



FALCO RESOURCES LTD.

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED
JUNE 30, 2019 AND 2018



Independent auditor's report

To the Shareholders of Falco Resources Ltd.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Falco Resources Ltd. (the Company) as at June 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the balance sheets as at June 30, 2019 and 2018;
- the statements of loss and comprehensive loss for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in equity for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Nochane Rousseau.

PricewaterhouseCoopers LLP¹

Montréal, Quebec
September 30, 2019

¹ CPA auditor, CA, public accountancy permit No. A122718

Falco Resources Ltd.

Balance Sheets

As at June 30, 2019 and 2018

(Expressed in Canadian Dollars)

	June 30, 2019	June 30, 2018
	\$	\$
Assets		
Current assets		
Cash	1,115,750	8,932,271
Accounts receivable (Note 6)	2,102,343	4,590,387
Prepaid expenses and other assets	163,156	415,654
	<u>3,381,249</u>	<u>13,938,312</u>
Non-current assets		
Restricted cash (Note 7)	905,000	905,000
Property, plant and equipment (Note 8)	108,919,623	100,691,463
Exploration and evaluation assets (Note 9)	21,170,821	22,308,274
Other non-current assets (Note 12)	1,728,528	-
	<u>132,723,972</u>	<u>123,904,737</u>
Total assets	<u>136,105,221</u>	<u>137,843,049</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	4,122,023	25,764,267
Loan (Note 11)	-	10,000,000
Secured Loan (Note 13)	10,000,000	-
Deferred premium on flow-through shares (Note 14)	-	489,851
	<u>14,122,023</u>	<u>36,254,118</u>
Non-current liabilities		
Deferred income taxes (Note 18)	9,477,000	9,319,000
Contract Liability (Note 12)	26,115,576	-
	<u>35,592,576</u>	<u>9,319,000</u>
Total liabilities	<u>49,714,599</u>	<u>45,573,118</u>
Equity		
Share capital (Note 15)	111,934,936	103,235,749
Convertible debenture (Note 15)	-	6,875,000
Warrants (Note 16)	744,306	4,800,822
Contributed surplus	13,698,058	8,422,780
Deficit	(39,986,678)	(31,064,420)
Total equity	<u>86,390,622</u>	<u>92,269,931</u>
Total liabilities and equity	<u>136,105,221</u>	<u>137,843,049</u>

Going Concern (Note 1)

Commitments (Note 26)

Equity is solely attributable to Falco Resources Ltd. shareholders

Approved on behalf of the Board of Directors:

"Luc Lessard" Director "Paola Farnesi" Director

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

Falco Resources Ltd.

Statements of Loss and Comprehensive Loss

For the years ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

	2019	2018
	\$	\$
Expenses		
Consulting and compensation (Note 21)	3,155,807	3,682,744
Share-based compensation (Note 17)	822,993	1,389,666
Professional fees	729,278	619,475
Office and administrative (Note 21)	326,249	488,459
Investor and shareholder relations	114,285	336,183
Travel	95,803	421,401
Depreciation (Note 8)	16,732	12,761
Write-off of exploration and evaluation assets (Note 9)	4,382,525	-
Cost recoveries (Note 21)	(1,178,286)	-
	<u>(8,465,386)</u>	<u>(6,950,689)</u>
Operating loss		
Interest income	91,734	425,092
Interest expense (Note 21)	(880,482)	(707,454)
Foreign exchange gain (loss)	25	(2,356)
Other income – premium on flow-through shares (Note 14)	489,851	3,394,157
	<u>(8,764,258)</u>	<u>(3,841,250)</u>
Loss before income taxes		
Deferred income tax expense (Note 18)	(158,000)	(2,743,557)
	<u>(8,922,258)</u>	<u>(6,584,807)</u>
Net loss and comprehensive loss		
	<u>(8,922,258)</u>	<u>(6,584,807)</u>
Net loss per common share		
Basic and diluted (Note 19)	(0.04)	(0.04)
Weighted average number of common shares outstanding		
Basic and diluted (Note 19)	<u>198,598,333</u>	<u>184,869,855</u>

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

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

Falco Resources Ltd.
Statements of Cash Flows
For the years ended June 30, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
	\$	\$
Operating activities		
Net loss	(8,922,258)	(6,584,807)
Adjustments for:		
Share-based compensation (Note 17)	822,993	1,389,666
Depreciation (Note 8)	16,732	12,761
Accretion expense on the September Secured Loan (Note 13)	44,600	-
Write-off of exploration and evaluation assets (Note 9)	4,382,525	-
Other income – premium on flow-through shares (Note 14)	(489,851)	(3,394,157)
Deferred income tax expense (Note 18)	158,000	2,743,557
Net proceeds from first deposit of the Stream Agreement (Note 12)	1,650,000	-
Payment of transaction costs related to the Stream Agreement (Note 12)	(773,996)	-
Changes in non-cash working capital items:		
Accounts receivable	2,437,965	(1,828,311)
Prepaid expenses and other assets	252,498	(341,137)
Accounts payable and accrued liabilities	2,155,163	3,644,146
Net cash flows provided by (used in) operating activities	<u>1,734,371</u>	<u>(4,358,282)</u>
Investing activities		
Acquisitions of property, plant and equipment	(23,752,777)	(38,300,969)
Investments in exploration and evaluation assets	(6,818,599)	(16,301,916)
Refundable tax credits received	836,105	-
Increase in restricted cash (Note 7)	-	(905,000)
Net cash flows used in investing activities	<u>(29,735,271)</u>	<u>(55,507,885)</u>
Financing activities		
Proceeds from the issuance of secured loans (Note 13)	20,000,000	-
Proceeds from the issuance of the Convertible Debenture, net of issue costs (Note 15)	-	6,875,000
Proceeds from the issuance of flow-through shares (Note 15)	-	8,500,401
Proceeds from the exercise of stock options (Note 17)	321,505	794,169
Payment of share issue costs	(137,126)	(766,272)
Net cash flows provided by financing activities	<u>20,184,379</u>	<u>15,403,298</u>
Decrease in cash	<u>(7,816,521)</u>	<u>(44,462,869)</u>
Cash, beginning of year	<u>8,932,271</u>	<u>53,395,140</u>
Cash, end of year	<u>1,115,750</u>	<u>8,932,271</u>
Supplemental disclosure (Note 23)		

