



**FALCO RESOURCES LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE-MONTH PERIOD ENDED**

**SEPTEMBER 30, 2020**

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**FALCO RESOURCES LTD.**

## Management's Discussion &amp; Analysis

For the three-month period ended September 30, 2020

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*The following management discussion and analysis (the "MD&A") of the operations and consolidated financial position of Falco Resources Ltd. ("Falco" or the "Company") for the three-month period ended September 30, 2020, should be read in conjunction with Falco's audited consolidated financial statements as at and for the year ended June 30, 2020 (the "Annual Financial Statements"), and is intended to supplement and complement the Company's unaudited condensed interim financial statements and related notes as of September 30, 2020, and for the three-month periods ended September 30, 2020 and 2019 (the "Financial Statements"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Consequently, all comparative financial information presented in the MD&A reflects the consistent application of IFRS.*

*Falco's management ("Management") is responsible for the preparation of the consolidated financial statements and other financial information relating to the Company included in the MD&A. The Board of Directors (the "Board") is responsible for ensuring that Management fulfills its responsibilities for financial reporting. In furtherance of the foregoing, the Board has appointed an Audit Committee composed of independent directors. The Audit Committee meets with Management in order to discuss results of operations and the financial condition of the Company prior to making recommendations and submitting the consolidated financial statements to the Board for its consideration and approval for issuance to shareholders. The information included in the MD&A is as of November 18, 2020, the date when the Board approved the Financial Statements, following the recommendation of the Audit Committee. All monetary amounts included in this report are expressed in Canadian dollars, the Company's reporting and functional currency, unless otherwise noted. The MD&A contains forward-looking statements and should be read in conjunction with the risk factors described in the "Cautionary Statement Regarding Forward-Looking Statements" section.*

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**Description of the Business**

Falco is in the business of exploring, evaluating and developing mineral properties in Canada. Its focus is on exploring, evaluating and developing its mineral properties in the Rouyn-Noranda region of the Province of Québec for base and precious metals, primarily on its wholly owned Horne 5 polymetallic deposit (the "Horne 5 Deposit", the "Horne 5 Project" or the "Project").

Falco is listed on the TSX Venture Exchange ("TSX-V") under the symbol "FPC". The Company is one of the largest claim holders in the Province of Québec, with extensive land holdings in the Abitibi Greenstone Belt. Falco owns mining claims and contractual rights in or in relation to mining concessions covering approximately 70,000 hectares of land in the Rouyn-Noranda mining camp (the "Mining Camp"), including 13 former gold and base metal mine sites.

The Company was originally incorporated under the *Business Corporations Act* (British Columbia) on March 16, 2010. On June 12, 2015, Falco was continued under the *Canada Business Corporations Act*. The Company's registered business address is 1100, avenue des Canadiens-de-Montréal, Suite 300, Montréal, Québec, Canada. As at September 30, 2020, Osisko Gold Royalties Ltd ("Osisko"), a shareholder with significant influence over the Company and therefore a related party, owns 18.3% interest in Falco.

**Rouyn-Noranda Mining Region**

The Company has a 100% interest in approximately 700 square kilometres of mining claims and contractual rights in or in relation to mining concessions in the Mining Camp, which Management believes represents approximately 70% of the entire Mining Camp. Rouyn-Noranda is an established Mining Camp in the Province of Québec with the required infrastructure (electricity, rail, water, etc.) in place for exploration and mine development.

Rouyn-Noranda has a long history of mining and exploration. Since the Horne Deposit discovery in the 1920's, the area has been host to 50 former producers, including 20 base metal mines and 30 gold mines. A number of copper-zinc volcanogenic massive sulphide ("VMS") deposits in the Mining Camp contained gold grades well in excess of those associated with typical VMS deposits, which along with several mesothermal vein type deposits have accounted for more than 19 million ounces of historic gold production from the Mining Camp as a whole.

Falco's principal property is the Horne 5 Project, located in the Mining Camp, which has hosted several former gold and base metal producers including the Horne Mine, which was operated by Noranda Inc. from 1927 to 1976. The Horne Mine produced approximately 11.6 million ounces of gold and 2.5 billion pounds of copper.

For further details regarding the Horne 5 Project, refer to the National Instrument 43-101, *Standards of Disclosure for Mineral Projects* ("NI 43-101") Technical Report, entitled "*Feasibility Study, Horne 5 Gold Project*", (the "Feasibility Study"), dated effective October 5, 2017, the NI 43-101 Technical Report dated September 26, 2016, and entitled "*Technical Report and Mineral Resource Estimate for the Horne 5 Deposit*", and the NI 43-101 Technical Report dated April 28, 2016, and entitled "*Preliminary Economic Assessment of the Horne 5 Project*", all available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Agreements with Glencore Canada Corporation ("Glencore Canada")**

On October 27, 2020, the Company entered into agreements with Glencore Canada and its affiliated companies (collectively, "Glencore") related to the Horne 5 Project. The agreements include a \$10 million senior secured convertible debenture (the "Convertible Debenture") 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 ten 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 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.

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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 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.

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. Terms were negotiated on an arms' length basis and are comparable to the assumptions included in the Feasibility Study.

**Upcoming Work Plan**

In order to further investigate and mitigate geotechnical and other technical risks, and to identify additional synergies, Falco has collaborated with Glencore to develop a work plan for additional geotechnical work and analysis of the risks associated with the development of the Horne 5 Project ("Work Plan"). Falco and Glencore have agreed to a detailed Work Plan, to be managed by Falco, which will include additional technical work, modelling and studies towards the further identification, mitigation and allocation of risks, all with the goal of working towards a principal operating license and indemnity agreement.

**The Silver Stream Agreement**

On February 27, 2019, Falco and Osisko (the "Parties") completed a silver stream agreement (the "Silver Stream Agreement"), 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 million on closing of the Silver Stream Agreement, net of any amounts owing by the Company to Osisko including the repayment of the principal amount of loans granted by Osisko in May 2016 and September 2018 (\$20.0 million), amounts payable (\$2.8 million) for professional services rendered and transaction costs (\$0.6 million) incurred;
- Second deposit of \$20 million upon the Company receiving all necessary material third-party approvals, licenses, rights of way, and surface rights;
- Third deposit of \$35 million 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 million in equity, joint venture or any other non-debt financing for the construction of the mine;
- Fourth deposit of \$60 million upon the total projected capital expenditure for the Horne 5 Project having been demonstrated to be financed; and
- Optional fifth deposit of \$40 million 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 Project, increasing to 100% of the payable silver from the 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 US\$6.00 per silver ounce. The silver produced from the Project and from properties located 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 ("ROFR") in favor of Glencore, which right was not exercised.

On January 31, 2020, the Parties 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.

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Pursuant to the Silver Stream Agreement, the Company has agreed to pay a \$2.0 million capital commitment fee. The fee is payable upon Osisko funding the third deposit under the Silver Stream Agreement. 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.

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.

**Secured Loan**

On February 22, 2019, Falco closed a senior secured loan agreement (the "Secured Loan") for \$10.0 million with Osisko. 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 \$5.9 million (the "Increased Principal Amount") to \$15.9 million (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 \$0.9 million representing the current accounts payable owing to Osisko by the Company, so that, on a net basis, Osisko made an amount of \$5.0 million 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. 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.

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.

**Gold Market**

Gold has rallied steadily since March 2020, to reach over US\$2,000 per ounce in August. On September 30, 2020, prices closed strongly at US\$1,887 compared to US\$1,768 per ounce on June 30, 2020. The historical gold price (US\$/ounce of gold) is as follows:

<b>Period (Calendar)</b>	<b>High</b>	<b>Low</b>	<b>Average</b>	<b>Close</b>
	US\$	US\$	US\$	US\$
2020 (YTD to Q3)	2,067	1,474	1,735	1,887
2019	1,546	1,270	1,393	1,515
2018	1,355	1,178	1,268	1,279
2017	1,346	1,151	1,257	1,291

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### The Horne 5 Project

On October 30, 2017, Falco filed the Feasibility Study, which indicated that the Horne 5 Project represents a robust, high margin, fifteen-year underground mining project with attractive economics. The Feasibility Study was prepared by BBA Inc. ("BBA"), under the direction of Management, and included contributions from the geological and engineering teams at BBA, InnovExplo Inc. ("InnovExplo"), Golder Associates Ltd. ("Golder"), WSP Canada Inc. ("WSP"), SNC-Lavalin Stavibel Inc. ("SNC-Lavalin"), and Ingénierie RIVVAL Inc. ("RIVVAL").

