FALCO RESOURCES LTD.

Management's Discussion & Analysis

For the Three and Nine Months Ended March 31, 2015

This Management Discussion and Analysis ("MD&A") of Falco Resources Ltd. ("Falco" or the "Company") provides analysis of the Company's financial results for the three and nine months ended March 31, 2015. The following information should be read in conjunction with the Company's unaudited financial statements and the notes thereto for the three and nine months ended March 31, 2015 and the audited financial statements and the notes thereto for the year ended June 30, 2014, which have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"). This MD&A is prepared as of May 26, 2015. All dollar figures stated herein are in Canadian dollars, unless otherwise specified.

For further details regarding the Horne 5 gold-silver-copper-zinc deposit project (Horne 5 Deposit), please refer to the NI 43-101 technical report dated April 16, 2014 and entitled "Technical Report and Mineral Resource Estimate for the Horne 5 Deposit" (the "Technical Report") available on SEDAR at www.sedar.com.

## Nature of Business

Falco Resources Ltd. is listed on the TSX Venture Exchange (the "TSX-V" or "Exchange") under the symbol FPC. The Company is one of the largest claim holders in the Province of Québec, with extensive land holdings in the Abitibi Greenstone Belt. Falco owns approximately 72,800 hectares of land in the Rouyn-Noranda mining camp, including 14 former gold and base metal mine sites.

Falco's principal property is the Horne Mine Complex, which hosts several former producers including the Horne Mine, the camp's largest, operated by Noranda from 1927 to 1976. Horne produced approximately 11.6 million ounces of gold and 2.5 billion pounds of copper. Falco's Technical Report contained a maiden 43-101 mineral resource estimate dated April 16, 2014 for the Horne 5 Deposit delineating an initial inferred resource of 25.3 million tonnes grading 2.64 g/t Au, 0.23% Cu and 0.7% Zn, for 2.2 Moz Au contained. A copy this report is available on SEDAR at www.sedar.com.

The Company was originally incorporated as Druk Capital Partners Inc. under the British Columbia *Business Corporations Act* on March 16, 2010 as a Capital Pool Company ("CPC"), as defined in TSX Venture Exchange Policy 2.4. As a CPC, the Company's principal business was to identify, evaluate and acquire assets, properties or businesses which would constitute a Qualifying Transaction ("QT") in accordance with Policy 2.4 of the Exchange.

On August 10, 2010 the Company filed a prospectus with the British Columbia and Alberta Securities Commissions offering 2,000,000 common shares at $0.10 per share as an initial public offering ("IPO"). The IPO was completed on August 30, 2010.

To satisfy the QT requirements, the Company signed a purchase agreement on September 12, 2012 with QMX Gold Corporation ("QMX"), a company incorporated in Ontario and listed on the TSX-V, to acquire 100% of QMX's right, title and interest in the Rouyn-Noranda Project (the "Project") in the Canadian Province of Québec. To finance the transaction, the Company raised gross proceeds of $6,570,500 by issuing 26,282,000 subscription receipts at $0.25 each, which were converted into common shares of the Company upon completion of the QT. On September 24, 2012, the Company completed the QT by paying QMX $5,000,000 and issuing QMX 7,000,000 common shares in its capital stock at an issue price of $0.25 per share. On September 25, 2012, the Company changed its name to Falco Pacific Resource Group Inc. and began trading as a Tier 2 Mining Issuer on the TSX-V under the symbol "FPC". As a result of the QT, the Company is now in the business of exploration, evaluation and development of these and potentially other exploration assets to determine whether or not these properties contain mineral resources that are economically recoverable.

On July 24, 2014 the Company changed its name to Falco Resources Ltd.

The significant highlight was the completion of the Technical Report. The independent Technical Report was the result of compilation and digitalization of historic exploration and production records that were compiled by Noranda Inc. up until the closure of the Horne Mine in 1976. Compilation and digitalization of historic records from the Horne Mine Complex and across the Rouyn-Noranda mining camp is ongoing and will assist Falco management with planning follow up exploration and development activities for the upcoming calendar year.

