



FALCO RESOURCES LTD.

**CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

**FOR THE THREE-MONTH PERIODS ENDED
SEPTEMBER 30, 2017 and 2016**

Falco Resources Ltd.

Balance Sheets

(Unaudited)

(Expressed in Canadian Dollars)

	As at September 30, 2017	As at June 30, 2017
	\$	\$
Assets		
Current assets		
Cash	43,453,260	53,395,140
Accounts receivable (Note 5)	1,996,127	2,134,296
Prepaid expenses	204,700	74,517
	<u>45,654,087</u>	<u>55,603,953</u>
Non-current assets		
Restricted cash (Note 4)	905,000	-
Property and equipment (Note 6)	17,693,945	9,729,574
Option on property (Note 7)	300,000	375,000
Exploration and evaluation assets (Note 7)	47,530,840	42,144,452
	<u>66,429,785</u>	<u>52,249,026</u>
Total assets	<u>112,083,872</u>	<u>107,852,979</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	10,609,738	5,348,364
Contingently payable liability (Note 9)	10,000,000	10,000,000
Deferred premium on flow-through shares (Note 10)	1,236,726	2,284,567
	<u>21,846,464</u>	<u>17,632,931</u>
Non-current liabilities		
Deferred income taxes	7,432,992	6,575,443
Long-term payable on the purchase of property (Note 6)	946,900	946,900
	<u>8,379,892</u>	<u>7,522,343</u>
Total liabilities	<u>30,226,356</u>	<u>25,155,274</u>
Equity attributable to Falco Resources Ltd. shareholders		
Share capital	95,617,206	95,306,645
Warrants (Note 11)	8,783,009	8,783,009
Contributed surplus	3,217,104	3,087,664
Deficit	(25,759,803)	(24,479,613)
Total equity	<u>81,857,516</u>	<u>82,697,705</u>
Total liabilities and equity	<u>112,083,872</u>	<u>107,852,979</u>
Commitment (Note 17)		
Subsequent events (Note 18)		

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

Falco Resources Ltd.

Statements of Loss and Comprehensive Loss

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

	<u>2017</u>	<u>2016</u>
	\$	\$
Expenses		
Consulting and compensation	809,994	340,895
Share-based compensation (Note 12)	238,027	195,336
Professional fees	154,455	41,062
Office and administrative	114,109	73,426
Travel	60,898	42,821
Investor and shareholder relations	53,016	87,099
Depreciation (Note 6)	3,190	3,190
Exploration and evaluation expenses	-	35,749
	<u>(1,433,689)</u>	<u>(819,578)</u>
Operating loss		
Interest income	153,455	20,484
Interest expense (Notes 9 and 14)	(189,603)	(180,071)
Foreign exchange loss	(645)	(9)
Other income – premium on flow through shares (Note 10)	1,047,841	179,637
	<u>(422,641)</u>	<u>(799,537)</u>
Loss before income taxes		
Deferred income tax expense	(857,549)	(630,000)
	<u>(1,280,190)</u>	<u>(1,429,537)</u>
Net loss and comprehensive loss		
	<u>(0.01)</u>	<u>(0.01)</u>
Net loss per common share (Note 13)		
Basic and diluted	<u>(0.01)</u>	<u>(0.01)</u>
Weighted average number of common shares outstanding (Note 13)		
Basic and diluted	<u>179,743,170</u>	<u>114,010,828</u>

The loss and the comprehensive loss are solely attributable to Falco Resources Ltd. shareholders.

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

Falco Resources Ltd.

Statements of Cash Flows

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

	<u>2017</u>	<u>2016</u>
	\$	\$
Operating activities		
Net loss	(1,280,190)	(1,429,537)
Adjustments for:		
Share-based compensation (Note 12)	238,027	195,336
Depreciation (Note 6)	3,190	3,190
Other income – premium on flow-through shares (Note 10)	(1,047,841)	(179,637)
Deferred income tax expense	857,549	630,000
Changes in non-cash working capital items:		
Accounts receivable	138,169	(310,793)
Prepaid expenses	(130,183)	31,877
Accounts payable and accrued liabilities	1,050,940	(750,084)
Net cash flows used in operating activities	<u>(170,339)</u>	<u>(1,809,648)</u>
Investing activities		
Acquisitions of property and equipment	(5,371,752)	-
Investments in exploration and evaluation assets, net of governmental credits received	(3,527,433)	(3,454,598)
Increase in restricted cash (Note 5)	(905,000)	-
Net cash flows used in investing activities	<u>(9,804,185)</u>	<u>(3,454,598)</u>
Financing activities		
Proceeds from the exercise of warrants	-	54,394
Proceeds from the exercise of options	191,167	121,500
Payment of share issue costs	(158,523)	-
Net cash flows provided by financing activities	<u>32,644</u>	<u>175,894</u>
Decrease in cash	<u>(9,941,880)</u>	<u>(5,088,352)</u>
Cash, beginning of period	<u>53,395,140</u>	<u>9,389,505</u>
Cash, end of period	<u>43,453,260</u>	<u>4,301,153</u>

