



**FALCO RESOURCES LTD.**

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

**FOR THE THREE-MONTH PERIODS ENDED  
SEPTEMBER 30, 2020 and 2019**

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

	<b>As at September 30, 2020</b>	<b>As at June 30, 2020</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	2,036,861	3,630,751
Accounts receivable	823,205	733,686
Prepaid expenses and other assets	179,106	202,144
	<u>3,039,172</u>	<u>4,566,581</u>
<b>Non-current assets</b>		
Restricted cash	905,000	905,000
Property, plant and equipment (Note 4)	120,526,953	117,898,679
Exploration and evaluation assets (Note 5)	20,410,064	20,328,427
Other non-current assets (Note 7)	1,728,528	1,728,528
	<u>143,570,545</u>	<u>140,860,634</u>
<b>Total assets</b>	<u><b>146,609,717</b></u>	<u><b>145,427,215</b></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 6)	5,103,821	4,224,616
Secured Loan (Note 8)	15,900,000	15,900,000
	<u>21,003,821</u>	<u>20,124,616</u>
<b>Non-current liabilities</b>		
Deferred income taxes	9,328,000	9,321,000
Contract Liability (Note 7)	30,685,103	29,724,143
	<u>40,013,103</u>	<u>39,045,143</u>
<b>Total liabilities</b>	<u><b>61,016,924</b></u>	<u><b>59,169,759</b></u>
<b>Equity</b>		
Share capital	116,134,936	116,134,936
Warrants	744,306	744,306
Contributed surplus	14,542,725	14,495,976
Deficit	(45,829,174)	(45,117,762)
<b>Total equity</b>	<u><b>85,592,793</b></u>	<u><b>86,257,456</b></u>
<b>Total liabilities and equity</b>	<u><b>146,609,717</b></u>	<u><b>145,427,215</b></u>
<b>Going concern (Note 1)</b>		
<b>Commitments (Note 15)</b>		
<b>Subsequent events (Note 16)</b>		

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, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Expenses</b>		
Consulting and compensation	544,173	712,806
Professional fees	205,534	86,426
Share-based compensation (Note 9)	97,188	188,829
Investor and shareholder relations	91,022	16,775
Office and administrative	83,063	86,431
Travel	1,174	15,164
Depreciation	2,812	3,233
Cost recoveries	(312,508)	(196,715)
<b>Operating loss</b>	<b>(712,458)</b>	<b>(912,949)</b>
Interest income	5,850	16,548
Interest expense (Note 8)	-	(177,420)
Foreign exchange gain	2,196	-
<b>Loss before income taxes</b>	<b>(704,412)</b>	<b>(1,073,821)</b>
Deferred income tax expense	(7,000)	-
<b>Net loss and comprehensive loss</b>	<b>(711,412)</b>	<b>(1,073,821)</b>
<b>Net loss per common share (Note 10)</b>		
Basic and diluted	<b>(0.00)</b>	<b>(0.01)</b>
<b>Weighted average number of common shares outstanding (Note 10)</b>		
Basic and diluted	<b>226,147,296</b>	<b>207,878,736</b>

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, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

	<u>2020</u>	<u>2019</u>
	\$	\$
<b>Operating activities</b>		
Net loss	(711,412)	(1,073,821)
Adjustments for:		
Share-based compensation (Note 9)	97,188	188,829
Depreciation (Note 4)	2,812	3,233
Deferred income tax expense	7,000	-
Payment of transaction costs related to the Silver Stream Agreement (Note 7)	-	(254,532)
Changes in non-cash working capital items:		
Accounts receivable	(52,870)	(350,113)
Prepaid expenses and other assets	23,038	39,541
Accounts payable and accrued liabilities	62,774	386,538
<b>Net cash flows used in operating activities</b>	<b><u>(571,470)</u></b>	<b><u>(1,060,325)</u></b>
<b>Investing activities</b>		
Investments in property, plant and equipment	(922,998)	(324,490)
Refundable tax credits received	-	899,019
Investments in exploration and evaluation assets	(99,422)	(1,723)
<b>Net cash flows (used in) from investing activities</b>	<b><u>(1,022,420)</u></b>	<b><u>572,806</u></b>
<b>Decrease in cash</b>	<b><u>(1,593,890)</u></b>	<b><u>(487,519)</u></b>
<b>Cash, beginning of period</b>	<b><u>3,630,751</u></b>	<b><u>1,115,750</u></b>
<b>Cash, end of period</b>	<b><u>2,036,861</u></b>	<b><u>628,231</u></b>
<b>Supplemental disclosure (Note 14)</b>		

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, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

