

**FALCO PACIFIC RESOURCE GROUP INC.**  
(Formerly Druk Capital Partners Inc.)  
**Form 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the Nine Months Ended March 31, 2013**

This Management Discussion and Analysis (“MD&A”) of Falco Pacific Resource Group Inc. (formerly Druk Capital Partners Inc.) (the “Company”) provides analysis of the Company’s financial results for the nine months ended March 31, 2013. The following information should be read in conjunction with the Company’s unaudited financial statements and the notes thereto for the period ended March 31, 2013 which have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

This MD&A is prepared as of May 28, 2013. All dollar figures stated herein are in Canadian dollars, unless otherwise specified.

**Forward-Looking Information**

This MD&A contains forward-looking or outlook information which reflects management’s expectations regarding the Company’s growth, results of operation, performance and business prospects and opportunities. The use of words such as “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe”, “outlook”, “forecast” and similar expressions are intended to identify forward-looking statements. Forward-looking statements in the MD & A include, but not limited to, the Company’s expectation of its working capital needs and the Company’s outlook on the Qualifying Transaction. These statements reflect management’s current beliefs and are based on information currently available to management. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results of events to differ materially from those anticipated in these forward-looking statements. Such factors include, among others, the following: general economic and business conditions; changes in business strategy or development/acquisition plans; environmental exposures; financial risk; existing governmental regulations; liabilities and other claims asserted against the Company; and other factors referred to in the Company’s filings with Canadian securities regulators. There can be no assurance that actual results will be consistent with these forward-looking information. Readers should not put undue reliance on forward-looking information. These statements are made as of the date hereof and management assumes no obligation to update or revise these statements to reflect new events or circumstances except as required by law.

**Nature of Business**

The Company was incorporated under the British Columbia Business Corporation Act on March 16, 2010. The Company was a Capital Pool Company (“CPC”) as defined in Policy 2.4 of the TSX Venture Exchange (“TSX-V or Exchange”). As a CPC, the Company’s principal business was to identify, evaluate and acquire assets, properties or businesses which would constitute a Qualifying Transaction in accordance with Policy 2.4 of the Exchange (“QT”).

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

On September 24, 2012 the Company completed its QT by acquiring 100 per cent of QMX Gold Corporation’s (“QMX”) rights, titles and interest in the Rouyn-Noranda base-precious Project (“the Project”) in Quebec, Canada. The Company has commenced trading as a Tier 2 Mining Issuer on the TSX-V under the symbol “FPC”. To complete the QT, the Company paid QMX \$5,000,000, less \$200,000 held back for post closing working capital adjustments, and issued 7,000,000 shares. As a result of the completion of the QT, the Company is now in the business of exploration and evaluation of these and potentially other exploration assets to determine whether or not these properties contain mineral reserves that are economically recoverable.

### **Overall Performance**

On September 12, 2012, the Company entered into a purchase agreement with QMX, a company incorporated in Ontario and listed on the Toronto Stock Exchange, which constituted the Company’s QT. To finance the purchase agreement, 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. The Company incurred cash finders’ fees of \$53,375 and issued 440,000 finders’ shares valued at \$0.25 per share.

Since the acquisition of the Project, the Company has focused on the following:

- Reviewing and compiling historic data located digitally and in the secured archives at the Xstrata smelter in Rouyn Noranda.
- Modeling and interpreting information in order to build a geological model for certain prospective targets.
- Completing required assessment work on numerous properties.
- Completed a preliminary drill program in the Flavrian area in order to assist on interpretation of the area.
- Establishing new internal policies and procedures and integrating new members of the geological team.
- Integrating new software solutions in order to create greater efficiency in the compilation efforts.
- Identifying adjacent properties in the Project area that could be prospective opportunities to consolidate.
- Establishing corporate awareness through the launching of the corporate website, attending numerous trade shows, and meetings with members of the financial community.

The Project covers an area of 728 square kilometres and is located in the Rouyn-Noranda Mining Camp. The Project includes several former producing mines and exploration ground prospective for both gold and base metals.