Supplemental disclosure (Note 16)

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

Falco Resources Ltd.

Statements of Changes in Equity

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

	Number of common shares outstanding	Share capital \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
Balance – July 1, 2017	179,644,768	95,306,645	8,783,009	3,087,664	(24,479,613)	82,697,705
Net loss and comprehensive loss	-	-	-	-	(1,280,190)	(1,280,190)
Share options:						
Share-based compensation	-	-	-	248,834	-	248,834
Fair value of options exercised	-	119,394	-	(119,394)	-	-
Proceeds from exercise of options	500,476	191,167	-	-	-	191,167
Balance – September 30, 2017	180,145,244	95,617,206	8,783,009	3,217,104	(25,759,803)	81,857,516
Balance – July 1, 2016	113,937,797	34,994,589	33,500	2,471,588	(17,496,000)	20,003,677
Net loss and comprehensive loss	-	-	-	-	(1,429,537)	(1,429,537)
Warrants:						
Fair value of warrants exercised	-	16,750	(16,750)	-	-	-
Proceeds from exercise of warrants	96,701	54,394	-	-	-	54,394
Share options:						
Share-based compensation	-	-	-	194,121	-	194,121
Fair value of options exercised	-	87,306	-	(87,306)	-	-
Proceeds from exercise of options	205,000	121,500	-	-	-	121,500
Balance – September 30, 2016	114,239,498	35,274,539	16,750	2,578,403	(18,925,537)	18,944,155

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

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

1. Nature of activities and liquidity risk

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

The Company, an exploration and evaluation stage company, is in the business of acquiring and exploring mineral properties in Canada. Its focus is currently on the exploration and evaluation of its mineral properties in the Rouyn-Noranda district in the Province of Québec for base and precious metals.

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

Management of the Company believes that it has sufficient funds to pay its ongoing general and administrative expenses and to meet its liabilities, obligations and existing commitments for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company's ability to continue future operations beyond September 30, 2018, and fund its exploration and evaluation expenditures, as well as its potential development activities at the Company's Home 5 Deposit in Rouyn-Noranda (the "Home 5 Project" or "Home 5 Deposit") (see also Note 18) is dependent on management's ability to secure third parties' approval and additional financing in the future, which may be completed in a number of ways, including, but not limited to, the completion of a stream agreement (see also Note 9) and the issuance of debt or equity instruments. 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.

2. Basis of presentation

These unaudited condensed interim financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") as issued by the *International Accounting Standards Board* ("IASB") applicable to the preparation of interim financial statements, including *International Accounting Standard* ("IAS") 34, *Interim Financial Reporting*. The condensed interim financial statements should be read in conjunction with the annual audited financial statements of the Company for the year ended June 30, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim financial statements were approved by the Company's Board of Directors (the "Board") on November 10, 2017.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

3. Judgments, estimates and assumptions

The preparation of financial statements requires the Company's management to make judgments, estimates and assumptions on reported amounts of assets and liabilities, and reported amounts of expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may be substantially different. The critical accounting, judgments, estimates and assumptions are the same as those in our most recent audited annual financial statements.

4. Restricted cash

On June 27, 2017, the Company closed a \$5,000,000 revolving credit facility (the "Credit Facility") with National Bank of Canada (the "Lender"), which is secured by a hypothec in favour of the Lender over a collateral account maintained by the Company. The Credit Facility will be used to secure Falco's obligations in favour of Hydro-Québec in connection with certain electrical and engineering work to be performed with respect to the development of the Horne 5 Project, and, subject to third party consent, for other purposes consented to by the Lender. The Credit Facility will provide the Company with access to standby letters of credit and letters of guarantee issued by the Lender to Hydro-Québec on Falco's behalf. The Credit Facility is uncommitted, meaning that the Lender can at its sole discretion (i) terminate the Company's right to make requests for the issuance of letters of credit on same day notice, and (ii) decline a request from the Company for the issuance of a letter of credit. On July 4, 2017, the Company provided \$905,000 as collateral against a standby letter of credit in favour of Hydro-Quebec, reducing the amount available under the Credit Facility by the same amount.

