MARATHON GOLD

# MARATHON GOLD CORPORATION

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE THREE MONTHS ENDED

# MARCH 31, 2017 AND 2016

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

| | March 31 2017 | December 31 2016 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| **Current assets** | | |
| Cash | **5,169,173** | 8,458,077 |
| Amounts receivable | **1,300,610** | 304,182 |
| Prepaids and deposits | **44,144** | 44,144 |
| | **6,513,927** | 8,806,403 |
| **Non-current assets** | | |
| Mineral exploration and evaluation assets (note 5) | **51,871,648** | 48,795,366 |
| Property, plant and equipment | **46,599** | 53,840 |
| | **51,918,247** | 48,849,206 |
| **Total assets** | **58,432,174** | 57,655,609 |
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Trade payables | **792,553** | 264,407 |
| Flow-through share tax liability (notes 7(b)(i) and (ii) | **922,198** | 2,096,487 |
| | **1,714,751** | 2,360,894 |
| Equity attributable to owners (notes 7, 8, and 9) | **56,717,423** | 55,294,715 |
| **Total liabilities and shareholders' equity** | **58,432,174** | 57,655,609 |

Going concern (note 1)
Commitments (note 14)

On behalf of the Board,

"George D. Faught"
George D. Faught
Director

"Phillip C. Walford"
Phillip C. Walford
Director

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

**Marathon Gold Corporation**
**Consolidated Statements of Operations**
**For the three months ended March 31, 2017 and 2016**
**(Unaudited - Expressed in Canadian dollars)**

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| **Expenses:** | | |
| Exploration expenses (note 11) | **81,479** | - |
| General and administrative expenses (note 12) | **354,257** | 241,542 |
| Interest income | **(12,380)** | (1,544) |
| Foreign exchange loss | **1,938** | 23,450 |
| Loss before tax | **425,294** | 263,448 |
| Income tax recovery | **(1,174,289)** | (415,151) |
| Income for the period attributable to Marathon shareholders | **(748,995)** | (151,703) |
| **Income per share:** | | |
| Basic | **(0.006)** | (0.002) |
| Diluted | **(0.006)** | (0.002) |
| **Weighted average number of common shares outstanding** | | |
| Basic (note 10) | **118,486,842** | 93,293,502 |
| Diluted (note 10) | **128,380,847** | 93,293,502 |

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

**Marathon Gold Corporation**
**Consolidated Statements of Comprehensive Income**
**For the three months ended March 31, 2017 and 2016**
**(Unaudited - Expressed in Canadian dollars)**

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| **Other comprehensive loss (income):** | | |
| Income for the period | **(748,995)** | (151,703) |
| **Items that may be reclassified subsequently to net loss (income):** | | |
| Currency translation adjustment | **8,396** | 61,253 |
| | | - |
| | | - |
| **Comprehensive income for the period** | **(740,599)** | (90,450) |

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

**Marathon Gold Corporation**
**Consolidated Statements of Cash Flows**
**For the three months ended March 31, 2017 and 2016**
**(Unaudited - Expressed in Canadian dollars)**

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **Cash flows used in operating activities:** | | |
| Income for the period | **748,995** | 151,703 |
| Add (deduct) items not involving cash | | |
| Income taxes | **(1,174,289)** | (415,151) |
| Depreciation | **7,241** | 4,985 |
| | **(418,053)** | (258,463) |
| Changes in non-cash working capital items | | |
| Decrease (Increase) in amounts receivable | **(382,240)** | 5,287 |
| Decrease in prepaid expenses | **-** | (194) |
| Increase (Decrease) in accounts payable | **17,345** | (1,114) |
| | **(782,948)** | (254,484) |
| **Cash flows from financing activities:** | | |
| Common shares issued for cash upon exercise of options and warrants | **621,533** | - |
| | **621,533** | - |
| **Cash flows used in investing activities:** | | |
| Royalties received with respect to Golden Chest | **9,274** | - |
| Expenditures on mineral exploration and evaluation assets | **(3,136,763)** | (573,626) |
| | **(3,127,489)** | (573,626) |
| **(Decrease) Increase in cash** | **(3,288,904)** | (828,110) |
| Cash– beginning of period | **8,458,077** | 2,600,269 |
| **Cash– end of period** | **5,169,173** | 1,772,159 |

