



# FALCON

## GOLD CORP

**Condensed Interim Consolidated Financial Statements**

**September 30, 2021**

**(Expressed in Canadian Dollars)**

**(Unaudited – Prepared by Management)**

**NOTICE OF NO AUDITOR REVIEW OF THE  
CONDENSED INTERIM FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed interim consolidated financial statements of the Company for the three months ended September 30, 2021 have been prepared by and are the responsibility of the Company's management, and have not been reviewed by the Company's auditors.

**FALCON GOLD CORP.**

Condensed Interim Consolidated Statements of Financial Position

As at September 30, 2021 and June 30, 2021

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	September 30 2021	June 30 2021
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 822,644	\$ 547,426
Amount receivable	151,980	132,058
Marketable securities (Note 5)	236,420	253,785
Prepaid expenses	75,317	42,363
	1,286,361	975,632
Exploration and evaluation assets (Note 6)	1,643,368	1,396,657
	\$ 2,929,729	\$ 2,372,289
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 141,047	\$ 162,068
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	9,617,947	9,040,847
Share subscription receivable	257,193	56,985
Contributed surplus	1,888,587	1,717,387
Deficit	(8,975,045)	(8,604,998)
	2,788,682	2,210,221
	\$ 2,929,729	\$ 2,372,289

Nature of operations and continuance of business (Note 1)

Subsequent events (Notes 11)

Approved and authorized for issuance on behalf of the Board of Directors on November 29, 2021:

/s/ Karim Rayani

Karim Rayani

/s/ James Farley

James Farley

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

**FALCON GOLD CORP.**

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

For the three months ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	For the three months ended	
	September 30,	
	2021	2020
Administrative expenses		
Consulting fees	\$ 78,298	\$ 17,500
Exploration expenditures	-	4,834
Filing fees and communications	45,353	107,999
General and administration costs (Note 8)	21,143	19,636
Management fees (Note 8)	30,000	27,000
Professional fees (Note 8)	10,351	3,000
Share-based payments (Notes 7 and 8)	180,000	356,000
	<u>365,145</u>	<u>535,969</u>
Loss before other items	(365,145)	(535,969)
Other items		
Interest income	19	-
Other income	-	47,020
Gain on debt settlement	12,444	-
Unrealized gain on marketable securities	(17,365)	23,250
	<u>(4,902)</u>	<u>70,270</u>
Net loss and comprehensive loss for the period	\$ (370,047)	\$ (465,699)
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)
Weighted average number of common shares outstanding	106,850,566	84,124,552

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**FALCON GOLD CORP.**

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the three months ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	Number of Shares	Share Capital	Share subscriptions received (receivable)	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, June 30, 2020	72,546,818	\$ 6,962,208	\$ -	\$ 1,179,520	\$ (7,717,999)	\$ 423,729
Private placement	5,750,000	460,000	-	-	-	460,000
Exercise of warrants	10,264,000	590,700	-	-	-	590,700
Share-based payments	-	-	-	356,000	-	356,000
Share subscriptions received	-	-	5,000	-	-	5,000
Net loss for the period	-	-	-	-	(465,699)	(465,699)
<b>Balance, September 30, 2020</b>	<b>88,560,818</b>	<b>\$ 8,012,908</b>	<b>\$ 5,000</b>	<b>\$ 1,535,520</b>	<b>\$ (8,183,698)</b>	<b>\$ 1,369,730</b>
Balance, June 30, 2021	98,720,783	\$ 9,040,847	\$ 56,985	\$ 1,717,387	\$ (8,604,998)	\$ 2,210,221
Private placement	1,500,000	180,000	(179,985)	-	-	15
Share issue cost	-	(11,700)	-	-	-	(11,700)
Exercise of warrants	7,800,000	390,000	(25,000)	-	-	365,000
Exercise of stock options	80,000	18,800	-	(8,800)	-	10,000
Share subscriptions received	-	-	405,193	-	-	405,193
Share-based payments	-	-	-	180,000	-	180,000
Net loss for the period	-	-	-	-	(370,047)	(370,047)
<b>Balance, September 30, 2021</b>	<b>108,100,783</b>	<b>\$ 9,617,947</b>	<b>\$ 257,193</b>	<b>\$ 1,888,587</b>	<b>\$ (8,975,045)</b>	<b>\$ 2,788,682</b>

