MARATHON GOLD CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2011 AND 2010

March 29, 2012

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Marathon Gold Corporation were prepared by management in accordance with International Financial Reporting Standards. Management is responsible for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 4 to the consolidated financial statements.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

PricewaterhouseCoopers LLP, the Company's independent auditors, perform an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the consolidated financial statements. As well, they assess the accounting principles used and significant estimates made by management, and they evaluate the overall financial statement presentation.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The members of the Audit Committee are members of the Board of Directors and are not officers of the Company. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee also reviews the Annual Report to ensure that the financial information reported therein is consistent with the information presented in the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

"Phillip C. Walford"
Phillip C. Walford
President and Chief Executive Officer

"James D. Kirke"
James D. Kirke
Vice-President and Chief Financial Officer

March 29, 2012

Independent Auditor's Report

To the Shareholders of
Marathon Gold Corporation

We have audited the accompanying consolidated financial statements of Marathon Gold Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011 and December 31, 2010 and January 1, 2010 and the consolidated statements of operations and comprehensive loss, cash flow and changes in equity for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Marathon Gold Corporation as at December 31, 2011 and December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Marathon Gold Corporation's ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

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

	December 31 2011 $	December 31 2010 $	January 1 2010 $
Assets			
Current assets			
Cash	**9,545,246**	7,582,774	-
Amounts receivable	**257,087**	517,416	100
Prepaids and deposits	**361,467**	111,490	-
	10,163,800	8,211,680	100
Non-current assets			
Investments (note 9)	**515,224**	695,150	-
Property, plant and equipment (note 7)	**97,296**	72,782	79,533
Mineral exploration and evaluation assets (note 8)	**14,776,502**	4,642,735	-
Total assets	**25,552,822**	13,622,347	79,633
Liabilities			
Current liabilities			
Trade payables	**591,479**	330,992	-
	591,479	330,992	-
Non-current liabilities			
Other liabilities (notes 12(b)(iii) and (iv))	**1,334,075**	-	-
Total liabilities	**1,925,554**	330,992	-
Equity	**23,627,268**	13,291,355	79,633
Total liabilities and shareholders' equity	**25,552,822**	13,622,347	79,633

Going concern (note 1)

These financial statements have been approved by the board of directors and authorized for issue on March 29, 2011 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 and Comprehensive Loss
For the years ended December 31, 2011 and 2010
(Expressed in Canadian dollars)

	2011	**2010**
	$	$
Expenses:		
Exploration expenses (note 15)	**237,405**	21,105
General and administrative expenses (note 16)	**1,898,261**	2,234,545
Other expense	**143,916**	-
Interest income	**(29,198)**	(26,451)
Unrealized loss (gain) on warrant derivative investments	**189,474**	(154,218)
Foreign exchange loss	**4,381**	271
Loss before taxes	**2,444,239**	2,075,252
Income taxes (note 18)	**-**	-
Loss for the year	**2,444,239**	2,075,252
Other comprehensive income:		
Currency translation adjustment	**(54,935)**	18,500
Unrealized gain in fair value of investments classified as available for sale	**(9,548)**	(135,972)
Comprehensive loss for the year	**2,379,756**	1,957,780
Basic and diluted loss per share	**0.11**	1.32
Weighted average number of common shares outstanding	**23,060,928**	1,577,070

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

Marathon Gold Corporation
Consolidated Statements of Cash Flow
For the years ended December 31, 2011 and 2010
(Expressed in Canadian dollars)

	2011	2010
	$	$
Cash flows used in operating activities		
Loss for the period	**(2,444,239)**	(2,075,252)
Add (deduct) items not involving cash		
Operating costs allocated by Marathon PGM Corporation	**-**	931,868
Unrealized loss (gain) on warrant derivatives	**189,474**	(154,218)
Depreciation	**49,576**	50,641
Stock-based compensation charged to operations (note 14)	**346,576**	1,014,096
	(1,618,613)	(232,865)
Changes in non-cash working capital items		
Decrease (Increase) in amounts receivable	**260,329**	(51,696)
Increase in prepaid expenses	**(249,977)**	(52,793)
Increase in accounts payable	**84,619**	132,334
Increase in Other liabilities	**1,334,075**	-
	(429,567)	(205,020)
Cash flows from financing activities		
Proceeds from issuance of common shares (note 12)	**13,217,625**	9,366,800
Share issue costs	**(1,321,796)**	(45,745)
	11,895,829	9,321,055
Cash flows used in investing activities		
Purchase of capital assets	**(74,090)**	-
Expenditures on exploration and evaluation assets	**(9,529,700)**	(1,533,261)
Government assistance	**100,000**	-
	(9,503,790)	(1,533,261)
Increase in cash	**1,962,472**	7,582,774
Cash– beginning of year	**7,582,774**	-
Cash– end of year	**9,545,246**	7,582,774

Supplemental cash flow information		
Purchases of property, plant and equipment funded by Marathon PGM Corporation	**-**	43,890
Cash expenditures on mineral properties funded by Marathon PGM Corporation	**-**	3,539,310

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

Marathon Gold Corporation
Consolidated Statement of Changes in Equity
For the years ended December 31, 2011 and 2010
(Expressed in Canadian dollars)

