



25 May 2007

# Marathon

Reuters: **MTN.AX** Bloomberg: **MTN AU** Exchange: **ASX** Ticker: **MTN**

## The Marathon has just begun- Initiate with BUY

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### Backing large, quality resources

With a large 31,000t uranium resource in South Australia currently valued at around \$4.40/lb against recent acquisitions in the sector pricing peers at over \$30/lb, we see significant upside remaining for Marathon Resources. Like many junior uranium developers, we believe Marathon still have work to do in order to bring their Mt Gee deposit to production, however with a strong uranium outlook, and a willing state government keen on development, we initiate coverage on a "Buy"

### Investing in resources

With no shortage of uranium investment opportunities currently open to investors, our preference for investment remains those companies, such as Marathon, which presently hold large, measured uranium resources, with favorable metallurgical properties.

### Valuation

We have set MTN's price target of \$8.24 at a 10% discount to NPV. Our \$9.15 NPV is calculated by discounting the free cash flows by the company's WACC of 9.89%. We estimate the cost of capital using the CAPM model assuming a risk free rate of 4.64%, market risk premium of 6% & a beta of 1.3. We estimate the cost of debt at a 1% premium to the risk free rate & assume a long term gearing ratio of 30%.

### Risks

Risks to our positive view on uranium prices are that demand for new reactor construction is less than forecast. This could arise through a nuclear accident or delays associated with skills shortages. Marathon is also exposed to uranium prices and Australian dollar exchange rate volatility. Specific risks associated with Marathon include local landholder objections, causing delays to the development of Mt Gee. Whilst the deposit does not reside in the Flinders Ranges national park, we believe its location, along with the development being a uranium mine could possibly result in a lengthening of the permitting process.

### Forecasts and ratios

Year End Jun 30	2006A	2007E	2008E	2009E
EBITDA (AUDm)	-1	-3	-3	-3
Net Profit (AUDm)	-1	-3	-2	2
EPS (AUD)	-0.04	-0.06	-0.04	0.02
EPS Growth (%)	-	-71.1	38.2	-
PER (x)	-	-	-	218.8
EV/EBITDA (x)	-17.6	-68.7	-78.6	-6.8

Source: Deutsche Bank estimates, company data

### Deutsche Bank AG/Sydney

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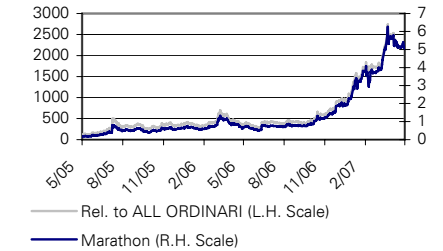
DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

## Initiation of Coverage

### Buy

Price at 25 May 2007	5.05
Price target - 12mth	8.24
52 week range (AUD)	6.26 - 0.49
ALL ORDINARIES	6,299

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-9.7	32.9	653.7
ALL ORDINARIES	2.0	4.8	27.5

### Stock data

Market cap (AUDm)	241
Market cap (USDm)	198
Shares outstanding (m)	47.7
Daily volume (USDm)	0.67
Free float	0.00

### Key indicators (FY1)

ROE (%)	-26.2
ROA (%)	260.9
Net debt/equity (%)	-10.6
Book value/share (AUD)	0.24
Price/book (x)	20.8
Net interest cover (x)	0.0
EBIT margin (%)	0.0

Model updated: 24 May 2007

**Equity Research**

**Asia Pacific**

**Australia**

**Other Metals**

**Marathon Resources Ltd**

Reuters: MTN.AX Bloomberg: MTN AU Sedol: 9282904

**Buy**

Price as at 25-May **A\$5.05**

Target price **A\$8.24**

Company website

<http://www.marathonresources.com.au>

**Company description**

Marathon Resources Limited is a resources company that explores for copper, gold, and iron oxide copper - gold - uranium prospects in Gawler Craton.

**Research Team**

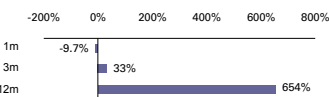
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**Absolute Price Return (%)**



52-week High/Low: **A\$6.42 - 0.47**

Market Cap (m) **A\$ 261**

**US\$ 214**

**DCF VALUATION (A\$)**

Beta (MRP - 6.00) **2.42**

Debt/mkt value ratio (%) **0.0**

WACC (6.25% bond yield) **9.9**

Net value per share (\$) **9.64**

Price/NPV (x) **0.52**

Source: Company data, DB estimates

**Y/E 30 June**

**SUMMARY**

	05/06	06/07E	07/08E	08/09E	09/10E	10/11E	11/12E
Normalised EPS (A\$)	-0.037	-0.063	-0.039	0.023	0.044	-0.003	1.012
P/E ratio normalised (x)	nm	nm	nm	218.8	114.1	nm	5.0
Normalised EPS growth (%)	na	na	na	na	91.8	-107.4	na
EPS FD (A\$)	-0.037	-0.063	-0.039	0.023	0.044	-0.003	1.012
P/E ratio FD (x)	nm	nm	nm	218.8	114.1	nm	5.0
Operating CFPS (A\$)	-0.024	-0.047	-0.039	0.023	0.044	-0.003	1.254
P/CFPS (x)	nm	nm	nm	218.8	114.1	nm	4.0
DPS (A\$)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Price/BV (x)	3.91	20.79	10.75	1.53	1.51	1.51	1.16
Enterprise Value (A\$m)	6	235	265	222	287	447	473
EV/EBITDA	nm	nm	nm	nm	nm	nm	2.8
EV/EBIT	nm	nm	nm	nm	nm	nm	3.3

**DIVISIONAL EBIT (A\$m)**

Other	-1	-3	-3	-3	-3	-3	144
Total	-1	-3	-3	-3	-3	-3	144

**PROFIT & LOSS (A\$m)**

Sales revenue	0	0	0	0	0	0	273
EBITDA	-1	-3	-3	-3	-3	-3	168
Depreciation/amortisation	0	0	0	0	0	0	24
EBIT	-1	-3	-3	-3	-3	-3	144
Net interest income (expense)	0	0	0	6	9	3	-1
Income tax expense	0	0	-1	1	2	0	43
Associates/affiliates	0	0	0	0	0	0	0
Minorities/preference dividends	0	0	0	0	0	0	0
Net profit	-1	-3	-2	2	4	0	100
Significant items	0	0	0	0	0	0	0
Net profit excluding significant iter	-1	-3	-2	2	4	0	100
Net abnormal and extraordinary	0	0	0	0	0	0	0

