



FALCO RESOURCES LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED
MARCH 31, 2023 and 2022**

Falco Resources Ltd.

Consolidated Balance Sheets

(Unaudited)

(Expressed in Canadian Dollars)

	As at March 31, 2023	As at June 30, 2022
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	6,780,847	9,020,845
Short-term investments	-	3,000,000
Accounts receivable	692,539	574,288
Prepaid expenses and other assets	255,807	289,585
	<u>7,729,193</u>	<u>12,884,718</u>
Non-current assets		
Restricted cash	905,000	905,000
Property, plant and equipment (Note 5)	130,954,562	122,358,560
Other non-current assets (Note 6)	1,728,528	1,728,528
	<u>133,588,090</u>	<u>124,992,088</u>
Total assets	<u>141,317,283</u>	<u>137,876,806</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	821,543	2,276,863
Convertible Loan (Note 7)	-	19,408,400
Convertible Debenture (Note 8)	-	10,794,418
Derivative warrant liabilities (Note 9)	143,208	178,309
	<u>964,751</u>	<u>32,657,990</u>
Non-current liabilities		
Contract Liability (Note 6)	53,256,069	48,898,002
Convertible Loan (Note 7)	20,634,535	-
Convertible Debenture (Note 8)	11,675,854	-
Deferred income taxes	1,223,810	1,242,255
	<u>86,790,268</u>	<u>50,140,257</u>
Total liabilities	<u>87,755,019</u>	<u>82,798,247</u>
Equity		
Share capital	133,121,212	133,121,212
Warrants	650,397	947,897
Contributed surplus	16,284,562	15,615,190
Deficit	(96,493,907)	(94,605,740)
Total equity	<u>53,562,264</u>	<u>55,078,559</u>
Total liabilities and equity	<u>141,317,283</u>	<u>137,876,806</u>
Going concern (Note 1)		
Commitments (Note 18)		

Equity is solely attributable to Falco Resources Ltd. shareholders

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

Falco Resources Ltd.

Consolidated Statements of Loss and Comprehensive Loss

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

	Three-months ended March 31,		Nine-months ended March 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Expenses				
Consulting and compensation	495,508	602,408	1,578,574	1,866,639
Professional fees	246,883	220,680	536,892	836,723
Share-based compensation (Note 12)	76,874	122,442	319,890	415,946
Office and administrative	84,114	138,655	267,154	400,180
Investor and shareholder relations	40,982	43,378	143,086	158,767
Exploration and evaluation	114,148	236,282	408,163	545,480
Refundable tax credits	(190,361)	(136,432)	(345,704)	(213,860)
Travel	13,805	11,247	27,129	35,801
Depreciation (Note 5)	3,158	5,851	10,546	16,944
Cost recoveries	(69,257)	(332,405)	(401,342)	(766,680)
Operating loss	(815,854)	(912,106)	(2,544,388)	(3,295,940)
Interest income	123,528	34,471	304,463	215,653
Interest expense	(42,391)	(146,979)	(42,391)	(370,918)
Unrealized gain (loss) on derivative warrant liabilities (Note 9)	199,214	(35,356)	374,477	787,318
Foreign exchange (loss) gain	(150)	429	1,227	661
Loss before income taxes	(535,653)	(1,059,541)	(1,906,612)	(2,663,226)
Deferred income tax recovery	4,043	(101,256)	18,445	(88,046)
Net loss and comprehensive loss	(531,610)	(1,160,797)	(1,888,167)	(2,751,272)
Net loss per common share (Note 13)				
Basic and diluted	(0.00)	(0.00)	(0.01)	(0.01)
Weighted average number of common shares outstanding (Note 13)				
Basic and diluted	271,577,879	271,551,917	271,577,879	258,418,779

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

Falco Resources Ltd.

Consolidated Statements of Cash Flows

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

	Three-months ended March 31,		Nine-months ended March 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Operating activities				
Net loss	(531,610)	(1,160,797)	(1,888,167)	(2,751,272)
Adjustments for :				
Share-based compensation (Note 12)	76,874	122,442	319,890	415,946
Depreciation (Note 5)	3,158	5,851	10,546	16,944
Deferred income tax recovery	(4,043)	101,256	(18,845)	88,046
Unrealized (gain) loss on derivative warrant liabilities (Note 9)	(199,214)	35,356	(374,477)	(787,318)
Net interest expense on Convertible Debenture (Note 8)	-	105,875	-	204,937
Net proceeds from the advance of the Silver Stream Agreement (Note 6)	-	-	-	10,000,000
Changes in non-cash working capital items:				
Accounts receivable	(147,828)	120,548	(118,251)	363,190
Prepaid expenses and other assets	80,702	39,699	33,778	(38,549)
Accounts payable and accrued liabilities	(352,474)	(511,023)	(520,463)	(1,428,822)
Net cash flows (used in) provided by operating activities	<u>(1,074,435)</u>	<u>(1,140,793)</u>	<u>(2,555,589)</u>	<u>6,083,102</u>
Investing activities				
Investments in property, plant and equipment	(595,001)	(3,336,999)	(2,567,494)	(11,060,303)
Decrease in short-term investments	-	-	3,000,000	-
Net cash flows (used in) provided by investing activities	<u>(595,001)</u>	<u>(3,336,999)</u>	<u>432,506</u>	<u>(11,060,303)</u>
Financing activities				
Proceeds from private placement (Note 10)	-	-	-	17,280,000
Payment of transaction costs	(116,915)	(57,669)	(116,915)	(1,012,871)
Proceeds from the exercise of options	-	9,450	-	9,450
Net cash flows (used in) provided by financing activities	<u>(116,915)</u>	<u>(48,219)</u>	<u>(116,915)</u>	<u>16,276,579</u>
(Decrease) increase in cash and cash equivalents	<u>(1,786,351)</u>	<u>(4,526,011)</u>	<u>(2,239,998)</u>	<u>11,299,378</u>
Cash and cash equivalents, beginning of period	<u>8,567,198</u>	<u>19,974,784</u>	<u>9,020,845</u>	<u>4,149,395</u>
Cash and cash equivalents, end of period	<u>6,780,847</u>	<u>15,448,773</u>	<u>6,780,847</u>	<u>15,448,773</u>