## Recent Developments

During the 3rd quarter of operations, Falco optimized and centralized the operations in and around Rouyn-Noranda. This is a one-time event and sets the stage for progress on the eventual development of the Horne 5 Deposit and the surrounding deposits. Executive management was consolidated in Montreal and the Rouyn-Noranda office was opened. All anticipated personnel changes are accounted for and Falco does not foresee further changes. Falco is now in a position to properly focus on the exploration, confirmation and development of its Horne 5 Deposit. In addition, Falco and the Board are currently evaluating alternatives with respect to appointing two new independent directors to fill the two current vacancies.

- On May 20, 2015 the Company announced the resignation of Mr. René Marion for its Board of Directors.

- On May 12, 2015 the Company announced the amendment of the regional exploration program. The 2015 regional exploration program is to be reduced. The previously allocated funds will rather test zones within 2 kilometers of the Horne deposit. Innovexplo was mandated and is currently reviewing additional data to identify targets that could be integrated to the Horne 5 Deposit.

- On April 14, 2015 the Company announced that the board had met and appointed Mr. Vincent Metcalfe as Chief Financial Officer of Falco. Concurrently Mr. Jim Davidson resigned as Falco's Chief Financial officer. Mr. Davidson continues to serve on the board.

The Company also announced the establishment of a new project office in Rouyn-Noranda. Additionally, Falco is also relocating its executive office to Montreal. Both the existing Toronto and Val d'Or offices are to be closed.

- On February 17, 2015 the Company announced that the board had met and appointed Mr. Luc Lessard as President and Chief Executive Officer of Falco after Mr. Trent Mell stepped down from the position and as director of the Company. Mr. Lessard will work closely with the Company's board and management to advance Falco's Horne project. Mr. Mell was provided severance and accrued bonus provision of $845,000 as required under the terms of his employment contract.

  Mr. Luc Lessard is a mining engineer with 25 years of experience designing, building and operating mines. Until recently he was Chief Operating Officer ("COO") of Canadian Malartic Partnership and before this, COO of Osisko Mining Corporation. He was responsible for the design and construction of the Canadian Malartic gold mine. Prior to this, he was Vice-President, engineering and construction, for IAMGOLD Corporation and General Manager, Projects and Construction, for Cambior Inc.

- On January 13, 2015 Osisko Gold Royalties Ltd. ("Osisko") filed an Early Warning Report stating that as of January 13, 2015 together with potential joint actors, had ownership and control over an aggregate of 12,918,771 Falco shares, representing approximately 13.8% of the 93,875,857 issued and outstanding Falco shares and it expended the purposes for which it may continue to hold the Falco shares, and determined that, in addition to the investment purposes, it may use its Holdings for purposes of influencing the corporate, managerial and strategic policies of Falco. A copy of the Early Warning Report is available on SEDAR at www.sedar.com.

## Rouyn-Noranda Mining District

The Company's principal asset is its 100% interest in approximately 728 square kilometers of mineral claims in the historic Rouyn-Noranda mining camp. Management believes that this represents approximately 70% of the entire mining district. The Company's holdings include 14 former producing gold and base metal mines. As an established mining camp in the Province of Québec, Rouyn-Noranda has the necessary infrastructure in place for exploration and mine development.

Rouyn-Noranda has had a long history of mining and exploration. Since the Horne deposit discovery in the 1920's, the area has been host to 50 past-producers, including 20 base metal mines and 30 gold mines. A number of copper-zinc volcanogenic massive sulphide ("VMS") deposits in the camp contain gold grades well in excess of those associated with typical VMS deposits which along with several mesothermal vein type deposits have accounted for more than 19 million ounces of historic gold production from the camp as a whole.

In addition to the acquisition of the mining claims comprising the Rouyn-Noranda project, the Company acquired an extensive database accumulated by Glencore plc and its predecessors, consisting of detailed GoCad 3D computerized models of area geology, mine infrastructure, geophysics and lithogeochemistry, as well as results from over four million metres of surface and underground drilling. The Company continues to analyze the data package to identify exploration targets. Included in this process is the identification and selective construction of geological models for highly prospective targets, including the Horne 5 Deposit.

