FALCO RESOURCES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED
MARCH 31, 2022 and 2021

Falco Resources Ltd.

Consolidated Balance Sheets

(Unaudited)
(Expressed in Canadian Dollars)

	As at March 31, 2022	As at June 30, 2021
	$	$
Assets		
Current assets		
Cash	15,448,773	4,149,395
Accounts receivable	864,350	1,227,540
Prepaid expenses and other assets	294,840	256,291
	16,607,963	5,633,226
Non-current assets		
Restricted cash	905,000	905,000
Property, plant and equipment (Note 4)	119,037,323	104,331,782
Other non-current assets (Note 6)	1,728,528	1,728,528
	121,670,851	106,965,310
Total assets	**138,278,814**	**112,598,536**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	4,096,768	8,416,198
Convertible Loan (Note 7)	18,960,365	-
Convertible Debenture (Note 8)	10,934,747	9,910,064
Derivative warrant liability (Note 9)	124,515	177,944
	34,116,395	18,504,206
Non-current liabilities		
Contract Liability (Note 6)	47,491,657	33,674,978
Convertible Loan (Note 7)	-	17,617,185
Deferred income taxes	1,348,623	1,260,577
Derivative warrant liability (Note 9)	-	733,889
	48,840,280	53,286,629
Total liabilities	**82,956,675**	**71,790,835**
Equity		
Share capital	133,121,212	116,543,819
Warrants	947,897	744,306
Contributed surplus	15,461,792	14,977,066
Deficit	(94,208,762)	(91,457,490)
Total equity	**55,322,139**	**40,807,701**
Total liabilities and equity	**138,278,814**	**112,598,536**

Going concern (Note 1)
Commitments (Note 18)
Subsequent event (Note 19)

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, 2022 and 2021
(Unaudited)
(Expressed in Canadian Dollars)

	Three-months ended March 31,		Nine-months ended March 31,	
	2022	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**
Expenses				
Consulting and compensation	602,408	674,355	1,866,639	1,989,065
Professional fees	220,680	776,185	836,723	1,232,602
Share-based compensation (Note 12)	122,442	134,559	415,946	391,596
Office and administrative	138,655	122,468	400,180	310,766
Investor and shareholder relations	43,378	43,382	158,767	222,471
Exploration and evaluation	236,282	91,977	545,480	285,650
Refundable tax credits	(136,432)	(30,049)	(213,860)	(93,444)
Travel	11,247	7,994	35,801	11,746
Depreciation (Note 4)	5,851	8,659	16,944	23,657
Cost recoveries	(332,405)	(239,988)	(766,680)	(816,772)
Operating loss	**(912,106)**	**(1,589,542)**	**(3,295,940)**	**(3,557,337)**
Interest income	34,471	19,232	215,653	43,463
Interest expense (Note 8)	(146,979)	(237,280)	(370,918)	(249,035)
Unrealized (loss) gain on derivative warrant liabilities (Note 9)	(35,356)	(416,039)	787,318	(384,363)
Foreign exchange gain (loss)	429	(1,616)	661	2,791
Loss before income taxes	**(1,059,541)**	**(2,225,245)**	**(2,663,226)**	**(4,144,481)**
Deferred income tax (expense) recovery	(101,256)	5,380	(88,046)	16,702
Net loss and comprehensive loss	**(1,160,797)**	**(2,219,865)**	**(2,751,272)**	**(4,127,779)**
Net loss per common share (Note 13)				
Basic and diluted	**(0.00)**	**(0.01)**	**(0.01)**	**(0.02)**
Weighted average number of common shares outstanding (Note 13)				
Basic and diluted	**271,551,917**	**226,841,783**	**258,418,779**	**226,437,657**

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, 2022 and 2021
(Unaudited)
(Expressed in Canadian Dollars)

