

**FALCO PACIFIC RESOURCE GROUP INC.**

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012**

**FALCO PACIFIC RESOURCE GROUP INC.**  
**UNAUDITED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)  
(UNAUDITED)

	September 30, 2012	June 30, 2012
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 4)	\$ 3,517,059	\$ 1,946,039
Prepaid expenses (Note 5)	<u>17,786</u>	<u>35,121</u>
	3,534,845	1,981,160
<b>Non Current</b>		
Mineral Properties (Note 6)	<u>6,750,000</u>	<u>-</u>
	<u>\$ 10,284,845</u>	<u>\$ 1,981,160</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities (Note 7)	<u>\$ 248,259</u>	<u>\$ 40,735</u>
<b>Shareholders' equity</b>		
Capital stock (Note 8)	10,674,944	2,552,438
Reserves (Note 8)	896,606	39,487
Deficit	<u>(1,534,964)</u>	<u>(651,500)</u>
	<u>10,036,586</u>	<u>1,940,425</u>
	<u>\$ 10,284,845</u>	<u>\$ 1,981,160</u>

**Nature and continuance of operations** (Note 1)

**Approved on behalf of the Board of Directors:**

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*"Darin Wagner"* Director      \_\_\_\_\_  
*"Kelly Klatik"* Director

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

**FALCO PACIFIC RESOURCE GROUP INC.****UNAUDITED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

(UNAUDITED)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
<b>EXPENSES</b>		
Office and miscellaneous	\$ 373	\$ 966
Filing fees	9,411	13,149
Professional fees	2,686	37,818
Consulting	-	29,895
Share-based payments	857,119	-
Travel	<u>13,875</u>	<u>2,001</u>
<b>Loss and comprehensive loss for the period</b>	<b>(883,464)</b>	<b>(83,829)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.085)</b>	<b>\$ (0.025)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<b>10,390,652</b>	<b>3,353,666</b>

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

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**FALCO PACIFIC RESOURCE PACIFIC INC.**  
**UNAUDITED CONDENSED INTERIM STATEMENT OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
(UNAUDITED)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (883,464)	\$ (83,829)
Adjustments for non-cash items:		
Share-based payments	857,119	-
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	7,524	(15,424)
Prepaid expense	17,335	(262,030)
Cash used in operating activities	(1,486)	(361,283)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in mineral properties	(4,800,000)	-
Cash used in investing activities	(4,800,000)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital stock	6,5705,000	-
Proceeds from contributed surplus	-	-
Proceeds from issuance of special warrants	-	1,238,529
Share issuance costs	(197,994)	-
Cash provided by financing activities	6,372,506	1,238,529
<b>Increase in cash during the period</b>	<b>1,571,020</b>	<b>877,246</b>
<b>Cash, beginning of period</b>	<b>1,946,039</b>	<b>1,678,261</b>
<b>Cash, end of period</b>	<b>\$ 3,517,059</b>	<b>\$ 2,555,507</b>
<b>Cash paid during the period for interest</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid during the period for income taxes</b>	<b>-</b>	<b>-</b>

Supplemental cash flow disclosures (Note 11)

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

**FALCO PACIFIC RESOURCE GROUP INC.**  
**UNAUDITED CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in Canadian Dollars)  
(UNAUDITED)

	Capital Stock		Reserves			Total Shareholders' Equity
	Shares	Amount	Special Warrants	Share Based Payment Reserve	Deficit	
<b>Balance June 30, 2011</b>	8,199,934	1,882,158	-	39,487	(154,232)	1,767,413
Issuance of special warrants net of finance costs	-	-	1,238,529	-	-	2,064,364
Loss for the period	-	-	-	-	(83,829)	(497,268)
<b>Balance September 30, 2011</b>	8,199,934	1,882,158	1,238,529	39,482	(238,061)	2,922,113
<b>Balance June 30, 2012</b>	9,843,551	2,552,438	-	39,487	(651,500)	1,940,425
Private placement, net of share issue costs	26,282,000	6,262,506	-	-	-	6,262,506
Shares issued for mineral property	7,000,000	1,750,000	-	-	-	1,750,000
Share issue costs – non cash	440,000	110,000	-	-	-	110,000
Share based payment	-	-	-	857,119	-	857,119
Loss for the period	-	-	-	-	(883,464)	(883,464)
<b>Balance September 30, 2012</b>	43,565,551	\$ 10,674,944	\$ -	\$ 896,606	\$ (1,534,964)	\$ 10,036,586

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

**FALCO PACIFIC RESOURCE GROUP INC.**  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012  
(UNAUDITED)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Falco Pacific Resource Group Inc. (the “Company”) (formerly Druk Capital Partners Inc.) was incorporated under the Business Corporations Act (British Columbia) on March 16, 2010 and was classified as a Capital Pool Company as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4.