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

Falco Resources Ltd.
Statements of Changes in Equity
For the years ended June 30, 2019 and 2018
(Expressed in Canadian Dollars)

	Number of shares outstanding	Share capital	Convertible debenture	Warrants	Contributed surplus	Deficit	Total
		\$		\$	\$	\$	\$
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	-	-	-	-	-	(8,922,258)	(8,922,258)
Convertible debenture (Note 15):							
Conversion to common shares and warrants	12,104,444	6,536,400	(7,000,000)	463,600	-	-	-
Share issue costs	-	(151,034)	125,000	(10,282)	-	-	(36,316)
Shares issued for interest (Note 15)	5,353,791	1,820,289	-	-	-	-	1,820,289
Share issue costs	-	(27,476)	-	-	-	-	(27,476)
Warrants expired (Note 16)	-	-	-	(4,509,834)	4,509,834	-	-
Share options (Note 17):							
Share-based compensation	-	-	-	-	964,947	-	964,947
Fair value of options exercised	-	199,503	-	-	(199,503)	-	-
Proceeds from exercise of options	1,262,638	321,505	-	-	-	-	321,505
Balance - June 30, 2019	207,878,736	111,934,936	-	744,306	13,698,058	(39,986,678)	86,390,622
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	-	-	-	-	-	(6,584,807)	(6,584,807)
Issuance of common shares on the purchase of property (Note 8)	350,000	402,500	-	-	-	-	402,500
Issuance of warrants on the purchase of property (Note 8)	-	-	-	297,500	-	-	297,500
Warrants expired (Note 16)	-	-	-	(4,279,687)	4,279,687	-	-
Private placement (Note 15):							
Issuance of flow-through shares	7,203,730	8,500,401	-	-	-	-	8,500,401
Deferred premium on flow-through shares	-	(1,728,895)	-	-	-	-	(1,728,895)
Share issue costs	-	(507,029)	-	-	-	-	(507,029)
Convertible debenture (Note 15):							
Issuance of convertible debenture	-	-	7,000,000	-	-	-	7,000,000
Issue costs	-	-	(125,000)	-	-	-	(125,000)
Share options (Note 17):							
Share-based compensation	-	-	-	-	1,523,387	-	1,523,387
Fair value of options exercised	-	467,958	-	-	(467,958)	-	-
Proceeds from exercise of options	1,959,365	794,169	-	-	-	-	794,169
Balance - June 30, 2018	189,157,863	103,235,749	6,875,000	4,800,822	8,422,780	(31,064,420)	92,269,931

The accompanying notes are an integral part of these financial statements

Falco Resources Ltd.

Notes to Financial Statements

For the years ended June 30, 2019 and 2018

(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. 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 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. As such, the Company has reclassified costs capitalized for the Horne 5 Project from exploration and evaluation assets to property, plant and equipment.

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 June 30, 2019, the Company had negative working capital of \$10,740,774 (including a cash balance of \$1,115,750), an accumulated deficit of \$39,986,678 and had incurred a loss of \$8,922,258 for the year ended June 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 to the silver stream agreement (the "Stream Agreement") signed with Osisko Gold Royalties ("Osisko") on February 27, 2019 (Note 12).

The working capital as at June 30, 2019 will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through June 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 11, 12 and 13), 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 Financial Statements

For the years ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

2. Basis of presentation

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies, methods of computation and presentation applied in these financial statements are consistent with those of the previous financial year except as described in Note 4.

The Board of Directors (the “Board”) has approved the audited financial statements on September 30, 2019.

3. Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are as follows.

(a) Basis of measurement

The financial statements are prepared under the historical cost convention using the accrual basis of accounting, except for cash flow information.

(b) Foreign currency translation

(i) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is Falco's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency at the rate of exchange prevailing on the date of each transaction or valuation when items are re-measured. Monetary assets and liabilities denominated in currencies other than the operation's functional currencies are translated into the functional currency at exchange rates in effect at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of those transactions and from period-end translations are recognized in the statement of loss.

Non-monetary assets and liabilities are translated at historical rates, unless such assets and liabilities are carried at market value, in which case, they are translated at the exchange rate in effect at the date of the balance sheet.

(c) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when extinguished, discharged, terminated, cancelled or expired.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is an unconditional and legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

All financial instruments are required to be measured at fair value on initial recognition. The fair value is based on quoted market prices, unless the financial instruments are not traded in an active market. In this case, the fair value is determined by using valuation techniques like the Black-Scholes option pricing model or other valuation techniques.

Falco Resources Ltd.

Notes to Financial Statements

For the years ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

3. Summary of significant accounting policies (*continued*)

(c) *Financial instruments (continued)*

Measurement after initial recognition depends on the classification of the financial instrument. The Company has classified its financial instruments in the following categories depending on the purpose for which the instruments were acquired and their characteristics:

(i) *Financial assets*

Debt instruments

For the subsequent measurement, there are two measurement categories into which the Company classifies its debt instruments:

- i. Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of loss and comprehensive loss.
- ii. Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortized cost (or fair value through other comprehensive income (FVOCI), which is not currently used by the Company) are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the statement of loss and comprehensive loss and presented net within other gains/(losses) in the period in which it arises.

(ii) *Financial liabilities*

Financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce to fair value. These liabilities are measured at amortized cost using the effective interest method.

(iii) *Derivative financial instruments*

Derivative financial instruments are financial assets or financial liabilities classified as fair value through profit or loss ("FVTPL") unless designated in a qualifying hedging relationship. Derivative financial instruments are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss and comprehensive loss.