	Three-months ended March 31,		Nine-months ended March 31,	
	2022	2021	2022	2021
	$	$	$	$
Operating activities				
Net loss	(1,160,797)	(2,219,865)	(2,751,272)	(4,127,779)
Adjustments for :				
Share-based compensation (Note 12)	122,442	134,559	415,946	391,596
Depreciation (Note 4)	5,851	8,659	16,944	23,657
Deferred income tax expense (recovery)	101,256	(5,380)	88,046	(16,702)
Unrealized loss (gain) on derivative warrant liabilities (Note 9)	35,356	416,039	(787,318)	384,363
Net interest expense on Convertible Debenture (Note 8)	105,875	191,859	204,937	191,859
Net proceeds from the advance of the Silver Stream Agreement (Note 6)	-	-	10,000,000	-
Changes in non-cash working capital items:				
Accounts receivable	120,548	(595,604)	363,190	(381,505)
Prepaid expenses and other assets	39,699	(19,885)	(38,549)	(129,050)
Accounts payable and accrued liabilities	(511,023)	46,066	(1,428,822)	527,017
Net cash flows (used in) provided by operating activities	(1,140,793)	(2,043,552)	6,083,102	(3,136,544)
Investing activities				
Investments in property, plant and equipment	(3,336,999)	(2,336,612)	(11,060,303)	(5,321,257)
Net cash flows used in investing activities	(3,336,999)	(2,336,612)	(11,060,303)	(5,321,257)
Financing activities				
Proceeds from private placement (Note 10)	-	-	17,280,000	-
Proceeds from the issuance of the Convertible Debenture (Note 9)	-	-	-	10,000,000
Proceeds from the exercise of options	9,450	75,999	9,450	259,474
Payment of transaction costs	(57,669)	-	(1,012,871)	(410,863)
Net cash flows provided by financing activities	(48,219)	75,999	16,276,579	9,848,611
(Decrease) increase in cash	**(4,526,011)**	**(4,304,165)**	**11,299,378**	**1,390,810**
Cash, beginning of period	**19,974,784**	**9,325,726**	**4,149,395**	**3,630,751**
Cash, end of period	**15,448,773**	**5,021,561**	**15,448,773**	**5,021,561**

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, 2022 and 2021
(Unaudited)
(Expressed in Canadian Dollars)

	Number of shares outstanding	Share capital	Warrants	Contributed surplus	Deficit	Total
		$	$	$	$	$
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**
Balance – July 1, 2020	**226,147,296**	**116,134,936**	**744,306**	**14,495,976**	**(45,117,762)**	**86,257,456**
Net loss and comprehensive loss	-	-	-	-	(3,947,898)	(3,947,898)
Share-based compensation	-	-	-	385,583	-	385,583
Exercise of options	933,901	408,883	-	(149,409)	-	259,474
Balance – March 31, 2021	**227,081,197**	**116,543,819**	**744,306**	**14,732,150**	**(49,065,660)**	**82,954,615**

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 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, 2022, the Company had negative working capital of $17,508,432 (including a cash balance of $15,448,773), an accumulated deficit of $94,208,762 and had incurred a loss of $2,751,272 for the nine-month period ended March 31, 2022. 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") (a subsidiary of 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, 2022 will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through March 31, 2023. 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 COVID-19 pandemic has had a significant impact on the global economy and commodity and financial markets. The full extent and impact of the COVID-19 pandemic is unknown at this time and its adverse effects may continue for an extended and unknown period of time, particularly as variant strains of the virus are identified. The impact of the pandemic to date has included volatility in financial markets, a slowdown in economic activity, supply chain and labour issues, and volatility in commodity prices (including gold and silver). Furthermore, as efforts have been undertaken to slow the spread of the COVID19 pandemic, the operation and development of mining projects have been impacted. The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments, the duration and severity of the pandemic and related restrictions, all of which continue to be uncertain and cannot be predicted. To date, COVID-19 has not had a material impact on the Company's financial condition, liquidity or longer-term strategic development.

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 consolidated financial statements.

(Expressed in Canadian Dollars)

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 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, 2021, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements were approved by the Company's Board of Directors (the "Board") on May 25, 2022.

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

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.

