



**ARCO RESOURCES CORP.**  
**Management's Discussion and Analysis**  
**Year ended April 30 2017**

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The Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the Arco Resources Corp. (the "Company") financial statements. The information provided herein should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended April 30, 2017. All amounts are stated in Canadian dollars unless otherwise indicated. The effective date of this report is August 24, 2017.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements. See the "Forward-Looking Statements" section of the report.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board of directors meets with management on a quarterly basis to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The reader is encouraged to review Company statutory filings on [www.sedar.com](http://www.sedar.com).

## **DESCRIPTION OF BUSINESS AND OVERVIEW**

Arco Resources Corp. is a Canadian public company listed for trading on the NEX board of the TSX Venture Exchange ("TSXV") with the symbol "ARR.H". The Company is in the business of the exploration and development of mineral properties in North America (see *Exploration and Evaluation Assets* below).

The Company suspended its exploration and development plans for its properties in 2014 due to a lack of available funding as challenges in the capital markets for junior exploration companies were prevalent. During the year ended April 30, 2017, the Company allowed the claim to lapse on its final remaining exploration property.

### **Corporate Developments**

- In June 2015, the Company completed shares-for-debt transactions with various creditors of the Company to settle a total of \$315,980 in payables by the issuance of 2,018,600 common shares of the Company at a deemed price of \$0.05 per share for a total settlement amount of \$100,930.
- In February 2016, the Company completed shares-for-debt transactions with various creditors of the Company to settle a total of \$243,090 in payables. The Company issued units in its capital stock at a deemed price of \$0.05 per unit, issuing 4,861,800 common shares and 4,292,800 common share purchase warrants. Each warrant issued is exercisable to purchase one additional common share of the Company at a price of \$0.075 for a period of 18 months.
- Subsequent to the year ended April 30, 2017, on May 5, 2017 the Company was de-listed from Tier 2 of the TSXV and moved to the NEX board of the TSXV, where its common shares currently trade. The NEX is a trading platform on the TSXV for companies that have failed to maintain compliance with financial listing standards of the TSXV or the Toronto Stock Exchange.

### **Exploration and Evaluation Assets**

The Company currently has no exploration or evaluation assets, as its claims on the Taviche property, a 1,052-hectare property located in the State of Oaxaca, Mexico, have lapsed. The Company had suspended exploration activity on the Taviche property in 2014 while attempting to arrange financing or coordinate a joint venture to further its exploration and development.

During the year ended April 30, 2015, the Company completed the sale of its wholly-owned Mexican subsidiary Arco Exploraciones, S.A. de C.V. ("Arco Mexico") and the associated tax losses for total consideration of \$175,000, receiving \$145,000 at closing of the transaction with the balance of \$30,000 to be adjusted and paid at a later date. On August 7, 2015, the Company settled the outstanding balance of \$30,000 for the adjusted sum of \$22,700, recognizing a loss of \$7,300. As a result of the sale, the Company recorded a gain on sale of subsidiary of \$170,874.

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**Selected Annual Information**

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the Financial Statements.

	Year ended April 30, 2017	Year ended April 30, 2016	Year ended April 30, 2015
Total revenues	\$ -	\$ -	\$ -
Income (loss) for the year from continuing operations	(214,194)	47,551	(168,732)
Basic and diluted loss per share	(0.02)	.01	(0.07)
Total assets	13,042	10,432	28,625
Total liabilities	551,405	334,601	744,365

**Selected Quarterly Information**

Selected financial indicators for the eight most recent quarterly periods are shown in the following table.

Quarter Ended	Revenue	Income (loss) for the period from continuing operations	Basic and diluted income (loss) per share from continuing operations	Income (loss) for the period	Basic and diluted income (loss) per share
	\$	\$	\$/share	\$	\$/share
July 31, 2015	-	264,985	0.07	264,985	0.07
October 31, 2015	-	(39,597)	(0.01)	(39,597)	(0.01)
January 31, 2016	-	(40,469)	(0.01)	(40,469)	(0.01)
April 30, 2016	-	(137,368)	(0.03)	(137,368)	(0.03)
July 31, 2016	-	(27,842)	(0.00)	(27,842)	(0.00)
October 31, 2016	-	(33,363)	(0.00)	(33,363)	(0.00)
January 31, 2017	-	(74,181)	(0.01)	(74,181)	(0.01)
April 30, 2017	-	(78,808)	(0.01)	(78,808)	(0.01)

Fluctuations in the Company's expenditures reflect variations in the timing of exploration activities and general operations, and the ability of the Company to raise capital for its projects, including share-based payments during certain quarters.

**Results of Operations**

Overall, the Company recorded a loss of \$214,194 (\$0.02 per common share) for the year ended April 30, 2017 as compared to income of \$47,551 (\$0.01 per common share) for the year ended April 30, 2016.

*Operating Expenses:*

The operating expenses for the year ended April 30, 2017 were \$211,428 as compared to operating expenses of \$161,509 for the year ended April 30, 2016. The increase was primarily due to an increase in management fees of \$58,500 (2016 - \$27,000).