	Share Capital (note 12)	**Contributed Surplus (note 14)**	**Warrants (note 13)**	**Deficit**	**Accumulated Other Comprehensive Income**	**Total Shareholders' Equity**
	$	**$**	**$**	**$**	**$**	**$**
Balance – January 1, 2010	100	750,788	-	(671,255)	-	**79,633**
Shares issued for cash pursuant to asset acquisition from Marathon PGM Corporation (note 6)	6,000,000	-	-	-	-	**6,000,000**
Shares issued for cash pursuant to private placement	3,366,700	-	-	-	-	**3,366,700**
Share issue costs	(125,793)	-	-	-	-	**(125,793)**
Deposits and additions to mining properties funded by Marathon PGM Corporation	-	3,768,374	-	-	-	**3,768,374**
Property plant and equipment acquisitions funded by Marathon PGM Corporation	-	43,890	-	-	-	**43,890**
Cash operating costs funded by Marathon PGM Corporation	-	931,868	-	-	-	**931,868**
Stock based compensation	-	1,184,463	-	-	-	**1,184,463**
Loss for the year	-	-	-	(2,075,252)	-	**(2,075,252)**
Unrealized gain on available-for-sale investment	-	-	-	-	135,972	**135,972**
Currency translation adjustment	-	-	-	-	(18,500)	**(18,500)**
Balance – December 31, 2010	**9,241,007**	**6,679,383**	**-**	**(2,746,507)**	**117,472**	**13,291,355**
Balance – January 1, 2011	**9,241,007**	**6,679,383**	**-**	**(2,746,507)**	**117,472**	**13,291,355**
Loss for the year	-	-	-	(2,444,239)	-	**(2,444,239)**
Stock based compensation	-	444,469	-	-	-	**444,469**
Unrealized gain on available-for-sale investment	-	-	-	-	9,548	**9,548**
Currency translation adjustment	-	-	-	-	54,935	**54,935**
Flow-through shares issued for cash pursuant to private placement, net of amounts transferred to liabilities	4,172,025	-	-	-	-	**4,172,025**
Common share units issued for cash pursuant to prospectus offering	4,390,878	-	1,108,322			**5,499,200**
Flow-through shares issued pursuant to prospectus offering, net of amounts transferred to liabilities	3,546,400	-	-	-	-	**3,546,400**
Shares issued pursuant to mining property acquisition	345,000					**345,000**
Broker compensation warrants	-	-	148,322	-	-	**148,322**
Share issue costs	(1,439,747)	-		-	-	**(1,439,747)**
Balance – December 31, 2011	**20,255,563**	**7,123,852**	**1,256,644**	**(5,190,746)**	**181,955**	**23,627,268**

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

1) GOING CONCERN

The consolidated financial statements of Marathon Gold Corporation (Marathon", the "Company", "we" or "us") has 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 $5.2 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 year ended December 31, 2011 through the use of existing cash and from two offerings of equity securities which generated gross cash proceeds of $14,551,700. In addition, management will continue 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 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 AND ADOPTION OF IFRS

Marathon prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are Marathon's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in note 21, Marathon has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented as if these policies had always been in effect. Note 20 discloses the impact of the transition to IFRS on Marathon's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in Marathon's consolidated financial statements for the year ended December 31, 2010.

These consolidated financial statements were approved by the Board of Directors for issue on March 29, 2012.

4) SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies we applied in the preparation of these consolidated interim financial statements are described below.

a) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets to fair value, including warrant derivatives and available-for-sale investments.

As described in note 6, on November 30, 2010 Marathon acquired certain mining property interests, property, plant and equipment, and cash from Marathon PGM Corporation ("MPGM"), its parent company at the time. As the shareholders of MPGM ultimately continued to hold their respective interests in the Transferred Assets, there was no resulting change of control. Consequently, the

acquisition was accounted for using continuity-of-interests accounting and no fair value adjustments were made for the assets acquired by Marathon.

These consolidated financial statements include certain allocations of costs of MPGM as further described in note 6 which are not directly attributable to Marathon. Accordingly, the financial information included herein may not necessarily be indicative of Marathon's financial position, operating results or cash flows if Marathon had been a stand-alone entity during the year ended December 31, 2010.

b) Principles of consolidation

Marathon's financial statements consolidate the accounts of Marathon and its wholly owned subsidiary, Marathon Gold USA Corporation ("Marathon USA"). All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries are those entities which Marathon controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Marathon controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Marathon and are de-consolidated from the date that control ceases.

Marathon has various interests in development and exploration projects which are held through option and joint agreements. These assets have been accounted for on an undivided interest basis.

c) Foreign currency translation

Items included in the financial statements of each consolidated entity in the Marathon group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Primary and secondary indicators are used to determine the functional currency (primary indicators have priority over secondary indicators). The primary indicator which applies to Marathon is the currency that mainly influences labour, material and other costs. Secondary indicators include the currency in which funds from financing activities are generated, and the autonomy of foreign subsidiaries. For Marathon, the Canadian dollar has been determined to be the functional currency, while for Marathon USA the functional currency is the US dollar. These consolidated financial statements are presented in Canadian dollars.

Monetary assets and liabilities denominated in currencies other than the functional currency of an entity are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets, liabilities, and expenses are translated at the exchange rate in effect at the date of the transaction. Exchange gains and losses arising from translation are included in the determination of losses for the period.