4. Property, plant and equipment

	Mining equipment	Land and buildings	Construction in progress	Office and other equipment	Total
	$	$	$	$	$
Cost					
Balance – June 30, 2020	17,914,741	19,033,987	50,655,548	457,744	88,062,020
Additions	400,000	2,098,629	7,447,573	15,538	9,961,740
Capitalized borrowing costs	-	-	6,705,242	-	6,705,242
Balance – June 30, 2021	18,314,741	21,132,616	64,808,363	473,282	104,729,002
Additions	2,533	1,864,939	6,872,910	2,498	8,742,880
Capitalized borrowing costs	-	-	5,979,605	-	5,979,605
Balance – March 31, 2022	18,317,274	22,997,555	77,660,878	475,780	119,451,487
Accumulated Depreciation					
Balance – June 30, 2020	-	-	-	363,413	363,413
Depreciation	-	-	-	33,807	33,807
Balance – June 30, 2021	-	-	-	397,220	397,220
Depreciation	-	-	-	16,944	16,944
Balance – March 31, 2022	-	-	-	414,164	414,164
Carrying Amounts					
At June 30, 2021	18,314,741	21,132,616	64,808,363	76,062	104,331,782
At March 31, 2022	18,317,274	22,997,555	77,660,878	61,616	119,037,323

(Expressed in Canadian Dollars)

5. Accounts payable and accrued liabilities

	March 31, 2022	June 30, 2021
	$	$
Trade payables and accrued liabilities	4,096,768	6,469,298
Short-term payable on the purchase of property (a)	-	946,900
Amount payable to First Quantum (Note 18)	-	1,000,000
	4,096,768	8,416,198

(a) In September 2014, the Company entered into a five-year option agreement with the City of Rouyn-Noranda (the “City”) to acquire surface rights above or near the Horne 5 Deposit. This option agreement was extended for an additional five years in January 2020. On June 29, 2017, the Company exercised part of this option agreement, purchasing a property for $2,946,900. On December 14, 2020, the City and Falco agreed to extend the payment date of the remaining amount payable of $946,900 to January 1, 2022, which was paid in December 2021.

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;
- Second deposit of $20,000,000 upon the Company receiving all necessary material third-parties’ approvals, licenses, rights of way, and surface rights;
- 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;
- Fourth deposit of $60,000,000 upon the total projected capital expenditure for the Horne 5 Project having been demonstrated to be financed; 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.

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 deposit 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 Stream Agreement, the Company has agreed to pay a $2,000,000 capital commitment fee. The fee is payable upon Osisko Gold funding the third deposit under the Stream Agreement.

Falco’s obligations towards Osisko Gold with respect to the Silver Stream Agreement is 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 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, whereby Osisko Gold agreed 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 payments 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.

As of March 31, 2022 and June 30, 2021, 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.

(Expressed in Canadian Dollars)

6. Contract Liability (continued)

The breakdown of the Contract Liability is as follows:

	$
Balance at June 30, 2020	**29,724,143**
Interest on the Contract Liability's financing component	3,950,835
Balance at June 30, 2021	**33,674,978**
Interest on the Contract Liability's financing component	3,816,679
Partial advance of second milestone payment	10,000,000
Balance at March 31, 2022	**47,491,657**

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 capitalized 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. 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 is payable on the Amended Principal Amount at a rate per annum that is equal to 7%, compounded quarterly and accrued interest is payable upon repayment of the Amended Principal Amount.

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 November 17, 2020 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. 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).

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. The Warrants (and the underlying Common Shares) were subject to a hold period of four months from the date of issuance of the Warrants, in accordance with applicable Canadian securities laws.

(Expressed in Canadian Dollars)

7. Convertible Loan (continued)

On November 17, 2020, the principal amount outstanding under the Secured Loan totaling $17,596,136 was considered extinguished pursuant to IFRS 9. On November 17, 2020, the Warrants, recognized as derivative warrant liabilities, were measured at their estimated fair value of $1,027,814 (see Note 9) with the residual amount attributed to the debt host of the Convertible Loan ($16,568,322) and a $ nil residual amount to the conversion option equity component.