Supplemental disclosure (Note 17)

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

Falco Resources Ltd.

Consolidated Statements of Changes in Equity

For the nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

	Number of shares outstanding	Share capital \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
Balance – July 1, 2022	271,577,879	133,121,212	947,897	15,615,190	(94,605,740)	55,078,559
Net loss and comprehensive loss	-	-	-	-	(1,888,167)	(1,888,167)
Warrants expired (Note 11)	-	-	(297,500)	297,500	-	-
Share-based compensation (Note 12)	-	-	-	371,872	-	371,872
Balance – March 31, 2023	271,577,879	133,121,212	650,397	16,284,562	(96,493,907)	53,562,264
Balance – July 1, 2021	227,081,197	116,543,819	744,306	14,977,066	(91,457,490)	40,807,701
Net loss and comprehensive loss	-	-	-	-	(2,751,272)	(2,751,272)
Bought deal private placements (Note 10)	43,200,000	17,064,000	216,000	-	-	17,280,000
Share issue costs	-	(1,000,462)	(12,409)	-	-	(1,012,871)
Shares issued for option agreement (Note 18)	1,265,182	500,000	-	-	-	500,000
Share-based compensation (Note 12)	-	-	-	489,131	-	489,131
Exercise of options	31,500	13,855	-	(4,405)	-	9,450
Balance – March 31, 2022	271,577,879	133,121,212	947,897	15,461,792	(94,208,762)	55,322,139

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

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

1. Nature of activities and going concern

Falco Resources Ltd. ("Falco" or the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on March 16, 2010 and was continued under the *Canada Business Corporations Act* on June 12, 2015. The Company's common shares trade under the symbol "FPC" on the TSX Venture Exchange. The Company's registered office is 1100, avenue des Canadiens-de-Montréal, Suite 300, Montréal, Québec, Canada.

The Company is in the business of exploring, evaluating and developing its mineral properties in the Rouyn-Noranda district of the Province of Québec (Canada) for base and precious metals.

On April 29, 2021, the Company filed on SEDAR an updated technical report, "Feasibility Study Update, Horne 5 Gold Project", dated effective March 18, 2021 (the "Updated Feasibility Study") pursuant to National Instrument 43-101, *Standards of Disclosure for Mineral Projects* and relating to its Horne 5 Deposit in Rouyn-Noranda (the "Horne 5 Project" or "Horne 5 Deposit").

These condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, Management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. As at March 31, 2023, the Company had a working capital of \$6,764,442 (including a cash and cash equivalent balance of \$6,780,847), an accumulated deficit of \$96,493,907 and had incurred a loss of \$1,888,167 for the nine-month period ended March 31, 2023. As the Company is in the development stage for the Horne 5 Project, it has not recorded any revenues from operations and has no source of operating cash flow, with the exception of the silver stream agreement (the "Silver Stream Agreement") signed with Osisko Gold Royalties Ltd ("Osisko Gold") on February 27, 2019 (Note 6). Osisko Gold, through the Silver Stream Agreement and the Convertible Loan (see Note 7) and Osisko Development Corp. ("Osisko Development") (an affiliated company to Osisko Gold) which owns 17.3% interest in Falco, are considered companies with significant influence over the Company and therefore are related parties pursuant to IAS 24 *Related Party Disclosure*.

The working capital as at March 31, 2023 will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through March 31, 2024. Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt upon the Company's ability to continue as a going concern as described in the preceding paragraph, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

The Company's ability to continue future operations and fund its planned development activities at the Horne 5 Deposit is dependent on Management's ability to secure third parties' approvals and additional financing in the future. Any funding shortfall may be met in the future in a number of ways, including, but not limited to, achieving the next milestones of the Silver Stream Agreement and the issuance of debt or equity instruments. While Management has been successful in securing financing in the past (see Notes 6, 7, 8 and 10), there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company. If Management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than the amounts reflected in these condensed consolidated financial statements.

2. Basis of presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") as issued by the *International Accounting Standards Board* ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended June 30, 2022, which have been prepared in accordance with IFRS as issued by the IASB.

These unaudited condensed consolidated interim financial statements were approved by the Company's Board of Directors (the "Board") on May 24, 2023.

