



FALCO RESOURCES LTD.

**CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

**FOR THE THREE-MONTH PERIODS ENDED
SEPTEMBER 30, 2019 and 2018**

Falco Resources Ltd.

Balance Sheets

(Unaudited)

(Expressed in Canadian Dollars)

	As at September 30, 2019	As at June 30, 2019
	\$	\$
Assets		
Current assets		
Cash	628,231	1,115,750
Accounts receivable	1,558,437	2,102,343
Prepaid expenses and other assets	123,615	163,156
	<u>2,310,283</u>	<u>3,381,249</u>
Non-current assets		
Restricted cash	905,000	905,000
Property, plant and equipment (Note 4)	109,918,334	108,919,623
Exploration and evaluation assets (Note 5)	21,240,650	21,170,821
Other non-current assets (Note 7)	1,728,528	1,728,528
	<u>133,792,512</u>	<u>132,723,972</u>
Total assets	<u>136,102,795</u>	<u>136,105,221</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	4,123,309	4,122,023
Secured loan (Note 8)	10,000,000	10,000,000
	<u>14,123,309</u>	<u>14,122,023</u>
Non-current liabilities		
Deferred income taxes	9,482,000	9,477,000
Contract Liability (Note 7)	26,984,807	26,115,576
	<u>36,466,807</u>	<u>35,592,576</u>
Total liabilities	<u>50,590,116</u>	<u>49,714,599</u>
Equity		
Share capital	111,934,936	111,934,936
Warrants (Note 9)	744,306	744,306
Contributed surplus	13,893,936	13,698,058
Deficit	(41,060,499)	(39,986,678)
Total equity	<u>85,512,679</u>	<u>86,390,622</u>
Total liabilities and equity	<u>136,102,795</u>	<u>136,105,221</u>
Going concern (Note 1)		
Commitments (Note 16)		

Equity is 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 Loss and Comprehensive Loss

For the three-month periods ended September 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

	2019	2018
	\$	\$
Expenses		
Consulting and compensation	712,806	842,866
Share-based compensation (Note 10)	188,829	365,978
Office and administrative	86,431	83,112
Professional fees	86,426	82,827
Investor and shareholder relations	16,775	34,835
Travel	15,164	17,675
Depreciation	3,233	3,190
Cost recoveries	(196,715)	-
Operating loss	(912,949)	(1,430,483)
Interest income	16,548	25,773
Interest expense (Note 8)	(177,420)	(53,690)
Foreign exchange gain (loss)	-	16
Other income – premium on flow through shares	-	489,851
Loss before income taxes	(1,073,821)	(968,533)
Deferred income tax expense	-	(439,000)
Net loss and comprehensive loss	(1,073,821)	(1,407,533)
Net loss per common share (Note 11)		
Basic and diluted	(0.01)	(0.01)
Weighted average number of common shares outstanding (Note 11)		
Basic and diluted	207,878,736	189,187,691

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

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

Falco Resources Ltd.

Statements of Cash Flows

For the three-month periods ended September 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

	<u>2019</u>	<u>2018</u>
	\$	\$
Operating activities		
Net loss	(1,073,821)	(1,407,533)
Adjustments for:		
Share-based compensation (Note 10)	188,829	365,978
Depreciation (Note 4)	3,233	3,190
Other income – premium on flow-through shares	-	(489,851)
Deferred income tax expense	-	439,000
Payment of transaction costs related to the Stream Agreement (Note 7)	(254,532)	-
Changes in non-cash working capital items:		
Accounts receivable	(350,113)	(1,565,155)
Prepaid expenses and other assets	39,541	(81,242)
Accounts payable and accrued liabilities	386,538	1,104,932
Net cash flows used in operating activities	<u>(1,060,325)</u>	<u>(1,630,681)</u>
Investing activities		
Acquisitions of property, plant and equipment	(324,490)	(11,166,583)
Refundable tax credits received	899,019	800,000
Investments in exploration and evaluation assets	(1,723)	(3,514,305)
Net cash flows from (used) in investing activities	<u>572,806</u>	<u>(13,880,888)</u>
Financing activities		
Proceeds from the issuance of a secured loan, net of issue costs (Note 8)	-	9,955,400
Proceeds from the exercise of options	-	9,528
Payment of share issue costs	-	(28,734)
Net cash flows provided by financing activities	<u>-</u>	<u>9,936,194</u>
Decrease in cash	<u>(487,519)</u>	<u>(5,575,375)</u>
Cash, beginning of period	<u>1,115,750</u>	<u>8,932,271</u>
Cash, end of period	<u>628,231</u>	<u>3,356,896</u>

