FALCO RESOURCES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE-MONTH PERIODS ENDED
SEPTEMBER 30, 2023 and 2022

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated interim financial statements of Falco Resources Ltd. have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Falco Resources Ltd.
Consolidated Balance Sheets
(Unaudited)
(Expressed in Canadian Dollars)

	As at September 30, 2023	As at June 30, 2023
	$	$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	5,132,141	5,920,920
Accounts receivable	364,458	683,978
Prepaid expenses and other assets	188,571	224,967
	5,685,170	6,829,865
Non-current assets		
Restricted cash	905,000	905,000
Property, plant and equipment (Note 5)	135,841,072	133,469,045
Other non-current assets (Note 6)	1,728,528	1,728,528
	138,474,600	136,102,573
Total assets	**144,159,770**	**142,932,438**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	755,240	955,409
Derivative warrant liabilities (Note 9)	155,681	434,765
	910,921	1,390,174
Non-current liabilities		
Contract Liability (Note 6)	56,212,118	54,714,134
Convertible Loan (Note 7)	21,520,932	21,074,432
Convertible Debenture (Note 8)	12,297,300	11,982,788
Deferred income taxes	1,651,150	1,644,551
	91,681,500	89,415,905
Total liabilities	**92,592,421**	**90,806,079**
Equity		
Share capital	133,121,212	133,121,212
Warrants	650,397	650,397
Contributed surplus	16,399,979	16,355,908
Deficit	(98,604,239)	(98,001,158)
Total equity	**51,567,349**	**52,126,359**
Total liabilities and equity	**144,159,770**	**142,932,438**

Going concern (Note 1)
Commitments (Note 17)

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 periods ended September 30, 2023 and 2022
(Unaudited)
(Expressed in Canadian Dollars)

	2023	2022
	$	$
Expenses		
Consulting and compensation	550,730	565,017
Share-based compensation (Note 11)	44,071	130,120
Office and administrative	89,963	87,440
Professional fees	202,009	66,060
Investor and shareholder relations	29,971	44,620
Exploration and evaluation	150,515	170,466
Refundable tax credits	(34,962)	(116,129)
Travel	3,698	4,199
Depreciation (Note 5)	6,985	2,875
Cost recoveries	(63,249)	(169,362)
Operating loss	**(979,731)**	**(785,306)**
Interest income	104,157	83,417
Unrealized gain on derivative warrant liabilities (Note 9)	279,084	84,362
Foreign exchange gain	8	1,826
Loss before income taxes	**(596,482)**	**(615,701)**
Deferred income tax (expense) recovery	(6,599)	8,074
Net loss and comprehensive loss	**(603,081)**	**(607,627)**
Net loss per common share (Note 12)		
Basic and diluted	**(0.00)**	**(0.00)**
Weighted average number of common shares outstanding (Note 12)		
Basic and diluted	**271,577,879**	**271,577,879**

The net loss and the comprehensive loss are 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 Cash Flows

For the three-month periods ended September 30, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

	2023	2022
	$	$
Operating activities		
Net loss	(603,081)	(607,627)
Adjustments for:		
Share-based compensation (Note 11)	44,071	130,120
Depreciation (Note 5)	6,985	2,875
Deferred income tax recovery	6,599	(8,074)
Unrealized gain on derivative warrant liabilities (Note 9)	(279,084)	(84,362)
Changes in non-cash working capital items:		
Accounts receivable	319,520	116,278
Prepaid expenses and other assets	36,396	75,925
Accounts payable and accrued liabilities	(6,916)	(184,326)
Net cash flows used in operating activities	**(475,510)**	**(559,191)**
Investing activities		
Investments in property, plant and equipment	(313,269)	(1,330,592)
Decrease in short-term investments	-	3,000,000
Net cash flows (used in) from investing activities	**(313,269)**	**1,669,408**
(Decrease) increase in cash and cash equivalents	**(788,779)**	**1,110,217**
Cash and cash equivalents, beginning of period	**5,920,920**	**9,020,845**
Cash and cash equivalents, end of period	**5,132,141**	**10,131,062**

Supplemental disclosure (Note 16)

