# MARATHON GOLD CORPORATION

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE THREE MONTHS ENDED

# MARCH 31, 2013 AND 2012

## Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of unaudited interim financial statements by an entity's auditor.

**Marathon Gold Corporation**
**Consolidated Balance Sheets**
**(Unaudited - Expressed in Canadian dollars)**

| | March 31 2013 $ | December 31 2012 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | **2,977,057** | 5,187,475 |
| Amounts receivable | **217,739** | 180,705 |
| Loan receivable | **-** | 62,427 |
| Prepaids and deposits | **127,026** | 243,395 |
| | **3,321,822** | 5,674,002 |
| **Non-current assets** | | |
| Investments (note 6) | **160,327** | 277,188 |
| Property, plant and equipment | **93,286** | 108,729 |
| Mineral exploration and evaluation assets (note 5) | **40,450,035** | 38,511,733 |
| **Total assets** | **44,025,470** | 44,571,652 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade payables | **292,416** | 505,132 |
| Flow-through share tax liability (note 9(b)(iii)) | **17,242** | 77,460 |
| **Total liabilities** | **309,658** | 582,592 |
| **Equity** (notes 9, 10, and 11) | **43,715,812** | 43,989,060 |
| **Total liabilities and shareholders' equity** | **44,025,470** | 44,571,652 |

Going concern (note 1)

These financial statements have been approved by the board of directors and authorized for issue on May 13, 2013 and have been signed on their behalf.

"George D. Faught"
George D. Faught
Director

"Phillip C. Walford"
Phillip C. Walford
Director

**Marathon Gold Corporation**
**Consolidated Statements of Operations, Loss and Comprehensive Loss**
**For the three months ended March 31, 2013 and 2012**
**(Unaudited - Expressed in Canadian dollars)**

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| **Expenses:** | | |
| Exploration expenses (note 12) | **1,277** | 2,072 |
| General and administrative expenses (note 13) | **546,215** | 360,716 |
| Interest income | **(11,392)** | (13,584) |
| Unrealized loss on warrant derivative investments | **2,689** | 58,763 |
| Foreign exchange loss (gain) | **53** | (285) |
| Loss before taxes | **538,842** | 407,682 |
| Income taxes | **(60,218)** | (629,588) |
| Loss (Income) for the period | **478,624** | (221,906) |
| Other comprehensive income: | | |
| **Items that may be reclassified subsequently to net income:** | | |
| Currency translation adjustment | **(116,002)** | 96,252 |
| Unrealized loss in fair value of investments classified as available for sale | **114,172** | 87,600 |
| **Comprehensive loss (income) for the period** | **476,794** | (38,054) |
| **Basic and diluted loss (income) per share** | **0.01** | (0.01) |
| **Weighted average number of common shares outstanding** | **59,939,411** | 29,871,928 |

**Marathon Gold Corporation**
**Consolidated Statements of Cash Flow**
**For the three months ended March 31, 2013 and 2012**
**(Unaudited - Expressed in Canadian dollars)**

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| **Cash flows (used in) from operating activities** | | |
| (Loss) Income for the period | **(478,624)** | 221,906 |
| Add (deduct) items not involving cash | | |
| Income taxes | **(60,218)** | (629,588) |
| Unrealized loss on warrant derivatives | **2,689** | 58,763 |
| Depreciation | **15,443** | 13,553 |
| Stock-based compensation charged to operations (note 11) | **152,823** | - |
| | **(367,887)** | (335,366) |
| Changes in non-cash working capital items | | |
| Increase in amounts receivable | **(37,034)** | (406,977) |
| Decrease (Increase) in prepaid expenses | **116,369** | (132,755) |
| Decrease in accounts payable | **(228,808)** | (46,892) |
| | **(517,360)** | (921,990) |
| **Cash flows used in investing activities** | | |
| Purchase of capital assets | **-** | (54,779) |
| Repayment of loan | **62,427** | - |
| Expenditures on exploration and evaluation assets | **(1,755,485)** | (1,618,799) |
| | **(1,693,058)** | (1,673,578) |
| **Decrease in cash** | **(2,210,418)** | (2,595,568) |
| **Cash– beginning of period** | **5,187,475** | 9,545,246 |
| **Cash– end of period** | **2,977,057** | 6,949,678 |