The Company's financial instruments consist of the following:

<u>Category</u>	<u>Financial instrument</u>
Financial assets at amortized cost	Cash Restricted cash
Financial liabilities at amortized cost	Accounts payable and accrued liabilities Secured Loan

(d) *Impairment of financial assets carried at amortized cost*

At each reporting date, the Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Company assumes that there is no significant increase in credit risk for instruments that have a low credit risk.

Falco Resources Ltd.

Notes to Financial Statements

For the years ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

3. Summary of significant accounting policies (*continued*)

(e) Cash

Cash includes cash on hand and deposits held with banks that can be redeemed at any time without penalties.

(f) Refundable tax credits for mining exploration and evaluation expenditures

The Company is entitled to a refundable tax credit on qualified mining exploration and evaluation expenditures incurred in the province of Québec. The credit is accounted for against the exploration and evaluation expenditures incurred.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition, the development and construction of the assets and that have been incurred up until the time that the assets are in the condition necessary to be used or operated in the manner intended by Management. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of loss and comprehensive loss during the period in which they are incurred.

Depreciation is calculated to amortize the cost of the property, plant and equipment less their residual values over their estimated useful lives using the declining balance method at the following rates per annum:

Office and other equipment	20-55%
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The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts (major components) and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the statement of loss and comprehensive loss.

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of the asset. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. Capitalization of borrowing costs ceases when the asset is completed and ready for its intended use. All other borrowing costs are recognized as financial expenses in the statement of loss and comprehensive loss as incurred.

(h) Exploration and evaluation expenditures

Exploration and evaluation assets are comprised of exploration and evaluation expenditures and mining properties acquisition costs. Expenditures incurred on activities that precede exploration and evaluation, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately. Exploration and evaluation assets includes rights in mining properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits. Mining rights are recorded at acquisition cost less accumulated impairment losses.

Exploration and evaluation expenditures for each separate area of interest are capitalized and include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore like topographical, geological, geochemical and geophysical studies. They also reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration and evaluation or acquired through a business combination or asset acquisition.

Falco Resources Ltd.

Notes to Financial Statements

For the years ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

3. Summary of significant accounting policies (*continued*)

(h) *Exploration and evaluation expenditures (continued)*

Exploration and evaluation expenditures include the cost of:

- (i) establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either resource or reserve;
- (ii) determining the optimal methods of extraction and metallurgical and treatment processes;
- (iii) studies related to surveying, transportation and infrastructure requirements;
- (iv) permitting activities; and
- (v) economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

Exploration and evaluation expenditures include overhead expenses directly attributable to the related activities.

Cash flows attributable to capitalized exploration and evaluation costs are classified as investing activities in the statement of cash flows under the heading investments in exploration and evaluation assets.

Upon determination of technical feasibility and commercial viability of extracting a mineral resource, the related exploration and evaluation assets are tested for impairment and transferred to construction in progress costs in property, plant and equipment. These amounts, plus all subsequent mine development costs are capitalized. Costs are not amortized until the project is ready for use as intended by Management.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the period received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

(i) *Impairment of non-financial assets*

The carrying value of non-financial assets is reviewed regularly and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units" or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses at each reporting date for potential reversals when events or circumstances warrant such consideration.

(j) *Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of loss and comprehensive loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Mining taxes represent Canadian provincial tax levied on mining operations and are classified as income tax since such taxes are based on a percentage of mining profits.

Current income taxes

The current income tax charge is the expected tax payable on the taxable income for the year, using the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Falco Resources Ltd.

Notes to Financial Statements

For the years ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

3. Summary of significant accounting policies (*continued*)

(j) *Current and deferred income tax (continued)*

Deferred income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates (and laws) that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current and are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(k) *Share capital and warrants*

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period where the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued. Warrants that are part of units are assigned a value based on the residual value of the unit after deducting the fair value of the common shares.

(l) *Operating leases*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfilment is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that right is not explicitly specified in an arrangement. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of loss and comprehensive loss on a straight-line basis over the period of the lease.

(m) *Share-based payments*

The Company offers a share option plan (the "Option Plan") for its directors, officers, employees and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Any consideration paid on exercise of share options is credited to share capital. The contributed surplus resulting from share-based compensation is transferred to share capital when the options are exercised.

For cash-settled share-based compensation plans, fair values are determined at each reporting date and periodic changes are recognized as compensation costs, with a corresponding change to liabilities.

Falco Resources Ltd.

Notes to Financial Statements

For the years ended June 30, 2019 and 2018

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3. Summary of significant accounting policies (*continued*)

(n) *Flow-through shares*

The Company finances some exploration and evaluation expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The difference (“premium”) between the amount recognized in common shares and the amount the investors pay for the shares is recognized as a deferred gain, under deferred premium on flow-through shares, which is reversed to the statement of loss and comprehensive loss, under other income – premium on flow-through shares, when eligible expenditures have been made. The Company recognizes a deferred tax liability for flow-through shares and a deferred tax expense, at the moment the eligible expenditures are incurred.

Pursuant to the related subscription agreements, the Company has committed to use the proceeds received from the issuance of flow-through shares for Canadian resource property exploration expenditures.

(o) *Revenue from Contracts with Customers*

Deferred revenue arises on upfront payments received by the Company in consideration for future commitments as specified in its streaming agreement (the “Contract Liability”).

The accounting for a streaming arrangement is dependent on the facts and terms of each agreement. The Company identified significant financing components related to its streaming agreement resulting from the difference in the timing of the upfront consideration received and the promised goods delivered. Interest expense on the Contract Liability (Note 12) is recognized in finance costs. The interest rate is determined based on the rate implicit in the streaming agreement at the date of inception. The initial consideration received from the streaming arrangements is considered variable, subject to changes in the total silver ounces to be delivered in the future. Changes to variable consideration will be reflected in the statement of loss and comprehensive loss.

