FALCO RESOURCES

Falco Resources Ltd.

Condensed Interim Financial Statements
(Unaudited)

For the three-month and nine-month periods ended March 31, 2018 and 2017

Falco Resources Ltd.

Balance Sheets

(Unaudited)

(Expressed in Canadian Dollars)

	As at March 31, 2018	As at June 30, 2017
	$	$
Assets		
Current assets		
Cash	13,506,529	53,395,140
Accounts receivable (Note 5)	4,601,548	2,134,296
Prepaid expenses	381,060	74,517
	18,489,137	55,603,953
Non-current assets		
Restricted cash (Note 4)	905,000	-
Property, plant and equipment (Note 6)	88,544,318	9,729,574
Options on property (Note 6)	-	375,000
Exploration and evaluation assets (Note 7)	18,465,723	42,144,452
	107,915,041	52,249,026
Total assets	**126,404,178**	**107,852,979**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	19,857,248	5,348,364
Contingently payable liability (Note 9)	10,000,000	10,000,000
Deferred premium on flow-through shares (Note 10)	1,229,595	2,284,567
	31,086,843	17,632,931
Non-current liabilities		
Deferred income taxes	8,718,316	6,575,443
Long-term payable on the purchase of property (Note 6)	-	946,900
	8,718,316	7,522,343
Total liabilities	**39,805,159**	**25,155,274**
Equity attributable to Falco Resources Ltd. shareholders		
Share capital	103,201,474	95,306,645
Warrants (Note 12)	9,080,509	8,783,009
Contributed surplus	3,739,528	3,087,664
Deficit	(29,422,492)	(24,479,613)
Total equity	**86,599,019**	**82,697,705**
Total liabilities and equity	**126,404,178**	**107,852,979**

Going concern (Note 1)

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

Falco Resources Ltd.

Statements of Loss and Comprehensive Loss

For the three-month and nine-month periods ended March 31, 2018 and 2017

(Unaudited)

(Expressed in Canadian Dollars)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Expenses				
Consulting and compensation	1,021,786	701,129	2,596,323	1,447,264
Share-based compensation (Note 13)	398,243	194,443	1,026,704	559,272
Office and administrative	128,941	100,386	342,315	210,843
Professional fees	179,092	95,975	563,314	344,512
Travel	80,504	52,948	285,939	176,800
Investor and shareholder relations	62,228	95,081	237,090	312,767
Depreciation (Note 6)	3,191	3,191	9,571	9,571
Exploration and evaluation	-	45,543	203,785	129,910
Operating loss	**(1,873,985)**	**(1,288,696)**	**(5,265,041)**	**(3,190,939)**
Interest income	102,073	102,562	387,497	170,371
Interest expense (Notes 9 and 15)	(194,175)	(181,156)	(574,610)	(539,266)
Foreign exchange loss	(1,535)	(1,052)	(2,265)	(1,049)
Other income – premium on flow through shares (Note 10)	369,846	161,858	2,654,413	486,932
Loss before income taxes	**(1,597,776)**	**(1,206,484)**	**(2,800,006)**	**(3,073,951)**
Deferred income tax expense	(293,960)	(738,298)	(2,142,873)	(2,228,969)
Net loss and comprehensive loss	**(1,891,736)**	**(1,944,782)**	**(4,942,879)**	**(5,302,920)**
Net loss per common share Basic and diluted (Note 14)	**(0.01)**	**(0.01)**	**(0.03)**	**(0.04)**
Weighted average number of common shares outstanding Basic and diluted (Note 14)	**189,009,530**	**135,634,958**	**183,456,867**	**131,950,118**

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

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

Falco Resources Ltd.