## Horne 5 Deposit

In March of 2013, the Company retained InnovExplo Inc. ("InnovExplo") of Val d'Or, Québec to complete a digital model of the Horne 5 Deposit. Over 4,300 drill holes, 370 level plans, 620 cross sections, 99 longitudinal sections and over 150,000 assay results were incorporated into the model. Modeling also incorporated over 55,000 meters of underground development on 22 levels and 18 sublevels completed by Noranda in the exploration of the Horne 5 Deposit between 1931 and 1976.

Following completion of the digital model, InnovExplo was retained to prepare the Company's Technical Report for the Horne 5 Deposit. An initial 43-101 mineral resource estimate outlining an inferred resource of 25.3 million tonnes grading 2.64 g/t Au, 0.23% Cu and 0.7% Zn, for 2.2 Moz Au contained was reported in a March 4, 2014 news release.

The Horne 5 Deposit sits immediately below the former producing Horne Mine, which was operated by Noranda Inc. from 1926 to 1976 and produced approximately 2.5 billion pounds of copper and 11.6 million ounces of gold.

On February 10, 2015, Falco announced inaugural confirmatory drill program on the Horne 5 Deposit. The program is intended to confirm historical drill data, upgrade the size and confidence level of the mineral resource estimate and provide material for metallurgical testing. The $3.7 million program consist of 16,000 meter surface drilling consisting of 9-holes and 9 wedge holes. Metallurgical testing will be conducted to establish recoveries for Au, Ag, Cu and Zn. Drilling is expected to be completed by September 2015, initial metallurgical results anticipated in June 2015. Preliminary engineering studies to include hydrogeology, hoisting, rock mechanics and environmental will be initiated in 2015. Falco anticipates to publish and updated NI 43-101 resource estimate by year-end.

## Horne Mine Complex Immediate Area Exploration Activities

In addition to the work on the Horne 5 Deposit, the Company continues to incorporate additional historic data into the digital model in an area surrounding the Horne 5 Deposit known as the Horne Mine Complex. This includes the areas immediately adjacent to the former producing Horne, Remnor, Quemont, Joliet and

Chadbourne mines and exploration targets within the Horne area, including Horne West, Zone AA, Zone AM, Zone C, Zone R and Gatehouse.

On May 12, 2015, Falco announced that the regional exploration budget would be amended to favor additional drilling and exploration on the Horne Mine Complex area. It is expected that a portion of the $2.2 million originally committed to the regional exploration budget will be allocated to the Horne Mine Complex area.

The data compilation exercise has identified an additional 6,600 historic drill holes (460,000 meters of historic drilling) in the Horne Mine Complex. A significant number of these holes were drilled in areas not previously mined and include areas adjacent to the Horne 5 Deposit. Ongoing digitization and compilation of these drill holes is expanding the scope of the proprietary Horne model and is providing additional exploration targets in proximity to the Horne 5 Deposit. Summaries outlining eleven of these new satellite gold zones were presented in the Company's July 10, 2014 and August 22, 2014 news releases. An additional 16 new targets were identified (see November 6, 2014 news release) based on isolated historical drill intercepts that were never followed-up, thus remaining hidden in the archived drill database until Falco initiated its compilation.

InnovExplo was mandated and is currently reviewing the data to identify targets that could be integrated to the Horne 5 Deposit.

## Regional Exploration Activities

On June 5, 2014, Falco announced the commencement of a $2.2 million field exploration program, covering its mineral properties outside the Horne Mine Complex. During the first phase of this campaign, the Company completed assessment work required to keep 33 different properties in good standing. Phase One also included work on certain high-priority targets, such as the Rivière Mouilleuse ("Rimo") and the Duprat Syenite properties. Phase Two of the exploration program was recently completed and included follow up work on Phase One activities as well as exploration of new targets. The following news releases provided updates on the results of these activities: January 29, 2015; November 20, 2014; September 2, 2014; July 21, 2014.