At each financial reporting date, the Company will accrue interest on the financing component of the Contract Liability. The interest accrued will increase the balance of the Contract Liability with an offset charged to borrowing costs as part of the property, plant and equipment (Note 8). This interest is a non-cash item and is not shown 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.

Incremental costs directly attributable to obtaining a contract with a customer are capitalized as other non-current assets. Upon commencement of production, the other non-current assets will be expensed over the life of mine. Such costs are subject to impairment when the remaining amount of consideration to be received exceeds the costs that relate directly to providing the goods that have not been recognized as expenses.

(p) *Earnings (loss) per share*

The calculation of earnings (loss) per share (“EPS”) is based on the weighted average number of common shares outstanding for each period. The basic EPS is calculated by dividing the profit or loss attributable to the equity owners of Falco by the weighted average number of common shares outstanding during the period.

The computation of diluted EPS assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the income per share. It also includes shares issued and held in escrow. The treasury stock method is used to determine the dilutive effect of the warrants and share options. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants and share options.

(q) *Segment reporting*

The operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (“CEO”) who fulfills the role of the chief operating decision-maker. The CEO is responsible for allocating resources and assessing performance of the Company’s operating segments. The Company manages its business under a single operating segment, consisting of acquiring, exploring and developing mineral properties in Canada.

Falco Resources Ltd.

Notes to Financial Statements

For the years ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

4. Accounting standard adopted and accounting standards issued but not yet effective

During the year ended June 30, 2019, the Company has adopted the following accounting policy:

IFRS 9, Financial Instruments

Effective July 1, 2018, the Company has adopted IFRS 9 on a retrospective basis with restatement of comparative periods in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, taking into account certain exceptions provided by IFRS 9. IFRS 9 sets out requirements for recognizing financial assets and liabilities and replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 did not result in any change in the carrying values of any of the Company's financial assets and liabilities on the transition date nor on the information of the comparative period; therefore, comparative figures have not been restated.

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date later than July 1, 2019. Many of these updates are not relevant to the Company and are therefore not discussed herein.

IFRS 16, Leases

In January 2016, the IASB issued 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 new standard is effective for annual periods beginning on or after January 1, 2019. The adoption of this standard will not have a significant impact on the financial statements of the Company based on its current leasing activity.

5. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company also makes estimates and assumptions concerning the future. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

Estimates and assumptions are continually 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 more significant areas requiring the use of Management estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, relate to the going concern assumption, the impairment of non-financial assets, the income taxes and the accounting for streaming arrangements.

(i) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances (Note 1).

Falco Resources Ltd.

Notes to Financial Statements

For the years ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

5. Critical accounting estimates and judgements (*continued*)

(ii) *Impairment of non-financial assets*

Asset groups are reviewed for an indication of impairment at each balance sheet date or when a triggering event is identified.

For exploration and evaluation assets, factors which could trigger an impairment review include, but are not limited to, an expiry of the right to explore in the specific area during the period or will expire in the near future, and is not expected to be renewed; substantive exploration and evaluation expenditures in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the assets is unlikely to be recovered in full from successful development or by sale; significant negative industry or economic trends; interruptions in exploration and evaluation activities; and a significant drop in current or forecast commodity prices.

For property, plant and equipment, factors which could trigger an impairment review include, but are not limited to, evidence that the asset's value has declined during the period, significant changes with adverse effect on the Company have occurred during the period, evidence is available of obsolescence or physical damage of an asset and the carrying amount of the Company's net assets exceed its market capitalization. In assessing impairment in regards to property, plant and equipment, Management estimates the recoverable amount of each CGU based on discounted future cash flows.

Assessment of impairment of non-financial assets requires the use of judgements when assessing whether there are any indicators that could give rise to the requirement to conduct a formal impairment test on the Company's non-financial assets. Changes in the judgements used in determining the fair value of the non-financial assets could impact the impairment analysis.

Management has determined that an indication that the non-financial assets may not be recoverable has occurred in 2019. Included in property, plant and equipment are costs capitalized for the Horne 5 Project. The Horne 5 Project is the Company's most significant non-financial asset and it was determined to be the Company's CGU at June 30, 2019.

As at June 30, 2019, the Company determined the recoverable amount of the CGU using the fair value less costs of disposal ("FVLCD") calculation which was assessed using cash flow projections, which take into account the capital costs to be incurred to complete the Horne 5 Project over the expected construction timeline, as well as the cash generated from subsequent sales of the Horne 5 Project's production based on the project assumptions. The key assumptions used in this calculation include the Horne 5 Project's capital cost, estimated production volume, the long-term gold sales price (US\$1,300/oz), the long-term Canadian and US dollar exchange rate (US\$1.00 equal to \$1.28), expected operating costs, as well as the discount rate (12.5%) which are based on estimates of the risks associated with the projected cash flows based on the best information available as of the date of the impairment test. The Company determined that the recoverable amount exceeded the carrying amounts and therefore, no impairment was recorded.

The estimated FVLCD can be affected by any one or more changes in the estimates used. Changes in significant estimates in further periods may result in an impairment charge.

(iii) *Income taxes*

The Company is subject to income taxes in some jurisdictions in Canada. Significant judgement is required in determining the total provision for income taxes. The Company is also subject to regular tax audits. Where the final tax outcome of tax audits is different from the amounts that were initially recorded, such differences could impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Falco Resources Ltd.

Notes to Financial Statements

For the years ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

5. Critical accounting estimates and judgements (*continued*)

(iv) Accounting for streaming arrangements

The Company has entered into the Stream Agreement and received \$25,000,000 on February 27, 2019 which is being used for the development of the Horne 5 Project (see also Note 12). The treatment of the deposit as a contract liability is a key judgment and is based on the expected delivery of the Company's future production.