**CASH FLOW (A\$m)**

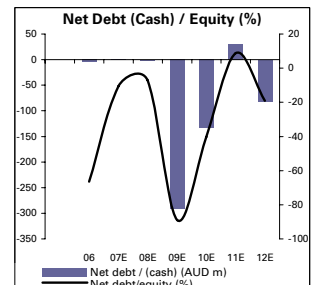
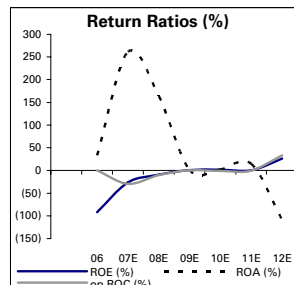
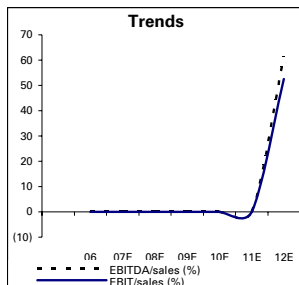
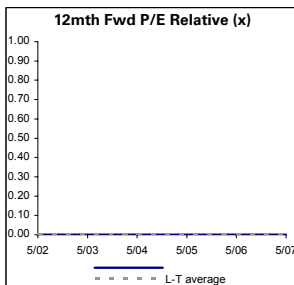
Cash flow from operations	-1	-2	-2	2	4	0	124
Movement in net working capital	0	0	0	0	0	0	-14
Capex	0	0	0	0	-150	-150	0
Free cash flow	-1	-2	-2	2	-146	-150	124
Other investing activities	-2	-8	-12	-12	-12	-12	-12
Equity raised/(bought back)	4	7	15	300	0	0	0
Dividends paid	0	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0	50	0
Other financing cash flows	0	0	0	0	0	0	0
Total cash flows from financing	3	7	15	300	0	50	0
Net cash flow	0	-3	1	290	-158	-113	111
Movement in net debt/(cash)	0	3	-1	-290	158	163	-111

**BALANCE SHEET (A\$m)**

Cash and other liquid assets	4	1	2	291	133	21	132
Tangible fixed assets	0	0	0	0	150	300	277
Goodwill	0	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0	0
Associates/investments	0	1	1	1	1	1	1
Other assets	2	10	22	35	47	59	113
Total assets	7	13	26	328	332	382	523
Interest bearing debt	0	0	0	0	0	50	50
Other liabilities	0	0	0	0	0	0	41
Total liabilities	0	0	0	0	0	50	91
Shareholders' equity	6	13	25	327	332	332	432
Minorities/other	0	0	0	0	0	0	0
Total shareholders' equity	6	13	25	327	332	332	432
Net working capital	0	0	0	0	0	0	41
Net debt/(cash)	-4	-1	-2	-291	-133	29	-82

**RATIO ANALYSIS**

Sales growth - pcp (%)	na	na	na	na	na	na	na
EBITDA/sales (%)	0.0	0.0	0.0	0.0	0.0	0.0	61.4
EBIT/sales (%)	0.0	0.0	0.0	0.0	0.0	0.0	52.6
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA (%)	32.9	260.9	164.1	1.0	2.2	14.5	-108.7
ROE (%)	-92.0	-26.2	-9.2	0.8	1.3	-0.1	26.2
Operating Return on Capital (%)	nm	-29.6	-10.0	nm	-1.1	-0.6	33.5
Tax rate (%)	-5.1	12.5	30.0	30.0	30.0	30.0	30.0
Capex/sales (%)	nm	nm	nm	nm	nm	nm	0.1
Capex/depreciation (x)	2.7	0.9	nm	nm	nm	nm	0.0
Net debt/equity (%)	-66.5	-10.6	-7.2	-89.0	-40.2	8.8	-19.0
Net interest cover (x)	0.0	0.0	nm	0.5	0.3	0.9	nm



# Investment thesis

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## Outlook

In our opinion, Marathon Resources' Mt Gee deposit ranks as one of Australia's premier uranium deposits with over 31,000 tonnes of inferred U<sub>3</sub>O<sub>8</sub> resource at an average grade of 685ppm.

The company is committed to developing the resource, with commissioning targeted for late 2011.

Marathon Resources has a number of prospective mineral exploration tenements in South Australia, including the Paralana Mineral System which contains Mt Gee (Uranium), along with tenements in Western Victoria, and Western Australia.

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## Valuation

We have set MTN's price target at a 10% discount to NPV. Our NPV is calculated by discounting the free cash flows by the company's WACC of 9.89%. We estimate the cost of capital using the CAPM model assuming a risk free rate of 4.64%, market risk premium of 6% and a beta of 1.3. We estimate the cost of debt at a 1% premium to the risk free rate and assume a long term gearing ratio of 30%.

Whilst uranium company's traditionally trade at a premium to NPV of between 1.5x to 2x, we believe Marathon should trade at a discount to NPV due to the company being in the early stages of development at Mt Gee, with permitting yet to be completed.

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## Risks

Risks to our positive view on uranium prices are that demand for new reactor construction is less than forecast. This could arise through a nuclear accident or delays associated with skills shortages. Marathon is also exposed to uranium prices and Australian dollar exchange rate volatility.

Specific risks associated with Marathon include local landholder objections, causing delays to the development of Mt Gee. Whilst the deposit does not reside in the Flinders Ranges national park, we believe its location, along with the development being a uranium mine could possibly result in a lengthening of the permitting process.

# Marathon Resources Management

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## The Marathon Board

### **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.

Peter is a member of Marathon's Audit Committee.

### **Dr John Santich (BE, MEngSc, PhD, DipLaw, MSocSc)**

#### **Executive Director**

John Santich is an engineer and lawyer with over three decades of experience in mining, geoscience and industry. He has wide experience in the direction and management of mining and technology-oriented companies.

John was Marathon's inaugural CEO and held the role until the appointment of Stuart Hall in April 2007.