Transactions affecting the Convertible Loan with Osisko Gold were as follows:

	$
Principal owing at June 30, 2020	15,900,000
Interest owing at June 30, 2020	1,233,335
Balance, at June 30, 2020	**17,133,335**
Derivative warrant liabilities	(1,027,814)
Interest	1,511,664
Balance June 30, 2021	**17,617,185**
Interest	1,343,180
Balance March 31, 2022	**18,960,365**

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. During the nine-month period ended March 31, 2022, $1,343,180 in interest expense was capitalized to property, plant and equipment in the consolidated balance sheet.

8. Convertible Debenture

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

The Convertible Debenture can 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 is 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. The Warrants (and the underlying Common Shares) were subject to a hold period of four months from the date of issuance of the Warrants, in accordance with applicable Canadian securities laws.

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.

On October 27, 2020, the derivative warrant liabilities were measured at their estimated fair value of $1,232,501 (see Note 9), 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. For the year ended June 30, 2021, transaction costs incurred on the Convertible Debenture totaled $468,620, for which $57,757 was expensed as professional fees in the consolidated statement of loss and comprehensive loss and $410,863 was capitalized to the Convertible Debenture.

(Expressed in Canadian Dollars)

8. Convertible Debenture (continued)

On October 13, 2021, the Company announced an agreement with Glencore Canada to extend the maturity date of the $10,000,000 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 remain unchanged, including the exercise price of $0.51 per Common Share.

Transactions affecting the Convertible Debenture were as follows:

	$
Balance at June 30, 2020	**-**
Debt component	8,767,499
Transaction costs	(410,863)
Interest	1,553,428
Balance June 30, 2021	**9,910,064**
Gain on extension of Convertible Debenture	(624,234)
Interest	1,648,917
Balance March 31, 2022	**10,934,747**

A portion of the Convertible Debenture’s principal amount is directly attributable to the acquisition or construction of a qualifying asset, as such a portion of these borrowing costs are capitalized to property, plant and equipment. During the nine-month period ended March 31, 2022, $819,746 in net interest costs have been capitalized to property, plant and equipment in the consolidated balance sheet. During the nine-month period ended March 31, 2022, $329,784 in net interest costs have been expensed in the consolidated statement of loss and comprehensive loss ($191,859 for the nine-month period ended March 31, 2021).

On April 27, 2022, the Company and Glencore finalized an agreement to extend the maturity date of the Convertible Debenture (see Note 19).

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 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.

(Expressed in Canadian Dollars)

9. Derivative warrant liabilities (*continued*)

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

	October 27, 2020 Warrants		November 17, 2020 Warrants		Total	
	Number	$	Number	$	Number	$
Balance at June 30, 2020	-	-	-	-	-	-
Issuance of derivative warrant liabilities to Glencore Canada (Note 8)	12,195,122	1,232,501	-	-	**12,195,122**	**1,232,501**
Issuance of derivative warrant liabilities to Osisko Gold (Note 7)	-	-	10,664,324	1,027,814	**10,664,324**	**1,027,814**
Revaluation of derivative warrant liabilities	-	(1,054,557)	-	(293,925)	**-**	**(1,348,482)**
Balance at June 30, 2021	**12,195,122**	**177,944**	**10,664,324**	**733,889**	**22,859,446**	**911,833**
Revaluation of derivative warrant liabilities	-	(172,110)	-	(615,208)	**-**	**(787,318)**
Balance at March 31, 2022	**12,195,122**	**5,834**	**10,664,324**	**118,681**	**22,859,446**	**124,515**
Classified as current liability	12,195,122	5,834	10,664,324	118,681	**22,859,446**	**124,515**
Classified as long-term liability	-	-	-	-	-	-

During the three month period ended March 31, 2022, $35,356 of net unrealized loss on the derivative warrant liabilities has been recorded in the statement of loss and comprehensive loss ($416,039 for the three-month period ended March 31, 2021). During the nine-month period ended March 31, 2022, $787,318 of net unrealized gain on the derivative warrant liabilities has been recorded in the statement of loss and comprehensive loss ($384,363 net unrealized loss for the nine-month period ended March 31, 2021).