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

**FALCON GOLD CORP.**

## Condensed Interim Consolidated Statements of Cash Flows

For the three months ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	For the three months ended September 30,	
	2021	2020
Operating Activities		
Net loss for the period	\$ (370,047)	\$ (465,699)
Items not affecting cash		
Unrealized gain on marketable securities	17,365	(23,250)
Share-based payment	180,000	356,000
Changes in non-cash working capital items related to operations:		
Amount receivable	(19,922)	(9,315)
Prepaid expenses and deposits	(32,954)	7,200
Accounts payable and accrued liabilities	(21,021)	(183,112)
Cash used in operating activities	(246,579)	(318,176)
Investing Activities		
Exploration and evaluation assets	(246,711)	(42,727)
Marketable securities	-	(74,750)
Cash used in investing activities	(246,711)	(117,477)
Financing Activities		
Shares issued for cash	375,015	1,055,700
Share issue cost	(11,700)	-
Share subscriptions received	405,193	-
Cash provided by financing activities	768,508	1,055,700
Change in cash during the period	275,218	620,047
Cash and cash equivalents, beginning of period	547,426	121,333
Cash and cash equivalents, end of the period	\$ 822,644	\$ 741,380
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Cash and cash equivalents		
Cash	\$ 733,371	\$ 741,380
Cash held in trust	12,557	-
Cash held in a brokerage account	76,716	-
	\$ 822,644	\$ 741,380
Non-cash transactions		
Transfer of fair value on stock options exercised	\$ 8,800	\$ -

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

## **FALCON GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Falcon Gold Corp. (the “Company”) was incorporated pursuant to the provisions of the Business Corporations Act (Ontario) on November 24, 2006 and was continued under the Business Corporations Act (British Columbia) on May 2, 2013. The Company’s registered office is located at 110 – 175 Victory Ship Way, North Vancouver, BC, V7L 0B2.

These condensed interim consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2021, the Company has no source of recurring revenue, generates negative cash flows from operating activities, and has an accumulated deficit of \$8,975,045. These factors raise significant doubt about the Company’s ability to continue as a going concern. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company’s liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

These condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

The recent outbreak of the novel coronavirus COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the Canadian and global economies, disruptions of financial markets, and created uncertainty regarding potential impacts to the Company’s supply chain and operations. The COVID-19 pandemic has impacted and could further impact the Company’s operations and the operations of the Company’s suppliers and vendors as a result of quarantines, facility closures, and travel and logistics restrictions. The extent to which the COVID-19 pandemic impacts the Company’s business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity, and impact of the COVID-19 pandemic, the effects of the COVID-19 pandemic on the Company’s suppliers and vendors and the remedial actions and stimulus measures adopted by local and federal governments, and to what extent normal economic and operating conditions can resume. The management team is closely following the progression of COVID-19 and its potential impact on the Company. Even after the COVID-19 pandemic has subsided, the Company may experience adverse impacts to its business as a result of any economic recession or depression that has occurred or may occur in the future. Therefore, the Company cannot reasonably estimate the impact at this time on our business, liquidity, capital resources and financial results.

### **2. BASIS OF PREPARATION**

#### **Statement of compliance**

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 29, 2021.

**FALCON GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

**2. BASIS OF PREPARATION** (continued)**Basis of Measurement**

These condensed interim consolidated financial statements have been prepared on a historical cost basis. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The presentation currency and the functional currency of the Company and its subsidiaries is the Canadian dollar.

Transactions in foreign currencies are translated into the functional currency at exchange rates at the date of the transactions. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency monetary assets and liabilities are translated at the functional currency exchange rate at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when acquired. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited consolidated financial statements as at June 30, 2021.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in net loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Impairment of Mineral Properties

In accordance with the Company's accounting policy for its mineral properties, exploration and evaluation expenditures on mineral properties are capitalized. There is no certainty that the expenditures made by the Company in the exploration of its property interests will result in discoveries of commercial quantities of minerals. The Company applies judgment to determine whether indicators of impairment exist for these capitalized costs.

Management uses several criteria in making this assessment, including the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of mineral properties are budgeted, and evaluation of the results of exploration and evaluation activities up to the reporting date.

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Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited – Prepared by Management)

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Determining Amount and Timing of Reclamation Provisions

A reclamation provision represents the present value of estimated future costs for the reclamation of the Company's mineral properties. These estimates include assumptions as to the future activities, cost of services, timing of the reclamation work to be performed, inflation rates and interest rates. The actual cost to reclaim a mine or exploration property may vary from the estimated amounts because there are uncertainties with respect to the extent of required future remediation activities, as studies are currently ongoing, and uncertainties in factors used to estimate the cost and potential changes in regulations or laws governing the reclamation of a mineral property. Management periodically reviews the reclamation requirements and adjusts the liability as new information becomes available and will assess the impact of new regulations and laws as they are enacted.

