



FALCON

GOLD CORP

Consolidated Financial Statements

June 30, 2021 and 2020

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Falcon Gold Corp.

Opinion

We have audited the consolidated financial statements of Falcon Gold Corp. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at June 30, 2021 and 2020, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Fernando J. Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada

October 27, 2021

FALCON GOLD CORP.

Consolidated Statements of Financial Position

As at June 30, 2021 and 2020

(Expressed in Canadian Dollars)

	June 30 2021	June 30, 2020
ASSETS		
Current		
Cash and cash equivalents	\$ 547,426	\$ 121,333
Amount receivable	132,058	29,912
Marketable securities (Note 5)	253,785	60,000
Prepaid expenses	42,363	23,300
	<u>975,632</u>	<u>234,545</u>
Exploration and evaluation assets (Note 6)	1,396,657	626,350
	<u>\$ 2,372,289</u>	<u>\$ 860,895</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 162,068	\$ 437,166
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	9,040,847	6,962,208
Share subscription receivable	56,985	-
Contributed surplus	1,717,387	1,179,520
Deficit	(8,604,998)	(7,717,999)
	<u>2,210,221</u>	<u>423,729</u>
	<u>\$ 2,372,289</u>	<u>\$ 860,895</u>

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 October 27, 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.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

	2021	2020
Administrative expenses		
Consulting fees (Note 8)	\$ 120,042	\$ 124,124
Exploration expenditures	7,467	-
Filing fees and communications	239,865	217,269
Foreign exchange loss	675	3,300
General and administration costs	54,964	20,571
Interest expense	17,072	-
Management fees (Note 8)	113,000	113,500
Professional fees	46,920	42,573
Share-based payments (Notes 7 and 8)	458,600	117,099
Travel and promotion	28,584	-
	1,087,189	638,436
Loss before other items	(1,087,189)	(638,436)
Other items		
Other income	87,045	20,850
Gain on settlement of debt	-	45,582
Write-off of accounts payable	-	43,032
Write-off of mineral properties	(42,562)	(148,344)
Write-off of prepaid expenses	-	(25,350)
Mineral property option payments in excess of capitalized cost	-	6,170
Realized gain on sale of marketable securities (Note 5)	29,119	-
Unrealized gain on marketable securities	126,588	25,000
	200,190	(33,060)
Net loss and comprehensive loss for the year	\$ (886,999)	\$ (671,496)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	91,811,446	59,634,451

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

FALCON GOLD CORP.

Consolidated Statements of Changes in Shareholders' Equity

For the year ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share subscriptions received (receivable)	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, June 30, 2019	38,120,184	\$ 5,637,864	\$ -	\$ 948,971	\$ (7,046,503)	\$ (459,668)
Cash						
Private placement	22,861,634	697,162	-	10,484	-	707,646
Share issue cost	-	(3,735)	-	-	-	(3,735)
Shares issued for options exercised	400,000	30,917	-	(10,917)	-	20,000
Shares issued for warrants exercised	6,115,000	305,750	-	-	-	305,750
Shares issued for debt	550,000	19,250	-	-	-	19,250
Shares and warrants issued for mineral properties	4,500,000	275,000	-	113,883	-	388,883
Share-based payments	-	-	-	117,099	-	73,109
Net loss for the year	-	-	-	-	(671,496)	(671,496)
Balance, June 30, 2020	72,546,818	\$ 6,962,208	\$ -	\$ 1,179,520	\$ (7,717,999)	\$ 423,729
Balance, June 30, 2020	72,546,818	\$ 6,962,208	\$ -	\$ 1,179,520	\$ (7,717,999)	\$ 423,729
Cash						
Private placement	12,416,665	1,193,334	(73,000)	66,667	-	1,187,001
Exercise of warrants	13,142,300	825,530	(50,000)	-	-	775,530
Exercise of stock options	140,000	17,400	-	(7,400)	-	10,000
Shares issued for mineral properties	475,000	42,375	-	-	-	42,375
Warrants issued for mineral properties	-	-	-	20,000	-	20,000
Share-based payments	-	-	-	458,600	-	458,600
Share subscriptions received	-	-	179,985	-	-	179,985
Net loss for the year	-	-	-	-	(886,999)	(886,999)
Balance, June 30, 2021	98,720,783	\$ 9,040,847	\$ 56,985	\$ 1,717,387	\$ (8,604,998)	\$ 2,210,221

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

FALCON GOLD CORP.

