



**FALCO RESOURCES LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE-MONTH PERIOD ENDED**

**SEPTEMBER 30, 2017**

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**FALCO RESOURCES LTD.****Management's Discussion & Analysis****For the three-month period ended September 30, 2017**

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*The following management discussion and analysis (the "MD&A") of the operations and financial position of Falco Resources Ltd. ("Falco" or the "Company") for the three-month period ended September 30, 2017, should be read in conjunction with Falco's audited financial statements as at and for the year ended June 30, 2017 (the "Annual Financial Statements"), and is intended to supplement and complement the Company's unaudited condensed interim financial statements and related notes as of September 30, 2017, and for the three-month periods ended September 30, 2017 and 2016 (the "Financial Statements").*

*The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Consequently, all comparative financial information presented in the MD&A reflects the consistent application of IFRS.*

*Management is responsible for the preparation of the financial statements and other financial information relating to the Company included in this report. The Board of Directors (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting. In furtherance of the foregoing, the Board has appointed an Audit Committee composed of independent directors. The Audit Committee meets with management in order to discuss results of operations and the financial condition of the Company prior to making recommendations and submitting the financial statements to the Board for its consideration and approval for issuance to shareholders. The information included in the MD&A is as of November 10, 2017, the date when the Board approved the Financial Statements, following the recommendation of the Audit Committee. All monetary amounts included in this report are expressed in Canadian dollars, the Company's reporting and functional currency, unless otherwise noted. The MD&A contains forward-looking statements and should be read in conjunction with the risk factors described in the "Cautionary Statement Regarding Forward-Looking Statements" section.*

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**Description of the Business**

Falco is an exploration and evaluation stage company in the business of acquiring and exploring mineral properties in Canada. At September 30, 2017, its focus is on the exploration and evaluation of its mineral properties in the Rouyn-Noranda region of the Province of Québec for base and precious metals, mainly on its wholly-owned Horne 5 polymetallic deposit (the "Horne 5 Deposit", the "Horne 5 Project" or the "Project").

Falco is listed on the TSX Venture Exchange ("TSX-V") 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 mining claims covering approximately 67,000 hectares of land in the Rouyn-Noranda mining camp (the "Mining Camp"), including 13 former gold and base metal mine sites.

The Company was originally incorporated under the British Columbia *Business Corporations Act* on March 16, 2010. On June 12, 2015, Falco was continued under the *Canada Business Corporations Act*. The Company's registered business address is 1100, avenue des Canadiens-de-Montréal, Suite 300, Montréal, Québec, Canada. As at September 30, 2017, Osisko Gold Royalties Ltd ("Osisko"), a shareholder with significant influence over the Company and therefore a related party, owns a 13.3% interest in Falco.

**Highlights for the three-month period ended September 30, 2017 ("Q1-2018")**

- On September 12, 2017, the Company concluded the signing of a Memorandum of Understanding (the "MOU") with the Commission scolaire de Rouyn-Noranda (the "School Board") to acquire a building (the "Pavilion") located on the site of the Horne 5 Project. Falco will become the owner of the Pavilion upon completion of a relocation program for the Pavilion's current activities, which the Company will manage and fund at an estimated cost of \$22.5 million.

**Highlights - Subsequent to September 30, 2017**

- On October 5, 2017, the Company completed the acquisition of the Donalda property ("Donalda"), located near the Horne 5 Project from Globex Mining Enterprises Inc. ("Globex").
- On October 30, 2017, the Company filed a National Instrument 43-101, *Standards of Disclosure for Mineral Projects* ("NI 43-101") Technical Report, entitled "*Feasibility Study, Horne 5 Gold Project*", (the "Feasibility Study"), dated effective October 5, 2017 on SEDAR.

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**Rouyn-Noranda Mining Region**

The Company has a 100% interest in approximately 668 square kilometres of mineral claims in the Mining Camp, which Management believes represents approximately 70% of the entire Mining Camp. As an established mining camp in the Province of Québec, Rouyn-Noranda has the necessary infrastructure (electricity, rail, water, etc.) in place for exploration and mine development.

Rouyn-Noranda has a long history of mining and exploration. Since the Horne Deposit discovery in the 1920's, the area has been host to 50 former-producers, including 20 base metal mines and 30 gold mines. A number of copper-zinc volcanogenic massive sulphide ("VMS") deposits in the Mining Camp contained 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 Mining Camp as a whole.

In addition to the acquisition of the mining claims, the Company acquired an extensive database accumulated by Glencore Canada Corporation ("Glencore Canada") and its predecessors, 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 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.

Falco's principal property is the Horne 5 Project which is located in the Mining Camp, which hosts several former gold and base metal producers including the Horne Mine, which was operated by Noranda Inc. from 1927 to 1976. The Horne Mine produced approximately 11.6 million ounces of gold and 2.5 billion pounds of copper. Glencore Canada has a 2% net smelter return ("NSR") royalty on all metals produced from the Horne 5 Project and has rights of first refusal with respect to purchase or toll process on all or any portion of the concentrates and other mineral products.

For further details regarding the Horne 5 Project, please refer to the Feasibility Study, the NI 43-101 Technical Report dated September 26, 2016, and entitled "*Technical Report and Mineral Resource Estimate for the Horne 5 Deposit*", and the NI 43-101 Technical Report dated April 28, 2016, and entitled "*Preliminary Economic Assessment of the Horne 5 Project*", all available on SEDAR at [www.sedar.com](http://www.sedar.com).

**The Horne 5 Project**The Feasibility Study

On October 30, 2017, Falco filed the Feasibility Study which indicates that the Horne 5 Project represents a robust, high margin, fifteen-year underground mining project with attractive economics in the current gold price environment. Management has determined that the technical feasibility and commercial viability of the Horne 5 Project has been established and accordingly, the development phase of the Horne 5 Project has commenced.

The Feasibility Study was prepared by BBA Inc. ("BBA", Montreal, QC), under the direction of management, and included contributions from the geological and engineering teams at BBA, InnovExplo Inc. ("InnovExplo", Val d'Or, QC), Golder Associates Ltd. ("Golder", Montreal, QC), WSP Canada Inc. ("WSP", Rouyn-Noranda, QC), SNC-Lavalin Stavibel Inc. ("SNC-Lavalin", Rouyn-Noranda, QC), and Ingénierie RIVAL Inc. ("RIVAL", Deux-Montagnes, QC).

The realized Project would have a significant impact on the Abitibi-Témiscamingue region, with the potential of generating over US\$6.6 billion of gross revenue and contributing approximately 500 permanent and well remunerated jobs.

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*Highlights of the Feasibility Study*

The highlights of the Feasibility Study include the estimates that are presented in the section below (*dollar amounts are presented on a pre-tax basis, except where otherwise indicated*).

The base case is stated using a gold price of US\$1,300/ounce ("oz"), a silver price of US\$19.50/oz, a copper price of US\$3.00/pound ("lb"), a zinc price of US\$1.10/lb and an exchange rate of \$1.00 equal to US\$0.78. The Feasibility Study was prepared in Canadian Dollars. The values have been converted to and presented in U.S Dollars (US\$) at an exchange rate of \$1.00 = US\$0.78 for this section of the MD&A.