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. Copper-zinc volcanogenic massive sulphide (“VMS”) deposits in the

camp typically contain higher than average gold grades which along with several mesothermal vein type deposits in the camp have accounted for more than 13 million ounces of historic gold production from the camp as a whole. Falco Pacific's Rouyn-Noranda Project covers approximately 70 % of the Central Mining Camp, and approximately 40% of the greater Rouyn-Noranda area. As a historic mining camp, Rouyn-Noranda has all the necessary infrastructure in place for exploration and development.

In addition to the acquisition of the mining claims comprising the Rouyn-Noranda Project the Company acquired an extensive database accumulated by Xstrata and its predecessors over the past 90 years, consisting of detailed GoCad 3D computerized models of area geology, mine infrastructure, geophysics, and litho-geochemistry, as well as results from over four million metres of surface and underground historical drilling. The Company is currently analyzing the data package acquired with a goal of identifying targets for future exploration and potential development. Included in this process is the construction of geological models for selective high-priority targets including the Horne 5 gold-silver-copper-zinc deposit

In the last quarter Falco completed assessment work required to keep its ground in good standing. In addition, a 2051 metre diamond drill program as announced December 27<sup>th</sup> (NR 12-15) was completed in the Flavrian area of the Western Camp to test near surface mineralization reported to be associated with a regional deformation zone. The results of this program are currently being analyzed.

### **Selected Financial Information**

A summary of selected financial information for the year ended June 30, 2012 is as follows:

|   | Year ended June 30,<br>2012<br><br>(IFRS) | Year ended June 30,<br>2011<br><br>(IFRS) |
|---|---|---|
| Total revenue                           | -   | -   |
| Net loss for the period                 | \$ (497,268)                              | \$ (120,738)                              |
| Basic and diluted loss per share        | \$ (0.09)                                 | \$ (0.05)                                 |
| Total assets                            | \$ 1,981,160                              | \$ 1,828,261                              |
| Total non-current financial liabilities | -   | -   |
| Cash dividends                          | -   | -   |

### **Results of Operations**

The company had a net and comprehensive loss of \$1,914,797 for the nine months ended March 31, 2013 compared to a net loss of \$202,350 for the nine months ended March 31, 2012.

For the nine months ended March 31, 2013 expenses consisted of travel of \$93,170 (2012 – \$7,056) and consulting and compensation of \$537,126 (2012 – \$99,456), professional fees of \$130,472 (2012 – \$59,386), stock based compensation of \$857,119 (2012 - \$ Nil), filing and transfer agent fees of \$30,487 (2012 - \$24,222) and office expense and miscellaneous of \$206,414 (2012 - \$12,230). The Company remains focused on reducing costs from all facets of the business in order to reduce its monthly cash burn while at the same time dedicating appropriate resources to key projects going forward. The cost cutting measures have been initiated resulting in a substantial reduction in employee compensation and office expenses.

The company had a net and comprehensive loss of \$546,634 for the three months ended March 31, 2013 compared to a net loss of \$36,732 for the three months ended March 31, 2012.

For the three months ended March 31, 2013 expenses consisted of travel of \$53,390 (2012 – \$Nil) and consulting and compensation of \$288,005 (2012 – \$6,030). The compensation in the quarter was higher than the past quarter as the Company terminated some employees in its operational office and made some severance payments. The Company also had professional fees of \$48,160 (2012 – \$21,568), filing and transfer agent fees of \$10,184 (2012 - \$3,721) and office expense and miscellaneous of \$99,757 (2012 - \$5,413).

### Summary of Quarterly Results

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

|                    | Three Months Ended March 31, 2013 | Three Months Ended December 31, 2012 | Three Months Ended September 30, 2012 | Three Months Ended June 30, 2012 |
|--------------------|-----------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| Total Revenue      | Nil                               | Nil                                  | Nil                                   | Nil                              |
| Net loss           | \$546,634                         | \$484,699                            | \$883,464 <sup>(1)</sup>              | \$294,918 <sup>(2)</sup>         |
| Net loss per share | \$.02                             | \$0.02                               | \$.085                                | \$.055                           |
| Total assets       | \$9,768,392                       | \$10,293,262                         | \$10,284,848                          | \$1,981,160                      |
| Total liabilities  | \$616,302                         | \$668,038                            | \$248,259                             | \$40,735                         |