Supplemental disclosure (Note 15)

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, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

	Number of shares outstanding	Share capital \$	Convertible Debenture \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
Balance – July 1, 2019	207,878,736	111,934,936	-	744,306	13,698,058	(39,986,678)	86,390,622
Net loss and comprehensive loss	-	-	-	-	-	(1,073,821)	(1,073,821)
Share options (Note 10): Share-based compensation	-	-	-	-	195,878	-	195,878
Balance - September 30, 2019	207,878,736	111,934,936	-	744,306	13,893,936	(41,060,499)	85,512,679
Balance – July 1, 2018	189,157,863	103,235,749	6,875,000	4,800,822	8,422,780	(31,064,420)	92,269,931
Net loss and comprehensive loss	-	-	-	-	-	(1,407,533)	(1,407,533)
Warrants expired (Note 9)	-	-	-	(1,573,865)	1,573,865	-	-
Share options (Note 10):							
Share-based compensation	-	-	-	-	418,930	-	418,930
Fair value of options exercised	-	7,062	-	-	(7,062)	-	-
Proceeds from exercise of options	38,113	9,528	-	-	-	-	9,528
Balance - September 30, 2018	189,195,976	103,252,339	6,875,000	3,226,957	10,408,513	(32,471,953)	91,290,856

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, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

1. Nature of activities and going concern

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

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

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

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

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, Management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. As at September 30, 2019, the Company had negative working capital of \$11,813,026 (including a cash balance of \$628,231), an accumulated deficit of \$41,060,499 and had incurred a loss of \$1,073,821 for the three-month period ended September 30, 2019. As the Company is in the development stage for the Horne 5 Project, it has not recorded any revenues from operations and has no source of operating cash flow, with the exception of the milestone payments under the silver stream agreement (the "Stream Agreement") signed on February 27, 2019 with Osisko Gold Royalties ("Osisko"), a shareholder with significant influence over the Company and therefore a related party (Note 7).

The working capital as at September 30, 2019 will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through September 30, 2020. Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt upon the Company's ability to continue as a going concern as described in the preceding paragraph, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

The Company's ability to continue future operations and fund its planned development activities at the Horne 5 Deposit is dependent on Management's ability to secure third parties' approvals and additional financing in the future. Any funding shortfall may be met in the future in a number of ways, including, but not limited to, achieving the next milestones of the Stream Agreement and the issuance of debt or equity instruments. While Management has been successful in securing financing in the past (see Notes 7 and 8), there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company. If Management is unable to obtain new funding, the Company may be unable to continue its operations as expected, and amounts realized for assets might be less than the amounts reflected in these financial statements.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

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, 2019, 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 13, 2019.

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

Impact on financial statements IFRS 16, Leases

Effective July 1, 2019, the Company has adopted IFRS 16 on a retrospective basis without restatement of comparative periods in accordance with the transitional provisions of IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, which is the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces IAS 17, *Leases*, and related interpretations. Save for limited exceptions, all leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize:

- (i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (ii) depreciation of lease assets separately from interest on lease liabilities in the statement of income.

The adoption of IFRS 16 did not have a significant effect on the transition date.