### **Dr Wieslaw Bogacz (MSc Eng, PhD Eng)**

#### **Executive Director**

Dr Wieslaw Bogacz has been associated with Marathon Resources since its formation. He is a highly qualified geologist and engineer with more than 30 years experience in orebody exploration and development worldwide.

In the Australian mineral industry, Dr Bogacz has worked throughout the Yilgarn Craton and Patterson Orogen in WA, the Gawler Craton and Flinders Ranges in SA, the Lachlan Fold Belt in Victoria and NSW, and the Mt Isa Inlier in Queensland. He was co-founder and consulted to explorer Minotaur Resources, which discovered the Prominent Hill copper/gold deposit now under development by Oxiana Resources.

### **Denis Wood (BSc (Geol))**

#### **Non-executive Director**

Denis Wood was appointed a non-executive director of Marathon on 29 November 2006.

Denis is currently CEO of Queensland Coke and Energy. Prior to assuming that role, he was responsible for the successful development and operation of the Coppabella Coal Project in Queensland as managing director of Australian Premium Coal.

Denis is also Director - Resource Development of Talbot Group Holdings, a Queensland-owned and operated investment group focusing on the resource sector with an asset base in excess of \$450 million. Its activities include minerals exploration, mine and market development and financial investments as well as a substantial property and share portfolio.

**Chen Zeng**  
**Non-executive Director**

Chen Zeng was appointed a non-executive director of Marathon on 26 December 2006.

Chen has been the managing director of CITIC Australia since November 2002. The company is the Australian arm of China's giant state-owned CITIC Group, which has assets of over US\$100 billion and investments in banking, financial, energy and raw materials businesses.

He is also an executive director of the Hong Kong-listed CITIC Resources Holdings Ltd. Chen holds a Master's Degree in International Finance from the Shanghai University of Finance and Economics.

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**Senior Management****Stuart Hall (BSc Hons, MA)**  
**Chief Executive Officer**

Stuart Hall is an accomplished mining executive with 30 years experience in the resources and minerals processing industry, encompassing Africa, Australia and Europe.

Stuart's recent management experience includes chief executive of Corridor Sands Limitada, the holding company for BHP Billiton Limited's Corridor Sands project in Mozambique, where he oversaw the project's successful integration into BHP Billiton.

During his prior 10-year career with WMC Resources Limited, Stuart held a number of management positions, including General Manager Industrial Minerals and General Manager Business Development. In the former role he was a director of European talc producer Mondo Minerals representing WMC Resources in the joint venture. In the latter role he was a member of the five-man WMC Defence Steering Committee advising the CEO and board during Xstrata's contested takeover offer and the subsequent successful takeover by BHP Billiton.

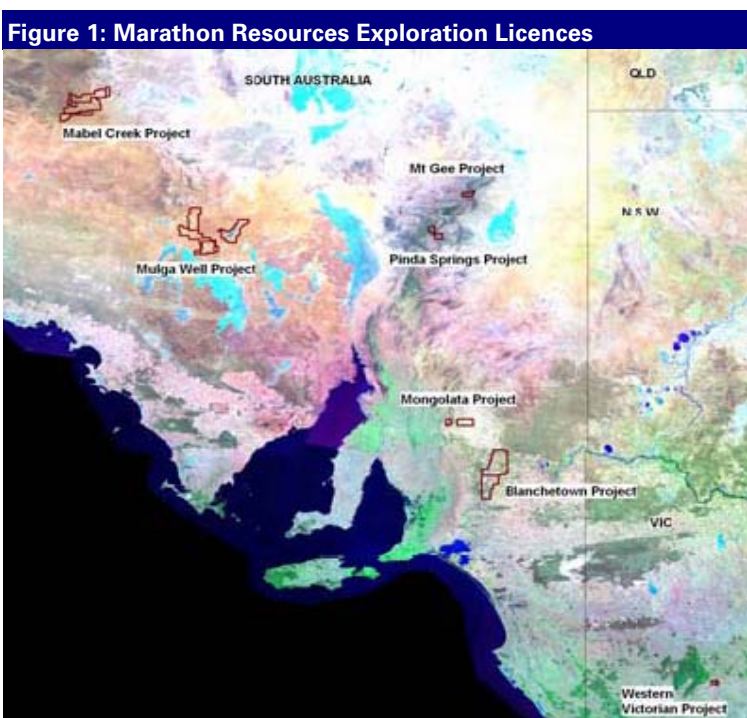
Stuart's experience includes serving as financial advisor for Dominion Mining Limited's Yakabindie Nickel Project and as a group executive with Barrack Mines Limited. He has also worked for Rio Tinto's Hamersley Iron Pty Ltd in marketing and corporate planning and as operational research officer for Zambia Consolidated Copper Mines.

# Mineral Resources

Marathon Resources has a number prospective mineral exploration tenements in South Australia, including:

- Paralana Mineral System which contains Mt Gee (Uranium)
- Glendambo (Iron-Oxide, Copper, Gold, Uranium) tenements
- Copper Pedy (Iron-Oxide, Copper, Gold, Uranium) tenements
- Mongolata (Gold, Copper) tenement
- Pinda Springs (Copper-Gold, Zinc-Lead) tenement

The company also holds two tenements in western Victoria (Copper, Gold). Whilst on 20 April 2007 Marathon announced a joint venture agreement with Primary Resources Limited (ASX:PRZ) allowing Marathon to earn up to 70% by spending \$3.25 million within five years in Primary's Warburton project in Western Australia.



Source: Marathon Resources

It is our opinion that of these tenements, the Paralana Mineral System's Mt Gee deposit is by far the most advanced and is described in greater detail below. As a result it is the Mt Gee deposit that forms the basis for our valuation of the company.

## Paralana Mineral System (Mt Gee) (Uranium)

### The Resource

Marathon owns 100% of the Paralana Mineral System in the Arkaroola region of South Australia's Northern Flinders Ranges. The Paralana Mineral System is one of the largest uranium mineral systems in Australia.

Part of the Adelaide Geosyncline, the 11-12 kilometer long Paralana Mineral System contains the Mt Gee project and its extensions to the south and east.