#### *Highlights of the Feasibility Study*

The base case is stated using a gold price of US\$1,300/ounce ("oz"), a silver price of US\$19.50/oz, a copper price of US\$3.00/pound ("lb"), a zinc price of US\$1.10/lb and an exchange rate of \$1.00 equal to US\$0.78. The Feasibility Study was prepared in Canadian Dollars. The values have been converted to and presented in US\$ at an exchange rate of \$1.00 = US\$0.78 for this section of the MD&A.

The highlights include the estimates presented in the section below (*dollar amounts are presented on a pre-tax basis, except where otherwise indicated*).

- Net present value ("NPV") of US\$1,012 million at a 5% discount rate and an internal rate of return ("IRR") of 18.9%, before taxes and mining duties;
- NPV of US\$602 million at a 5% discount rate and an IRR of 15.3%, after taxes and mining duties;
- Mine life of 15 years, with peak-year payable production of 268,000 ounces, average life-of-mine ("LOM") annual payable production of 219,000 ounces of gold and 235,000 ounces at steady state;
- Net payable gold recovery of 88.1%;
- 3,741,000 ounces of contained gold;
- 3,294,000 ounces of payable gold LOM;
- 1,007 million pounds of payable zinc LOM;
- 229 million pounds of payable copper LOM;
- 26.3 million ounces of payable silver LOM;
- 2.37 g/t gold equivalent ("AuEq") average diluted AuEq grade;
- 1.44 g/t Au average diluted gold grade;
- All-in Sustaining Costs\* of US\$399/oz, net of by-product credits, including royalties, over LOM;
- All-in cost, CAPEX plus OPEX, is estimated at US\$643 per payable ounce;
- \$41.00/t milled total unit operating cost;
- Pre-production construction costs of US\$801.7 million, including a US\$58.5 million contingency and excluding US\$26.7 million of capital outlays to August 31, 2017;
- Payback period of 5.2 years pre-tax and 5.6 years post-tax;
- Gross revenue of US\$6.6 billion and operating cash flow of US\$2.7 billion LOM.

*\*All-in Sustaining Costs are presented as defined by the World Gold Council, less corporate general & administrative costs.*

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*Sensitivity Analysis*

The Feasibility Study included a financial sensitivity analysis on the after-tax cash flow NPV of the Project, adjusting for the USD:CAD exchange rate and the price of gold. The after-tax results for the Project NPV (in Canadian Dollars) based on the sensitivity analysis is summarized below:

USD:CAD	Gold Price (USD/ounce)						
	1,000	1,100	1,200	1,300	1,400	1,500	1,600
0.88	18.6	167.2	308.8	448.6	586.2	719.7	851.5
0.85	101.6	251.3	396.1	539.8	679.2	816.3	951.1
0.81	218.7	370.7	522.1	668.6	812.6	954.1	1,094.5
0.78	310.5	468.2	622.3	772.3	920.0	1,066.0	1,210.6
0.75	409.6	572.0	728.7	883.0	1,035.1	1,185.8	1,335.8
0.72	516.6	681.2	842.7	1,001.7	1,158.9	1,315.1	1,470.0
0.70	591.1	758.6	923.4	1,085.9	1,246.8	1,406.8	1,565.7

As discussed above under the "Gold Market" heading, the market price of gold has increased steadily since 2017, which would have a significant positive impact on the Horne 5 Project's economics. Management is currently updating the Project financials, economic analysis, and the timeline of the Horne 5 Project.

*Mineral resource estimate*

The mineral resources presented in the Feasibility Study are based upon an updated mineral resource estimate (the "July MRE") effective as of July 25, 2017, prepared by Carl Pelletier, P.Geo., of InnovExplo, using available information. The main objective was to update the previous NI 43-101 mineral resource estimate for the Horne 5 Deposit, which was prepared by InnovExplo and published on SEDAR in a report titled "Technical Report and Updated Mineral Resource Estimate for the Horne No. 5 Deposit", dated November 7, 2016 (the "November 2016 MRE").

The July MRE is mainly based on changes made to the NSR parameters, supported by new assumptions concerning metal prices and net recoveries. Three additional diamond drill holes and 41 updated downhole surveys from the 2015–2016 confirmation drilling program were also used in the July MRE. No changes to the interpretation were deemed necessary. The mineral resource model for the July MRE is based largely upon the model generated for the November 2016 MRE.

The July MRE is compliant with CIM standards and guidelines for reporting mineral resources and reserves. The selected NSR cut-off of \$55/t allowed the mineral potential of the deposit to be outlined for an underground mining option. While the results are presented undiluted and in situ, the reported mineral resources are considered by the qualified person ("QP") as defined by NI 43-101, to have reasonable prospects for economic extraction.

The results of the July MRE at the cut-off of \$55/t NSR are presented in the table below. InnovExplo estimates that the Horne 5 Deposit contains Measured Mineral Resources of 9,259,600 tonnes at 2.59 g/t AuEq for a total of 769,885 oz AuEq, Indicated Mineral Resources of 81,855,200 tonnes at 2.56 g/t AuEq for a total of 6,731,443 oz AuEq, and Inferred Mineral Resources of 21,500,400 tonnes at 2.51 g/t AuEq, for a total of 1,735,711 oz AuEq.

Mineral Resources Table

Resource Category	Tonnes (Mt)	AuEq (g/t)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)	Contained AuEq (Moz)	Contained Au (Moz)	Contained Ag (Moz)	Contained Cu (Mlbs)	Contained Zn (Mlbs)
Measured	9.3	2.59	1.58	16.2	0.19	0.83	0.770	0.470	4.824	38.0	168.5
Indicated	81.9	2.56	1.55	14.74	0.18	0.89	6.731	4.070	38.796	325.4	1,599.3
Inferred	21.5	2.51	1.44	23.04	0.20	0.71	1.736	1.000	15.925	96.3	337.2

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#### Mineral reserves estimate

The mineral reserves estimate for the Horne 5 Project was prepared by Mr. Patrick Frenette, P. Eng., of InnovExplo (effective as of August 26, 2017). The mineral reserves estimate stated herein is consistent with the CIM standards on mineral resources and mineral reserves and is suitable for public reporting. As such, the mineral reserves are based on Measured and Indicated Mineral Resources, and do not include any Inferred Mineral Resources. Measured and Indicated Mineral Resources are inclusive of Proven and Probable Reserves.

The Feasibility Study LOM and mineral reserves estimates were developed from the November 2016 MRE and do not consider the July MRE. Updated metal prices, exchange rates and recovery equations from the July MRE were used to calculate cash flows used to support the mineral reserve estimate. As of the date of the Feasibility Study, the QP has not identified any risks, legal, political or environmental, that would materially affect potential development of the mineral reserves, other than the third parties' approvals discussed below under the "Mining" and "Surface Infrastructure" headings.

Statement of mineral reserves (as of August 26, 2017)<sup>(1,2,3,4)</sup>

Category	Tonnes (Mt)	NSR (\$)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Proven	8.4	91.72	1.41	15.75	0.17	0.75
Probable	72.5	92.56	1.44	13.98	0.17	0.78
P&P	80.9	92.41	1.44	14.14	0.17	0.77

- 1) The QP for the Mineral Reserve estimate is Mr. Patrick Frenette (InnovExplo).
- 2) Estimated at US\$2.15/lb Cu, US\$1.00/lb Zn, US\$1,300/oz Au and US\$18.50/oz Ag, using an exchange rate of \$1.00:US\$0.77, cut-off NSR value of \$55/t.
- 3) Mineral Reserve tonnage and mined metal have been rounded to reflect the accuracy of the estimate and numbers may not add due to rounding.
- 4) Mineral Reserves presented include both internal and external dilution along with mining recovery. The external dilution is estimated to be 2.3%. The mining recovery factor was set at 95% to account for mineralized material left in the margins of the deposit in each block.

#### Capital and operating costs summary

Capital Costs (in millions of US\$)	Pre-Production	Sustaining	Total <sup>(1)</sup>
Mining (includes development contingency)	\$200.4	\$253.6	\$454.0
Mineral Processing Plant	\$296.0	\$10.2	\$306.1
Electrical and Communication	\$14.2	\$1.8	\$16.0
Project Infrastructure	\$76.9	\$3.7	\$80.6
Tailings and Water Management	\$53.0	\$148.4	\$201.4
Indirect Costs	\$65.9	--	\$65.9
Owner's Costs	\$36.8	--	\$36.8
Site restoration (net of salvage value)	--	\$32.9	\$32.9
Subtotal	\$743.2	\$450.5	\$1,193.7
Contingency	\$58.5	--	\$58.5
<b>Total Capital Costs<sup>(2)</sup></b>	<b>\$801.7</b>	<b>\$450.5</b>	<b>\$1,252.2</b>
CAPEX per Oz (US\$/oz)			\$243
OPEX per Oz (US\$/oz)			\$399
<b>All-In Cost per Oz (US\$/oz)</b>			<b>\$643</b>

<sup>(1)</sup> Totals may differ due to rounding.