The Company has completed the acquisition of the rights, titles, and interests in the Rouyn-Noranda base/precious metals camp. The Company is in the business of exploration and development of these exploration and evaluation assets for base/precious metals.

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s continuing operations are dependent upon its ability to either secure additional equity capital or generate cash flow from operations in the future, which is not assured. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary, should the Company be unable to secure additional equity capital or generate cash from operations in the future

**2. BASIS OF PREPARATION**

These financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the IFRS interpretations committee (“IFRIC”). The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of condensed interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results could differ from these estimates.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates**

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The carrying value and the recoverability of mineral properties, which are included in the statements of financial position. The cost model is utilized and the value of the exploration and evaluation assets is based on the expenditures incurred. At every reporting period, management assesses the potential impairment which involves assessing whether or not facts or circumstances exist that suggests the carrying amount exceeds the recoverable amount.

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Use of estimates (cont'd...)**

- ii) The inputs used in calculating the fair value for share-based payments expense included in profit or loss and share-based share issuance costs included in shareholders' equity. The share-based payments expense is estimated using the Black-Scholes options-pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate.
- iii) The recognition of deferred tax assets. The Company considers whether the realization of deferred tax assets is probable in determining whether or not to recognize these deferred tax assets.

**Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on deposit and highly liquid short-term interest bearing variable rate investments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

**Mineral properties**

Costs related to the acquisition, exploration and development of mineral properties are capitalized by property until the commencement of commercial production. Should the company incur pre-exploration costs, these costs are expensed as incurred. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and depreciated using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and development costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

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 mineral property. If payments received exceed the capitalized cost of the mineral property, the excess is recognized as income in the year received. The amounts shown for mineral properties 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.

**Decommissioning, restoration and similar liabilities ("asset retirement obligations"):**

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. The increase in the provision due to the passage of time is recognized as interest expense. The Company has no asset retirement liabilities.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Impairment**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Stock-based compensation**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

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.

**Income Taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities which affect neither accounting nor taxable loss as well as differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Income Taxes (cont'd...)**

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial instruments (cont'd...)**

Financial assets (cont'd...)

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

*Other financial liabilities*: This category includes amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified its cash as fair value through profit and loss. Receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Recent accounting pronouncements**

IFRS 9, "Financial Instruments" ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidelines on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of "control" for identifying entities which are to be consolidated.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

The Company is currently evaluating the impact of these new and amended standards on its financial statements and relative reliability of the inputs used to estimate the fair values.

**4. CASH AND CASH EQUIVALENTS**

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	September 30, 2012	June 30, 2012
Cash held in trust	\$ 1,855,268	\$ -
General cash held in bank	<u>1,661,791</u>	<u>1,946,039</u>
	<u>\$ 3,517,059</u>	<u>\$ 1,946,039</u>

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**5. PREPAID EXPENSES**

The prepaid relates to an amounts paid as a deposit for legal costs that may be required in the next twelve months.

**6. MINERAL PROPERTIES**

On September 12, 2012, the Company entered into a purchase agreement (the "agreement") with QMX Gold Corporation ("QMX"). QMX is a company incorporated in Ontario and listed on the Toronto Stock Exchange.

Pursuant to the agreement, the Company acquired the Project by paying QMX \$5,000,000 cash consideration less \$200,000 held back for post closing working capital adjustments and issuing QMX 7,000,000 common shares of the Company at an issue price of \$0.25 per share.

Provided that QMX retains a 10-per-cent equity interest in the Company on an undiluted basis, the Company has also granted QMX a first right to purchase securities of the Company in any future financing completed by the company in which QMX may be legally entitled to participate following the proposed transaction and the right to nominate one person to the Company's board of directors. Should QMX's equity interest in the Company at any time fall below 10 per cent (on an undiluted basis), the foregoing rights shall immediately cease and be of no further force and effect.

