoak Runner Pty Ltd	2,000,000	4.61
Mr Justin Bernard Sunman Freytag	1,701,703	3.93
Citicorp Nominees Pty Ltd *	1,615,318	3.73
Peninsula Exploration Pty Ltd	1,400,000	3.23
National Nominees Ltd	891,817	2.06
USB Nominees Pty Ltd *	849,992	1.96
ANZ Nominees Ltd	836,284	1.93
Pegmont Mining Ltd	800,000	1.85
Mr William Sydney Latimer	750,000	1.73
FMS Pty Ltd	660,000	1.52
Merrill Lynch (Australia) Nominees Pty Ltd	619,110	1.43
Synergy Services Pty Ltd	500,000	1.15
Westpac Custodian Nominees Ltd	347,000	0.80
Mr Bill Georgaklis & Mrs Georgia Georgaklis	321,400	0.74
Carol Ann Agnew	316,210	0.73
MWA Design Pty Ltd	296,000	0.68
UBS Wealth Management Australia Nominees Pty Ltd	292,969	0.68
HSBC Custody Nominees (Australia) Ltd	271,210	0.63
HSBC Custody Nominees (Australia) Ltd	263,991	0.61
<i>Total</i>	<i>16,733,004</i>	<i>38.61</i>

* MM&E Capital Pty Ltd lodged a notice of Initial Substantial Holder on 29 August 2006 declaring that the company held 2,170,289 shares. The registered holders of these securities were UBS Nominees Pty Ltd (780,370 shares) & Citicorp Nominees Pty Ltd (1,389,918 shares). MM&E Capital Pty Ltd is trustee for MM&E Capital Investment Trusts Numbers 1& 2 and the MM&E Investment Fund No.3.

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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