

E.L. & C. Baillieu Stockbroking Ltd

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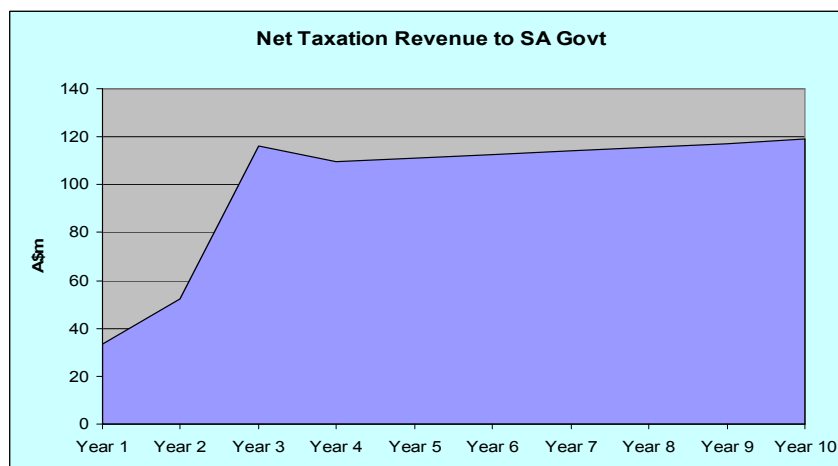
Dr Ted Tyne
Director, Mineral Resources
Primary Industries and Resources SA
GPO Box 1671
ADELAIDE SA 5001

Dear Mr Tyne,

Re: "Seeking a Balance", land management plan for the Northern Flinders Ranges

As the director of research at E L & C Baillieu Stockbroking Ltd, I provide advice to local and offshore investment institutions which collectively manage long term investment funds in excess of \$100 billion. The following response to your invitation for submissions is a private one, and is not the official view of E L & C Baillieu Stockbroking Ltd. My view on the proposed land management plan and its likely consequences are:

- 1) The land management plan – by incorporating the Greater Mt Gee exploration area inside Access Zone 2a - effectively destroys any chance of the Marathon Resources group being able to develop a viable uranium mine in the Flinders Ranges region. Our financial modelling shows that the Greater Mt Gee project is one of the largest undeveloped ore bodies in Australia and would, if developed, deliver a net economic benefit (in present value terms) of \$4.86 billion to South Australia over its mine life. Depending on final mine configuration, we estimate that the project would create between 1500 and 1900 permanent jobs, both on the mine site and among suppliers and contractors. We have not attempted to estimate the multiplier effect of the project in terms of its benefit to other industries and employment, but these would be substantial.
- 2) We estimate that the Greater Mt Gee project would pay approximately \$2.1 billion in income taxes and royalties during the first decade of production. The Federal/State split of this income stream – approximately \$240 million a year – would depend on how the state structured the mining royalty rate on the project, with any increase in the state mining royalty to lead to a decrease in federal income tax receipts. Assuming that the state imposes a 10 percent ad valorem mine head royalty, we estimate that the Mt Gee Project would deliver \$1.01 billion in additional taxation revenue to the state. Our projection of the annual taxation revenues of the project over its first ten years is shown in the chart below. We estimate that the mine would have a 50-year life. By way of comparison, the project would deliver more taxation revenue than is currently earned in gaming taxes on SA Lotteries.



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- 3) **Tourism Impact.** Uranium mining and tourism are not mutually exclusive. The Mt Gee deposits are far removed from existing tourist attractions in the Flinders Ranges area and the mine would, if developed, occupy less than 0.1 percent of the land covered by the Northern Flinders Ranges management zone. Prior to the development of the Ranger uranium mine in the Northern Territory, tourism in the Kakadu Region of the NT was of a very low level, taking less than 20,000 tourism-related visitors a year. Today visits to the Kakadu Region have stabilised at around 160,000 a year, bringing \$50 million a year in revenues to a region that previously had no industry whatsoever. Most of the road transport and hotel accommodation infrastructure that now drives the Kakadu industry was originally built for the Ranger uranium mines and associated contractors. We expect that development of the Mt Gee uranium mine would have a similar beneficial impact on tourism-related activity in the Flinders Ranges region, by creating transport and accommodation infrastructure that would increase the area's attractiveness to tourists.
- 4) **Taxation base – protecting the environment.** Our perusal of available literature on national park and nature reserve systems around the world suggests that a strong economy and tax base are necessary pre-conditions for protection of the environment. The Flinders Ranges natural environment has been allowed to deteriorate terribly over the past 50 years due to feral animal invasion, an environmental calamity caused by a combined lack of popular pressure and Government inaction due to budgetary constraints. In my view the only way that the Flinders Ranges natural environment can be restored to any semblance of its former glory is through the investment of \$15-20 million a year in park maintenance, and the only feasible way that this can be financed is through mining royalties. Failure to create an environment where Mt Gee can be developed will condemn the North Flinders ranges to further neglect and environmental degradation, due to a lack of funding.
- 5) **Sovereign Risk.** The Marathon Resources group is an Adelaide-based company, albeit with a significant offshore (Chinese Government) shareholder. As such it is seen in the wider investment community as a litmus test for how committed the South Australian government is to developing its resource industry base, within an overall environmental and community standards framework. Any move by the SA Government which effectively kills off the Mt Gee development will be seen by international investors as a clear signal that South Australia has no commitment to the mining industry and will abandon shareholders at the first sign of community resistance to individual projects.
- 6) **International investors have a multitude of different resource projects to choose from and choose to invest where sovereign risk – the risk on unanticipated government action – is within acceptable limits.** The circumstances surrounding Mt Gee – the effective banning of a project based on one of the world's biggest new resource discoveries – will make South Australia a “no go zone” for at least a decade for many global investment institutions. The effective veto by the SA Government of Mt Gee will therefore greatly increase the cost of capital to all new mining projects in South Australia and result in many projects not being able to raise finance.
- 7) **We believe that the “develop at all costs” mentality of former decades has now died and that the best outcomes for society and the environment are achieved where mining projects in environmentally sensitive areas are done under a system of tight monitoring and regulation, with specific financial and remediation penalties in place for non-compliance.** We believe that the Marathon project could proceed within the framework of special-purpose legislation that sets legally binding waste disposal and remediation targets, whereby the environmental impact of the project is made inconsequential and yet the State and South Australia society reaps the enormous benefits that the project would deliver.
- 8) **The current inclusion of Marathon's uranium discoveries in an effective no-mining zone would have severe damaging effects on South Australia.** In my view the current proposal and inclusion of the world-class mining project in Zone 2a will guarantee no economic benefits and another 50 years of underfunding and government neglect for the North Flinders ranges environmental zone. The current proposal would result in the worst possible outcome for the state and its citizens.

Yours faithfully
Ivor Ries, B.A., SA Fin, SAA
27 January 2010

(Disclosure: The author of this letter owns no Marathon Resources shares and has not acted in any capacity for Marathon Resources).