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

**Marathon Gold Corporation**
**Consolidated Statement of Changes in Equity**
**For the three months ended March 31, 2013 and 2012**
**(Unaudited - Expressed in Canadian dollars)**

| | Share Capital (note 9) | Warrants (note 10) | Contributed Surplus (note 11) | Deficit | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Balance – January 1, 2012** | **20,255,563** | **1,256,644** | **7,123,852** | **(5,190,746)** | **181,955** | **23,627,268** |
| Income for the period | - | - | - | 221,906 | - | **221,906** |
| Unrealized loss on available-for-sale investment | - | - | - | - | (87,600) | **(87,600)** |
| Currency translation adjustment | - | - | - | - | (96,252) | **(96,252)** |
| **Balance – March 31, 2012** | **20,255,563** | **1,256,644** | **7,123,852** | **(4,968,840)** | **(1,897)** | **23,665,322** |
| | | | | | | |
| **Balance – January 1, 2013** | **41,051,338** | **1,999,401** | **7,469,352** | **(6,452,269)** | **(78,762)** | **43,989,060** |
| Loss for the period | **-** | **-** | **-** | **(478,624)** | **-** | **(478,624)** |
| Stock based compensation | **-** | **-** | **203,546** | **-** | **-** | **203,546** |
| Unrealized loss on available-for-sale investments | **-** | **-** | **-** | **-** | **(114,172)** | **(114,172)** |
| Expiration of warrants | **-** | **(148,322)** | **148,322** | **-** | **-** | **-** |
| Currency translation adjustment | **-** | **-** | **-** | **-** | **116,002** | **116,002** |
| **Balance – March 31, 2013** | **41,051,338** | **1,851,079** | **7,821,220** | **(6,930,893)** | **(76,932)** | **43,715,812** |

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

## 1) GOING CONCERN

The consolidated financial statements of Marathon Gold Corporation (Marathon", the "Company", "we" or "us") have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future.

Marathon has no sources of revenue, has incurred losses amounting to $6.9 million since its inception, and is dependent on financings to fund its operations. In addition, as Marathon is in the development stage, it is subject to the risks, uncertainties and challenges similar to other companies in a comparable stage of development. These include, but are not limited to, the continuation of losses in future periods; the ability to raise sufficient funds, and on acceptable commercial terms, to continue its exploration programs; the ability to establish the economic viability of mineral deposits on any of its mining properties; the acquisition of required permits to mine; and the attainment of profitable operations. These material uncertainties lend significant doubt over the applicability of the going concern assumption and ultimately the use of accounting principles pertinent to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary if the going concern assumption were inappropriate. These adjustments could be material.

Marathon funded its operations in the period ended March 31, 2013 through the use of its existing cash reserves obtained through an equity financing completed on December 12, 2012. In addition, Marathon continues to seek additional financing opportunities in order to raise necessary funds for the advancement of its properties. However there can be no assurance that the Company will be successful in these efforts.

## 2) GENERAL INFORMATION

Marathon's primary business focus is the acquisition, exploration and development of precious and base metal prospects, including the further development of the Valentine Lake Project in the Province of Newfoundland and Labrador in eastern Canada, the Golden Chest project in Idaho, USA, and the Bonanza project in Oregon, USA.

Marathon was incorporated under the Canada Business Corporations Act on December 3, 2009. On December 3, 2010, Marathon's common shares commenced trading on the Toronto Stock Exchange under the symbol "MOZ".

Marathon's registered address is 357 Bay Street, Suite 800, Toronto, Ontario M5H 2T7.

Marathon's operations and level of spending on its mining properties are impacted by seasonality, which at times limits the ability of the Company or its exploration partners to carry out drilling and other surface operations on its properties, and by the extent of Marathon's working capital.