On September 2, 2014 the Company announced initiation of drilling at its Lac Hervé property to test a large borehole anomaly with conductivities typical of massive sulphide mineralization. On November 20, 2014 it was announced that drilling had intersected a few meters of stringer zone VMS style mineralization. Recognition of this new VMS setting in the eastern portion of the Rouyn-Noranda camp opens up over 15 kilometers of favorable felsic volcanic stratigraphy for potential new VMS discoveries.

As discussed previously, on May 12, 2015, Falco announced that the regional exploration budget would be amended to favor additional drilling and exploration on the Horne Mine Complex area. With the exception of the Rimo property, where a reconnaissance drilling program on geophysic targets is expected to commence before 2015 year end, the majority of Falco regional properties will be kept in good standing, but field work will be reduced to a minimum.

### Beauchastel Option Agreement

On August 15, 2013, the Company finalized an option agreement to acquire a 100% interest in the Beauchastel Gold property. The Beauchastel Gold property is located in the Flavrian portion of the Rouyn-Noranda project area contiguous with claims held by the Company.

The Company received TSX-V approval for the option agreement on September 3, 2013, and under the terms of the option agreement the Company paid $25,000 and issued 50,000 common shares to Société d'Exploration Minière Vior Inc. ("Vior").

On May 22, 2014, the Company completed the exercise of the Option by making the final option payment of $25,000 and issuing 125,000 common shares to Vior. In addition, under the terms of the Option Agreement, Vior will retain a net smelter return ("NSR") royalty of 2% on the Beauchastel Gold property. The Company has the right to buy back up to half of the NSR royalty for $1 million at any time and has been granted a right of first refusal on the sale of the remaining half NSR royalty.

### Surface Rights Option Agreement

On September 8, 2014, the Company announced that it had signed an option agreement with the City of Rouyn-Noranda to acquire the surface rights to land 500 metres north of the Horne 5 Deposit and immediately adjacent to the Horne smelter. The agreement provides the Company with a 5-year option to purchase additional land in the Horne Mine Complex. The total purchase price is $2,900,000, of which a $1,000,000 non-refundable was paid upon transfer of the property. The remaining $1,900,000 is payable by August 1, 2019.

### Investor Relations Activities

During the three-month period ended March 31, 2015, the Company terminated third parties contracts with regards to Investor Relations. Falco has benefited from a growing interest, resulting in marketing with a number of banks and institutions at no cost to the Company.

## Selected Financial Information

| | Three months Ended March 31, 2015 | Three months Ended March 31, 2014 | Nine months Ended March 31, 2015 | Nine months Ended March 31, 2014 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 7,436,098 | $ 3,833,365 | $ 7,436,098 | $ 3,833,365 |
| Working capital[(1)] | $ 6,405,376 | $ 4,141,978 | $ 6,405,376 | $ 4,141,978 |
| Total assets | $ 22,599,668 | $ 15,301,391 | $ 22,599,668 | $ 15,301,391 |
| Total non-current financial liabilities | - | - | - | - |
| Total revenue | - | - | - | - |
| Net loss for the period | $ 2,694,091 | $ 683,319 | $ 4,592,025 | $ 1,875,421 |
| Basic and diluted loss per share | $ 0.03 | $ 0.01 | $ 0.05 | $ 0.03 |

(1) Excluding the deferred premium on flow-through shares.

Cash and cash equivalents increased at March 31, 2015 compared to March 31, 2014 as a result of a brokered private placement of flow-through shares and common shares that generated net proceeds of $9,240,983 and warrants and stock options exercised, partially offset by investments in exploration and evaluation assets and in an option for a property as well as administrative costs.

Working capital increased as a result of the increase in cash and cash equivalents, offset by an increase in accounts payable and accrued liabilities which is mainly due to severance costs payable in the amount of $1,063,980.

The total assets increased as a result of the increase in working capital and investments in exploration and evaluation assets and for an option in a property.

The increase in the net loss for the three and nine months ended March 31, 2015 is the result of severance costs of $1,908,980 and higher administrative costs due mainly to the restructuring of the management and to support a higher level of exploration and evaluation investments.

## Results of operations for the three months ended March 31, 2015
*(compared to the three months ended March 31, 2014)*

Falco incurred a net loss of $2,694,091 for the three months ended March 31, 2015 compared to a net loss of $683,319 for the three months ended March 31, 2014.

