



FALCO RESOURCES LTD.

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

**FOR THE THREE-MONTH PERIODS ENDED
SEPTEMBER 30, 2024 and 2023**

**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, 2024	As at June 30, 2024
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	1,868,024	3,683,817
Accounts receivable	571,102	451,991
Prepaid expenses and other assets	251,936	290,593
	<u>2,691,062</u>	<u>4,426,401</u>
Non-current assets		
Property, plant and equipment (Note 5)	149,177,698	145,577,761
Other non-current assets (Note 6)	1,728,528	1,728,528
	<u>150,906,226</u>	<u>147,306,289</u>
Total assets	<u>153,597,288</u>	<u>151,732,690</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,353,007	1,845,266
Convertible Loan (Note 7)	23,388,596	22,905,141
Convertible Debenture (Note 8)	13,629,683	13,282,225
Deferred premium on flow-through shares (Note 10)	178,231	182,694
Derivative warrant liabilities (Note 9)	828,456	501,555
	<u>40,377,973</u>	<u>38,716,881</u>
Non-current liabilities		
Contract Liability (Note 6)	62,049,485	60,675,657
Deferred income taxes	1,713,923	1,713,923
	<u>63,763,408</u>	<u>62,389,580</u>
Total liabilities	<u>104,141,381</u>	<u>101,106,461</u>
Equity		
Share capital	134,741,596	134,741,596
Warrants	701,102	701,102
Contributed surplus	16,696,834	16,595,100
Deficit	(102,683,625)	(101,411,569)
Total equity	<u>49,455,907</u>	<u>50,626,229</u>
Total liabilities and equity	<u>153,597,288</u>	<u>151,732,690</u>
Going concern (Note 1)		
Commitments (Note 18)		
Subsequent events (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 periods ended September 30, 2024 and 2023

(Unaudited)

(Expressed in Canadian Dollars)

	2024	2023
	\$	\$
Expenses		
Consulting and compensation	613,605	550,730
Share-based compensation (Note 12)	91,902	44,071
Office and administrative	76,556	89,963
Professional fees	138,581	202,009
Investor and shareholder relations	102,299	29,971
Exploration and evaluation	64,068	150,515
Refundable tax credits	(52,063)	(34,962)
Travel	4,884	3,698
Depreciation (Note 5)	7,464	6,985
Cost recoveries	(63,249)	(63,249)
Operating loss	(984,047)	(979,731)
Interest income	34,592	104,157
Unrealized variation on derivative warrant liabilities (Note 9)	(326,901)	279,084
Foreign exchange (loss) gain	(163)	8
Other income – premium on flow-through shares (Note 10)	4,463	-
Loss before income taxes	(1,272,056)	(596,482)
Deferred income tax (expense) recovery	-	(6,599)
Net loss and comprehensive loss	(1,272,056)	(603,081)
Net loss per common share (Note 13)		
Basic and diluted	(0.00)	(0.00)
Weighted average number of common shares outstanding (Note 13)		
Basic and diluted	280,138,434	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, 2024 and 2023

(Unaudited)

(Expressed in Canadian Dollars)

	<u>2024</u>	<u>2023</u>
	\$	\$
Operating activities		
Net loss	(1,272,056)	(603,081)
Adjustments for:		
Share-based compensation (Note 12)	91,902	44,071
Depreciation (Note 5)	7,464	6,985
Deferred income tax recovery	-	6,599
Other income – premium on flow-through shares (Note 10)	(4,463)	-
Unrealized variation on derivative warrant liabilities (Note 9)	326,901	(279,084)
Changes in non-cash working capital items:		
Accounts receivable	(119,111)	319,520
Prepaid expenses and other assets	38,657	36,396
Accounts payable and accrued liabilities	149,366	(6,916)
Net cash flows used in operating activities	<u>(781,340)</u>	<u>(475,510)</u>
Investing activities		
Investments in property, plant and equipment	(1,034,453)	(313,269)
Net cash flows (used in) from investing activities	<u>(1,034,453)</u>	<u>(313,269)</u>
(Decrease) increase in cash and cash equivalents	<u>(1,815,793)</u>	<u>(788,779)</u>
Cash and cash equivalents, beginning of period	<u>3,683,817</u>	<u>5,920,920</u>
Cash and cash equivalents, end of period	<u>1,868,024</u>	<u>5,132,141</u>
Supplemental disclosure (Note 17)		

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

Falco Resources Ltd.