(1) The net loss for the three months ended September 30, 2012 includes stock based compensation of \$857,119

(2) The net loss for the three months ended June 30, 2012 includes a write-off of equity investment in the amount of \$150,000

|                    | Three Months Ended March 31, 2012 | Three Months Ended December 31, 2011 | Three Months Ended September 30, 2011 | Three Months Ended June 30, 2011 |
|--------------------|-----------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| Total Revenue      | Nil                               | Nil                                  | Nil                                   | Nil                              |
| Net loss           | \$36,732                          | \$81,789                             | \$83,829                              | \$37,390                         |
| Net loss per share | \$.007                            | \$.015                               | \$.025                                | \$.015                           |
| Total assets       | \$3,692,054                       | \$3,711,758                          | \$2,967,537                           | \$1,828,261                      |
| Total liabilities  | \$63,635                          | \$44,432                             | \$45,424                              | \$60,848                         |

## **Liquidity and Capital Resources**

As at March 31, 2013 the Company had working capital of \$1,174,995 (June 30, 2012 - \$1,940,425; March 31, 2012 - \$3,628,419), an accumulated deficit of \$2,566,297 (June 30, 2012 - \$651,500; March 31, 2012 - \$356,582) and cash on hand of \$1,194,806 (June 30, 2012 - \$1,946,039; March 31, 2012 - \$1,456,421). During the nine months ended March 31, 2013, operating activities used cash of \$961,085 (March 31, 2012 – \$220,832). No cash has been classified as restricted at March 31, 2013.

During the nine months ended March 31, 2013, the Company completed a private placement by issuing 26,282,000 common shares at \$0.25 per share to raise cash proceeds of \$6,445,843 net of brokers' fees and share issue costs.

On May 15, 2013 the Company announced that it had arranged and placed a non-brokered private placement of a total of 2,670,500 flow-through common shares at a price of \$0.40 per flow-through common share. The gross proceeds total \$1,068,200. On certain proceeds a cash finder's fee of 5.5% was paid. This private placement was accepted by the TSX venture exchange on May 22, 2013.

The Company has sufficient capital resources to meet current operations and short term plans. Regardless, additional capital will be required in the longer term. 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.

## **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements that are likely to have or are reasonably likely to have a material current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that have not been disclosed in the Company's financial statements.

## **Qualifying transactions**

On July 19, 2012 the Company announced that it had closed the first tranche of its non-brokered private placement of 22,212,000 subscription receipts at a price of \$0.25 per subscription receipt for gross proceeds of \$5,553,000. On July 30, 2012 the Company announced that it had closed the second tranche of its non-brokered private placement of 3,870,000 subscription receipts at a price of \$0.25 per subscription receipt for gross proceeds of \$967,500. The Company announced on September 14, 2012 that the third and final tranche of an additional 200,000 subscription receipts had closed at a price of \$0.25 per subscription receipt for gross proceeds of \$50,000. The Company has issued 26,282,000 common shares for the subscription receipts for aggregate proceeds of \$6,570,500. Each subscription receipt entitled the holder to receive one common share of the Company subject to the release conditions. Release conditions included the receipt of all regulatory approvals required to complete the purchase of 100% of QMX's right, title and interest in the Rouyn-Noranda base/precious metal camp located in Rouyn-Noranda, Quebec and the Company and QMX agreeing that all conditions under the definitive agreement have been satisfied.

On September 14, 2012, the Company announced that it has entered into a definitive asset purchase agreement dated September 12, 2012 with QMX to acquire 100% of QMX's right, title and interest in the Rouyn-Noranda base/precious metal camp ("the Project") located at Rouyn-Noranda, Quebec. This transaction is the Company's Qualifying Transaction as that term is defined in Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual and was subject to the approval of the 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. The Company is very near finalizing the closing working capital adjustments and still has \$89,537 of the holdback owing at March 31, 2013. In late May another \$28,978 was paid bringing down the holdback to \$60,559.