Statements of Cash Flows

For the three-month and nine-month periods ended March 31, 2018 and 2017

(Unaudited)

(Expressed in Canadian Dollars)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Operating activities				
Net loss	(1,891,736)	(1,944,782)	(4,942,879)	(5,302,920)
Adjustments for :				
Share-based compensation (Note 13)	398,243	194,443	1,025,694	559,272
Depreciation (Note 6)	3,191	3,191	9,571	9,571
Other income – premium on flow-through shares (Note 10)	(369,846)	(161,858)	(2,654,413)	(486,932)
Deferred income tax expense	293,960	738,298	2,142,873	2,228,969
Changes in non-cash working capital items:				
Accounts receivable	(805,447)	292,805	(1,782,351)	(142,132)
Prepaid expenses	(113,986)	43,973	(306,543)	59,104
Accounts payable and accrued liabilities	(1,032,383)	(135,715)	1,700,504	(472,331)
Net cash flows used in operating activities	(3,518,004)	(969,645)	(4,807,544)	(3,547,399)
Investing activities				
Property, plant and equipment	(8,396,670)	(1,534,567)	(27,872,073)	(1,534,567)
Exploration deposits	-	60,000	-	60,000
Options on properties	-	(75,000)	-	(75,000)
Investments in exploration and evaluation assets, net of governmental credits	(5,206,743)	(4,243,064)	(14,810,664)	(13,150,453)
Increase in restricted cash (Note 4)	-	-	(905,000)	-
Net cash flows used in investing activities	(13,603,413)	(5,792,631)	(43,587,737)	(14,700,020)
Financing activities				
Proceeds from the issuance of flow-through shares (Note 11)	-	-	8,500,401	10,573,408
Proceeds from the issuance of shares and warrants in a bought deal public offering	-	-	-	25,876,185
Proceeds from the issuance of shares and warrants in a private placement	-	10,799,600	-	10,799,600
Proceeds from the exercise of warrants	-	-	-	54,394
Proceeds from the exercise of options	39,000	-	771,667	121,500
Payment of share issue costs	(50,719)	(456,798)	(765,398)	(2,692,223)
Net cash flows provided by (used in) financing activities	(11,719)	10,342,802	8,506,670	44,732,864
(Decrease) increase in cash	**(17,133,136)**	**3,580,526**	**(39,888,611)**	**26,485,445**
Cash, beginning of period	**30,639,665**	**32,294,424**	**53,395,140**	**9,389,505**
Cash, end of period	**13,506,529**	**35,874,950**	**13,506,529**	**35,874,950**

Supplemental disclosure (Note 18)

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

Falco Resources Ltd.

Statements of Changes in Equity

For the nine-month periods ended March 31, 2018 and 2017

(Unaudited)

(Expressed in Canadian Dollars)

	Number of common shares outstanding	Share capital	Warrants	Contributed surplus	Deficit	Total
		$	$	$	$	$
Balance – July 1, 2017	**179,644,768**	**95,306,645**	**8,783,009**	**3,087,664**	**(24,479,613)**	**82,697,705**
Net loss and comprehensive loss	-	-	-	-	(4,942,879)	(4,942,879)
Issuance of common shares on the purchase of property (Note 6)	350,000	402,500	-	-	-	402,500
Issuance of warrants on the purchase of property (Note 6)	-	-	297,500	-	-	297,500
Private placement (Note 11)						
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)
Share options:						
Share-based compensation (Note 13)	-	-	-	1,108,049	-	1,108,049
Fair value of options exercised	-	456,185	-	(456,185)	-	-
Proceeds from exercise of options	1,909,365	771,667	-	-	-	771,667
Balance – March 31, 2018	**189,107,863**	**103,201,474**	**9,080,509**	**3,739,528**	**(29,422,492)**	**86,599,019**
Balance – July 1, 2016	**113,937,797**	**34,994,589**	**33,500**	**2,471,588**	**(17,496,000)**	**20,003,677**
Net loss and comprehensive loss	-	-	-	-	(5,302,920)	(5,302,920)
Bought deal public offering:						
Issuance of common shares and warrants	24,183,350	21,281,348	4,594,837	-	-	25,876,185
Issuance of flow-through shares	8,260,475	10,573,408	-	-	-	10,573,408
Deferred premium on flow-through shares	-	(3,304,190)	-	-	-	(3,304,190)
Share issue costs	-	(1,958,223)	(315,150)	-	-	(2,273,373)
Private placement:						
Issuance of common shares and warrants	10,093,083	9,184,707	1,614,893	-	-	10,799,600
Share issue costs	-	(233,344)	(41,027)	-	-	(274,371)
Warrants:						
Fair value of warrants exercised	-	16,750	(16,750)	-	-	-
Proceeds from exercise of warrants	96,701	54,394	-	-	-	54,394
Expired	-	-	(16,750)	16,750	-	-
Share options:						
Share-based compensation	-	-	-	582,955	-	582,955
Fair value of options exercised	-	87,306	-	(87,306)	-	-
Proceeds from exercise of options	205,000	121,500	-	-	-	121,500
Balance – March 31, 2017	**156,776,406**	**70,818,245**	**5,853,553**	**2,983,987**	**(22,798,920)**	**(56,856,865)**