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, 2017 and 2016**
**(Unaudited - Expressed in Canadian dollars)**

| | Share Capital (note 7) | Warrants (note 8) | Contributed Surplus (note 9) | Deficit | Accumulated Other Comprehensive Income | Equity Attributable to Owners of Marathon Gold Corporation |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Balance – January 1, 2016** | **50,092,448** | **1,092,235** | **10,229,589** | **(15,292,724)** | **217,657** | **46,339,205** |
| Income (Loss) for the period | - | - | - | 151,703 | - | 151,703 |
| Warrants expired during the period | - | (151,438) | 151,438 | - | - | - |
| Currency translation adjustment | - | - | - | - | (61,253) | (61,253) |
| **Balance – March 31, 2016** | **50,092,448** | **940,797** | **10,381,027** | **(15,141,021)** | **156,404** | **46,429,655** |
| **Balance – January 1, 2017** | **59,702,739** | **810,509** | **11,432,216** | **(16,838,696)** | **187,947** | **55,294,715** |
| Income for the period | - | - | - | 748,995 | - | 748,995 |
| Stock based compensation | - | - | 60,576 | - | | 60,576 |
| Common shares issued upon exercise of stock options | 484,386 | - | (95,233) | - | - | 389,153 |
| Common shares issued upon exercise of warrants | 336,218 | (103,838) | - | - | - | 232,380 |
| Currency translation adjustment | - | - | - | - | (8,396) | (8,396) |
| **Balance – March 31, 2017** | **60,523,343** | **706,671** | **11,397,559** | **(16,089,701)** | **179,551** | **56,717,423** |

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 $16.1 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, 2017 through the use of existing cash raised from a prospectus offering of flow through shares which closed in October 2016 and generated gross proceeds of $8.0 million and additional proceeds amounting to $0.6 million obtained from the exercise of options and warrants during the period. In addition, Marathon announced on May 3, 2017 that it had entered into a bought deal prospectus financing of common shares and flow through shares which is expected to close in May 2017 and to generate gross proceeds of $16.2 million.

## 2) GENERAL INFORMATION

Marathon's primary business focus is the acquisition, exploration and development of precious and base metal prospects.

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 is domiciled in Canada and its registered address is 10 King Street East, Suite 501, Toronto, Ontario M5C 1C3.

Marathon's operations and level of spending on its mining properties are impacted by seasonality, which at times limits the ability of Marathon 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, 2016, 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 12, 2017.

## 4) SIGNIFICANT 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.

### Future accounting pronouncements

The Company has not yet adopted the following new accounting pronouncements which are effective for fiscal periods of the Company beginning on or after January 1, 2017:

#### International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")

In July 2014, the IASB published the final version of IFRS 9 *Financial Instruments* ("IFRS 9"), which brings together the classification, measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 replaces the multiple classifications for financial assets in IAS 39 with a single principle based approach for determining the classification of financial assets based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The final version of IFRS 9 is effective for periods beginning on or after January 1, 2018 and may be adopted early.

Management is in the process of evaluating the impact of adopting this standard.

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

### International Financial Reporting Standard 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16 which replaces existing standards and interpretations under IAS 17, "*Leases*". IFRS 16 requires all leases, including financing and operating leases, to be reported on the balance sheet with the intent of providing greater transparency on a company's lease assets and liabilities. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

Management is in the process of evaluating the impact of adopting this standard.

## 5) MINERAL EXPLORATION AND EVALUATION ASSETS

| | Valentine Lake Gold Project, Newfoundland | Golden Chest Royalty Interest | Bonanza Mine Project, Oregon USA | Total |
|---|---|---|---|---|
| | $ | | $ | $ |
| **Balance – January 1, 2016** | **43,107,802** | **138,400** | **853,588** | **44,099,790** |
| Property acquisition costs | 6,450 | - | - | 6,450 |
| Deferred exploration costs | 4,718,728 | - | - | 4,718,728 |
| Currency translation adjustment | - | (4,130) | (25,472) | (29,602) |
| **Balance – December 31, 2016** | **47,832,980** | **134,270** | **828,116** | **48,795,366** |
| Deferred exploration costs | 3,093,873 | - | - | 3,093,873 |
| Royalty payments received in the period | - | (9,274) | - | (9,274) |
| Currency translation adjustment | - | (1,101) | (7,216) | (8,317) |
| **Balance – March 31, 2017** | **50,926,853** | **123,895** | **820,900** | **51,871,648** |

### a) Valentine Lake gold property, Newfoundland

The Valentine Lake property is subject to two overlapping agreements, which are described below.

- The Reid Newfoundland Company retains a 7.5% net profits interest ("NPI") over two land packages which cover the current resource pits associated with the Leprechaun and Victory Deposits, but not the Sprite and Marathon Deposits.
- In addition, Glencore Canada Corporation retains a 2% net smelter return royalty ("NSR") on base metals and a 3% NSR on precious metals, both of which cover a land package which includes all of the resources currently delineated on the Valentine Lake property. The NSR on gold production 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, or
    - An amount becoming payable under the terms of the Reid NPI.