The policies applied in these unaudited condensed consolidated interim financial statements are the same accounting policies and methods as those in Falco's most recent audited annual consolidated financial statements.

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

3. Judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the Company to make judgments, estimates and assumptions on reported amounts of assets and liabilities, and reported amounts of expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may be substantially different. The critical accounting judgments, estimates and assumptions are the same as those in our most recent audited annual consolidated financial statements.

Management has determined that an indication that the non-financial assets may not be recoverable has occurred in the three-month period ended March 31, 2023. Included in property, plant and equipment are costs capitalized for the Horne 5 Project. The Horne 5 Project is Falco's most significant non-financial asset and it was determined to be Falco's cash generating unit ("CGU") at March 31, 2023.

As at March 31, 2023, Falco determined the recoverable amount of the CGU using the fair value less costs of disposal calculation which was assessed using cash flow projections, which take into account the capital costs to be incurred to complete the Horne 5 Project over the expected construction timeline, as well as the cash generated from subsequent sales of this project's production based on the project assumptions. The key assumptions used in this calculation include the Horne 5 Project's capital cost, estimated production volume, the long-term gold sales price (US\$1,650/oz), the long-term Canadian and US dollar exchange rate (US\$1.00 equal to \$1.30), expected operating costs, as well as the discount rate (14.5%) which are based on estimates of the risks associated with the projected cash flows based on the best information available as of the date of the impairment test. Falco determined that the recoverable amount exceeded the carrying amounts and therefore, no impairment was recorded.

4. Cash and cash equivalents

	March 31, 2023	June 30, 2022
	\$	\$
Cash	880,847	6,002,062
Cash equivalents (guaranteed investment certificates, less than 3 months)	5,900,000	3,018,783
	<u>6,780,847</u>	<u>9,020,845</u>

5. Property, plant and equipment

	Mining equipment	Land and buildings	Construction in progress	Office and other equipment	Total
	\$	\$	\$	\$	\$
Cost					
Balance – June 30, 2021	18,314,741	21,132,616	64,808,363	473,282	104,729,002
Additions	2,768	1,783,993	8,051,933	2,498	9,841,192
Capitalized borrowing costs	-	-	8,206,650	-	8,206,650
Balance – June 30, 2022	<u>18,317,509</u>	<u>22,916,609</u>	<u>81,066,946</u>	<u>475,780</u>	<u>122,776,844</u>
Additions	-	73,168	1,611,452	-	1,684,620
Capitalized borrowing costs	-	-	6,921,928	-	6,921,928
Balance – March 31, 2023	<u>18,317,509</u>	<u>22,989,777</u>	<u>89,600,326</u>	<u>475,780</u>	<u>131,383,392</u>
Accumulated Depreciation					
Balance – June 30, 2021	-	-	-	397,220	397,220
Depreciation	-	-	-	21,064	21,064
Balance – June 30, 2022	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,284</u>	<u>418,284</u>
Depreciation	-	-	-	10,546	10,546
Balance – March 31, 2023	<u>-</u>	<u>-</u>	<u>-</u>	<u>428,830</u>	<u>428,830</u>
Carrying Amounts					
At June 30, 2022	18,317,509	22,916,609	81,066,946	57,496	122,358,560
At March 31, 2023	18,317,509	22,989,777	89,600,326	46,950	130,954,562

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

6. Contract Liability

On February 27, 2019, the Company and Osisko Gold (the “Parties”) completed the Silver Stream Agreement, whereby Osisko Gold agreed to provide the Company with staged payments totaling up to \$180 million, toward the funding of the development of the Horne 5 Project, payable as follows:

- First deposit of \$25,000,000 on closing of the Silver Stream Agreement, net of any amounts owing by the Company to Osisko Gold (“First Installment”);
- Second deposit of \$20,000,000 upon the Company receiving all necessary material third-parties’ approvals, licenses, rights of way, and surface rights (“Second Installment”);
- Third deposit of \$35,000,000 following receipt of all material permits required for the construction of a mine at the Horne 5 Project, a positive construction decision for the Horne 5 Project, and raising a minimum of \$100,000,000 in equity, joint venture or any other non-debt financing for the construction of the mine (“Third Installment”);
- Fourth deposit of \$60,000,000 upon the total projected capital expenditure for the Horne 5 Project having been demonstrated to be financed (“Fourth Installment”); and
- Optional fifth deposit of \$40,000,000 at the sole election of Osisko Gold to increase the stream percentage, payable concurrently with the fourth deposit (“Fifth Installment”).

Under the terms of the Silver Stream Agreement, Osisko Gold will purchase 90% of the payable silver from the Horne 5 Project, increasing to 100% of the payable silver from the Horne 5 Project in the event the optional Fifth Installment is paid. In exchange for the silver delivered under the Silver Stream Agreement, Osisko Gold will pay the Company ongoing payments equal to 20% of the spot price of silver on the day of delivery, subject to a maximum payment of USD\$6.00 per silver ounce. The silver produced from the Horne 5 Project and properties within a 5 km area of interest will be subject to the Silver Stream Agreement. Pursuant to the Silver Stream Agreement, the Company has agreed to pay a \$2,000,000 capital commitment fee, which is payable upon Osisko Gold funding the Third Installment under the Silver Stream Agreement. Falco’s obligations towards Osisko Gold with respect to the Silver Stream Agreement are secured by a deed of hypothec for a maximum of \$600 million; such first ranking deed was subordinated in favour of the security granted to Glencore Canada Corporation (“Glencore Canada”) as part of the Convertible Debenture transaction (see Note 8).

