



FALCON
GOLD CORP

Consolidated Financial Statements

June 30, 2023 and 2022

(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, 2023 and 2022, 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 (together, the "Financial Statements")

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2023 and 2022 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 audits 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 audits 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 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for the year ended June 30, 2023. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, We have determined that there are no other key audit matters to communicate in our report.

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 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 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 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 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are, therefore, the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Artem Valeev.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada

January 15, 2024

FALCON GOLD CORP.

Consolidated Statements of Financial Position

As at June 30, 2023 and 2022

(Expressed in Canadian Dollars)

| | 2023 | 2022 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 326,356 | \$ 273,905 |
| Amount receivable (Note 8) | 82,127 | 171,966 |
| Marketable securities (Note 5) | 118,961 | 161,305 |
| Prepaid expenses (Note 8) | 193,655 | 66,422 |
| | 721,099 | 673,598 |
| Exploration and evaluation assets (Note 6) | 2,698,288 | 1,979,939 |
| | \$3,419,387 | \$ 2,653,537 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 8) | \$ 524,880 | \$ 342,586 |
| Premium on flow-through (Note 10) | 207,493 | 89,696 |
| | 732,373 | 432,282 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 7) | 11,563,752 | 10,093,746 |
| Share subscriptions (receivable) | (25,000) | (73,000) |
| Contributed surplus | 2,128,568 | 2,138,237 |
| Deficit | (10,980,306) | (9,937,728) |
| | 2,687,014 | 2,221,255 |
| | \$ 3,419,387 | \$ 2,653,537 |

Nature of operations and going concern (Note 1)

Subsequent events (Note 11)

Approved and authorized for issuance on behalf of the Board of Directors on January 15, 2024:

/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, 2023 and 2022

(Expressed in Canadian Dollars)

| | 2023 | 2022 |
|--|--------------|----------------|
| Expenses | | |
| Consulting fees | \$ 134,071 | \$ 180,633 |
| Exploration expenditures | - | 500 |
| Filing fees and communications | 232,584 | 257,116 |
| Foreign exchange loss (recovery) | 958 | (367) |
| General and administration costs | 87,577 | 58,665 |
| Management fees (Note 8) | 180,000 | 170,000 |
| Professional fees | 137,001 | 159,005 |
| Share-based payments (Notes 7 and 8) | - | 434,800 |
| Travel and promotion | 9,986 | 8,260 |
| | 782,177 | 1,288,612 |
| Loss before other items | (782,177) | (1,268,612) |
| Other items | | |
| Other income (Note 10) | 128,895 | 33,909 |
| Gain on sale of marketable securities (Note 5) | - | 12,009 |
| Unrealized gain (loss) on marketable securities (Note 5) | (58,222) | (92,480) |
| Write-off of accounts payable | 22,440 | 12,444 |
| Write-off mineral property (Note 6) | (229,946) | (30,000) |
| Write-off amount receivable | (72,191) | - |
| | (209,024) | (64,118) |
| Net loss and comprehensive loss for the year | \$ (991,201) | \$ (1,332,730) |
| Basic and diluted loss per share | \$ (0.01) | \$ (0.01) |
| Weighted average number of common shares outstanding | 124,452,209 | 110,906,536 |

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

FALCON GOLD CORP.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended June 30, 2023 and 2022

(Expressed in Canadian Dollars)

| | Number of Shares | Share Capital | Share subscriptions received (receivable) | Contributed Surplus | Deficit | Total Shareholders' Equity |
|--|---------------------|------------------|--|------------------------|-----------------|----------------------------------|
| Balance, June 30, 2021 | 98,720,7838 | \$ 9,040,847 | \$ 56,985 | \$ 1,717,387 | \$ (8,604,998) | \$ 2,210,221 |
| Cash | | | | | | |
| Private placement | 5,617,000 | 700,210 | (179,985) | 15,000 | - | 535,225 |
| Exercise of warrants | 7,800,000 | 390,000 | - | - | - | 390,000 |
| Exercise of stock options | 630,000 | 78,450 | - | (35,950) | - | 42,500 |
| Share issue costs-cash | - | (43,501) | - | - | - | (43,501) |
| Reclassify flow-through share premium | - | (123,510) | - | - | - | (123,510) |
| Shares issued for mineral properties | 600,000 | 51,250 | - | - | - | 51,250 |
| Warrants issued for mineral properties | - | - | - | 7,000 | - | 7,000 |
| Share-based payments | - | - | - | 434,800 | - | 434,800 |
| Services received | - | - | 50,000 | - | - | 50,000 |
| Net loss for the year | - | - | - | - | (1,332,730) | (1,332,730) |
| Balance, June 30, 2022 | 113,367,783 | \$ 10,093,746 | \$ (73,000) | \$ 2,138,237 | \$ (9,937,728) | \$ 2,221,255 |
| Balance, June 30, 2022 | 113,367,783 | \$ 10,093,746 | \$ (73,000) | \$ 2,138,237 | \$ (9,937,728) | \$ 2,221,255 |
| Cash | | | | | | |
| Private placement | 14,730,244 | 1,665,250 | - | - | - | 1,665,250 |
| Exercise of warrants | 266,667 | 26,667 | - | - | - | 26,667 |
| Exercise of stock options | 300,000 | 33,400 | - | (15,900) | - | 17,500 |
| Share issue cost - cash | - | (78,119) | - | - | - | (78,119) |
| Reclassify flow-through share premium | - | (246,692) | - | - | - | (246,692) |
| Shares issued for mineral properties | 800,000 | 69,500 | - | - | - | 69,500 |
| Warrants issued for mineral properties | - | - | - | 20,000 | - | 20,000 |
| Share subscriptions received | - | - | 48,000 | - | - | 48,000 |
| Options expired | - | - | - | (13,769) | 13,769 | - |
| Distribution to shareholders (Note 5) | - | - | - | - | (65,146) | (65,146) |
| Net loss for the year | - | - | - | - | (991,201) | (991,201) |
| Balance, June 30, 2023 | 129,464,694 | \$ 11,563,752 | \$ (25,000) | \$ 2,128,568 | \$ (10,980,306) | \$ 2,687,014 |