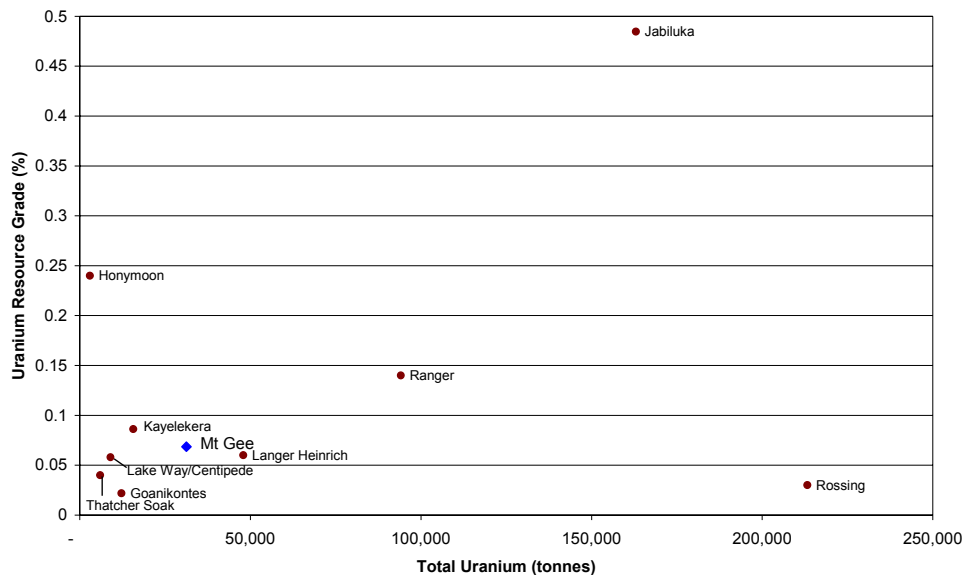
**Figure 2: Paralana Mineral System, containing Mt Gee**



Source: Marathon Resources

Marathons Mt Gee deposit has an inferred resource of 45.6 million tonnes of uranium mineralisation, averaging 0.068% U<sub>3</sub>O<sub>8</sub> (cutoff grade 300ppm) for about 31,200 tonnes contained uranium oxide (about 69 million pounds of contained U<sub>3</sub>O<sub>8</sub>). From figure 3, it can be seen that ranks well in terms of resource quality (grade and size) in comparison with more recent operations and development projects.

**Figure 3: Mt Gee resource comparison**



Source: Company Data, Deutsche Bank

Mt Gee’s resource also presents the opportunity ‘high grade’ the deposit, as the resource includes:

- 25.4 million tonnes at 0.081% U3O8 for 20,573 tonnes U3O8 (cutoff 500ppm)
- 10.1 million tonnes at 0.133% for 13,496 tonnes U3O8 (cutoff 1,000ppm)

**Figure 4: Mt Gee Resource` at varying cut-off grades**

U3O8 Cut Off (ppm)	Method	Grade (ppm)	Ore Tonnes (M)	U3O8 Tonnes	U3O8 lb
1000	Y	1330	10.1	13,496	29.7
500	Y	810	25.4	20,573	45.3
300	Y	685	46.6	31,255	68.8
300	KM	621	59	36,639	80.6

KM – Uranium resource and average deposit parameters estimated by ordinary kriging method, Y – Uranium resource and average deposit parameters estimated by kriging method employing Yamamoto correction  
Source: Marathon Resources

In our opinion, one of the more appealing aspects of this deposit is its flexibility in grade, with considerable tonnage available of high grade ore, along with bulk lower grade material. This results in a robust orebody, with the capability to remain profitable in periods of low commodity prices, or to provide the ability to increase uranium production rate due to unforeseen shortfalls.

The company has stated that a 73-hole drilling program is currently underway involving about 15,500 metres of RC drilling, with the aim of upgrading Mt Gee’s inferred resource to an indicated/measured status. Four diamond drill holes are also planned to provide further metallurgical and geotechnical information for processing and mine planning.

Drilling on the western side of Mt Gee started on 17 November 2006 and was completed on 5 February 2007, with the focus now switching to the eastern side.

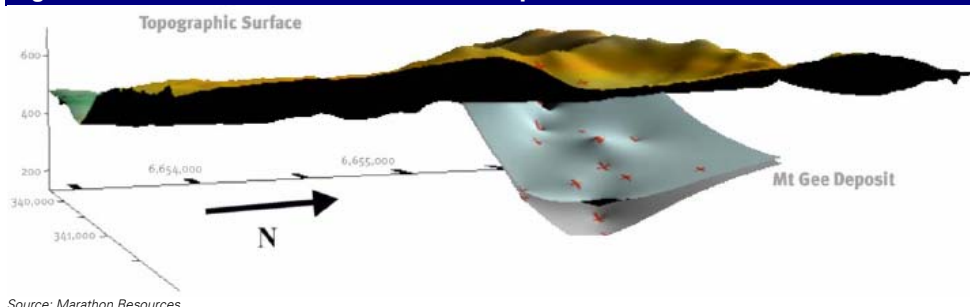
Results obtained so far have been consistent with Marathon’s mineralisation model of the deposit.

Significant assays from the first batch of 13 holes have comprised:

- 16m @ 0.18% (1800ppm), including 5m @ 0.41% (4100ppm) U3O8
- 74m @ 0.08% (800ppm), including 8m @ 0.11% (1100ppm) U3O8.

Subsequent analytical results have included 41m @ 0.11%, and 28m @ 0.11%. Analytical and Gamma log results released to date indicated mineralisation occurring from surface to a depth of around 230 metres. However, Historic drilling by CRA indicates mineralisation extends to at least 280m in depth, which is not currently included in the resource statement.