The results and financial position of entities with functional currencies different from the group presentation currency are translated into Canadian dollars as follows:

- Assets and liabilities for each balance sheet presented are translated at the exchange rate in effect at the balance sheet date.
- Income and expenses are translated at the exchange rate in effect at the date of the transaction or at an average rate for the period.
- All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

d) Cash

Cash includes cash on hand and deposits held with banks.

e) Mineral exploration and evaluation costs

Marathon capitalizes the following costs related to mineral exploration and evaluation:

- Land acquisition costs
- Exploration and development expenditures relating to properties which have existing mineral resources or reserves or are viewed by management as extensions of properties with existing mineral resources or reserves

Once the technical and economic viability of a project has been established by completion of a favorable feasibility study, the accumulated capitalized exploration costs are transferred to mineral properties and amortized over the estimated useful life of the related property on a unit-of-production basis against future production following commencement of commercial production, or written off if the properties are sold, allowed to lapse, or abandoned. Properties which do not have existing mineral resources are considered to be too early stage to justify the capitalization of costs, and consequently exploration and development expenditures relating to such properties are expensed as incurred.

Marathon assesses its mining property interests for impairment when facts and circumstances indicate that the carrying amount of a property may exceed its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is defined as the higher of the asset's fair value less costs to sell and value in use. Estimated future cash flows are calculated using estimated future commodity prices, mineral resources, operating and capital costs, using appropriate discount rates. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (each a 'cash–generating unit'), which for Marathon is individual projects.

f) Property, plant and equipment

Property, plant and equipment includes office equipment and vehicles, which are carried at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the assets' estimated useful lives, commencing the quarter they are available for use.

The major categories of property, plant and equipment are depreciated on a straight line basis as follows:

Office equipment	2-5 years
Vehicles	3-5 years

g) Government assistance

Marathon applies from time to time for financial assistance from the Government of Newfoundland and Labrador with respect to certain exploration and development costs.

Government assistance is recognized when there is reasonable assurance that Marathon will comply with the conditions attaching to such assistance and that the assistance will be received. Government assistance is recorded using the cost-reduction method, whereby the amounts received or receivable each period are applied to reduce the cost of the exploration expenses or deferred exploration costs.

h) Stock-based compensation

Marathon has a stock option plan which is described in note 14. The fair value of stock options awarded to employees, directors and non-employees is measured at the date the options are granted using the Black-Scholes option pricing model and charged to operations or mineral properties and deferred exploration costs as the options vest. Currently, Marathon grants options with immediate vesting and consequently does not consider forfeitures of options prior to their exercise in the determination of compensation expense for the year.

i) Financial instruments

Financial assets and financial liabilities are recognized when Marathon becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, Marathon classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term.

Marathon's financial assets at fair value through profit or loss consist of warrants held as investments. Financial instruments in this category are recognized initially and

subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations and comprehensive loss in the period in which they arise. Financial assets and financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Marathon's available-for-sale assets comprise investments in equity securities.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in other gains and losses.

iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise trade receivables and cash, and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost less a provision for impairment.

iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of Financial Assets

Marathon assesses at the end of each reporting period whether there is objective evidence that a financial asset has been impaired. In the case of equity instruments classified as available for sale, a

significant or prolonged decline in the fair value of the security below its original cost would suggest that the asset has been impaired. If the results of such periodic assessments suggest that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset recognized previously in profit or loss – is removed from equity and charged to the consolidated statement of loss. Impairment losses on equity instruments are not reversed through the consolidated statement of operations.

i) Income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date, plus any adjustment to taxes payable in respect of previous years. Deferred income taxes are recognized, using the liability method, on temporary differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized only to the extent that it is probable the assets can be recovered.

j) Flow-through common shares

The Company's Canadian exploration activities have been financed in part through the issuance of flow-through common shares whereby the tax benefits of the eligible exploration expenditures incurred under this arrangement are renounced to the subscribers. The proceeds from issuing flow-through shares are allocated between the offering of shares and the sale of tax benefits. The allocation is based on the difference ("premium") between the quoted price of the Company's existing shares and the amount the investor pays for the actual flow-through shares. A liability is recognized for the premium, and is extinguished when the tax effect of the temporary differences, resulting from the renunciation, is recorded – with the difference between the liability and the value of the tax assets renounced being recorded as a deferred tax expense. The tax effect of the renunciation is recorded at the time the Company makes the renunciation – which may differ from the effective date of renunciation. If the flow-through shares are not issued at a premium, a liability is not established, and on renunciation the full value of the tax assets renounced is recorded as a deferred tax expense.

Costs issued in connection with the sale of flow through shares which can be attributed to the sale of tax benefits are expensed as incurred.

k) Loss per share

Basic loss per common share is calculated based on the weighted average number of common shares issued and outstanding during the year. Basic and diluted losses per share are the same, as the effect of potential issuances of shares from exercises of stock options would be anti-dilutive.

l) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

m) Future accounting pronouncements

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments was issued by the IASB and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely. Requirements for financial liabilities are included in IFRS 9 and they largely carry forward existing requirements from IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income (loss). IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 10 Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements was issued by the IASB to replace IAS 27, Consolidated and Separate Financial Statement and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

IFRS 11 Joint Arrangements

IFRS 11, Joint Arrangements supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or

after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 Disclosures of Interests in Other Entities was issued by the IASB to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13, Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

5) CRITICAL ACCOUNTING ESTIMATES AND MEASUREMENT UNCERTAINTIES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and at the date of the financial statements and the reported amount of expenses and other income during the year. These estimates and assumptions are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience.

The following are the critical judgments that management has made in the course of applying Marathon's accounting policies and which have the most significant effect on the amounts recognized in these consolidated financial statements:

a) Mineral exploration and evaluation assets

Marathon capitalizes exploration and evaluation costs on mineral properties with an existing mineral resource and expenses exploration costs incurred with respect to properties without existing mineral resources.