(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, 2023 and 2022
(Expressed in Canadian Dollars)

| | 2023 | 2022 |
|--|--------------|----------------|
| Operating Activities | | |
| Net loss for the year | \$ (991,201) | \$ (1,332,730) |
| Items not affecting cash | | |
| Unrealized (gain) loss on marketable securities | 58,222 | 92,480 |
| Share-based payments | - | 434,800 |
| Other income | (128,895) | (33,814) |
| Gain on sale of marketable securities | - | (12,009) |
| Shares issued for services | - | 50,000 |
| Write-off mineral properties | 229,946 | 30,000 |
| Write-off of accounts payable | (22,440) | - |
| Write-off amount receivable | 72,191 | - |
| Changes in non-cash working capital items related to operations: | | |
| Amount receivable | 22,689 | (3,289) |
| Prepaid expenses | (127,233) | (24,059) |
| Accounts payable and accrued liabilities | 266,881 | 180,518 |
| Advance receivable | - | (36,618) |
| Cash used in operating activities | (619,840) | (654,721) |
| Investing Activities | | |
| Exploration and evaluation assets | (1,007,007) | (555,032) |
| Proceeds on sale of marketable securities | - | 12,008 |
| Cash used in investing activities | (1,007,007) | (543,024) |
| Financing Activities | | |
| Shares issued for cash | 1,709,417 | 967,725 |
| Share issue cost – cash | (78,119) | (43,501) |
| Share subscriptions received | 48,000 | - |
| Cash provided by financing activities | 1,679,298 | 924,224 |
| Change in cash during the year | 52,451 | (273,521) |
| Cash and cash equivalents, beginning of year | 273,905 | 547,426 |
| Cash and cash equivalents, end of the year | \$326,356 | \$ 273,905 |
| Cash and cash equivalents consist of the following: | | |
| Cash | \$ 326,356 | \$ 185,106 |
| Cash held at a brokerage account | - | 88,799 |
| | \$ 326,356 | \$ 273,905 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period: | | |
| Interest | \$ - | \$ - |
| Income taxes | \$ - | \$ - |
| Non-cash Transactions | | |
| Exploration and evaluation assets and contributed surplus | \$ 20,000 | \$ 7,000 |
| Exploration and evaluation assets and share capital | \$ 69,500 | \$ 51,250 |
| Share capital and contributed surplus | \$ 15,900 | \$ 35,950 |
| Distribution of mineral property for marketable securities | \$ 81,024 | \$ - |
| Distribution of share of Latamark | \$ 65,146 | \$ - |

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

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(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 suite 1100 – 1111 Melville Street, Vancouver, BC, V6E 3V6.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. At June 30, 2023, the Company has not achieved profitable operations, has accumulated losses of \$10,980,306 since inception and expects to incur further losses in the development of its business.

The Company's business may be affected by changes in political and market conditions, such as interest rates, availability of credit, inflation rates, changes in laws, and national and international circumstances. Recent geopolitical events, including, the outbreaks of the coronavirus (COVID-19) pandemic, relations between NATO and Russian Federation regarding the situation in Ukraine, and potential economic global challenges such as the risk of the higher inflation and energy crises, may create further uncertainty and risk with respect to the prospects of the Company's business.

The above material uncertainties cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon successful results from its exploration and evaluation activities, its ability to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these consolidated financial statements.

2. BASIS OF PREPARATION**Statement of compliance**

These consolidated 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 January 15, 2024.

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.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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 inactive 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 include 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.

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.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Mineral Exploration and Evaluation Expenditures (continued)**

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, 2023 and 2022 as the disturbance to date is minimal.

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.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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

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, 2023 and 2022

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Share-based Payments**

The Company grants stock options and restricted share units to employees and directors under its share-based compensation plan.

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument granted. 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. RSUs vest ratably over the restriction period and accordingly, the expense is recognized over the restriction period.

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, 2023 and 2022

(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 at amortized cost are measured subsequent to initial recognition at amortized cost using the effective interest method. Amount receivable is classified as and measured at amortized cost.

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 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, 2023 and 2022

(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).

The Company's financial assets include cash and cash equivalents, and marketable securities are classified as Level 1. The carrying value of these instruments approximates their fair values due to the relatively short periods of maturity of these instruments.

Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the fiscal year ended June 30, 2023 and have not been early adopted in preparing these audited financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's financial statements.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of Mineral Properties (continued)

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.

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.