During the three months ended March 31, 2015, the company initiated a restructuring of the management team, resulting in additional consulting and compensation costs of $1,908,980 and higher professional fees, the main reasons for the increased net loss in 2015 compared to the comparative period in 2014. Consulting and compensation fees amounted to $2,209,651 in the three months ended March 31, 2015 (2014 - $260,030) and professional fees reached $116,257 (2014 - $28,004).

Other expenses for the three months ended March 31, 2015 consist of: travel expenses of $35,479 (2014 - $62,472), filing and transfer agent fees of $12,161 (2014 - $11,776), promotion and shareholder costs of $60,261 (2014 - $67,299), investor relations costs of $66,827 (2014 - $30,230) and office and miscellaneous expenses of $115,813 (2014 - $92,943).

There were also "non-cash share based compensation" of $151,121 (2014 - $190,135) and non-cash "other income – premium on flow through shares" of $98,195 (2013 - $66,000) for the three months ended March 31, 2015.

## Results of operations for the nine months ended March 31, 2015
*(compared to the three months ended March 31, 2014)*

Falco incurred a net loss of $4,592,025 for the nine months ended March 31, 2015 compared to a net loss of $1,875,421 for the nine months ended March 31, 2014. The higher net loss for the nine-month period in 2015 is mainly the result of the restructuring of the management team, resulting in additional consulting and compensation costs of $1,900,000 and higher professional fees. Consulting and compensation fees amounted to $3,083,051 in the nine months ended March 31, 2015 (2014 - $638,755) and professional fees reached $231,578 (2014 - $120,818).

Other expenses for the nine months ended March 31, 2015 consist of: travel expenses of $238,321 (2014 - $201,613), filing and transfer agent fees of $36,241 (2014 - $26,714), promotion and shareholder relation costs of $173,280 (2014 - $183,533), investor relations costs of $187,403 (2014 - $31,791) and office and miscellaneous expenses of $288,222 (2014 - $220,537).

There were also "non-cash share based compensation" of $678,962 (2014 - $578,553) and non-cash "other income – flow through premium" of $359,330 (2014 - $153,500) for the nine months ended March 31, 2015.

## Liquidity and Capital Resources

As at March 31, 2015, the Company had working capital of $5,597,789 ($6,405,376 excluding the deferred premium on flow-through shares), including cash and cash equivalents of $7,436,098 compared to $3,924,101 as at June 30, 2014 ($4,862,081 excluding the deferred premium on flow-through shares), including cash and cash equivalents of $3,833,365.

As at March 31, 2015, a remaining amount of $5,999,000 was required to be spent on flow-through expenditures by December 31, 2015 in addition to $433,237 of flow-through expenditures included in accounts payable and accrued liabilities as at March 31, 2015.

The increase in the Company's liquidity position is primarily the result of the proceeds from the issuance of capital stock that generated net proceeds of $10,609,608, partially offset by investments in exploration and evaluation assets of $3,001,521 and in an option on a property for $1,000,000 and administrative costs that resulted in cash outflows of $2,882,412. The issuance of capital stocks is the result of a brokered private placement of flow-through shares and common shares that generated net proceeds of $9,240,983 and warrants and stock options exercised.

The Company's continued development is contingent upon its ability to raise sufficient financing both in the short term and long term. The Company does not generate cash flow therefore additional capital will be required to pursue its long-term development. The ability to raise additional funds may be impaired or such financing may not be available on favourable terms, due to conditions beyond the control of the Company, such as continued uncertainty in the capital markets and depressed commodity markets.

## Cash flows for the nine months ended March 31, 2015
*(compared to the nine months ended March 31, 2014)*

Cash flows used in operating activities totaled $2,882,412 during the nine months ended March 31, 2015 compared to $1,509,582 in the corresponding period in 2014. The increase is due to the increase in operating expenses in 2015, including severance payments to the former President and CEO.