Share-based payments

Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, interest rates and dividend yield and expected vesting dates and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 7.

Going Concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1.

**5. MARKETABLE SECURITIES**

Marketable securities are fair valued at the end of each reporting period. The fair values of the common shares of the publicly traded companies have been directly referenced to published price quotations in an active market.

<b>Investment in marketable securities</b>	<b>Number of shares/Units Held</b>	<b>Investment Cost</b>	<b>Fair Value at Sept. 30, 2021</b>	<b>Number of shares/Units Held</b>	<b>Investment Cost</b>	<b>Fair Value at June 30, 2021</b>
	#	\$	\$	#	\$	\$
<b>Public Companies</b>						
Portofino Resources Inc.	236,500	27,198	18,920	236,500	27,198	21,285
Marvel Discovery Corp.	1,500,000	75,000	187,500	1,500,000	75,000	232,500
<b>Private Company</b>						
Power One Resources Corp.	300,000	-	30,000	-	-	-
<b>Total</b>	<b>2,036,500</b>	<b>102,198</b>	<b>236,420</b>	<b>1,736,500</b>	<b>102,198</b>	<b>253,785</b>

During the quarter ended September 30, 2021, the Company received 300,000 common shares of Power One Resources Corp as a result of a spinout by Marvel Discovery Corp. on the basis of 1 Power One share for every 5 shares of Marvel held.

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Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

**6. EXPLORATION AND EVALUATION ASSETS**

<b>As at June 30, 2021</b>	McCaul Hutchinson	Central Canada	Bruce Lake	Spitfire & Sunny	Gaspard	Springpole West	Esperanza	Hope Brook	Total
Balance, beginning of year	\$ 72,562	\$ 199,654	\$ 27,730	\$ 326,404	\$ -	\$ -	\$ -	\$ -	\$ 626,350
Cash payments	-	62,000	-	-	15,000	-	-	-	77,000
Staking	-	-	-	-	-	-	-	115,505	115,505
Shares issued	-	6,375	-	-	18,000	-	18,000	-	42,375
Warrants issued	-	-	-	-	10,000	-	10,000	-	20,000
Option payment received	-	-	(74,750)	-	-	-	-	-	(74,750)
Option payment received in excess of cost	-	-	47,020	-	-	-	-	-	47,020
Exploration costs	-	557,108	-	9,730	-	2,250	16,631	-	585,719
Write-down	(42,562)	-	-	-	-	-	-	-	(42,562)
Balance, end of year	\$ 30,000	\$ 825,137	\$ -	\$ 336,134	\$ 43,000	\$ 2,250	\$ 44,631	\$ 115,505	\$ 1,396,657

<b>As at September 30, 2021</b>	McCaul Hutchinson	Central Canada	Spitfire & Sunny	Gaspard	Springpole West	Esperanza	Hope Brook	Baie Verte	Gander	Victoria	Total
Balance, beginning of period	\$ 30,000	\$ 825,137	\$ 336,134	\$ 43,000	\$ 2,250	\$ 44,631	\$ 115,505	\$ -	\$ -	\$ -	\$ 1,396,657
Staking	-	-	-	-	-	-	6,045	103,920	37,180	6,500	153,645
Exploration costs	-	38,780	31,954	22,332	-	-	-	-	-	-	93,066
Balance, end of period	\$ 30,000	\$ 963,917	\$ 368,088	\$ 65,332	\$ 2,250	\$ 44,631	\$ 121,550	\$ 103,920	\$ 37,180	\$ 6,500	\$ 1,643,368

**FALCON GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

**6. EXPLORATION AND EVALUATION ASSETS (continued)****McCaul Hutchinson Property**

On December 28, 2017, the Company entered into an option agreement to acquire 100% of the McCaul Hutchinson Property which consists of a claim group located in McCaul and Hutchinson Townships, east of Atikokan in Northern Ontario. The McCaul Hutchinson Property consists of 6 unpatented mining claims consisting of 55 claim shares. As consideration, the Company is required to issue 400,000 common shares and make cash payments totalling \$250,000 as follows:

- a) Cash payment of \$5,000 on signing (paid);
- b) Issue 50,000 common shares on regulatory approval (issued);
- c) Cash payment of \$20,000 (paid) and issuance of 50,000 common shares on the first anniversary of the approval (issued);
- d) Cash payment of \$50,000 and issuance of 50,000 common shares on the second anniversary of the approval (see below);
- e) Cash payment of \$50,000 and issuance of 50,000 common shares on the third anniversary of the approval date; and
- f) Cash payment of \$125,000 and issuance of 200,000 common shares on the fourth anniversary of the approval date.