5. Accounts receivable

	September 30, 2017	June 30, 2017
	\$	\$
Sales taxes	1,082,058	1,246,885
Refundable tax credits ⁽ⁱ⁾	839,459	839,459
Other	74,610	47,952
	<u>1,996,127</u>	<u>2,134,296</u>

(i) The refundable tax credits relate to tax credits available in the Province of Québec on eligible exploration and evaluation expenditures.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

6. Property and equipment

	Mining equipment	Land and buildings	Leasehold improvements	Office and other equipment	Total
	\$	\$	\$	\$	\$
Cost					
Balance – June 30, 2016	-	-	88,356	284,637	372,993
Additions	6,584,471	2,946,900	-	34,476	9,565,847
Balance – June 30, 2017	6,584,471	2,946,900	88,356	319,113	9,938,840
Additions	1,573,344	6,401,164	-	4,475	7,978,983
Balance – September 30, 2017	8,157,815	9,348,064	88,356	323,588	17,917,823
Accumulated Depreciation					
Balance – June 30, 2016	-	-	4,933	153,218	158,151
Depreciation	-	-	12,761	-	12,761
Depreciation capitalized to exploration and evaluation assets	-	-	5,892	32,462	38,354
Balance – June 30, 2017	-	-	23,586	185,680	209,266
Depreciation	-	-	3,190	-	3,190
Depreciation capitalized to exploration and evaluation assets	-	-	1,473	9,949	11,422
Balance – September 30, 2017	-	-	28,249	195,629	223,878
Carrying Amounts					
At June 30, 2017	6,584,471	2,946,900	64,770	133,433	9,729,574
At September 30, 2017	8,157,815	9,348,064	60,107	127,959	17,693,945

On March 24, 2017, the Company entered into an initial agreement for the engineering, procurement, supply, performance services and installation of the hoisting systems for the Horne 5 Project (the "Contract"). The hoisting systems will include a production hoist, an auxiliary hoist and a service hoist. The delivery and installation of the service and auxiliary hoists is expected in calendar year 2018. The Contract is now estimated at \$28,900,000, of which \$5,020,000 was incurred and paid as at September 30, 2017 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.

In September 2014, the Company entered into an option agreement with the City of Rouyn-Noranda to acquire surface rights to land above the Horne 5 Deposit (the "Property") and immediately adjacent to the Horne smelter. This option agreement provides the Company with a 5-year option to purchase additional land near the Horne 5 Project. On June 29, 2017, the Company exercised this option, purchasing the Property for \$2,946,900, for which the Company had already paid a non-refundable deposit of \$1,000,000. Of the two remaining instalments, the first payment for \$1,000,000 is payable by January 1, 2018, and has been recorded as a short-term payable within accounts payable (Note 8). The final payment of \$946,900 is payable by January 1, 2019, and has been recorded as a long-term payable on the purchase of property on the balance sheet.

In January 2017, the Company entered into an option agreement with a third party to acquire land and buildings adjacent to the Horne 5 Project. The purchase price is \$5,400,000, of which a \$75,000 non-refundable deposit was paid upon signing this agreement. On July 5, 2017, the Company exercised this option and completed a second payment of \$2,625,000. The remaining balance of \$2,700,000 is payable by February 1, 2018, and has been recorded as a short-term payable within accounts payable (Note 8).

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

7. Exploration and evaluation assets

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

	For the three-month period ended September 30, 2017			
	Horne 5 Project ⁽ⁱ⁾	Central Camp ⁽ⁱⁱ⁾	Other properties ⁽ⁱⁱⁱ⁾	Total
	\$	\$	\$	\$
Balance – July 1, 2017	32,989,263	3,614,336	5,540,853	42,144,452
Compensation	43,255	74,756	20,505	138,516
Drilling and data compilation	24,852	2,945,076	394,478	3,364,406
Geology	2,000	13,189	31,629	46,818
Geophysics	945	39,675	25,375	65,995
Environment	83,993	11,617	-	95,610
Feasibility studies	895,893	-	-	895,893
Environmental impact assessment	475,813	-	-	475,813
Administrative and other	294,551	1,405	7,381	303,337
Total expenditures for the period	1,821,302	3,085,718	479,368	5,386,388
Refundable tax credits	-	-	-	-
Total for the period, net of tax credits	1,821,302	3,085,718	479,368	5,386,388
Write-offs for the period	-	-	-	-
Balance – September 30, 2017	34,810,565	6,700,054	6,020,221	47,530,840