Consolidated Statements of Cash Flows
For the years ended June 30, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
Operating Activities		
Net loss for the period	\$ (886,999)	\$ (671,496)
Items not affecting cash		
Unrealized gain on marketable securities	(126,588)	(25,000)
Share-based payments	458,600	117,099
Other income	(87,045)	(20,850)
Realized gain on sale of marketable securities	(29,119)	-
Gain on settlement of debt	-	(45,582)
Mineral property option payments in excess of capitalized costs	-	(6,170)
Write-off of accounts payable	-	(43,032)
Write-off of mineral properties	42,562	148,344
Write-off of prepaid expenses	-	25,350
Changes in non-cash working capital items related to operations:		
Amount receivable	(102,146)	(27,610)
Prepaid expenses and deposits	(19,063)	(23,300)
Accounts payable and accrued liabilities	(275,097)	16,995
Cash used in operating activities	(1,024,895)	(555,252)
Investing Activities		
Exploration and evaluation assets	(778,200)	(327,809)
Proceeds on sale of marketable securities	76,672	-
Cash used in investing activities	(701,528)	(327,809)
Financing Activities		
Shares issued for cash	1,972,531	959,246
Share issue cost – cash	-	(3,735)
Share subscriptions received	179,985	-
Loan payable repayment	-	(4,000)
Cash provided by financing activities	2,152,516	951,511
Change in cash during the year	426,093	68,450
Cash, beginning of year	121,333	52,883
Cash and cash equivalents, end of the year	\$ 547,426	\$ 121,333
Cash and cash equivalents consist of the following:		
Cash	\$ 470,729	\$ 121,333
Cash held at a brokerage account	76,697	-
	\$ 547,426	\$ 121,333
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Non-cash Transactions		
Exploration and evaluation assets and marketable securities	\$ 114,750	\$ -
Exploration and evaluation assets and contributed surplus	\$ 20,000	\$ -
Exploration and evaluation assets and share capital	\$ 42,375	\$ 275,000
Share capital and contributed surplus	\$ 7,400	\$ -

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

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

(Expressed in Canadian Dollars)

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 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 June 30, 2021, the Company has no source of recurring revenue, generates negative cash flows from operating activities, and has an accumulated deficit of \$8,604,998. 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 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 financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

These consolidated financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on October 27, 2021.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

(Expressed in Canadian Dollars)

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

These consolidated financial statements have been prepared on a historical cost basis. In addition, these 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently in the financial statements, unless otherwise indicated.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Manhattan Minerals Inc. and 2287991 Ontario Inc.

The consolidated financial statements include the financial statements of subsidiaries subject to control by the Company. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of operations and comprehensive loss for the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions and balances are eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at bank and cash held at brokerage account.

Functional Currency

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.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Exploration and Evaluation Expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as mineral concession taxes, option payments, wages and salaries, surveying, geological consulting and laboratory costs, field supplies, travel and administration. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they are incurred.

The Company may occasionally enter into option or royalty arrangements, whereby the Company will transfer part of its mineral properties, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

Restoration, Rehabilitation and Environmental Obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as at June 30, 2021 and 2020 as the disturbance to date is minimal.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Income Taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Consideration received from a private placement financing involving units consisting of common shares and warrants is allocated to the share capital and the warrant reserve accounts using the residual value method. The residual method first allocates the value to common shares issued in the private placements at their fair value as determined by the closing quoted bid price on the issuance date. The balance, if any, is allocated to the warrants. Any fair value attributed to the warrants is recorded as contributed surplus in shareholders; equity. Share issuance costs are netted against share proceeds on a pro rata basis.

Loss per Share

Basic loss per share is calculated by dividing the net loss for the year by the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted income or loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the year, if they are determined to have a dilutive effect. In periods when the Company has generated a net loss, stock options and share purchase warrants are not included in the computation of diluted loss per share as they are anti-dilutive.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based Payments

Where equity-settled share options are granted to employees, the fair value of the options at the date of grant, measured using the Black-Scholes option pricing model, is charged to the statement of comprehensive loss or capitalized to mineral properties over the vesting period using the graded vesting method. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Charges for options that are forfeited before vesting are reversed from share-based payment reserve.