The following weighted average assumptions were used to estimate the fair value of the derivative warrant liabilities at each reporting date and at their issuance date.

	March 31, 2022	June 30, 2021	Date of issuance
Risk-free interest rate	2.21%	0.44%	0.24%
Expected life of Warrants	0.3 years	0.8 years	1.5 years
Annualized volatility	68%	58%	82%
Dividend rate	-	-	-
Weighted average fair value per Warrant	$0.01	$0.04	$0.099

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.

(Expressed in Canadian Dollars)

10. Share capital (*continued*)

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 closing of the Placement. Share issue costs totaled $20,186 which was allocated to the Common Shares.

11. Warrants

The following table details the changes in the Warrants:

	Number of Warrants	**Weighted Average Exercise Price**
		$
Balance – June 30, 2020	6,402,222	0.77
Issued	22,859,446	0.59
Balance – June 30, 2021	29,261,668	0.63
Expired	(6,052,222)	0.75
Issued (Note 10)	21,600,000	0.55
Balance – March 31, 2022	**44,809,446**	**0.58**
Warrants subject to cashless exercise	**22,859,446**	**0.59**

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, 2020	11,294,352	0.49
Granted	7,148,000	0.45
Exercised	(933,901)	0.28
Expired	(432,784)	0.52
Forfeited	(1,941,767)	0.40
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	(260,000)	0.45
Balance – March 31, 2022	16,564,200	0.44
Options exercisable – March 31, 2022	7,444,196	0.50

Share option compensation for the three-month period ended March 31, 2022 amounted to $143,976 ($162,940 for the three-month period ended March 31, 2021) of which $21,534 was capitalized to construction in progress ($28,381 for the three-month period ended March 31, 2021).

Share option compensation for the nine-month period ended March 31, 2022 amounted to $489,131 ($385,583 for the nine-month period ended March 31, 2021) of which $73,185 was capitalized to construction in progress ($6,013 reversed from construction in progress for the nine-month period ended March 31, 2021).

(Expressed in Canadian Dollars)

12. Share-based compensation (*continued*)

During the nine-month period ended March 31, 2022, share options were granted to directors, officers and key employees. The options have a five-year term and vest over a three-year period. The exercise price of the share options granted were based on the closing price of the share on the day prior to the grant date. The share options granted were accounted for at their fair value determined by the Black-Scholes option pricing model on the following weighted average assumptions:

Risk-free interest rate	1.71%
Expected life of options	4.6 years
Annualized volatility	67%
Dividend rate	-
Weighted average fair value per option	$0.14

The annualized volatility was based on historical data for the Company. The fair value of the share options is amortized over the vesting period, taking into account expected forfeitures. Share options issued are exercisable at the closing market price of the Shares on the day prior to their grant.

13. Net loss per share

As a result of the net loss for the three-month and nine-month periods ended March 31, 2022 and 2021, 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.

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, 2022 and 2021:

	Three-months ended March 31,		Nine-months ended March 31,	
	2022	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**
Salaries and short-term employee benefits	288,810	462,623	1,041,833	1,324,000
Share-based compensation	109,618	128,293	385,439	373,695
	398,428	590,916	1,427,272	1,697,695

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

During the three-month and nine-month periods ended March 31, 2022, amounts of $118,000 and $460,000, respectively were invoiced by Osisko Gold for professional services and access to office spaces (amounts of $160,000 and $870,000, respectively, for the three-month and nine-month periods ended March 31, 2021). An amount of $95,000 is included in accounts payable and accrued liabilities as at March 31, 2022 ($296,000 as at June 30, 2021).

As at March 31, 2022, interest payable on the Convertible Loan amounted to $1,740,726 ($769,783 as at June 30, 2021). Interest incurred on the Convertible Loan for the three-month and nine-month periods ended March 31, 2022 totaled $443,112 and $1,343,180, 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, 2022, amounts of $87,000 and $295,000, respectively, were invoiced by Osisko Development for professional services ($240,000 for the three-month and nine-month periods ended March 31, 2021). An amount of $98,000 is included in accounts payable and accrued liabilities as at March 31, 2022 ($464,000 as at June 30, 2021).