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 three-month periods ended September 30, 2023 and 2022

(Unaudited)

(Expressed in Canadian Dollars)

	Number of shares outstanding	Share capital	Warrants	Contributed surplus	Deficit	Total
		$	$	$	$	$
Balance – July 1, 2023	**271,577,879**	**133,121,212**	**650,397**	**16,355,908**	**(98,001,158)**	**52,126,359**
Net loss and comprehensive loss	-	-	-	-	(603,081)	(603,081)
Share-based compensation (Note 11)	-	-	-	44,071	-	44,071
Balance – September 30, 2023	**271,577,879**	**133,121,212**	**650,397**	**16,399,979**	**(98,604,239)**	**51,567,349**
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	-	-	-	-	(607,627)	(607,627)
Share-based compensation (Note 11)	-	-	-	153,401	-	153,401
Balance - September 30, 2022	**271,577,879**	**133,121,212**	**947,897**	**15,768,591**	**(95,213,367)**	**54,624,333**

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

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 unaudited 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 September 30, 2023, the Company had a working capital of $4,774,249 (including a cash and cash equivalent balance of $5,132,141), an accumulated deficit of $98,604,239 and had incurred a loss of $603,081 for the three-month period ended September 30, 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 Osisko Gold affiliated company) 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 September 30, 2023 will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through September 30, 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 unaudited 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 and 8), 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 unaudited condensed consolidated interim 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, 2023, 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 November 22, 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.

(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 Falco's most recent audited annual consolidated financial statements.

Asset groups are reviewed for an indication of impairment at each balance sheet date or when a triggering event is identified.

For property, plant and equipment, factors which could trigger an impairment review include, but are not limited to, evidence that the asset's value has declined during the period, significant changes with adverse effect on the Company have occurred during the period, evidence is available of obsolescence or physical damage of an asset and the carrying amount of the Company's net assets exceed its market capitalization. In assessing impairment in regards to property, plant and equipment, Management estimates the recoverable amount of each cash generating unit ("CGU") based on discounted future cash flows.

Assessment of impairment of non-financial assets requires the use of judgements when assessing whether there are any indicators that could give rise to the requirement to conduct a formal impairment test on the Company's non-financial assets. Changes in the judgements used in determining the fair value of the non-financial assets could impact the impairment analysis. Management has determined that an indication that the non-financial assets may not be recoverable has occurred in the three-month period ended September 30, 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 CGU at September 30, 2023.

As at September 30, 2023, Falco determined the recoverable amount of the CGU using the fair value less costs of disposal ("FVLCD) method which was assessed using a discounted cash flow model, which took 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 the Horne 5 Project's production based on the project assumptions. The key assumptions used in this calculation included the Horne 5 Project's capital cost, estimated production volume, the long-term gold sales price (US$1,700/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 (15.0%) 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. The Company determined that the recoverable amount exceeded the carrying amounts and therefore, no impairment was recorded.

The estimated FVLCD can be affected by any one or more changes in the estimates used. Changes in significant estimates in further periods may result in an impairment charge. Developing assumptions to determine the recoverable amount of the Horne 5 Project CGU requires significant judgment by management.

4. Cash and cash equivalents

	September 30, 2023	June 30, 2023
	$	$
Cash	482,141	695,920
Cash equivalents	4,650,000	5,225,000
	5,132,141	5,920,920

Cash equivalents at September 30, 2023 are comprised of redeemable term deposits bearing a weighted-average interest rate of 5.5%, and having various maturity dates until December 2023.