3. Judgments, estimates and assumptions

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

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

4. Property, plant and equipment

	Mining equipment	Land and buildings	Construction in progress	Office and other equipment	Total
	\$	\$	\$	\$	\$
Cost					
Balance – June 30, 2018	16,828,932	37,943,360	45,763,434	433,573	100,969,299
Additions	1,041,771	3,123,341	2,972,440	24,171	7,161,723
Capitalized borrowing costs (Note 7)	-	-	1,115,576	-	1,115,576
Transfer of Relocation Project costs	-	(22,500,000)	22,500,000	-	-
Balance – June 30, 2019	<u>17,870,703</u>	<u>18,566,701</u>	<u>72,351,450</u>	<u>457,744</u>	<u>109,246,598</u>
Additions	-	7,138	133,005	-	140,143
Capitalized borrowing costs (Note 7)	-	-	869,231	-	869,231
Balance – September 30, 2019	<u>17,870,703</u>	<u>18,573,839</u>	<u>73,353,686</u>	<u>457,744</u>	<u>110,255,972</u>
Accumulated Depreciation					
Balance – June 30, 2018	-	-	-	277,836	277,836
Depreciation	-	-	-	16,732	16,732
Depreciation capitalized to exploration and evaluation assets	-	-	-	32,407	32,407
Balance – June 30, 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>326,975</u>	<u>326,975</u>
Depreciation	-	-	-	3,233	3,233
Depreciation capitalized to exploration and evaluation assets	-	-	-	7,430	7,430
Balance – September 30, 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>337,638</u>	<u>337,638</u>
Carrying Amounts					
At June 30, 2019	17,870,703	18,566,701	72,351,450	130,769	108,919,623
At September 30, 2019	17,870,703	18,573,839	73,353,686	120,106	109,918,334

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

5. Exploration and evaluation assets

On October 30, 2017, Management determined that the technical feasibility and commercial viability of the Horne 5 Project had been established and accordingly, the development phase of the Horne 5 Project had commenced. As such, the Company reclassified costs capitalized for the Horne 5 Project from exploration and evaluation assets to property, plant and equipment.

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, 2019		
	Central Camp ⁽ⁱ⁾	Other properties ⁽ⁱⁱ⁾	Total
	\$	\$	\$
Balance – July 1, 2019	12,251,099	8,919,722	21,170,821
Compensation	5,101	5,112	10,213
Drilling and data compilation	5,516	10,550	16,066
Geology	-	20,671	20,671
Geophysics	16,335	16,335	32,670
Administrative and other	9,544	3,604	13,148
Total expenditures for the period	36,496	56,272	92,768
Refundable tax credits	(9,000)	(13,939)	(22,939)
Total for the period, net of tax credits	27,496	42,333	69,829
Balance – September 30, 2019	12,278,595	8,962,055	21,240,650

	For the year ended June 30, 2019		
	Central Camp ⁽ⁱ⁾	Other properties ⁽ⁱⁱ⁾	Total
	\$	\$	\$
Balance – July 1, 2018	14,009,617	8,298,657	22,308,274
Compensation	81,368	152,852	234,220
Drilling and data compilation	1,825,074	210,943	2,036,017
Geology	15,511	213,834	229,345
Geophysics	36,626	302,338	338,964
Administrative and other	56,818	332,963	389,781
Total expenditures for the period	2,015,397	1,212,930	3,228,327
Refundable tax credits	23,191	(6,446)	16,745
Total for the period, net of tax credits	2,038,588	1,206,484	3,245,072
Write-offs for the period ⁽ⁱⁱⁱ⁾	(3,797,106)	(585,419)	(4,382,525)
Balance – June 30, 2019	12,251,099	8,919,722	21,170,821

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

(ii) Including the Noranda Camp properties.