Cash outflows from investing activities increased to $4,124,463 in 2015 compared to $1,103,585 in 2014. During the nine months ended March 31, 2015, the Company invested $3,001,521 in exploration and evaluation assets compared to $1,100,907 in the comparative period in 2014. The investments were allocated to the continued exploration and evaluation work on the Rouyn−Noranda Project, as previously described in this MD&A. The Company also invested $1,000,000 to option a property in 2015. During the nine months ended March 31, 2015, the Company spent $137,942 to acquire equipment.

Cash flows provided by financing activities were $10,609,608 for the nine months ended March 31, 2015 compared to 5,460,572 in 2014. The cash inflow was the result of a brokered private placement of flow-through shares and common shares that generated net proceeds of $9,240,983, warrants exercised for proceeds of $1,072,125 and stock options exercised for proceeds of $296,500.

## Description of financing transactions (last 18 months)

Financing transactions completed over the past eighteen months consisted of the following:

- On November 14, 2013, the Company completed a non-brokered private placement (the "Private Placement") of an aggregate of 12,045,999 units at a price of $0.30 per unit ("Unit") and 4,142,770 flow through common shares at a price of $0.36 ("FT Shares") for total gross proceeds of $5,105,197. Each Unit consisted of one common share and one-half of one common share purchase warrant in the Company. Each warrant entitles the holder thereof to purchase one additional common share at a price of $0.60 per common share for a period of 24 months from the closing date, subject to an acceleration clause. Acceleration can occur if the shares trade at a volume-weighted price greater than $1.00 for a period of 20 consecutive trading days.

- On October 22, 2014 the Company announced it had closed a brokered private placement of flow-through shares and common shares. Falco sold 6,555,600 common shares at a price of $0.45 per common share and 13,557,716 flow-through shares at a price of $0.52 per flow-through share for aggregate gross proceeds of $10,000,032. In conjunction with the closing of the Offering, the Company agreed to pay the Agents a cash commission of 6% of the gross proceeds raised from subscriptions in the Offering from persons placed by the

Agents which is equal to $540,691. There were other share issuance costs of $214,498 composed of legal fees, filing fees and other associated costs. In addition the Company has issued to the Agents common share warrants ("Agent's Warrants") equal to 6% of the common shares and flow-through shares subscribed by persons placed to the Company by the Agents totaling 967,014 Agent's Warrants at an exercise price of $0.5625 per common share until October 22, 2016.

## Summary of Quarterly Results

A summary of selected financial information for the last eight quarters is as follows:

| | Three Months Ended March 31, 2015 | Three Months Ended December 31, 2014 | Three Months Ended September 30, 2014 | Three Months Ended June 30, 2014 |
|---|---|---|---|---|
| Total Revenue | - | - | - | - |
| Net loss | $2,694,091 | $1,244,174 | $653,760 | $1,047,036 |
| Net loss per share | $0.03 | $0.015 | $0.01 | $0.02 |
| Total assets | $22,599,668 | $23,662,796 | $15,745,671 | $15,301,391 |
| Total liabilities | $2,488,752 | $1,290,925 | $756,190 | $937,980 |

| | Three Months Ended March 31, 2014 | Three Months Ended December 31, 2013 | Three Months Ended September 30, 2013 | Three Months Ended June 30, 2013 |
|---|---|---|---|---|
| Total Revenue | - | - | - | - |
| Net loss | $683,319 | $843,657 | $348,445 | $338,537 |
| Net loss per share | $0.01 | $0.015 | $0.005 | $0.01 |
| Total assets | $15,773,257 | $15,718,252 | $11,352,057 | $11,754,855 |
| Total liabilities | $675,451 | $587,612 | $469,259 | $588,687 |

The increase in the net loss for the three months ended March 31, 2015 is mainly the result of severance costs following the reorganization of the management of the Company.

Total assets increased for the three months ended December 31, 2014 and 2013 following equity financings completed by the Company.

The increase in liabilities as at December 31, 2014 and March 31, 2015 is the result of higher exploration and evaluation activities. In addition, at March 31, 2015, severance costs of $1,063,980 were payable.

## Related Party Transactions

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 nine months ended March 31, 2015 and 2014:

| | March 31, 2015 | March 31, 2014 |
|---|---|---|
| Salaries and short-term employees benefits[(1),(2)] | $2,312,725 | $354,961 |
| Share-based compensation | 586,293 | 276,606 |
| | $2,899,018 | $631,567 |

(1) Includes consulting and directors' fees.
(2) Includes severance expenses of $1,653,980.