<sup>(2)</sup> Excludes US\$26.7 million in outlays to August 31, 2017.

#### Mining

The underground deposit is located at a depth of approximately 600 metres to 2,300 metres below surface. The existing Quemont #2 shaft, which extends to a depth of approximately 1,200 metres, will need to be rehabilitated. This shaft would provide for the hoisting of mineralized material and waste rock, services, personnel and materials, and the supply of ventilation to the underground workings in development stage. The access to and use of the Quemont #2 shaft by Falco is contingent upon entering into a principal operating license and indemnity agreement with Glencore.

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The mine has been designed to have low operating costs through the use of large, modern equipment, gravity transport of mineralized material through raises, shaft hoisting, minimal mineralized material and waste re-handling, and high productivity bulk mining methods. By using highly automated and remotely controlled equipment, the mine will be able to operate 21-tonne loaders to transport muck to the ore pass systems. The underground crushing facility will be fed by two ore pass systems. The crushed mineralized material would then be transported via two 250-metre conveyors and transferred to a 600-metre conveyor leading to the shaft loading point, where it would be hoisted to the surface using 43.5-tonne skips on a continuous basis. For servicing the mine, the Quemont #2 shaft will have a double-deck service cage of 2.4 metres by 4.0 metres and a double-deck auxiliary cage. Paste backfill will be used to fill the extracted stopes and strengthen stability of the adjacent stopes and avoid or minimize dilution.

The Company expects to use transverse long hole as the primary mining method and will favor the minimization of dilution over mineral resource recovery. The Company believes that the mineral resource dilution will be below 3%.

*Processing*

The process plant facility would include a wet laboratory, mill offices, a mill dry and a maintenance shop. A semi-autogenous-ball milling facility (the "Facility") on the surface will be used to process an average of 15,790 tonnes per day ("tpd") of mineralized material at steady state. The Facility would also include a flotation and thickening section, divided into three circuits and dedicated to recovering copper, zinc and pyrite concentrates. The copper and zinc circuits would have their concentrate filtered to reduce humidity to 9%. Both concentrates would be stored directly in trucks and railcars, awaiting shipment. The pyrite concentrate will require a finer liberation to achieve improved gold recovery by cyanide leaching, resulting in the requirement to regrind from the primary grind size of 55 microns to the targeted P<sub>80</sub> of 12 microns. The resulting regrind pyrite concentrate would then be leached along with the pyrite flotation tailings in separate leaching circuits, followed by carbon in pulp circuits. Thickeners would be used to maximize water and cyanide recovery, and the Caro's acid cyanide destruction method would be applied to reduce the cyanide content of the two leach streams. Both pyrite tailings and pyrite concentrate streams from flotation would be used as paste backfill in the new mine workings; excess volumes will be disposed of in existing historical openings, until the old mine openings are filled. Water liberated in the underground workings from the consolidated tailings would be recovered, recycled and pumped back to be used in processing.

Gold, zinc, copper and silver would be recovered and Falco would produce two concentrates and gold bars. The copper concentrate would have an estimated 16% copper content as well as payable gold and silver, and the zinc concentrate would have an estimated 52% zinc content. In the Feasibility Study, Falco did not consider that any precious metal will be payable in the zinc concentrate. The payable gold recovery is estimated to average 88.1% over the LOM and estimated payable recoveries average 75.8% for copper, 72.9% for zinc and 71.5% for silver. The copper and zinc concentrates have been analyzed and are considered free of deleterious elements.

*Surface infrastructure*

The Horne 5 Project is located within the industrial park and former mine infrastructure (Quemont and Horne Mines) of the City of Rouyn-Noranda, Québec, a mining community of over 41,500 people and benefits from significant existing infrastructure (i.e. electricity, rail, water, etc.). As important as the physical infrastructure in the Rouyn-Noranda region is the high level of underground mining expertise that is readily available in the region. The Company believes its advantageous location has the potential to positively impact the long-term viability and attractiveness of employment at the Horne 5 Project, given that employees and contractors could work in the community they live in.

The Horne 5 Project is located 1.1 km from route 101.0 and 4.0 km from the Trans-Canada Highway, with all services readily available at site. Development of the future mine would be done on the former Quemont mine site, the surface rights for which were acquired by Falco and discussed below under the heading "*Surface Rights Agreements*". Acquisition of land adjacent to the currently proposed mine site would likely be required for some of the new infrastructure. Electric power will be supplied to the site at a voltage level of 120 kV, originating from Hydro-Québec's Rouyn-Noranda substation, approximately 1 km away.

The Horne 5 Project envisions the following key infrastructure items to be constructed: site access road, on-site parking area, process and paste backfill plants, maintenance shop and warehouse, mine office building, administration building, headframe and shaft house, hoist room, 120 kV substation and railway spur lines and storage area.

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As previously stated, the access to and use by Falco of surface rights and infrastructure not owned by it, may in some instances, be contingent upon entering into a licence and operating agreement with Glencore. The conduct of activities on the Horne 5 Project, including pre-production dewatering activities, will be subject to Falco securing licenses from the owner of such infrastructure, some of which are located on the mining concession CM-243, the ownership of which remains Glencore.

*Environmental Permitting Process*

The first stage of the Project will be the development of the Horne 5 mine through among other things, the dewatering of the Quemont, Horne and Donalda old mines and the rehabilitation of the Quemont No.2 shaft. The Company has already submitted an application for a certificate of authorization under Sections 22 and 31.75 of the Environmental Quality Act to be issued by the Ministry of Environment and the Fight against Climate Change ("MELCC") to support the development, dewatering and sludge management strategy. During the dewatering stage, which is expected to last 25 months, water will be pumped, treated and high density sludge from the water treatment process will be stored in the former Donalda and Quemont underground mine openings. In parallel, environmental baseline studies and consultations with the Project's stakeholders were initiated in 2016 and are continuing as required to support the permitting process and the Horne 5 Project's timeline.

The Horne 5 Project will require a provincial decree. The Project is subject to a provincial Environmental Impact Assessment, including public hearings, as forecasted production (average 15,000 tpd) is over the 2,000 tpd threshold outlined in the applicable regulation. On December 6, 2017, the Company was advised by the Canadian Environmental Assessment Agency (Government of Canada) (the "Agency") that the Project is not a designated activity under the Regulations Designating Physical Activities pursuant to the Canadian Environmental Assessment Act, 2012. Therefore, the Project is not subject to the federal environmental assessment, however, there will be other federal authorizations to be obtained.

The provincial environmental impact assessment study ("EIS") was filed with the MELCC in January 2018; it is published in the Environmental Assessment Register of the MELCC and is currently under review by this provincial agency. Falco is working at completing field work and securing third party authorizations in order to respond to questions raised by the MELCC.

Tailings produced during the first two years of operations will be stored in former underground openings either in the form of slurry or paste backfill. Paste backfill will continue to be produced throughout the entire life of mine. After the first two years, the remainder of the tailings produced will either be stored in the Horne 5 mine openings (greater than 50%) or at surface in a tailings management facility ("TMF"). The Company has identified a former TMF, which has already been impacted by historical mining activities and is located approximately 11 km from the City of Rouyn-Noranda, to serve as the surface storage of tailings for the Horne 5 Project. A non-binding agreement has been concluded with the owner of the former TMF for an option to acquire this site. Pipelines, 17 km in length, will transport the tailings from the Horne 5 Mining Complex ("H5MC") to the surface TMF. Waste rock that is not used for underground mining operations will be stored there and/or used as construction material at the TMF.

The site restoration cost estimate for the Horne 5 Project is based on the dismantling of the mine buildings and the restoration of both the H5MC and the TMF. The Company intends to dismantle all buildings that would have served its mining operations. Given the proximity of the site to the city and the existence of few infrastructures of this type in Rouyn-Noranda, these buildings could be reused or modified for other uses. This cost estimate includes the cost of site restoration as well as post-closure monitoring. In accordance with the regulations, the Company will be required to post a bond as a guarantee against the site restoration cost.

The conduct of the foregoing activities remains subject to Falco obtaining the required licenses from the owners of the mining infrastructure. For greater certainty, such licenses will include a complete indemnity relating to the operation, restoration and rehabilitation of such infrastructure.