(iii) During the year ended June 30, 2019, the Company wrote-off 100% of the capitalized historical costs related to specific areas where claims are not expected to be renewed, where the Company has decided to discontinue exploration and evaluation activities or the assets carrying amount exceeds its recoverable amount.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

6. Accounts payable and accrued liabilities

	September 30, 2019	June 30, 2019
	\$	\$
Trade payables and accrued liabilities	2,758,001	2,724,061
Holdbacks payable	-	210,074
Short-term payable on the purchase of property	946,900	946,900
Interest payable on the secured loan (Note 8)	418,408	240,988
	<u>4,123,309</u>	<u>4,122,023</u>

In September 2014, the Company entered into an option agreement with the City to acquire surface rights to land above the Horne 5 Deposit (the "Property"). 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. On December 13, 2018, the City and Falco agreed to extend the payment date of the remaining amount payable of \$946,900 to January 1, 2020.

7. Contract Liability

On February 27, 2019, the Company completed the Stream Agreement with Osisko, whereby Osisko will provide the Company with staged payments totaling up to \$180 million, toward the funding of the development of the Horne 5 Project, payable as follows:

- First deposit of \$25,000,000 on closing of the Stream Agreement, net of any amounts owing by the Company to Osisko including the repayment of the principal amount of the Loan (\$10,000,000), the principal amount of the \$10,000,000 loan granted in September 2018 (Note 8), amounts payable (\$2,750,000) for professional services rendered and transaction costs (\$600,000);
- Second deposit of \$20,000,000 upon the Company receiving all necessary material third-party approvals, licenses, rights of way, and surface rights;
- Third deposit of \$35,000,000 following receipt of all material permits required for the construction of a mine at the Horne 5 Project, a positive construction decision for the Horne 5 Project, and raising a minimum of \$100,000,000 in equity, joint venture or any other non-debt financing for the construction of the mine;
- Fourth deposit of \$60,000,000 upon the total projected capital expenditure for the Horne 5 Project having been demonstrated to be financed; and
- Optional fifth deposit of \$40,000,000 at the sole election of Osisko to increase the stream percentage, payable concurrently with the fourth deposit.

Under the terms of the Stream Agreement, Osisko will purchase 90% of the payable silver from the Horne 5 Project, increasing to 100% of the payable silver from the Horne 5 Project in the event the optional fifth deposit is paid. In exchange for the silver delivered under the Stream Agreement, Osisko will pay the Company ongoing payments equal to 20% of the spot price of silver on the day of delivery, subject to a maximum payment of USD\$6.00 per silver ounce. The silver produced from the Horne 5 Project and properties within a 5 km area of interest will be subject to the Stream Agreement.

Closing of the Stream Agreement was subject to, without limitations, the satisfaction of customary conditions, including obtaining regulatory approvals and approval from disinterested shareholders of Falco (the "Approval"). The Approval was obtained at the annual and special meeting of Falco shareholders held on November 29, 2018.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

7. Contract Liability (continued)

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

As of September 30, 2019, the Company has incurred \$1,728,528 of transaction costs relating to the Contract Liability (\$1,728,528 as of June 30, 2019), which is accounted for as other non-current assets on the balance sheet.

The breakdown of the Contract Liability is as follows:

	\$
First deposit of the Contract Liability	25,000,000
Accretion of the Contract Liability's financing component	1,115,576
Balance at June 30, 2019	26,115,576
Accretion of the Contract Liability's financing component	869,231
Balance at September 30, 2019	26,984,807

Under IFRS 15, the Stream Agreement is considered to have a significant financing component on which an implied interest rate is accrued and added to the Contract Liability, to be amortized once the Stream begins to be paid down. Under these rules, the Company reports notional non-cash interest, which is subject to capitalization to property, plant and equipment as borrowing costs, at each financial reporting date based on the implied interest rate at the time that the Stream Agreement was consummated and a corresponding amount is added to the Contract Liability. This accrued interest is not a contractual obligation but is intended to allocate the cost of the Stream Agreement over the period it is outstanding. This accrual is a non-cash item and is reflected as such on the statement of cash flows. Upon commencement of production, the Contract Liability including the accrued interest will be brought into revenue over the life of mine.

