



SOMBRERO RESOURCES

(An exploration stage business)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SOMBRERO RESOURCES INC.
FOR THE YEAR ENDED DECEMBER 31, 2020**

Dated: March 31, 2021

Sombrero Resources Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations for year ended December 31, 2020 (In Canadian dollars, unless otherwise noted)

1. HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2020 AND THE PERIOD UP TO MARCH 31, 2021

1.1 Creation of Sombrero Resources Inc.

- Sombrero Resources Inc. (the "Company" or "Sombrero") was incorporated under the British Columbia Business Corporations Act on July 23, 2020. Sombrero is an unlisted reporting issuer in the province of British Columbia, Alberta, and Ontario and its head office and principal address is located at 1199 West Hastings Street, Suite 600, Vancouver, British Columbia, Canada, V6E 3T5.
- On July 29, 2020, Auryn Resources Inc. ("Auryn") – now known as Fury Gold Mines Limited ("Fury Gold") and Eastmain Resources Inc. ("Eastmain") entered into a definitive agreement to combine their Canadian mineral businesses, provided that Fury Gold spun out its Peruvian subsidiaries into two newly formed British Columbia subsidiaries, distributed to its shareholders the common shares of these subsidiaries, including Sombrero and completed a concurrent financing (collectively, the "Transaction").
- The Transaction closed on October 9, 2020. As a result, Sombrero received from Fury Gold, in exchange for 112,340,433 shares, representing the total outstanding shares of Fury Gold minus one share on the date of close, the following:
 - all issued and outstanding shares of Sombrero Minerales, S.A.C. ("Sombrero Peru"), a Peruvian company which was incorporated on May 22, 2017, pursuant to the General Law of Companies (Ley General de Sociedades);
 - contributions from parent;
 - mineral property interests including the Sombrero project; and
 - closing date cash of approximately \$8.1 million, representing 67.5% of the closing date cash of Fury Gold on the Transaction date close.

Concurrently on the date of close, Fury Gold distributed all of the issued Sombrero shares to its shareholders. Fury Gold shareholders received, for each Fury Gold share held as of the closing date of the Transaction, a full share in Sombrero.

- Sombrero plans to apply to list its shares on the Toronto Stock Exchange ("TSX") by mid-2021.
- The Company accounted for this common control transaction using book value accounting based on the book values recognized in the financial statements of the underlying entities. This results in the consolidated financial statements reflecting the combination as if it had occurred from the beginning of the period that the entities were under common control, regardless of the actual date the common control transaction closed.
- For the purposes of this Management's Discussion and Analysis ("MD&A") the Company has adopted, by reference, all of the work that was previously done on the Sombrero project by its predecessor, Auryn. In that regard, the Company confirms that the geological and technical team that was utilized by Auryn are now being utilized by the Company. Where this discussion indicates that the Company undertook a task, competed an acquisition or received some form of government/community approval prior to October 9, 2020, such action in fact pertained to Auryn and is adopted and incorporated by reference by the Company. Similarly, references to expenditures, impairments or costs incurred by the Company in periods before October 9, 2020 are attributable to expenditures, impairments and costs incurred by Auryn which are adopted by reference by the Company for the purposes of this MD&A.

1.2 Other corporate highlights

- The Company's primary asset is the Sombrero project consisting of a district-scale land position totaling 130,000 hectares that are owned or optioned. The project is located approximately 340 kilometres ("km") south-east of Lima in the Ayacucho province of Peru. The Company's technical team has interpreted the land position to be the north-western extension of the Andahuaylas-Yauri belt that hosts the Las Bambas, Haquira, Los Chancas, Cotambabas, Constancia, Antapaccay and Tintaya deposits.
- On June 17, 2020, the Company announced that it was resuming exploration activities at its Sombrero project. The Company received approval from the Peruvian government to resume work following restrictions that had been put in place due to COVID-19 in the first quarter of 2020. At that time, all of the Company's office employees had been given the option to work from home, while personnel in Peru had been recalled from the field due to a 15 day government imposed lockdown in the country, which was subsequently extended.