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

### b) 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. 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% NSR 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.

## 6) 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.

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

## 7) SHARE CAPITAL

**a) Authorized:**

Unlimited common shares without par value
Unlimited preference shares, issuable in series

**b) Issued and outstanding:**

| | Number | Amount |
|---|---|---|
| | | $ |
| **Balance – January 1, 2016** | **93,293,502** | **50,092,448** |
| Units issued pursuant to private placement ([i]) | 10,504,500 | 1,965,296 |
| Flow through shares issued pursuant to private placement [i] | 2,163,500 | 530,058 |
| Flow through shares issued pursuant to prospectus offering [ii] | 8,880,000 | 5,949,600 |
| Shares issued pursuant to the exercise of stock options | 152,000 | 53,276 |
| Shares issued pursuant to the exercise of warrants | 3,015,450 | 1,887,538 |
| Share issue costs | - | (775,477) |
| **Balance – December 31, 2016** | **118,008,952** | **59,702,739** |
| Shares issued pursuant to the exercise of stock options | 1,153,900 | 484,386 |
| Shares issued pursuant to the exercise of warrants | 544,500 | 336,218 |
| **Balance – March 31, 2017** | **119,707,352** | **60,523,343** |

i) On May 6, 2016, Marathon closed a bought deal private placement of 10,504,500 units at a price of $0.23 per unit and 2,163,500 flow through shares at a price of $0.27 per share for total gross proceeds of $3,000,180.

Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant exercisable at a price of $0.32 per share and expiring two years after issue. The gross proceeds from the offering of units were allocated between Share capital and Warrants on the basis of relative fair value, which resulted in $625,212 in proceeds being allocated to Warrants.

The gross proceeds from the offering of flow-through shares were allocated between Share capital and Flow-through share tax liability using the residual method, which resulted in $54,087 of gross proceeds being allocated to the liability portion of this financing.

Marathon incurred costs in connection with this offering of $374,307, of which $6,741 was attributed to the flow through share tax liability and charged to operations.

ii) On October 27, 2016, Marathon closed a prospectus financing of 8,880,000 flow through common shares at a price of $0.90 per flow through share, for gross proceeds of $7,992,000.

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

The gross proceeds from this financing were allocated between Share capital and Flow through share tax liability using the residual method, which resulted in $2,042,400 of gross proceeds being allocated to the liability portion of this financing.

Marathon incurred costs in connection with this financing amounting to $766,044, of which $195,766 was attributed to the Flow through share tax liability and charged to operations.

## 8) WARRANTS

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

| | Number | Value |
|---|---|---|
| | | $ |
| **Balance – January 1, 2016** | **8,476,445** | **1,092,235** |
| Issued pursuant to private placement [b] | 5,252,250 | 450,739 |
| Broker compensation warrants issued [b] | 697,950 | 89,331 |
| Exercised during the year | (3,015,450) | (421,385) |
| Expired | (2,346,445) | (400,411) |
| **Balance – December 31, 2016** | **9,064,750** | **810,509** |
| Exercised during the period | (1,153,900) | (103,838) |
| **Balance – March 31, 2017** | **7,910,850** | **706,671** |

The warrants outstanding at March 31, 2017 are set out below.

| Exercise price | Number of warrants | Expiry date |
|---|---|---|
| $0.34 | 2,347,500 | June 29, 2017 |
| $0.34 | 1,000,000 | July 7, 2017 |
| $0.32 | 4,563,350 | May 6, 2018 |
| $0.33 | **7,910,850** | |

## 9) STOCK BASED COMPENSATION

Marathon has a stock option plan (the “Plan”) which was reconfirmed by the Company’s shareholders at its annual meeting on June 24, 2014, under which Marathon may grant options to directors, officers, employees 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, employees 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 to date under the Plan are non-assignable, have a term of up to 5 years, and vest upon grant.

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

| | **Three months ended March 31, 2017** | | Three months ended March 31, 2016 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price per share** | Number | Weighted average exercise price per share |
| | | **$** | | $ |
| Balance - beginning of period | **10,123,500** | **0.45** | 8,510,500 | 0.43 |
| Granted | 100,000 | 1.02 | - | - |
| Exercised | (544,500) | 0.44 | - | - |
| **Balance – end of period** | **9,679,000** | **0.45** | 8,510,500 | 0.43 |