The estimation of mineral resources and reserves is complex and requires significant subjective assumptions which are valid at the time of estimation. These assumptions may change significantly

over time when new information becomes available and may cause the mineral resources and reserves estimates to change. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may have a significant impact on the economic assessment of the mineral resources and reserves and may result in their restatement.

b) Stock based compensation

The compensation cost associated with stock options granted under the terms of Marathon's stock option plan is measured at the grant date by using the Black-Scholes option pricing model to determine fair value. The Black-Scholes model requires the use of subjective estimates, in particular for the estimated life of options and the expected rate of volatility in Marathon's share price over the life of the options, which can materially affect the fair value estimate.

The key assumptions used to derive the fair value of options awarded in 2010 and 2011 are detailed in note 14 to the consolidated financial statements.

c) Warrant derivatives

Warrant derivatives held as investments are measured at fair value using the Black-Scholes option pricing model. The fair value estimates derived through the use of this model are subject to the use of subjective assumptions similar to those described for stock based compensation.

The key assumptions used to estimate the fair value of this investment are detailed in note 9 to the consolidated financial statements.

6) ASSET TRANSFER FROM MARATHON PGM CORPORATION AND CONTINUITY OF INTERESTS

On September 7, 2010, MPGM, Marathon's then-parent company, and Stillwater Mining Company ("Stillwater") entered into an Arrangement Agreement (the "Arrangement"), which was subsequently amended on October 4, 2010. Under the terms of the Arrangement, MPGM proposed to:

a) transfer certain capital assets, the rights and title to MPGM's Valentine Lake, Baie Verte, Finger Pond, and Gold Reef properties, and up to $6 million in cash ("the Transferred Assets") to Marathon in exchange for common shares,
b) reorganize the share capital of MPGM into two classes of shares, Class A and Class B,
c) distribute the common shares of Marathon it acquired as a result of the asset transfers described above to redeem the Class A shares, and
d) list Marathon's common shares for trading on the Toronto Stock Exchange.

On November 30, 2010, the various transactions contemplated by the Arrangement were executed, and Marathon acquired the Transferred Assets by issuing a total of 17,816,428 common shares with a

deemed value of $9,853,564. The allocation of the deemed value of the common shares issued to MPGM was based on the historical carrying values of each asset in the underlying accounting records of MPGM and is summarized below:

	$
Cash	6,000,000
Security deposits	58,697
Deferred property acquisition and exploration costs with respect to the Valentine Lake property, Newfoundland	3,709,677
Property, plant and equipment	85,190
	9,853,564

As the shareholders of MPGM ultimately continued to hold their respective interests in the Transferred Assets, there was no change of control. Consequently, the transfer was accounted for using continuity-of-interests accounting and no fair value adjustments were made for the assets acquired by Marathon.

The derivation of Marathon's reported results of operations for the period ended December 31, 2010 in conformity with continuity of interest accounting is set out below.

	Costs incurred by MPGM						
	Period from January 1, 2010 to November 30 2010	**Costs directly attributable to MPGM**	**Shared costs**	**Marathon Gold share (vii)**	**Marathon Gold share of MPGM costs for period ended November 30 2010**	**Marathon Gold costs for the period from December 1 2010 to December 31 2010**	**Marathon Gold Total costs for the period from January 1 2010 to December 31 2010**
	$	$	$		$	$	$
Operating expenses							
Exploration expenses (i)	20,894	(619)	20,275	100%	20,275	830	**21,105**
General and administrative expenses	5,487,297	(3,239,547)	2,247,750		1,186,647	1,047,897	**2,234,544**
Total expenses	5,508,191	(3,240,166)	2,268,025		1,206,922	1,048,727	**2,255,649**
Interest earned	(50,867)	-	(50,867)	52%	(26,451)	-	**(26,451)**
Unrealized gain on revaluation of investment	-		-		-	(154,218)	**(154,218)**
Foreign exchange	455	-	455	52%	237	35	**272**
Loss before tax	**5,457,779**	**(3,240,166)**	**2,217,613**		**1,180,708**	**894,544**	**2,075,252**

The 2010 expenses attributable to the continuing development and management of the Transferred Assets include costs originally incurred by MPGM, reduced to eliminate costs attributable solely to MPGM. These include the following:

Note reference	Explanation
(i)	Exploration expenses were reduced by $619 in respect of exploration expenses incurred on a property which was not a Transferred Asset.
(ii)	Salaries and wages were reduced by $2,185,095, representing severance and change-of-control payments made to MPGM employees and consultants upon closing the Arrangement.
(iii)	Professional fees were reduced by $912,702, which represented fees paid to professional advisors involved in the Arrangement and an initiative in the second and third quarter of 2010 to identify a strategic investor for the Marathon PGM-Cu Project
(iv)	Office expenses were reduced by $21,210, representing property taxes on real property not forming part of the Transferred Assets.
(v)	Travel costs were reduced by $47,449 to eliminate costs incurred directly in connection with negotiating the Arrangement.
(vi)	Depreciation expense was reduced by $73,091 to eliminate the depreciation charge on assets retained by MPGM.
(vii)	After the adjustments referred to in notes (i) to (vi) had been taken into consideration, the resulting expenses were allocated between the continuing operations of Marathon and the surviving operations of MPGM on a pro rata basis, based on the exploration and development spending on the two groups of exploration properties during 2010, with the exception of depreciation expense which was allocated 100% to Marathon.