- Net present value ("NPV") of US\$1,012 million at a 5% discount rate and an internal rate of return ("IRR") of 18.9%, before taxes and mining duties;
- NPV of US\$602 million at a 5% discount rate and an IRR of 15.3%, after taxes and mining duties;
- Mine life of 15 years, with peak-year payable production of 268,000 ounces, average life-of-mine ("LOM") annual payable production of 219,000 ounces of gold and 235,000 ounces at steady-state;
- Net payable gold recovery of 88.1%;
- 3,741,000 ounces of contained gold;
- 3,294,000 ounces of payable gold LOM;
- 1,007 million pounds of payable zinc LOM;
- 229 million pounds of payable copper LOM;
- 26.3 million ounces of payable silver LOM;
- 80,897,000 tonnes total ore material mined;
- 2.37 g/t gold equivalent ("AuEq") average diluted AuEq grade;
- 1.44 g/t Au average diluted gold grade;
- All-in Sustaining Costs\* of US\$399/oz, net of by-product credits, including royalties, over LOM;
- All-in cost, CAPEX plus OPEX, is estimated at US\$643 per payable ounce;
- \$41.00 per tonne milled total unit operating cost;
- Pre-Production Construction costs of US\$801.7 million, including a US\$58.5 million contingency and excluding US\$26.7 million of capital outlays to August 31, 2017;
- Payback period of 5.2 years pre-tax and 5.6 years post-tax;
- Gross revenue of US\$6.6 billion and operating cash flow of US\$2.7 billion LOM;
- Process plant commissioning in first half of 2021;
- Full mine production in first half of 2022.

*\*All-in Sustaining Costs are presented as defined by the World Gold Council, less corporate general & administrative costs.*

*Mineral resource estimate*

The mineral resources presented in the Feasibility Study are based upon an updated mineral resource estimate (the "Current MRE") effective as of July 25, 2017, prepared by Carl Pelletier, P.Geo., of InnovExplo, using available information. The main objective was to update the previous NI 43-101 mineral resource estimate for the Horne 5 Deposit, which was prepared by InnovExplo and published in a report titled "*Technical Report and Updated Mineral Resource Estimate for the Horne No. 5 Deposit*", dated November 7, 2016 (the "November 2016 MRE").

The Current MRE is mainly based on changes made to the NSR parameters, supported by new assumptions concerning metal prices and net recoveries. Three additional diamond drill holes and 41 updated downhole surveys from the 2015–2016 confirmation drilling program were also used in the Current MRE. No changes to the interpretation were deemed necessary. The mineral resource model for the Current MRE is based largely upon the model generated for the November 2016 MRE.

The Current MRE is compliant with CIM standards and guidelines for reporting mineral resources and reserves. The selected NSR cut-off of \$55/t allowed the mineral potential of the deposit to be outlined for an underground mining option. While the results are presented undiluted and in situ, the reported mineral resources are considered by the qualified person ("QP") as defined by NI 43-101, to have reasonable prospects for economic extraction.

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The results of the Current MRE at the cut-off of \$55/t NSR are presented in the table below. InnovExplo estimates that the Horne 5 Deposit contains Measured Mineral Resources of 9,259,600 tonnes at 2.59 g/t AuEq for a total of 769,885 oz AuEq, Indicated Mineral Resources of 81,855,200 tonnes at 2.56 g/t AuEq for a total of 6,731,443 oz AuEq, and Inferred Mineral Resources of 21,500,400 tonnes at 2.51 g/t AuEq, for a total of 1,735,711 oz AuEq.

Mineral Resources Table

Resource Category	Tonnes (Mt)	AuEq (g/t)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)	Contained AuEq (Moz)	Contained Au (Moz)	Contained Ag (Moz)	Contained Cu (Mlbs)	Contained Zn (Mlbs)
Measured	9.3	2.59	1.58	16.2	0.19	0.83	0.770	0.470	4.824	38.0	168.5
Indicated	81.9	2.56	1.55	14.74	0.18	0.89	6.731	4.070	38.796	325.4	1,599.3
Inferred	21.5	2.51	1.44	23.04	0.20	0.71	1.736	1.000	15.925	96.3	337.2

*Mineral reserves estimate*

The mineral reserves estimate for the Horne 5 Project was prepared by Mr. Patrick Frenette, P. Eng., of InnovExplo (effective as of August 26, 2017). The mineral reserves estimate stated herein is consistent with the CIM standards on mineral resources and mineral reserves and is suitable for public reporting. As such, the mineral reserves are based on Measured and Indicated Mineral Resources, and do not include any Inferred Mineral Resources. Measured and Indicated mineral resources are inclusive of Proven and Probable reserves.

The Feasibility Study LOM and mineral reserves estimate were developed from the November 2016 MRE and do not consider the Current MRE. Updated metal prices, exchange rates and recovery equations from the Current MRE were used to calculate cash flows used to support the mineral reserve estimate. As of the date of this report, the QP has not identified any risks, legal, political or environmental, that would materially affect potential development of the mineral reserves other than the third party approval previously mentioned.

Statement of mineral reserves (as of August 26, 2017) <sup>(1,2,3,4)</sup>

Category	Tonnes (Mt)	NSR (\$)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Proven	8.4	91.72	1.41	15.75	0.17	0.75
Probable	72.5	92.56	1.44	13.98	0.17	0.78
P&P	80.9	92.41	1.44	14.14	0.17	0.77

- 1) The QP for the Mineral Reserve estimate is Mr. Patrick Frenette (InnovExplo).
- 2) Estimated at US\$2.15/lb Cu, US\$1.00/lb Zn, US\$1,300/oz Au and US\$18.50/oz Ag, using an exchange rate of \$1.00:US\$0.77, cut-off NSR value of \$55.00/t.
- 3) Mineral Reserve tonnage and mined metal have been rounded to reflect the accuracy of the estimate and numbers may not add due to rounding.
- 4) Mineral Reserves presented include both internal and external dilution along with mining recovery. The external dilution is estimated to be 2.3%. The mining recovery factor was set at 95% to account for mineralized material left in the margins of the deposit in each block.

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*Capital and operating costs summary*

<b>Capital Costs (in millions of US\$)</b>	<b>Pre-Production</b>	<b>Sustaining</b>	<b>Total<sup>(1)</sup></b>
Mining (includes development contingency)	\$200.4	\$253.6	\$454.0
Mineral Processing Plant	\$296.0	\$10.2	\$306.1
Electrical and Communication	\$14.2	\$1.8	\$16.0
Project Infrastructure	\$76.9	\$3.7	\$80.6
Tailings and Water Management	\$53.0	\$148.4	\$201.4
Indirect Costs	\$65.9	--	\$65.9
Owner's Costs	\$36.8	--	\$36.8
Site restoration (net of salvage value)	--	\$32.9	\$32.9
Subtotal	\$743.2	\$450.5	\$1,193.7
Contingency	\$58.5	--	\$58.5
<b>Total Capital Costs <sup>(2)</sup></b>	<b>\$801.7</b>	<b>\$450.5</b>	<b>\$1,252.2</b>
CAPEX per Oz (US\$/oz)			\$243
OPEX per Oz (US\$/oz)			\$399
<b>All-In Cost per Oz (US\$/oz)</b>			<b>\$643</b>

<sup>(1)</sup> Totals may differ due to rounding.<sup>(2)</sup> Excludes US\$26.7 million in outlays to August 31, 2017.*Mining*

The underground deposit is located at a depth of approximately 600 metres to 2,300 metres below surface. The existing Quemont #2 shaft, which extends to a depth of approximately 1,200 metres, will need to be rehabilitated. This shaft would provide for the hoisting of mineralized material and waste, services personnel and materials, and the supply of ventilation to the underground workings in development stage. The access to and use of the Quemont #2 shaft by Falco is contingent upon entering into a license agreement with the owner of such infrastructure.