The Company also announced on September 14, 2012 that on the closing of the transaction, the Company has changed its name to Falco Pacific Resource Group Inc. and commenced trading on the exchange as a Tier 2 Mining issuer under the trading symbol "FPC". The Company is no longer considered a capital pool company.

On September 24, 2012 The Company and QMX jointly announced the closing of the Qualifying Transaction for the acquisition of the Project.

### **Transition to International Financial Reporting Standards**

The Company has prepared its March 31, 2013 interim financial statements in accordance with International Financial Reporting Standards ("IFRS"), with an effective transition date of July 1, 2010.

There were no significant differences between IFRS and Canadian GAAP in connection with the Company's consolidated statements of financial position, loss and comprehensive loss and deficit or cash flows for the nine months ended March 31, 2013.

### **Financial instruments**

The Company's financial instruments include cash and cash equivalents and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their short term nature. The Company is not exposed to significant interest, credit or currency risk arising from these financial instruments.

See Note 9 in the June 30, 2012 audited financial statements for further information on the Company's financial instruments.

### **Related Party Transactions**

The Company transacts with key individuals from management and with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these transactions were for management services rendered. Key management personnel are defined as officers and directors of the Company.

Management services and compensation during the period consist of consulting fees paid and stock options granted to directors and officers.

The following summarizes management compensation expense:

|                                | March 31,<br>2013 | March 31,<br>2012 |
|--------------------------------|-------------------|-------------------|
| Management and consulting fees | \$ 207,490        | \$ -              |
| Stock based compensation       | \$ 574,274        | \$ -              |
|                                | \$ 781,764        | \$ -              |

### Outstanding Share Data

a) Authorized and issued share capital:

As at March 31, 2013, there were 43,810,551 common shares outstanding.

As at May 28, 2013, there were 46,481,051 common shares issued and outstanding.

b) Escrow shares:

During the period from incorporation on March 16, 2010, the Company issued 3,500,000 common shares at \$0.05 per share for gross proceeds of \$175,000. Of the 26,282,000 common shares issued for the subscription receipts, 8,560,000 issued to insiders and Osisko Mining Corporation at a price of \$0.25 per share were placed in escrow. These common shares are in escrow and will be released pro-rata to the shareholders as to 10% of the escrow shares upon issuance of a Final Exchange Bulletin by the TSX-V (1,206,000) and as to the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months. The 7,000,000 shares issued to QMX at a price of \$0.25 per share were placed in escrow of which 210,000 were released upon the issuance of the TSX Final Exchange Bulletin. As of May 28, 2013, the Company had 14,295,000 common shares held in escrow. There are also 2,670,500 flow-through common shares subject to a four-month period ending September 16, 2013. As of May 28, 2013, there are a total of 29,515,551 free trading common shares.

c) Options outstanding:

| Security | Number    | Number<br>Exercisable | Exercise Price | Expiry Date        |
|----------|-----------|-----------------------|----------------|--------------------|
| Options  | 250,000   | 250,000               | \$0.10         | August 30, 2015    |
| Options  | 1,660,000 | 1,361,250             | \$0.30         | September 24, 2017 |
| Options  | 95,000    | -                     | \$0.50         | December 5, 2017   |
| Options  | 200,000   | -                     | \$0.73         | January 4, 2018    |

As at March 31, 2013, there were 2,395,000 stock options issued and outstanding.

As at May 28, 2013, there were 2,205,000 stock options issued and outstanding.

d) Summary of warrants outstanding

As at March 31, 2013, and May 28, 2013 there were no warrants outstanding.

### **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 now required to file basic certificates. The company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at December 31, 2010.

### **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 any of the following risks. The risks described below are not the only ones facing the Company. Additional risks not presently known to the Company may also impair its business operations.

#### *Exploration and Development Risks*

Mineral exploration 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, development and production.

#### *Insurance*

The Company's involvement in the exploration 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 the economic

### *Liquidity and Capital Requirements*

Management anticipates that, subject to financing, it will make substantial capital expenditures towards developing the Companies mineral property. 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.

### *Government Regulation*

The natural resource exploration 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 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](http://www.sedar.com).