7) PROPERTY PLANT AND EQUIPMENT

	Vehicles and machinery $	Furniture and equipment $	Total $
At January 1, 2010			
Cost	64,103	118,980	**183,083**
Accumulated depreciation	34,392	69,158	**103,550**
Net book value	29,711	49,822	**79,533**
Year ended December 31 , 2010			
Opening net book value	29,711	49,822	**79,533**
Additions	28,753	15,137	43,890
Depreciation charge	(14,259)	(36,382)	(50,641)
Closing net book value	**44,205**	**28,577**	**72,782**
At January 1, 2011			
Cost	92,856	134,117	226,973
Accumulated depreciation	48,651	105,540	154,191
Net book value	**44,205**	**28,577**	**72,782**
Year ended December 31, 2011			
Opening net book value	**44,205**	**28,577**	72,782
Additions	74,090	-	74,090
Depreciation charge	(32,682)	(16,894)	(49,576)
Closing net book value	**85,613**	**11,683**	**97,296**
Cost	166,946	134,117	**301,063**
Accumulated depreciation	81,333	122,434	**203,767**
Net book value	**85,613**	**11,683**	**97,296**

8) MINERAL EXPLORATION AND EVALUATION ASSETS

	Valentine Lake Gold Project, Newfoundland				Golden Chest Project, Idaho USA	Bonanza Mine Project, Oregon USA	
	Property acquisition costs	Deferred exploration costs	Contributions by Mountain Lake Resources	Total			Total
	$	$	$	$	$	$	$
Balance – January 1, 2010	-	-	-	-	-	-	-
Additions	2,580	4,111,275	(465,720)	3,648,135	1,013,100	-	**4,661,235**
Currency translation adjustment	-	-	-	-	**(18,500)**	-	**(18,500)**
Balance – December 31, 2010	**2,580**	**4,111,275**	**(465,720)**	**3,648,135**	**994,600**	**-**	**4,642,735**
Additions	3,010,369	6,853,507	(3,419,953)	6,443,923	3,004,650	630,262	**10,078,835**
Currency translation adjustment	-	-	-	-	68,750	(13,818)	**54,932**
Balance – December 31, 2011	**3,012,949**	**10,964,782**	**(3,885,673)**	**10,092,058**	**4,068,000**	**616,444**	**14,776,502**

a) Valentine Lake gold property, Newfoundland

In December 2009, MPGM entered into an option agreement with Mountain Lake Resources Inc. ("Mountain") to earn an initial 50% interest in the Valentine Lake property. As part of the transaction described in note 6(a), the option agreement and all of MPGM's rights and interests thereunder were assigned to Marathon in November 2010.

At each of January 1, 2010, and December 31, 2010, Mountain owned a 30% interest in Valentine Lake, with the remaining 70% held by Richmont Mines Inc. ("Richmont"). Mountain had an option to purchase Richmont's interest by making cash payments to Richmont totaling $3,000,000 and incurring $1,000,000 in exploration costs over a period of three years ending January 4, 2013. Under the terms of the option agreement, Marathon had the right to earn a 50% interest in the Valentine Lake project by:

- Incurring exploration costs totaling $3,000,000 over three years, including an irrevocable commitment to incur $500,000 in exploration costs by May 1, 2010.
- Making a total of $3,000,000 in cash payments over three years to Richmont on Mountain's behalf in satisfaction of the terms of Mountain's option, including an irrevocable commitment to fund the first $100,000 of such payments.

At December 31, 2010, Marathon had incurred a total of $4,113,855 in qualifying expenditures with respect to the Valentine Lake property, and Mountain agreed to fund a portion of the Company's

exploration costs on the project in excess of the $3,000,000 commitment MPGM made upon entering into the option agreement. On January 24, 2011, Marathon fulfilled the last of its earn-in obligations under the option agreement by paying Richmont $3,000,000 and consequently owns an undivided 50% interest in the Valentine Lake project.

The Valentine Lake property is subject to two overlapping royalties. Xstrata Canada Corporation retains a 2% net smelter return royalty on base metals and a 1.5% net smelter return royalty on the first 250,000 oz. of gold produced, increasing at that point to 3%. In addition, the Reid Newfoundland Company Ltd. ("Reid") retains a 7.5% net profits interest that accelerates the increase in Xstrata's net smelter return royalty on gold to 3% should a net profits interest royalty become payable prior to the first 250,000 oz. produced. Any amount payable to Reid for the net profits interest royalty reduces the net smelter royalty on gold payable to Xstrata.

b) Golden Chest gold property, Idaho

On December 16, 2010, Marathon entered into a joint venture agreement with New Jersey Mining Company ("NJMC") under which Marathon had the right to earn an interest of up to 60% in the Golden Chest gold property.

Under the terms of the agreement, a new company, Golden Chest LLC ("GCLLC"), was established to carry out the business of the joint venture, and NJMC, the operator, transferred its interests in the claims comprising the property to GCLLC in return for a 50% interest in GCLLC. Marathon was attributed a 50% interest in GCLLC and made a series of payments during 2010 and 2011 totalling US $4 million to fund this interest.

At December 31, 2011 Marathon held an undivided 50% interest in GCLLC. Marathon has the right but no obligation to increase its interest in GCLLC and therefore the Golden Chest gold property by making additional funding contributions to GCLLC in the amount of US $3,500,000 on or before November 30, 2012, exclusive of any funding which Marathon may contribute to maintain its 50% interest in the project.