The mine has been designed to have low operating costs through the use of large, modern equipment, gravity transport of mineralized material through raises, shaft hoisting, minimal mineralized material and waste re-handling, and high productivity bulk mining methods. Highly automated and using remote control equipment, the mine will be able to operate 21-tonne loaders to transport muck to the ore pass systems. The underground crushing facility will be fed by two ore pass systems. The crushed mineralized material would then be transported via two 250-metre conveyors and transferred to a 600-metre conveyor leading to the shaft loading point, where it would be hoisted to the surface using 43.5-tonne skips on a continuous basis. For servicing the mine, the shaft will have a double-deck service cage of 2.4 metres by 4.0 metres and a double-deck auxiliary cage. Paste backfill will be used to fill the extracted stopes and strengthen stability of the adjacent stopes and avoid or minimize dilution.

The Company expects to use transverse long hole as the primary mining method and will favor the minimization of dilution over mineral resource recovery. The Company believes that the mineral resource dilution will be below 3%.

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*Processing*

The process plant facility would include a wet laboratory, mill offices, a mill dry and a maintenance shop. A Semi-Autogenous-Ball milling ("SAB") facility (the "Facility") on the surface will be used to process an average of 15,790 tonnes per day of mineralized material at steady-state. The Facility would also include a flotation and thickening section, divided into three circuits and dedicated to recovering copper, zinc and pyrite concentrates. The copper and zinc circuits would have their concentrate filtered to reduce humidity to 9%. Both concentrates would be stored directly in trucks and railcars, awaiting shipment. The pyrite concentrate will require a finer liberation to achieve improved gold recovery by cyanide leaching, resulting in the requirement to regrind from the primary grind size of 55 microns to the targeted P<sub>80</sub> of 12 microns. The resulting reground pyrite concentrate would then be leached along with the pyrite flotation tailings in separate leaching circuits, followed by carbon in pulp circuits. Thickeners would be used to maximize water and cyanide recovery, and the Caro's acid cyanide destruction method would be applied to reduce the cyanide content of the two leach streams. Both pyrite tailings and pyrite concentrate streams from flotation would be used as paste backfill in the new mine workings; excess volumes will be disposed of in existing historical openings, until the old mine openings are filled. Water liberated in the underground workings from the consolidated tailings would be recovered, recycled and pumped back to be used in processing.

Gold, zinc, copper and silver would be recovered. Falco would produce two concentrates and gold bars. The copper concentrate would have an estimated 16% copper content as well as payable gold and silver, and the zinc concentrate would have an estimated 52% zinc content. No precious metal will be payable in the zinc concentrate. The payable gold recovery is estimated to average 88.1% over the LOM and estimated payable recoveries average 75.8% for copper, 72.9% for zinc and 71.5% for silver. Copper and zinc concentrates have been analyzed and are considered to be free of deleterious elements and are expected to be readily marketable to both smelters and traders.

*Surface infrastructure*

The Horne 5 Project is located within the industrial park and former mine infrastructure (Quemont and Horne Mines) of the City of Rouyn-Noranda, Québec, a mining community of over 41,500 people and benefits from great existing infrastructure. As important as the physical infrastructure in the Rouyn-Noranda region is the high level of underground mining expertise that is readily available in the region. The Company believes its advantageous location has the potential to positively impact the long term viability and attractiveness of employment at the Horne 5 Project, given that employees and contractors could work in the community they live in, a rare opportunity in the mining industry.

The Horne 5 Project is located 1.1 km from route 101 and 4.0 km from the Trans-Canada Highway, with all services readily available at site. Development of the future mine would be done on the former Quemont mine site, the surface rights for which were acquired by Falco and discussed below under the heading, "*Surface Rights Agreements*". Acquisition of land adjacent to the currently proposed mine site would likely be required for some of the new infrastructure. Electric power will be supplied to the site at a voltage level of 120 kV, originating from the Hydro-Québec, Rouyn-Noranda substation, approximately 1 km away.

The Horne 5 Project envisions the following key infrastructure items to be constructed: site access road, on-site parking area, process and paste backfill plants, maintenance shop and warehouse, mine office building, administration building, headframe and shaft house, hoist room, 120kV sub-station and railway spur lines and storage area.

As previously stated, the access to and use by Falco of surface rights and infrastructure not owned by it, may, in some instances, be contingent upon entering into a license agreement with the owner of such surface rights. The conduct of activities on the Horne 5 Project, including pre-production dewatering activities, will be subject to Falco securing licenses from the owner of such infrastructure, some of which are located on the mining concession CM-243, the ownership of which remains with a third party.

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*Environment and site restoration*

Environmental baseline studies were initiated in 2016 and have continued throughout 2017 to support the permitting process and the Project timeline.

The Horne 5 Project will require a provincial decree and federal authorisations. The Project is subject to a provincial environmental impact assessment ("EIA") study, including public hearings, as forecasted production is over the 2,000 tonnes per day threshold outlined in the applicable regulation. The EIA study may also be subject to federal review. The Company has already submitted an application for a certificate of authorization under Sections 22 and 31.75 of the Environmental Quality Act to be issued by the Ministry of Sustainable Development, Environment and the Fight against Climate Change, to support the dewatering and sludge management strategy.

During the dewatering stage, which is expected to last 25 months, high density sludge from the water treatment will be stored in the former Donalda and Quemont underground mine openings. Tailings produced during the first two years of operations will be stored in former underground openings either in the form of slurry or paste backfill. Paste backfill will continue to be produced throughout the entire life of mine. The remainder of the tailings produced will be stored at surface in a tailings management facility. The Company has identified a former tailings management facility, which has already been impacted by historical mining activities and is located approximately 11 km from the City of Rouyn-Noranda, to serve as the surface storage of tailings for the Horne 5 Project. Discussions for the acquisition of this site are ongoing. Two pipelines, 18 km in length, will transport the tailings from the Quemont site to the surface tailings management facility. Waste rock that is not used for underground mining operations will be used as construction material at the tailings management facility.

A closure and rehabilitation plan for the sites has been developed in accordance with the Mining Act of Québec. The site restoration cost estimate for the Horne 5 Project is based on the dismantling of the mine buildings and the restoration of the tailings management facilities. The Company intends to dismantle all buildings that would have served its mining operations. Given the proximity of the site to the city and the existence of few infrastructures of this type in Rouyn-Noranda, these buildings could be reused or modified for other uses. This cost estimate includes the cost of site restoration as well as post-closure monitoring. In accordance with the regulations, the Company intends to post a bond as a guarantee against the site restoration cost.

The conduct of the foregoing activities remains subject to Falco obtaining the required licenses from the owner of the infrastructure. For greater certainty, such licenses will include a complete indemnity relating to the restoration and rehabilitation of such infrastructure.

*Stakeholder engagement*

The Company is committed to taking a proactive approach to its public consultation process and has been working diligently to identify as many stakeholders as possible in the Rouyn-Noranda and Abitibi region. Over the past 36 months more than 20 private and public community meetings have been held with various stakeholders.