**Figure 5: 3D model of Marathon’s Mt Gee deposit**



Source: Marathon Resources

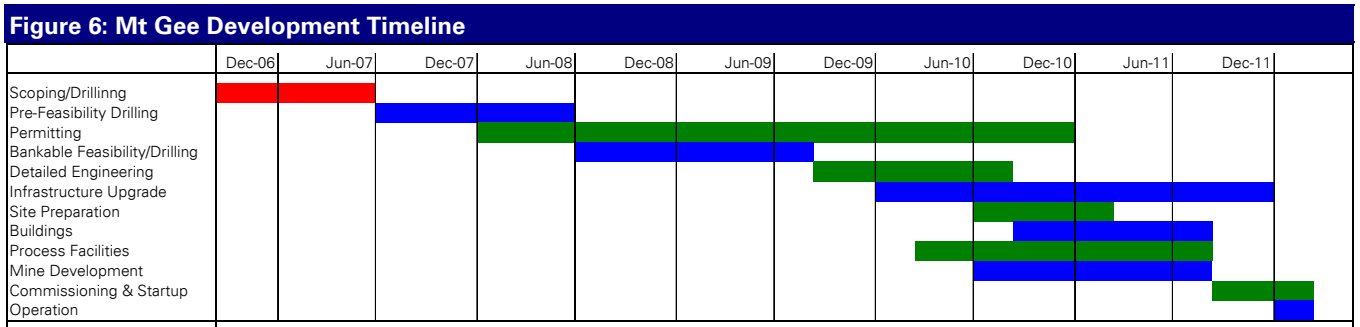


**Resource Development**

Marathon has engaged Coffey Mining Pty Ltd to undertake a scoping study examining the potential for mining and processing at Mt Gee. The study commenced on 24 October 2006. The purpose is to define the full range of mining and processing options available for the development of the deposit, and to consider all the environmental and social issues to ensure minimal negative impact.

The company has stated that the scoping study will present a range of mining and processing options for consideration at the pre-feasibility stage of development.

We believe that whilst the Mt Gee resource would be best suited to large scale open cut mining. However, the environmentally sensitive nature of the Flinders Rangers region will likely mean that the mining method will necessitate the higher unit cost option of underground mining. To further reduce environmental impacts we believe metallurgical processing will likely be conducted with a small footprint uranium tank-leaching processing plant, and ion-exchange circuit.



Source: Marathon Resources

We believe that the project development timeline provided by the company above is realistic. The timeline provides adequate time to achieve permitting requirements, which we see as the primary critical path item for the development of Mt Gee. At this point, we do not believe there is significant opportunity to accelerate development of the project.

# Valuation

## Net present value

We use the DCF method to calculate an NPV for Marathon of A\$9.15/share. This assumes:

- Deutsche Bank spot uranium and AUD/USD currency assumptions
- 75% of production sold under contract for first 5 years, with an assumed floor price of US\$75/lb
- Cash flows modeled for the Mt Gee deposit until end of mine life or 2025 (whichever comes first)
- No terminal value

Weighted assets cost of capital of 9.89% which assumes:

Using the CAPM equation to calculate a cost of equity  $r_e = r_f + \beta (r_m - r_f)$

$r_e = 12.44\%$  using  $r_f = 4.64\%$ ;  $\beta = 1.3$  &  $EMP = 6.00\%$

$r_d = +1.0\%$  above the  $r_f$  (i.e. 5.64%)

We have assumed that an average gearing ratio of 30% is appropriate given that this is a typical target for established Australian mining companies.

## Mt Gee Evaluation

In conducting the DCF derived NPV valuation of Marathon, we have undertaken a conceptual analysis on the potential development of the Mt Gee uranium deposit.

The analysis draws upon information released to date by Marathon Resources on the grade and magnitude of the Mt Gee resource, along with information released by the company derived from the Coffey Mining Interim Scoping Report. This information has been combined with in-house Deutsche Bank knowledge on uranium project development and operation to model what in our opinion would be a plausible scenario for the development of the Mt Gee resource.

The following modeling assumptions have been used:

<b>Figure 7: DB Mt Gee modeling assumptions</b>	
Resource	45.6Mt @ 0.068% for 31,000t U3O8
First U3O8 production	Second Half 2011
Mining Method	Underground SLOS
Metallurgical Processing	Grind / Tankleach / IX / Calcination
Mining/Processing Rate (Ore)	3 Mtpa
Uranium Metallurgical Recovery	85%
U3O8 Production Capacity	1,785 tpa
Cash Operating Costs (per tonne milled)	\$41/tonne
Cash Operating Costs (per pound produced)	\$22/lb
Capital Expenditure	\$300 Million
Modeled Mine Life	15 Years

Source: Deutsche Bank

Under this scenario, the project develops an NPV of A\$488 Million, Measured from the 31st December 2007.

## The Marathon P/NPV multiple

We have utilised an P/NPV multiple of 0.9x (or a 10% discount to NPV), which is below uranium industry standards of between 1.5x to 2x for uranium producers, and in our opinion represents a fair discount due to Marathon's early stage in the development of Mt Gee.

### Australian Uranium Peers P/NPV multiples

Below we compare Marathon current targeted P/NPV multiple with P/NPV (using DB calculated NPV's) for Australia's two operating uranium companies Energy Resources of Australia (ERA), and Paladin Resources (PDN).

**Figure 8: P/NPV multiple comparison with Australia's uranium producers**

Company	P/NPV Multiple
Paladin Resources	1.87
Energy Resources of Australia	1.59
Marathon (DB Targeted P/NPV multiple)	0.9
Marathon Resources	0.58

Source: Deutsche Bank

As it can be seen both ERA and Paladin are currently valued at above 1.5 times our estimated NPV. With Paladin's multiple representing their greater exposure to the current climbing uranium spot price, which is presently exceeding our price forecast.

We believe the 0.9x NPV multiple is justifiably applied to Marathon due to its early stage of Development at Mt Gee, and due to the environmental sensitivity of the Flinders Rangers region in which the project lies, which may result in more onerous operating requirements, and therefore higher costs of production.

However, we acknowledge that the company can increase its multiple as it progresses through pre-feasibility, and bankable feasibility stages. We also believe additional upside exists, as the current NPV scenario detailed above does not take into account the expansion capability of the Mt Gee resource, as well as the exploration upside that exists through further development of other prospective mineral tenements Marathon hold in South Australia, Victoria and Western Australia.

### Mt Gee Expansion Capability

The Mt Gee project scenario modeled above assumes a constant production rate of 1,785 tpa for the life of the project. In reality this flat rate is unlikely, and in our opinion, is in fact low for the size of the resource. As a result we believe considerable upside to our valuation exists through further expansion of the Mt Gee operation. For example, we estimate an additional 20% upside exists to our NPV through expansion of the Mt Gee project to greater than 4Mtpa processing rates.

### Exploration and Resource upgrades.

As mentioned previously Marathon Resources holds a number of prospective uranium, ferrous, non-ferrous, and precious metal tenements across Australia, with the prime focus being South Australia's Gawler Craton. The modeled NPV scenario above ascribes no value to these prospective tenements, which we believe may be disproportionate with the exploration upside of the Region.