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1.3 Operational highlights

- On March 1, 2021, the Company agreed with the owner to extend the force majeure declaration for another 24 months and paid US\$50,000 as consideration. As a result, the Company is able to continue deferment of the June 2019 and 2020 payments and any subsequent property payments and work expenditures until May 20, 2023.
- During the fourth quarter of 2020, the Company and Corporacion Aceros Arequipa S.A. ("Aceros") agreed to amend the Aceros option agreement to defer certain option payments and work commitments. The US\$250,000 option payment and US\$500,000 work commitment that were previously due by December 13, 2020, are due by June 13, 2021. The US\$350,000 option payment and US\$1,500,000 work commitment that were previously due by February 13, 2021, are due by December 13, 2021.
- On September 3, 2020, the Company announced it had amended the agreement with Alturas Minerals Corp ("Alturas") to remove the requirements for exercise of the Alturas option and acquired the remaining 20% interest (increasing the Company ownership in Alturas Sombrero concession to 100%) with the final option payment being reduced to US\$3.0 million. Payment was made through the issuance of 743,187 (1,100,000 pre-consolidation) common shares of Auryn at \$4.29 (\$2.90 pre-consolidation) per share and \$625,000 in cash. The difference of \$154,000 between the fair value per share of \$2.76 and the agreed upon issue price of \$2.90, is included in the cost of the mineral interest addition.
- On February 10, 2020, the Company announced that it received its environmental permit, the Declaración de Impacto Ambiental ("DIA"), from the Peruvian Ministry of Energy and Mines for its Sombrero copper-gold project in Southern Peru. The DIA covers an area of 1,031 hectares and allows the Company to drill up to 33 holes from 23 platforms on the Ccascabamba Sombrero Main target area, where the Company has completed the majority of its work-to-date within the Sombrero land package.
- On January 17, 2020, the Company confirmed the age of the intrusives directly associated with mineralization at the Sombrero project. Based on results from five uranium-lead samples obtained from diorite sills at the CCascabamba and Nioc targets, ages range from 38.9 to 40.5 million years. This places the mineralization within the same Eocene-aged metallogenic event that produced several world-class deposits in the Andahuaylas-Yauri belt such as Las Bambas. It also establishes that the belt extends over 100 km to the west, where the Sombrero project is located.

< Refer to the section 2.1 for cautionary wording concerning forward-looking information >

2. DATE AND FORWARD-LOOKING STATEMENTS

This MD&A of Sombrero has been prepared by management to assist the reader to assess material changes in the consolidated financial statements and results of operations of the Company as at December 31, 2020 and for the period then ended.

This MD&A reviews the financial results of the Company for the three months and year ended December 31, 2020. Commentary is made on the results for the period under review.

This MD&A should be read in conjunction with the consolidated financial statements of the Company and related notes thereto as at and for years ended December 31, 2020 and 2019. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB"). IFRS include International Accounting Standards ("IAS") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). All financial information has been prepared in accordance with IFRS and all dollar amounts presented are Canadian dollars unless otherwise stated.

The effective date of this MD&A is March 31, 2021.

2.1 Forward-looking statements and risk factors

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, the timing and amount of estimated future production, costs of future production, future capital expenditures, costs and timing of the development of deposits, success of

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exploration activities, permitting time lines, requirements for additional capital, sources and timing of additional financing, realization of unused tax benefits and future outcome of legal and tax matters.

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 Company 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; general economic conditions; public health crises such as the COVID-19 pandemic and other uninsurable risks; actual results of current exploration activities and unanticipated reclamation expenses; fluctuations in prices of gold and other commodities; 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; as well as other factors.

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 following discussions and analysis may not necessarily indicate future results from operations.

The operations of the Company are speculative due to the high-risk nature of its business which is the exploration of mining properties. For a comprehensive list of the risks and uncertainties facing the Company, please see "Risk Factors" in the former parent company, Fury Gold's most recent annual information form ("AIF"). These are not the only risks and uncertainties that Sombrero faces. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair its business operations. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. Readers should refer to the risks discussed in the Fury Gold's AIF and MD&A for the year ended December 31, 2019, and subsequent continuous disclosure filings with the Canadian Securities Administrators available at www.sedar.com. These documents are for information purposes only and not incorporated by reference in this MD&A. Additional information relating to the Company and its operations can also be found on the Company's web site at www.sombreroresources.com. For discussion regarding the former parent company, refer to www.auryresources.com.