Based upon our numerous community meetings held throughout the region, there is strong community support for the Horne 5 Project. Development of the mine would bring substantial economic development to the City of Rouyn-Noranda and the surrounding region. A construction workforce of 800 people would be created at the peak of an 18-month construction period and the mine would provide direct employment for approximately 500 people over its 15-year operating life.

The Company remains committed to working with the citizens of Rouyn-Noranda to build a plan for the Horne 5 Project that would maximize benefits for the entire community, the Company's shareholders and other stakeholder groups.

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*Projected timeline*

1. The Company's EIA study is scheduled for completion in the fourth quarter of 2017.
2. Permitting activities would be initiated following the completion of the EIA study to support a 2019 construction start date.
3. Process plant commissioning in first half of 2021.
4. Full mine production in first half of 2022.

Falco notes that the activities contemplated above, and the estimated timing proposed for commencement and completion of such activities, is subject at all times to matters that are not within the exclusive control of Falco. These factors include the ability to obtain on terms acceptable to Falco, financing, governmental and other third party approvals, licenses, rights of way and surface rights.

*Independent qualified persons*

The Feasibility Study was prepared under the direction of BBA, by leading independent industry consultants, all of whom are QP. Independent QPs from BBA, InnovExplo, Golder, WSP, SNC-Lavalin and RIVVAL who have prepared or supervised the preparation of the technical information relating to the Feasibility Study include:

- Colin Hardie, Pierre Lacombe (BBA);
- Carl Pelletier, Patrick Frenette, Geneviève Auger (InnovExplo);
- Michel Mailloux, Valerie Bertrand, Mayana Kissiova, Rob Bewick, Michael Bratty, Yves Boulianne, Janis Drozdiak, Serge Ouellet (Golder);
- Marie-Claude Dion St.-Pierre, Claire Hayek, Dominick Turgeon, Stéphane Lance (WSP);
- Luc Gaulin (SNC-Lavalin); and
- Yves Vallières (RIVVAL).

The Company's disclosure of technical or scientific information about the Feasibility Study has been reviewed and approved by Luc Lessard, P. Eng., President and Chief Executive Officer of Falco, who serves as a QP.

Hoisting systems

On March 24, 2017, the Company entered into an initial agreement for the engineering, procurement, supply, performance services and installation of the hoisting systems for the Horne 5 Project (the "Hoisting Agreement"). The hoisting systems will include a production hoist, an auxiliary hoist and a service hoist. The production friction hoist will have a 6.5 metre diameter and will allow a skip payload of 39,400 kg. The service hoist will have a 5.5 metre diameter and will be equipped with a double deck cage for 2 x 50-person capacity or 15,000 kg payload. The auxiliary hoist will have a 3.1 metre diameter and will be equipped with a double deck cage for 2 x 5 men capacity or 1,250 kg payload. The delivery and installation of the service and auxiliary hoists is expected in calendar year 2018. The Hoisting Agreement is now estimated at approximately \$28.9 million of which \$5.0 million was incurred and paid as at September 30, 2017.

Surface Rights Agreements

In September 2014, the Company entered into an agreement with the City of Rouyn-Noranda to acquire the surface rights to land 500 metres north of the Horne 5 Deposit (the "Property"). This agreement provides the Company with a 5-year option to purchase additional land within an area surrounding the Horne 5 Deposit (the "Horne Mine Complex"). On June 29, 2017, the Company exercised this option, purchasing the Property for \$2.9 million, for which the Company had already paid a non-refundable deposit of \$1.0 million. Of the two remaining instalments, the first payment for \$1.0 million is payable by January 1, 2018, and the final payment of \$0.9 million is payable by January 1, 2019.

In January 2017, the Company entered into an option agreement with a third party to acquire land and buildings adjacent to the Horne 5 Project. The purchase price is \$5.4 million, of which a \$0.1 million non-refundable deposit was paid upon signing this agreement. On July 5, 2017, the Company exercised this option, and completed a second payment of \$2.6 million, with the remaining balance payable in calendar 2018.

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In May 2017, the Company entered into an option agreement with a third party to acquire land and buildings adjacent to the Horne 5 Project. The total purchase price is \$0.7 million, of which a \$0.3 million non-refundable deposit was paid on the signing of this option agreement. The remaining balance is payable by January 31, 2018, if the Company decides to exercise its option.

On September 12, 2017, the Company concluded the signing of the MOU to acquire the Pavilion. The acquisition is one of the essential and pre-requisite steps in the dewatering and development phase of the Horne 5 Project. The Council of Commissioners of the School Board and Falco's Board have approved the relocation program for the current Pavilion activities (the "Relocation Project"). As per the MOU, Falco will become the owner of the Pavilion upon completion of the Relocation Project. As per the Relocation Project, the Company will transfer the Pavilion's activities to the Complexe La Source-Polymétier (the "Complex"). Falco will fund and execute the expansion of the Complex to accommodate these additional activities. The work has commenced and total costs are estimated at \$22.5 million.

**Glencore Canada**

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

Falco's obligations towards Glencore Canada, pursuant to the Agreement, including with respect to the back-in right, a royalty interest and an off-take option (described below), as well as the payment of any damages caused by Falco, are secured by a deed of hypothec for a maximum of \$120.0 million.

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

Furthermore, the Horne 5 Project is located adjacent to Glencore Canada's operations and the Company is contractually bound to seek authorizations from time to time from Glencore Canada to perform certain activities which may affect or impact their operations.

**Subsequent events**

On October 5, 2017, the Company completed the acquisition of Donalda from Globex. In consideration, Falco paid \$0.3 million in cash and issued 350,000 units to Globex. Each unit consists of one common share ("Common Share") and one common share purchase warrant ("Warrant") of Falco. Each Warrant will entitle the holder thereof to purchase one Common Share at a price of \$1.15, for a period of five years following the closing date. Additionally, the Company granted to Globex a 2.5 % gross metal royalty on all mineral production from Donalda and will transfer a 100% ownership of Falco's Dickenson property located on the east side and adjoining Globex's Francoeur/Arntfield gold property.

**FALCO RESOURCES LTD.**

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**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 the Horne Mine Complex. This includes the areas immediately adjacent to the former producing mines of Horne, Remnor, Quemont, Joliet and Chadbourne, as well as exploration targets within the Horne area, including Horne West, Zone AA, Zone AM, Zone C, Zone R and Gatehouse.

The data compilation exercise identified an additional 6,600 historic drill holes (460,000 metres 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.

On February 20, 2017, Falco announced the initiation of a 40,000 metre exploration drill campaign on a regional scale (the "2017 Campaign"), which was budgeted to cost \$10.0 million and will be completed by December 31, 2017. The 2017 Campaign will concentrate on different areas, with the objective of discovering new mineralization in the Mining Camp. The 2017 Campaign is now estimated to include 50,000 metres of exploratory drilling.