As at March 31, 2015, an amount of $873,980 ($134,621 as at March 31, 2014) is included in accounts payable and accrued liabilities.

In addition, an amount of $51,797 was payable to a company related to a significant shareholder for services and rental of offices.

## Contractual Obligations and Commitments

As at March 31, 2015, the Company is committed to spend $5,999,000 on flow-through expenditures by December 31, 2015.

## Subsequent Events

The following significant events occurred subsequently to March 31, 2015:

- (i) 180,000 stock options were exercised for gross proceeds of $57,000;
- (ii) 207,300 warrants were exercised to gross proceeds of $93,285;
- (iii) $790,250 were paid as severance fees following the departure of employees and consultants.

## Outstanding Share Data

At the date of this MD&A, the Company has 95,085,657 issued and outstanding common shares, 7,383,890 outstanding stock options and 7,235,083 outstanding warrants.

## Off-Balance Sheet Arrangements

At the date of this MD&A, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

## Basis of Presentation of Financial Statements

The unaudited condensed interim financial statements for the three and nine months ended March 31, 2015 have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, *Interim Financial Reporting*. The unaudited condensed interim financial statements of Falco for the three and nine months ended March 31, 2015 should be read in conjunction with the annual financial statements for the year ended June 30, 2014, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies, methods of computation and presentation applied in the unaudited condensed interim financial statements for the three and nine months ended March 31, 2015 are consistent with those applied by the Company to the audited financial statements for the year ended August 31, 2014, except for the changes in accounting policies presented in Note 3 of the unaudited condensed interim financial statements. The Board of Directors has approved the unaudited condensed interim financial statements on May 26, 2015.

## Critical Accounting Estimates and Judgments

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 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.

Critical judgements in applying the Company's accounting policies are detailed in the audited financial statements for the year ended June 30, 2014 filed on SEDAR (www.sedar.com).

## Financial Instruments

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. Measurement in subsequent periods depends on the classification of the financial instrument.

A description of financial instruments and their fair value is included in the audited financial statements for the year ended June 30, 2014 filed on SEDAR (www.sedar.com).

### Financial Risks

The Company's activities expose it to a variety of financial risks: market risks (including interest rate risk, foreign currency risk and commodity price 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.

A description of the financial risks are included in the audited annual financial statements for the year ended June 30, 2014 filed on SEDAR (www.sedar.com).

## RECENTLY ISSUED REPORTING STANDARDS AND AMENDMENTS

### New standards and amendments issued and in effect

*IFRIC 21, Levies ("IFRIC 21")*

In May 2013, the IASB issued International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Company has adopted IFRIC 21 effective July 1, 2014. This change was made in accordance with the applicable transitional provision. The adoption of IFRIC 21 did not affect the Company.

*Offsetting Financial Assets and Financial Liabilities (Amendment to IAS 32)*

The amendment to IAS 32, *Financial Instruments: Presentation* ("IAS 32"), requires that a financial asset and a financial liability should only be offset and the net amount reported when an entity has a legal enforceable right to set off the amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company has adopted the amendment to IAS 32 effective July 1, 2014. This change was made in accordance with the applicable transitional provision. The adoption of this amendment did not affect the Company.

*Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)*

Under the amended IAS 36, *Impairment* ("IAS 36"), the recoverable amount of a cash-generating unit ("CGU") is required to be disclosed only when an impairment loss has been recognized or reversed. The Company has adopted the amendment to IAS 32 effective July 1, 2014. This change was made in accordance with the applicable transitional provision. The adoption of this amendment did not affect the Company.

## Accounting standards issued but not yet effective

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date of later than July 1, 2014. Many of these updates are not relevant to the Company and are therefore not discussed herein.

*IFRS 9, Financial Instruments ("IFRS 9")*

In November 2009 and October 2010, the IASB issued the first phase of IFRS 9, *Financial Instruments*. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The final version of IFRS 9 was issued in July 2014 and includes a third measurement category for financial assets (fair value through other comprehensive income) and a single, forward-looking 'expected loss' impairment model.