Consolidated Statements of Changes in Equity

For the three-month periods ended September 30, 2024 and 2023

(Unaudited)

(Expressed in Canadian Dollars)

	Number of shares outstanding	Share capital	Warrants	Contributed surplus	Deficit	Total
		\$	\$	\$	\$	\$
Balance – July 1, 2024	280,138,434	134,741,596	701,102	16,595,100	(101,411,569)	50,626,229
Net loss and comprehensive loss	-	-	-	-	(1,272,056)	(1,272,056)
Share-based compensation (Note 12)	-	-	-	101,734	-	101,734
Balance – September 30, 2024	280,138,434	134,741,596	701,102	16,696,834	(102,683,625)	49,455,907
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 12)	-	-	-	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

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

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended September 30, 2024 and 2023
(Unaudited)

(Expressed in Canadian Dollars)

1. Nature of activities and going concern

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

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

On April 29, 2021, the Company filed on SEDAR an updated technical report, “Feasibility Study Update, Horne 5 Gold Project”, dated effective March 18, 2021 (the “Updated Feasibility Study”) pursuant to National Instrument 43-101, *Standards of Disclosure for Mineral Projects* and relating to Falco’s Horne 5 Deposit in Rouyn-Noranda (the “Falco Horne 5 Project” or “Falco 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, 2024, the Company had a negative working capital of \$37,686,911 (including a cash and cash equivalent balance of \$1,868,024), an accumulated deficit of \$102,683,625 and had incurred a loss of \$1,272,056 for the three-month period ended September 30, 2024. As the Company is in the development stage for the Falco 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”), which owns 16.7% 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, 2024 will not be sufficient to meet the Company’s obligations, commitments and budgeted expenditures through September 30, 2025. 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 Falco 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 consolidated financial statements.

2. Basis of presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with *International Financial Reporting Standards* (“IFRS”) as issued by the *International Accounting Standards Board* (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended June 30, 2024, 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 20, 2024.

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

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended September 30, 2024 and 2023

(Unaudited)

(Expressed in Canadian Dollars)

3. Judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the Company to make judgments, estimates and assumptions on reported amounts of assets and liabilities, and reported amounts of expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may be substantially different. The critical accounting judgments, estimates and assumptions are the same as those in 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. As at September 30, 2024 and June 30, 2024, Management determined that there were no indications that the non-financial assets may not be recoverable.

4. Cash and cash equivalents

	September 30, 2024	June 30, 2024
	\$	\$
Cash	1,868,024	2,633,817
Cash equivalents	-	1,050,000
	<u>1,868,024</u>	<u>3,683,817</u>

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements
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(Unaudited)

(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, 2023	18,317,509	22,966,649	92,085,846	533,174	133,903,178
Additions	-	80,903	2,959,872	6,818	3,047,593
Capitalized borrowing costs	-	-	9,091,669	-	9,091,669
Balance – June 30, 2024	18,317,509	23,047,552	104,137,387	539,992	146,042,440
Additions	-	-	1,402,660	-	1,402,660
Capitalized borrowing costs	-	-	2,204,741	-	2,204,741
Balance – September 30, 2024	18,317,509	23,047,552	107,744,788	539,992	149,649,841
Accumulated Depreciation					
Balance – June 30, 2023	-	-	-	434,133	434,133
Depreciation	-	-	-	30,546	30,546
Balance – June 30, 2024	-	-	-	464,679	464,679
Depreciation	-	-	-	7,464	7,464
Balance – September 30, 2024	-	-	-	472,143	472,143
Carrying Amounts					
At June 30, 2024	18,317,509	23,047,552	104,137,387	75,313	145,577,761
At September 30, 2024	18,317,509	23,047,552	107,744,788	67,849	149,177,698

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 Falco 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 Falco Horne 5 Project, a positive construction decision for this 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 Falco 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 Falco Horne 5 Project, increasing to 100% of the payable silver from this 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 Falco 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 \$600,000,000; 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).