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.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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. The fair value of investments in private companies are referenced to the most recent equity financing completed.

| Investment in marketable securities | Number of shares/Units Held | Investment Cost | Fair Value at June 30, 2023 | Number of shares/Units Held | Investment Cost | Fair Value at June 30, 2022 |
|-------------------------------------|-----------------------------|-----------------|-----------------------------|-----------------------------|-----------------|-----------------------------|
| | # | \$ | \$ | # | \$ | \$ |
| Public Companies | | | | | | |
| Portofino Resources Inc. | 161,500 | 18,573 | 6,460 | 161,500 | 18,573 | 11,305 |
| Marvel Discovery Corp. | 1,500,000 | 75,000 | 82,500 | 1,500,000 | 75,000 | 120,000 |
| Private Company | | | | | | |
| Power One Resources Corp. | 300,000 | - | 30,000 | 300,000 | - | 30,000 |
| Latamark Resources Corp. | 5,000,000 | 15,878 | 1 | - | - | - |
| Total | 6,961,500 | 109,451 | 118,961 | 1,961,500 | 93,573 | 161,305 |

On November 2, 2022, the Company completed the plan of arrangement ("the Arrangement") whereby the Company spun out its Esperanza property assets to create a new exploration company, Latamark Resources Corp. ("Latamark"), under the Business Corporations Act (British Columbia). In consideration for the transferred assets, the Company received 5,000,000 common shares of Latamark and in addition, each holder of common shares of the Company received one Latamark common share for each 5.8 common shares of the Company held which was recorded as distribution to the shareholders of the Company. Latamark is connected by way of common directors or officer.

As the Arrangement occurred between companies under common control, the transfer was reflected at carrying values and was recorded as a capital transaction through equity. The carrying values of the assets transferred and acquired pursuant to the Arrangement consisted of the following:

| | | |
|--|-----------|---------------|
| Exploration and evaluation properties (Note 6) | \$ | 81,024 |
| Shares of Latamark received | | (15,878) |
| Total distribution to the shareholders | \$ | 65,146 |

With its 5,000,000 common shares of Latamark, the Company held 19.62% of the issued and outstanding shares of Latamark as at June 30, 2023. The Company concluded that while it does have significant influence over the financing and operating policies of Latamark, the carrying value of the investment and the underlying net assets of Latamark are not material. Accordingly, the Company will account for its investment under the investment method. During the year ended June 30, 2023, the Company wrote off an amount of \$30,573 receivable from Latamark as uncollectible.

During the year ended June 30, 2022, the Company received 300,000 common shares of Power One Resources Corp ("Power One") as a result of a spinout by Marvel Discovery Corp. ("Marvel") on the basis of 1 Power One share for every 5 shares of Marvel held. Marvel and Power One are connected by way of common directors or officers.

During the year ended June 30, 2023, the Company sold none of its marketable securities for total proceeds of \$nil (2022 - \$12,009) and recognized a gain of \$nil (2022 - \$12,009 gain).

During the year ended June 30, 2023, the Company recognized an unrealized loss on fair value of investment of \$58,222 (2022-\$92,480).

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

| As at June 30, 2023 | Central Canada | Spitfire & Sunny | Gaspard | Hope Brook | Baie Verte | Esperanza | Valentine Gold | Viernes | Gander South | Others | Sub-Total |
|----------------------------|-------------------|---------------------|------------|---------------|---------------|-----------|-------------------|------------|-----------------|------------|--------------|
| Balance, beginning of year | \$ 969,431 | \$ 376,544 | \$ 83,075 | \$ 120,400 | \$ 121,233 | \$ 67,932 | \$ 56,500 | \$ 31,629 | \$ 37,180 | \$ 116,015 | \$ 1,979,939 |
| Cash | 20,000 | - | - | - | - | - | - | 52,314 | - | 42,124 | 114,438 |
| Staking | - | - | - | - | 585 | - | - | - | - | 102,959 | 103,544 |
| Shares issued | - | - | - | - | - | - | - | 9,500 | - | 53,000 | 62,500 |
| Warrants issued | - | - | - | - | - | - | - | 3,000 | - | 16,000 | 19,000 |
| Exploration costs | 13,880 | 1,015 | 44,574 | 423,781 | 49,499 | 13,092 | 66,134 | 31,062 | 78,983 | 67,005 | 789,025 |
| Distribution (Note 5) | - | - | - | - | - | (81,024) | - | - | - | - | (81,024) |
| Adjustment | - | - | - | - | (59,188) | - | - | - | - | - | (59,188) |
| Impairment | (17,000) | - | - | (13,818) | - | - | (122,634) | - | (16,640) | (59,854) | (229,946) |
| Balance, end of year | \$ 986,311 | \$ 377,559 | \$ 127,649 | \$ 530,363 | \$ 112,129 | \$ - | \$ - | \$ 127,505 | \$ 99,523 | \$ 337,249 | \$2,698,288 |

| As at June 30, 2022 | McCaul Hutchinson | Central Canada | Spitfire & Sunny | Gaspard | Hope Brook | Baie Verte | Esperanza | Valentine Gold | Others | Total |
|----------------------------|----------------------|-------------------|---------------------|-----------|---------------|------------|-----------|-------------------|---------|--------------|
| Balance, beginning of year | \$ 30,000 | \$ 825,137 | \$336,134 | \$ 43,000 | \$ 64,740 | \$ - | \$ 44,631 | \$ - | 53,015 | \$ 1,396,657 |
| Cash | - | 50,000 | - | - | - | - | - | 56,500 | 35,379 | 141,879 |
| Staking | - | - | - | - | 43,160 | 62,045 | - | - | 43,680 | 148,885 |
| Shares issued | - | 10,000 | - | - | - | - | 8,500 | - | 32,750 | 51,250 |
| Warrants issued | - | - | - | - | - | - | 1,000 | - | 6,000 | 7,000 |
| Exploration costs | - | 84,294 | 40,410 | 40,075 | 12,500 | 59,188 | 13,801 | - | 14,000 | 264,268 |
| Impairment | (30,000) | - | - | - | - | - | - | - | - | (30,000) |
| Balance, end of year | \$ - | \$ 969,431 | \$376,544 | \$ 83,075 | \$ 120,400 | \$ 121,233 | \$ 67,932 | \$ 56,500 | 184,824 | \$ 1,979,939 |

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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 units. 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, 2021, the Company wrote down the McCaul Hutchinson Property to \$30,000. During the year ended June 30, 2022, the Company decided not to continue with McCaul Hutchinson Property and have written-off the remaining \$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 31 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 (paid), issuance of 100,000 common shares (issued) and incur \$40,000 in exploration expenditures on or before the fourth anniversary of the approval date (incurred).