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	September 30, 2012	June 30, 2011
Acquisition costs	\$ 6,750,000	\$ -

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**FALCO PACIFIC RESOURCE GROUP INC.**  
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**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2012	June 30, 2011
Trade payables	\$ 16,049	\$ 16,049
Accrued liabilities	<u>226,078</u>	<u>24,686</u>
	<u>\$ 242,127</u>	<u>\$ 40,735</u>

**8. CAPITAL STOCK AND RESERVES**

Authorized: Unlimited common shares without par value  
Shares held in Escrow: 17,644,000

During the period ended September 30, 2012:

- i) The Company issued 26,282,000 subscription receipts at a price at \$ 0.25 each to raise gross proceeds of \$6,570,500. The Company incurred cash share issue costs and finders' fees of \$197,994 in connection with the subscription receipts. Upon the completion of the acquisition (Note 6), the subscription receipts were converted into common shares of the Company. The Company also issued 440,000 finders' shares at a value of \$0.25 per share.
- ii) On September 24, 2012, the Company entered into a purchase agreement (the "agreement") with QMX Gold Corporation ("QMX") (Note 6). In relation to the agreement the company issued 7,000,000 common shares at a value of \$0.25 per share.

During the year ended June 30, 2012:

- i) In February 2012 the Company issued 1,643,617 shares at a price of \$0.41 per share in a private placement with certain former special warrant holders for gross proceeds of \$673,883. Share issue costs of \$3,603 were incurred.

**Stock options**

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2012	250,000	\$ 0.10
Granted	<u>2,095,000</u>	<u>\$ 0.30</u>
Balance, September 30, 2012	<u>2,345,000</u>	<u>\$ 0.28</u>
Options exercisable, September 30, 2012	<u>2,345,000</u>	<u>\$ 0.28</u>

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**8. CAPITAL STOCK AND RESERVES (cont'd...)**

Stock options outstanding at September 2012 are as follows:

Number of Options	Exercise Price	Expiry Date
250,000	\$ 0.10	August 30, 2015
2,095,000	\$ 0.30	September 24, 2017

**Share-based payments**

The Company adopted an incentive stock option plan (the “**Option Plan**”), which provides that the board of directors may from time to time, in its discretion, and in accordance with TSX-V Policies, grant to the directors, officers and technical 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.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the period:

	September 30, 2012	September 30, 2010
Risk-free interest rate	1.35%	-
Expected life of options	5 years	-
Annualized volatility	103.54%	-
Dividend rate	0	-

On September 24, 2012 the Company granted options to the Company’s employees, consultants, officers and directors to purchase up to 2,095,000 common shares of the Company at an exercise price of \$0.30 per share. The options vested on September 24, 2012, and are exercisable for five years.

**Warrants**

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2012	178,997	\$ 0.30
Expired during the period	(178,997)	\$ 0.30
Balance at September 30, 2012	-	\$ -

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**9. RELATED PARTY TRANSACTIONS**

On September 24, 2012 the Company granted options to the Company's directors, officers staff and consultants to purchase up to an aggregate of 2,095,000 common shares of the company at an exercise price of \$0.30 per share. The options vest as per the Company's stock option plan The options are exercisable for five years from September 24, 2012. The value of the options is recorded as stock based compensation and determined at \$857,119 using the Black-Scholes option-pricing method. As at September 30, 2012, there have been no other related party transactions since the Company's inception.

**10. FINANCIAL INSTRUMENTS**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's accounts payable and accrued liabilities, approximate carrying value, which is the amount payable on the statements of financial position. The Company's other financial instrument, cash and cash equivalents, under the fair value hierarchy, are based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held at large Canadian financial institutions with a portion in interest bearing accounts. The Company has no investment in asset backed commercial paper.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2012, the Company had a cash and cash equivalent balance of \$3,517,059 (June 30, 2012 - \$1,946,039) to settle current liabilities of \$248,259 (June 30, 2012 - \$40,735). Management believes that it has sufficient funds to meet its current liabilities as they become due.

*Market risk*

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

a) Interest rate risk

The Company has cash balances and interest-bearing investments. The interest earned on the investments approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is

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to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. The Company  
**10. FINANCIAL INSTRUMENTS (cont'd...)**

periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at September 30, 2012, the Company had a total of \$ Nil in investment-grade short-term deposit certificates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because of the short-term nature of these investments.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to financial instruments that are denominated in United States dollars ("U.S.\$") the impact on net loss for the period was not significant.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and copper, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

*Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The following non-cash transactions were not included in the statement of cash flows for the period ended September 30, 2012:

- a) The inclusion of \$200,000 in mineral property costs in accounts payable
- b) The issuance of 7,000,000 common shares at a price of \$0.25 per share for the acquisition of mineral properties having a value of 1,750,000
- c) The issuance of 440,000 common shares to finders at a price of \$0.25 per share having a value of \$110,000

The following non-cash transactions were not included in the statement of cash flows for the period ended September 30, 2011:

- a) None

**FALCO PACIFIC RESOURCE GROUP INC.**  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012  
(UNAUDITED)

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