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

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 has determined that the technical feasibility and commercial viability of the Horne 5 Project has been established and accordingly, the development phase of the Horne 5 Project has commenced. 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 interim 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 March 31, 2018, the Company had negative working capital of $12,597,706 (including a cash balance of $13,506,529), an accumulated deficit of $29,422,492 and had incurred a loss of $4,942,879 for the nine-month period then ended. 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.

Management of the Company ("Management") estimates that the working capital as at March 31, 2018 will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through March 31, 2019. 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. The interim financial statements do not reflect the adjustment 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 (see also Note 7) 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, the completion of stream agreements (see also Note 9) and the issuance of debt or equity instruments. While Management has been successful in securing financing in the past, 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, and amounts realized for assets might be less than amounts reflected in these interim financial statements.

(Expressed in Canadian Dollars)

2. Basis of presentation

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

These condensed interim financial statements were approved by the Board on May 25, 2018.

3. Judgments, estimates and assumptions

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

4. Restricted cash

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

5. Accounts receivable

	March 31, 2018	**June 30, 2017**
	$	**$**
Sales taxes	3,013,521	1,246,885
Refundable tax credits[(i)]	1,524,360	839,459
Other	63,667	47,952
	4,601,548	2,134,296

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

(Expressed in Canadian Dollars)

6. Property, plant and equipment

	Mining equipment	Land and buildings	Construction in progress	Leasehold improvements	Office and other equipment	Total
	$	$	$	$	$	$
Cost						
Balance – June 30, 2016	-	-	-	88,356	284,637	372,993
Additions	6,584,471	2,946,900	-	-	34,476	9,565,847
Balance – June 30, 2017	6,584,471	2,946,900	-	88,356	319,113	9,938,840
Additions	8,906,247	27,425,963	4,978,841	-	26,105	41,337,156
Transfer from exploration & evaluation assets (Note 7)	-	-	37,531,876	-	-	37,531,876
Balance – March 31, 2018	15,490,718	30,372,863	42,510,717	88,356	345,218	88,807,872
Accumulated Depreciation						
Balance – June 30, 2016	-	-	-	4,933	153,218	158,151
Depreciation	-	-	-	12,761	-	12,761
Depreciation capitalized to exploration and evaluation assets	-	-	-	5,892	32,462	38,354
Balance – June 30, 2017	-	-	-	23,586	185,680	209,266
Depreciation	-	-	-	9,571	-	9,571
Depreciation capitalized to exploration and evaluation assets	-	-	-	13,727	30,990	44,717
Balance – March 31, 2018	-	-	-	46,884	216,670	263,554
Carrying Amounts						
At June 30, 2017	6,584,471	2,946,900	-	64,770	133,433	9,729,574
At March 31, 2018	15,490,718	30,372,863	42,510,717	41,472	128,548	88,544,318

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 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 Globex a 2.5 % gross metal royalty on all mineral production from Donalda and transferred 100% ownership of Falco’s Dickenson property. The total estimated fair value of the common shares ($402,500) and Warrants ($297,500, see Note 12) issued was $700,000.

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 “Québmont Pavilion”) located on the site of the Horne 5 Project. As per the Agreement, Falco will become the owner of the Quémont Pavilion upon completion of relocation activities (the “Relocation Project”). As per the Relocation Project, the Company will transfer the Quémont Pavilion’s activities to the Complexe La Source-Polymétier (the “Complex”). Falco is funding and executing the expansion of the Complex to accommodate these additional activities. Work on the Relocation Project has commenced and total relocation and construction costs are estimated at $22,500,000, of which $12,000,000 was incurred as at March 31, 2018 and recorded in land and buildings. As at March 31, 2018, $6,250,000 has been paid. If the Company delays the completion of the Relocation Project, it will delay the acquisition of the Quémont Pavilion.