## 3) BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS34, Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the audited annual financial statements for the year ended December 31, 2012, which were prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on May 13, 2013.

## 4) ACCOUNTING POLICIES

The accounting policies followed in the preparation of these condensed interim consolidated financial statements are consistent with those followed in the previous financial year, except as disclosed below.

Marathon has adopted the following new and revised accounting standards, with effect from January 1, 2013.

### IFRS 10 - Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

Marathon assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

### IFRS 11 - Joint Arrangements

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures,* and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, *Investments* *in Associates and Joint Ventures (amended in 2011).* The other amendments to IAS 28 did not affect the Company.

**(Unaudited - Expressed in Canadian dollars)**

Marathon assessed the applicability of this standard to its accounting for its investment in Golden Chest LLC and concluded that no change was required with respect to IFRS 11.

### IFRS 13 - Fair Value Measurement

IFRS 13, *Fair Value Measurement,* provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

### IAS 1 Amendment – Presentation of Items of Other Comprehensive Income

Marathon has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. Marathon has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

## 5) MINERAL EXPLORATION AND EVALUATION ASSETS

| | **Valentine Lake Gold Project, Newfoundland** | **Golden Chest Project, Idaho USA** | **Bonanza Mine Project, Oregon USA** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| **Balance – December 31, 2011** | **10,092,058** | **4,068,000** | **616,444** | **14,776,502** |
| Property acquisition costs | | - | - | 16,771,320 |
| Deferred exploration costs | 6,236,841 | 834,436 | 10,632 | 7,081,909 |
| Currency translation adjustment | - | (104,531) | (13,467) | (117,998) |
| **Balance – December 31, 2012** | **33,100,219** | **4,797,905** | **613,609** | **38,511,733** |
| Deferred exploration costs | 1,734,717 | 90,374 | - | 1,825,091 |
| Currency translation adjustment | - | 100,198 | 13,013 | 113,211 |
| **Balance – March 31, 2013** | **34,834,936** | **4,988,477** | **626,622** | **40,450,035** |

## a) Valentine Lake gold property, Newfoundland

In December 2009, Marathon PGM Corporation ("MPGM"), the parent company of Marathon at the time, entered into an option agreement with Mountain Lake Resources Inc. ("MOA") to earn an initial 50% interest in the Valentine Lake property. In November 2010, the option agreement and all of MPGM's rights and interests thereunder were assigned to Marathon, and Marathon completed its earn-in on January 24, 2011.

On July 9, 2012, Marathon completed the purchase of the net assets of MOA pursuant to an arrangement agreement (the "Arrangement"), which resulted in Marathon increasing its ownership of the Valentine Lake project to 100%. A total of 20,309,586 common shares of Marathon were exchanged for the common shares of MOA on the basis of 0.40 common shares of Marathon for each MOA share.

The Valentine Lake property is subject to two overlapping royalties, which cover the Leprechaun Gold Deposit but not the entire Valentine Lake property.

The Reid Newfoundland Company retains a 7.5% net profits interest ("NPI"). In addition, Xstrata Canada Corporation retains a 2% net smelter return royalty ("NSR") on base metals and a 3% NSR on precious metals, which is reduced from 3% to 1.5% over the life of production until the earlier of the following:

- Cumulative production exceeding 250,000 ounces of gold, and
- An amount becoming payable under the terms of the Reid NPI.

Amounts payable in any period under the Xstrata NSR's on precious and base metals are reduced by amounts payable in the same periods under the Reid NPI.

## b) Golden Chest gold property, Idaho

At December 31, 2012 and March 31, 2013 Marathon held an undivided 50% interest in Golden Chest LLC ("GCLLC"), a company formed to hold a 100% interest in the Golden Chest gold property located near Kellogg, Idaho. Exploration activity at the Golden Chest property is carried out by New Jersey Mining Company ("NJMC"), the operator of the project and the holder of the remaining 50% interest in GCLLC.