The McCaul Hutchinson Property is subject to a 1.0% net smelter return in favour of the previous owner of the claims. The Company may purchase the net smelter return for an aggregate amount of \$1,000,000 at any time prior to the commencement of production.

During the year ended June 30, 2020, the Company entered into a debt settlement agreement to cover \$39,000 of the second anniversary payment by issuing 650,000 common shares and a cash payment of \$15,000, that was paid on August 8, 2020.

During the year ended June 30, 2021, the Company wrote down the McCaul Hutchinson Property to \$30,000.

**Central Canada Property**

The Central Canada Property is subject to a 2.0% net smelter return in favour of the previous owner of the claims. On January 10, 2018, the Company entered into an option agreement to acquire 100% of the Central Canada Property consisting of a claim group located in Hutchinson Township, east of Atikokan in Northern Ontario. The Central Canada Property consists of 7 unpatented mining claims consisting of 55 claim shares. As consideration, the Company is required to issue 325,000 common shares and make cash payments totalling \$141,500 and incur \$100,000 in exploration and evaluation expenditures as follows:

- a) Cash payment of \$6,500 on signing (paid);
- b) Issue 50,000 common shares on regulatory approval (issued);
- c) Cash payment of \$15,000 (paid), issuance of 50,000 common shares (issued) and incur \$10,000 in exploration expenditures on or before the first anniversary of the approval (incurred);
- d) Cash payment of \$30,000, issuance of 50,000 common shares (see below) and incur \$20,000 in exploration expenditures on or before the second anniversary of the approval (incurred);
- e) Cash payment of \$40,000 (paid), issuance of 75,000 common shares (issued) and incur \$30,000 in exploration expenditures on or before the third anniversary of the approval date (incurred); and
- f) Cash payment of \$50,000, issuance of 100,000 common shares and incur \$40,000 in exploration expenditures on or before the fourth anniversary of the approval date (incurred).

**FALCON GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

**6. EXPLORATION AND EVALUATION ASSETS (continued)****Central Canada Property (continued)**

Company may purchase the one-half of the net smelter return for an aggregate amount of \$1,000,000 at any time prior to the commencement of production.

During the year ended June 30, 2020, the Company entered into a debt settlement agreement to cover \$21,000 of the second anniversary payment by issuing 350,000 common shares and a cash payment of \$15,000, which was paid on August 8, 2020.

On July 23, 2020, the Company staked an additional 7,477 hectares of mineral claims consisting of 369 units in Atikokan gold camp. It increases the Company's land position to 10,392 hectares and additional 507 mining units.

**Bruce Lake Property**

On September 6, 2019, the Company entered into an option agreement to acquire 100% interest in the Bruce Lake Property, which consists of a claim group located in the Red Lake area of Northern Ontario. The Bruce Lake Property consists of 5 unpatented mining claims consisting of 72 claim cells. As consideration, the Company is required to issue 500,000 common shares (issued) and make cash payments totalling \$58,000 of which \$6,000 have been paid by the Company and the remaining \$50,000 over a four-year period as follows – \$8,000 on or before September 6, 2020 and \$10,000, \$14,000 and \$20,000 due on the second, third and fourth anniversary date respectively.

The Bruce Lake Property is subject to a 1.5% net smelter return ("NSR") in favour of the previous owner of the claims. The Company may purchase the one-half of the NSR for an aggregate amount of \$400,000 at any time prior to the commencement of production.

On June 20, 2020, the Company entered into property assignment agreement with Portofino Resources Inc. ("Portofino") whereby the Company has assigned 100% of the interest in the Bruce Lake Property as consideration, the Company received 650,000 common shares of Portofino valued at \$74,750 and Portofino will assume the remaining cash payments of \$50,000 commencing on September 6, 2020.

The Company will receive an additional 0.5% NSR for a total of 2% NSR of which 1.5% is payable to the previous owner.

**Spitfire and Sunny Boy**

On April 14, 2020, the Company acquired 100% interest in Spitfire and Sunny Boy claims in south central British Columbia. The claims are located approximately 16 kilometers east of Merritt and total 502 hectares. As consideration the Company paid cash of \$25,000, issued 2,500,000 common shares fair valued at \$175,000 and issued 2,500,000 warrants exercisable at \$0.10 for a period of two years with a fair value of \$113,883.

The vendor will retain a 2% net smelter royalty (NSR). The Company will have the right to purchase 0.5 of the total NSR 1% at any time up to commencement of production for a one-time payment of \$400,000.