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$
December 15, 2012	500,000
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	2,750,000

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.

9) INVESTMENTS

Marathon's investments at December 31, 2011 are summarized below.

		Fair Value		
Description	**Quantity**	**December 31 2011**	**December 31 2010**	**January 1 2010**
		$	$	$
New Jersey Mining Company:				
• Common shares	2,000,000	406,800	397,252	-
• Warrants exercisable at a price of $0.30 per share and expiring on December 23, 2013	2,000,000	108,424	297,898	-
		515,224	**695,150**	**-**

In December 2010, Marathon acquired 2,000,000 units issued by New Jersey Mining Company ("NJMC") at a price of US $0.20 per unit, with each unit consisting of one common share and one share purchase warrant exercisable at a price of US $0.30 per share and expiring on December 23, 2012.

Marathon's investment in common shares of NJMC was valued at the closing trading price of the shares on the OTC Bulletin Board on December 31, 2011. At December 31, 2010, this investment was valued at the closing trading price of the shares on the OTC Bulletin Board, adjusted by applying a discount of 38%

reflecting the restricted liquidity of the investment as the shares were not free-trading until December 23, 2011.

The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following inputs:

10) FINANCIAL INSTRUMENTS

Measurement categories
As explained in Note 3, 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 December 31, 2011 and 2010 and January 1, 2010.

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
Fair value through profit or loss			
Investment in warrant derivatives			
Expiring in 12 months or less	108,424	-	-
Expiring in more than 12 months	-	297,898	-
	108,424	297,898	
Loans and receivables			
Cash	9,545,246	7,582,774	-
Trade receivables	32,866	468,473	-
	9,578,112	8,051,247	-
Available for sale			
Investment in equity securities	406,800	397,252	-
	406,800	397,252	-
Other financial liabilities			
Trade payables due within 12 months	(591,479)	(330,992)	-
	(591,479)	(330,992)	-

The carrying value of Marathon's cash, trade receivables, and trade payables approximates fair value. The methods used to estimate the fair value of Marathon's investments in warrants and equity securities are detailed in note 9 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).

	December 31 2011	**December 31 2010**	**January 1 2010**
	$	$	$
			-
Level 1			
Investment in equity securities	406,800	-	-
Level 2			
Investment in warrants	108,424	297,898	-
Level 3			
Investment in equity securities	-	397,252	-

Marathon's investment in equity securities of New Jersey Mining Company was reclassified from level 3 to level 1 upon expiry of a hold period on these securities, which had required the use of a discount from market value in the determination of fair value to reflect the restricted liquidity of the investment at December 31, 2010.

11) 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.

12) SHARE CAPITAL

a) Common shares issued and outstanding

Authorized:
Unlimited common shares without par value

Unlimited preference shares, issuable in series

b) Issued and outstanding:

	Number of shares	Amount
		$
Balance – January 1, 2010	**1,000**	**100**
Issued pursuant to the acquisition of the Transferred Assets (note 6) [(i),] net of amounts allocated to Contributed surplus	17,816,428	6,000,000
Issued for cash pursuant to private placement [(ii)]	2,570,000	3,366,700
Share issue costs	-	(125,793)
Balance – December 31, 2010	**20,387,428**	**9,241,007**
Issued for cash pursuant to private placement of flow-through common shares [(iii)]	2,528,500	4,172,025
Issued for cash pursuant to prospectus offering of non-flow through units, net of $1,108,322 allocated to Warrants (iv)	3,928,000	4,390,878
Issued for cash pursuant to prospectus offering of Flow-Through shares (iv)	2,728,000	3,546,400
Issued in connection with the acquisition of the Bonanza mining property	300,000	345,000
Share issue costs	-	(1,439,747)
Balance – December 31, 2011	**29,871,928**	**20,255,563**

i. On November 30, 2010, Marathon issued a total of 17,816,428 common shares as consideration pursuant to the transfer of assets from MPGM, which at the time was Marathon's parent company (note 6). The value attributed to share capital in connection with this transaction represents the cash consideration received from MPGM.

ii. On December 30, 2010 Marathon closed a private placement of 2,570,000 common shares at a price of $1.31 per common share, generating gross proceeds of $3,366,700. These shares were subscribed by a subsidiary of Stillwater.

In connection with this financing, Marathon granted to Stillwater an option to purchase up to 15% of each subsequent offering of securities on the terms applicable to each such offering, expiring on December 30, 2013. No value has been attributed to this option.

iii. On March 1, 2011, Marathon closed a private placement of 2,528,500 flow-through common shares at a price of $1.80 per share, generating gross proceeds of $4,551,300. The gross proceeds of this financing were allocated between Share capital and Other liabilities using the residual method, which resulted in $379,275 of gross proceeds being allocated to the liability portion of this financing.

In connection with this financing, the Company paid the underwriters a cash commission amounting to $319,742 and a cash advisory fee amounting to $58,344 and issued a total of 176,995 compensation warrants, with each warrant exercisable into one non flow-through common share at a price of $1.80 per share and expiring on March 1, 2013.

Total share issue costs associated with this financing amounted to $600,045, of which $50,004 was attributed to the flow-through tax liability on a pro rata basis and charged to operations.

iv. On December 2, 2011, Marathon closed a prospectus offering of 2,728,000 flow-through common shares at a price of $1.65 per share and 3,928,000 common share units at a price of $1.40 per unit, for total gross proceeds of $10,000,400.