(Expressed in Canadian Dollars)

5. Property, plant and equipment

	Mining equipment	Land and buildings	Construction in progress	Office and other equipment	Total
	$	$	$	$	$
Cost					
Balance – June 30, 2022	18,317,509	22,916,609	81,066,946	475,780	122,776,844
Additions	-	50,040	1,889,029	57,394	1,996,463
Capitalized borrowing costs	-	-	9,129,871	-	9,129,871
Balance – June 30, 2023	18,317,509	22,966,649	92,085,846	533,174	133,903,178
Additions	-	7,240	112,776	-	120,016
Capitalized borrowing costs	-	-	2,258,996	-	2,258,996
Balance – September 30, 2023	18,317,509	22,973,889	94,457,618	533,174	136,282,190
Accumulated Depreciation					
Balance – June 30, 2022	-	-	-	418,284	418,284
Depreciation	-	-	-	15,849	15,849
Balance – June 30, 2023	-	-	-	434,133	434,133
Depreciation	-	-	-	6,985	6,985
Balance – September 30, 2023	-	-	-	441,118	441,118
Carrying Amounts					
At June 30, 2023	18,317,509	22,966,649	92,085,846	99,041	133,469,045
At September 30, 2023	18,317,509	22,973,889	94,457,618	92,056	135,841,072

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 $180,000,000, 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 this 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).

(Expressed in Canadian Dollars)

6. Contract Liability (*continued*)

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 balance of the Second Installment and Third Installments, which installments will be funded concurrently, if such conditions are satisfied.

As of September 30, 2023 and June 30, 2023, 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, 2022	**48,898,002**
Interest on the Contract Liability's financing component	5,816,132
Balance at June 30, 2023	**54,714,134**
Interest on the Contract Liability's financing component	1,497,984
Balance at September 30, 2023	**56,212,118**

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 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 consolidated statement of cash flows.

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. 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 was bearing 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 was 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.

(Expressed in Canadian Dollars)

7. Convertible Loan (*continued*)

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 Horne 5 Project and ranks after the security granted to Glencore Canada as part of the Convertible Debenture transaction (see Note 8).

Transactions affecting the Convertible Loan were as follows:

	$
Balance June 30, 2022	**19,408,400**
Interest	1,817,973
Transaction costs	(77,943)
Fair value of Replacement Warrants	(73,998)
Balance June 30, 2023	**21,074,432**
Interest	446,500
Balance September 30, 2023	**21,520,932**

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.

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 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.

(Expressed in Canadian Dollars)

8. Convertible Debenture (*continued*)

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

Transactions affecting the Convertible Debenture were as follows:

	$
Balance June 30, 2022	**10,794,418**
Interest	1,492,719
Transaction costs	(38,971)
Fair value of Warrant Extension	(265,378)
Balance June 30, 2023	**11,982,788**
Interest	314,512
Balance September 30, 2023	**12,297,300**

During the three-month period ended September 30, 2023 and 2022, 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.

(Expressed in Canadian Dollars)

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, 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)	-
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	-	69,764	-	22,579	-	92,343
Balance at June 30, 2023	**15,061,158**	**338,188**	**10,664,324**	**96,577**	**25,725,482**	**434,765**
Revaluation of derivative warrant liabilities	-	(209,327)	-	(69,757)	-	(279,084)
Balance at September 30, 2023	**15,061,158**	**128,861**	**10,664,324**	**26,820**	**25,725,482**	**155,681**

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

The derivative warrant liabilities are 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:

	September 30, 2023	**June 30, 2023**	**Extension of Warrants January 24, 2023**	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**
Risk-free interest rate	4.92%	4.52%	3.56%	5.15%	4.43%	2.74%
Expected life of Warrants	1.3 years	1.5 years	1.9 years	0.3 years	0.4 years	0.6 years
Annualized volatility	75%	76%	67%	93%	69%	57%
Dividend rate	-	-	-	-	-	-
Fair value per Warrant	$0.003	$0.017	$0.013	$0.002	$0.004	$0.01

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.

(Expressed in Canadian Dollars)

10. Share capital and warrants

Share capital

Authorized:	Unlimited number of Common Shares without par value
Issued and fully paid:	271,577,879 Common Shares

Warrants

The following table details the changes in the Warrants:

	Number of Warrants	Weighted Average Exercise Price
		$
Balance – June 30, 2022	**47,675,482**	**0.54**
Expired	(11,014,324)	0.70
Issued (Note 7)	10,664,324	0.65
Balance – June 30, 2023	**47,325,482**	**0.52**
Balance – September 30, 2023	**47,325,482**	**0.52**
Warrants subject to cashless exercise	**25,725,482**	**0.49**