In addition, on the fifth anniversary of the approval date, the Company has to make a pre-production advance royalty cash payment of \$20,000 (\$8,000 paid during the year and \$12,000 paid subsequent to the year end), and cash payments of \$5,000 thereafter on each anniversary of the approval date.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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

The Central Canada Property is subject to a 2.0% 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 \$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 with respect to the second anniversary payment by issuing 350,000 common shares and a cash payment of \$21,000, which was paid on May 5, 2020 (\$6,000) and August 8, 2020 (\$15,000).

On July 23, 2020, the Company staked additional mineral claims consisting of 369 units in the Atikokan gold camp. During the year ended June 30, 2022, the Company determined not to renew some of the claims as they were not considered to be core claims. During the year ended June 30, 2023, the Company determined not to renew any non-core claims and wrote down the carrying amount of non-core claims by \$17,000. As at June 30, 2023, the Company has a total of 31 claims.

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 east of Merritt and consist of 4 claims. 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.

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.

Hope Brook

During the year ended June 30, 2021, the Company staked claims within the Hope Brook area in Newfoundland for a total cost of \$64,740. During year ended June 30, 2022, the Company staked additional claims for a total cost of \$43,160. As at June 30, 2023, the Company has a total of 1,795 claims. During fiscal 2023, it was determined that some of the claims comprising the Hope Brook property would be allowed to lapse. The Company recoded impairment in the amount of \$13,818.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements
June 30, 2023 and 2022
(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (continued)**Baie Verte Area**

During the year ended June 30, 2022, the Company staked claims in Newfoundland for a total cost of \$62,045. As at June 30, 2023, the Company has a total of 502 claims.

During the year, the Company entered into an option agreement with Carmanah Minerals Corp. ("Carmanah") with respect to 502 claims whereby the Company will receive cash payments of \$62,000 over a four-year period and 2,000,000 common shares and 2,000,000 common share purchase warrants of Carmanah with each share purchase warrant exercisable for one common share at \$0.10 per share for a period of three years from the date of issue. In addition, the Company will retain a 2.5% NSR of which Carmanah may purchase 1% for \$1,000,000 at any time. The transaction is subject to approval by the TSX Venture Exchange as the Company and Carmanah are related parties as a result of common officers and directors. (See Note 11).

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 (issued) on signing of the agreement;
- ii) Issue 100,000 common shares (issued) and 100,000 warrants (issued) 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.

On February 24, 2022, the Company issued 100,000 common shares and 100,000 share purchase warrants. The Company fair valued the 100,000 warrants at \$1,000 using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.09; Risk-free interest rate of 2.21%; Dividend yield of nil; Expected volatility of 90%; Expected life of one 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 June 16, 2022, the Company entered into an arrangement agreement with its wholly owned subsidiary, Latamark Resources Corp. ("Latamark") Pursuant to the arrangement agreement, the Company will transfer its interest in the option agreement concerning the Esperanza gold project to Latamark in exchange for (i) Latamark issuing to the shareholders of the Company one common share in the capital of Latamark for every 5.8 common shares held in the company; (ii) Latamark issuing five million common shares to the Company; and (iii) Latamark assuming certain liabilities incurred, exploring or maintaining the property.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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

On October 14, 2022, the optionors of the Esperanza Property has agreed to defer the minimum annual expenditure requirement until the commencement of trading of Latamark shares on a Canadian stock exchange.

Valentine Gold

During the year ended June 30, 2022, the Company staked claims in New Foundland for a total cost of \$56,500. As at June 30, 2023, the Company has a total of 688 claims. During the year ended June 30, 2023, the Company determined that the project did not factor in its future plans and recorded impairment of \$122,634.

Viernes Project

On December 16, 2021, the Company entered into a property option agreement to acquire 100% interest in the Viernes Project in the Republic of Chile from Excava Holding SpA, a Chilen company ("Excava"). The Viernes project consist of 13 claims. As consideration, the Company agreed to issue 500,000 common shares and 500,000 share purchase warrants over a two year period; incur US\$250,000 in exploration expenditures within 48 months from the effective date. Upon completion of the above terms, the Company will hold an 80% interest in the Claims and Excava will hold the remaining 20% and retain a 2% Net Return Royalty (the "NSR").

The Company can acquire the remaining 20% interest which includes a 1% NSR buy back for US\$1,500,000. The Company has the exclusive right to purchase the remaining 20% interest in the project for a 30 month term; after which the Company reserves first right of refusal.

On February 24, 2022, the Company issued 150,000 common shares valued at \$12,750 and 150,000 share purchase warrants exercisable at \$0.20 over a two year period. The Company fair valued the 150,000 share purchase warrants at \$6,000 using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.09; Risk-free interest rate of 1.26%; Dividend yield of nil; Expected volatility of 117%; Expected life of two years and forfeiture rate of 0%. Volatility was determined based on the Company's historical data.

During the year ended June 30, 2023, the Company paid to the optionee, an amount of \$52,314 to upgrade the concessions and for annual taxes related to the claims.

Gander South

During the year ended June 30, 2022, the Company staked claims in Gander Newfoundland for a total cost of \$37,180. As at June 30, 2023, the Company has a total of 572 claims. During fiscal 2023, it was determined that some of the claims comprising the Gander South property would be allowed to lapse. The Company recoded impaiement in the amount of \$16,640.