	For the year ended June 30, 2017			
	Horne 5 Project ⁽ⁱ⁾	Central Camp ⁽ⁱⁱ⁾	Other properties ⁽ⁱⁱⁱ⁾	Total
	\$	\$	\$	\$
Balance – July 1, 2016	19,088,265	1,662,899	3,727,699	24,478,863
Compensation	327,409	209,561	96,277	633,247
Drilling and data compilation	2,230,356	1,216,759	1,242,817	4,689,932
Geology	6,367	679	148,162	155,208
Geophysics	14,109	49,145	325,624	388,878
Metallurgy	84,321	-	-	84,321
Environment	101,215	454,015	1,002	556,232
Mining engineering	174,938	-	-	174,938
Technical studies	11,660	-	-	11,660
Feasibility studies	9,894,042	-	-	9,894,042
Environmental impact assessment	914,905	-	-	914,905
Administrative and other	693,237	206,235	163,557	1,063,029
Total expenditures for the period	14,452,559	2,136,394	1,977,439	18,566,392
Refundable tax credits	(551,561)	(184,957)	(110,391)	(846,909)
Total for the period, net of tax credits	13,900,998	1,951,437	1,867,048	17,719,483
Write-offs for the period ^(iv)	-	-	(53,894)	(53,894)
Balance – June 30, 2017	32,989,263	3,614,336	5,540,853	42,144,452

(i) Includes historical acquisition costs of \$6,496,194 related to the acquisition of exploration rights and/or claims.

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

(iii) Including the Noranda Camp properties.

(iv) During the year ended June 30, 2017, the Company wrote-off 100% of the capitalized historical costs related to specific areas where claims are not expected to be renewed or where the Company has decided to discontinue exploration and evaluation activities.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

7. Exploration and evaluation assets (continued)

Glencore Canada Corporation

As per the terms and condition of a purchase agreement dated March 28, 2011 (the "Agreement"), assigned to the Company in September 2012, Glencore Canada Corporation ("Glencore Canada") retained the right to back-in to a 65% interest on any base metal deposit containing more than 350,000 tonnes copper equivalent metal with respect to which the in-situ value of non-base metals is less than three times the in-situ value of all base metals (the "Threshold Resource").

Falco's obligations towards Glencore Canada, pursuant to the Agreement, including with respect to the back-in right, a royalty interest and an off-take option (described below), as well as the payment of any damages caused by Falco, are secured by a deed of hypothec for a maximum of \$120 million.

The updated mineral resource estimate on the Horne 5 Project announced in May 2016 was a Threshold Resource. On September 6, 2016, Falco announced that it retained full ownership of the Horne 5 Project (ie. the rights to minerals located below 200 metres from the surface) as Glencore Canada elected not to exercise its back-in right. Glencore Canada retains a 2% net smelter return ("NSR") royalty on all metals produced and has rights of first refusal with respect to purchase or toll process on all or any portion of the concentrates and other mineral products.

Furthermore, the Horne 5 Project is located adjacent to Glencore Canada's operations and the Company is contractually bound to seek authorizations from time to time from Glencore Canada to perform certain activities which may affect or impact their operations.

Option on property

In May 2017, the Company entered into an option agreement with a third party to acquire land and buildings adjacent to the Horne 5 Project. The total purchase price is \$667,460, of which a \$300,000 non-refundable deposit was paid on the signing of this option agreement. The remaining balance is payable by January 31, 2018, if the Company decides to exercise its option.

8. Accounts payable and accrued liabilities

	September 30, 2017	June 30, 2017
	\$	\$
Trade payables and accrued liabilities	5,934,442	3,562,671
Short-term payable on the purchase of property (Note 6)	3,700,000	1,000,000
Interest payable on contingently payable liability (Note 9)	975,296	785,693
	<u>10,609,738</u>	<u>5,348,364</u>

9. Contingently payable liability

On May 30, 2016, the Company closed a financing with Osisko Gold Royalties Ltd. ("Osisko"), a shareholder with significant influence over the Company and therefore a related party, whereby Osisko provided a loan for \$10,000,000 (the "Loan"). The Loan was used for the advancement of the Horne 5 Project and for general corporate purposes. The Loan has an 18-month maturity, and interest is payable on the principal amount at a rate per annum that is equal to 7%, compounded quarterly, payable upon repayment of the principal amount.