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Specific activities completed for the environmental permitting process over the last eighteen months, include:

- Updated Air Modelling and Air Emission Reduction Plan which evaluated the impact of the Horne 5 Project on air emissions and supported the Company's position that the impact is negligible;
- Waste geochemical studies, key to establishing the Horne 5 Project's Waste Management Plan and anticipated synergies with the Glencore;
- TMF geochemical and geotechnical investigation providing data to improve the design basis for the TMF;
- The H5MC geotechnical investigation;
- Circulation Safety Studies for waste rock alternative routing;
- Initiation of the GHG (Green House Gas) Reduction Plan;
- Fish Habitat Compensation Plan;
- Vibration rate analysis; and
- Emergency Preparedness Plan for Construction and Operation

### *Stakeholder Engagement*

The Company is committed to taking a proactive approach to its public consultation process and has been working diligently to identify as many stakeholders as possible in the Rouyn-Noranda and Abitibi region. Since March 2016, more than 50 private and public community meetings have been held with various stakeholders. On November 16, 2017, the Company held its initial Horne 5 Project public presentation and information session in the City of Rouyn-Noranda. Approximately 140 individuals attended the meeting and the Company outlined various aspects of the Project, and responded to their observations and questions. A second public presentation of the Project and its impacts was held on June 21, 2018 (15 thematic kiosks) and more than 150 people attended the event and the dialogue is on going. Two other public meetings were held on October 29, 2019 and December 2, 2019, respectively, in the community of d'Alembert and for the residents of Lac Dufault/North Noranda borough to consult and to address concerns on protecting the Lac Dufault waters.

Over the last eighteen months, the following key stakeholder activities were initiated or completed:

- Discussions on social issues such as housing and emergency preparedness;
- In-depth technical sessions on water impacts from the Horne 5 Project with representatives of the community bearing an interest in water protection;
- Developing a "Community Portrait", which would be used as a baseline for social monitoring programs; and
- The continued consultation process on pipeline routing with land and mining rights owners both at H5MC (for dewatering and operations) and towards the future TMF.

Based on our numerous community meetings held throughout the region, the Company observes strong community support for the Horne 5 Project. Development of the Project would bring substantial economic development to the City of Rouyn-Noranda and the surrounding region. A construction workforce of up to 900 people would be required at the peak of the Project's 18-month construction period and the operating mine would provide direct employment for approximately 500 people over its 15-year operating life.

On November 10, 2020, the Company launched its corporate video on the Horne 5 Project. The video presents the Company's innovative mining approach and our desire to minimize environmental and social impacts from a sustainable development perspective. Falco is committed to developing this major project that will be the pride of the citizens of the Abitibi-Témiscamingue region.

The Company has created a consultation committee (the "Committee") which is composed of representatives from the community. Falco remains committed to working with various stakeholders to finalize a plan for the Horne 5 Project that will maximize benefits for the entire community, our shareholders and other stakeholder groups. The mandate of the Committee is to propose enhancements to optimize cohabitation with all stakeholders and insure that the consultation and engagements plan has been implemented and has fulfilled its objective. For calendar 2020, the Committee has asked Falco to prioritize consultation activities on social impacts of the Project and to continue its reflection on housing and manpower issues.

Amid COVID-19, in the past months, Falco continues to be active with stakeholder engagement by holding video consultation and technical sessions.

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*Dewatering Phase – Geotechnical Work Investigation*

The dewatering of the old underground workings (former Horne and Quemont mines) constitutes the initial phase of the development of the Horne 5 Project and involves geotechnical analysis to mitigate risk in the long term associated with the dewatering stage of the old underground workings. As part of the risk assessment for the dewatering phase, Falco has collaborated with Glencore, on geotechnical programs to gather information and analyse the risks associated with the development of the Horne 5 Project.

During the year ended June 30, 2020, the Company's geotechnical collaboration with Glencore progressed on various mitigation measures to bring the Horne 5 Project to the dewatering phase. Specifically, Falco completed the geotechnical assessment and proposed mitigation measures for the Quemont North Area (closest to the future Horne 5 Project infrastructures), and completed an induced seismicity assessment on the potential impact generated by the Horne 5 Project.

As discussed above under the "*Agreements with Glencore Canada Corporation*" heading, Falco and Glencore have agreed to a Work Plan, to be managed by Falco, which will include additional technical work, modelling and studies towards the further identification, mitigation and allocation of risks, all with the goal of working towards a principal operating license and indemnity agreement between the Company and Glencore. Key steps towards the dewatering stage have been accomplished and collaboration is on-going. The Company's focus is on the advancement of Glencore's approval of the dewatering phase of the Horne 5 Project.

In addition to being subject to the applicable legal framework, the development of the Horne 5 Project is subject to a contractual framework whereby the obtaining of the principal operating license and indemnity agreement from Glencore is subordinated to the entering into a comprehensive financial guarantee arrangement with Glencore in order to provide adequate financial protection to this operation. Once this condition precedent will be achieved, Falco and Glencore will establish protocols for the further development of the Horne 5 Project, including operational parameters required to maintain the secure and mitigate risk for Glencore's operation, the whole, in accordance with the agreed upon contractual framework. Based on the foregoing, Falco will not be carrying any dewatering activities prior to finalizing a satisfactory comprehensive financial guarantee framework with Glencore and thereafter agreeing on a mutually satisfactory work plan for the conduct of such activities.

*Project timeline*

The Project timeline is subject at all times to matters that are not within the exclusive control of Falco. These factors include the ability to obtain, on terms acceptable to Falco, financing, governmental and other third parties' approvals, licenses, rights of way and surface rights (collectively, the "Factors"). Management expects to release an updated project timeline in the beginning of 2021 upon gaining a more comprehensive understanding of the potential terms and conditions relating to some of these Factors.

*Independent qualified persons*

The Feasibility Study was prepared under the direction of BBA, by leading independent industry consultants, all of whom are QP. Independent QPs from BBA, InnovExplo, Golder, WSP, SNC-Lavalin and RIVVAL who have prepared or supervised the preparation of the technical information relating to the Feasibility Study include:

- Colin Hardie, Pierre Lacombe (BBA);
- Carl Pelletier, Patrick Frenette, Geneviève Auger (InnovExplo);
- Michel Mailloux, Valerie Bertrand, Mayana Kissiova, Rob Bewick, Michael Bratty, Yves Boulianne, Janis Drozdiak, Serge Ouellet (Golder);
- Marie-Claude Dion St.-Pierre, Claire Hayek, Dominick Turgeon, Stéphane Lance (WSP);
- Luc Gaulin (SNC-Lavalin); and
- Yves Vallières (RIVVAL).

None of the aforementioned firms or persons, nor any directors, officers or employees of such firms, are currently, or are expected to be elected, appointed or employed, as a director, officer or employee of the Company, or of any associate or affiliate of the Company, with the exception of Ms. Chantal Sorel, a director of the Company and formerly an officer of SNC-Lavalin, and Ms. Claire Hayek and Ms. Mayana Kissiova who both subsequently became employees of Osisko.

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The Company's disclosure of technical or scientific information about the Feasibility Study, has been reviewed and approved by Luc Lessard, Eng., President and Chief Executive Officer of Falco, who serves as a QP.

### Hoisting System Construction

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 "Hoisting Agreement"). The hoisting systems will include a production hoist, an auxiliary hoist and a service hoist. The production friction hoist will have a 6.5 metre diameter and will allow a skip payload of 39,400 kg. The service hoist will have a 5.5 metre diameter and will be equipped with a double deck cage for 2 x 50-person capacity or 15,000 kg payload. The auxiliary hoist will have a 3.1 metre diameter and will be equipped with a double deck cage for 2 x 5-person capacity or 1,250 kg payload. The Hoisting Agreement is now estimated at approximately \$28.9 million 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. As at September 30, 2020, \$8.2 million was incurred and paid pursuant to the Hoisting Agreement.

Construction and detailed engineering of the hoist building, which will host the auxiliary and service hoisting systems, commenced in December 2017. The concrete works are complete at 90% and the structural steel has been erected for total incurred construction costs of \$6.8 million as at September 30, 2020. The hoist building's construction will enable Falco to start the mine dewatering and Quemont #2 shaft rehabilitation efforts efficiently and safely. The Company delayed the completion of the hoist building's construction activities pending additional financing.

Key auxiliary and service hoisting system components have been received and Falco anticipates assembling the two hoists following the completion of the hoist building.

### Surface Rights Agreements

In September 2014, the Company entered into an option agreement with the City of Rouyn-Noranda (the "City") to acquire the surface rights to land 500 metres north of the Horne 5 Deposit (the "Property"). This agreement provides the Company with a 5-year option to purchase additional land within an area surrounding the Property. In January 2020, this option agreement was extended an additional five years. On June 29, 2017, the Company exercised part of this option, purchasing the Property for \$2.9 million, for which \$2.0 million is paid as of September 30, 2020. On October 28, 2019, the City and Falco agreed to extend the payment date of the balance payable of \$0.9 million to January 1, 2021.