On January 31, 2020, November 27, 2020 and January 31, 2022, the Parties amended the Silver Stream Agreement, to postpone by one year each of the deadlines granted to Falco to achieve milestones set as condition precedent to Osisko Gold funding the remaining staged installments and certain other deadlines. On August 19, 2021, the Company received from Osisko Gold a partial advance payment of \$10,000,000 on the Second Installment of \$20,000,000 to be made under the Silver Stream Agreement.

On February 23, 2023, Falco and Osisko Gold entered into an amendment to the Silver Stream Agreement, with effect on January 31, 2023, to postpone to January 31, 2025, the deadlines granted to Falco to achieve milestones set as conditions precedent to Osisko Gold funding the Second and Third Installments, which installments will be funded concurrently, if such conditions are satisfied.

As of March 31, 2023 and June 30, 2022, the Company incurred on a cumulative basis \$1,728,528 of transaction costs relating to the Contract Liability, which is accounted for as other non-current assets on the consolidated balance sheet.

The breakdown of the Contract Liability is as follows:

	\$
Balance at June 30, 2021	33,674,978
Interest on the Contract Liability’s financing component	5,223,024
Partial advance of second milestone payment	10,000,000
Balance at June 30, 2022	48,898,002
Interest on the Contract Liability’s financing component	4,358,067
Balance at March 31, 2023	53,256,069

Under IFRS 15, the Silver Stream Agreement is considered to have a significant financing component. As such, interest is accrued and added to the Contract Liability. The Contract Liability will begin to be gradually recognized as part of revenues over the life of the mine once deliveries under the Silver Stream Agreement begin. The Company therefore records notional non-cash interest, which is subject to capitalization to property, plant and equipment as borrowing costs, at each financial reporting date based on the implied interest rate that was determined at the time that the Silver Stream Agreement was consummated and/or modified. This interest accrual is not a contractual obligation but is intended to allocate the cost of the Silver Stream Agreement over the period it is outstanding. This accrual is a non-cash item and as such is not reported on the condensed consolidated statement of cash flows.

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

7. Convertible Loan

On February 22, 2019, Falco closed a secured senior loan agreement with Osisko Gold (the "Secured Loan") for \$10,000,000 (the "Principal Amount"). On November 22, 2019, the Secured Loan was amended, increasing the Principal Amount by \$5,900,000 (the "Increased Principal Amount") to \$15,900,000 (the "Amended Principal Amount") and the maturity date was extended from December 31, 2019 to December 31, 2020. Osisko Gold was entitled to set-off from the Increased Principal Amount a sum of \$881,131, representing the then current accounts payable owing to Osisko Gold by the Company, so that, on a net basis, Osisko Gold provided an amount of \$5,018,869 available to Falco for withdrawal. Under the terms of the Secured Loan, interest was payable on the Amended Principal Amount at a rate per annum that is equal to 7%, compounded quarterly.

On November 17, 2020, the Company entered into a binding agreement with Osisko Gold in order to extend the maturity date of the Secured Loan from December 31, 2020 to December 31, 2022 (the "Maturity Extension"). Together with capitalized interest, the principal amount outstanding under the Secured Loan as of this date was \$17,596,136. In consideration for the Maturity Extension, the Secured Loan was also amended to become convertible (the "Convertible Loan") after the first anniversary of the closing date into common shares of the Company ("Common Shares") at a conversion price of \$0.55 per Common Share. The Convertible Loan bears interest at a rate of 7% per annum, compounded quarterly.

In consideration for the Maturity Extension, the Company issued to Osisko Gold 10,664,324 Common Share purchase warrants of the Company ("Warrants"), each Warrant is exercisable for one Common Share at an exercise price of \$0.69 up to 24 months from the date of issuance of the Warrants. The terms of the Warrants provide for a cashless exercise feature, under which the number of Common Shares to be issued will be based on the number of Common Shares for which Warrants are exercised multiplied by the difference between the market price of a Common Share and the exercise price divided by the market price at the time of the exercise. Osisko Gold may utilize the cashless exercise feature at its sole discretion.

On January 24, 2023, Falco finalized an agreement with Osisko Gold to extend the maturity date of the Convertible Loan from December 31, 2022 to December 31, 2024. In consideration for the extension of this maturity date of the Convertible Loan, this loan was also amended (collectively with the extension of the maturity date of the Convertible Loan, the "Convertible Loan Amendments") (i) in order for the accrued interest on the existing Convertible Loan to be capitalized such that the principal amount of the amended Convertible Loan totaled \$20,484,195, (ii) to increase the interest rate of the Convertible Loan from 7% per annum to 8% per annum, and (iii) to reduce the conversion price of the Convertible Loan from \$0.55 to \$0.50 per Common Share. In addition, the 10,664,324 Warrants previously held by Osisko Gold, were replaced with 10,664,324 Warrants (the "Replacement Warrants") exercisable at an exercise price of \$0.65 and expiring on December 31, 2024, maturing concurrently with the Convertible Loan, as amended.