During the three-month and nine-month periods ended March 31, 2022, amounts of $292,000 and $675,000, respectively, were invoiced to associates of Osisko Gold for professional services provided by the Company ($239,988 and $816,772 for the three-month and nine-month periods ended March 31, 2021), which have been recorded as cost recoveries in the statement of loss and comprehensive loss.

(Expressed in Canadian Dollars)

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, 2022 (see Note 9).

As at March 31, 2022 and June 30, 2021, the financial instruments that are not measured at fair value in the consolidated balance sheets are represented by cash, 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, 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 $18,600,000 and $10,980,000, respectively (Level 3 measurement).

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, 2022, cash is comprised of bank balances. As described in Note 1, the Company estimates that with its liquidity position as at March 31, 2022, 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, 2022:

	Less than one year	Between one and three years	More than three years
	$	$	$
Accounts payable and accrued liabilities	4,096,768	-	-
Derivative warrant liabilities	-	-	-
Convertible Loan, including interest to maturity	20,300,000	-	-
Convertible Debenture, including interest to maturity	11,100,000	-	-

17. Supplemental disclosure – Statements of cash flows

	Three-months ended March 31,		Nine-months ended March 31,	
	2022	2021	2022	2021
	$	$	$	$
Property and equipment investments included in accounts payable and accrued liabilities and long-term payable on the purchase of property				
Beginning of period	3,536,856	2,001,407	6,082,865	2,697,827
End of period	3,192,256	2,986,900	3,192,256	2,986,900
Interest income received	34,471	19,232	90,806	43,463
Share issue costs included in accounts payable and accrued liabilities				
Beginning of period	187,438	-	-	-
End of period	-	-	-	-

18. Commitments

The Company commitments and obligations, which have not already been discussed are as follows:

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 owns a 2% net smelter return ("NSR") royalty on the Horne 5 Project.

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 BaseCore 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 estimated at $28,900,000, of which $8,225,000 was incurred and paid as at March 31, 2022 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.

City of Rouyn-Noranda (the "City")

On September 12, 2017, the Company concluded the signing of a Memorandum of Understanding (the "MOU") with the Commission scolaire de Rouyn-Noranda (the "School Board") to acquire the Pavilion located on the site of the Horne 5 Project. As per the MOU, Falco became the owner of the Pavilion upon completion of a relocation program for the current Pavilion activities (the "Relocation Project"). As per the Relocation Project, the Company transferred the Pavilion's activities to the Complexe La Source-Polymétier (the "Complexe") and Falco funded and executed the expansion of the Complexe to accommodate these additional activities. Falco transferred the expanded Complexe to the School Board on June 28, 2018, completing the Relocation Project. The Company has no more obligations towards the School Board.

As the Complexe was constructed on property owned by the City and where sports and community activities were undertaken, Falco concluded an agreement with the City in December 2018, which was amended in August 2019, to finance and build infrastructure to relocate such activities for an amount not to exceed $2,500,000. The Company completed its commitment to the City in September 2021 at a cost of $2,000,000.

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.

19. Subsequent event

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

In connection with the extension of the Maturity Date, the conversion price of the Convertible Debenture will be amended to $0.40 per share and the interest rate will be 8% per annum, compounded quarterly. In accordance with its terms, the Convertible Debenture can be converted into Shares within 10 days of the 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.

Concurrently with the issuance of the Convertible Debenture, Falco also issued to Glencore 12,195,122 Warrants. Each Warrant is exercisable for one Share at an exercise price of $0.51 per share. The Warrants expire on April 27, 2022. The Company announced the extension of the expiry date of the Warrants from April 27, 2022 to April 27, 2023. The exercise price of the Warrants will be reduced to $0.41 per share. All other terms and conditions of the Warrants will remain unchanged.

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

The amendment and extension of the Debenture and Warrants, and the issuance of the Additional Warrants remain subject to the approval of the TSX Venture Exchange. The Additional Warrants (and the underlying Shares) will be subject to a hold period of four months from the date of their issuance in accordance with applicable Canadian securities laws.