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. The acquisition of the Pavilion is one of the essential and pre-requisite steps in the dewatering and development phase 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 on time and on budget (relocation and construction costs totaled \$22.5 million). 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 partner with the City in the building of infrastructure to relocate such activities. The work is to be completed no later than June 1, 2021 for an amount not to exceed \$2.5 million. The Company completed the first phase of construction activities in August 2020 at a cost of \$0.8 million.

### Dewatering Equipment

Certain long-lead equipment for the water treatment facility and pumping system (the "WT Equipment") has been ordered, with costs incurred totaling \$6.8 million as at September 30, 2020. The WT Equipment have been received and will have a capacity of 600 cubic metres per hour.

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Detailed Engineering

Falco has advanced the detailed engineering and procurement of equipment shop drawings in relation to the Horne 5 Project, with a total incurred cost of \$6.5 million as at September 30, 2020. The focus to date has been the geotechnical investigation, the water treatment facility, the electrical substation and hoisting facilities.

Horne 5 Project Costs

On October 30, 2017, Management determined that the technical feasibility and commercial viability of the Horne 5 Project was established and accordingly, the development phase of the Horne 5 Project had commenced. As such, the Company reclassified \$37.5 million in exploration and evaluation ("E&E") costs capitalized to the Horne 5 Project to property, plant and equipment ("PPE").

In addition to these reclassified E&E costs, from July 1, 2016 through to September 30, 2020, the Company has incurred a cumulative total of \$82.9 million related to the Horne 5 Project. The breakdown of these costs are as follows:

	As at	
	September 30, 2020	June 30, 2020
	\$	\$
Mining equipment	17,914,741	17,914,741
Land and buildings	19,806,644	19,033,987
Construction in progress	38,384,546	37,784,674
Capitalized borrowing costs	6,802,328	5,539,070
<b>Total</b>	<b>82,908,259</b>	<b>80,272,472</b>

Mining equipment

Mining equipment includes costs incurred on the Hoisting Agreement, and on the WT Equipment, as discussed above under the "Hoisting System Construction" and "Dewatering Program" headings.

Land and buildings

Land and buildings included costs incurred on the Relocation Project, land purchase agreements, and the hoist building's construction as discussed above under the "Surface Rights Agreements" and "Hoisting System Construction" headings.

Construction in progress

These costs include Falco's preparation of the EIS related documentation, the Company's advancement of the Project's detailed engineering efforts as discussed above under the heading "Detailed Engineering", in addition to the cost of managing the Project's pre-construction activities.

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 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, at its discretion, to perform certain activities that may affect or impact their operations.

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**Coronavirus (COVID-19)**

At the beginning of calendar 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company's business is not known at this time, but could include an impact on the Company's ability to complete planned exploration and development activities or our ability to obtain financing.

As a result of the COVID-19 pandemic, the Company took action to protect its employees and the communities in which it operates. As part of the contingency plan developed by the Company, it closed its offices in March and provided employees with adequate equipment to allow them to safely work remotely from home. During the month of May 2020, the Company re-opened its office in Rouyn-Noranda in-line with the recommendations of the Provincial government. The Company has also suspended non-essential travel for all employees, including exploration and development activities.

**Outlook**

In order to advance the Horne 5 Project, the Company must obtain all required regulatory approvals and complete negotiations to obtain third parties' approvals, licenses, rights of way and surface rights required as described in the Feasibility Study and this MD&A. In addition, Falco must secure financing which may be completed in a number of ways, including, but not limited to, the completion of stream agreements, the issuance of debt or equity instruments and joint venture agreements at the asset level. If the funds are not available on terms satisfactory to the Company, some planned activities may be postponed and the Company will be required to re-evaluate its plans and allocate its total resources in the Company's best interest. This may result in a substantial reduction of the scope of existing and planned operations.

The Horne 5 Project

Management believes that the completion of the \$10 million financing and the signing of the Offtake Agreements with Glencore on October 27, 2020, were significant steps forward for the Company, which could pave the way for project development work to begin once the Work Plan is complete. As discussed above under the "Project timeline" heading, Management is currently reviewing the key project activity milestones and will provide an updated projected timeline in the beginning of 2021. In addition, Falco will focus on the following key project execution activities:

1. Completing the Work Plan by mid-2021.
2. Finalizing a principal operating license and indemnity agreement with Glencore and thereafter agreeing on a mutually satisfactory work plan for the conduct of dewatering activities.
3. Continuing the environmental work, community engagement and permitting in order to receive the EIS' acceptability from the MELCC in the first half of calendar 2021. The Company's objective is to start the public hearing process (*Bureau d'audiences publiques sur l'environnement*) on the Horne 5 Project in the second half of the calendar year 2021.

Exploration activities

Falco's objectives regarding exploration are to complete statutory obligations and to plan future exploration programs. Management endeavours to proceed with future exploration programs targeted at increasing the Horne 5 Project's mineral resources and ultimately the Project's life of mine.

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**Results of Operations**

Falco incurred a net loss of \$0.7 million for the three-month period ended September 30, 2020 ("Q1-2021"), compared to a net loss of \$1.1 million for the three-month period ended September 30, 2019 ("Q1-2020").

The operating loss for Q1-2021 decreased by \$0.2 million, totaling \$0.7 million for the period. The decrease relates primarily to a reduction in consulting and compensation and share-based compensation costs (\$0.3 million) between periods, which were partially offset by the increase in professional fees and investor relations costs incurred (\$0.2 million). In addition, the Q1-2021 operating loss was partially offset by the Company providing services to third parties that allowed the recovery of \$0.3 million in costs (\$0.2 million recovered in Q1-2020).

The Secured Loan's Amended Principal Amount is directly attributable to the acquisition or construction of a qualifying asset, these borrowing costs were capitalized to property, plant and equipment in Q1-2021 (expensed in Q1-2020), which explains the reduction in interest expense for Q1-2021 (refer to "*The Silver Stream Agreement*" and the "*Secured Loan*" headings above for more details).

**Liquidity and Capital Resources**

As at September 30, 2020, the Company had negative working capital of \$18.0 million (negative working capital of \$15.6 million as at June 30, 2020) and cash amounted to \$2.0 million (\$3.6 million as at June 30, 2020).

As the Company is in the development stage for the Horne 5 Project, it has not recorded any revenues from operations, has no source of operating cash flow, with the exception of the Silver Stream Agreement, and no assurance that additional funding will be available to it for further development of the Horne 5 Project. 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. The Company is evaluating various financing opportunities to pursue the development of the Horne 5 Project.

The Company's ability to continue future operations beyond September 30, 2021, 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. This may be completed in a number of ways, including, but not limited to, achieving the next milestones of the Silver Stream Agreement, renegotiation of the maturity of the Secured Loan, the issuance of debt or equity instruments, a joint venture agreement at the asset level and/or monetizing certain non-current assets of the Company. Management will pursue such additional sources of financing when required, and while Management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company. If the funds are not available on terms satisfactory to the Company, some planned activities may be postponed and the Company will be required to re-evaluate its plans and allocate its total resources in such a manner as the Board and Management deem to be in the Company's best interest. This may result in a substantial reduction of the scope of existing and planned operations.

**Cash Flows**

Cash flows used in operating activities during Q1-2021 totaled \$0.6 million (\$1.1 million used during Q1-2020). This is primarily due to the net loss for the period which totaled \$0.7 million (net loss of \$1.1 million in Q1-2020). In addition, non-cash working capital items such as accounts receivable, prepaid expenses and other assets, accounts payable and accrued liabilities did not increase in Q1-2021 (increased cash by \$0.1 million in Q1-2020), due to timing differences in the collection of sales tax and the payments to suppliers.

Cash flows used in investing activities for Q1-2021 amounted to \$1.0 million (\$0.6 million from investing in Q1-2020). In Q1-2021, the Company received \$ nil in refundable tax credits (\$0.9 million received in Q1-2020), invested \$0.1 million in E&E assets (\$ nil for Q1-2020) and \$0.9 million of investment in PPE (\$0.3 million in Q1-2020). These investments were incurred for the advancement of the Horne 5 Project, as previously described in this MD&A.

There were no cash flows provided by financing activities during the periods.