Falco's obligations towards Osisko Gold with respect to the Convertible Loan is secured by a deed of hypothec for a maximum of \$25,000,000 over all of the assets of Falco other than the Home 5 Project and ranks after the security granted to Glencore Canada as part of the Convertible Debenture transaction (see Note 8).

Transactions affecting the Loan with Osisko Gold were as follows:

	\$
Balance June 30, 2021	17,617,185
Interest	1,791,215
Balance June 30, 2022	19,408,400
Interest	1,378,076
Transaction costs	(77,943)
Fair value of Replacement Warrants	(73,998)
Balance March 31, 2023	20,634,535

The Convertible Loan's principal amount is directly attributable to the acquisition or construction of a qualifying asset, as such these borrowing costs are capitalized to property, plant and equipment.

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

8. Convertible Debenture

On October 27, 2020, the Company entered into an agreement with Glencore Canada for a \$10,000,000 senior secured convertible debenture (the "Convertible Debenture"), which had an initial term to maturity of 12 months and was bearing interest at a rate of 7% per annum, compounded quarterly. Accrued interest was capitalized quarterly by adding the interest to the principal of the Convertible Debenture, unless the Company elected at its sole discretion to settle in cash any accrued interest. In certain circumstances, Falco had the right to extend this maturity date by an additional six months.

The Convertible Debenture could be converted into Common Shares within 10 days of the maturity date at Glencore Canada's sole option at a conversion price of \$0.41 per Common Share.

Falco issued to Glencore Canada 12,195,122 Warrants for which each Warrant was exercisable for one Common Share at an exercise price of \$0.51 up to 12 months from the date of issuance of the Warrants. The terms of the Warrants provide for a cashless exercise feature, under which the number of Common Shares to be issued will be based on the number of Common Shares for which Warrants are exercised multiplied by the difference between the market price of a Common Share and the exercise price divided by the market price at the time of the exercise. Glencore Canada may utilize the cashless exercise feature in its sole discretion. On October 27, 2020, the Warrants, recognized as derivative warrant liabilities, were measured at their estimated fair value of \$1,232,501, with the residual amount attributed to the debt host of the Convertible Debenture (\$8,767,499) and a \$ nil residual amount to the conversion option equity component.

On October 13, 2021, the Company agreed with Glencore Canada to extend the maturity date of the Convertible Debenture, from October 27, 2021 to April 27, 2022, as the circumstances for such an extension were met in accordance with the terms of the Convertible Debenture. Given the extension to the maturity date of the Convertible Debenture, the Company announced the extension of the expiry date of the Warrants issued to Glencore under the Convertible Debenture from October 27, 2021 to April 27, 2022. All other terms and conditions of the Warrants remained unchanged, including the exercise price of \$0.51 per Common Share.

On April 27, 2022, the Company and Glencore entered into an agreement to extend the maturity date of the Convertible Debenture, from April 27, 2022 to April 27, 2023 (the "Amended Maturity Date"). The accrued interest on the existing Convertible Debenture was capitalized such that the principal amount of the amended Convertible Debenture was \$11,095,976.

In connection with the extension of the Maturity Date, the conversion price of the Convertible Debenture was amended to \$0.40 per share and the interest rate to 8% per annum, compounded quarterly. In accordance with its terms, the Convertible Debenture can be converted into Common Shares within 10 days of the Amended Maturity Date or on the Maturity Date except that Glencore shall have the right to accelerate its conversion right upon the provision of a prior written notice to the Company. This latter extension is considered to be a settlement of the initial Convertible Debenture (\$10,000,000).

Concurrently, Falco announced the extension of the expiry date of Glencore Canada's Warrants (the "Amended Warrants") from April 27, 2022 to April 27, 2023. The exercise price of these Warrants was reduced to \$0.41 per share. All other terms and conditions of these Warrants remain unchanged. This latter extension is considered to be a settlement of the original Warrants (12,195,122 Warrants).

As consideration for the amendment and extension, Falco issued to Glencore Canada 2,866,036 additional Warrants (the "Additional Warrants"). Each Additional Warrant is exercisable for one Common Share and has identical terms to the Amended Warrants.

On January 24, 2023, Falco finalized an agreement with Glencore Canada to extend the maturity date of the Convertible Debenture from April 27, 2023 to December 31, 2024. In consideration for the extension of the maturity date of the Convertible Debenture, this loan was amended (i) in order for the accrued interest on the existing Convertible Debenture to be capitalized such that the principal amount of the amended Convertible Debenture totaled \$11,770,710, (ii) to increase the interest rate of the Convertible Debenture from 8% per annum to 9% per annum and (iii) to reduce the conversion price of the Convertible Debenture from \$0.40 to \$0.36 per Common Share. In addition, the 15,061,158 Warrants held by Glencore Canada, each exercisable for one Common Share at an exercise price of \$0.41 and expiring on April 27, 2023 were amended to be exercisable at an exercise price of \$0.38 and expiring on December 31, 2024 (the "Warrant Extension"), maturing concurrently with the Convertible Debenture, as amended.