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

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 $5,020,000 paid as at March 31, 2018 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 September 2014, the Company entered into an option agreement with the City of Rouyn-Noranda to acquire surface rights to land above the Horne 5 Deposit (the "Property") and immediately adjacent to the Horne smelter. This option agreement provides the Company with a 5-year option to purchase additional land near the Horne 5 Project. On June 29, 2017, the Company exercised this option, purchasing the Property for $2,946,900, for which the Company had already paid a non-refundable deposit of $1,000,000. Of the two remaining instalments, the first payment for $1,000,000 was paid in December 2017. The final payment of $946,900 is payable by January 1, 2019, and is recorded as a short-term payable within accounts payable (Note 8).

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.

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.

7. Exploration and evaluation assets

During the three-month period ended December 31, 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.

(Expressed in Canadian Dollars)

7. 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 nine-month period ended March 31, 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	367,516	89,528	552,370
Drilling and data compilation	79,455	8,122,810	1,528,132	9,730,397
Geology	2,000	32,700	239,321	274,021
Geophysics	945	232,436	162,283	395,664
Environment	101,486	259,974	-	361,460
Feasibility studies	1,234,971	-	-	1,234,971
Environmental impact assessment	1,194,630	-	-	1,194,630
Administrative and other	654,312	24,809	115,414	794,535
Total expenditures for the period	3,363,125	9,040,245	2,134,678	14,538,048
Refundable tax credits	(16,560)	(561,520)	(106,821)	(684,901)
Total for the period, net of tax credits	3,346,565	8,478,725	2,027,857	13,853,147
Transfer between properties [(v)]	1,196,048	(1,196,048)	-	-
Transfer to property, plant and equipment [(v)] (Note 6)	(37,531,876)	-	-	(37,531,876)
Balance – March 31, 2018	-	10,897,013	7,568,710	18,465,723

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

(i) Includes historical acquisition costs of $6,496,194 related to the acquisition of exploration rights and/or claims.
(ii) The Central Camp is located north of the Horne 5 Project and covers an area of approximately 289 square kilometers, including many former gold and base metal producers.
(iii) Including the Noranda Camp properties.
(iv) During the year ended June 30, 2017, the Company wrote-off 100% of the capitalized historical costs related to specific areas where claims are not expected to be renewed or where the Company has decided to discontinue exploration and evaluation activities.
(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.

(Expressed in Canadian Dollars)

7. Exploration and evaluation assets *(continued)*

Glencore Canada Corporation

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

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

The updated mineral resource estimate on the Horne 5 Project announced in May 2016 was a Threshold Resource. On September 6, 2016, Falco announced that it retained full ownership of the Horne 5 Project (i.e. the rights to minerals located below 200 metres from the surface) as Glencore Canada elected not to exercise its back-in right. Glencore Canada retained a 2% net smelter return ("NSR") royalty on all metals produced and has rights of first refusal with respect to purchase or toll process on all or any portion of the concentrates and other mineral products. On December 5, 2017, the NSR royalty was assigned to BaseCore Metals LP.

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.

8. Accounts payable and accrued liabilities

	March 31, 2018	June 30, 2017
	$	$
Trade payables and accrued liabilities	17,550,046	3,562,671
Short-term payable on the purchase of property (Note 6)	946,900	1,000,000
Interest payable on contingently payable liability (Note 9)	1,360,302	785,693
	19,857,248	5,348,364

9. Contingently payable liability

On May 30, 2016, the Company closed a financing with Osisko Gold Royalties Ltd. ("Osisko"), a shareholder with significant influence over the Company and therefore a related party, whereby Osisko provided a loan for $10,000,000 (the "Loan"). The Loan had an initial 18-month maturity, which was extended by six months on November 29, 2017. The interest is payable on the principal amount at a rate per annum that is equal to 7%, compounded quarterly, payable upon repayment of the principal amount.

By May 31, 2018, Falco and Osisko shall negotiate in good faith the terms, conditions and form of a silver and/or gold stream agreement (the "Stream Agreement"), which shall be substantially in the form typical for such transactions in the industry, whereby Osisko may provide Falco with a portion of the development capital required to build the Horne 5 Project ("Stream"). In this case, the principal amount of the Loan and any accrued interest will be applied against the Stream deposit. At the maturity date, if Falco and Osisko have not concluded the Stream Agreement, the principal amount of the Loan will be converted into a 1% NSR royalty on the Horne 5 Project and accrued interest will be paid in cash.