Other expenses that increased during the year were office and administrative costs of \$17,324 (2016 - \$10,830) and consulting fees of \$52,500 (2016 - \$46,000). Most expenses remained consistent with the prior year due to continued reduced corporate activity.

*Other Income and Expenses:*

The significant other income and expenses were:

- Debt settlement of \$5,352 (2016 - \$215,194)
- Interest expense and financing fees on loans payable of \$4,373 (2016 - \$7,404)
- Foreign exchange loss of \$3,745 (2016 gain - \$1,270) related to the Canadian dollar USD exchange rate

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**Fourth Quarter**

During the fourth quarter ending April 30, 2017, the operating expenses were \$74,832 compared to \$49,693 for the same period in 2016. The increase in operating expenses was primarily due to professional fees of \$21,297 (2016 - \$9,300), consulting fees of \$15,000 (2016 - \$9,000), management fees of \$15,000 (2016 - \$6,750).

The net loss for the quarter increased due to reversal of debt settlement of \$nil in the period compared to \$96,638 for the same period in 2016.

**Liquidity and Capital Resources**

At April 30, 2017, the Company had a working capital deficiency of \$538,363, as compared to a working capital deficiency of \$324,169 at April 30, 2016. The Company has very limited cash resources and current market conditions are poor for raising capital through the issuance of common shares. Other factors affecting near-term liquidity are:

- At April 30, 2017, the Company's officers and companies controlled by them were owed \$216,647 (April 30, 2016 - \$18,575).
- On May 8, 2014 the Company obtained a loan for \$25,000 from a Director of the Company, to fund a deposit on the acquisition of an aquaculture company. The Company agreed to pay the lender a bonus of \$3,750 for providing the loan and interest at 15.8% per annum. During the year ended April 30, 2017, the Company accrued interest of \$nil (2016: \$3,031). On February 19, 2016, \$35,000 of the loan and interest payable was settled by the issuance of shares. As at April 30, 2017, accrued interest in the amount of \$644 (2016 - \$644) was payable. This loan is payable on demand.
- On September 9, 2014, the Company obtained a loan for \$29,154 from a Director of the Company, to fund operating expenses. The Company agreed to pay the lender a bonus of \$4,373 for providing the loan. The loan bears interest at 15% per annum. During the year ended April 30, 2017, the Company accrued interest of \$4,373 (2016: \$4,373). As at April 30, 2017, accrued interest in the amount of \$11,538 (2016 - \$7,165) was payable. This loan is payable on demand.

**Related Party Transactions**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and directors.

The aggregate value of transactions relating to key management personnel were as follows:

	Year ended	
	April 30, 2017	April 30, 2016
Management fees paid or accrued by the former CEO	\$ 45,000	\$ -
Consulting fees paid or accrued to a company controlled by a director of the Company	52,500	-
Management fees paid or accrued to a company controlled by the CFO	13,500	27,000
Rent paid or accrued to a director of the Company	18,000	-
Forgiveness of accounts payable	-	(120,740)
	<b>\$ 129,000</b>	<b>\$ (93,740)</b>

The transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

At April 30, 2017, \$216,647 (2016 - \$18,575) is due to officers and companies controlled by either an officer or director of the Company. The amounts are unsecured, non-interest bearing, and have no stated terms of repayment.

During the year ended April 30, 2016, the Company settled balances due to related parties totaling \$166,490 by issuing 915,000 common shares at price of \$0.05 per share with a total fair value of \$45,750 and the Company recorded a related debt forgiveness in the amount of \$120,740.

## **Financial Instruments**

Further details about financial instruments and risk management are provided in the Company's audited 2017 financial statements.

## ***Risks and Uncertainties***

The more significant risks and uncertainties not discussed elsewhere in this MD&A include:

### *Financing Risk*

The Company has substantially exhausted its cash reserves and will need to raise funds to finance its operations and exploration activities if a material amount of outstanding warrants or options are not exercised prior to that time. There is no certainty that the Company will be able to raise money on acceptable terms or at all.

### *Exploration Risk*

Exploration for mineral resources involves a high degree of risk. The cost of conducting exploration programs may be substantial and the likelihood of success is difficult to assess. Few explored properties are ultimately developed into producing mines. The Company attempts to mitigate its exploration risk by maintaining a diversified portfolio that includes several different exploration prospects in a number of favorable geologic environments.

### *Metal Price Risk*

Even if the Company's exploration programs are successful in locating economic deposits of minerals or precious metals, factors beyond the Company's control may affect the value and marketability of such deposits. Natural resource prices have wide historic fluctuations due to many factors, including inflation, currency fluctuations, interest rates, consumption trends and local and worldwide financial market conditions. The prices of such natural resources greatly affect the value of the Company and the potential value of its properties. This, in turn, greatly affects its ability to form joint ventures and the structure of any joint ventures formed.