Other properties**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 221 claims and extends from McNaughton Township.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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

During the year ended June 30, 2021, the Company staked 91 claims in Newfoundland for a total cost of \$5,915.

Gander North

During the year ended June 30, 2021, the Company staked claims in Gander Newfoundland for a total cost of \$26,390. As at June 30, 2023, the Company has a total of 406 claims. During fiscal 2023, it was determined that some of the claims comprising the Gander North property would be allowed to lapse. The Company recorded impairment in the amount of \$9,750.

Victoria South Area

During the year ended June 30, 2021, the Company staked claims in Newfoundland for a total cost of \$18,460. During the year ended June 30, 2022, the Company staked additional claims for a total cost of \$6,500. As at June 30, 2023, the Company has a total of 284 claims. During fiscal 2023 it was determined that the Victoria South claims would be allowed to lapse and impairment of \$50,104 was recorded.

Camilleri Project

On June 15, 2022, the Company acquired 100% interest in the Camilleri project which is located in Ontario, Canada. The Camilleri project consists of 9 claims. As consideration, the Company paid \$10,500 in cash and issued 100,000 common shares of the Company fair valued at \$8,000. The Camilleri project is subject to a 1% net smelter return which the Company may purchase back for \$300,000 at any time.

Holmstead Project

On June 6, 2022, the Company acquired 100% interest in the Holmstead project which is located in Quebec, Canada. The Holmstead project consists of 93 claims. As consideration, the Company paid \$12,000 in cash and issued 150,000 common shares of the Company fair valued at \$12,000. The Holmstead project is subject to a 1% net smelter return which the Company may purchase back for \$300,000 at any time. The Company agreed to give the vendor the first right of refusal on technical work to a maximum of \$50,000 for a twelve-month term.

During the year ended June 30, 2023, the Company staked additional claims in the Holmstead claims located in Quebec, Canada for a total cost of \$23,719.

HSP Claims

On October 5, 2022, the Company acquired 100% interest in the HSP Claims which is located in Quebec, Canada. The HSP Claims consist of 413 claims. As consideration, the Company paid cash of \$10,000 and issued 200,000 common shares fair valued at \$20,000 and 200,000 share purchase warrants expiring two years from the date of issuance. The share purchase warrants will entitle the holder to purchase one additional common share of the Company at a price of \$0.20 per share until October 18, 2024. The warrants were valued at \$6,000 using volatility of 95%, interest rate of 3.87%, share price at date of issuance of \$0.10, expected life of 2 years and dividend yield of 0.00%.

This agreement is subject to a 1% NSR which the Company may buy back for \$400,000 at any time. The Company agreed to give the vendor the first right of refusal on technical work to a maximum of \$50,000 for a twelve month term.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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

During the year ended June 30, 2023, the Company additionally staked additional claims in the HSP Claims located in Quebec, Canada for a total cost of \$52,372.

Nickel North Project

On March 31, 2023, the Company acquired 100% interest in the Nickel North project which is located in Quebec, Canada. The Nickel North project consists of 56 claims. As consideration, the Company paid \$17,500 in cash and issued 200,000 common shares of the Company fair valued at \$16,000 and 200,000 share purchase warrants expiring two years from the date of issue. The share purchase warrants will entitle the holder to purchase one additional common share of the Company at a price of \$0.20 per share until April 20, 2025. The Nickel North project is subject to a 1% net smelter return which the Company may purchase back for \$400,000 at any time. The warrants were valued at \$4,000 using volatility of 95%, interest rate of 3.87%, share price at date of issuance of \$0.10, expected life of 2 years and dividend yield of 0.00%.

During the year ended June 30, 2023, the Company staked additional 60 claims in the Nickel North project located in Quebec, Canada for a total cost of \$26,882.

Area 51 Claims

On January 12, 2023, the Company acquired 100% interest in the Area 51 Claims which is located in the Republic of Chile. The Area 51 Claims consist of 14 claims. As consideration, the Company paid cash of \$13,586 (US\$10,000) and issued 200,000 common shares fair valued at \$17,000 and 200,000 share purchase warrants expiring two years from the date of issuance. The share purchase warrants will entitle the holder to purchase one additional common share of the Company at a price of \$0.20 per share until January 30, 2025. The warrants were valued at \$6,000 using volatility of 94%, interest rate of 3.56%, share price at date of issuance of \$0.09, expected life of 2 years and dividend yield of 0.00%.

This agreement is subject to a 1% NSR which the Company may buy back for US\$1,200,000 at any time.

Robb & Turnbull Property

On March 17, 2023, the Company acquired 100% interest in the Robb & Turnbull Property, located in Ontario, Canada. As consideration, the Company paid cash of \$850.

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

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (continued)**Bruce Lake Property (continued)**

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.

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, 2023, and 2022, the Company owns 49% of the Burton Property which remains inactive.

7. SHARE CAPITAL**a) Authorized**

Unlimited shares without par value.

b) IssuedDuring the year ended June 30, 2023

On August 17, 2022, the Company completed a non-flow-through private placement of 4,000,000 units at a price of \$0.075 per unit for total proceeds of \$300,000. Each unit consisted of one non-flow-through common share and one share purchase warrant. Each share purchase warrant entitled the holder to purchase one additional non-flow-through common share at a price of \$0.10 per share for a period of three years expiring on August 17, 2025. The Company recognized a value of \$nil to the warrants using the residual value method.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)**b) Issued (continued)**

On October 18, 2022, pursuant to the terms of an option agreement for the HSP Claims, the Company issued 200,000 common shares fair valued at \$20,000 and issued 200,000 share purchase warrants expiring two years from the date of issuance. The share purchase warrants will entitle the holder to purchase one additional common share of the Company at a price of \$0.20 per share until October 18, 2024. The warrants were valued at \$6,000 using volatility of 95%, interest rate of 3.87%, share price at date of issuance of \$0.10, expected life of 2 years and dividend yield of 0.00%.