3. DESCRIPTION OF THE BUSINESS

The Company is focussed on creating significant value for shareholders through the exploration and potential discovery of world-class copper and gold deposits in southeast Peru. At the date of this document, the Company's flagship asset is the Sombrero project consisting of a district-scale land position totaling 130,000 hectares that are owned or optioned.

The Company's technical and management teams have a track record of successfully monetizing assets for all stakeholders and local communities in which it operates. The Company conducts itself to the highest standards of corporate governance and social responsibility. As a normal part of the exploration process, Sombrero enters into access and use agreements with local communities surrounding its projects. The process of securing such agreements requires achieving local community consensus and can be challenging, however positive dialogue continues with the communities and management believes that agreements will continue to be maintained and updated, although there can be no certainty at this time about their timing or extent.

3.1 Impacts of COVID-19

During 2020, there were limitations of movement across the globe. In March 2020, the Peruvian government mandated a 15-day lockdown of the country and the Company recalled all personnel from the field. In June 2020, the Company received approval from the Peruvian government to resume work activities at its projects.

The situation in Canada and Peru with respect to the management of COVID-19 remains fluid and permitted activities are subject to change; the Company is continually reviewing the situation along with provincial and government guidelines and allowing work to be undertaken as long as it is confident that its employees are safe to do so.

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During the period of restricted movement in relation to COVID-19, the Company has continued to have regular communications with the communities and is actively working towards securing access to other parts of the project area. The Company was able to provide much-needed support to the Huanca Sancos and Lucanamarca communities during the health crisis by providing essential food and other supplies to which they did not have access during the shutdown. Furthermore, the work plan during the remainder of 2020 consisted of continuing the drill permitting process and working with the Huanca Sancos community to deliver a positive outcome for the Consulta Previa process to ensure support of the Company's drill program at Sombrero.

As the situation surrounding COVID-19 continues to develop daily, the Company will continue to monitor the situation closely and respond appropriately.

3.2 Peruvian project

3.2.1 Sombrero

The Sombrero project is located 340 km south-east of Lima in southern Peru and is hosted in the interpreted western extension of the Andahuaylas-Yauri belt. The Sombrero project consists of approximately 130,000 hectares of mineral claims covering a number of coincident gold and copper geochemical anomalies. The land package was assembled through separate option agreements, Alturas, Mollecruz, and Aceros, and a series of staking campaigns. A summary of these option agreements can be found in the consolidated financial statements for the year ended December 31, 2020.

Alturas option

As mentioned earlier in this MD&A, on September 3, 2020, the Company announced it had amended the agreement with Alturas to remove the requirements for exercise of the Alturas option and acquired the remaining 20% interest (increasing the Company ownership in Alturas Sombrero concession to 100%). The option agreement with Alturas was thereby extinguished.

Mollecruz option

Effective May 20, 2019, the Company formally declared the existence of a force majeure event under the Mollecruz option as the Company has been unable to reach an access agreement with the local community in order to commence work in the region. The declaration of force majeure has deferred the Company's obligation to make the June 22, 2019 and 2020, property payments and any subsequent property payments and work expenditures for a maximum of 24 months from the declaration date. The Company has continued to have active and open communications with the community in an effort to better inform community members about work plans and address those concerns that may be hindering the Company from obtaining access in this particular area.

On March 1, 2021, the Company agreed with the owner to extend the force majeure declaration for another 24 months and paid US\$50,000 as consideration. As a result, the Company is able to continue deferment of the June 2019 and 2020 payments and any subsequent property payments and work expenditures until May 20, 2023.

Aceros option

During the fourth quarter of 2020, the Company and Aceros agreed to amend the Aceros Option to defer certain option payments and work commitments, which are summarized in the consolidated financial statements for the year ended December 31, 2020.

3.3 Qualified persons and technical disclosures

Michael Henrichsen, P. Geo., Chief Operating Officer of Sombrero, is the Qualified Person with respect to the technical disclosures in this MD&A.