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**Quarterly Information**

A summary of selected quarterly financial information for the last eight quarters is outlined below:

(as at or for the three months ended)	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
	\$	\$	\$	\$
Cash	2,036,861	3,630,751	6,650,818	4,199,556
Working capital	(17,964,649)	(15,558,035)	(13,706,838)	(15,337,650)
Total assets	146,609,717	145,427,215	147,791,713	142,133,482
Investments in property, plant and equipment	922,998	1,383,497	1,181,637	1,198,802
Investments in exploration and evaluation assets	99,422	164,861	142,813	138,588
Total revenue	-	-	-	-
Net loss for the period	711,412	703,899	1,446,673	1,906,691
Basic and diluted net loss per share <sup>(i)</sup>	0.00	0.00	0.01	0.01
(as at or for the three months ended)	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
	\$	\$	\$	\$
Cash	628,231	1,115,750	3,048,065	989,467
Working capital	(11,813,026)	(10,740,774)	(9,759,730)	(33,606,137)
Total assets	136,102,795	136,105,221	141,075,870	137,160,397
Investments in property, plant and equipment	324,490	2,416,502	6,416,655	3,753,037
Investments in exploration and evaluation assets <sup>)</sup>	1,723	368,537	2,420,062	515,695
Total revenue	-	-	-	-
Net loss for the period	1,073,821	4,895,715	992,708	1,626,302
Basic and diluted net loss per share <sup>(i)</sup>	0.01	0.02	0.00	0.01

(i) Net loss per share is based on each reporting period's weighted average number of shares outstanding, which may differ on a quarter-to-quarter basis. As such, the sum of the quarterly net loss per share amounts may not equal year-to-date net loss per share.

From April 1, 2019 to September 30, 2019 and April 1, 2020 to September 30, 2020, the Company's decreases in cash and working capital are primarily the result of Falco's continued investments in PPE and E&E activities as discussed above under the "Horne 5 Project Costs" heading.

During the three-month periods ended March 31, 2019, December 31, 2019 and March 31, 2020, respectively, the increase in cash and total assets are consistent with the financing transactions completed during these periods, which surpassed the investments made in E&E activities and investments made in PPE during these same periods.

During the three-month periods ended June 30, 2019 and December 31, 2019, the higher loss was primarily due to the write-off of E&E assets for specific areas where claims are not expected to be renewed (\$4.4 million and \$1.2 million, respectively), where the Company has decided to discontinue exploration and evaluation activities or the assets carrying amount exceeds its recoverable amount.

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**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 employees 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 Q1-2021, \$0.3 million was invoiced by Osisko for professional services and access to offices (\$0.4 million in Q1-2020).

As at September 30, 2020, interest payable on the Secured Loan amounted to \$1.5 million (\$1.2 million as at June 30, 2020). Interest incurred on the Secured Loan for Q1-2021 totaled \$0.3 million (\$0.2 million in Q1-2020).

During Q1-2021, \$0.3 million was invoiced to associates of Osisko for professional services provided by the Company (\$0.2 million in Q1-2020).

**Capital Management**

The capital structure of the Company as at September 30, 2020, consists of equity attributable to common shareholders comprising issued capital and equity reserves.

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and evaluation of mineral properties. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to any externally imposed capital requirements.

The properties in which the Company currently has interests are in the development and exploration and evaluation stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out planned development and exploration and evaluation activities, and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as required. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels they have sufficient geological and economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no significant changes in the capital management objectives, policies and proceedings as at September 30, 2020.

**Contractual Commitments and Obligations**

As discussed above under the heading "*Hoisting systems*", the Company entered into the Hoisting Agreement. The Hoisting Agreement is estimated at approximately \$28.9 million, of which \$8.2 million was incurred as at September 30, 2020 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.

As discussed under the "*Surface Rights Agreements*" heading, Falco concluded an agreement with the City to finance and build infrastructure no later than June 1, 2021 for an amount not to exceed \$2.5 million. The Company completed the first phase of construction activities in August 2020 at a cost of \$0.8 million.

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**Off-balance Sheet Items**

As of November 18, 2020, the Company has no off-balance sheet arrangements.

**Outstanding Share Data**

As of November 18, 2020, the Company has 226,147,296 issued and outstanding Shares, 10,732,585 stock options outstanding, 18,597,344 Warrants outstanding and the Convertible Debenture is convertible into 24,390,244 Shares.

**Risk Factors**

An investment in the Company's common shares is subject to a number of risks and uncertainties. An investor should carefully consider the risks described in the MD&A and the other information filed with the Canadian securities regulators ([www.sedar.com](http://www.sedar.com)), before investing in the Company's common shares. If any of the described risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed and investors may lose a significant proportion of their investment.

The following risk factors may not be a definitive list of all risk factors associated with an investment in Falco or in connection with the business and operations of Falco.

*Risks related to mining operations*

Mining operations are and will be subject to all the hazards and risks normally incidental to exploration, development and production of mineral resources and mineral reserves including unusual or unexpected geological formations and other conditions such as formation pressures, fire, power outages, flooding, explosions, cave-ins, landslides and the inability to obtain suitable machinery, equipment or labour, any of which could result in work stoppages, damage to property, and possible environmental damage that even a combination of careful evaluation, experience and knowledge may not eliminate or adequately mitigate. Falco may be subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. The payment of such liabilities may have a material adverse effect on the consolidated financial position of Falco.

Major expenditures are required to develop metallurgical processes and to construct mining and processing facilities at a particular site. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly volatile; and governmental regulations, including those relating to prices, taxes, royalties, land tenure, land use, allowable production, importing and exporting of minerals and environmental protection.

Furthermore, Falco's Horne 5 Project is located adjacent to a major smelter operation held by Glencore and is contractually bound to seek authorizations from time to time from Glencore to perform certain activities which may affect or impact the operation of the smelter; such authorizations could entail additional delays and, if they are granted, could include, without limitation, risk mitigation measures and full indemnity in favor of Glencore.

*Industry Conditions*

The exploration for and development of mineral deposits involve significant risks and while the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. All of Falco's properties are in the development or exploration stage and Falco is presently not exploiting any of its properties and its future success will depend on its capacity to generate revenues from an exploited property.

The discovery of mineral deposits depends on a number of factors, including the professional qualification of its personnel in charge of exploration. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices which are highly cyclical and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. In the event that Falco wishes to commercially exploit one of its properties, the exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Falco not receiving an adequate return on invested capital. Falco's operations will be subject to all the hazards and risks normally encountered in the exploration and development of mineral deposits. Mining operations generally involve a high degree of risk, including unusual and unexpected geologic formations.

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Other than with respect to the Horne 5 Project relative to which an updated mineral resources estimate has been published in connection with the Feasibility Study filed on October 30, 2017, there can be no guarantee that sufficient quantities of minerals will be discovered or that other Falco's properties will reach the commercial production stage. The development of the Horne 5 mineral reserves remains subject to, among other things, Falco securing adequate financing on conditions acceptable to it.

*Regulatory Matters*

Falco's activities are subject to governmental laws and regulations. These activities can be affected at various levels by governmental regulation governing prospecting and development, price control, taxes, labour standards and occupational health, expropriation, mine safety and other matters. Exploration and commercialization are subject to various federal, provincial and local laws and regulations relating to the protection of the environment. These laws impose high standards on the mining industry to monitor the discharge of wastewater and report the results of such monitoring to regulatory authorities, to reduce or eliminate certain effects on or into land, water or air, to progressively rehabilitate mine properties, to manage hazardous wastes and materials and to reduce the risk of worker accidents.

Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties or enforcement actions, including orders issued by regulatory or judicial authorities enjoining or curtailing operations or requiring corrective measures, installation of additional equipment or remedial actions, any of which could result in significant expenditures. Falco may also be required to compensate private parties suffering loss or damage by reason of a breach of such laws, regulations or permitting requirements. It is also possible that future laws and regulations, or more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspensions of Falco's activities and delays in the exploration of properties.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Falco and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

*Permits, Licences and Approvals*

The operations of Falco require licences and permits from various governmental authorities. Falco believes it holds or is in the process of obtaining all necessary licences and permits to carry on the activities, which it is currently conducting under applicable laws and regulations. Such licences and permits are subject to changes in regulations and in various operating circumstances. There can be no guarantee that Falco will be able to obtain all necessary licences and permits that may be required to maintain its mining activities, construct mines or milling facilities and commence operations of any of its exploration properties. In addition, if Falco proceeds to production on any exploration property, it must obtain and comply with permits and licences which may contain specific conditions concerning operating procedures, water use, the discharge of various materials into or on land, air or water, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that Falco will be able to obtain such permits and licences or that it will be able to comply with any such conditions.

*Title to Property*

Pursuant to an agreement between Falco and Glencore, Falco owns certain rights to minerals and title to certain mining titles, including rights to the minerals located below 200 meters from the surface of mining concession CM-156PTB, where the Horne 5 Deposit is located. Falco also owns certain surface rights surrounding the Quemont #2 shaft (located on mining concession CM-243). Under this agreement, ownership of the mining concessions remains with Glencore. In order to access the Horne 5 Project, the Company must obtain one or more licenses from Glencore, which may not be unreasonably withheld, but which may be subject to conditions that Glencore may require in its sole discretion. These conditions may include the provision of a performance bond or other assurance to Glencore and the indemnification of Glencore by the Company.

