

GUERRERO VENTURES INC.

GV-V

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended December 31, 2018

Directors and Officers as at April 24, 2019:

Directors:

David Baker
Don Dybyk
Earl Terris

Officers:

President – David Baker
CFO – Vivian Gu

Contact Name:

David Baker

TSX Venture Exchange Symbol:

GV

GUERRERO VENTURES INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended December 31, 2018

1.1 Date of This Report

April 24, 2019

1.2 Overall Performance

Description of Business

Guerrero Ventures Inc. (the “Company”) is a publicly listed company that trades on the TSX Venture Exchange as a junior resource company with a focus on acquiring mineral projects that will provide the opportunity to enhance shareholder value.

The Company was incorporated in British Columbia, Canada. The Company’s principal place of business is 4567 Holly Park Court, Delta, BC, V4K 4S7 and its registered records office is located on the 10th Floor – 595 Howe Street, Vancouver, BC, V6C 2T5.

On July 12, 2018, the Company completed a share consolidation in which one post consolidation share replaced ten pre-consolidation shares.

1.3 Selected Annual Information

The highlights of financial data for the Company for the three most recently completed financial years are as follows:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
(a) Net sales	-	-	-
(b) Loss			
(i) Total loss	\$(2,104,652)	\$(3,621,105)	\$(376,984)
(ii) Loss per share - basic	\$(0.40)	\$(0.69)	\$(0.10)
(iii) Loss per share - diluted	\$(0.40)	\$(0.69)	\$(0.10)
(c) Net loss			
(i) Total loss	\$(2,104,652)	\$(3,621,105)	\$(376,984)
(ii) Loss per share - basic	\$(0.40)	\$(0.69)	\$(0.10)
(iii) Loss per share - diluted	\$(0.40)	\$(0.69)	\$(0.10)
(d) Comprehensive loss	\$(2,104,652)	\$(3,621,105)	\$(376,984)
(e) Total assets	\$1,182,228	\$3,171,472	\$6,370,939
(f) Total long-term liabilities	N/A	N/A	N/A
(g) Cash dividends declared per-share	N/A	N/A	N/A

1.4 Results of Operations

Discussion of Operations and Financial Condition

The following should be read in conjunction with the financial statements of the Company and notes attached hereto.

Mineral Properties

Biricu Property

The Company holds a 100% interest in the Biricu Property that covers more than 41,000 hectares, located in the Guerrero Gold Belt in Guerrero State, Mexico. There is a 2% net smelter return royalty on all metals recovered from the property and is to be paid within six months of the Company receiving a bankable feasibility study. The royalty is equal to \$10 per ounce of gold resource estimated in the feasibility study, which would be payable in cash or, at the Company's election, satisfied by the issuance of common shares. Exploration costs incurred on the Biricu property were written down in the 2018 and 2017 fiscal year due to lack of property exploration activity.

Loan Payable

In November 2015, the Company entered into an agreement, subsequently amended, with Minaurum Gold Inc. ("Minaurum"), whereby the Minaurum advanced the Company \$770,000 to explore the Biricu Property in Mexico. Pursuant to the agreement, the advance is repayable, at Minaurum's election, in cash or, subject to the satisfaction of certain conditions, into a direct interest in the project. The advance bears interest at 8% per annum.

As at December 31, 2018, a total of \$905,000 (2017 - \$905,000) in principal has been advanced to the Company and a total of \$221,877 (2017 - \$149,477) has been accrued in interest.

Results of Operations

The loss for the twelve months ended December 31, 2018 was \$2,104,652 as compared with a loss of \$3,621,105 for the twelve months ended December 31, 2017.

The details of the general and administrative expenses are as follows:

	30-Dec-18	30-Dec-17	Increase/ (Decrease)
Consulting & administration	-	114,000	(114,000)
Foreign exchange gain (loss)	1,117	(3,196)	4,313
Insurance	1,917	4,794	(2,877)
Management fees	-	96,000	(96,000)
Professional fees	15,401	97,851	(82,450)
Rent, telephone, office expenses	1,211	8,054	(6,843)
Shareholders' communication	500	5,128	(4,628)
Transfer agent & regulatory filing fees	24,511	15,615	8,896
Total General & administrative	\$ 44,657	\$ 338,246	\$ (293,589)

Shareholder communication fees consist of the fees paid and payable to the Company spokespersons that handle all shareholder calls, maintain the company mailing list, and handle all company mail-outs. Shareholder communication fees also consist of expenses for advertising and promotion, press releases, printing, and conference and shows. Filing and transfer agent fees include fees paid to the TSX Venture Exchange and the B.C. and Ontario Securities Commissions, SEDAR filings, and fees paid to Computershare Trust Company of Canada and the Minister of Finance.