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements
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(Unaudited)

(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, 2024 and June 30, 2024, 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, 2023	54,714,134
Interest on the Contract Liability's financing component	5,961,523
Balance at June 30, 2024	60,675,657
Interest on the Contract Liability's financing component	1,373,828
Balance at September 30, 2024	62,049,485

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

Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended September 30, 2024 and 2023
(Unaudited)

(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 Falco 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, 2023	21,074,432
Interest	1,830,709
Balance June 30, 2024	22,905,141
Interest	483,455
Balance September 30, 2024	23,388,596

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 Canada 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 Canada 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.

Falco Resources Ltd.

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For the three-month periods ended September 30, 2024 and 2023
(Unaudited)

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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 Canada 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, 2023	11,982,788
Interest	1,299,437
Balance June 30, 2024	13,282,225
Interest	347,458
Balance September 30, 2024	13,629,683

During the three-month period ended September 30, 2024 and the for the year ended June 30, 2024, 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.

Falco Resources Ltd.

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(Unaudited)

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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, 2023	15,061,158	338,188	10,664,324	96,577	25,725,482	434,765
Revaluation of derivative warrant liabilities	-	78,050	-	(11,260)	-	66,790
Balance at June 30, 2024	15,061,158	416,238	10,664,324	85,317	25,725,482	501,555
Revaluation of derivative warrant liabilities	-	356,747	-	(29,846)	-	326,901
Balance at September 30, 2024	15,061,158	772,985	10,664,324	55,471	25,725,482	828,456

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

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

	September 30, 2024	June 30, 2024	June 30, 2023
Risk-free interest rate	3.00%	4.06%	4.52%
Expected life of Warrants	0.3 years	0.5 years	1.5 years
Annualized volatility	74%	100%	76%
Dividend rate	-	-	-
Fair value per Warrant	\$0.032	\$0.019	\$0.017

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

10. Deferred premium on flow-through shares

	September 30, 2024	June 30, 2024
	\$	\$
Balance – beginning of period	182,694	-
Deferred premium on flow-through shares issued net of share issue costs	-	182,694
Recognition of deferred premium on flow-through shares	(4,463)	-
Balance – end of period	178,231	182,694

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11. Share capital and warrants

Share capital

Authorized: Unlimited number of Common Shares without par value
Issued and fully paid: 280,138,434 Common Shares

Warrants

The following table details the changes in the Warrants:

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance – June 30, 2023	47,325,482	0.52
Issued	2,475,993	0.33
Balance – June 30, 2024	49,801,475	0.51
Balance – September 30, 2024	49,801,475	0.51
Warrants subject to cashless exercise	25,725,482	0.49

12. 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, 2023	13,998,333	0.37
Granted	3,440,000	0.36
Exercised	(38,000)	0.30
Forfeited	(147,556)	0.37
Expired	(7,003,777)	0.33
Balance – June 30, 2024	10,249,000	0.40
Forfeited	(383,333)	0.37
Expired	(166,667)	0.40
Balance – September 30, 2024	9,699,000	0.40
Options exercisable – September 30, 2024	5,709,001	0.42

Share option compensation for the three-month period ended September 30, 2024 amounted to \$101,734 (\$44,071 for the three-month period ended September 30, 2023) of which \$9,832 was capitalized to construction in progress (\$ nil capitalized to construction in progress for the three-month period ended September 30, 2023).