On October 25, 2022, the Company completed a non-flow-through private placement of 909,090 units at a price of \$0.11 per unit for total proceeds of \$100,000. Each unit consisted of one non-flow-through common share and one share purchase warrant. Each share purchase warrant entitled the holder to purchase one additional non-flow-through common share at a price of \$0.15 per share for a period of two years expiring on October 25, 2024. The Company recognized a value of \$nil to the warrants using the residual value method.

On November 3, 2022, the Company completed a flow-through private placement of 3,846,154 units at a price of \$0.13 per unit for total proceeds of \$500,000. Each unit consist of one flow-through share and one-half of one common share purchase warrant. Each share purchase warrant entitled the holder to purchase one additional non-flow-through common share at a price of \$0.25 per share for a period of two years expiring on November 3, 2024. The Company recognized a flow-through premium of \$57,692 on this private placement and a value of \$nil to the warrants using the residual value method.

On November 9, 2022, the Company completed a non-flow-through private placement of 200,000 units at a price of \$0.11 per unit for total proceeds of \$22,000. Each unit consisted of one non-flow-through common share and one share purchase warrant. Each share purchase warrant entitled the holder to purchase one additional non-flow-through common share at a price of \$0.15 per share for a period of two years expiring on November 9, 2024. The Company recognized a value of \$nil to the warrants using the residual value method.

On November 18, 2022, the Company completed a non-flow-through private placement of 625,000 units at a price of \$0.11 per unit for total proceeds of \$68,750 of which \$27,500 pertaining to 250,000 units is included in share subscriptions receivable but which were canceled and net units issued were 375,000. Each unit consisted of one non-flow-through common share and one share purchase warrant. Each share purchase warrant entitled the holder to purchase one additional non-flow-through common share at a price of \$0.15 per share for a period of two years expiring on November 18, 2024. The Company recognized a value of \$nil to the warrants using the residual value method.

On November 18, 2022, the Company completed a flow-through private placement of 5,400,000 units at a price of \$0.13 per unit for total proceeds of \$702,000. Each unit consist of one flow-through share and one-half of one common share purchase warrant. Each share purchase warrant entitled the holder to purchase one additional non-flow-through common share at a price of \$0.25 per share for a period of two years expiring on November 18, 2024. The Company recorded a cash finders fee of \$78,119. The Company recognized a flow-through premium of \$189,000 on this private placement and a value of \$nil to the warrants using the residual value method.

On December 16, 2022, pursuant to the terms of an option agreement, the Company issued 100,000 common shares fair valued at \$ 9,500 and issued 100,000 share purchase warrants expiring two years from the date of issuance. The share purchase warrants will entitle the holder to purchase one additional common share of the Company at a price of \$0.23 per share until December 16, 2024. The warrants were valued at \$3,000 using volatility of 95%, interest rate of 4%, share price at date of issuance of \$0.10, expected life of 2 years and dividend yield of 0.00%.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)**b) Issued (continued)**

On January 30, 2023, pursuant to the terms of an option agreement, the Company issued 200,000 common shares fair valued at \$17,000 and issued 200,000 share purchase warrants expiring two years from the date of issuance. The share purchase warrants will entitle the holder to purchase one additional common share of the Company at a price of \$0.19 per share until January 30, 2025. The warrants were valued at \$6,000 using volatility of 94%, interest rate of 3.56%, share price at date of issuance of \$0.09, expected life of 2 years and dividend yield of 0.00%.

On February 22, 2023, pursuant to the terms of an option agreement, the Company issued 100,000 common shares fair valued at \$7,000 and issued 100,000 share purchase warrants expiring one year from the date of issuance. The share purchase warrants will entitle the holder to purchase one additional common share of the Company at a price of \$0.20 per share until February 22, 2024. The warrants were valued at \$1,000 using volatility of 96%, interest rate of 4.25%, share price at date of issuance of \$0.07, expected life of 1 year and dividend yield of 0.00%.

On April 20, 2023, pursuant to the terms of an option agreement, the Company issued 200,000 common shares fair valued at \$16,000 and issued 200,000 share purchase warrants expiring one year from the date of issuance. The share purchase warrants will entitle the holder to purchase one additional common share of the Company at a price of \$0.20 per share until April 20, 2025. The warrants were valued at \$4,000 using volatility of 96%, interest rate of 4.25%, share price at date of issuance of \$0.07, expected life of 1 year and dividend yield of 0.00%.

During the year ended June 30, 2023, the Company issued 266,667 common shares pursuant to the exercise of share purchase warrants for a total proceed of \$26,667.

During the year ended June 30, 2023, the Company issued 300,000 common shares pursuant to the exercise of stock options at a price between \$0.05 to \$0.075 per share for total proceeds of \$17,500. The Company transferred \$15,900 from contributed surplus.

During the year ended June 30, 2022:

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. The Company recorded a cash finders fee of \$11,700. The Company assigned a fair value of \$15,000 to the warrants.

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. The Company paid a cash finders fee of \$31,801. The Company recognized a flow-through premium of \$123,510 on this private placement and a value of \$nil was allocated to the warrants using the residual value method.