**(Unaudited - Expressed in Canadian dollars)**

GCLLC's title to the claims which make up the project is secured against a non-interest bearing promissory note, which is repayable according to the following schedule:

| Date | Amounts Due US$ |
|---|---|
| June 15, 2013 | 125,000 |
| September 15, 2013 | 125,000 |
| December 15, 2013 | 500,000 |
| December 15, 2014 | 500,000 |
| December 15, 2015 | 500,000 |
| December 15, 2016 | 500,000 |
| December 15, 2017 | 250,000 |
| Total | 2,500,000 |

Marathon is not directly liable for the repayment of this note. In the event that GCLLC were unable to repay the note, title to certain of the Golden Chest claims would revert to the note holder.

## c) Bonanza Mine gold property, Oregon

On December 16, 2011, Marathon purchased a 100% interest in the Bonanza Mine gold property, a past producing gold mine located in the Green Horn gold district of Oregon, USA. The Bonanza property at the time of this transaction consisted of 13 patented lode claims and one patented parcel covering a total of approximately 120 hectares.

On closing, Marathon paid the vendor US$126,711 and 300,000 common shares with a fair value of $345,000. In connection with this acquisition, the vendor retained timber rights to the patented claims for a period of 20 years and a 2% net smelter returns royalty. Marathon has the right to purchase 1% of the royalty by paying the vendor US $1,000,000.

Concurrent with and subsequent to this property acquisition, Marathon staked additional unpatented claims around the Bonanza property. There are no royalties on the unpatented claims.

**(Unaudited - Expressed in Canadian dollars)**

## 6) INVESTMENTS

Marathon's investments at March 31, 2013 and December 31, 2012 are summarized below.

| | | Fair Value | |
|---|---|---|---|
| | | **March 31** | December 31 |
| **Description** | **Quantity** | **2013** | 2012 |
| | | $ | $ |
| **Mountain Lake Minerals Inc.:** | | | |
| • Common shares | 1,500,000 | **45,000** | 75,000 |
| • Warrants exercisable at a price of $0.30 per share and expiring on July 9, 2014 | 750,000 | **519** | 3,208 |
| **New Jersey Mining Company:** | | | |
| • Common shares | 2,000,000 | **114,808** | 198,980 |
| | | **160,327** | 277,188 |

***Mountain Lake Minerals Inc.:***

Under the terms of the Arrangement, Marathon subscribed for a total of 1,500,000 common share units issued by Mountain Lake Minerals Inc. ("MLM") at a price of $0.20 per unit for a total of $300,000, with each unit consisting of one common share and one-half of one warrant. Each whole warrant is exercisable at a price of $0.30 per share and expiring on July 9, 2014.

Marathon's investment in common shares of MLM was valued at the closing trading price of the shares on the Canadian National Stock Exchange on March 31, 2013. The fair value of the warrants was estimated using the Black Scholes option pricing model with the following inputs:

| | **March 31** | December 31 |
|---|---|---|
| | **2013** | 2012 |
| Risk free interest rate | **1.04%** | 1.14% |
| Dividend rate | **Nil** | Nil |
| Volatility | **100%** | 100% |
| Expected life | **15 months** | 18 months |
| Estimated fair value per warrant | **$0.001** | $0.004 |

***New Jersey Mining Company:***

Marathon's investment in common shares of NJMC was valued at the closing trading price of the shares on the OTC Bulletin Board on March 31, 2013, being US $0.057.