By November 30, 2017, Falco and Osisko shall negotiate in good faith the terms, conditions and form of a silver and/or gold stream agreement (the "Stream Agreement"), which shall be substantially in the form typical for such transactions in the industry, whereby Osisko may provide Falco with a portion of the development capital required to build the Horne 5 Project ("Stream"). In this case, the principal amount of the Loan and any accrued interest will be applied against the Stream deposit. At the maturity date, if Falco and Osisko have not concluded the Stream Agreement, the principal amount of the Loan will be converted into a 1% NSR royalty on the Horne 5 Project and accrued interest will be paid in cash.

Under certain events of default, Osisko may, at its option, require the repayment of the principal amount and the accrued interest in cash. Events of default include, but are not limited to, the failure to complete a feasibility study on the Horne 5 Project recommending the construction of a mine before the maturity date of the Loan, the failure to obtain the required permits to advance the development of the Horne 5 Project before the Loan's maturity date and a change of control of the Company.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

10. Deferred premium on flow-through shares

	September 30, 2017	June 30, 2017
	\$	\$
Balance – beginning of period	2,284,567	179,637
Deferred premium on flow-through shares issued	-	3,077,563
Recognition of deferred premium on flow-through shares	(1,047,841)	(972,633)
Balance – end of period	1,236,726	2,284,567

On November 22, 2016, the Company issued 8,260,475 flow-through shares for gross proceeds of \$10,573,408 and recognized a deferred premium on flow-through shares of \$3,077,563 (net of issue costs of \$226,627). The Company is committed to spending the proceeds on exploration and development activities by December 31, 2017. As at September 30, 2017, the balance to be spent amounts to \$4,250,000.

11. Warrants

The following table details the changes in the Company's warrants:

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance – June 30, 2016	193,402	0.56
Issued	28,281,717	1.55
Exercised	(96,701)	0.56
Expired	(96,701)	0.56
Balance – June 30, 2017	28,281,717	1.55
Balance – September 30, 2017	28,281,717	1.55

The warrants outstanding at September 30, 2017, are as follows:

Exercise Price (\$)	Number of Warrants	Expiry Date	Weighted Average Remaining Contractual Life (Years)
1.45	12,091,675	May 22, 2018	0.64
1.45	5,046,542	July 26, 2018	0.82
1.70	11,143,500	December 7, 2018	1.19
	28,281,717		

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

12. Share-based compensation

Share options

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

	Number of Options	Weighted Average Exercise Price (\$)
Balance – June 30, 2016	8,261,798	0.39
Granted	1,676,300	0.97
Exercised	(786,362)	0.44
Balance – June 30, 2017	9,151,736	0.49
Exercised	(500,476)	0.38
Balance – September 30, 2017	8,651,260	0.49
Options exercisable – September 30, 2017	4,335,504	0.41

During the three-month periods ended September 30, 2017 and 2016, no share options were granted. Share option compensation for the three-month period ended September 30, 2017 amounted to \$248,834 (\$194,121 for the three-month period ended September 30, 2016) of which \$15,283 (\$7,315 for the three-month period ended September 30, 2016) were capitalized to exploration and evaluation assets.

Restricted, deferred and performance share units

The Company has a share unit plan (the “LTI Plan”) for the benefit of the Company’s employees and consultants. The LTI Plan provides for the issuance of common shares from treasury, in the form of Restricted Share Units (“RSUs”), Deferred Shares Units (“DSUs”) and Performance Share Units (“PSUs”). The RSUs, DSUs or PSUs can be settled in cash or whole common shares, at the discretion of the Company. The maximum number of shares reserved for issuance should not exceed 2,500,000 shares.

During the three-month periods ended September 30, 2017 and 2016, no RSUs were granted under the LTI Plan. Share-based compensation expense for RSUs for the three-month periods ended September 30, 2017 amounted to \$4,476 (\$8,530 for the three-month period ended September 30, 2016). A total of 16,666 unvested RSUs are outstanding as at September 30, 2017 (16,666 as at June 30, 2017).