The Company has incurred the following costs on its exploration and evaluation assets in the Rouyn-Noranda region:

	Three-month period ended September 30				Year ended
	2017				June 30, 2017
	Horne 5 Project <sup>(i)</sup>	Central Camp <sup>(ii)</sup>	Other Properties <sup>(iii)</sup>	Total	Total
	\$	\$	\$	\$	\$
Balance – beginning of period	32,989,263	3,614,336	5,540,853	42,144,452	24,478,863
Compensation	43,255	74,756	20,505	138,516	633,247
Drilling and data compilation	24,852	2,945,076	394,478	3,364,406	4,689,932
Geology	2,000	13,189	31,629	46,818	155,208
Geophysics	945	39,675	25,375	65,995	388,878
Metallurgy	-	-	-	-	84,321
Environment	83,993	11,617	-	95,610	556,232
Mining engineering	-	-	-	-	174,938
Technical studies	-	-	-	-	11,660
Feasibility studies	895,893	-	-	895,893	9,894,042
Environmental impact assessment	475,813	-	-	475,813	914,905
Administrative and other	294,551	1,405	7,381	303,337	1,063,029
Total for the period	1,821,302	3,085,718	479,368	5,386,388	18,566,392
Refundable tax credits for the period	-	-	-	-	(846,909)
Total for the period, net of tax credits	1,821,302	3,085,718	479,368	5,386,388	17,719,483
Write-offs <sup>(iv)</sup>	-	-	-	-	(53,894)
Balance – end of period	34,810,565	6,700,054	6,020,221	47,530,840	42,144,452

(i) Includes historical acquisition costs of \$6.5 million related to the acquisition of exploration rights and/or claims.

(ii) The Central Camp is located north of the Horne 5 Project and covers an area of approximately 289 square kilometers, including many former gold and base metal producers.

(iii) Including the Noranda Camp properties.

(iv) During the year ended June 30, 2017, the Company wrote-off 100% of the capitalized historical costs related to specific areas where claims are not expected to be renewed or where the Company has decided to discontinue exploration and evaluation activities.

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**FALCO RESOURCES LTD.**

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For the three-month period ended September 30, 2017

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**Exploration – Horne 5**Horne 5 exploration activities

In 2016, as part of its 18,000 metre exploration campaign (the “2016 Campaign”), the Company completed a 3,415 metre drilling program on the Horne 5 lens for additional metallurgical testing. Holes H5-16-17, 18 and 07D were completed within the existing Horne 5 Deposit envelope to test specific areas of the Horne 5 Deposit in order to increase the geological and metallurgical understanding of the Horne 5 Deposit. Highlights from new drill holes include 43.2 metres at 2.73 g/t AuEq in drill hole H5-16-17 and 177.2 metres at 1.71 g/t AuEq in drill hole H5-16-18.

Details of the results are outlined in the press release dated September 13, 2016 and filed on [www.sedar.com](http://www.sedar.com).

Horne 5 western extension target

As part of the 2016 Campaign, the Company completed 10,325 metres of drilling to test an area which had never previously been targeted, located between the western edge of the Horne 5 Deposit and the Horne Creek fault (the “Horne 5 western extension”).

Positive results from the first hole (H5-16-17A) confirmed the presence of notable grade and thickness. Highlights include 12.4 metres at 5.14 g/t AuEq.

Six additional holes were completed and analyzed on the Horne 5 western extension. Hole H5-16-09-E intersected the mineralized zone at the expected depth while holes H5-16-09-D, 09F, 17C, 19 and 23 confirmed a possible displacement of the mineralization to the south. The mineralization corresponds to 3-15% disseminated pyrite and stringers with few chalcopyrite and sphalerite in altered rhyolite and felsic lapilli tuffs.

The mineralized zone of hole H5-16-09D, expected at about 1,250 metres, was not encountered but structures, sub-parallel to the hole (NE-SW), were noted. Originally planned for 1,300 metres, the hole was continued hoping to intersect the zone deeper and also test the Horne felsic package. The mineralization encountered at 1,647 metres appears to have been displaced approximately 200 metres south.

Hole H5-16-19, targeting the upper part of the Horne 5 western extension, ended at 1,416 metres. The mineralization, corresponding to the Horne 5 western extension, was expected around 980 metres, but no significant zone was observed. However, 5-15% disseminated pyrite and stringers were noted from 1,307 to 1,340 metres. A displacement of the mineralization to the south was expected, as observed in hole H5-16-09D.

The same pattern occurred in holes H5-16-09-F, 17-C and 23 where the mineralized plan was intersected further to the south. Details of the results are outlined in the press releases dated September 13, 2016 and October 31, 2016, both filed on [www.sedar.com](http://www.sedar.com).

Quemont extension target

As part of the 2016 Campaign, the Company completed 5,065 metres of drilling on the Quemont extension target. This program targeted the western plunge of the historical Quemont deposit, where over 3.2 million ounces of gold was produced from 1949 to 1971 (15.4 million tonnes at 6.5 g/t Au, 2.4% Zn, 1.3% Cu and 30.8 g/t Ag).

Hole H5-16-07D targeting the H5 mineralized zone intersected the Quemont corridor at about 1,000 metres below surface. The mineralized zone was encountered in the western plunge of the Quemont shaft. A moderate Cl-Si rhyodacite containing 2% pyrite-chalcopyrite stringers was noted. The mineralized zone was encountered between 1,171 metres and 1,181 metres and returned 10.02 g/t of AuEq grade, including 9.31 g/t Au over 10 metres. Following the intersection, the hole was further deepened in order to intersect the Horne 5 mineralization package.

Details of Hole H5-16-07D are outlined in the press release dated October 31, 2016 and filed on [www.sedar.com](http://www.sedar.com).

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**Exploration – Central Camp**

The Central Camp properties ("Central Camp") represent one third of Falco's mining titles, cover approximately 289 square kilometres and are located in the south-central portion of Falco's land position (North of the Horne 5 Project). Central Camp covers approximately 90% of the Mining Camp and includes several former VMS base metal producing deposits. This area, with many former producing mines (including Horne, Quemont, Waite-Amulet, Norbec) and well known metallogenic horizons, offers potential for future recognition of mineralization. The first VMS discoveries were made in the 1920s, while the last, West Ansil, was made in 2005.

At Central Camp, the 2017 Campaign is aimed at updating the 3D Noranda Camp geological model with a systematic review and testing of existing exploration targets. As of November 9, 2017, approximately 28,200 metres have been drilled and numerous additional drill-ready targets have been identified and will be tested during the remainder of the 2017 Campaign. In addition, historical data compilation in and around former producing mines will be conducted, reviewing historical resources and drilling results to further identify new opportunities and generate new targets.

**Exploration – Other Regional Activities**

As part of the 2017 Campaign, exploration work is planned on regional targets in the Noranda Camp properties, located in the south-central portion of the Abitibi Greenstone Belt, which forms part of the Superior Structural Province (the "Noranda Camp"). The Noranda Camp is one of the largest mining camps in Canada and so far 23 volcanogenic massive sulphide deposits and 17 gold deposits have been discovered. It represents the regional area known as the Blake River Group and includes the Central Camp, located at its center. The Noranda Camp properties present a significant potential for hosting different styles of mineralization (precious and base metals). The most important being: VMS (Cu-Zn-Au-Ag) as Horne, Quemont, Ansil and epigenetic mesothermal Au-Ag deposits as Beauchemin, Donald, Francoeur. Although several VMS polymetallic deposits were mined in the past in the Noranda Camp, the potential for discovering new deposits associated within known well-defined metallotects cannot be neglected.

The 2017 Campaign is aimed at drilling 20,000 metres in the Noranda Camp, including the following targets: Noralex, Flavrian and Viau. As of November 9, 2017, the Company has completed approximately 9,750 metres of drilling.