3.4 Climate related risks

The Company acknowledges the impact of climate change on the weather patterns at its projects, particularly at the Sombrero project which is subject to cooler daytime temperatures during the months of May to September with a rainy season generally extending from November to April. Temperatures vary between a few degrees centigrade (C) below zero during the night, up to 20°C during the day in the last months of the year. Snow is possible during the year but is not a significant issue and would not interfere with exploration of potential future mining activities. The increased regulation of greenhouse gas emissions (known as carbon taxes) may adversely effect Sombrero's operations and

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related legislation is becoming more stringent. The effects of climate change or extreme weather events may cause prolonged disruption to the delivery of essential commodities which could negatively affect production efficiency. When undertaking activities, the Company is committed to taking all reasonable steps to mitigate climate related risks.

4. SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
Comprehensive loss for the period	\$ 2,773,568	\$ 2,925,606	\$ 2,210,074
Net loss for the period	\$ 2,598,486	\$ 2,874,657	\$ 2,260,656
Basic and diluted loss per share ¹	\$ 0.02	\$ n/a	\$ n/a
Total assets	\$ 13,055,541	\$ 1,431,231	\$ 1,261,708

¹ As Fury Gold was the parent company of Sombrero prior to the Transaction, basic and diluted loss per share information for the years ended December 31, 2019 and 2018 are not applicable ("n/a").

5. DISCUSSION OF OPERATIONS

Three months ended December 31, 2020 and 2019 (Q4 2020 vs. Q4 2019)

During the three months ended December 31, 2020, the Company reported a loss of \$892,426 compared to a loss of \$535,665 for the same period in 2019. Significant variances within operating expenses and other expenses, which in combination resulted in the \$356,761 increase in the current period's loss, are discussed as follows:

Operating expenses

- Exploration and evaluation costs in Q4 2020 were \$529,621 compared to \$487,829 in Q4 2019, an increase of \$41,792 as activities on the Sombrero project resumed.
- Fees, salaries, and other employee benefits increased \$140,884 from \$32,541 in Q4 2019 to \$173,425 in Q4 2020, as additional employees were hired including head office management.
- Office and administration costs increased \$66,263 from \$11,248 in Q4 2019 to \$77,511 in Q4 2020, as Sombrero completed the spin-out from Fury Gold and became a separate entity.
- Legal and professional fees were \$64,336 in Q4 2020 as compared to \$3,525 in Q4 2019, representing an increase of \$60,811 as Sombrero completed the Transaction and incurred legal, audit, and accounting costs as a separate entity.
- Project investigation costs were \$19,588 in Q4 2020 as compared to \$nil in Q4 2019, as the Company looked at new projects for exploration potential.

Other expenses and income:

- Foreign exchange loss increased by \$10,189 from \$522 in Q4 2019 to \$10,711 in Q4 2020, primarily due to increased volume of foreign-denominated transactions.

Years ended December 31, 2020 and 2019 (FY2020 vs. FY2019)

During the year ended December 31, 2020, the Company reported a net loss of \$2,598,486 compared to a net loss of \$2,874,657 for the same period in 2019. The \$276,171 decrease in net loss in the current period is mainly driven by:

- \$727,306 decrease in exploration and evaluation costs, from \$2,735,342 in FY2019 to \$2,008,036 in FY2020 mainly due to COVID-19 movement restrictions.
- \$178,489 increase in fees, salaries, and other employee benefits, from \$74,494 in FY2019 to \$252,983 in FY2020.
- \$108,044 increase in legal and professional fees, from \$12,295 in FY2019 to \$120,339 in FY2020.
- \$91,781 increase in office and administration costs, from \$42,795 in FY2019 to \$134,576 in FY2020.
- \$41,421 increase in project investigation costs in FY2020 from \$nil in FY2019.

With the exception of exploration and evaluation costs, the drivers behind the significant variances for the year in 2020 compared to 2019 are consistent with that described above for the three-month period.

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Summary of Project Costs

During the year ended December 31, 2020, the Company incurred \$3,945,212 of mineral property additions and \$2,008,036 in exploration and evaluation costs on Sombrero, the Company's main project.