Investor Relations Activities

The Company currently has no formal arrangements with respect to investor relations. During the period, the Company responded to investor inquiries and conducted shareholder and investor mailouts. The Company has assigned spokespersons responsible for responding directly to all investor inquiries and for conducting shareholder and investor mailouts. (See above for costs related to shareholder communications).

1.5 Summary of Quarterly Results

The following is a summary of the Company's financial results for the eight most recently completed quarters:

	Q4 <u>31-Dec-18</u>	Q3 <u>30-Sept-18</u>	Q2 <u>30-Jun-18</u>	Q1 <u>31-Mar-18</u>
Net income (loss)	(\$2,021,557)	(\$29,416)	(\$25,272)	(\$28,407)
Per Share	(0.39)	(0.01)	(0.00)	(0.00)
	Q4 <u>31-Dec-17</u>	Q3 <u>30-Sept-17</u>	Q2 <u>30-Jun-17</u>	Q1 <u>31-Mar-17</u>
Net income (loss)	(\$3,343,266)	(\$89,340)	(\$94,666)	(\$93,833)
Per Share	(0.64)	(0.01)	(0.02)	(0.02)

1.6 Liquidity

The Company has no revenue generating projects at this time. The Company's historical capital needs have been met by equity subscriptions. The Company will require additional financing to fund its exploration commitment on the Biricu Property. As at December 31, 2018, the Company had a working capital deficit of \$2,101,869 (2017 - \$1,982,760). The ability of the Company to successfully acquire and develop properties in the resource sector is conditional on its ability to secure further financing. The Company proposes to meet any additional financing requirements through arranging equity financing, and/or finalizing a joint venture agreement with a partner(s) who will be able to assume the costs of recommended exploration programs. In light of the continually changing financial markets, there is no assurance that funding by equity subscriptions or finding a joint venture partner will be possible at the times required or desired by the Company.

1.7 Capital Expenditures

The Company, through its subsidiary, Citation Minerals Inc., has an option agreement with Esperanza Resources Corp. (a subsidiary of Alamos Gold Inc.) to acquire a 100% interest in the Biricu Project mineral exploration concession located in Guerrero State, Mexico, as detailed in Section 1.4 “*Results of Operations.*”

1.8 Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

1.9 Transactions with Related Parties

All related party transactions and amounts owing are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Key management personnel are persons responsible for planning, directing and controlling the activities of the Company. The Company considers directors and officers of the Company to be key management personnel.

The Company retains the services of certain directors and officers. Management fees, consulting fees, and professional fees accrued to related parties are as follows:

Key Management Compensation

	Years Ended December 31	
	2018	2017
Management fees	\$ -	\$ 96,000
Consulting fees	-	15,000
Professional fees	-	48,000
Total	\$ -	\$ 159,000

Other Amounts Payable to Management

	Years Ended December 31	
	2018	2017
Equipment rental	\$ -	\$ 5,812

During the year ended December 31, 2018, the Company incurred \$Nil (2017 -\$48,000) in consulting fees to a company controlled by the spouse of the President.

As at December 31, 2018, \$525,566 of fees and expenses payable to related parties were accruals and included in accounts payable (2017 - \$525,566). Also included in the accounts payable was \$183,836 advance (2017 - \$115,118) from the President and a company controlled by the President.

1.10 Fourth Quarter – 2018

The fourth quarter results are presented on a consolidated basis including the financial results of the Company and its wholly-owned Canadian subsidiaries, Citation Minerals Inc. and Citation International Holdings Inc., and its wholly owned Mexican subsidiary, Minera Citation Mexico S.A. de C.V.

The fourth quarter results do not differ significantly from other quarters, except for the writing down of exploration and evaluation assets of \$1,987,595.

The Company has stopped to accrue management fees and consulting fees since the beginning of 2018.

In the quarter ended December 31, 2017, the Company wrote down of exploration and evaluation assets of \$3,176,901. The Company also wrote down of GST recoverable of \$33,558 as of December 31, 2017, \$1,487 of which was recovered and refunded in the second quarter of 2018.

1.11 Proposed Transactions

None

1.12 Critical Accounting Estimates

N/A

1.13 Changes in Accounting Policies

None

1.14 Financial and Other Instruments

a) Designations

The Company's financial instruments consist of cash, amounts receivable, accounts payable and accrued liabilities.

Cash is designated as held-for-trading; amounts receivable as loans, and receivables; and accounts payable and accrued liabilities as other financial liabilities.

b) Fair Value

The three levels of the fair value hierarchy are:

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

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

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

The Company has no assets or liabilities subject to fair value measurement on a recurring basis.