Claude Bernier, Exploration Manager, (P.Geo. Eng.), is the QP who has reviewed and verified the technical information contained in the exploration section of the MD&A.

**Outlook**The Horne 5 Project

As discussed above, Falco has identified key project execution activities that it will look to undertake over the remainder of fiscal 2018 at the Horne 5 Project. Specifically:

1. Completing the Environmental Impact Assessment study on the Horne 5 Project in the last quarter of calendar 2017;
2. Initiating the preproduction dewatering program of the historic mines surrounding the Horne 5 Deposit during the first semester of calendar 2018;
3. Commencing the relocation program for certain buildings currently located on or around the Horne 5 Project's site;
4. Beginning early works program and completing detailed engineering related to the headframe and hoist room.

In order to achieve the key activities identified above, the Company will require third parties' approval and financing that will most likely take the form of a combination of a stream agreement and issuances of debt and equity instruments.

The 2017 Campaign

As of November 9, 2017, the Company has completed approximately 76% of the 50,000 metres of the drilling forecasted as part of the 2017 Campaign. The Company intends to complete the drilling for the 2017 Campaign by the end of December 2017 and the analysis will be completed in January 2018.

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## Management's Discussion &amp; Analysis

For the three-month period ended September 30, 2017

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**Results of Operations**

Falco incurred a net loss of \$1.3 million for Q1-2018, compared to \$1.4 million for the three-month period ended September 30, 2016 ("Q1-2017").

The operating loss for Q1-2018 increased by \$0.6 million, reaching \$1.4 million. This increase in operating loss is steady across all categories of operating expenses due to Falco's increased corporate activity and the increase in the number of employees at the Company as compared to Q1-2017.

Interest income increased by \$0.1 million for Q1-2018, as a result of higher cash balances on hand throughout this period. Interest expense was consistent between periods due to the \$10.0 million loan agreement with Osisko completed in May 2016 (refer to the section *Description of financing transactions* below for more details).

Other income relates to the recognition of the deferred premium on flow-through shares and totaled \$1.0 million in Q1-2018, as compared to \$0.2 million in Q1-2017. The increase between periods is consistent with the increased exploration and development activities during Q1-2018 and in line with the higher flow-through share issuance completed in November 2016 (\$10.6 million), as compared to December 2015 (\$3.3 million).

The Company had previously announced its intention to proceed with the development of the Horne 5 Project if the Feasibility Study results recommended the construction of a mine. As a result, the Company is required to record a deferred tax liability with respect to Quebec Mining Tax. Deferred income tax expense for Q1-2018 amounted to \$0.9 million, as compared to \$0.6 million for Q1-2017.

**Liquidity and Capital Resources**

As at September 30, 2017, the Company had working capital of \$36.0 million (excluding the contingently payable liability and the deferred premium on flow-through shares) compared to \$51.0 million as at June 30, 2017 (excluding the contingently payable liability and the deferred premium on flow-through shares). Cash amounted to \$43.5 million as at September 30, 2017, compared to \$53.4 million as at June 30, 2017.

The decrease in the Company's cash position is primarily the result of investments in property and equipment of \$5.4 million, investments in exploration and evaluation assets of \$3.5 million and the increase in restricted cash of \$0.9 million that resulted in cash outflows of \$9.9 million.

As at September 30, 2017, a balance of \$4.3 million was required to be spent on flow-through expenditures by December 31, 2017. Based on the current work programs and the liquidities available, the Company expects to meet this requirement.

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, including the potential development of the Horne 5 Project. 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.

Management of the Company believes that it has sufficient funds to pay its ongoing general and administrative expenses and to meet its liabilities, obligations and existing commitments for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company's ability to continue future operations beyond September 30, 2018, and fund its exploration and evaluation expenditures as well as its potential development activities at the Horne 5 Deposit is dependent on management's ability to secure additional financing in the future, which may be completed in a number of ways, including, but not limited to, the issuance of debt or equity instruments. Management will pursue such additional sources of financing when required, and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

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**FALCO RESOURCES LTD.**

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**Cash Flows**

Cash flows used during Q1-2018 in operating activities totaled \$0.2 million (\$1.8 million during Q1-2017). The decrease is mainly due to the changes in non-cash working capital items such as accounts receivable, prepaid expenses, accounts payable and accrued liabilities. This amount increased by \$1.1 million in Q1-2018 and decreased by \$1.1 million in Q1-2017, due to timing differences in the collection of sales tax and the payment of suppliers.

Cash outflows from investing activities for Q1-2018 amounted to \$9.8 million (\$3.5 million for Q1-2017). In Q1-2018, the Company invested \$3.5 million in exploration and evaluation assets (\$3.5 million in Q1-2017) and \$5.4 million in the acquisition of property and equipment (nil in Q1-2017). The investments were allocated to the continued exploration and evaluation work in the Rouyn–Noranda region and on the advancement of the Horne 5 Project, as previously described in this MD&A. In addition, as discussed below under the heading, "*Description of Financing Transactions*", the Company has increased by \$0.9 million restricted cash.

Cash flows provided by financing activities were minimal in Q1-2018 (\$0.2 million in Q1-2017). The cash inflows during these periods was the result of the exercise of warrants and share options.

**Description of Financing Transactions**

Significant financing transactions completed over the past years consisted of the following:

i. Bought-deal public offering (November 22, 2016)

On November 22, 2016, the Company closed this public offering of 24,183,350 units for gross proceeds of \$25.9 million (\$1.07 per unit) and 8,260,475 flow-through shares for gross proceeds of \$10.6 million (\$1.28 per flow-through share), with share issue costs totaling \$2.5 million.

Each unit consists of one common share in the capital of the Company (a "Common Share") and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant shall be exercisable to acquire one additional common share (a "Warrant Share") of the Company for a period of eighteen months from the closing date of this public offering at an exercise price of \$1.45 per Warrant Share. The expiry date of the Warrants may be accelerated by the Company at any time following the six-month anniversary of the closing of this public offering and prior to the expiry date of the Warrants if the volume-weighted average trading price of the Company's common shares is greater than \$1.75 for any twenty consecutive trading days, at which time the Company may accelerate the expiry date.

ii. Private placement (January 26, 2017)

On January 26, 2017, the Company closed this private placement, pursuant to which the Company issued 10,093,083 units for aggregate gross proceeds of \$10.8 million (\$1.07 per unit), with share issue costs amounting to \$0.3 million.

Each unit consists of one common share in the capital of the Company (a "Common Share") and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant shall be exercisable to acquire one additional common share (a "Warrant Share") of the Company for a period of eighteen months from the closing date of this private placement at an exercise price of \$1.45 per Warrant Share. The expiry date of the Warrants may be accelerated by the Company at any time following the six-month anniversary of the closing of this private placement and prior to the expiry date of the Warrants if the volume-weighted average trading price of the Company's common shares is greater than \$1.75 for any twenty consecutive trading days, at which time the Company may accelerate the expiry date.

iii. Bought-deal public offering (June 7, 2017)

On June 7, 2017, the Company closed this offering of 22,287,000 units at a price of \$1.29 per unit, representing aggregate gross proceeds to Falco of \$28.8 million, with share issue costs amounting to \$1.7 million.