	Sombrero
Balance as at December 31, 2019	\$ 1,331,097
Mineral property additions	3,945,212
Currency translation adjustment	(223,116)
Balance as at December 31, 2020	\$ 5,053,193

Exploration and evaluation costs	Sombrero
Permitting, environmental and community costs	\$ 982,899
Salaries and wages	431,378
Camp cost, equipment and field supplies	222,376
Geological consulting services	173,009
Share based compensation	92,657
Aircraft & travel	51,281
Geophysical analysis	31,700
Assaying	20,176
Fuel and consumables	2,560
Total for the year ended December 31, 2020	\$ 2,008,036

Future operations and 2021 expenditure forecast

Following the completion of the Transaction in October 2020, as highlighted earlier in this MD&A, Sombrero plans to apply to list its shares on the TSX by mid-2021.

As mentioned earlier, the Company continues to have regular communications with the communities and is actively working towards securing access to other parts of the project area. The Company is focussed on continuing the drill permitting process and working with the Huanca Sancos community to deliver a positive outcome for the Consulta Previa process to ensure support of the Company's drill program at Sombrero.

6. SUMMARY OF QUARTERLY RESULTS

Three months ended	Net loss	Comprehensive loss
	\$	\$
December 31, 2020	892,426	1,132,397
September 30, 2020	691,616	682,395
June 30, 2020	558,880	607,507
March 31, 2020	455,564	351,269
December 31, 2019	535,665	557,200
September 30, 2019	483,763	472,064
June 30, 2019	1,243,703	1,264,399
March 31, 2019	611,526	631,943

During the last eight quarters, the Company's net loss has ranged between \$455,564 and \$1,243,703. In the time period reflected, the largest losses are generally recorded in the second and fourth quarters due to the timing of option payments, which typically occur in the second quarter, and the Company's summer exploration programs at its projects, which occur during the fourth quarter. As a result of delays due to COVID-19, the Company resumed exploration

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activities during June 2020 and continued its program for rest of the year. Further, the Company completed the Transaction in October 2020.

7. FINANCIAL POSITION, LIQUIDITY, AND CAPITAL RESOURCES

	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 7,850,131	\$ 23,751
Accounts receivable	\$ 7,308	\$ -
Mineral property interests	\$ 5,053,193	\$ 1,331,097
Current liabilities	\$ 834,616	\$ 541,579

The Company did not have unrestricted cash nor did it have long-term liabilities at December 31, 2020 and 2019. The working capital balance at December 31, 2020 was \$7,167,732 (December 31, 2019: working capital deficit of \$441,445). Contractual obligations as at December 31, 2020, are reflected in the table below and include accounts payable and accrued liabilities of \$834,616.

Contractual Obligations as of December 31, 2020	Payment terms	Amount
Accounts payable and accrued liabilities	Immediately	\$ 834,616
Total		\$ 834,616

During year ended December 31, 2020, the Company used cash of \$2,223,199 in operating activities as compared to \$2,037,281 during the year ended December 31, 2019. The cash outflow during 2020 increased as compared to the cash outflow in 2019 due to a general increase in operating expenses as the Company was spun-out from Fury Gold.

During the year ended December 31, 2020, the Company used cash in investing activities of \$3,945,212 whereas \$171,564 was used in 2019. The increase is mainly due to the acquisition of the remaining 20% interest in the Alturas Sombrero concession during the third quarter.

During the year ended December 31, 2020, the Company received cash of \$14,012,183 as compared to \$2,224,114 during the year ended 2019, from its former parent company, Fury Gold to conduct its operations. As mentioned earlier in this MD&A, the Transaction was completed in October 2020.

Management expects its cash-on-hand will be sufficient to pursue its activities for the next twelve months.

As at December 31, 2020, the Company has net working capital of approximately \$7.2 million while it incurred a net loss of approximately \$2.6 million for the year ended December 31, 2020. The Company has incurred operating losses to date and does not generate cash flows from operations to support its activities. With no source of operating cash flow, there is no assurance that sufficient funding will be available to conduct further exploration and development of its mineral properties. The ability to continue as a going concern remains dependent upon Sombrero's ability to obtain the financing necessary to continue to fund its mineral properties, the realization of future profitable production, proceeds from the disposition of its mineral interests, and/or other sources. These conditions create a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Capital Resources

The Company held cash and cash equivalents of \$7,850,131 at December 31, 2020. Working capital was \$7,167,732 at December 31, 2020. As of the date of this MD&A, Sombrero plans to apply to list its shares on the TSX by mid-2021.