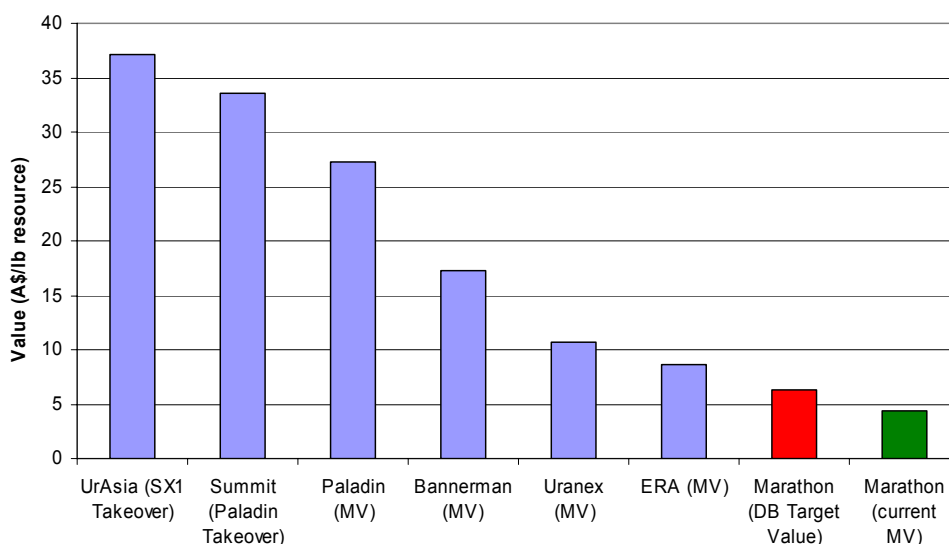
Results being returned from the Mt Gee resource drilling campaign indicate that analytical results are being returned consistent with, or higher, than Marathon's Mt Gee resource grade

estimates, derived from Gamma Logging results. We believe this generates risks to the upside to Mt Gee's grade, and therefore to the size, quality, and value of the Mt Gee resource.

## Resource Valuation Metric's

As a sensibility check, we examine the Resource Valuation metric implied from our NPV derived target share price, and compare this with industry peers, and recent acquisition activity to ensure both our DCF derived NPV, and P/NPV multiple result in a logical valuation of the company's resource.

**Figure 9: Resource Valuation Metrics Comparison**



Source: Company Data, Deutsche Bank

It can be seen that Marathon is currently being valued well below its peers at around A\$4.80 per pound. Our DCF derived NPV and 0.9 x NPV multiple values that company at A\$6.30/lb. This is still towards the low end of the scale against industry peers. However, we believe that it is a fair representation of present value, on the basis that Marathon's Mt Gee deposit will likely be an underground mining operation, whereas other peers considered here are open cut, or ISL (In-Situ-Leach) resources. The valuation also reflects the delicate environmental requirements of the Flinders Rangers region, with environmental and mining permitting approvals yet to be acquired.

However, it is our belief that Resource Valuation metrics at this time in the uranium mining industry must be treated as an indication only. As often valuations may be misleading, particularly as the industry progresses through the early stages of resource definition, after a number of decades with minimal exploration and drilling investment. For example UrAsia's deposits have very high resource upgrade potential, while Summit's metric does not value all of Summit's Mt Isa deposits, and Bannerman has to date only drilled around ¼ of their historic Goanikontes resource in Namibia to Resource definition stage.

# Uranium Overview

Uranium has continued to deliver one of the most impressive performances of any commodity in 2007. Spot uranium prices, which have not seen a decline since June 2003, increased 98.6% YoY in 2006, the strongest annual appreciation on record. Since the beginning of this year, prices are up 66.7% to US\$120.00/lb at the time of writing.

A rapid price rise in any commodity is sure to trigger alarm bells regarding the sustainability of such strength. However, in our view, the uranium price is not spiking, but simply appreciating against contemporary market fundamentals. Current global mined production is inadequate and the once vast level of secondary supply is being rapidly depleted. Existing demand exceeds presently available supply and our forecasts show this scenario will now continue until 2010. Having said that, like other commodities which have witnessed phenomenal price increases, the uranium market will eventually rebalance as exploration and production increases and newer forms of supply are introduced to the market. Nevertheless, until this situation eventuates, we expect continued strength and further increases in the spot price.

The current supply outlook remains constrained due to delays and development problems, namely the minimum two-year delay at Cigar Lake and flooding at Ranger, events which have altered the market for the foreseeable future.

**Figure 10: World uranium mining, tU, 2001-2006**

Country	2003	2004	2005	2006
Canada	10.4	11.6	11.6	9.9
Australia	7.6	9.0	9.5	7.6
Kazakhstan	6.5	3.3	4.4	5.3
Niger	8.2	8.5	8.0	3.1
Russia	2.8	3.1	3.3	3.4
Namibia	2.0	3.0	3.1	3.1
Uzbekistan	1.8	2.1	2.3	2.3
USA	0.8	0.8	1.0	1.7
Ukraine	1.0	1.0	1.0	0.8
South Africa	0.8	0.8	0.7	0.5
China	0.7	0.7	0.7	0.7
Czech Repub.	0.5	0.4	0.4	0.4
<b>Total world</b>	<b>38.5</b>	<b>39.6</b>	<b>41.7</b>	<b>39.5</b>

Source: Ux, Deutsche Bank Global Markets Research

**Figure 11: Planned major mining projects, t U**

Company	Mine Name	Country	Start Date	Ultimate Production
Cameco	Cigar Lake	Canada	2010	6923
SXR Uranium One	Honeymoon	Australia	2008	339
Paladin	Kayalekera	Malawi	2009	692
BHP Billiton	Olympic Dam Expn	Australia	2013	3731
ERA	Jabiluka	Australia	2013	4231
Kazatomprom	Kharasan	Kazakhstan	2008	2000
Kazatomprom	South Inkai	Kazakhstan	2008	2000
Kazatomprom	Mynkuduk	Kazakhstan	2008	2400
IUC	White Mesa	USA	2008	577