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

Falco's obligations towards Osisko with respect to the Stream Agreement is secured by a deed of hypothec for a maximum of \$600 million.

8. Secured loan

On September 10, 2018, Falco closed a secured senior loan agreement with Osisko (the "September Secured Loan"). Under the terms of the September Secured Loan, Osisko provided the Company with a loan for \$10,000,000 (the "Principal Amount"). The September Secured Loan had an initial maturity date of December 31, 2018, which was amended to February 28, 2019 on December 19, 2018. Interest was payable on the Principal Amount at a rate per annum that is equal to 7%, compounded quarterly and accrued interest was payable upon repayment of the Principal Amount. The Principal Amount was repaid on the closing date of the Stream Agreement (see Note 7) and the interest payable was settled through the issuance of common shares of the Company. The transaction costs incurred on the September Secured Loan totaled \$44,600.

On February 22, 2019, Falco closed a secured senior loan agreement with Osisko (the "Secured Loan") for \$10,000,000. The Secured Loan has a maturity date of December 31, 2019 and interest shall be payable on the \$10,000,000 at a rate per annum that is equal to 7%, compounded quarterly (Note 6). Accrued interest shall be payable upon repayment of the principal amount of the Secured Loan, which shall be repaid at the latest on December 31, 2019.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements
For the three-month periods ended September 30, 2019 and 2018
(Unaudited)

(Expressed in Canadian Dollars)

9. Warrants

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

	Number of Warrants	Weighted Average Exercise Price \$
Balance – June 30, 2018	16,540,042	1.61
Issued	6,052,222	0.75
Expired	(16,190,042)	1.62
Balance – June 30, 2019	6,402,222	0.77
Balance – September 30, 2019	6,402,222	0.77

10. 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, 2018	10,348,371	0.65
Granted	7,369,000	0.30
Exercised	(1,262,638)	0.25
Forfeited	(410,172)	0.93
Expired	(2,163,204)	0.43
Balance – June 30, 2019	13,881,357	0.52
Expired	(825,525)	0.66
Balance – September 30, 2019	13,055,832	0.52
Options exercisable – September 30, 2019	3,634,733	0.71

Share option compensation for the three-month period ended September 30, 2019 amounted to \$195,878 (\$418,931 for the three-month period ended September 30, 2018) of which \$7,049 was capitalized to construction in progress (\$42,049 for the three-month period ended September 30, 2018) and \$ nil was capitalized to exploration and evaluation assets (\$10,904 for the three-month period ended September 30, 2018).

11. Net loss per share

The calculation of basic and diluted loss per share for the three-month period ended September 30, 2019 was based on the net loss attributable to shareholders of \$1,073,821 (\$1,407,533 for the three-month period ended September 30, 2018) and the weighted average number of common shares outstanding for the three-month period ended September 30, 2019 of 207,878,736 (189,187,691 common shares for the three-month period ended September 30, 2018). As a result of the net loss for the three-month periods ended September 30, 2019 and 2018, all potentially dilutive common shares (Notes 9 and 10) 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, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

12. Key management and related party transactions

Key management includes directors (executive and non-executive) and certain officers of the Company. The compensation paid or payable to key management for employee services is presented below for the three-month periods ended September 30, 2019 and 2018:

	2019	2018
	\$	\$
Salaries and short-term employee benefits ⁽¹⁾	383,242	398,192
Share-based compensation	232,192	343,884
	<u>615,434</u>	<u>742,076</u>

⁽¹⁾ Including consulting fees.

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

During the three-month period ended September 30, 2019, an amount of \$390,000 (\$397,817 for the three-month period ended September 30, 2018) was invoiced by Osisko for professional services and rental of offices. An amount of \$655,000 is included in accounts payable and accrued liabilities as at September 30, 2019 (\$226,785 as at June 30, 2019).