The Convertible Debenture is secured by first ranking security on all assets owned by Falco. Glencore Canada will release the security upon the settlement of the Convertible Debenture and the repayment of interest. So long as Glencore Canada owns (or is deemed to own) a minimum equity interest of 5% in the Company, it will have the right to maintain its pro-rata interest in Falco by participating in equity financings and other dilutive instruments.

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements
For the three-month and nine-month periods ended March 31, 2023 and 2022
(Unaudited)

(Expressed in Canadian Dollars)

8. Convertible Debenture (continued)

Transactions affecting the Convertible Debenture were as follows:

	\$
Balance June 30, 2021	9,910,064
Gain on extension of Convertible Debenture	(624,234)
Fair value of Additional Warrants	(545,239)
Interest	2,053,827
Balance June 30, 2022	10,794,418
Interest	1,185,785
Transaction costs	(38,971)
Fair value of Warrant Extension	(265,378)
Balance March 31, 2023	11,675,854

During the three-month and nine-month periods ended March 31, 2023, the Convertible Debenture's principal amount is directly attributable to the acquisition or construction of a qualifying asset, as such these borrowing costs are capitalized to property, plant and equipment.

9. Derivative warrant liabilities

In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as derivative liabilities and measured at fair value with changes in fair value recognized in the consolidated statement of loss and comprehensive loss at each period-end. The derivative warrant liabilities will ultimately be converted into Common Shares when the Warrants are exercised, or will be extinguished on the expiry of the outstanding Warrants, and will not result in the outlay of any cash by the Company. Immediately prior to exercise, the Warrants are remeasured at their estimated fair value. Upon exercise, the intrinsic value is transferred to share capital (the intrinsic value is the share price at the date the Warrant is exercised less the exercise price of the Warrant). Any remaining fair value is recorded through the consolidated statement of loss and comprehensive loss as part of the change in estimated fair value of derivative warrant liabilities.

The following table details the changes in the Company's derivative warrant liabilities:

	Conv. Debt Warrants		Conv. Loan Warrants		Total	
	Number	\$	Number	\$	Number	\$
Balance at June 30, 2021	12,195,122	177,944	10,664,324	733,889	22,859,446	911,833
Additional Warrants (Note 8)	2,866,036	545,239	-	-	2,866,036	545,239
Revaluation of derivative warrant liabilities	-	(544,874)	-	(733,889)	-	(1,278,763)
Balance at June 30, 2022	15,061,158	178,309	10,664,324	-	25,725,482	178,309
Revaluation of derivative warrant liabilities	-	(175,263)	-	-	-	(175,263)
Expiration of Warrants (Note 7)	-	-	(10,664,324)	-	(10,664,324)	-
Balance at December 31, 2022	15,061,158	3,046	-	-	15,061,158	3,046
Replacement Warrants (Note 7)	-	-	10,664,324	73,998	10,664,324	73,998
Warrant Extension (Note 8)	-	265,378	-	-	-	265,378
Revaluation of derivative warrant liabilities	-	(152,926)	-	(46,288)	-	(199,214)
Balance at March 31, 2023	15,061,158	115,498	10,664,324	27,710	25,725,482	143,208

The revaluation of derivative warrant liabilities is recorded in the statement of loss and comprehensive loss.

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

9. Derivative warrant liabilities (*continued*)

The derivative warrant liabilities were accounted for at their fair value determined by the Black-Scholes option pricing model on the following weighted average assumptions at each reporting date and at their issuance date:

	March 31, 2023	Extension of Warrants January 24, 2023	December 31, 2022	September 30, 2022	June 30, 2022	Additional Warrants April 27, 2022
Risk-free interest rate	3.75%	3.56%	5.15%	4.43%	2.74%	3.12%
Expected life of Warrants	1.8 years	1.9 years	0.3 years	0.4 years	0.6 years	1.0 years
Annualized volatility	71%	67%	93%	69%	57%	55%
Dividend rate	-	-	-	-	-	-
Fair value per Warrant	\$0.006	\$0.013	\$0.002	\$0.004	\$0.01	\$0.04

These derivative warrant liabilities are Level 3 recurring fair value measurements. The key Level 3 input used by Management to estimate the fair value is the expected volatility.

10. Share capital

On August 18, 2021, the Company closed a bought deal private placement, issuing 30,700,000 Units (the "Units") at a price of \$0.40 per Unit (the "Offering"), representing aggregate gross proceeds to Falco of \$12,280,000. Each Unit consists of one Common Share and one-half-of-one Warrant. Each Warrant will be exercisable to acquire one Common Share until July 31, 2025, at an exercise price of \$0.55.

The expiry date of the Warrants may be accelerated by the Company at any time following the six-month anniversary of the closing date of the Offering if the volume-weighted average trading price of the Common Shares on the TSX-V is greater than \$0.80 for any 10 consecutive trading days, at which time the Company may accelerate the expiry date.

Gross proceeds from the Offering were allocated between the Common Shares (\$12,126,500) and the Warrants (\$153,500), based on the relative fair value of the Common Shares as compared to the Warrants at the date of the closing of the Offering. Share issue costs totaled \$992,685, of which \$980,276 was allocated to the Common Shares and \$12,409 was allocated to the Warrants, based on their respective allocated proceeds.