**(Unaudited - Expressed in Canadian dollars)**

## 7) FINANCIAL INSTRUMENTS

**Measurement categories**

Marathon's financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories at March 31, 2013 and December 31, 2012.

| | **March 31 2013** | December 31 2012 |
|---|---|---|
| | **$** | $ |
| **Fair value through profit and loss** | | |
| Investment in warrant derivatives | | |
| Expiring in 12 months or less | **519** | 3,208 |
| | **519** | 3,208 |
| **Loans and receivables** | | |
| Cash | **2,977,057** | 5,187,475 |
| Trade receivables | **17,643** | 18,423 |
| Loan receivable from New Jersey Mining | **-** | 62,427 |
| | **2,994,700** | 5,268,325 |
| **Available for sale** | | |
| Investment in equity securities | **159,808** | 273,980 |
| | **159,808** | 273,980 |
| **Other financial liabilities** | | |
| Trade payables due within 12 months | **(292,416)** | (505,132) |
| | **(292,416)** | (505,132) |

The carrying values of Marathon's cash, trade receivables, loans, and trade payables approximate fair value. The methods used to estimate the fair value of Marathon's investments in warrants and equity securities are detailed in note 6 to the financial statements.

**Fair value hierarchy**

The following table classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

| | **March 31 2013** | December 31 2012 |
|---|---|---|
| | **$** | $ |
| **Level 1** | | |
| Investment in equity securities | **159,808** | 273,980 |
| **Level 2** | | |
| Investment in warrants | **519** | 3,208 |

## 8) CAPITAL MANAGEMENT

Marathon is not subject to externally imposed capital requirements.

Marathon manages its capital structure and makes adjustments to it based on the funds available to support the acquisition, exploration and development of our mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of management to sustain the future development of the business.

Marathon's properties are in the exploration and evaluation stages, and as such the Company depends on external financing to fund its activities. In order to carry out its exploration and development activities and to pay for administrative costs, Marathon spends existing working capital and raises additional amounts as needed. Management continues to assess new properties and seeks to acquire interests in additional properties if there is sufficient geologic or economic potential and if Marathon has adequate financial resources to do so.

## 9) SHARE CAPITAL

**a) Common shares issued and outstanding**

**Authorized:**
Unlimited common shares without par value

Unlimited preference shares, issuable in series

**(Unaudited - Expressed in Canadian dollars)**

**b) Issued and outstanding:**

| | Number of shares | Amount |
|---|---|---|
| | | $ |
| **Balance – January 12, 2012** | **29,871,928** | **20,255,563** |
| Issued pursuant to the acquisition of the net assets of Mountain Lake Resources Inc. (i) | 20,309,586 | 16,247,669 |
| Issued in payment of professional advisory services (ii) | 410,397 | 300,000 |
| Issued for cash pursuant to private placement of flow through common shares (iii) | 3,873,000 | 2,362,530 |
| Issued for cash pursuant to private placement of non-flow through units, net of $476,343 allocated to Warrants (iii) | 5,474,500 | 2,534,632 |
| Share issue costs | - | (649,056) |
| **Balance – December 31, 2012 and March 31, 2013** | **59,939,411** | **41,051,338** |

i. On July 9, 2012, Marathon issued 20,309,586 common shares with a value of $0.80 per share to acquire the outstanding common shares of MOA.

ii. On September 24, 2012, Marathon issued 410,397 common shares with a deemed value of $0.731 per share as payment for professional advisory services in connection with the acquisition of the net assets of MOA.

iii. On December 12, 2012, Marathon closed a private placement of 3,873,000 flow-through common shares at a price of $0.63 per share and 5,474,500 common share units at a price of $0.55 per unit, for total gross proceeds of $5,450,965.

The gross proceeds of the offering of flow-through shares were allocated between Share capital and Flow-through share tax liability using the residual method, which resulted in $77,460 of gross proceeds being allocated to the liability portion of this financing.

Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant exercisable at a price of $0.75 per share and expiring on December 12, 2014. The gross proceeds of the offering of units were allocated between Share capital and Warrants on the basis of relative fair value, which resulted in $476,343 in proceeds being allocated to Warrants.

Marathon incurred costs in connection with this offering of $658,412, of which $9,356 was attributed to the flow-through tax liability on a pro rata basis and charged to operations.