Management exercised judgment in applying IFRS 15 accounting standards to this contract. To determine the transaction price for the Stream Agreement, the Company made estimates with respect to the timing and value of future deliveries in order to determine the 13% interest rate implicit in the agreement. These estimates are subject to variability and may have an impact on the timing and amount of revenue recognized.

6. Accounts receivable

	June 30, 2019	June 30, 2018
	\$	\$
Sales taxes	104,920	2,591,717
Refundable tax credits ⁽ⁱ⁾	1,417,160	1,467,239
Other	580,263	531,431
	<u>2,102,343</u>	<u>4,590,387</u>

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

7. 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 can be used to secure the Company's obligations in favour of Hydro-Québec ("HQ") 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 provides the Company with access to standby letters of credit and letters of guarantee issued by the Lender to HQ on the Company'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 HQ, reducing the amount available under the Credit Facility by the same amount.

Falco Resources Ltd.

Notes to Financial Statements

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(Expressed in Canadian Dollars)

8. Property, plant and equipment

	Mining equipment	Land and buildings	Construction in progress	Office and other equipment	Total
	\$	\$	\$	\$	\$
Cost					
Balance – June 30, 2017	6,584,471	2,946,900	-	407,469	9,938,840
Additions	10,244,461	34,996,460	8,231,558	26,104	53,498,583
Transfer from exploration and evaluation assets (Note 9)	-	-	37,531,876	-	37,531,876
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 12)	-	-	1,115,576	-	1,115,576
Transfer of Relocation Project costs	-	(22,500,000)	22,500,000	-	-
Balance – June 30, 2019	17,870,703	18,566,701	72,351,450	457,744	109,246,598
Accumulated Depreciation					
Balance – June 30, 2017	-	-	-	209,266	209,266
Depreciation	-	-	-	12,761	12,761
Depreciation capitalized to exploration and evaluation assets	-	-	-	55,809	55,809
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	-	-	-	326,975	326,975
Carrying Amounts					
At June 30, 2018	16,828,932	37,943,360	45,763,434	155,737	100,691,463
At June 30, 2019	17,870,703	18,566,701	72,351,450	130,769	108,919,623

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 was \$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 balance of \$2,700,000 was paid in December 2017.

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 Contract is now estimated at \$28,900,000, of which \$7,825,000 was incurred and paid as at June 30, 2019 and can be terminated at any time, subject to the payment of the approved and executed work performed by the supplier at the termination date. These amounts are recorded in mining equipment.

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 was \$667,460, of which a \$300,000 non-refundable deposit was paid on the signing of this option agreement. In December 2017, the Company exercised this option and paid the remaining balance.

Falco Resources Ltd.

Notes to Financial Statements

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(Expressed in Canadian Dollars)

8. Property, plant and equipment (*continued*)

On September 12, 2017, the Company concluded an agreement (the "Agreement") 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 Agreement, Falco would become the owner of the Quémont Pavilion upon completion of relocation activities (the "Relocation Project"). As per the Relocation Project, the Company transferred the Quémont Pavilion's activities to the Complexe La Source-Polymétier (the "Complex"). Falco funded and executed the expansion of the Complex to accommodate these additional activities and transferred the expanded Complex to the School Board on June 28, 2018. The construction costs for the Relocation Project totaled \$22,500,000 and were reclassified from land and buildings to construction in progress on September 30, 2018. The Company has no more obligations towards the School Board.

On October 5, 2017, the Company completed the acquisition of the Donalda property ("Donalda"), from Globex Mining Enterprises Inc. ("Globex") which is recorded in land and buildings. In consideration, Falco paid \$300,000 in cash and issued 350,000 units to Globex. Each unit consists of one common share of Falco ("Common Share") and one Common Share purchase warrant ("Warrant") of Falco. Each Warrant will entitle Globex 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 to Globex a 2.5 % gross metal royalty on all mineral production from Donalda and transferred 100% ownership of Falco's Dickenson property. On October 5, 2017, the fair value of these Common Shares issued was \$402,500 and the fair value of these Warrants issued, as determined by the Black-Scholes option pricing model was \$297,500 (Note 16).

As the Complex was constructed on property owned by the City of Rouyn-Noranda (the "City") and where sports and community activities were undertaken, in December 2018 Falco concluded an agreement with the City, which was amended in August 2019, to finance and build infrastructure to relocate such activities no later than June 1, 2021 for an amount not to exceed \$2,500,000.

9. 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. Amounts capitalized on the Horne 5 Project will be carried at cost until this project has reached commercial production, is sold, abandoned or determined by Management to be impaired. The related exploration and evaluation assets were tested for impairment immediately prior to the reclassification out of the exploration and evaluation assets.

In making an assessment of the potential impairment of the Horne 5 Project, Management used the "fair value less costs of disposal" approach. Fair value was derived from the Company's market capitalization as at October 30, 2017 and Management concluded that the fair value less costs of disposal was higher than the carrying amount of the Horne 5 Project. Accordingly, no impairment charge was required prior to the reclassification to property, plant and equipment.

Falco Resources Ltd.

Notes to Financial Statements

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9. Exploration and evaluation assets (continued)

The Company has incurred the following costs on its exploration and evaluation assets in the Rouyn-Noranda district for the years ended June 30, 2019 and 2018:

	For the year ended June 30, 2019			
	Horne 5 Project	Central Camp ⁽ⁱⁱ⁾	Other properties ⁽ⁱⁱⁱ⁾	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 ^(iv)	-	(3,797,106)	(585,419)	(4,382,525)
Balance – June 30, 2019	-	12,251,099	8,919,722	21,170,821

	For the year ended June 30, 2018			
	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	95,326	477,187	129,834	702,347
Drilling and data compilation	79,455	10,961,448	1,866,463	12,907,366
Geology	2,000	35,179	286,634	323,813
Geophysics	945	344,167	357,404	702,516
Environment	101,486	259,979	177	361,642
Feasibility studies	1,234,971	-	-	1,234,971
Environmental impact assessment	1,194,630	-	-	1,194,630
Administrative and other	652,931	28,057	215,204	896,192
Total expenditures for the period	3,361,744	12,106,017	2,855,716	18,323,477
Refundable tax credits	(15,179)	(514,688)	(97,912)	(627,779)
Total for the period, net of tax credits	3,346,565	11,591,329	2,757,804	17,695,698
Transfer between properties ^(v)	1,196,048	(1,196,048)	-	-
Transfer to property, plant and equipment ^(v) (Note 8)	(37,531,876)	-	-	(37,531,876)
Balance – June 30, 2018	-	14,009,617	8,298,657	22,308,274

(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, 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.