On December 15, 2021, the Company closed a private placement, issuing 12,500,000 Units at a price of \$0.40 per Unit (the "Placement"), representing aggregate gross proceeds to Falco of \$5,000,000. Each Unit consists of one Common Share and one-half-of-one Warrant. Each Warrant will be exercisable to acquire one Common Share until July 31, 2025, at an exercise price of \$0.55.

The expiry date of the Warrants may be accelerated by the Company at any time following the six-month anniversary of the closing date of the Placement if the volume-weighted average trading price of the Common Shares on the TSX-V is greater than \$0.80 for any 10 consecutive trading days, at which time the Company may accelerate the expiry date.

Gross proceeds from the Placement were allocated between the Common Shares (\$4,937,500) and the Warrants (\$62,500), based on the relative fair value of the Common Shares as compared to the Warrants at the date of the pricing date of the Placement. Share issue costs totaled \$20,186, which was allocated to the Common Shares.

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements
For the three-month and nine-month periods ended March 31, 2023 and 2022
(Unaudited)

(Expressed in Canadian Dollars)

11. Warrants

The following table details the changes in the Warrants:

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance – June 30, 2021	29,261,668	0.63
Expired	(18,247,344)	0.59
Issued (Notes 8 and 10)	36,661,158	0.49
Balance – June 30, 2022	47,675,482	0.54
Expired	(11,014,324)	0.70
Issued (Note 7)	10,664,324	0.65
Balance – March 31, 2023	47,325,482	0.52
Warrants subject to cashless exercise	25,725,482	0.49

12. Share-based compensation

The following table summarizes information about the movement of the share options:

	Number of Options	Weighted Average Exercise Price
		\$
Balance – June 30, 2021	15,133,900	0.49
Granted	3,525,000	0.37
Exercised	(31,500)	0.30
Expired	(1,803,200)	0.76
Forfeited	(602,333)	0.43
Balance – June 30, 2022	16,221,867	0.44
Expired	(2,219,978)	0.86
Forfeited	(153,556)	0.34
Balance – March 31, 2023	13,848,333	0.37
Options exercisable – March 31, 2023	10,060,999	0.36

Share option compensation for the three-month period ended March 31, 2023 amounted to \$90,082 (\$143,976 for the three-month period ended March 31, 2022) of which \$13,208 was capitalized to construction in progress (\$21,534 was capitalized to construction in progress for the three-month period ended March 31, 2022).

Share option compensation for the nine-month period ended March 31, 2023 amounted to \$371,872 (\$489,131 for the nine-month period ended March 31, 2022) of which \$51,982 was capitalized to construction in progress (\$73,185 was capitalized to construction in progress for the nine-month period ended March 31, 2022).

13. Net loss per share

As a result of the net loss for the three-month and nine-month periods ended March 31, 2023 and 2022, all potentially dilutive common shares are deemed to be antidilutive and thus diluted net loss per share is equal to the basic net loss per share for these periods.

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

14. Key management and related party transactions

Key management includes directors (executive and non-executive) and certain officers of the Company. The compensation paid or payable to key management for employee services is presented below for the three-month and nine-month periods ended March 31, 2023 and 2022:

	Three-months ended		Nine-months ended	
	March 31,		March 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salaries and short-term employee benefits	361,693	288,810	976,328	1,041,833
Share-based compensation	65,797	109,618	266,721	385,439
	427,490	398,428	1,243,049	1,427,272

Related party transactions and balances, not otherwise disclosed, are summarized below:

During the three-month and nine-month periods ended March 31, 2023, amounts of \$70,000 and \$180,000, respectively were invoiced by Osisko Gold for professional services and access to office spaces (\$118,000 and \$460,000, respectively, for the three-month and nine-month periods ended March 31, 2022). An amount of \$35,000 is included in accounts payable and accrued liabilities as at March 31, 2023 (\$35,000 as at June 30, 2022).

As at March 31, 2023, interest payable on the Convertible Loan amounted to \$296,319 (\$2,064,175 as at June 30, 2022). Interest incurred on the Convertible Loan for the three-month and nine-month periods ended March 31, 2023 totaled \$396,170 and \$1,327,328, respectively, and was capitalized to property, plant and equipment in the consolidated balance sheet.

During the three-month and nine-month periods ended March 31, 2023, amounts of \$69,000 and \$248,000, respectively, were invoiced by Osisko Development for professional services (\$87,000 and \$295,000 for the three-month and nine-month periods ended March 31, 2022). An amount of \$83,000 is included in accounts payable and accrued liabilities as at March 31, 2023 (\$95,000 as at June 30, 2022).

During the three-month and nine-month periods ended March 31, 2023, amounts of \$69,257 and \$401,342, respectively, were invoiced to associates of Osisko Gold for professional services provided by the Company (\$292,000 and \$675,000 for the three-month and nine-month periods ended March 31, 2022), which have been recorded as cost recoveries in the statement of loss and comprehensive loss.

15. Fair value of financial instruments

The Company's derivative warrant liabilities are measured at fair value in the consolidated balance sheet as at March 31, 2023 (see Note 9).