**(Unaudited - Expressed in Canadian dollars)**

## 10) WARRANTS

The movements in the number and estimated fair value of outstanding warrants are as follows:

| | Number | Value |
|---|---|---|
| | | $ |
| **Balance – January 1, 2012** | **2,140,995** | **1,256,644** |
| Warrant obligations assumed pursuant to the acquisition of the net assets of MOA [(a)] | 2,571,555 | 112,827 |
| Issued pursuant to private placement of units [(b)] | 2,737,250 | 476,343 |
| Broker warrants [(b)] | 560,851 | 153,587 |
| Expired | (1,261,900) | - |
| **Balance – December 31, 2012** | **6,748,751** | **1,999,401** |
| Expired | (176,995) | (148,322) |
| **Balance – March 31, 2013** | **6,571,756** | **1,851,079** |

a) On July 9, 2012, Marathon assumed obligations with respect to the potential issuance of 2,571,555 Marathon shares upon the exercise of warrants issued by MOA and outstanding at closing, as set out below.

| Number of Marathon shares issuable | Exercise price | Estimated fair value per warrant | Expiry date |
|---|---|---|---|
| | $ | $ | |
| 861,900 | 1.59 | - | July 12, 2012 |
| 200,000 | 1.59 | - | August 5, 2012 |
| 200,000 | 2.55 | - | October 8, 2012 |
| 689,655 | 1.81 | 0.07 | June 22, 2013 |
| 620,000 | 1.70 | 0.10 | September 13, 2013 |

The fair value of these obligations was estimated at July 9, 2012 using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 0.92%;
- expected dividend yield of nil;
- expected volatility of 80%; and
- expected term of 0.57 years,

which yielded an estimated weighted average fair value of $0.04 per warrant.

b) Pursuant to a private placement which closed on December 12, 2012, Marathon issued 2,737,250 share purchase warrants exercisable at a price of $0.75 per share and expiring on December 12, 2014 and 560,851 broker compensation warrants exercisable at a price of $0.58 per share, with both warrants expiring on December 12, 2014. The fair value of these warrants was estimated using the Black-Scholes option pricing model with the following assumptions:

**(Unaudited - Expressed in Canadian dollars)**

- risk free interest rate of 1.07%;
- expected dividend yield of nil;
- expected volatility of 80%; and
- expected term of 2 years,

which yielded an estimated fair value of $0.23 per share purchase warrant and $0.27 per broker compensation warrant.

The warrants outstanding at March 31, 2013 are set out below.

| Exercise price | Number of warrants | Expiry date |
|---|---|---|
| $1.81 | 689,655 | June 22, 2013 |
| $1.70 | 620,000 | September 13, 2013 |
| $1.80 | 1,964,000 | June 2, 2014 |
| $0.75 | 2,737,250 | December 12, 2014 |
| $0.58 | 560,851 | December 12, 2014 |
| $1.25 | 6,571,756 | |

## 11) STOCK BASED COMPENSATION

Marathon has a stock option plan (the "Plan") which was adopted on November 30, 2010, under which Marathon may grant options to directors, officers, and consultants. The number of shares reserved for issue under the Plan may not exceed 10% of the number of issued and outstanding common shares at any time.

The purpose of the Plan is to attract, retain and motivate directors, officers, and external service providers by providing them with the opportunity to acquire a proprietary interest in Marathon and benefit from its growth. The options granted under the Plan are non-assignable, have a term of up to 5 years and vest upon grant.

| | Three months ended March 31, 2013 | | Three months ended March 31, 2012 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price per share | Number | Weighted average exercise price per share |
| | | $ | | $ |
| Balance - beginning of period | 4,276,000 | 1.14 | 2,689,000 | 1.47 |
| Granted in the period | 1,244,000 | 0.52 | - | - |
| Expired | (90,000) | 1.29 | (50,000) | 1.58 |
| **Balance – end of period** | **5,430,000** | **1.00** | 2,639,000 | 1.47 |