13. Net loss per share

As a result of the net loss for the three-month periods ended September 30, 2024 and 2023, 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.

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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 periods ended September 30, 2024 and 2023:

	2024	2023
	\$	\$
Salaries and short-term employee benefits	363,068	332,350
Share-based compensation	104,355	46,655
	<u>467,423</u>	<u>379,005</u>

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

During the three-month period ended September 30, 2024, an amount of \$30,000 (\$27,000 for the three-month period ended September 30, 2023) was invoiced by Osisko Gold for professional services and access to office spaces. An amount of \$66,000 is included in accounts payable and accrued liabilities as at September 30, 2024 (\$64,000 as at June 30, 2024).

As at September 30, 2024, interest payable on the Convertible Loan amounted to \$2,988,565 (\$2,515,277 as at June 30, 2024). Interest incurred on the Convertible Loan for the three-month period ended September 30, 2024 totaled \$483,455 (\$446,500 for the three-month period ended September 30, 2023) and was capitalized to property, plant and equipment in the consolidated balance sheet.

During the three-month period ended September 30, 2024, the Company provided professional services totaling \$63,249 to associates of Osisko Gold (\$63,249 for the three-month period ended September 30, 2023), which have been recorded as cost recoveries in the consolidated statement of loss and comprehensive loss.

15. Fair value of financial instruments

The Company's derivative warrant liabilities are measured at fair value in the condensed consolidated balance sheet as at September 30, 2024 (see Note 9).

As at September 30, 2024 and June 30, 2024, 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 \$23,000,000 and \$13,500,000, respectively (Level 3 measurement).

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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. 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, 2024, 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, 2024, will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through September 30, 2025.

The following table summarizes the Company's contractual commitments as at September 30, 2024 (see also Note 19):

	Less than one year	Between one and three years	More than three years
	\$	\$	\$
Accounts payable and accrued liabilities	2,353,007	-	-
Convertible Loan, including interest to maturity	23,900,000	-	-
Convertible Debenture, including interest to maturity	14,000,000	-	-

17. Supplemental disclosure – Statements of cash flows

	Three-months ended September 30, 2024	Three-months ended September 30, 2023
	\$	\$
Property and equipment acquisitions included in accounts payable and accrued liabilities		
Beginning of period	851,658	353,484
End of period	1,210,033	160,231
Share issue costs included in accounts payable and accrued liabilities		
Beginning of period	129,000	
End of period	129,000	
Interest income received	34,592	104,157

18. Commitments

Purchase agreement

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

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

Furthermore, the Falco 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 Falco 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 September 30, 2024 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.

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18. Commitments (*continued*)

Offtake Agreements

On October 27, 2020, Falco entered into agreements with Glencore Canada and its affiliated companies (“Glencore”) related to the Falco 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 this project.

First Quantum

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

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

On December 16, 2022, Falco and First Quantum extended the Option’s exercise period to June 30, 2024. In addition, the Option was amended removing First Quantum’s requirement to make the Cash Payments. On June 7, 2024, Falco and First Quantum extended the Option’s exercise period to December 31, 2025 in consideration of the sum of \$1,500,000 (“Consideration”), which will be payable at the option of Falco, in Common Shares and/or cash, following exercise of the Option, subject to approval by the TSXV.

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.

Flow-through shares

The Company is partially financed through the issuance of flow-through shares, and accordingly, the Company is engaged to complete mining exploration activities. These tax rules also set deadlines for carrying out the exploration work no later than the first of the following dates:

- a. Two years following the flow-through placements;
- b. One year after the Company has renounced the tax deductions relating to the exploration work.

In June 2024, the Company received \$1,250,000 following the issuance of flow-through shares for which the Company renounced tax deductions as at December 31, 2023. As at September 30, 2024, \$1,200,000 remains to be completed.