	Number of shares outstanding	Share capital	Warrants	Contributed surplus	Deficit	Total
		\$	\$	\$	\$	\$
<b>Balance – July 1, 2020</b>	<b>226,147,296</b>	<b>116,134,936</b>	<b>744,306</b>	<b>14,495,976</b>	<b>(45,117,762)</b>	<b>86,257,456</b>
Net loss and comprehensive loss	-	-	-	-	(711,412)	(711,412)
Share-based compensation (Note 9)	-	-	-	46,749	-	46,749
<b>Balance - September 30, 2020</b>	<b>226,147,296</b>	<b>116,134,936</b>	<b>744,306</b>	<b>14,542,725</b>	<b>(45,829,174)</b>	<b>85,592,793</b>
<b>Balance – July 1, 2019</b>	<b>207,878,736</b>	<b>111,934,936</b>	<b>744,306</b>	<b>13,698,058</b>	<b>(39,986,678)</b>	<b>86,390,622</b>
Net loss and comprehensive loss	-	-	-	-	(1,073,821)	(1,073,821)
Share-based compensation (Note 9)	-	-	-	195,878	-	195,878
<b>Balance - September 30, 2019</b>	<b>207,878,736</b>	<b>111,934,936</b>	<b>744,306</b>	<b>13,893,936</b>	<b>(41,060,499)</b>	<b>85,512,679</b>

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, 2020 and 2019  
(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 October 30, 2017, the Company filed a National Instrument 43-101, *Standards of Disclosure for Mineral Projects* Technical Report, entitled "*Feasibility Study, Horne 5 Gold Project*", dated effective October 5, 2017 on SEDAR (the "Feasibility Study") relating to its Horne 5 Deposit in Rouyn-Noranda (the "Horne 5 Project" or "Horne 5 Deposit"). Management of the Company ("Management") has determined that the technical feasibility and commercial viability of the Horne 5 Project is established and accordingly, the development phase of the Horne 5 Project has commenced.

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration and evaluation properties. The recoverability of deferred exploration and evaluation expenses is dependent on the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to continue the exploration, evaluation and development of its properties; and obtaining certain government approvals or proceeds from the disposal of properties. Changes in future conditions could require material impairment of the carrying value of the deferred exploration and evaluation expenses. Although the Company has taken steps to verify title to its mining properties on which it is currently conducting exploration, evaluation and development work, in accordance with industry standards, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

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 September 30, 2020, the Company had negative working capital of \$17,964,649 (including a cash balance of \$2,036,861), an accumulated deficit of \$45,829,174 and had incurred a loss of \$711,412 for the three-month period ended September 30, 2020. 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 milestone payments under the silver stream agreement (the "Silver Stream Agreement") signed on February 27, 2019 with Osisko Gold Royalties Ltd ("Osisko"), a shareholder with significant influence over the Company and therefore a related party (Note 7).

The working capital as at September 30, 2020 will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through September 30, 2021. 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 duration and full financial effect of the COVID-19 pandemic is unknown at this time. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Company's operations, including suppliers, service providers, employees and on global financial markets limiting our ability to access financing are also subject to significant uncertainty. The Company is monitoring developments in order to be in a position to take appropriate action.

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 7, 8 and 16), 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 as expected, and amounts realized for assets might be less than the amounts reflected in these condensed consolidated financial statements.

# Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three-month periods ended September 30, 2020 and 2019  
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## 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, 2020, 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 November 18, 2020.

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
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance – June 30, 2019	17,870,703	18,566,701	72,351,450	457,744	109,246,598
Additions	44,038	467,286	4,080,676	-	4,592,000
Capitalized borrowing costs (Notes 7 and 8)	-	-	4,423,494	-	4,423,494
Balance – June 30, 2020	17,914,741	19,033,987	80,855,620	457,744	118,262,092
Additions	-	772,656	599,873	544	1,373,073
Capitalized borrowing costs (Notes 7 and 8)	-	-	1,263,257	-	1,263,257
Balance – September 30, 2020	17,914,741	19,806,643	82,718,750	458,288	120,898,422
<b>Accumulated Depreciation</b>					
Balance – June 30, 2019	-	-	-	326,975	326,975
Depreciation	-	-	-	10,301	10,301
Depreciation capitalized to exploration and evaluation assets	-	-	-	26,137	26,137
Balance – June 30, 2020	-	-	-	363,413	363,413
Depreciation	-	-	-	2,812	2,812
Depreciation capitalized to exploration and evaluation assets	-	-	-	5,244	5,244
Balance – September 30, 2020	-	-	-	371,469	371,469
<b>Carrying Amounts</b>					
At June 30, 2020	17,914,741	19,033,987	80,855,620	94,331	117,898,679
At September 30, 2020	17,914,741	19,806,643	82,718,750	86,819	120,526,953

# Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three-month periods ended September 30, 2020 and 2019  
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## 5. Exploration and evaluation assets

The Company has incurred the following costs on its exploration and evaluation assets in the Rouyn-Noranda district:

	For the three-month period ended September 30, 2020		
	Central Camp <sup>(i)</sup>	Other properties <sup>(ii)</sup>	Total
	\$	\$	\$
Balance – July 1, 2020	12,252,873	8,075,554	20,328,427
Compensation	-	203	203
Drilling and data compilation	1,384	45,831	47,215
Geology	2,546	-	2,546
Geophysics	-	58,674	58,674
Administrative and other	-	9,648	9,648
Total expenditures for the period	3,930	114,356	118,286
Refundable tax credits	-	(36,649)	(36,649)
Balance – September 30, 2020	12,256,803	8,153,261	20,410,064

	For the year ended June 30, 2020		
	Central Camp <sup>(i)</sup>	Other properties <sup>(ii)</sup>	Total
	\$	\$	\$
Balance – July 1, 2019	12,251,099	8,919,722	21,170,821
Compensation	9,157	67,480	76,637
Drilling and data compilation	13,737	123,911	137,648
Geology	-	38,758	38,758
Geophysics	16,335	128,415	144,750
Administrative and other	11,489	121,110	132,599
Total expenditures for the period	50,718	479,674	530,392
Refundable tax credits	-	(206,705)	(206,705)
Total for the period, net of tax credits	50,718	272,969	323,687
Write-offs for the period <sup>(iii)</sup>	(48,944)	(1,117,137)	(1,166,081)
Balance – June 30, 2020	12,252,873	8,075,554	20,328,427

(i) The Central Camp is located north of the Horne 5 Project and covers an area of approximately 289 square kilometers, including many former gold and base metal producers.

(ii) Including the Noranda Camp properties.

(iii) During the year ended June 30, 2020, the Company wrote-off 100% of the capitalized historical costs related to specific areas where claims are not expected to be renewed, where the Company has decided to discontinue exploration and evaluation activities or the assets carrying amount exceeds its recoverable amount.

## 6. Accounts payable and accrued liabilities

	September 30, 2020	June 30, 2020
	\$	\$
Trade payables and accrued liabilities	2,621,289	2,044,381
Short-term payable on the purchase of property	946,900	946,900
Interest payable on the Secured Loan (Note 8)	1,535,632	1,233,335
	5,103,821	4,224,616

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 October 28, 2019, the City and Falco agreed to extend the payment date of the remaining amount payable of \$946,900 to January 1, 2021.

# Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three-month periods ended September 30, 2020 and 2019  
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## 7. Contract Liability

On February 27, 2019, the Company completed the Silver Stream Agreement with Osisko, whereby Osisko 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 including the repayment of the principal amount (\$10,000,000) of a loan granted in May 2016, the principal amount (\$10,000,000) of a loan granted on September 10, 2018, amounts payable (\$2,750,000) for professional services rendered and transaction costs (\$600,000);
- Second deposit of \$20,000,000 upon the Company receiving all necessary material third-party 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 to increase the stream percentage, payable concurrently with the fourth deposit.

Under the terms of the Silver Stream Agreement, Osisko 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 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.

The Silver Stream Agreement was subject to a right of first refusal in favor of Glencore Canada Corporation ("Glencore Canada"), which right was not exercised.

Falco's obligations towards Osisko with respect to the Silver Stream Agreement is secured by a deed of hypothec for a maximum of \$600 million; such first ranking was subordinated in favour of the security granted to Glencore as part of the Convertible Debenture transaction (see Note 16).

On January 31, 2020, the Company and Osisko agreed to amend the Silver Stream Agreement, whereby Osisko agreed to postpone by one year each of the deadlines granted to Falco to achieve milestones set as condition precedent to Osisko funding the remaining staged payments and certain other deadlines.

As of September 30, 2020 and June 30, 2020, the Company incurred \$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:

	\$
First deposit of the Contract Liability	25,000,000
Accretion of the Contract Liability's financing component	1,115,576
<b>Balance at June 30, 2019</b>	<b>26,115,576</b>
Accretion of the Contract Liability's financing component	3,608,567
<b>Balance at June 30, 2020</b>	<b>29,724,143</b>
Accretion of the Contract Liability's financing component	960,960
<b>Balance at September 30, 2020</b>	<b>30,685,103</b>

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 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.

# Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements  
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## 8. Secured Loan

On February 22, 2019, Falco closed a secured senior loan agreement with Osisko (the "Secured Loan") for \$10,000,000 (the "Principal Amount"). The Secured Loan had an initial maturity date of December 31, 2019. 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 to December 31, 2020. Osisko was entitled to withhold and set-off from the Increased Principal Amount a sum of \$881,131, representing the then current accounts payable owing to Osisko by the Company, so that, on a net basis, Osisko made an amount of \$5,018,869 available to Falco for withdrawal. Under the terms of the Secured Loan, interest shall be payable on the Amended Principal Amount at a rate per annum that is equal to 7%, compounded quarterly and accrued interest shall be payable upon repayment of the Amended Principal Amount. The Secured Loan's Amended 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's obligations towards Osisko with respect to the Secured Loan is secured by a deed of hypothec for a maximum of \$25 million over all of the assets of Falco other than the Horne 5 Project and ranks after the security granted to Glencore as part of the Convertible Debenture transaction (see Note 16).

## 9. Share-based compensation

### Share options

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

	Number of Options	Weighted Average Exercise Price \$
Balance – June 30, 2019	13,881,357	0.52
Granted	100,000	0.30
Forfeited	(430,322)	0.96
Expired	(2,256,683)	0.60
Balance – June 30, 2020	11,294,352	0.49
Forfeited	(561,767)	0.37
Balance – September 30, 2020	10,732,585	0.50
Options exercisable – September 30, 2020	5,576,088	0.60

Share option compensation for the three-month period ended September 30, 2020 amounted to \$46,749 (\$195,878 for the three-month period ended September 30, 2019) of which \$51,161 was reversed from construction in progress (\$7,049 capitalized for the three-month period ended September 30, 2019) and \$722 was capitalized to exploration and evaluation assets (\$ nil for the three-month period ended September 30, 2019).

## 10. Net loss per share

As a result of the net loss for the three-month periods ended September 30, 2020 and 2019, all potentially dilutive common shares are deemed to be antidilutive and thus diluted net loss per share is equal to the basic net loss per share for these periods.

# Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements  
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## 11. 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, 2020 and 2019:

	2020	2019
	\$	\$
Salaries and short-term employee benefits	323,219	383,242
Share-based compensation	91,467	232,192
	<u>414,686</u>	<u>615,434</u>

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

During the three-month period ended September 30, 2020, an amount of \$250,000 (\$390,000 for the three-month period ended September 30, 2019) was invoiced by Osisko for professional services and access to office spaces. An amount of \$515,000 is included in accounts payable and accrued liabilities as at September 30, 2020 (\$630,000 as at June 30, 2020).

On February 22, 2019, the Company entered into the Secured Loan with Osisko (Note 8). As at September 30, 2020, interest payable on the Secured Loan amounted to \$1,535,632 and is included in accounts payable and accrued liabilities on the consolidated balance sheet (\$1,233,335 as at June 30, 2020). Interest incurred on the Secured Loan for the three-month period ended September 30, 2020 totaled \$302,297 and was capitalized to property, plant and equipment in the consolidated balance sheet (\$177,420 for the three-month period ended September 30, 2019 was expensed).

During the three-month period ended September 30, 2020, the Company provided professional services totaling \$312,508 to associates of Osisko (\$165,000 for the three-month period ended September 30, 2019), which have been recorded as cost recoveries in the consolidated statement of loss and comprehensive loss.

## 12. Fair value of financial instruments

The Company has no financial assets and no financial liabilities at fair value in the consolidated balance sheets as at September 30, 2020 and June 30, 2020.

Financial instruments that are not measured at fair value on the balance sheets are represented by cash, restricted cash, accounts receivable, accounts payable and accrued liabilities and the Secured Loan. The fair values of these instruments approximate their respective carrying values due to their short-term nature.

# Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements  
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(Expressed in Canadian Dollars)

## 13. 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, 2020, cash is comprised of bank balances. As described in Note 1, the Company estimates that with its liquidity position as at September 30, 2020, 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 September 30, 2020:

	Less than one year	Between one and three years	More than three years
	\$	\$	\$
Accounts payable and accrued liabilities	3,568,189	-	-
Secured Loan, including interest to maturity	17,750,000	-	-

The following table summarizes the Company's contractual commitments as at June 30, 2020:

	Less than one year	Between one and three years	More than three years
	\$	\$	\$
Accounts payable and accrued liabilities	2,991,281	-	-
Secured Loan, including interest to maturity	17,750,000	-	-