This agreement with Glencore stipulates, without limitation, that a license shall be subject to reasonable conditions which may include, among other things, that activities at the Horne 5 Deposit will be subordinated to the current use of the surface lands and subject to priority, as established in its sole discretion, over such activities. Any license may provide for, among other things, access to and the right to use the infrastructure owned by Glencore, including the Quemont #2 shaft and some specific underground infrastructure in the former Quemont and Horne mines.

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Furthermore, Falco will also have to acquire a number of rights of way or other surface rights in order to construct and lay in the ground the pipeline that will carry the tailings to a TMF located approximately 11 km from the City of Rouyn-Noranda.

While the Company believes that it should be able to obtain the licenses from Glencore in a timely manner, and to acquire the required rights of way and other surface rights, there can be no assurance that any such license, right of way or surface right will be granted, or if granted will be on terms acceptable to the Company and in a timely manner and any delay may also negatively impact the project schedule. Although Falco believes that it has taken reasonable measures to ensure proper title to its assets, there is no guarantee that title to any of assets will not be challenged or impugned.

*Any mergers, acquisitions or joint ventures would be accompanied by risks*

Falco may evaluate from time to time opportunities to merge, acquire and joint venture assets and businesses or conduct any other type of transaction. The global landscape has changed and there are risks associated with such transactions due to liabilities and evaluations with the aggressive timelines of closing transactions from increased competition. There is also a risk that the review and examination process might be inadequate and cause material negative outcomes. These transactions may be significant in size, may change the scale of Falco's business and may expose it to new geographic, political, operating, financial and geological risks. Falco's success will depend on its ability to identify suitable partners, conclude a transaction on acceptable terms and integrate operations successfully. Any transactions would be accompanied by risks, such as the difficulty of assimilating the operations and personnel; the potential disruption of Falco's ongoing business; the inability of management to maximize the financial and strategic position of Falco; the maintenance of uniform standards, controls, procedures and policies; the impairment of relationships with employees, customers and contractors as a result of any integration of new management personnel; dilution of Falco's present shareholders or of its interests in its assets or the decision to grant interests to a joint venture partner; and the potential unknown liabilities. There can be no assurance that Falco would be successful in overcoming these risks or any other problems encountered in connection with such transactions or joint ventures. There may be no right for shareholders to evaluate the merits or risks of any future transaction or joint venture undertaken except as required by applicable laws and regulations.

*Land Claim*

At the present time, none of the properties in which Falco has an interest is the subject of an aboriginal land claim. However, no assurance can be provided that such will not be the case in the future.

*Competition*

Falco's activities are directed towards the exploration, evaluation and development of mineral deposits. There is no certainty that the expenditures to be made by Falco will result in discoveries of commercial quantities of mineral deposits. There is aggressive competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. Falco will compete with other interests, many of which have greater financial resources than it will have, for the opportunity to participate in promising projects. Significant capital investment is required to achieve commercial production from successful exploration efforts, and Falco may not be able to successfully raise funds required for any such capital investment.

*Falco may experience difficulty attracting and retaining qualified management to grow its business, which could have a material adverse effect on Falco's business and financial condition.*

Falco is dependent on certain members of Management, particularly its President and Chief Executive Officer. The loss of their services could adversely affect Falco.

Falco is dependent on the services of key executives and other highly skilled personnel focused on advancing its corporate objectives as well as the identification of new opportunities for growth and funding. The loss of these persons or its inability to attract and retain additional highly skilled employees required for its activities may have a material adverse effect on Falco's business and financial condition. Further, while certain of Falco's officers and directors have experience in the exploration of mineral producing properties, Falco remains highly dependent upon contractors and third parties in the performance of their exploration and development activities. There can be no guarantee that such contractors and third parties will be available to carry out such activities on behalf of Falco or be available upon commercially acceptable terms.

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*Conflicts of Interest*

Certain directors and officers of Falco also serve as directors and officers of other companies involved in natural resource exploration and development; consequently, there is a possibility that such directors and officers will be in a position of conflict of interest. Any decision made by such directors and officers involving Falco will be made in accordance with their duties and obligations to deal fairly and in good faith with Falco and such other companies. In addition, such directors and officers will declare, and refrain from voting on, any matter in which such directors and officers may have a material conflict of interest.

*Information Systems and Cyber Security*

Falco relies on its IT infrastructure to meet its business objectives. Falco uses different IT systems, networks, equipment and software and has adopted security measures to prevent and detect cyber threats. However, Falco and third-party service providers and vendors may be vulnerable to cyber threats, which have been evolving in terms of sophistication and new threats are emerging at an increased rate. Unauthorized third parties may be able to penetrate network security and misappropriate or compromise confidential information, create system disruptions or cause shutdowns to Falco or its counterparties. Although Falco has not experienced any losses relating to cyber attacks or other information security breaches, there can be no assurance that there will be no such loss in the future. Significant security breaches or system failures of Falco or its counterparties, especially if such breach goes undetected for a period of time, may result in significant costs, fines or lawsuits and damage to reputation. The significance of any cyber security breach is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on Falco's business.

*Commercialization*

The commercialization of minerals depends on a number of factors that are independent from Falco's desire to proceed with said commercialization. These factors include market fluctuations and governmental regulations concerning prices, taxes, fees, authorized production, and imports and exports. The exact effect of these factors cannot be accurately evaluated.

*Uninsured Hazards*

Falco could be held responsible for certain events including environmental pollution, cave-ins or other hazards against which a corporation such as Falco cannot insure or against which it may elect not to insure, taking into consideration the importance of the premiums or other reasons. The payment of amounts relating to liability of the aforementioned hazards could cause the loss of Falco's assets.

*Mineral resource and mineral reserve estimates have inherent uncertainty*

Mineral resource and mineral reserve figures are only estimates. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. While Falco believes that the mineral resource and mineral reserve estimates, as applicable, in respect of properties in which Falco holds a direct interest reflect best estimates, the estimating of mineral resources and mineral reserves is a subjective process and the accuracy of mineral resource and mineral reserve estimates is a function of the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpreting available engineering and geological information. There is significant uncertainty in any mineral resource and mineral reserve estimate and the actual deposits encountered and the economic viability of a deposit may differ materially from estimates. Estimated mineral resources and mineral reserves may have to be re-estimated based on changes in prices of gold or other minerals, further exploration or development activity or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence such estimates. In addition, mineral resources are not mineral reserves and there is no assurance that any mineral resource estimate will ultimately be reclassified as proven or probable mineral reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability.

*Falco's operations are subject to financing risks and additional financing may result in dilution or partial sale of assets*

Falco's operations are subject to financing risks. At the present time, Falco does not have any producing projects and no sources of revenue. Falco's ability to explore for and find potential economic projects, and then to bring them into production, is highly dependent upon its ability to raise equity and debt capital in the financial markets. Any projects that Falco develops will require significant capital expenditures. To obtain such funds, Falco may sell additional securities including, but not limited to, Shares or some form of convertible security, the effect of which could result in

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a substantial dilution of the equity interests of the Falco Shareholders. Alternatively, Falco may also sell a part of its interest in an asset in order to raise capital. There is no assurance that Falco will be able to raise the funds required to continue its exploration programs and finance the development of any potentially economic deposit that is identified on acceptable terms or at all. The failure to obtain the necessary financing could have a material adverse effect on Falco's growth strategy, results of operations, financial condition and project scheduling.

*Economics of developing mineral properties*

Mineral exploration and development is speculative and involves a high degree of risk. While the discovery of an ore body may result in substantial rewards, few properties which are explored are commercially mineable and ultimately developed into producing mines. There is no assurance that any exploration properties will be commercially mineable.

Should any mineral resources exist, substantial expenditures will be required to confirm mineral reserves which are sufficient to commercially mine and to obtain the required environmental approvals and permitting required to commence commercial operations. The decision as to whether a property contains a commercially viable mineral deposit and should be brought into production will depend upon the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and/or geologists, all of which involves significant expense. This decision will involve consideration and evaluation of several significant factors including, but not limited to: (a) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies and construction of production facilities; (b) availability and costs of financing; (c) ongoing costs of production; (d) metal prices; (e) environmental compliance regulations and restraints (including potential environmental liabilities associated with historical exploration activities); and (f) political climate and/or governmental regulation and control. Development projects are also subject to the successful completion of engineering studies, issuance of necessary governmental permits, and availability of adequate financing. Development projects have no operating history upon which to base estimates of future cash flow.