(v) These costs were incurred in establishing the technical feasibility and commercial viability of the Horne 5 Project and were reclassified to property, plant and equipment (see also Note 8).

Falco Resources Ltd.

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9. Exploration and evaluation assets (continued)

Glencore Canada Corporation ("Glencore Canada")

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.

10. Accounts payable and accrued liabilities

	June 30, 2019	June 30, 2018
	\$	\$
Trade payables and accrued liabilities	2,724,061	22,002,670
Holdbacks payable	210,074	1,321,550
Short-term payable on the purchase of property	946,900	946,900
Interest payable on the Loan (Note 11)	-	1,493,147
Interest payable on the Secured Loan (Note 13)	240,988	-
	<u>4,122,023</u>	<u>25,764,267</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.

11. Loan

On May 30, 2016, the Company closed a financing with 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 had an initial 18-month maturity, which was extended to February 28, 2019 on December 19, 2018. Interest was charged at a rate per annum that is equal to 7%, compounded quarterly on the principal amount of the Loan and was payable upon repayment of the principal amount of the Loan. Interest on the Loan accrued to May 31, 2018 (totalled \$1,493,147), and if the Stream Agreement (as defined in Note 12) did not conclude prior to February 28, 2019, interest would accrue retroactively from June 1, 2018.

The Stream Agreement was completed on February 27, 2019, the Loan was reimbursed (see Note 12) and interest on the Loan was settled through the issuance of Common Shares (Note 15).

Falco Resources Ltd.

Notes to Financial Statements

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12. 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 13), 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.

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

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

The breakdown of the Contract Liability is as follows as at June 30, 2019:

	\$
First deposit of the Contract Liability	25,000,000
Accretion of the Contract Liability's financing component	1,115,576
Balance	26,115,576

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.

Falco Resources Ltd.

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13. 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 12) and the interest payable was settled through the issuance of Common Shares (see Note 15). The transaction costs incurred on the September Secured Loan totaled \$44,600 and are recorded as interest expense in the statement of loss and comprehensive loss during the year ended June 30, 2019.

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. 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.

14. Deferred premium on flow-through shares

	June 30, 2019	June 30, 2018
	\$	\$
Balance – beginning of year	489,851	2,284,567
Deferred premium on flow-through shares issued net of share issue costs (Note 15)	-	1,599,441
Recognition of deferred premium on flow-through shares	(489,851)	(3,394,157)
Balance – end of year	-	489,851

15. Share capital

Authorized: Unlimited number of Common Shares without par value
Issued and fully paid: 207,878,736 Common Shares

Financing transactions impacting share capital for the year ended June 30, 2019:

i. Share for debt settlement

On February 27, 2019, the Company and Osisko completed an agreement to settle interest owed under the Loan and the September Secured Loan through the issuance of Common Shares. The principal amount of each loan was reimbursed with the first deposit under the Stream Agreement and the interest owed under such loans totaling \$1,820,289 was paid through the issuance of 5,353,791 Common Shares at the market price of \$0.34 per share (issue costs totaled \$27,476). These shares were subject to a hold period ending June 27, 2019.

ii. Convertible debenture

On June 29, 2018, the Company closed a financing transaction (the "Convertible Debenture") with Osisko for \$7,000,000. Under the terms of the Convertible Debenture, Osisko purchased a secured debenture (the "Debenture") having a principal amount of \$7,000,000 (the "Principal").

On the date of the Approval, the Debenture was converted into 12,104,444 units of the Company (the "Converted Units"). Each Converted Unit consisted of one Common Share and one-half of one Warrant. Each whole Warrant entitles the holder to purchase one Common Share, subject to customary anti-dilution clauses, at a price of \$0.75 for a period of thirty-six months from the date the Converted Units were issued.

Gross proceeds from the Converted Units were allocated between the Common Shares (\$6,536,400) and the Warrants (\$463,600), based on the fair value of the Common Shares at the date of the closing of the Convertible Debenture, with the residual value of the Converted Units allocated to the Warrants (see Note 16). Issue costs of \$161,316 were allocated to the Converted Units, of which \$151,034 were allocated to the Common Shares and \$10,282 were allocated to the Warrants, based on their respective allocated proceeds.

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15. Share capital (continued)

Financing transaction impacting share capital for the year ended June 30, 2018:

- i. Brokered private placement (December 21, 2017)

On December 21, 2017, the Company closed a brokered private placement of flow-through shares (the "Private Placement"), issuing 7,203,730 flow-through shares for gross proceeds of \$8,500,401 and recognized a deferred premium on flow-through shares of \$1,728,895. Share issue costs amounted to \$636,483 and were allocated to share capital (\$507,029) and the deferred premium on flow-through shares (\$129,454). The Company completed its commitment to spending the gross proceeds on exploration activities by December 31, 2018.

Certain officers and directors of Falco and Osisko participated in the Private Placement and were issued 524,700 flow-through shares. These transactions were concluded under the same terms and conditions offered to the other participants.