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Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

**6. EXPLORATION AND EVALUATION ASSETS (continued)****Camping Lake**

On September 6, 2019, the Company entered into an option agreement to acquire 100% interest in the Camping Lake Property which consists of a claim group located in Red Lake area of Northern Ontario. The Camping Lake Property consists of 5 unpatented mining claims consisting of 109 claim cells. As consideration, the Company is required to issue 500,000 common shares (issued) and make cash payments totalling \$65,000 of which \$8,000 have been paid by the Company and the remaining \$57,000 over a four-year period as follows – \$10,000 on or before September 6, 2020 and \$12,000, \$15,000 and \$20,000 due on the second, third and fourth anniversary date respectively.

The Camping Lake Property is subject to a 1.5% net smelter return in favour of the previous owner of the claims. The Company may purchase the one-half of the net smelter return for an aggregate amount of \$400,000 at any time prior to the commencement of production.

On October 22, 2019, the Company entered into an option agreement with Marvel Discovery Resources Inc.'s (formerly International Montoro Resources Inc.) ("IMT") whereby IMT has the option to earn an initial 51% interest in the Camping Lake Property by assuming the Company's underlying claim payment schedule of \$65,000 over a four-year period, incurring property expenditures of \$300,000 over 2 years and issuing 1,500,000 million shares of IMT to the Company. On January 18, 2020, the Company received 1,000,000 common shares with a fair value of \$35,000 from IMT and the remaining 500,000 shares will be due within one year of the effective date. On March 17, 2021, the Company received the 500,000 shares of IMT with a fair value of \$40,000. As at June 30, 2021, IMT and the Company are connected by way of common officers.

Upon exercising the option to earn an initial 51%, IMT can acquire an additional 24% interest for \$500,000 cash within 120 days from earning the 51% interest. The agreement is subject to a 2% NSR royalty, with the original vendor at 1.5% and Falcon at 0.5%.

On July 14, 2020, the Company staked 57 claims to its Camping Lake Property. The new claims add approximately 1,200 hectares ("ha") to the Camping Lake Property that is located near the Red Lake gold camp in northwestern Ontario and increases the project size to 3,400 hectares of contiguous mining units.

On June 30, 2021, the Company has decided not to proceed with the Camping Lake Property and have mutually terminate the joint venture agreement with IMT.

**Springpole West Project**

On August 25, 2020, the Company acquired 4,440 hectares of mining land 110 kilometers ("km") northeast of Red Lake, ON in the Birch-Uchi Greenstone Belt on Springpole Lake. The Company's new Springpole West Property comprises 197 claims containing 217 units and extends from McNaughton Township.

**Hope Brook**

During the year ended June 30, 2021, the Company staked 996 claims within the Hope Brook area in Newfoundland for total cost of \$115,505. During the period ended September 30, 2021, the Company staked an additional 664 claims for a total cost of \$6,045.

## **FALCON GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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### **6. EXPLORATION AND EVALUATION ASSETS (continued)**

#### **Esperanza Property**

On February 3, 2021, the Company entered into an option agreement to re-acquire 80% interest in Esperanza property. As consideration, the Company is required to issue 500,000 common shares and 500,000 warrants and complete a total of US\$350,000 in exploration expenditures over a four-year period with minimum annual expenditures of US\$87,500 per year.

The Company is required to issue the following:

- i) Issue 200,000 common shares (issued) and 200,000 warrants (granted) on signing of the agreement;
- ii) Issue 100,000 common shares and 100,000 warrants on the second anniversary date of the first payment;
- iii) Issue 100,000 common shares and 100,000 warrants on the third anniversary date; and
- iv) Issue 100,000 common shares and 100,000 warrant on the fourth anniversary date;

The Company fair valued the 200,000 warrants at \$10,000 using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.09; Risk-free interest rate of 0.22%; Dividend yield of nil; Expected volatility of 140%; Expected life of 2 years and forfeiture rate of 0%. Volatility was determined based on the Company's historical data.

Upon completion of the 80% the Company has the option to acquire the remaining 20% for a further payment of 2,000,000 common shares of the Company and cash payment of US\$1,500,000 payable within 30 months and grant 1% net Smelter Return Royalty to the vendor.

The Esperanza Property is comprised of seven mineral concessions within the Sierra de Las Minas District of La Rioja and San Luis provinces in Argentina.

On December 12, 2019, the Company terminated its original option agreement to earn an 80% interest in the Esperanza Property which it had amended on October 15, 2019, which required the Company to issue 5,500,000 common shares and carry out exploration and evaluation expenditures of \$1.6 million USD over a period of six years.