This standard is part of a wider project to replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only three classification categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. It also introduces additional changes relating to financial liabilities and aligns hedge accounting more closely with risk management.

The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Management is currently reviewing the impact that this standard will have on its financial statements.

## Internal Control Disclosure

On November 23, 2007, the British Columbia Securities Commission exempted Venture Issuers, such as the Company, from certifying disclosure controls and procedures, as well as internal controls over financial reporting as of December 31, 2007 and thereafter. The Company is required to file basic certificates. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109.

## Risk Factors

An investment in the Company will involve a number of risks. The reader should carefully consider the following risks and uncertainties in addition to other information in this MD&A in evaluating the Company and its business before making any investment decision in regards to the shares. The Company's business, operating and financial condition could be harmed due to realization of any of the following risks. The risks described below may not be the only ones which could affect the Company. Additional risks not presently known to the Company may also impair its business operations.

*Exploration and Development Risks*

Mineral exploration and development involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks associated with exploration and development.

*Insurance*

The Company's involvement in the exploration and development for natural resources may result in the Company becoming subject to liability for pollution, property damage, personal injury or other hazards and any insurance the Company may have may not be sufficient to cover the full extent of such liabilities.

*Prices, Markets and Marketing of Gold and Metal Prices*

World prices for commodities fluctuate and are affected by numerous factors including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of commodities, and therefore an economic downturn could have a negative impact on the Company.

*Liquidity and Capital Requirements*

Management anticipates that, subject to financing, it will make substantial capital expenditures towards developing the Company's mineral properties. However, there is no assurance that the Company will operate profitably or will generate positive cash flow in the future. The Company may require additional financing in order to proceed with the exploration and development of their property and to sustain its business operations if it is not successful in earning revenues. The Company may also need further financing if it decides to obtain additional mineral properties. The Company's future may be dependent upon its ability to obtain financing. If the Company does not obtain such financing, if required, its business could fail and investors could lose their entire investment.

*Environmental Risks*

All phases of the mineral exploration and development business present environmental risks and hazards and are subject to environmental regulations. Compliance with such legislation/regulations can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner which may lead to stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. No assurance can be given that the application of environmental laws to the business and operations of the Company will not result in a curtailment of exploration or production, a material increase in the costs of production, development or exploration activities, or otherwise adversely affect the Company's financial condition, results of operations or prospects. As of May 26th, 2015 there were no existing material environmental liabilities.

*Government Regulation*

The natural resource exploration and development industry is subject to controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Company in a manner materially different than they would affect other natural resource exploration and development companies of similar size. The current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

*Markets for Securities*

There can be no assurance that an active trading market in the shares will be established and sustained. The market price for the shares could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of its peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the shares.

*Reliance on Key Individuals*

The Company's success depends, to a certain degree, upon certain key members of the management. It is expected that these individuals will be a significant factor in the Company's growth and success. The loss of the service of members of the management and certain key employees could have a material adverse effect on the Company.

## Additional Information

Additional information relating to the Company has been filed on SEDAR and is available at www.sedar.com.

## Forward-Looking Information

This MD&A contains "forward-looking statements" and "forward-looking information" within the meaning of applicable Canadian securities legislation, including information about our projects, plans and future performance. All statements, other than statements of historical fact, are forward-looking statements. The words "expect", "believe", "anticipate", "will", "intend", "estimate", "forecast", "budget", "schedule" and similar expressions identify forward-looking statements. Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to: changes to current estimates of mineral resources; labour availability; litigation; availability of and increased costs associated with contractors and exploration equipment; the speculative nature of mineral exploration and development, including the risks of obtaining necessary licenses and permits; contests over title to properties; uncertainty with the Company's ability to secure capital to execute its business plans; changes in national and local government legislation in Canada; risk of loss due to sabotage and civil disturbances; and business opportunities that may be pursued by the company. Many of these uncertainties and contingencies can affect our actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, us. Readers are cautioned that forward-looking statements are not guarantees of future performance. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.