16. Warrants

The following table details the changes in the Warrants for the years ended June 30, 2019 and 2018:

	Number of warrants	Weighted average exercise price \$
Balance – June 30, 2017	28,281,717	1.55
Issued	350,000	1.15
Expired	(12,091,675)	1.45
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

The Warrants outstanding at June 30, 2019, are as follows:

Exercise price (\$)	Number of warrants	Expiry date	Weighted average remaining contractual life (years)
0.75	6,052,222	November 28, 2021	2.4
1.15	350,000	October 4, 2022	3.3
	6,402,222		

The Warrants issued on October 5, 2017 (Note 8) were accounted for at their fair value determined by the Black-Scholes option pricing model based on the following weighted average assumptions:

Risk-free interest rate	1.75%
Expected life of Warrants	5 years
Annualized volatility	98%
Dividend rate	-
Fair value per Warrant	\$0.85

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17. Share-based compensation

Share options

The Option Plan provides that the Board may from time to time, at its discretion, grant to the directors, officers, employees and consultants, non-transferable options to purchase shares, provided that the number of shares reserved for issuance will not exceed 10% of the shares issued and outstanding, including any shares reserved under all other established share-based compensation arrangements. The maximum term of share options is 10 years and terms of vesting are at the discretion of the Board.

During the year ended June 30, 2019, 7,369,000 share options (3,206,000 for the year ended June 30, 2018) were granted to directors, officers and key employees. The exercise price of the share options granted was based on the closing price of the share on the day prior to the grant date. The share options granted are vesting 1/3 on each anniversary date and have a term of 5 years.

The following table summarizes information about the movement of the share options during the last two years:

	Number of options	Weighted average exercise price (\$)
Balance – June 30, 2017	9,151,736	0.49
Granted	3,206,000	0.95
Exercised	(1,959,365)	0.41
Expired	(50,000)	0.45
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
Share options exercisable – June 30, 2019	4,239,724	0.68

The share options, when granted, are accounted for at their fair value determined by the Black-Scholes option pricing model on the following weighted average assumptions for the years ended June 30, 2019 and 2018:

	2019	2018
Risk-free interest rate	1.37%	1.72%
Expected life of options	4.9 years	4.9 years
Annualized volatility	67%	93%
Dividend rate	-	-
Weighted average fair value per option	\$0.14	\$0.67

The annualized volatility was based on historical data for the Company. The fair value of the share options is amortized over the vesting period, taking into account expected forfeitures. Share options issued during the years ended June 30, 2019 and 2018, are exercisable at the closing market price of the Common Shares on the day prior to their grant.

Falco Resources Ltd.

Notes to Financial Statements

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17. Share-based compensation (continued)

Share options outstanding at June 30, 2019 are as follows:

Exercise price (\$)	Number of options outstanding	Number of options exercisable	Weighted average remaining life (Years)
0.25	890,302	890,302	1.49
0.30	7,369,000	-	4.99
0.45	415,371	415,371	0.66
0.46	129,251	129,251	1.70
0.64	840,000	840,000	0.68
0.89	143,600	95,733	2.73
0.90	455,200	154,067	3.65
0.96	2,372,333	847,932	3.38
0.98	1,266,300	867,068	2.60
	13,881,357	4,239,724	

For the year ended June 30, 2019, the share-based compensation costs amounted to \$964,947 (\$1,523,387 for the year ended June 30, 2018) of which \$822,993 was charged to the statement of loss and comprehensive loss (\$1,389,666 for the year ended June 30, 2018), \$112,454 was capitalized to construction in progress (\$71,329 for the year-ended June 30, 2018) and \$29,500 was capitalized to exploration and evaluation assets (\$62,392 for the year ended June 30, 2018). The offsetting credit is recorded as contributed surplus.

Restricted, deferred and performance share units

The Company has a long-term incentive 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. There were no outstanding RSUs, DSUs or PSUs as at June 30, 2019 and 2018.

During the years ended June 30, 2019 and 2018, no RSUs were granted under the LTI Plan. During the year ended June 30, 2019, no RSUs vested (16,666 RSUs vested during the year ended June 30, 2018). For the RSUs vested during the year ended June 30, 2018, a cash disbursement of \$14,999 was completed.

For the year ended June 30, 2019, share-based compensation expense in relation to the LTI Plan was nil (\$1,010 for the year ended June 30, 2018).

Falco Resources Ltd.

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18. Income taxes

A reconciliation of income taxes at statutory rates (26.6%) with the reported taxes for the year ended June 30, 2019 (26.7% for the year ended June 30, 2018), is as follows:

	2019	2018
	\$	\$
Net loss before income taxes	(8,764,258)	(3,841,250)
Expected income tax recovery	(2,331,000)	(1,026,000)
Permanent difference	922,000	(527,000)
Impact of flow-through shares	665,000	3,517,000
Provincial mining duties	158,000	2,743,557
Change in unrecognized deductible temporary differences	769,000	(1,797,000)
Other, net	(25,000)	(167,000)
Total	158,000	2,743,557

The significant components of the Company's deferred tax assets and liabilities as at June 30, 2019 and 2018, are as follows:

	2019	2018
	\$	\$
Deferred tax assets (liabilities)		
Provincial mining duties	(9,477,000)	(9,319,000)
Exploration and evaluation assets	6,831,000	(3,345,000)
Property, plant and equipment	(19,645,000)	(9,869,000)
Share-issue costs	177,000	641,000
Non-capital losses	12,637,000	12,573,000
Deferred tax liability	(9,477,000)	(9,319,000)

As a result of the Horne 5 Project's positive preliminary economic assessment filed in June 2016 and the completion of the Feasibility Study, the Company's intention is to proceed with the development of the Horne 5 Project. The Company intends to realize the carrying value of its assets and settle the carrying value of its liabilities through the use of its exploration and evaluation assets and as such, has recorded a deferred tax liability with respect to provincial mining duties.