Each unit entitles the holder to acquire, for no additional consideration, one common share in the capital of the Company (a "Common Share") and one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "Warrant"). Each Warrant is exercisable to acquire one additional Common Share (a "Warrant Share") for a period of eighteen months from the closing date of this offering at an exercise price of \$1.70 per Warrant Share.

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## iv. Revolving credit facility (June 27, 2017)

On June 27, 2017, the Company closed a \$5.0 million revolving credit facility (the "Credit Facility") with National Bank of Canada (the "Lender"), which is secured by a hypothec in favour of the Lender over a collateral account maintained by the Company. The Credit Facility will be used to secure Falco's obligations in favour of Hydro-Québec in connection with certain electrical and engineering work to be performed with respect to the development of the Horne 5 Project, and, subject to third party consent, for other purposes consented to by the Lender. The Credit Facility will provide the Company with access to standby letters of credit and letters of guarantee issued by the Lender to Hydro-Québec on Falco's behalf. The Credit Facility is uncommitted, meaning that the Lender can at its sole discretion (i) terminate the Company's right to make requests for the issuance of letters of credit on same day notice, and (ii) decline a request from the Company for the issuance of a letter of credit. On July 4, 2017, the Company provided \$0.9 million as collateral against a standby letter of credit in favour of Hydro-Quebec, reducing the amount available under the Credit Facility by the same amount.

## v. Loan (May 30, 2016)

On May 30, 2016, the Company closed a financing with Osisko whereby Osisko provided a \$10.0 million loan (the "Loan"). The Loan has an eighteen-month maturity and interest is payable on the principal amount at a rate per annum that is equal to 7%, compounded quarterly, payable upon repayment of the principal amount. By November 30, 2017, Falco and Osisko shall negotiate in good faith the terms, conditions and form of a silver and/or gold stream agreement, which shall be substantially in the form typical for such transaction in the industry, whereby Osisko may provide Falco with a portion of the development capital required to build the Horne 5 Project. In this case, the principal amount of the Loan and any accrued interest will be applied against the stream deposit. At the maturity date, if Falco and Osisko have not concluded a stream agreement, the principal amount of the Loan will be converted into a 1% NSR royalty on the Horne 5 Project and accrued interest will be paid in cash. Under certain events of default, Osisko may, at its option, require the repayment of the principal amount and the accrued interest in cash.

**Quarterly Information**

A summary of selected quarterly financial information for the last eight quarters is outlined below:

<b>(for the three months ended)</b>	<b>September 30, 2017</b>	<b>June 30, 2017</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$	\$	\$
Cash	43,453,260	53,395,140	35,874,950	32,294,424
Working capital	23,807,623	37,971,022	17,435,913	17,725,969
Total assets	112,083,872	107,852,979	82,955,013	69,899,335
Investments in exploration and evaluation assets <sup>(i)</sup>	3,527,433	4,348,015	4,318,064	5,452,791
Total revenue	-	-	-	-
Net loss for the period	1,280,190	1,680,693	1,944,782	1,928,601
Basic and diluted net loss per share <sup>(ii)</sup>	0.01	0.01	0.01	0.02
<b>(for the three months ended)</b>	<b>September 30, 2016</b>	<b>June 30, 2016</b>	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	\$	\$	\$	\$
Cash	4,301,153	9,389,505	1,123,066	3,924,470
Working capital	(6,744,263)	(1,982,028)	(358,299)	2,143,364
Total assets	35,846,418	35,875,415	25,407,907	25,739,260
Investments in exploration and evaluation assets <sup>(i)</sup>	3,454,598	2,987,952	2,651,006	2,783,579
Total revenue	-	-	-	-
Net loss for the period	1,429,537	5,107,202	506,605	343,920
Basic and diluted net loss per share <sup>(ii)</sup>	0.01	0.05	-	-

(i) Including the payments of options on properties, on a cash basis.

(ii) Net loss per share is based on each reporting period's weighted average number of shares outstanding, which may differ on a quarter-to-quarter basis. As such, the sum of the quarterly net loss per share amounts may not equal year-to-date net loss per share.

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The Company's consistent increases throughout the periods up to June 30, 2017, in cash, working capital and total assets are consistent with the financing transactions discussed above under the heading "*Description of Financing Transactions*". Specifically, the Company completed:

1. A public offering, including a flow-through share offering for gross proceeds of \$36.4 million;
2. A private placement for gross proceeds of \$10.8 million; and
3. An offering for gross proceeds of \$28.8 million.

The decrease in cash in the other periods is primarily the result of continued investments in exploration and evaluation assets, property and equipment and operating expenses. The net loss for the three months ended June 30, 2016, increased significantly due to the initial recording of a deferred tax expense of \$3.8 million. All other quarterly losses are consistent between periods.

**Related Party Transactions**

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

Key management includes directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management for employee services is presented below for the three-month periods ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	\$	\$
Salaries and short-term employee benefits <sup>(1)</sup>	496,898	223,584
Share-based compensation	221,440	178,364
	<u>718,338</u>	<u>401,948</u>

<sup>(1)</sup> Including consulting fees.

*Other related transactions*

During Q1-2018, an amount of \$0.7 million (\$0.4 million for Q1-2017) was invoiced by Osisko for professional services and rental of offices. An amount of \$0.5 million is included in accounts payable and accrued liabilities as at September 30, 2017 (\$0.3 million as at June 30, 2017).

On May 30, 2016, the Company entered into the Loan. As at September 30, 2017, interest payable on the Loan amounted to \$1.0 million (\$0.8 million as at June 30, 2017) and interest expense on the Loan for Q1-2018 and Q1-2017 was \$0.2 million.

**Contractual Commitments and Obligations**

As discussed above under the heading "*Hoisting systems*", the Company entered into the Hoisting Agreement. The delivery and installation of the service and auxiliary hoists is expected in calendar year 2018. The Hoisting Agreement, is now estimated at approximately \$28.9 million, of which \$5.0 million was incurred and paid as at September 30, 2017, can be terminated at any time, subject to the payment of the approved and executed work performed by the supplier at the termination date.

Following the closing of the bought-deal public offering in November 2016, Falco is committed to spend an amount of \$10.6 million by December 31, 2017 on eligible exploration and evaluation expenses. As at September 30, 2017, the amount remaining to be spent totalled \$4.3 million.

As discussed above under the heading "*Surface Rights Agreements*", the Company purchased the Property. The remaining instalments total \$1.9 million, the first instalment for \$1.0 million is payable by January 1, 2018, and the final payment of \$0.9 million is payable by January 1, 2019.

As discussed above under the "*Surface Rights Agreements*" heading, on September 12, 2017, the Company concluded the signing of the MOU to acquire the Pavilion. The work commenced in October 2017 and total relocation and construction costs are estimated at \$22.5 million.

The contractual commitments and obligations will be funded through the working capital.

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**Off-balance Sheet Items**

As of November 10, 2017, the Company has no off-balance sheet arrangements.

**Outstanding Share Data**

As of November 10, 2017, the Company has 180,620,244 issued and outstanding common shares, 8,526,260 outstanding stock options and 28,631,717 outstanding warrants.

**Risk Factors**

An investment in the Company's common shares is subject to a number of risks and uncertainties. An investor should carefully consider the risks described in the MD&A and in the Annual Information Form for the year ended June 30, 2017 and the other information filed with the Canadian securities regulators ([www.sedar.com](http://www.sedar.com)), before investing in the Company's common shares. If any of the described risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed and investors may lose a significant proportion of their investment.