13. Net loss per share

The calculation of basic and diluted loss per share for the three-month period ended September 30, 2017 was based on the net loss attributable to shareholders of \$1,280,190 (\$1,429,537 for the three-month period ended September 30, 2016) and the weighted average number of common shares outstanding for the three-month period ended September 30, 2017 of 179,743,170 (114,010,828 common shares for the three-month period ended September 30, 2016). As a result of the net loss for the three-month periods ended September 30, 2017 and 2016, all potentially dilutive common shares (Notes 11 and 12) are deemed to be antidilutive and thus diluted net loss per share is equal to the basic net loss per share for these periods.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements
For the three-month periods ended September 30, 2017 and 2016
(Unaudited)

(Expressed in Canadian Dollars)

14. Key management and related party transactions

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

Key management includes directors (executive and non-executive) and 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, 2017 and 2016:

	2017	2016
	\$	\$
Salaries and short-term employee benefits ⁽¹⁾	496,898	223,584
Share-based compensation	221,440	178,364
	718,338	401,948

⁽¹⁾ Including consulting fees.

Other related transactions

During the three-month period ended September 30, 2017, an amount of \$714,467 (\$446,412 for the three-month period ended September 30, 2016) was invoiced by Osisko for professional services and rental of offices. An amount of \$506,787 is included in accounts payable and accrued liabilities as at September 30, 2017 (\$283,557 as at June 30, 2017).

On May 30, 2016, the Company entered into the Loan with Osisko (Note 9). As at September 30, 2017, interest payable on this loan amounted to \$975,296 (\$785,693 as at June 30, 2017) and was included in accounts payable and accrued liabilities on the balance sheet. Interest expense on the Loan for the three-month period ended September 30, 2017 was \$189,603 (\$180,071 for the three-month period ended September 30, 2016).

15. Fair value of financial instruments

The Company has no financial assets and no financial liabilities at fair value in the balance sheets as at September 30, 2017 and June 30, 2017.

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

16. Supplemental disclosure – Statements of cash flows

	Three-months ended September 30, 2017	Three-months ended September 30, 2016
	\$	\$
Property and equipment acquisitions included in accounts payable and accrued liabilities and long-term payable on the purchase of property		
Beginning of period	3,309,234	-
End of period	5,841,465	-
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities		
Beginning of period	1,748,818	533,067
End of period	3,581,068	1,854,783
Share issue costs included in accounts payable and accrued liabilities		
Beginning of period	158,523	-
End of period	-	-
Depreciation capitalized	11,422	9,046
Interest income received	153,455	24,484

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

17. Commitment

On September 12, 2017, the Company concluded the signing of a Memorandum of Understanding (“MOU”) with the Commission scolaire de Rouyn-Noranda (the “School Board”) to acquire a building (the “Quémont Pavilion”) located on the site of the Horne 5 Project. As per the MOU, Falco will become the owner of the Quémont Pavilion upon completion of relocation activities (the “Relocation Project”). As per the Relocation Project, the Company will transfer the Quémont Pavilion’s activities to the Complexe La Source-Polymétier (the “Complex”). Falco will fund and execute the expansion of the Complex to accommodate these additional activities.

Work on the Relocation Project has commenced and total relocation and construction costs are estimated at \$22,500,000.

18. Subsequent events

On October 5, 2017, the Company completed the acquisition of the Donalda property (“Donalda”), located near the Horne 5 Project from Globex Mining Enterprises Inc. (“Globex”). In consideration, Falco paid \$300,000 in cash and issued 350,000 units to Globex. Each unit consists of one common share (“Common Share”) and one common share purchase warrant (“Warrant”) of Falco. Each Warrant will entitle the holder thereof to purchase one Common Share at a price of \$1.15, for a period of five years following the closing date. Additionally, the Company granted Globex a 2.5 % gross metal royalty on all mineral production from Donalda and will transfer a 100% ownership of Falco’s Dickenson property located on the east side and adjoining Globex’s Francoeur/Arntfield gold property.

On October 30, 2017, the Company filed a National Instrument 43-101, *Standards of Disclosure for Mineral Projects* Technical Report, entitled “*Feasibility Study, Horne 5 Gold Project*”, dated effective October 5, 2017 on SEDAR. Management has determined that the technical feasibility and commercial viability of the Horne 5 Project has been established and accordingly, the development phase of the Horne 5 Project has commenced.