Where equity-settled share options are granted to non-employees, they are measured at the fair value of the goods or services received. However, if the value of goods or services received in exchange for the options cannot be reliably estimated, the options are measured using the Black-Scholes option pricing model.

All equity-settled share-based payments are reflected in share-based payment reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, together with any consideration received.

Financial instruments

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as fair value through profit or loss ("FVTPL"), directly attributable transaction costs. Financial instruments are recognized when the Company becomes party to the contracts that give rise to them and are classified as amortized cost, fair value through profit or loss or fair value through other comprehensive income, as appropriate.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets not designated upon initial recognition as amortized cost or fair value through other comprehensive income ("FVOCI"). A financial asset is classified in this category principally for the purpose of selling in the short term, or if so designated by management. Transaction costs are expensed as incurred. On initial recognition, a financial asset that otherwise meets the requirements to be measured at amortized cost or FVOCI may be irrevocably designated as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets measured at FVTPL are measured at fair value with changes in fair value recognized in the statements of operations and comprehensive loss. Cash and cash equivalents and marketable securities are classified as FVTPL.

Financial assets at FVOCI

On initial recognition of an equity investment that is not held for trading, an irrevocable election is available to measure the investment at fair value upon initial recognition plus directly attributable transaction costs and at each period end, changes in fair value are recognized in other comprehensive income ("OCI") with no reclassification to the statements of operations. The election is available on an investment-by-investment basis. Investments in equity securities, where the Company cannot exert significant influence, are designated as financial assets at FVOCI.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets at amortized cost

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and is not designated as FVTPL. Financial assets classified as amortized cost are measured subsequent to initial recognition at amortized cost using the effective interest method.

Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in net earnings when the liabilities are derecognized as well as through the amortization process. Borrowing liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Accounts payable, and loans payable are classified as and measured at amortized cost.

De-recognition of financial assets and liabilities

A financial asset is derecognised when either the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash flows from the asset have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the Company does not control the asset then derecognition is appropriate. A financial liability is derecognised when the associated obligation is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in net loss.

Impairment of financial assets:

A loss allowance for expected credit losses is recognized in OCI for financial assets measured at amortized cost. At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment model does not apply to investment in equity instruments.

The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial instruments recorded at fair value:

The fair value of quoted investments is determined by reference to market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; and, pricing models.

Financial instruments that are measured at fair value subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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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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.

Investment in marketable securities	Number of shares/Units Held	Investment Cost	Fair Value at June 30, 2021	Number of shares/Units Held	Investment Cost	Fair Value at June 30, 2020
	#	\$	\$	#	\$	\$
Public Companies						
Portofino Resources Inc.	236,500	27,198	21,285	-	-	-
Marvel Discovery Corp.	1,500,000	75,000	232,500	1,000,000	35,000	60,000
Total	1,736,500	102,198	253,785	1,000,000	35,000	60,000

During the year ended June 30, 2021, the Company sold some of its marketable securities for total proceeds of \$76,671 and realized a gain of \$29,119.

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6. EXPLORATION AND EVALUATION ASSETS

As at June 30, 2020	McCaul Hutchinson	Central Canada	Bruce Lake	Spitfire & Sunny	Camping Lake	Wabunk Bay	Esperanza	Total
Balance, beginning of year	\$ 33,562	\$ 11,500	\$ -	\$ -	\$ -	\$ -	\$ 41,770	\$ 86,832
Acquisition costs	39,000	55,000	26,000	313,883	28,000	-	-	461,883
Option payments received	-	-	-	-	(35,000)	-	-	(35,000)
Option payments received in excess of carrying costs	-	-	-	-	6,170	-	-	6,170
Exploration costs	-	133,154	1,730	12,521	830	86,526	20,048	254,808
Write-down	-	-	-	-	-	(86,526)	(61,818)	(148,343)
Balance, end of year	\$ 72,562	\$ 199,654	\$ 27,730	\$ 326,404	\$ -	\$ -	\$ -	\$ 626,350