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

(Expressed in Canadian Dollars)

10. Deferred premium on flow-through shares

	March 31, 2018	June 30, 2017
	$	$
Balance – beginning of period	2,284,567	179,637
Deferred premium on flow-through shares issued, net of share issue costs (Note 11)	1,599,441	3,077,563
Recognition of deferred premium on flow-through shares	(2,654,413)	(972,633)
Balance – end of period	1,229,595	2,284,567

On November 22, 2016, the Company issued 8,260,475 flow-through shares for gross proceeds of $10,573,408 and recognized a deferred premium on flow-through shares of $3,077,563 (net of issue costs of $226,627). The commitment related to this financing was met by December 31, 2017.

11. Share capital

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 the common shares ($507,029) and the deferred premium on flow-through shares ($129,454). The Company is committed to spending the proceeds on exploration and development activities by December 31, 2018 (Note 10). As at March 31, 2018, the balance remaining to be spent totals $6,534,814.

Certain officers and directors of Falco and Osisko have 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.

12. Warrants

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

	Number of Warrants	Weighted Average Exercise Price
		$
Balance – June 30, 2016	193,402	0.56
Issued	28,281,717	1.55
Exercised	(96,701)	0.56
Expired	(96,701)	0.56
Balance – June 30, 2017	28,281,717	1.55
Issued (Note 6)	350,000	1.15
Balance – March 31, 2018	28,631,717	1.54

The Warrants issued on October 5, 2017 (Note 6) and 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

(Expressed in Canadian Dollars)

13. Share-based compensation

Share options

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

	Number of options	Weighted Average Exercise Price ($)
Balance – June 30, 2016	8,261,798	0.39
Granted	1,676,300	0.97
Exercised	(786,362)	0.44
Balance – June 30, 2017	9,151,736	0.49
Granted	3,206,000	0.95
Exercised	(1,909,365)	(0.40)
Balance – March 31, 2018	10,448,371	0.65
Options exercisable – March 31, 2018	5,772,149	0.44

At the grant date the share options are accounted for at their fair value determined by the Black-Scholes option pricing model based on the vesting period and on the following weighted average assumptions:

	Nine-month period ended March 31, 2018
Risk-free interest rate	1.72%
Expected life of options	4.9 years
Annualized volatility	93%
Dividend rate	-
Weighted average fair value per option	$0.67

The annualized volatility was based on historical data for the Company. The fair value of the share options is amortized over the respective vesting period of each tranche of an award.

Share option compensation for the three-month period ended March 31, 2018 amounted to $440,148 ($207,829 for the three-month period ended March 31, 2017) of which $29,737 (nil for the three-month period ended March 31, 2017) was capitalized to construction in progress and $12,168 ($14,856 for the three-month period ended March 31, 2017) was capitalized to exploration and evaluation assets.

Share option compensation for the nine-month period ended March 31, 2018 amounted to $1,108,049 ($582,955 for the nine-month period ended March 31, 2017) of which $29,737 (nil for the nine-month period ended March 31, 2017) was capitalized to construction in progress and $52,618 ($29,214 for the nine-month period ended March 31, 2017) was capitalized to exploration and evaluation assets.

(Expressed in Canadian Dollars)

13. Share-based compensation (continued)

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 DSUs or PSUs as at March 31, 2018 and June 30, 2017.

During the nine-month periods ended March 31, 2018 and 2017, no RSUs were granted under the LTI Plan. During the nine-month period ended March 31, 2018, 16,666 RSUs vested and were paid in cash for a total disbursement of $14,999 (16,666 RSUs vested and $4,167 disbursed during the nine-month period ended March 31, 2017). No unvested RSUs are outstanding as at March 31, 2018 (16,666 outstanding as at June 30, 2017).

Share-based compensation expense for RSUs for the nine-month period ended March 31, 2018 amounted to $1,010 ($5,531 for the nine-month period ended March 31, 2017).