	FAIR VALUE INPUT LEVEL	AS AT DECEMBER 31, 2018		AS AT DECEMBER 31, 2017	
		CARRYING	ESTIMATED	CARRYING	ESTIMATED
		AMOUNT	FAIR VALUE	AMOUNT	FAIR VALUE
Financial Assets:					
Cash	1	\$ 841	\$ 841	\$ 2,680	\$ 2,680
Amounts receivable	2	\$ 1,387	\$ 1,387	\$ 1,332	\$ 1,332
Financial Liabilities:					
Accounts payable and accrued liabilities	2	\$ 939,887	\$ 939,887	\$ 896,879	\$ 896,879
Note payable	2	\$ 37,333	\$ 37,333	\$ 37,333	\$ 37,333
Loan payable	2	\$ 1,126,877	\$ 1,126,877	\$ 1,054,477	\$ 1,054,477

Due to the relatively short term nature of cash, amounts receivable, accounts payable and accrued liabilities, note payable, and loan payable, the fair value of these instruments approximates their carrying value.

c) Risk Management

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include currency, credit, interest rate and liquidity risks. Where material, these risks are reviewed and monitored by the Board of Directors.

Credit Risk

The Company's credit risk is primarily attributable to cash. Cash is held in a reputable Canadian bank which is closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments included in cash is minimal. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Our interest rate risk mainly arises from the interest rate impact on our cash. A change in interest rate would have a minimal effect on the profitability of the Company.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2018, the Company held cash of \$841 and had current liabilities of \$2,104,097. All of the Company's current liabilities have contractual maturities of less than 30 days and were subject to normal trade terms. Those current liabilities included approximately \$847,934 accrued for fees and expenses deferred by executives and employees and fees deferred to the Board in the Company's efforts to conserve cash. These fees and expenses were accrued and will not be paid until the financial position of the Company improves. The Company is seeking additional funds to ensure that it will have sufficient liquidity to meet liabilities.

d) Comprehensive income

A statement of comprehensive income (loss) forms part of the Company's financial statements and displays current period net income and other comprehensive income (loss). Other comprehensive income consists of unrealized gains on available-for-sale financial assets. The cumulative changes in other comprehensive income are included in accumulated other comprehensive income within shareholders' equity in the consolidated balance sheet. Upon disposition of the available-for-sale financial assets, the accumulated other comprehensive income (loss) has been reclassified as realized gain (loss) and included in net income (loss).

1.15 Other

Disclosure of Outstanding Share Capital (April 24, 2019)

A summary of the Company's outstanding common shares, incentive stock options, and warrants on the reporting date are as follows:

	Number	Book Value
Common Shares	5,225,196	\$21,457,421

Summary of incentive stock options:

Number of Shares	Expiry Date	Exercise Price Per Share
350,000	August 20, 2019	\$1.60

Summary of warrants outstanding: None

Subsequent Events

On February 21, 2019, the Company announced that it has entered into a debt consolidation agreement ("Agreement") with Medalist Capital Ltd. ("Medalist"), which includes the consolidation of approximately CAD\$751,785, plus any additional and ongoing accrued interest, of debt held by various creditors of the Company. Under the terms of the Agreement, the Company has agreed to issue to Medalist a convertible promissory note to evidence the aggregate indebtedness of the Company to be acquired by Medalist (the "Transaction"). The promissory note will be convertible at the option of Medalist into common shares in the capital of the Company at the conversion price of \$0.05 or such lower price per common share as permitted by the TSX Venture Exchange ("TSXV"). The completion of the Transaction is subject to a number of conditions including: (i) the approval of shareholders of Company as required by the TSXV; (ii) the disposition of the Bircu property to

Minaurum Gold Inc.; (iii) the acquisition of the outstanding debt of the Company by Medalist on terms acceptable to Medalist; (iv) completion by Medalist of its due diligence on the Company; and (v) obtaining all consents and approvals of third parties and the TSXV required to complete the Transaction. At the completion of the Transaction, the current directors shall resign and a new Board of Directors shall be appointed. The common shares of the Company issuable upon conversion of the promissory note will be subject to a four month hold period under applicable securities laws and the rules of the TSXV. Following completion of the Transaction, if all of the principal amount of the promissory note is converted by Medalist, Medalist would own approximately 15,035,700 (or approximately 74%) of the outstanding common shares of the Company. Medalist has indicated that is entering into the Transaction for investment purposes. Assuming completion of the Transaction, Medalist has no current plan or future intentions which relate to, or would result in, acquiring additional securities of the Company, disposing of securities of the Company, or any of the other actions requiring disclosure under the early warning reporting provisions of applicable securities laws. Depending on market conditions, Medalist's view of the Company's prospects and other factors considered relevant by Medalist, Medalist may acquire additional securities of the Company from time to time in the future or may sell all or portion of its securities of the Company.

Additional information

Additional information relating to the Company is on SEDAR at www.sedar.com.