As at June 30, 2021	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

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:

- Cash payment of \$5,000 on signing (paid);
- Issue 50,000 common shares on regulatory approval (issued);
- Cash payment of \$20,000 (paid) and issuance of 50,000 common shares on the first anniversary of the approval (issued);
- Cash payment of \$50,000 and issuance of 50,000 common shares on the second anniversary of the approval (see below);
- Cash payment of \$50,000 and issuance of 50,000 common shares on the third anniversary of the approval date; and

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6. EXPLORATION AND EVALUATION ASSETS (continued)

- 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).

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.

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

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.

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6. EXPLORATION AND EVALUATION ASSETS (continued)

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.

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.

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Notes to the Consolidated Financial Statements

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6. EXPLORATION AND EVALUATION ASSETS (continued)

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.

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.

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6. EXPLORATION AND EVALUATION ASSETS (continued)

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.

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 June 30, 2020, and 2021, the Company owns 49% of the Property and the Property remain inactive.

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7. SHARE CAPITAL

a) Authorized

Unlimited shares without par value.

b) Issued

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.

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7. SHARE CAPITAL (continued)

b) Issued (continued)

During the year ended June 30, 2020:

On July 12, 2019, the Company issued 15,580,000 units at \$0.025 per unit which comprise of one common share and one common share purchase warrant. Each warrant will be exercisable for one share for a period of two years at \$0.05.

On July 26, 2019, the Company issued 3,100,000 units at \$0.025 per unit which comprise of one common share and one common share purchase warrant. Each warrant will be exercisable for one share for a period of two years at \$0.05.

On October 9, 2019, the Company issued 1,000,000 common shares at \$0.04 per share as partial consideration for the acquisition of mineral properties.

During the year ended June 30, 2020, the Company entered into an agreement to settle debt of \$52,332 in exchange for the issue of 300,000 shares.

On December 10, 2019, the Company issued 2,085,000 flow-through units at \$0.05 per unit which comprise of one common share and one-half share purchase warrant. Each warrant will be exercisable for one share for a period of two years at \$0.075.

On January 17, 2020, the Company issued 250,000 common shares to the former CFO of the Company to settle debt of \$12,500.

On May 12, 2020, the Company issued 1,000,000 common shares at \$0.06 per share as partial consideration for the acquisition of mineral properties.

On May 22, 2020, the Company issued 2,096,634 units at \$0.075 per unit which comprise of one common share and one common share purchase warrant. Each warrant will be exercisable for one share for a period of two years at \$0.10. The Company has allocated the fair value of \$10,484 to the warrants using the residual value method.

On June 2, 2020, the Company issued 2,500,000 common shares at \$0.07 per share and 2,500,000 common share purchase warrants with a fair value of \$113,883 as partial consideration for the acquisition of mineral properties.

During the year ended 2020, the Company issued 6,115,000 shares for warrants exercised and 400,000 shares for options exercised.

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7. SHARE CAPITAL (continued)

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, 2019	17,214,000	\$0.07
Issued	24,319,134	\$0.06
Exercised	(6,115,000)	\$ 0.05
Expired	(7,770,000)	\$0.06
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

The following warrants are outstanding at June 30, 2021:

Number of warrants	Exercise price per warrant	Expiry date
6,800,000	\$0.05	July 12, 2021
1,000,000	\$0.05	July 26, 2021
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
25,952,499		

Subsequent to June 30, 2021, 7,800,000 share purchase warrants were exercised for total proceeds of \$390,000.

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.

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7. SHARE CAPITAL (continued)

d) Stock options (continued)

On July 10, 2020, the Company granted 1,600,000 stock options exercisable to directors and officers of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.125 per share expiring on July 10, 2023 and vested on the grant date. The fair value of the stock options of \$176,000 was determined using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.14; Risk-free interest rate of 0.28%; Dividend yield of nil; Expected volatility of 138%; Expected life of 3 years and forfeiture rate of 0%. Volatility was determined based on the Company's historical data. During the year ended June 30, 2021, the Company recorded \$176,000 in share-based payments.