The gross proceeds of the offering of flow-through shares were allocated between Share capital and Other liabilities using the residual method, which resulted in $954,800 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 $1.80 per share and expiring on June 2, 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 $1,108,322 in proceeds being allocated to Warrants.

Marathon incurred costs in connection with this offering amounting to $983,618, of which $93,912 was attributed to the flow-through tax liability on a pro rata basis and charged to operations.

13) WARRANTS

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

	Number	Value
		$
Balance – January 1, 2010 and December 31, 2010	**-**	**-**
Issued pursuant to private placement (a)	176,995	148,322
Issued pursuant to prospectus offering of units (b)	1,964,000	1,108,322
Balance – December 31, 2011	**2,140,995**	**1,256,644**

(a) In connection with the private placement which closed on March 1, 2011 Marathon issued 176,995 warrants exercisable at a price of $1.80 per share and expiring on March 1, 2013. The fair value of these warrants was estimated using the Black-Scholes option pricing model with the following assumptions:

- risk free interest rate of 1.69%;
- expected dividend yield of nil;
- expected volatility of 100%; and
- expected term of two years,

which yielded an estimated fair value of $0.84 per warrant.

(b) Pursuant to a prospectus offering which closed on December 2, 2011, Marathon issued 1,964,000 share purchase warrants exercisable at a price of $1.80 per share and expiring on June 2, 2014. The fair value of these warrants was estimated using the Black-Scholes option pricing model with the following assumptions:

- risk free interest rate of 0.92%;
- expected dividend yield of nil;
- expected volatility of 100%; and
- expected term of 2.5 years,

which yielded an estimated fair value of $0.56 per warrant.

14) STOCK BASED COMPENSATION

Marathon has a stock option plan (the "Plan") which was adopted on November 30, 2010 upon completion of the Arrangement, 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 5 years and vest over upon grant.

	Year ended December 31, 2011		**Year ended December 31, 2010**	
	Number	**Weighted average exercise price per share**	**Number**	**Weighted average exercise price per share**
		$		$
Balance - beginning of year	1,770,000	1.61	-	-
Granted	953,000	1.21	1,770,000	1.61
Cancelled	(34,000)	1.57		
Balance – end of year	2,689,000	1.47	1,770,000	1.61

Options to purchase common shares outstanding at December 31, 2011 carry exercise prices and remaining terms to maturity as follows:

Exercise price	Options Outstanding and exercisable	Contract Life (years)
$		
1.61	1,740,000	3.96
1.58	50,000	1.04
1.15	140,000	4.48
1.28	102,000	4.67
1.18	657,000	4.98
1.47	**2,689,000**	**4.21**

The fair value of the options granted by Marathon was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Risk free interest rate	1.07%	1.63%
Dividend rate	Nil	Nil
Volatility	100%	100%
Expected life	1 year	1 year
Weighted average fair value per option granted in the year	$0.47	$0.55

The Company recognized total stock based compensation costs of $444,469 in the year ended December 31, 2011 (2010 - $1,184,463), of which $346,576 was charged to operations (2010 - $1,014,096) and $97,893 (2010 - $170,367) was capitalized as a component of Marathon's mineral properties.

15) EXPLORATION EXPENSES

	2011	**2010**
	$	$
Baie Verte Property, Newfoundland	**8,127**	13,300
Finger Pond Property, Newfoundland	**180,432**	7,790
Barachois Brook Property, Newfoundland	**48,846**	-
Gold Reef Property, British Columbia	**-**	15
Total	**237,405**	21,105

16) GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
	$	$
Wages, salaries and benefits (note 17)	**858,856**	640,191
Professional fees	**220,955**	167,988
Investor relations	**226,265**	127,778
Depreciation	**49,576**	50,641
Other expenses	**196,033**	233,851
Stock based compensation charged to operations (note 14)	**346,576**	1,014,096
	1,898,261	2,234,545

17) WAGES, SALARIES AND BENEFITS

	2011	2010
	$	$
Fees, salaries and wages paid to employees, key management and directors (note 20)	**2,039,235**	1,121,086
Social security benefits	**142,832**	278,671
	2,182,067	1,399,757

Charged to general and administrative expenses	**858,856**	640,191
Charged to exploration expenses	**77,672**	7,110
Charged to GCLLC	**21, 806**	-
Capitalized as a component of mineral exploration and evaluation assets	**1,223,733**	752,456
	2,182,067	1,399,757

18) INCOME TAXES

The tax on the Company's loss before taxes differs from the amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	2011	2010
	$	$
Loss before tax at statutory tax rate of 28.25% (2010 – 31%)	**(690,498)**	(643,120)
Decrease in future tax rates	**62,042**	86,091
Losses not previously recognized	**461,729**	242,559
Permanent differences	**166,727**	314,470
Total tax expense	**-**	-

The 2011 statutory tax rate of 28.25% differs from the 2010 tax rate of 31% because of reductions in federal and provincial substantively enacted tax rates.

Marathon offsets tax assets and liabilities only if it has a legally enforceable right to set off the current tax assets and current tax liabilities or deferred tax assets and liabilities and they relate to taxes levied by the same tax authority.

The tax benefit of the following unused tax losses and deductible temporary differences has not been recognized due to the unpredictability of future earnings.