Options to purchase common shares outstanding at March 31, 2017 carry exercise prices and remaining terms to maturity as follows:

| **Exercise price** | **Expiry date** | **Options Outstanding and exercisable** | **Contract Life (years)** |
|---|---|---|---|
| $ | | | |
| 0.65 | August 2, 2017 | 1,275,000 | 0.34 |
| 0.52 | January 17, 2018 | 1,084,000 | 0.80 |
| 0.26 | September 4, 2018 | 110,000 | 1.43 |
| 0.32 | February 24, 2019 | 750,000 | 1.90 |
| 0.39 | July 7, 2019 | 723,000 | 2.27 |
| 0.25 | August 10, 2020 | 1,694,000 | 3.36 |
| 0.20 | December 18, 2020 | 1,519,000 | 3.72 |
| 0.68 | December 1, 2021 | 2,424,000 | 4.67 |
| 1.02 | March 28, 2022 | 100,000 | 4.99 |
| **0.46** | | **9,679,000** | **2.86** |

The fair value of options granted by Marathon in the period ended March 31, 2017 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | |
|---|---|
| Risk free interest rate | 0.74% |
| Dividend rate | Nil |
| Volatility | 95% |
| Expected life | 3 years |
| | |
| Fair value per option granted in the period | $0.60 |

Marathon recognized total stock based compensation costs of $60,576 in the period ended March 31, 2017 (2016 - $Nil), which was capitalized as a component of Marathon’s mineral exploration and evaluation assets.

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

## 10) BASIC AND DILUTED SHARES OUTSTANDING

Basic and diluted weighted average shares outstanding for the periods ended March 31, 2017 are calculated as shown in the table below.

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Weighted average basic number of common shares outstanding | **118,486,842** | 93,293,502 |
| In the money shares – stock options | **4,836,573** | - |
| In the money shares – warrants | **5,057,432** | |
| **Weighted average diluted number of common shares outstanding** | **128,380,847** | 93,293,502 |

## 11) EXPLORATION EXPENSES

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| **Baie Verte property, Newfoundland** | | |
| Drilling and associated labour costs | **81,479** | - |
| | **81,479** | - |

## 12) GENERAL AND ADMINISTRATIVE EXPENSES

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Wages, salaries and benefits (note 13) | **168,036** | 114,218 |
| Listing fees and related expenses | **44,739** | 30,043 |
| Investor relations | **41,195** | 27,496 |
| Professional fees | **32,545** | 5,232 |
| Occupancy costs | **16,418** | 36,603 |
| Part XII.6 tax | **6,791** | 154 |
| Depreciation | **7,241** | 4,985 |
| Other expenses | **37,292** | 22,811 |
| | **354,257** | 241,542 |

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

# 13) WAGES, SALARIES AND BENEFITS

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Fees, salaries and wages paid to employees, key management and directors (note 15) | **547,410** | 246,005 |
| Social security benefits | **54,330** | 26,552 |
| | **601,740** | 272,557 |
| Charged to general and administrative expenses | **168,036** | 114,218 |
| Charged to exploration expenses | **4,053** | - |
| Capitalized as a component of exploration and evaluation assets | **429,651** | 158,339 |
| | **601,740** | 272,557 |

# 14) COMMITMENTS

## Operating leases

Marathon has the following commitments under operating leases.

| Year ending December 31 | $ |
|---|---|
| 2017 | 50,787 |
| 2018 | 67,986 |
| 2019 | 44,421 |
| **Thereafter** | **-** |
| | **163,194** |

# 15) RELATED PARTY TRANSACTIONS

## 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. At March 31, 2017 and December 31, 2016, no amounts were owed by Marathon in respect of the transactions described below.

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Salaries paid to officers | **155,000** | 115,781 |
| Fees paid to directors | **37,500** | 20,719 |
| | **192,500** | 136,500 |

## 16) SUBSEQUENT EVENTS

### a) Financing

On May 3, 2016 Marathon announced that it had entered into a bought deal financing with RBC Capital Markets (“RBC”) pursuant to which a syndicate of underwriters led by RBC will purchase in a bought deal a total of 8,000,000 flow through shares at a price of $1.25 per flow thorough share and 4,850,000 common shares at a price of $1.03 per common share, for aggregate gross proceeds of $14,995,000. On May 4, 2017, the terms of this financing were amended to increase the number of common shares proposed to be issued from 4,850,000 shares to 6,000,000 shares and to increase the expected gross proceeds from this financing to $16,180,000. Marathon granted the underwriters an over-allotment option to purchase up to an additional 2,100,000 shares, in a combination of flow through and common shares, for a period of up to 30 days from the closing date.

This financing is expected to close in May 2017.

### b) Exercises of options and warrants

On various dates from April 1, 2017 to the date of these financial statements Marathon issued a total of 1,105,000 common shares pursuant to the exercise of warrants, for aggregate proceeds of $374,900.