The significant components of deductible temporary differences, carry-forward of unused tax losses and carry-forward of unused tax credits that have not been included on the balance sheets as at June 30, 2019 and 2018 are as follows:

	2019	Expiry date range	2018	Expiry date range
	\$		\$	
Investment tax credit	71,000	2034	71,000	2034
Share issue costs	-	-	1,029,000	-
Non-capital losses	3,873,000	2038 to 2039	-	-
Income tax benefit from provincial mining duties	9,477,000	No expiry	9,319,000	No expiry

19. Net loss per share

The calculation of basic and diluted net loss per share for the year ended June 30, 2019, was based on the net loss attributable to shareholders of \$8,922,258 (\$6,584,807 for the year ended June 30, 2018) and the weighted average number of common shares outstanding for the year ended June 30, 2019 of 198,598,333 (184,869,855 for the year ended June 30, 2018). As a result of the net loss for the years ended June 30, 2019 and 2018, all potentially dilutive common shares are deemed to be antidilutive and thus diluted net loss per share is equal to the basic net loss per share for these periods.

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20. Capital management

The capital structure of the Company as at June 30, 2019, 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 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 or in the exploration and evaluation stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out planned development, 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 during the years ended June 30, 2019 and 2018. Changes in capital are described in the statement of changes in equity.

21. Key management and related party transactions

Key management personnel

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 years ended June 30, 2019 and 2018:

	2019	2018
	\$	\$
Salaries and short-term employees benefits ⁽¹⁾	1,585,236	2,539,311
Share-based compensation	763,398	1,358,172
	<u>2,348,634</u>	<u>3,897,483</u>

⁽¹⁾ Including consulting fees.

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

During the year ended June 30, 2019, an amount of \$1,302,518 (\$2,724,788 during the year ended June 30, 2018) was invoiced by Osisko for professional services and rental of offices, of which \$226,785 (\$1,356,590 as at June 30, 2018) is included in accounts payable and accrued liabilities as at June 30, 2019. These services were rendered to the Company in the normal course of operations and were measured at the exchange amount, which is the amount established and agreed to by the related parties.

On May 30, 2016, the Company entered into the Loan with Osisko, which did not incur interest as at May 31, 2018 (Note 11). The Loan was reimbursed on February 27, 2019, as such, interest payable on the Loan was \$ nil as at June 30, 2019 (\$1,493,147 as at June 30, 2018). Interest expense on the Loan for the year ended June 30, 2019 was nil (\$707,454 for the year ended June 30, 2018).

On September 10, 2018, the Company entered into the September Secured Loan with Osisko (Note 13). The September Secured Loan was reimbursed on February 27, 2019, as such, interest payable on the September Secured Loan was \$ nil as at June 30, 2019. Interest expense on the September Secured Loan for the year ended June 30, 2019 was \$327,142.

On February 22, 2019, the Company entered into the Secured Loan with Osisko (Note 13). As at June 30, 2019, interest payable on the Secured Loan amounted to \$240,988 and is included in accounts payable and accrued liabilities on the balance sheet. Interest expense incurred on the Secured Loan for the year ended June 30, 2019 totaled \$240,988 and was expensed to the statement of loss and comprehensive loss.

During the year ended June 30, 2019, the Company provided professional services totaling \$525,000 to associates of Osisko (\$ nil for the year ended June 30, 2018), which have been recorded as cost recoveries in the statement of loss and comprehensive loss.

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22. Fair value of financial instruments

The Company has no financial assets and no financial liabilities measured at fair value in the balance sheets as at June 30, 2019 and 2018.

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

23. Supplemental disclosure – Statements of cash flows

	Year ended June 30, 2019	Year ended June 30, 2018
	\$	\$
Property, plant and equipment acquisitions included in accounts payable and accrued liabilities		
Beginning of year	17,360,519	3,309,234
End of year	1,459,782	17,360,519
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities		
Beginning of year	3,652,179	1,748,818
End of year	-	3,652,179
Share issue costs included in accounts payable and accrued liabilities		
Beginning of year	28,734	158,523
End of year	-	28,734
Depreciation capitalized	32,407	55,809
Interest income received	91,738	425,092
Other non-current assets included in accounts payable and accrued liabilities		
Beginning of year	-	-
End of year	354,532	-

24. 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.

Risk management is carried out under policies approved by the Board. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment in excess liquidities.

(a) Market risks

Market risk is the risk of loss that may arise from changes in market factors such as foreign exchange rates and commodity prices.

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar.

The Company holds balances in cash and accounts payable and accrued liabilities denominated in US dollars and is therefore exposed to gains or losses on foreign exchange. The Company does not use derivatives to mitigate its exposure to foreign currency risk.

As at June 30, 2019 and 2018, the balances in foreign currencies were not significant and as such the impact of a change in foreign currencies would not be significant.

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24. Financial risks (continued)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash, restricted cash and other accounts receivable. The Company reduces its credit risk by holding its cash and restricted cash with Canadian chartered banks. In case of other accounts receivable, the Company performs credit analysis.

The carrying amount of bank balances and other accounts receivable represents the maximum credit exposure of the Company.

(c) 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 investment or divestitures. As at June 30, 2019, cash is comprised of bank balances. As described in Note 1, the Company's liquidity position as at June 30, 2019, will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through June 30, 2020.

In addition to contractual commitments already disclosed (Note 8), 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	-	-

The following table summarizes the Company's contractual commitments as at June 30, 2018:

	Less than one year	Between one and three years	More than three years
	\$	\$	\$
Accounts payable and accrued liabilities	24,271,120	-	-
Loan, including interest	11,493,147	-	-

25. Segmented information

The chief operating decision-maker organizes and manages the business under a single operating segment, consisting of acquiring, exploring and developing mineral properties in Canada. All of the Company's assets and expenses are attributable to this single operating segment. The Company's operations and assets are all located in Canada.

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26. Commitments

The Company is committed to minimum amounts under long-term lease agreements for office space and equipment, which expire at the latest in 2021. As at June 30, 2019, minimum commitments remaining under these leases were \$205,000 over the following years:

	Years ending June 30,
	\$
2020	154,000
2021	51,000
	<u>205,000</u>