On February 24, 2022, the Company issued 150,000 common shares fair valued at \$12,750, pursuant to the terms of the Viernes Property Option Agreement and another 100,000 common shares fair valued at \$8,500 pursuant to the Esperanza Property Option Agreement.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

b) Issued (continued)

On April 26, 2022, the Company issued 100,000 common shares fair valued at \$10,000, pursuant to the terms of the Central Canada Property Option Agreement.

On June 16, 2022, the Company issued 250,000 common shares fair valued at \$20,000 pursuant to mineral property purchase agreements.

During the year ended June 30, 2022, the Company issued 7,800,000 common shares pursuant to the exercise of share purchase warrants for a total proceed of \$390,000.

During the year ended June 30, 2022, the Company issued 630,000 common shares pursuant to the exercise of stock options at a price between \$0.05 to \$0.125 per share for total proceeds of \$42,500. The Company transferred \$35,950 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, 2021 | 25,952,499 | \$0.10 |
| Issued | 3,808,500 | \$0.23 |
| Exercised | (7,800,000) | \$0.05 |
| Expired | (5,069,167) | \$0.10 |
| Balance, June 30, 2022 | 16,891,832 | \$0.13 |
| Issued | 11,157,167 | \$0.18 |
| Exercised | (266,667) | \$0.10 |
| Cancelled | (250,000) | \$0.15 |
| Expired | (500,000) | \$0.20 |
| Balance, June 30, 2023 | 27,032,332 | \$0.15 |

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

c) Share purchase warrants (continued)

The following warrants are outstanding at June 30, 2023:

| Number of warrants | Exercise price per warrant | Expiry date |
|-------------------------------|---------------------------------------|--------------------|
| 5,750,000 | \$0.08 | July 13, 2023 |
| 2,058,500 | \$0.25 | October 12, 2023 |
| 6,666,665 | \$0.12 | January 14, 2024 |
| 150,000 | \$0.20 | January 31, 2024 |
| 1,500,000 | \$0.20 | July 9, 2024 |
| 4,000,000 | \$0.10 | August 17, 2025 |
| 200,000 | \$0.20 | October 18, 2024 |
| 909,090 | \$0.15 | October 25, 2024 |
| 200,000 | \$0.15 | November 9, 2024 |
| 375,000 | \$0.15 | November 18, 2024 |
| 1,923,077 | \$0.25 | November 3, 2024 |
| 2,700,000 | \$0.25 | November 18, 2024 |
| 100,000 | \$0.23 | December 16, 2024 |
| 200,000 | \$0.19 | January 30, 2025 |
| 100,000 | \$0.20 | February 22, 2024 |
| 200,000 | \$0.20 | April 20, 2025 |
| 27,032,332 | | |

d) Stock options

The Company has an omnibus security-based compensation plan ("Plan") in accordance with the policies of the TSX Venture Exchange (the "Exchange"). The plan includes authorization to grant options to directors, officers, employees and consultants to purchase shares of the Company, and to grant restricted share units and deferred share units to officers, directors, employees and consultants to acquire shares of the Company or to be settled in cash. The stock option component of the 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. The fixed security based compensation component of the plan is limited to 11,301,778 shares.

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 year ended June 30, 2022, the Company recorded \$180,000 in share-based payments.

On November 1, 2021, the Company granted 1,000,000 stock options to directors 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 \$0.13 per share expiring on November 1, 2024 and vested on the grant date. The fair value of the stock options of \$60,000 was determined using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.09; Risk-free interest rate of 1.17%; Dividend

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

d) Stock options (continued)

yield of nil; Expected volatility of 131%; 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, 2022, the Company recorded \$60,000 in share-based payments.

On January 31, 2022, the Company granted 2,200,000 stock options to directors 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 \$0.05 per share expiring on January 31, 2027 and vested on the grant date. The fair value of the stock options of \$154,000 was determined using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.09; Risk-free interest rate of 1.67%; Dividend yield of nil; Expected volatility of 124%; 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, 2022, the Company recorded \$154,000 in share-based payments.

On June 30, 2022, the Company granted 680,000 stock options to an officer, directors 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 \$0.075 per share expiring on June 30, 2025 and vested on the grant date. The fair value of the stock options of \$40,800 was determined using the Black Scholes option pricing model with the following assumptions – Share price on grant date of \$0.08; Risk-free interest rate of 3.18%; Dividend yield of nil; Expected volatility of 118%; 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, 2022, the Company recorded \$40,800 in share-based payment

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

| | | Weighted Average Exercise Price |
|------------------------|-------------|--|
| Balance, June 30, 2021 | 7,360,000 | \$0.09 |
| Granted | 5,680,000 | \$0.08 |
| Exercised | (630,000) | \$0.07 |
| Cancelled | (1,180,000) | \$0.12 |
| Balance, June 30, 2022 | 10,230,000 | \$0.09 |
| Granted | - | \$0.00 |
| Exercised | (300,000) | \$0.06 |
| Expired | (350,000) | \$0.06 |
| Cancelled | - | \$0.00 |
| Balance, June 30, 2023 | 9,580,000 | \$0.09 |

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

d) Stock options (continued)

As at June 30, 2023, the Company had stock options outstanding enabling holders to acquire the following:

| Number of options | Exercise price per option | Expiry date |
|------------------------------|--------------------------------------|--------------------|
| 925,000 | \$0.125 | July 10, 2023 |
| 575,000 | \$0.12 | March 10, 2024 |
| 400,000 | \$0.12 | May 31, 2024 |
| 1,550,000 | \$0.05 | August 23, 2024 |
| 850,000 | \$0.13 | November 1, 2024 |
| 100,000 | \$0.05 | January 15, 2025 |
| 580,000 | \$0.075 | June 30, 2025 |
| 900,000 | \$0.135 | September 16, 2025 |
| 1,700,000 | \$0.10 | August 31, 2026 |
| 2,000,000 | \$0.05 | January 31, 2027 |
| 9,580,000 | | |

The weighted average remaining contractual life of options outstanding at June 30, 2023 was 2.05 years (2022 – 2.98 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:

| | 2023 | 2022 |
|----------------------|-------------------|-------------------|
| Management fees | \$ 180,000 | \$ 170,000 |
| Rent | 33,800 | 29,140 |
| Accounting | 24,000 | 24,000 |
| Consultants | 30,000 | - |
| Share-based payments | - | 176,050 |
| | \$ 267,800 | \$ 399,190 |

Prepaid expenses include \$11,400 (2022 - \$15,750) in prepaid rent to the CEO.