	2011	2010
	$	$
Tax loss carry forwards	**2,047,260**	233,590
Exploration and development expenditures	**9,130,745**	8,991,232
Share issue costs	**1,365,359**	123,587
Investments	**(110,264)**	(290,190)
Property plant and equipment	**61,985**	12,409
	12,495,085	9,070,628

At December 31, 2011, Marathon has unclaimed non-capital losses which expire as follows:

Expiry date	Amount
	$
2030	233,590
2031	1,813,670

19) COMMITMENTS

Marathon has the following commitments under operating leases.

Year ending December 31	$
2012	9,049
2013	2,645
2014	1,763
Thereafter	-
	13,457

20) RELATED PARTY TRANSACTIONS

a) Management fees

During the year ended December 31, 2011, Marathon paid fees totaling $97,958 (2010 - $68,846, including $59,696 in fees allocated to Marathon by MPGM) to a company controlled by Marathon's chairman, James Frank, for management services. These transactions were charged to operations and were in the normal course of business. At December 31, 2011 and December 31, 2010 there were no amounts due in respect of these services.

Following the death of Mr. Frank during the fourth quarter of 2011, Marathon's board approved an ex gratia posthumous bonus amounting to US$120,000 in recognition of Mr. Frank's services to the Company. This bonus was expensed in 2011 and will be paid in 2012.

b) 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.

	2011	2010
	$	$
Salaries and management fees paid to key management	**881,958**	507,166
Fees paid to directors	**79,000**	51,090
Stock based compensation	**337,789**	1,093,191
	1,298,747	1,651,447

21) TRANSITION TO IFRS

IFRS 1, "First Time Adoption of International Reporting Standards", sets out guidance for the initial adoption of IFRS. Under IFRS 1 these standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities taken to the deficit unless certain optional exemptions and mandatory exemptions are applied.

Marathon has applied mandatory exemptions from full retroactive application of IFRS as follows:

- Estimates cannot be created or revised using hindsight. The estimates previously made by the Company under Canadian GAAP ("CGAAP") were not revised for the application of IFRS.

a) Adoption of IFRS 6 for exploration and evaluation expenditures

Marathon has elected to adopt the provisions of IFRS 6 which allow the Company to continue with its current accounting policies regarding the accounting for exploration and evaluation expenditures.

b) Change in foreign exchange translation methodology

Under CGAAP, the Company used the temporal method of foreign exchange translation for its integrated wholly owned subsidiary, Marathon USA. Under the temporal method, non-monetary assets were converted to the presentation currency using historical foreign exchange rates and the resulting difference between the translation of the balance sheet and income statement was recorded in the statement of operations.

Under IFRS, the temporal method is not recognized and the translation methodology used to translate the financial statements of entities with presentation currencies other than Canadian dollars is driven by the determination of the functional currency in each entity in the group.

Because the functional currency of Marathon USA has been determined to be the US dollar, we translated the assets and liabilities of Marathon USA at the exchange rate in effect at each balance sheet date. Because the formation of Marathon USA and the resulting investment in GCLLC did not take place until December 2010, there was no impact on Marathon's consolidated balance sheets or statements of operations at the Transition Date. At December 31, 2010, the translation of Marathon USA's interest in GCLLC resulted in a reduction in the carrying value of this asset of $18,500 and a corresponding foreign exchange loss, which has been recorded as other comprehensive income.

Reconciliation of Equity as reported under Canadian GAAP to IFRS

	December 31, 2010			**January 1, 2010**		
		Effect of			**Effect of**	
	CGAAP	**transition**	**IFRS**	**CGAAP**	**transition**	**IFRS**
	$	**$**	**$**	**$**	**$**	**$**
Assets						
Current assets						
Cash	7,582,774	-	7,582,774	-	-	-
Amounts receivable	517,416	-	517,416	100	-	100
Other current assets	111,490	-	111,490	-	-	-
	8,211,680	-	8,211,680	100		100
Non-current assets						
Investments	695,150	-	695,150	-	-	-
Property, plant and equipment	72,782	-	72,782	79,533	-	79,533
Mineral exploration and evaluation assets	4,661,235	**(18,500)**	4,642,735	-	-	-
Total assets	**13,640,847**	**(18,500)**	**13,622,347**	**79,633**	**-**	**79,633**
Liabilities						
Current liabilities						
Trade payables and accrued liabilities	330,992	-	330,992	-	-	-
	330,992	-	330,992	-	-	-
Non-current liabilities						
Other liabilities	-	-	-	-	-	-
Total liabilities	330,992	-	330,992	-	-	-
Equity	13,309,855	**(18,500)**	13,291,355	79,633	-	79,633
Total liabilities and shareholders' equity	**13,640,847**	**(18,500)**	**13,622,347**	**79,633**	**-**	**79,633**

Reconciliation of Comprehensive Loss as reported under Canadian GAAP to IFRS

	Year ended December 31, 2010		
	CGAAP	**Effect of transition**	**IFRS**
Expenses:			
Exploration expenses	21,105	-	21,105
General and administrative expenses	2,234,545	-	2,234,545
Total expenses	2,255,650	-	2,255,650
Interest income	(26,451)	-	(26,451)
Unrealized gain on warrant derivatives	(154,218)	-	(154,218)
Foreign exchange gain (loss)	271	-	271
Loss for the period	**2,075,252**	**-**	**2,075,252**
Other comprehensive income:			
Currency translation adjustment	-	18,500	18,500
Unrealized gain in fair value of investments classified as available for sale	(135,972)	-	(135,972)
Comprehensive loss for the year	**1,939,280**	18,500	**1,957,780**