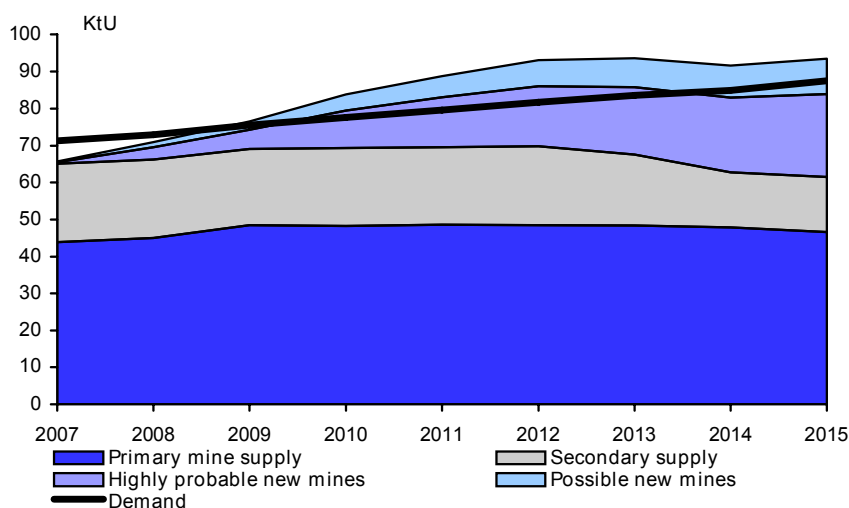
Source: Ux, Deutsche Bank Global Markets Research

**Figure 12: Known recoverable resources of uranium, Kt U**

		% of world
Australia	1,209	36%
Kazakhstan	472	14%
Canada	447	13%
South Africa	298	9%
Namibia	235	7%
Brazil	197	6%
Russian Fed.	131	4%
USA	147	4%
Uzbekistan	103	3%
<b>Top 9 total</b>	<b>3,239</b>	<b>95%</b>
<b>World total</b>	<b>3,404</b>	

Source: WNA, Deutsche Bank Global Markets Research

**Figure 13: Global U<sub>3</sub>O<sub>8</sub> demand vs new and potential supply, 2007-2015**



Source: WNA, Ux, Deutsche Bank Global Markets Research

Since the 1970s, demand for uranium has traditionally come from one source – nuclear power plants. Even using the most conservative demand scenario, supply is not expected to catch up with demand until at least 2009. At the same time, as the global discussion/debate over climate change and the role of pollutant emitting energy generation technologies ramps up, nuclear power is often pointed to a contributor to the solution to the climate change problem. In the words of the CEO of a major French oil company, “if it is not hydrocarbons, if it is not renewables, if it is not nuclear, what is it?”

On-going issues such as these environmental factors, as well as security of energy supply, have prompted governments to examine ways to reduce their dependence on fossil fuel imports to meet their energy needs. Political turbulence in the Middle East combined with diminishing gas reserves in the North Sea and continuing volatility of supply from Russia have been major factors in some governments initiating investigations into nuclear power investment. Many countries in Asia, South America and Central Europe are currently considering embarking on an atomic energy program in the very near future while other countries such as Great Britain and Germany have begun measures to revise proposed phase-outs of nuclear power. The potential of a shift towards nuclear power is also exacerbated by the increased political importance of carbon abatement in the wake of several natural disasters. This heightened awareness will benefit all forms of energy with low CO<sub>2</sub> emissions, and prompted us to take a closer look at some of the issues energy policy decision makers must consider.

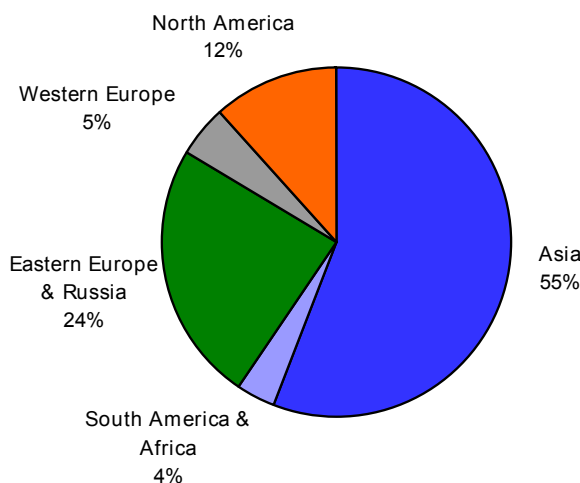
**Figure 14: Existing and projected nuclear power plants, 2007-2015**

	Current reactors	GWe	New	2015 Shutdown	Total	% Chg GWe
<b>Asia</b>						
China	9	7	13	0	22	
Iran	0	0	1	0	1	
India	17	4	7	0	24	
Japan	55	48	10	0	65	
Korea	20	18	7	0	27	
Pakistan	2	0.4	1	0	3	
Taiwan	6	5	2	4	4	
<b>Total</b>	<b>109</b>	<b>81</b>	<b>41</b>	<b>4</b>	<b>146</b>	<b>46%</b>
<b>South America &amp; Africa</b>						
Argentina	2	0.9	1	0	3	
Brazil	2	1.9	1	0	3	
South Africa	2	1.8	5	0	7	
<b>Total</b>	<b>6</b>	<b>5</b>	<b>7</b>	<b>0</b>	<b>13</b>	<b>59%</b>
<b>Eastern Europe &amp; Russia</b>						
Armenia	1	0	0	1	0	
Czech Rep	6	3.5	0	0	6	
Bulgaria	4	2.7	2	2	4	
Hungary	4	1.8	0	0	4	
Lithuania	1	1.2	1	1	1	
Romania	1	0.7	1	0	2	
Russia	31	22	14	2	43	
Slovakia	6	2.5	2	2	6	
Slovenia	1	0.7	0	0	1	
Ukraine	15	13	2	0	17	
<b>Total</b>	<b>70</b>	<b>48</b>	<b>22</b>	<b>8</b>	<b>84</b>	<b>30%</b>
<b>Western Europe</b>						
Belgium	7	6	1	3	5	
Finland	4	2.7	1	0	5	
France	59	63	1	0	60	
Germany	16	20	0	7	9	
Netherlands	1	0.5	1	0	2	
Spain	8	7	1	1	8	
Sweden	10	9	1	1	10	
Switzerland	5	3.2	0	0	5	
United Kingdom	23	12	1	16	8	
<b>Total</b>	<b>133</b>	<b>123</b>	<b>7</b>	<b>28</b>	<b>112</b>	<b>-12%</b>
<b>North America</b>						
Canada	18	13	2	0	20	
Mexico	2	1.3	2	0	4	
USA	104	100	8	0	112	
<b>Total</b>	<b>124</b>	<b>114</b>	<b>12</b>	<b>0</b>	<b>136</b>	<b>8%</b>
<b>Global Total</b>	<b>442</b>	<b>371</b>	<b>89</b>	<b>40</b>	<b>491</b>	<b>13%</b>