**(Unaudited - Expressed in Canadian dollars)**

Options to purchase common shares outstanding at March 31, 2013 carry exercise prices and remaining terms to maturity as follows:

| Exercise price | Options Outstanding and exercisable | Contract Life (years) |
|---|---|---|
| $ | | |
| 1.61 | 1,655,000 | 2.72 |
| 1.15 | 140,000 | 3.23 |
| 1.28 | 71,000 | 3.42 |
| 1.18 | 657,000 | 3.73 |
| 0.65 | 1,663,000 | 4.34 |
| 0.52 | 1,244,000 | 4.80 |
| **1.00** | **5,430,000** | **2.74** |

The fair value of the options granted by Marathon in the three month periods ended March 31, 2013 and 2012 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | **2013** | 2012 |
|---|---|---|
| Risk free interest rate | **1.11%** | - |
| Dividend rate | **Nil** | - |
| Volatility | **80%** | - |
| Expected life | **1 year** | - |
| Weighted average fair value per option granted in the period | **$0.16** | - |

The Company recognized total stock based compensation costs of $203,546 in the period ended March 31, 2013 (2012 - $Nil), of which $152,823 was charged to operations and $50,723 was capitalized as a component of Marathon's exploration and evaluation assets.

## 12) EXPLORATION EXPENSES

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Baie Verte Property, Newfoundland | **1,197** | 1,254 |
| Finger Pond Property, Newfoundland | **40** | 818 |
| Bonanza Property, Oregon | **40** | - |
| | **1,277** | 2,072 |

**(Unaudited - Expressed in Canadian dollars)**

## 13) GENERAL AND ADMINISTRATIVE EXPENSES

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Wages, salaries and benefits (note 14) | **186,778** | 190,873 |
| Professional fees | **33,878** | 57,339 |
| Investor relations | **36,585** | 42,639 |
| Depreciation | **15,443** | 13,553 |
| Other expenses, net of operator fees of $Nil (2012 - $79,975) | **120,708** | 56,312 |
| Stock based compensation charged to operations (note 11) | **152,823** | - |
| | **546,215** | 360,716 |

## 14) WAGES, SALARIES AND BENEFITS

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Fees, salaries and wages paid to employees, key management and directors (note 16) | **434,500** | 503,694 |
| Social security benefits | **39,928** | 54,598 |
| | **474,428** | 558,292 |
| Charged to general and administrative expenses | **186,778** | 190,873 |
| Charged to exploration expenses | **80** | 781 |
| Charged to GCLLC | **-** | 3,608 |
| Capitalized as a component of mineral exploration and evaluation assets | **287,570** | 363,030 |
| | **474,428** | 558,292 |

## 15) COMMITMENTS

### a) Operating leases

Marathon has the following commitments under operating leases.

| Year ending March 31 | $ |
|---|---|
| 2014 | 143,062 |
| 2015 | 143,367 |
| 2016 | 142,470 |
| 2017 | 23,745 |
| Thereafter | - |
| | **452,644** |

**(Unaudited - Expressed in Canadian dollars)**

### b) Indemnities

In connection with the acquisition of the net assets of MOA, Marathon indemnified past officers and directors of MOA against liability arising from actions prior to the acquisition.

At December 31, 2012 and March 31, 2013 two former directors of MOA were defendants in a securities action brought against them by the Nova Scotia Securities Commission ("NSSC"). At March 31, 2013, the costs of defending this action, both prior and subsequent to Marathon's acquisition, amounted to approximately $81,000 and had been borne by MOA's liability insurer on the basis of a waiver of its rights. If the directors were found liable upon the exhaustion of due process, Marathon could be liable to repay the legal costs incurred by the insurer, as well as civil penalties imposed by the NSSC.

On May 7, 2013 the NSSC dismissed the allegations against the two former directors.

## 16) RELATED PARTY TRANSACTIONS

### a) Key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include Marathon's executive officers, vice-presidents and members of its Board of Directors.

Marathon incurred the following compensation costs related to key management and directors in the normal course of business.

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Salaries and management fees paid to key management | **143,788** | 146,250 |
| Fees paid to directors | **38,375** | 35,000 |
| | **182,163** | 181,250 |