An investment in the Company's common shares is subject to a number of risks and uncertainties. An investor should carefully consider the risks described below and the other information filed with the Canadian securities regulators ([www.sedar.com](http://www.sedar.com)) before investing in the Company's common shares. If any of the described risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed and investors may lose their entire investment.

**Financial Risks**

The Company's activities expose it to a variety of financial risks: market risks (including foreign currency risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's performance.

A description of the financial risks are included in the Company's MD&A for the year ended June 30, 2017, and other documents previously filed by the Company on SEDAR ([www.sedar.com](http://www.sedar.com)).

**Title to Properties**

Pursuant to an agreement between Falco and a third party, Falco owns rights to the minerals located below 200 meters from the surface of mining concession CM-156PTB, where the Horne 5 Deposit is located. Falco also owns certain surface rights surrounding the Quemont No. 2 shaft (located on mining concession CM-243). Under this agreement, ownership of the mining concessions remains with the third party. In order to access the Horne 5 Project, the Company must obtain one or more licenses from the third party, which may not be unreasonably withheld, but which may be subject to conditions that the third party may require in its sole discretion. These conditions may include the provision of a performance bond or other assurance to the third party and the indemnification of the third party by the Company. This agreement with the third party stipulates, without limitation, that a license shall be subject to reasonable conditions which may include, among other things, that activities at the Horne 5 Deposit will be subordinated to the current use of the surface lands and subject to priority, as established in such party's sole discretion, over such activities. Any license may provide for, among other things, access to and the right to use the infrastructure owned by the third party, including the Quemont No. 2 shaft and some specific underground infrastructure in the former Quemont and Horne mines. Furthermore, Falco will also have to acquire a number of rights of way or other surface rights in order to construct and lay in the ground the pipeline that will carry the tailings to a tailings management facility located approximately 11 km from the City of Rouyn-Noranda. While the Company believes that it should be able to obtain the licenses from the third party in a timely manner, and to acquire the required rights of way and other surface rights, there can be no assurance that any such license, right of way or surface right will be granted, or if granted will be on terms acceptable to the Company and in a timely manner. Although Falco believes that it has taken reasonable measures to ensure proper title to its assets, there is no guarantee that title to any of assets will not be challenged or impugned.

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**FALCO RESOURCES LTD.**

Management's Discussion &amp; Analysis

For the three-month period ended September 30, 2017

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**Internal Control Disclosure**

In November 2007, the Canadian Securities Administrators exempted issuers on the TSX-V, 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.

**Basis of Presentation of Financial Statements**

The Financial Statements have been prepared in accordance with the IFRS as issued by the IASB applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting. The Financial Statements should be read in conjunction with the Annual Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies, methods of computation and presentation applied in the Financial Statements are consistent with those applied by the Company to the Annual Financial Statements. The Board approved the Financial Statements on November 10, 2017. The significant accounting policies of Falco as well as the accounting standards issued but not yet effective are detailed in the notes to the Annual Financial Statements, filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

**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 judgment 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 Annual Financial Statements, filed on SEDAR ([www.sedar.com](http://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 in the Annual Financial Statements and the Financial Statements, both filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

**Additional Information**

Additional information relating to the Company has been filed on SEDAR and is available at [www.sedar.com](http://www.sedar.com).

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**Cautionary Statement Regarding Forward-Looking Statements**

Except for the statements of historical fact contained herein, certain information presented in the MD&A constitutes forward-looking statements concerning the business, operations, plans and financial performance and condition of Falco.

Forward looking information contained in the MD&A includes, but is not limited to, statements with respect to: (i) the estimation of mineral reserves and mineral resources; (ii) permitting time lines; (iii) the sufficiency of working capital; (iv) requirements for additional capital; (v) development, construction and production timelines and estimates; (vi) the results of our Feasibility Study, including statements about estimated future production, future operating and capital costs, the projected IRR, NPV, payback period, construction timelines and production timelines.

Often, but not always, forward-looking statements can be identified by words such as "plans", "expects", "may", "should", "could", "will", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes", or variations including negative variations thereof of such words and phrases that refer to certain actions, events or results that may, could, would, might or will occur or be taken or achieved. These statements are made as of the date of the MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual plans, results, performance or achievements of Falco to differ materially from any future plans, results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, actual operating cash flows, free cash flows, mineral resources, total cash, transaction costs, and administrative costs differing materially from those anticipated; risks related to partnership or other joint operations; actual results of current exploration activities; variations in mineral resources, mineral production, grades or recovery rates or optimization efforts and sales; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; uninsured risks; regulatory changes, obtaining required authorizations, including from third parties, permits, licenses and mining titles in a timely manner; availability or integration of personnel, materials and equipment; performance of facilities, equipment and processes relative to specifications and expectations; unanticipated environmental impacts on operations; impacts of Falco's operations on third party operations, market prices; production, construction and technological risks; capital requirements and operating risks associated with the operations or an expansion of the operations or the operations in respect of which Falco's interests are held; fluctuations in gold, silver and other metal prices and currency exchange rates; uncertainty relating to future production, and cash resources; inability to successfully complete new development projects, planned expansions or other projects within the timelines anticipated; adverse changes to market, political and general economic conditions or laws, rules and regulations; changes in project parameters; the possibility of project cost overruns or unanticipated costs and expenses; accidents, labour disputes, community and stakeholder protests and other risks of the mining industry; failure of plant, equipment or processes to operate as anticipated; risk of an undiscovered defect in title or other adverse claim; factors discussed under the heading "Risk Factors"; and those risks set forth in Falco's continuous disclosure documents filed on SEDAR at [www.sedar.com](http://www.sedar.com).

In addition, statements relating to Mineral Resources and gold equivalent ounces are forward looking statements, as they involve implied assessment, based on certain estimates and assumptions, and no assurance can be given that the estimates will be realized. Although Falco has attempted to identify important factors that could cause actual plans, actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause plans, actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual plans, results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

**(Signed) Luc Lessard**

Luc Lessard  
President and Chief Executive Officer

**(Signed) Vincent Metcalfe**

Vincent Metcalfe  
Chief Financial Officer

**November 10, 2017**

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**FALCO RESOURCES LTD.**

Management's Discussion & Analysis  
For the three-month period ended September 30, 2017

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**Corporate Information****Head Office**

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**Directors**

Sean Roosen, Chair  
Mario Caron, Lead Director  
Bryan A. Coates  
Paola Farnesi  
Claude Ferron  
Paul-Henri Girard  
Luc Lessard  
Chantal Sorel

**Officers**

Luc Lessard, President and Chief Executive Officer  
Vincent Metcalfe, Chief Financial Officer  
Hélène Cartier, Vice President, Environment and Sustainable Development  
Anthony Glavac, Vice President and Corporate Controller  
Christian Laroche, Vice President, Metallurgy  
André Le Bel, Vice President, Legal Affairs and Corporate Secretary  
Claude Léveillé, Vice President, Community Relations and Human Resources  
François Vézina, Vice President, Technical Services  
Steve Boucratie, Assistant Corporate Secretary

**Legal Counsel**

Lavery, de Billy LLP

**Auditors**

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.

**Transfer Agent**

TSX Trust Company

**Exchange listing**

TSX Venture Exchange: FPC