11. Share-based compensation

The following table summarizes information about the movement of the non-transferable options to purchase Common Shares ("Options") during the last two years:

	Number of Options	Weighted Average Exercise Price
		$
Balance – June 30, 2022	**16,221,867**	**0.44**
Granted	150,000	0.33
Expired	(2,219,978)	0.86
Forfeited	(153,556)	0.34
Balance – June 30, 2023	**13,998,333**	**0.37**
Forfeited	(117,001)	0.39
Balance – September 30, 2023	**13,881,332**	**0.37**
Options exercisable – September 30, 2023	**10,110,999**	**0.36**

Share option compensation for the three-month period ended September 30, 2023 amounted to $44,071 ($153,401 for the three-month period ended September 30, 2022) of which $ nil was capitalized to construction in progress ($23,281 capitalized to construction in progress for the three-month period ended September 30, 2022).

12. Net loss per share

As a result of the net loss for the three-month periods ended September 30, 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.

(Expressed in Canadian Dollars)

13. 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 periods ended September 30, 2023 and 2022:

	2023	2022
	$	$
Salaries and short-term employee benefits	332,350	316,380
Share-based compensation	46,655	106,435
	379,005	422,815

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

During the three-month period ended September 30, 2023, an amount of $27,000 ($54,000 for the three-month period ended September 30, 2022) was invoiced by Osisko Gold for professional services and access to office spaces. An amount of $15,000 is included in accounts payable and accrued liabilities as at September 30, 2023 ($35,000 as at June 30, 2023).

As at September 30, 2023, interest payable on the Convertible Loan amounted to $1,161,567 ($725,234 as at June 30, 2023). Interest incurred on the Convertible Loan for the three-month period ended September 30, 2023 totaled $446,500 and was capitalized to property, plant and equipment in the consolidated balance sheet. For the three-month period ended September 30, 2022, interest incurred on the Convertible Loan totaled $452,959 was capitalized to property, plant and equipment.

During the three-month period ended September 30, 2023, $83,000 was invoiced by Osisko Development for professional services ($94,000 for the three-month period ended September 30, 2022). An amount of $83,000 is included in accounts payable and accrued liabilities as at September 30, 2023 ($95,000 as at June 30, 2023).

During the three-month period ended September 30, 2023, the Company provided professional services totaling $63,249 to associates of Osisko Gold ($169,362 for the three-month period ended September 30, 2022), which have been recorded as cost recoveries in the consolidated statement of loss and comprehensive loss.

14. Fair value of financial instruments

The Company's derivative warrant liabilities are measured at fair value in the condensed consolidated balance sheet as at September 30, 2023 (see Note 9).

As at September 30, 2023 and June 30, 2023, 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 $20,200,000 and $11,830,000, respectively (Level 3 measurement).

(Expressed in Canadian Dollars)

15. 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. The Board reviews and approves any material transaction out of the ordinary course of business, including proposals on mergers, acquisitions or other major investments or divestitures. As at September 30, 2023, cash and cash equivalents are comprised of bank balances and short-term highly liquid investments (Note 4). As described in Note 1, the Company's liquidity position as at September 30, 2023, will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through September 30, 2024.

The following table summarizes the Company's contractual commitments as at September 30, 2023:

	Less than one year	Between one and three years	More than three years
	$	$	$
Accounts payable and accrued liabilities	755,240	-	-
Derivative warrant liabilities	-	-	-
Convertible Loan, including interest to maturity	-	23,900,000	-
Convertible Debenture, including interest to maturity	-	14,000,000	-

16. Supplemental disclosure – Statements of cash flows

	Three-months ended September 30, 2023	Three-months ended September 30, 2022
	$	$
Property and equipment acquisitions included in accounts payable and accrued liabilities		
Beginning of period	353,484	1,427,327
End of period	160,231	593,235
Interest income received	104,157	83,417

17. 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 $100,000,000. Falco's obligations towards Sandstorm with respect to the royalty interest are secured by a deed of hypothec for a maximum of $45,000,000.

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 September 30, 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.

17. 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 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 is exercisable, subject to certain conditions, until December 31, 2022. 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.

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.