As at March 31, 2023 and June 30, 2022, the financial instruments that are not measured at fair value in the consolidated balance sheets are represented by cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, the debt host of the Convertible Loan and the Convertible Debenture. The fair values of the cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their respective carrying values due to their short-term nature. The fair value of the Convertible Loan and the Convertible Debenture are \$19,050,000 and \$11,150,000, respectively (Level 3 measurement).

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

16. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company manages the liquidity risk by continuously monitoring actual and projected cash flows, taking into account the requirements related to its investment commitments and mining properties and matching the maturity profile of financial assets and liabilities. As at March 31, 2023, cash is comprised of bank balances. As described in Note 1, the Company estimates that with its liquidity position as at March 31, 2023, it does not have enough funds available to meet its financial liabilities for the next year. The following table summarizes the Company's contractual commitments as at March 31, 2023:

	Less than one year	Between one and three years	More than three years
	\$	\$	\$
Accounts payable and accrued liabilities	821,543	-	-
Convertible Loan, including interest to maturity	-	23,881,821	-
Convertible Debenture, including interest to maturity	-	13,985,960	-

17. Supplemental disclosure – Statements of cash flows

	Three-months ended March 31,		Nine-months ended March 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Property and equipment investments included in accounts payable and accrued liabilities and long-term payable on the purchase of property				
Beginning of period	483,000	3,536,856	1,427,327	6,082,865
End of period	493,000	3,192,256	493,000	3,192,256
Interest income received	120,483	34,471	301,418	90,806
Share issue costs included in accounts payable and accrued liabilities				
Beginning of period	-	187,438	-	-
End of period	-	-	-	-

18. Commitments

Purchase agreement

As per the purchase agreement dated March 28, 2011, assigned to the Company in September 2012 and considering, amongst others, further transactions among Glencore Canada and BaseCore Metals LP ("Basecore"), BaseCore owned a 2% net smelter return ("NSR") royalty on the Horne 5 Project (the "Horne 5 NSR Royalty"). On July 12, 2022, BaseCore assigned to Sandstorm Gold Ltd, all of its rights, title and interest in the Horne 5 NSR Royalty.

Certain of the rights of Glencore Canada under this purchase agreement, are secured by a deed of hypothec in favour of Glencore Canada for a maximum amount of \$100 million. Falco's obligations towards Sandstorm with respect to the royalty interest are secured by a deed of hypothec for a maximum of \$45 million.

Furthermore, the Horne 5 Project is located adjacent to Glencore Canada's operations and the Company is contractually bound to seek authorizations from time to time from Glencore Canada to perform certain activities, which may affect or impact their operations.

Hoisting systems

On March 24, 2017, the Company entered into an initial agreement for the engineering, procurement, supply, performance services and installation of the hoisting systems for the Horne 5 Project (the "Contract"). The hoisting systems will include a production hoist, an auxiliary hoist and a service hoist. The Contract is now estimated at \$28,900,000, of which \$8,225,000 was incurred and paid as at March 31, 2023 and can be terminated at any time, subject to the payment of the approved and executed work performed by the supplier at the termination date. These amounts are recorded in mining equipment.

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month and nine-month periods ended March 31, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

18. Commitments (*continued*)

Offtake Agreements

On October 27, 2020, Falco entered into agreements with Glencore Canada and its affiliated companies ("Glencore") related to the Horne 5 Project. The agreements include life of mine copper and zinc concentrate offtake agreements (the "Offtake Agreements"). Under the terms of the Offtake Agreements, Glencore will purchase from Falco the copper and zinc concentrates produced during the life of mine of the Horne 5 Project.

First Quantum

In June 2021, Falco entered into an option agreement (the "Agreement") with First Quantum Minerals Ltd. ("First Quantum") pursuant to which First Quantum granted the Company the sole and exclusive right to acquire an undivided 100% ownership interest (the "Option") in the Norbec sites located in the vicinity of the City (the "Properties"). The Company paid \$1,000,000 (the "Option Price") to First Quantum on August 20, 2021, in the form of (i) a cash payment of \$500,000 (the "Cash Payment"), and (ii) the issuance of 1,265,182 of Common Shares having an aggregate value of \$500,000 (the "Consideration Shares") based on the volume weighted average trading price of the Common Shares for the five trading-day period ending as of two business days before the date of the Cash Payment.

Upon the Company's decision to exercise the Option, (i) First Quantum will transfer the Properties to Falco; (ii) the Company will assume historical and contingent environmental liabilities related to the Properties' former mining site; and (iii) First Quantum will make cash payments (the "Cash Payments") to Falco representing the reimbursement of the Option Price, together with additional payments totaling \$3,500,000 (\$500,000 on the date of transfer of the Properties and \$1,000,000 at each of the three consecutive anniversaries thereof). The Option was exercisable until December 31, 2022.

On December 16, 2022, Falco and First Quantum extended the Option's exercise period to June 30, 2024. In addition, the Option was amended removing First Quantum's requirement to make the Cash Payments.

Should the Option be exercised by the Company, First Quantum will retain a 2% NSR royalty on any production from the area represented by the mining concessions 177 and 517, which form a part of the Properties.