Amount receivable includes \$24,487 due from the CEO (2022-\$nil), and \$10,625 due from a company controlled by the CEO (2022-\$nil). These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Accounts payable and accrued liabilities include \$nil (2022 - \$13,000) due to a company controlled by the CEO and \$nil (2022-\$10,500) due to a company controlled by the CFO. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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, 2023. 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:

| | 2023 | 2022 |
|---------------------------|-------------|-------------|
| Cash and cash equivalents | \$ 326,356 | \$ 273,905 |

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.

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

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 and cash equivalents consist primarily of cash held in bank accounts or in a brokerage account. 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, 2023. 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, 2023 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.

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:

| | 2023 | 2022 |
|--|--------------|----------------|
| Loss before income taxes | \$ (991,202) | \$ (1,332,730) |
| Statutory tax rates | 27% | 27% |
| Recovery based on statutory rates | (268,000) | (360,000) |
| Non-deductible expenses and other items | 112,000 | 103,000 |
| Change in unrecognized deferred tax assets | 156,000 | 257,000 |
| 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:

| | 2023 | 2022 |
|---|--------------|--------------|
| Non-capital loss carry-forwards | \$ 1,880,000 | \$ 1,642,000 |
| Share issuance costs | 24,000 | 11,000 |
| Capital property | 13,000 | 13,000 |
| Investments | (7,000) | (18,000) |
| Mineral property | (122,000) | (16,000) |
| | 1,788,000 | 1,632,000 |
| Offset against deferred tax liabilities | | - |
| Unrecognized deferred tax asset | (1,788,000) | (1,632,000) |
| Deferred tax assets | \$ - | \$ - |

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

10. INCOME TAXES (continued)

The Company has accumulated Canadian non-capital losses of \$6,957,000 to June 30, 2023 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 2043. The Company has US tax losses of \$150,000 expiring 2030 to 2039.

Flow-through

Flow-through common shares require the Company to spend an amount equivalent to the proceeds of the issued flow-through common shares on Canadian qualifying exploration expenditures. The Company may be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made the required exploration expenditures.

During the year ended June 30, 2022, the Company received \$535,210 from the issuance of flow-through shares. These amounts will not be available to the Company for future deduction from taxable income. The Company renounced \$535,210 to the subscribers. A flow-through premium of \$123,510 was recognized initially, with \$89,696 remaining at June 30, 2022 and \$33,814 was recognized as other income during the year ended June 30, 2022. As at June 30, 2022, the Company has \$388,681 in exploration expenditures to incur.

During the year ended June 30, 2023, the Company received \$1,202,000 from the issuance of flow-through shares. These amounts will not be available to the Company for future deduction from taxable income. The Company renounced \$1,202,000 to the subscribers. A flow-through premium of \$246,692 was recognized initially, with \$207,493 remaining at June 30, 2023 and \$128,895 was recognized as other income which included \$89,696 from previous year's flow-through premium. As at June 30, 2023, the Company has a commitment to incur \$1,040,697 in exploration expenditures by December 31, 2023.

11. SUBSEQUENT EVENTS

Subsequent to June 30, 2023

On July 10, 2023, 925,000 stock options expired unexercised.

On July 13, 2023, 5,750,000 share purchase warrants expired unexercised.

On September 15, 2023, the Company granted 3,000,000 incentive stock options to directors, officers, and consultants. The options vested on date of grant, have a term of five years and are exercisable at \$0.05 per common share. In addition, the Company, in accordance with its Equity Incentive Plan, granted restricted share units representing the right to receive up to an aggregate of 2,000,000 common shares, subject to the satisfaction of certain vesting conditions.

On September 19, 2023, the Company announced the re-pricing of 2,058,500 outstanding share purchase warrants with an expiry date of October 9, 2023, from \$0.25 per share to \$0.11 per share, and to extend the term of the warrants an additional twenty-four months to October 13, 2025. The transaction was subject to TSXV approval, which has been received.

On October 18, 2023, the Company received approval from the TSX Venture Exchange with respect to the option agreement of the Baie Verte Area as disclosed in Note 6.

On November 20, 2023, the Company issued 500,000 common shares pursuant to the exercise of warrants, for cash proceeds of \$25,000.

On December 20, 2023, the Company issued 2,166,667 units for cash proceeds of \$65,000. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.05 for a period of twenty-four months from the date of issue

FALCON GOLD CORP.

Notes to the Consolidated Financial Statements

June 30, 2023 and 2022

(Expressed in Canadian Dollars)

11. SUBSEQUENT EVENTS (continued)

On December 29, 2023, the Company announced the re-pricing of 6,666,665 outstanding share purchase warrants with an expiry date of January 14, 2024, from \$0.20 per share to \$0.12 per share, and to extend the term of the warrants an additional twenty-four months to January 14, 2026. The transaction is subject to TSXV approval.