#### **Gaspard Claims**

On January 27, 2021, the Company entered into a property purchase agreement to acquire 100% interest in the Gaspard Claims which is located in the Clinton Mining District in central British Columbia. The Gaspard Claims consist of 3 mineral claims totaling 3,955.15 hectares. As consideration, the Company paid \$15,000 in cash and issued 200,000 common shares and granted 200,000 warrants at \$0.20 per share for a two-year term within 15 days of the effective date and complete \$34,000 in exploration expenditures on the property during the 2021 field season.

The Company fair valued the 200,000 warrants at \$10,000 using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.09; Risk-free interest rate of 0.22%; Dividend yield of NIL; Expected volatility of 140%; Expected life of 2 years and forfeiture rate of 0%. Volatility was determined based on the Company's historical data.

The Company will pay a 2% net Smelter Returns ("NSR") to the vendor and the Company may at any time purchase 1% NSR for \$1,500,000.

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**6. EXPLORATION AND EVALUATION ASSETS (continued)****Gander South**

During the period ended September 30, 2021, the Company staked 572 claims in Gander New Foundland for a total cost of \$37,180.

**Victoria South Area**

During the period ended September 30, 2021, the Company staked 284 claims in Gander New Foundland for a total cost of \$6,500.

**Baie Verte Area**

During the period ended September 30, 2021, the Company staked 548 claims in Gander New Foundland for a total cost of \$103,920.

**Wabunk Bay Property**

The Wabunk Bay Property consists of a claim group located in Earngey Township in Northern Ontario. The Wabunk Bay Property consists of 2 unpatented mining claims consisting of 19 claim shares.

The Wabunk Bay Property is subject to a 1.0% net smelter return in favour of the previous owner of the claims. The Company may purchase the net smelter return for an aggregate amount of \$1,000,000 at any time prior to the commencement of production.

The Company can acquire a 100% interest in the Wabunk Bay Property by making escalating cash payments of \$200,000 and issuing 300,000 shares over a four- year period.

During the year ended June 30, 2018, the Company and Vatic Ventures Corp. entered into a memorandum of understanding whereby Vatic has an option to earn a 60% interest in the Wabunk Bay property by making an initial cash payment in the amount of \$25,000 and a further cash payment of \$275,000 before the first anniversary of the agreement. In addition, Vatic must issue an initial tranche of 200,000 shares of Vatic to the Company with each share consisting of one share and one share purchase warrant exercisable for a period of two years at \$0.25 per share followed by an additional 200,000 shares prior to the first anniversary of the agreement on the same terms as the initial shares. Vatic must also incur exploration and evaluation expenditures of \$750,000 within the twelve months prior to the first anniversary of the agreement.

During the year ended June 30, 2019, the Company received a non-refundable cash amount of \$25,000 as contemplated by the memorandum of understanding following which the memorandum of understanding was terminated by mutual consent.

During the year ended June 30, 2020, the Company terminated the option agreement.

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### **6. EXPLORATION AND EVALUATION ASSETS (continued)**

#### **Burton Property**

The Burton Property consists of a 100% interest in a claim group located in Esther Township, northwest of Sudbury in Northern Ontario. The Burton Property consists of 16 unpatented mining claims and 6 patented claims covering 356 hectares in a largely contiguous block.

The Burton Property is subject to a 2.5% net smelter return and a 10% net profits interest in favour of the previous owner of the claims. The Company may purchase sixty percent of the net smelter return for an aggregate amount of \$1,500,000 at any time.

During the year ended June 30, 2012, the Company entered into a Mining Option Agreement with Trelawney Mining and Exploration Inc. (now IAMGOLD Corporation) whereby Trelawney can earn up to a 75% interest in the Burton Property. The terms of the Agreement include a cash payment of \$150,000 to the Company and a commitment to incur exploration and evaluation expenditures in the amount of \$1,200,000 over a two-year period from the date of signing of the Agreement.

As of June 30, 2015, and June 30, 2016, sufficient amounts have been expended with respect to the Trelawney Agreement to enable Trelawney to earn a 51% interest in the Burton Property. The option for Trelawney to acquire an additional 24% interest in the Burton Property has lapsed.

During the year ended June 30, 2019, the Company identified an impairment indicator with respect to the Burton Property as there was an absence of substantive exploration expenditures over the past four fiscal years, nor are substantive exploration expenditures budgeted or planned for the coming fiscal year. Consequently, the Company recorded impairment in the amount of \$1,308,291 in connection with the Burton Property.