14. Net loss per share

The calculation of basic and diluted loss per share for the three-month and nine-month periods ended March 31, 2018 was based on the net loss attributable to shareholders of $1,891,736 and $4,942,879, respectively ($1,944,782 and $5,302,920 for the three-month and nine-month periods ended March 31, 2017, respectively) and the weighted average number of common shares outstanding for the three-month and nine-month periods ended March 31, 2018 of 189,009,530 and 183,456,867, respectively (135,634,958 and 131,950,118 common shares for the three-month and nine-month periods ended March 31, 2017, respectively). As a result of the net loss for the three-month and nine-month periods ended March 31, 2018 and 2017, all potentially dilutive common shares (Notes 12 and 13) are deemed to be antidilutive and thus diluted net loss per share is equal to the basic net loss per share for these periods.

15. Key management and related party transactions

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

Key management includes directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management for employee services is presented below for the three-month and nine-month periods ended March 31, 2018 and 2017:

	Three-months ended March 31,		Nine-months ended March 31,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Salaries and short-term employee benefits[1]	669,999	503,268	1,676,969	965,556
Share-based compensation	394,562	189,068	996,940	518,331
	1,064,561	692,336	2,673,909	1,483,887

(1) Including consulting fees.

During the three-month and nine-month periods ended March 31, 2018, amounts of $696,134 and $2,036,856, respectively, were invoiced by Osisko for professional services and rental of offices ($724,683 and $1,722,772, respectively, for the three-month and nine-month periods ended March 31, 2017). An amount of $668,658 is included in accounts payable and accrued liabilities as at March 31, 2018 ($283,557 as at June 30, 2017).

On May 30, 2016, the Company entered into the Loan (Note 9). As at March 31, 2018, interest payable on the Loan amounted to $1,360,303 ($785,693 as at June 30, 2017) and was included in accounts payable and accrued liabilities on the balance sheet. Interest expense on the Loan for the three-month period ended March 31, 2018 was $194,175 ($181,156 for the three-month period ended March 31, 2017). Interest expense on the Loan for the nine-month period ended March 31, 2018 was $574,610 ($539,266 for the nine-month period ended March 31, 2017).

(Expressed in Canadian Dollars)

16. Fair value of financial instruments

The Company has no financial assets and no financial liabilities at fair value in the balance sheets as at March 31, 2018 and June 30, 2017.

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

17. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company manages the liquidity risk by continuously monitoring actual and projected cash flows, taking into account the requirements related to its investment commitments and mining properties and matching the maturity profile of financial assets and liabilities. The Board reviews and approves any material transaction out of the ordinary course of business, including proposals on mergers, acquisitions or other major investments or divestitures. As at March 31, 2018, cash is comprised of bank balances. As described in Note 1, the Company estimates that with its liquidity position as at March 31, 2018, it does not have enough funds available to meet its financial liabilities for the next year.

The following table summarizes the Company's financial liabilities as at March 31, 2018:

	Less than one year	Between one and three years	More than three years
	$	$	$
Accounts payable and accrued liabilities	19,857,248	-	-
Contingently payable liability	10,000,000	-	-

The following table summarizes the Company's financial liabilities as at June 30, 2017:

	Less than one year	Between one and three years	More than three years
	$	$	$
Accounts payable and accrued liabilities	5,348,364	-	-
Contingently payable liability	10,000,000	-	-
Long-term payable on the purchase of property	-	946,900	-

(Expressed in Canadian Dollars)

18. Supplemental disclosure – Statements of cash flows

	Three-months ended March 31,		Nine-months ended March 31,	
	2018	2017	2018	2017
	$	$	$	$
Property and equipment acquisitions included in accounts payable and accrued liabilities and long-term payable on the purchase of property				
Beginning of period	5,484,711	-	3,309,234	-
End of period	15,669,580	3,563,717	15,669,580	3,563,717
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities				
Beginning of period	4,591,233	2,316,894	1,748,818	533,067
End of period	1,378,867	2,760,812	1,378,867	2,760,812
Financing costs included in accounts payable and accrued liabilities				
Beginning of period	80,327	264,575	158,523	-
End of period	29,608	82,148	29,608	82,148
Depreciation capitalized assets	21,874	8,058	44,717	29,214
Interest income received	102,073	102,562	387,497	170,371