### *Environmental Risk*

The Company seeks to operate within environmental protection standards that meet or exceed existing requirements in the countries in which the Company operates. Present or future laws and regulations, however, may affect the Company's operations. Future environmental costs may increase due to changing requirements or costs associated with exploration and the developing, operating and closing of mines. Programs may also be delayed or prohibited in some areas. Although minimal at this time, site restoration costs are a component of exploration expenditures.

## **Shares and Share-based Units**

The Company has the following common shares, stock options, and share purchase warrants outstanding:

### *Common shares*

As at April 30, 2017 and August 24, 2017 (date of report) the issued and outstanding share capital is comprised of 9,387,323 common shares.

### *Stock Options*

At April 30, 2017 and August 24, 2017 (date of report), there were nil stock options outstanding and exercisable.

### *Warrants*

At April 30, 2017 and August 24, 2017 (date of report) there were nil share purchase warrants outstanding.

## **Off-Balance Sheet Arrangements**

As at April 30, 2017 the Company does not have any off-balance sheet arrangements.

### Future accounting policy changes

The following new standard was adopted during the year ended April 30, 2017:

- i) *IAS 1 – Presentation of Financial Statements: In December 2014, the IASB issued an amendment to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The changes clarify that materiality considerations apply to all parts of the financial statements and the aggregation and disaggregation of line items within the financial statements.*

Certain other pronouncements were adopted by the Company on May 1, 2016, none of which had a significant impact on the Company's consolidated financial statements.

The following new standards, and amendments to standards and interpretations, are not yet effective for the current period and have not been applied in preparing these financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below

- ii) *IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.*
- iii) *Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement. This standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard.*
- iv) *IFRS 16: A new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lease accounting model. The impact of IFRS 16 on the Company's financial instruments has not yet been determined.*

### Critical accounting estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical accounting estimates and judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements are discussed below:

#### *Judgments*

##### EXPLORATION AND EVALUATION EXPENDITURES

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

##### TITLE TO MINERAL PROPERTY INTERESTS

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

#### Going concern

The assumption is that the Company is a going concern and will continue in operation for the foreseeable future and at least one year.

### *Estimates*

#### EXPLORATION AND EVALUATION EXPENDITURES

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#### SHARE-BASED PAYMENT TRANSACTIONS

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions.

### **Capital commitments**

The Company has no commitments for equipment expenditures for 2017. The Company has forecasted that any property and equipment expenditures based on future needs will be funded from working capital and/or from operating or capital leases.

### **Outlook**

At the date of this MD&A, the Company has limited cash resources. It will be necessary to complete an equity financing to maintain its properties and fund any further exploration.

### **Proposed Transactions**

The Company is continuously evaluating new opportunities, and while various negotiations may be ongoing at any given time, these may or may not be successful. The Company considers opportunities where exceptional value to the shareholders is evident. Should the Company be successful in advancing a property to National Instrument 43-101 resource stage, the project would likely have a significant impact on its operating requirements.

### **Risks and uncertainties**

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, fluctuating metal prices, social, political, financial and economics. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practicable.

The risks and uncertainties are considered by management to be the most important in the context of the Company's business. The risks and uncertainties are not limited to but include risks associated with our dependence on the current portfolio of projects are: geological exploration and development; changes in law; continued negative operating cash flow and the availability of additional funding as and when required; infrastructure; inflation; governmental regulation; environmental; hazards, insurance; uninsured risks; competition; currency fluctuations; labour and employment; joint ventures; contract repudiation; dependence on key management personnel and executives; and litigation risks.

### **Forward-Looking Statements**

This MD&A may contain "forward-looking statements" which reflect the Company's current expectations regarding the future results of operations, performance and achievements of the Company, including but not limited to statements with respect to the Company's plans or future financial or operating performance, the estimation of mineral reserves and resources, conclusions of economic assessments of projects, requirements for additional capital, sources and timing of additional financing, realization of unused tax benefits and future outcome of legal and tax matters.

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The Company has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as "anticipate," "believe," "estimate," "expect", "budget", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

The statements reflect the current beliefs of the management of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Issuer to differ materially from those expressed in, or implied by, these statements. These uncertainties are factors that include but are not limited to risks related to international operations; risks related to general economic conditions and credit availability, uncertainty related to the resolution of legal disputes and lawsuits; actual results of current exploration activities, unanticipated reclamation expenses; fluctuations in prices of gold; fluctuations in foreign currency exchange rates, increases in market prices of mining consumables, possible variations in mineral resources, grade or recovery rates; accidents, labour disputes, title disputes, claims and limitations on insurance coverage and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, changes in national and local government regulation of mining operations, tax rules and regulations, and political and economic developments in countries in which the Company operates.

The Company's management periodically reviews information reflected in forward-looking statements. The Company has and continues to disclose in its MD&A and other publicly filed documents, changes to material factors or assumptions underlying the forward-looking statements and to the validity of the statements themselves, in the period the changes occur.

Historical results of operations and trends that may be inferred from the above discussions and analysis may not necessarily indicate future results from operations.

**Other information**

Additional information relating to the Company can be found on the Company's website at [www.arcoresources.com](http://www.arcoresources.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).