The former parent, Fury Gold allocated a certain portion of share-based compensation and exploration and evaluation costs to the Company. Refer to the Fury Gold's financial statements and its MD&A for further share option information.

8. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet arrangements. Earn-in arrangements are not viewed as off-balance sheet arrangements, and there are no other commitments held by the Company at the balance sheet date.

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9. TRANSACTIONS WITH RELATED PARTIES

9.1 Related party transactions

All transactions with related parties have occurred in the normal course of operations. All amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted.

	Years ended December 31,	
	2020	2019
Universal Mineral Services Ltd.	\$ 407,586	\$ 351,836
Corisur Peru, S.A.C. and Magma Minerals S.A.C.		
Wages	-	60,006
Office	-	29,350
Exploration and evaluation credit	-	(4,120)
Subtotal	-	85,236
Total transactions for the periods	\$ 407,586	\$ 437,072

Universal Mineral Services Ltd., ("UMS") is a private company with certain directors and officers in common with Sombrero. UMS provides geological, financial and transactional advisory services as well as administrative services to the Company on an ongoing, cost recovery basis. Having these services available through UMS, on an as needed basis, allows the Company to maintain a more efficient and cost-effective corporate overhead structure by hiring fewer full-time employees and engaging outside professional advisory firms less frequently. The agreement has an indefinite term and can be terminated by either party upon providing due notice.

Corisur Peru, S.A.C. and Magma Minerals S.A.C. (collectively "Tier One") are companies with certain directors and officers in common with Sombrero.

During the year ended December 31, 2020, \$92,657 (December 31, 2019 – \$562,378) of share-based compensation and \$48,829 (December 31, 2019 - \$145,203) of exploration and evaluation expenditures from Fury Gold were allocated to the Company, respectively.

Fury Gold uses the fair value method of accounting for all share-based payments. The fair value of the share-based options granted up to the date of the Transaction and the year ended December 31, 2019 were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	September 30, 2020	December 31, 2019
Risk-free interest rate	0.39%	1.59%
Expected dividend yield	Nil	Nil
Share price volatility	58%	62%
Expected forfeiture rate	0%	0%
Expected life in years	4.90	4.33

The risk-free interest rate assumption is based on the Government of Canada benchmark bond yields and treasury bills with a remaining term that approximates the expected life of the share-based options. The expected volatility assumption is based on the historical and implied volatility of Fury Gold's common shares. The expected forfeiture rate and the expected life in years are based on historical trends.

After the close the Transaction, there was no further allocation of stock-based compensation and exploration and evaluation expenditures. The Company did not have any outstanding share options and share purchase warrants at December 31, 2020.

9.2 Related party balances

As at December 31, 2020, \$40,196 (December 31, 2019 - \$nil) was included in accounts payable and \$50,000 (December 31, 2019 - \$nil) was in prepaids expenses and deposits relating to transactions with UMS.

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Also included in accounts payable and accrued liabilities was \$176,000 (December 31, 2019 - \$nil) owed to Fury Gold related to the closing cash pursuant to the Transaction, which has been paid subsequent to the year end.

9.3 Key management compensation

In addition to the transactions disclosed above, the Company provided the following compensation to key management members, being its executives and directors:

	December 31, 2020
Salary and benefits provided to executives	\$ 269,808
Directors fees paid to non-executive directors	14,933
	\$ 284,741

10. SUBSEQUENT EVENTS

On March 1, 2021, the Company agreed with the owner of the Mollecruz concessions to extend the force majeure declaration for another 24 months and paid US\$50,000 as consideration. As a result, the Company is able to continue deferment of the June 2019 and 2020 payments and any subsequent property payments and work expenditures until May 20, 2023.

11. CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to select accounting policies and make estimates and judgments that may have a significant impact on the consolidated financial statements. Estimates are continuously evaluated and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

11.1 Provisions

Provisions recognized in the financial statements involve judgments on the occurrence of future events, which could result in a material outlay for the Company. In determining whether an outlay will be material, the Company considers the expected future cash flows based on facts, historical experience and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

The Company does not have any provisions recorded as at December 31, 2020 and 2019.