## 14. Supplemental disclosure – Statements of cash flows

	Three-months ended September 30, 2020	Three-months ended September 30, 2019
	\$	\$
Property and equipment acquisitions included in accounts payable and accrued liabilities and long-term payable on the purchase of property		
Beginning of period	2,697,827	1,459,782
End of period	3,501,360	1,268,386
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities		
Beginning of period	50,000	-
End of period	62,898	60,676
Depreciation capitalized	5,244	7,430
Interest income received	5,850	16,548
Other non-current assets included in accounts payable and accrued liabilities		
Beginning of period	-	354,532
End of period	-	100,000

# Falco Resources Ltd.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended September 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

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### 15. Commitments

As per the purchase agreement dated March 28, 2011, assigned to the Company in September 2012 and considering, amongst others, further transactions among Glencore and BaseCore Metals LP ("Basecore"), BaseCore owns a 2% NSR royalty on the Horne 5 Project.

Certain of the rights of Glencore under the purchase agreement, including the option to back-in certain projects (which expired for the Horne 5 Project), the right of first refusal of Glencore in connection with offtake agreements entered into by Falco and the payment of certain damages by Falco to Glencore in relation to such back-in and right of first refusal are secured by a deed of hypothec in favour of Glencore 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's operations and the Company is contractually bound to seek authorizations from time to time from Glencore to perform certain activities, which may affect or impact their operations.

### 16. Subsequent events

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 a \$10 million senior secured convertible debenture (the "Convertible Debenture") bridge financing and life of mine copper and zinc concentrate offtake agreements (the "Offtake Agreements").

#### The Convertible Debenture

The Convertible Debenture has an initial term to maturity of 12 months (the "Maturity Date") and bears interest at a rate of 7% per annum, compounded quarterly. Accrued interest will be 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. To the extent that Falco and Glencore agree that progress continues to be made towards the negotiation of a principal operating license and indemnity agreement and additional time is necessary, Falco has the right to extend the Maturity Date by an additional six months.

The Convertible Debenture can be converted into common shares (the "Shares") of the Company within 10 days of the Maturity Date or on the Maturity Date at Glencore's sole option at a conversion price of \$0.41 per Share. The Convertible Debenture (including the Shares of the Convertible Debenture may be converted into) are subject to a hold period of four months from the date of issuance of the Convertible Debenture.

On October 27, 2020, Falco also issued to Glencore 12,195,122 common share purchase warrants of the Company ("Warrants"). Each Warrant shall be exercisable for one 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 Shares to be issued will be based on the number of Shares for which Warrants are exercised multiplied by the difference between the market price of a Share and the exercise price divided by the market price at the time of the exercise. Glencore may utilize the cashless exercise feature in its sole discretion. The Warrants (and the underlying Shares) are subject to a hold period of four months from the date of issuance of the Warrants.

The Convertible Debenture is secured by first ranking security on all assets owned by Falco. Glencore will release the security upon the settlement of the Convertible Debenture and the repayment of interest.

So long as Glencore 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.

#### Offtake Agreements

Under the terms of the Offtake Agreements, Glencore will purchase from Falco the copper and zinc concentrate produced during the life of mine of the Horne 5 Project (currently estimated at 15 years).

# Falco Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended September 30, 2020 and 2019

(Unaudited)

(Expressed in Canadian Dollars)

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## 16. Subsequent events (*continued*)

### Extension of Senior Loan Maturity

On November 17, 2020, the Company entered into a binding agreement with Osisko 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 is \$17,596,136. In consideration for the Maturity Extension, the Secured Loan will also be amended to become convertible after the first anniversary of the closing date into Shares at a conversion price of \$0.55 per Share. The Secured Loan will continue to bear interest at a rate of 7.0% per annum, compounded quarterly, and will continue to be secured by a hypothec on certain assets of Falco which ranks after the hypothec securing the Convertible Debenture. The Shares that the Secured Loan may be converted into are subject to a hold period of four months from the date of closing of this transaction.

In consideration for the Maturity Extension, the Company will issue to Osisko 10,664,324 Warrants each exercisable for one 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 Shares to be issued will be based on the number of Shares for which Warrants are exercised multiplied by the difference between the market price of a Share and the exercise price divided by the market price at the time of the exercise. Osisko may utilize the cashless exercise feature at its sole discretion. The Warrants (and the underlying Shares) are subject to a hold period of four months from the date of issuance of the Warrants.

### Silver Stream Amendment

On November 17, 2020, the Company and Osisko agreed to amend the Silver Stream Agreement, in order to postpone by one year certain deadlines granted to Falco to achieve milestones set as conditions precedent to Osisko funding the stream deposit and certain other deadlines.