On September 16, 2020, the Company granted 1,000,000 stock options to directors of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.135 per share expiring on September 16, 2025 and vested on the grant date. The fair value of the stock options of \$142,500 was determined using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.15; Risk-free interest rate of 0.33%; Dividend yield of nil; Expected volatility of 212%; Expected life of 5 years and forfeiture rate of 0%. Volatility was determined based on the Company's historical data. During the year ended June 30, 2021, the Company recorded \$142,500 in share-based payments.

On March 10, 2021, the Company granted 1,500,000 stock options to directors of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.12 per share expiring on March 10, 2024 and vested on the grant date. The fair value of the stock options of \$105,000 was determined using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.10; Risk-free interest rate of 0.45%; Dividend yield of nil; Expected volatility of 138%; Expected life of 3 years and forfeiture rate of 0%. Volatility was determined based on the Company's historical data. During the year ended June 30, 2021, the Company recorded \$105,000 in share-based payments.

On May 31, 2021, the Company granted 500,000 stock options to consultants of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.12 per share expiring on May 31, 2024 and vested on the grant date. The fair value of the stock options of \$35,100 was determined using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.095; Risk-free interest rate of 0.54%; Dividend yield of nil; Expected volatility of 137%; Expected life of 3 years and forfeiture rate of 0%. Volatility was determined based on the Company's historical data. During the year ended June 30, 2021, the Company recorded \$35,100 in share-based payments.

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Notes to the Consolidated Financial Statements

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7. SHARE CAPITAL (continued)

d) Stock options (continued)

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

	Number of Stock Options	Weighted Average Exercise Price
Balance June 30, 2019	2,680,000	\$0.15
Granted	4,000,000	\$0.05
Exercised	(400,000)	\$ 0.05
Expired/canceled	(2,680,000)	\$0.07
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

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

Number of options	Exercise price per option	Expiry date
250,000	\$0.10	September 7, 2021
1,100,000	\$0.05	April 3, 2022
400,000	\$0.06	May 1, 2023
1,560,000	\$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
7,360,000		

The weighted average remaining contractual life of options outstanding at June 30, 2021 was 2.50 years (2020 – 3.02 years).

Subsequent to June 30, 2021, 80,000 stock options were exercised for total proceeds of \$9,600.

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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:

	2021	2020
Management fees	\$ 113,000	\$ 113,500
Rent	20,700	-
Accounting	16,000	-
Share-based payments	214,250	47,420
	\$ 363,950	\$ 160,920

Accounts payable and accrued liabilities include \$7,674 (2020 - \$50,005) due to related parties. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

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 year ended June 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:

	2021	2020
Cash and cash equivalents	\$ 547,426	\$ 121,333

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.

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

(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 June 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 year ended June 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.

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10. INCOME TAXES

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

	2021	2020
Loss before income taxes	\$ (886,999)	\$ (671,496)
Statutory tax rates	27.00%	27.00%
Recovery based on statutory rates	(239,000)	(181,000)
Non-deductible expenses and other items	92,000	157,000
Change in effective tax rate	-	(56,000)
Change in unrecognized deferred tax assets	147,000	80,000
Deferred income tax recovery	\$ -	\$ -

The nature and tax effect of the taxable temporary differences giving rise to deferred tax assets and liabilities are summarized as follows:

	2021	2020
Non-capital loss carry-forwards	\$ 1,420,000	\$ 1,282,000
Share issuance costs	4,000	8,000
Capital property	13,000	13,000
Mineral property	401,000	391,000
	1,838,000	1,694,000
Offset against deferred tax liabilities	-	-
Unrecognized deferred tax asset	(1,838,000)	(1,694,000)
Deferred tax assets	\$ -	\$ -

The Company has accumulated Canadian non-capital losses of \$5,260,000 up to June 30, 2021 for income tax purposes, which may be deducted in the calculation of taxable income in future years. These losses will expire between the years 2030 to 2041. The Company has US tax losses of \$150,000 expiring 2030 to 2039.

11. SUBSEQUENT EVENTS

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.

On August 5, 2021, the Company granted 1,800,000 stock options to an officer of the Company and consultants exercisable at a price of \$0.10 per share expiring on August 31, 2026.

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. 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.