On September 10, 2018, the Company entered into the September Secured Loan with Osisko (Note 8). The September Secured Loan was reimbursed on February 27, 2019. As at September 30, 2018 and for the three-month period then ended, interest payable and interest expense on the September Secured Loan amounted to \$40,274.

On February 22, 2019, the Company entered into the Secured Loan with Osisko (Note 8). As at September 30, 2019, interest payable on the Secured Loan amounted to \$418,408 and is included in accounts payable and accrued liabilities on the balance sheet (\$240,988 as at June 30, 2019). Interest expense incurred on the Secured Loan for the three-month period ended September 30, 2019 totaled \$177,420 and was expensed to the statement of loss and comprehensive loss.

During the three-month period ended September 30, 2019, the Company provided professional services totaling \$165,000 to associates of Osisko (\$ nil for the three-month period ended September 30, 2018), which have been recorded as cost recoveries in the statement of loss and comprehensive loss.

13. 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, 2019 and June 30, 2019.

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 Secured Loan. The fair values of these instruments approximate their respective carrying values due to their short-term nature.

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

14. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company manages the liquidity risk by continuously monitoring actual and projected cash flows, taking into account the requirements related to its investment commitments and mining properties and matching the maturity profile of financial assets and liabilities. The Board reviews and approves any material transaction out of the ordinary course of business, including proposals on mergers, acquisitions or other major investments or divestitures. As at September 30, 2019, cash is comprised of bank balances. As described in Note 1, the Company estimates that with its liquidity position as at September 30, 2019, it does not have enough funds available to meet its financial liabilities for the next year.

The following table summarizes the Company's contractual commitments as at September 30, 2019:

	Less than one year	Between one and three years	More than three years
	\$	\$	\$
Accounts payable and accrued liabilities	3,704,901	-	-
Secured Loan, including interest	10,600,000	-	-

The following table summarizes the Company's contractual commitments as at June 30, 2019:

	Less than one year	Between one and three years	More than three years
	\$	\$	\$
Accounts payable and accrued liabilities	3,881,035	-	-
Secured Loan, including interest	10,600,000	-	-

15. Supplemental disclosure – Statements of cash flows

	Three-months ended September 30, 2019	Three-months ended September 30, 2018
	\$	\$
Property and equipment acquisitions included in accounts payable and accrued liabilities and long-term payable on the purchase of property		
Beginning of period	1,459,782	17,360,519
End of period	1,268,386	11,464,827
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities		
Beginning of period	-	3,652,179
End of period	60,676	2,667,256
Share issue costs included in accounts payable and accrued liabilities		
Beginning of period	-	28,734
End of period	-	-
Depreciation capitalized	7,430	9,432
Interest income received	16,548	25,773
Other non-current assets included in accounts payable and accrued liabilities		
Beginning of period	354,532	-
End of period	100,000	500,000

Falco Resources Ltd.

Notes to the Condensed Interim Financial Statements

For the three-month periods ended September 30, 2019 and 2018

(Unaudited)

(Expressed in Canadian Dollars)

16. Commitments

As per the purchase agreement dated March 28, 2011, assigned to the Company in September 2012 and considering, amongst other, further transactions among the Company and Glencore Canada as well as among Glencore Canada and BaseCore Metals LP ("Basecore"), Glencore Canada remains the owner of an off-take option to purchase production from the Horne 5 Project and BaseCore owns a 2% NSR royalty on the Horne 5 Project.

Falco's obligations towards Glencore Canada and BaseCore, including, respectively, with respect to the off-take option and the royalty interest, as well as the payment of any damages to Glencore Canada caused by Falco, are secured by deeds of hypothec for a maximum of \$100 million (Glencore Canada) and \$45 million (BaseCore).

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.