Source: DOE, EIA, Reuters, Bloomberg, Ux, WNA, Deutsche Bank Global Markets Research

According to our base case projections, by 2015, the world will need 87.5Kt of uranium, resulting in a supply deficit of 4.7Kt. A quick scan through this chart reveals some interesting results. It is immediately clear Asia and Eastern Europe dominate the share of new build while Western Europe dominates the share of closures. Nevertheless, perhaps most important is the actual makeup among the regions of demand for new build. Similar to the last period of expansion in nuclear power plants in the 1970s, this one will likely be concentrated among only a few countries. The countries with the most amenable social and political environment to nuclear power – China, Russian and the US – are forecast to dominate the proportion of new build. Collectively, the three will account for around 38% of global nuclear output in 2010 and by 2030, this is predicted to rise to over 45%. By contrast, Western Europe, which faces the most difficult environment for new build, accounts for only 5% of new build out to 2015.

**Figure 15: Distribution of nuclear power plant new build, 2007-2015**



Source: DOE, EIA, Reuters, Bloomberg, Ux, WNA, Deutsche Bank Global Markets Research

**Figure 16: Deutsche Bank Uranium Supply/Demand Model (tonnes U)**

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E*
Reactor Requirements	65,392	65,745	66,205	67,695	70,236	72,181	73,965	75,983	77,714	79,063	81,433
Utility safeguarding	3,270	4,602	4,634	4,739	4,917	5,053	5,178	5,319	5,440	5,534	5,700
Investment demand	1,615	885	385	385	385	385	385	385	385	385	385
<b>Total Demand</b>	<b>70,277</b>	<b>71,232</b>	<b>71,224</b>	<b>72,818</b>	<b>75,537</b>	<b>77,619</b>	<b>79,527</b>	<b>81,686</b>	<b>83,539</b>	<b>84,982</b>	<b>87,518</b>
Primary Mine Supply	41,680	39,507	43,971	45,076	48,462	48,233	48,664	48,523	48,438	47,874	46,684
New Mines	0	0	389	3,346	5,219	10,090	13,402	16,248	18,142	20,242	22,315
Secondary Supply	23,778	22,828	21,128	21,066	20,582	21,138	20,939	21,332	19,192	14,867	14,883
<b>Total Supply</b>	<b>65,458</b>	<b>62,335</b>	<b>65,488</b>	<b>69,488</b>	<b>74,263</b>	<b>79,461</b>	<b>83,005</b>	<b>86,103</b>	<b>85,772</b>	<b>82,984</b>	<b>83,882</b>
<b>Market Balance</b>	<b>-4,819</b>	<b>-8,896</b>	<b>-5,736</b>	<b>-3,330</b>	<b>-1,274</b>	<b>1,842</b>	<b>3,477</b>	<b>4,416</b>	<b>2,233</b>	<b>-1,998</b>	<b>-3,636</b>
<b>U3O8 Price (US\$/lb)</b>	<b>28.82</b>	<b>47.90</b>	<b>92.50</b>	<b>100.00</b>	<b>105.00</b>	<b>90.00</b>	<b>70.00</b>	<b>60.00</b>	<b>70.00</b>	<b>80.00</b>	<b>46.00</b>

Source: WNA, Ux, Deutsche Bank Global Markets Research



# Risks

## **Local objection to uranium mining in the Flinders Ranges.**

Specific risks associated with Marathon include local landholder objections, causing delays to the development of Mt Gee. The Federal Labor Party has now scrapped its No-New-Mines policy regarding uranium mining in Australia, with South Australia a strong advocate for additional uranium mining in the state; we see no federal or state political challenges for Marathon. However, whilst the deposit does not reside in the Flinders Ranges national park, we believe its proximity to the park, along with the development being a uranium mine will possibly result in local landholder objections, which may produce a lengthening, of the permitting process.

## **Demand for nuclear reactors does not reflect in our forecasts**

We see this as a key risk as there are many unknowns. The perception of the safety and affordability of nuclear power is determined by politics and public sentiment. Whilst demand for new reactors is currently strong, a nuclear accident or a shift in government policy can materially impact the demand scenarios.

## **Russia HEU**

The Russian Highly Enriched Uranium (HEU) program supplies approximately 10% of world nuclear fuel supply. The current agreement to supply HEU to the US ceases in 2013 and in June 2006 Russia announced there would be no HEU 2 agreement. We have assumed that this material will be reserved for domestic Russian use providing the trigger for increased US demand for primary uranium. If Russia decides to re-enter the Western markets then this is likely to place downward pressure on our forecast for uranium prices.

# Appendix 1

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Additional information available upon request

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Company	Ticker	Recent price*	Disclosure
Marathon	MTN.AX	5.05 (AUD) 25 May 07	NA

\*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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**Historical recommendations and target price: Marathon (MTN.AX)**

(as of 5/25/2007)



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- Buy
- Market Perform
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- Not Rated
- Suspended Rating

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- Hold
- Sell
- Not Rated
- Suspended Rating

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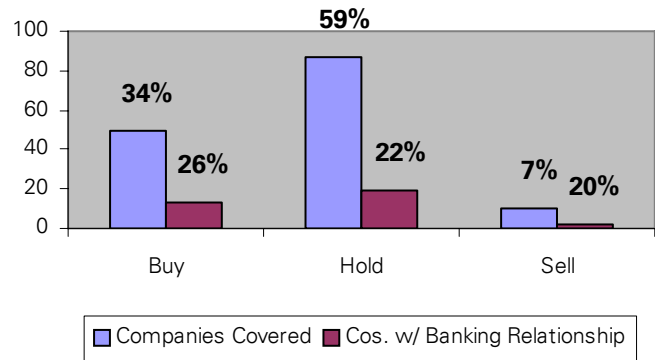
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