*Factors beyond the control of Falco*

The potential profitability of mineral properties is dependent upon many factors beyond Falco's control. For instance, world prices of and markets for minerals are unpredictable, highly volatile, potentially subject to governmental fixing, pegging and/or controls and respond to changes in domestic, international, political, social and economic environments. Another factor is that rates of recovery of minerals from mined ore (assuming that such mineral deposits are known to exist) may vary from the rate experienced in tests and a reduction in the recovery rate will adversely affect profitability and, possibly, the economic viability of a property. Profitability also depends on the costs of operations, including costs of labour, equipment, electricity, environmental compliance or other production inputs. Such costs will fluctuate in ways Falco cannot predict and are beyond Falco's control, and such fluctuations will impact on profitability and may eliminate profitability altogether. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for development and other costs have become increasingly difficult, if not impossible, to project. These changes and events may materially affect the financial performance of Falco and they may also negatively impact the project schedule.

*Falco may be subject to liability or sustain loss for certain risks and hazards against which it does not or cannot economically insure*

Mining is capital intensive and subject to a number of risks and hazards, including environmental pollution, accidents or spills, industrial and transportation accidents, labour disputes, changes in the regulatory environment, natural phenomena (such as inclement weather conditions, earthquakes, pit wall failures and cave-ins) and encountering unusual or unexpected geological conditions. Such risk and hazards might impact Falco's business. Consequently, many of the foregoing risks and hazards could result in damage to, or destruction of, Falco's mineral properties or future processing facilities, personal injury or death, environmental damage, delays in or interruption of or cessation of their exploration or development activities, delay in or inability to receive required regulatory approvals, or costs, monetary losses and potential legal liability and adverse governmental action. Falco may be subject to liability or sustain loss for certain risks and hazards against which it does not or cannot insure or against which it may reasonably elect not to insure because of the cost. This lack of insurance coverage could result in material economic harm to Falco.

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*Environmental risks and hazards*

Falco is subject to environmental regulation in the jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the general, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Falco's operations. Environmental hazards may exist on the properties which are unknown to Falco at present and which have been caused by previous or existing owners or operators of the properties. Reclamation costs are uncertain and planned expenditures estimated by management may differ from the actual expenditures required.

*Coronavirus (COVID-19)*

Falco faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt, directly or indirectly, its operations and may materially and adversely affect its business and financial conditions.

Falco's business could be adversely impacted by the effects of the coronavirus or other epidemics. In December 2019, a novel strain of the coronavirus emerged in China and the virus spread to several other countries, including Canada and the U.S., and infections have been reported globally. The extent to which the coronavirus impacts Falco's business, including its operations and the market for its securities, will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak and the actions taken to contain or treat the coronavirus outbreak. There can be no assurance that Falco's personnel will not be impacted by these pandemic diseases and ultimately see its workforce productivity reduced or incur increased medical costs / insurance premiums as a result of these health risks.

In addition, a significant outbreak of coronavirus could result in a widespread global health crisis that could adversely affect global economies and financial markets resulting in an economic downturn that could have an adverse effect on the demand for precious and base metals and Falco's future prospects.

*Fluctuation in market value of Falco Common Shares*

The market price of Falco Common Shares is affected by many variables not directly related to the corporate performance of Falco, including the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of Shares in the future cannot be predicted and may cause decreases in asset values, which may result in impairment losses.

**Financial Risks**

The Company's activities expose it to a variety of financial risks: market risks (including foreign currency risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's performance.

A description of the financial risks are included in the Financial Statements, filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

**Internal Control Disclosure**

In November 2007, the Canadian Securities Administrators exempted issuers on the TSX-V, such as the Company, from certifying disclosure controls and procedures, as well as internal controls over financial reporting as of December 31, 2007, and thereafter. The Company is required to file basic certificates. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109.

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**Basis of Presentation of Financial Statements**

The Financial Statements have been prepared in accordance with the IFRS as issued by the IASB applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting. The Financial Statements should be read in conjunction with the Annual Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB.

The Board approved the Financial Statements on November 18, 2020. The significant accounting policies of Falco are included in the notes to the Annual Financial Statements, filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

**Critical Accounting Estimates and Judgments**

Estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

Critical judgments in applying the Company's accounting policies are detailed in the Annual Financial Statements, filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

**Additional Information**

Additional information relating to the Company has been filed on SEDAR and is available at [www.sedar.com](http://www.sedar.com).

**Cautionary Statement Regarding Forward-Looking Statements**

Except for the statements of historical fact contained herein, certain information presented in the MD&A constitutes forward-looking statements concerning the business, operations, plans and financial performance and condition of Falco. Often, but not always, forward-looking statements can be identified by words such as "plans", "expects", "seeks", "may", "should", "could", "will", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes", or variations including negative variations thereof of such words and phrases that refer to certain actions, events or results that may, could, would, might or will occur or be taken or achieved. These statements are made as of the date of this MD&A.

These forward-looking statements include, among others, statements with respect to Falco's objectives for the ensuing years, its medium and long-term goals and strategies to achieve those objectives and goals, as well as statements with respect to its beliefs, plans, objectives, expectations, anticipations, estimates and intentions. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual plans, results, performance or achievements of Falco to differ materially from any future plans, results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: (a) assumptions relating to the recovered grade, average ore recovery, internal dilution, mining dilution and other mining parameters set out in the Feasibility Study; (b) assumptions relating to the gross revenues, operating cash flows and other revenue metrics set out in the Feasibility Study (c) the Feasibility Study LOM and mineral reserves estimates; (d) the ability to obtain all required regulatory, third party and other approval and rights described in the Feasibility Study; (e) the ability to secure the required financing for the development of the Horne 5 Project as well as other sources and conditions of and anticipated financing requirements; (f) expected time frame for the completion of construction, start of mining and commercial production and the financial obligations and costs incurred in connection with the development of the Project; (g) the financial, economic analysis and timeline of the Horne 5 Project (h) the ability to enter into a principal license and operating agreement with Glencore in order among others, to get access and use of surface rights and infrastructure not owned by Falco; (i) complete the Work Plan by mid-2021 (j) the ability to receive the EIS acceptability from the MELCC in the first half of 2021; (k) the start of the public hearing process on the Horne 5 Project in the second half of 2021 (l) the ability to proceed with future exploration programs targeted at increasing the Horne 5 Project's mineral resources and LOM; (m) total cash, transaction costs, and administrative costs differing materially from those anticipated (n) mineral resources and exploration targets; (o) inability to successfully complete development projects, planned expansions or other projects within the timelines anticipated; (p) the amount of future production over any period; (q) net present value and internal rate of return; (r) risks related to partnership or other joint operations; (s) actual results of exploration activities; (t) variations in mineral resources, mineral production, grades or recovery rates or optimization efforts and sales; (u) uninsured risks;

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(v) regulatory changes; (w) defects in title; (x) ability to repay the Convertible Debenture at maturity; (y) availability or integration of personnel, materials and equipment; (z) performance of facilities, equipment and processes relative to specifications and expectations; (aa) unanticipated environmental impacts on operations; (bb) market prices; (cc) fluctuations in gold, silver and other metal prices and currency exchange rates; (dd) production, construction and technological risks; (ee) capital requirements and operating risks associated with the operations or an expansion of the operations; (ff) uncertainty relating to future production and cash resources; (gg) adverse changes to market, political and general economic conditions or laws, rules and regulations; (hh) changes in project parameters; (ii) the possibility of project cost overruns or unanticipated costs and expenses; (jj) accidents, labour disputes, community and stakeholder protests and other risks of the mining industry; (kk) failure of plant, equipment or processes to operate as anticipated; (ll) the foreign exchange rate between the US dollar and the Canadian dollar; and (mm) those risks set forth in Falco's continuous disclosure documents filed on SEDAR at [www.sedar.com](http://www.sedar.com).

In addition, statements (including data in tables) relating to Mineral Resources and gold equivalent ounces are forward looking statements, as they involve implied assessment, based on certain estimates and assumptions, and no assurance can be given that the estimates will be realized.

Although Falco has attempted to identify important factors that could cause actual plans, actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause plans, actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual plans, results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

**(Signed) Luc Lessard**

Luc Lessard  
President and Chief Executive Officer

**(Signed) Anthony Glavac**

Anthony Glavac  
Chief Financial Officer

**November 18, 2020**

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Bryan A. Coates, Chair  
Mario Caron, Lead Director  
Benoit Brunet  
Paola Farnesi  
Luc Lessard  
Angelina Mehta  
Chantal Sorel

**Officers**

Luc Lessard, President and Chief Executive Officer  
Ronald Bougie, Vice President, Engineering and  
Construction  
Hélène Cartier, Vice President, Environment and  
Sustainable Development  
Anthony Glavac, Chief Financial Officer  
Christian Laroche, Vice President, Metallurgy  
André Le Bel, Vice President, Legal Affairs and  
Corporate Secretary  
François Vézina, Vice President, Technical Services

**Legal Counsel**

Lavery, de Billy LLP

**Auditors**

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.

**Transfer Agent**

TSX Trust Company

**Exchange listing**

TSX Venture Exchange: FPC

**Investor Relations**

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