As of September 30, 2021, the Company owns 49% of the Property and the Property remain inactive.

### **7. SHARE CAPITAL**

#### a) Authorized

Unlimited shares without par value.

#### b) Issued

##### During the three months ended September 30, 2021

On July 9, 2021, the Company completed a non-brokered private placement of 1,500,000 units at a price of \$0.12 per unit for total proceeds of \$180,000 of which it is included in subscriptions received as at June 30, 2021. Each unit consist of one common share and one non-transferable warrant entitling the holder to purchase one common share of the Company at a price of \$0.20 per share expiring on July 9, 2024.

During the three months ended September 30, 2021, the Company issued 7,800,000 common shares pursuant to the exercise of share purchase warrants for a total proceed of \$390,000 of which \$25,000 is included in subscriptions receivable as at September 30, 2021.

During the three months ended September 30, 2021, the Company issued 80,000 common shares pursuant to the exercise of stock options at a price of \$0.125 per share for total proceed of \$10,000. The Company transferred \$8,800 from contributed surplus.

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**7. SHARE CAPITAL (continued)**

## b) Issued (continued)

During the year ended June 30, 2021

On July 13, 2020, the Company completed a non-brokered private placement of 5,750,000 units at a price of \$0.08 per unit for total proceeds of \$460,000. Each unit consist of one common share and one share purchase warrant. Each share purchase warrant is exercisable at \$0.125 per share expiring three years from the date of issuance.

On January 14, 2021, the Company completed a non-brokered private placement of 6,666,665 units at a price of \$0.12 per unit for total proceeds of \$800,000 of which \$73,000 is included in subscriptions receivable at June 30, 2021. Each unit consist of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 per share expiring on January 14, 2024. The Company has allocated the fair value of \$66,667 to the warrants.

On March 12, 2021, the Company issued 200,000 common shares fair valued at \$18,000, pursuant to the terms of the Gaspard property agreement.

On March 12, 2021, the Company issued 200,000 common shares fair valued at \$18,000, pursuant to the terms of the Esperanza property agreement.

On April 14, 2021, the Company issued 75,000 common shares fair valued at \$6,375, pursuant to the terms of the Central Canada property agreement.

During the year ended June 30, 2021, the Company issued an aggregate of 13,142,300 common shares pursuant to the exercise of share purchase warrants for total proceeds of \$825,530 of which \$50,000 was included in subscription receivable at June 30, 2021 and was subsequently collected.

During the year ended June 30, 2021, the Company issued 140,000 common shares pursuant to the exercise of stock options for total proceeds of \$10,000. The Company also transferred \$7,400 from contributed surplus.

## c) Share purchase warrants

The following share purchase warrants entitle the holders thereof the right to purchase one share for each share purchase warrant. Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance June 30, 2020	27,648,134	\$0.07
Issued	12,816,665	\$0.10
Exercised	(13,142,300)	\$0.06
Expired	(1,370,000)	\$0.10
Balance, June 30, 2021	25,952,499	\$0.10
Issued	1,500,000	\$0.20
Exercised	(7,800,000)	\$0.05
Balance, September 30, 2021	19,652,499	\$0.11

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**7. SHARE CAPITAL (continued)**

## c) Share purchase warrants (continued)

The following warrants are outstanding at September 30, 2021:

<b>Number of warrants</b>	<b>Exercise price per warrant</b>	<b>Expiry date</b>
872,500	\$0.08	December 12, 2021
1,963,334	\$0.10	May 22, 2022
2,500,000	\$0.10	June 2, 2022
5,750,000	\$0.08	July 13, 2023
400,000	\$0.20	March 12, 2023
6,666,665	\$0.12	January 14, 2024
1,500,000	\$0.20	July 9, 2024
<b>19,652,499</b>		

## d) Stock options

The Company has a formal stock option plan in accordance with the policies of the TSX Venture Exchange (the “Exchange”) under which it is authorized to grant options to directors, officers, employees and consultants to purchase shares of the Company. The stock option plan is a rolling plan and the maximum number of authorized but unissued shares available to be granted shall not exceed 10% of its issued and outstanding shares. Each stock option granted is for a term not exceeding five years unless otherwise specified. Outstanding options vest immediately at date of grant. Options granted to investor relations personnel vest in accordance with Exchange regulations.