19. Subsequent events

Convertible Debenture

On October 7, 2024, the Company announced that it had entered into a binding agreement with Glencore in order to extend the maturity date of the Convertible Debenture from December 31, 2024 to December 31, 2025. In consideration for the extension of the maturity date of the Convertible Debenture, the Convertible Debenture will also be amended effective as of December 31, 2024 (the “Amended Convertible Debenture”) in order for (i) the accrued interest on the existing Convertible Debenture up to December 31, 2024 to be capitalized such that the principal amount of the amended Glencore Debenture will be approximately \$13,985,960, (ii) the conversion price to be increased to \$0.37 per Common Share (from \$0.36), and (iii) the interest rate to be increased from 9% to 10% (collectively, the “Convertible Debenture Amendments”). The 15,061,158 Warrants currently held by Glencore (the “Existing Glencore Warrants”) will remain outstanding in accordance with their terms until their expiry on December 31, 2024. In consideration for the extension of the maturity date of the Convertible Debenture, the Company will issue to Glencore, on December 31, 2024, 19,424,944 Warrants (the “New Glencore Warrants”), each exercisable at any time from and after January 1, 2025, at an exercise price of (i) \$0.38 per Common Share for 15,061,158 of the New Glencore Warrants and (ii) \$0.42 per Common Share for the remaining 4,363,786 New Glencore Warrants, and expiring on December 31, 2025.

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19. Subsequent events (*continued*)

The New Glencore Warrants and the Amended Convertible Debenture will provide that unless shareholder approval from disinterested shareholders of the Company has been obtained in accordance with applicable Canadian securities laws and TSX-V policies, the holder of the New Glencore Warrants and Amended Glencore Debenture will not be permitted to exercise any portion of the New Glencore Warrants or convert any portion of the Amended Glencore Debenture if, following such exercise or conversion, as applicable, the holder thereof and its affiliates would own, directly or indirectly, more than 19.9% of the outstanding Common Shares.

Convertible Loan

On October 7, 2024, the Company announced that it had entered into a binding agreement with Osisko Gold in order to extend the maturity date of the Convertible Loan from December 31, 2024 to December 31, 2025. In consideration for the extension of the maturity date of the Convertible Loan, the Convertible Loan will also be amended effective as of December 31, 2024 in order for (i) the accrued interest on the existing Convertible Loan to be capitalized such that the principal amount of the amended Convertible Loan will be approximately \$23,881,821, (ii) the conversion price to be lowered from \$0.50 to \$0.45 per Common Share, and (iii) the interest rate to be increased from 8% to 9% (collectively, the "Osisko Loan Amendments"). The 10,664,324 Warrants currently held by Osisko Gold (the "Existing Osisko Warrants"), each exercisable for one Common Share at an exercise price of \$0.65 per Common Share, will remain outstanding in accordance with their terms until their expiry on December 31, 2024. In consideration for the extension of the maturity date of the Convertible Loan, the Company will issue to Osisko Gold, on December 31, 2024, 17,690,237 Warrants (the "New Osisko Warrants"), each exercisable at any time from and after January 1, 2025, for one Common Share at an exercise price of \$0.58 per Common Share and expiring on December 31, 2025.

The Osisko Loan Amendments and the issuance of the New Osisko Warrants (the "Osisko Transactions") are considered "related party transactions" under Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions ("Regulation 61-101"). The Osisko Transactions are exempt from the requirements to obtain a formal valuation pursuant to section 5.5(b) of Regulation 61-101. However, Falco is required to obtain minority approval for the Osisko Transactions as none of the exemptions contained under Regulation 61-101 are currently available to the Company.

Closing of the Osisko Transactions is conditional upon (i) obtaining minority approval of the shareholders of the Company, excluding the Common Shares held by Osisko Development Corp., to be sought at the special meeting of shareholders of the Company to be held on December 10, 2024, (ii) approval of the TSX-V, and (iii) concurrent closing of the Glencore Debenture Amendments and the issuance of the New Glencore Warrants on the terms described herein.