11.2 Reclamation obligations

Management assesses its reclamation obligations annually and when circumstances suggest that a material change to the obligations may have occurred. Significant estimates and assumptions are made in determining the provision for rehabilitation and site restoration, as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent, the timing and the cost of reclamation activities, regulatory change, cost increases, and changes in discount rates. Those uncertainties may result in actual expenditure differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future reclamation costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the reclamation asset and liability.

As the Company's projects are in early-stage exploration, management estimated the provision to be \$nil as at December 31, 2020 and 2019.

11.3 Share-based compensation

During the year ended December 31, 2020, \$92,657 (year ended December 31, 2019 - \$562,378) of share-based compensation from the Fury Gold was allocated to the Company prior to Transaction close. As mentioned earlier, there was no further allocation of stock-based compensation after the close of the Transaction.

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11.4 Income taxes

The provision for income taxes and composition of income tax assets and liabilities require management's judgment. The application of income tax legislation also requires judgment in order to interpret legislation and to apply those findings to the Company's transactions.

11.5 Deferred tax assets and liabilities

Management judgment and estimates are required in assessing whether deferred tax assets and deferred tax liabilities are recognized in the consolidated statements of financial position. Judgments are made as to whether future taxable profits will be available in order to recognize deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, and other capital management transactions. These judgments and assumptions are subject to risk and uncertainty and changes in circumstances may alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the consolidated statements of financial position and the benefit of other tax losses and temporary differences not yet recognized. The Company's deferred tax assets and liabilities were determined using a future income tax rate of 27% in Canada and 29.5% in Peru.

12. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company confirms that it has adopted and continued the same accounting policies that were previously applied by Auryn in relation to its operations. To that end the Company has adopted the following amended accounting standards and policies effective January 1, 2020:

12.1 Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued Amendments to IAS 1 and IAS 8 to clarify the definition of material in IAS 1 and align the definition across the standards. The amendments are not intended to alter the underlying concept of materiality in IFRS standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence".

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term "material" to ensure consistency.

The Company adopted the amendments to IAS 1 and IAS 8 effective January 1, 2020, which did not have a material impact on the Company's consolidated financial statements.

12.2 Amendments to IFRS 3 – Business Combinations

The Company has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.

As mentioned earlier, it was determined that IFRS 3 did not apply to the Transaction. Further, the adoption of the amended standard did not have an immediate impact on the Company's consolidated financial statements but may be applied in assessing any future business combination and asset acquisition scenarios.

Sombrero Resources Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations for year ended December 31, 2020 (In Canadian dollars, unless otherwise noted)

13. FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

As at December 31, 2020, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, accounts payables and accrued liabilities. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The Company's financial instruments are exposed to certain financial risks including credit risk, liquidity risk, market risk and currency risk. Details of the primary risks that the Company is exposed to are laid out in the notes to the Company's consolidated financial statements.

14. OTHER REQUIRED DISCLOSURE

14.1 Capital structure

The capital structure of the Company is as follows:

Authorized: Unlimited number of common shares

Number of common shares issued and outstanding as at March 31, 2021: 112,340,434

Number of common shares issued and outstanding as at December 31, 2020: 112,340,434

14.2 Disclosure controls and procedures

As defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, disclosure controls and procedures require that controls and other procedures be designed to provide reasonable assurance that material information required to be disclosed is duly gathered and reported to senior management in order to permit timely decisions and timely and accurate public disclosure.

Management is responsible for the establishment and maintenance of a system of internal control over financial reporting. This system has been designed to provide reasonable assurance that assets are safeguarded and that the financial reporting is accurate and reliable. The consolidated financial statements for the years ended December 31, 2020 and 2019 have been prepared by management in accordance with IFRS and in accordance with accounting policies set out therein.

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, have evaluated the design of the Company's disclosure controls and procedures and the design of internal controls over financial reporting as required by Canadian securities laws, and have concluded that such procedures are adequate to ensure accurate and complete disclosures in public filings.

There are inherent limitations in all control systems and no disclosure controls and procedures can provide complete assurance that no future errors or fraud will occur. An economically feasible control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Additional disclosures pertaining to the Company's management information circulars, material change reports, press releases and other information are available on the SEDAR website at www.sedar.com under Sombrero Resources Inc.'s profile.

On behalf of the Board of Directors,

"Ivan Bebek"

Ivan Bebek

President and Chief Executive Officer

March 31, 2021