On August 31, 2021, the Company granted 1,800,000 stock options to an officer of the Company and to consultants. The stock options entitle the holders thereof the right to purchase one common share for each option at a price of \$0.10 per share expiring on August 31, 2026 and vested on the grant date. The fair value of the stock options of \$180,000 was determined using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.11; Risk-free interest rate of 0.87%; Dividend yield of nil; Expected volatility of 135%; Expected life of 5 years and forfeiture rate of 0%. Volatility was determined based on the Company’s historical data. During the period ended September 30, 2021, the Company recorded \$180,000 in share-based payments

The following table summarizes the continuity of the Company’s stock options:

	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price</b>
Balance, June 30, 2020	3,600,000	\$0.05
Granted	4,600,000	\$0.13
Exercised	(140,000)	\$0.07
Cancelled	(700,000)	\$0.12
Balance, June 30, 2021	7,360,000	\$0.09
Granted	1,800,000	\$0.10
Exercised	(80,000)	\$0.125
Forfeited	(250,000)	\$0.10
Balance, September 30, 2021	8,830,000	\$0.09

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**7. SHARE CAPITAL (continued)**

## d) Stock options (continued)

As at September 30, 2021, the Company had stock options outstanding enabling holders to acquire the following:

Number of options	Exercise price per option	Expiry date
1,100,000	\$0.05	April 3, 2022
400,000	\$0.06	May 1, 2023
1,480,000	\$0.125	Jul 10, 2023
800,000	\$0.12	March 10, 2024
500,000	\$0.12	May 31, 2024
1,550,000	\$0.05	August 23, 2024
200,000	\$0.05	January 15, 2025
1,000,000	\$0.135	September 16, 2025
1,800,000	\$0.10	August 31, 2026
8,830,000		

The weighted average remaining contractual life of options outstanding at September 30, 2021 was 2.84 years.

**8. RELATED PARTY TRANSACTIONS**

Related parties include the Board of Directors and officers, close family members and enterprises that are controlled by these individuals as well as certain consultants performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

The Company had the following transactions in the normal course of operations with related parties:

		For the three months ended September 30,	
		2021	2020
Management fees	R7 Capital Ventures Ltd. controlled by CEO	\$ 30,000	\$ 27,000
Office and miscellaneous	R7 Capital Ventures Ltd.	4,140	-
Professional fees	Harmony Corporate Services Ltd. controlled by CFO	6,000	-
Share-based payments	Karim Rayani, CEO	110,000	254,250
		\$ 150,140	\$ 281,250

Accounts payable and accrued liabilities include \$Nil (2021 - \$7,674) due to related parties. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

## FALCON GOLD CORP.

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### 9. RISK MANAGEMENT, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to manage its capital to be able to sustain the future development of the Company's business.

The Company currently has no source of revenues, and therefore is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended September 30, 2021. The Company is not subject to externally imposed capital requirements.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

#### (a) Credit risk

Concentration of credit risk exists with respect to the Company's cash as all amounts are held at major Canadian financial institutions.

The Company's concentration of credit risk and maximum exposure is as follows:

	<u>September 30, 2021</u>	<u>June 30, 2021</u>
Cash and cash equivalents	\$ 822,644	\$ 547,426

The credit risk associated with cash is minimized by ensuring it is placed with a major Canadian financial institution with a strong investment-grade rating issued by a primary ratings agency.

#### (b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

The business of mining and exploration involves a high degree of risk and there can be no assurance that exploration programs will result in profitable mining operations. The Company has insufficient cash to meet its requirements for administrative overhead, to conduct due diligence on mineral property acquisition targets, and to conduct exploration of its mineral properties and mineral properties that may be acquired.

The Company does not generate cash flows from operations to fund its activities and therefore relies principally upon the issuance of securities for financing. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of securities to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

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**9. RISK MANAGEMENT, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)****(c) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

- Interest rate risk

The Company's cash consist primarily of cash held in bank accounts and term deposits with banks. Due to the short-term nature of this financial instrument, fluctuations in market rates do not have a significant impact on estimated fair value as of September 30, 2021. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. Accordingly, the Company is not subject to interest rate risk.

- Foreign currency risk

During the period ended September 30, 2021 the Company was not exposed to material foreign currency risk.

- Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk, foreign currency risk or commodity price risk. The Company's marketable securities are exposed to other price risk.

**11. SUBSEQUENT EVENTS**

On October 12, 2021, the Company completed a non-brokered private placement of 4,117,000 flow-through units at a price of \$0.13 per unit for total proceeds of \$535,210 of which \$405,193 is included in subscriptions received as at September 30, 2021. Each unit consist of one flow-through common share and one-half of one common share purchase warrant; each whole warrant entitling the holder to subscribe for and purchase one non-flow-through common share at a price of \$0.25 expiring on October 12, 2023.