



**SOMBRERO
RESOURCES**

The Spinout Exploration Business of Sombrero Resources Inc.

Condensed Interim Carve-out Financial Statements

For the three and nine months ended September 30, 2020 and 2019

(Unaudited)

SOMBRERO RESOURCES INC.
(the "Business")

CONDENSED INTERIM CARVE-OUT FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited condensed interim carve-out financial statements of the Business have been prepared by and are the responsibility of the Business management.

The Business' independent auditor has not performed a review of these condensed interim carve-out financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

November 25, 2020

The Spinout Exploration Business of Sombrero Resources Inc.

Condensed Interim Carve-out Statements of Financial Position
 (Unaudited - Expressed in Canadian dollars)

	As at September 30, 2020	As at December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 384,828	\$ 23,751
Prepaid expenses and deposits (Note 4)	<u>73,209</u>	<u>76,383</u>
	458,037	100,134
Non-current assets:		
Mineral property interests (Note 5)	5,284,358	1,331,097
Total assets	\$ 5,742,395	\$ 1,431,231
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 73,503	\$ 43,067
Total liabilities	73,503	43,067
Equity:		
Net parent investment	5,668,892	1,388,164
Total equity	5,668,892	1,388,164
Total liabilities and equity	\$ 5,742,395	\$ 1,431,231

Arrangement agreement (Note 1)
 Going concern (Note 1)

The Spinout Exploration Business of Sombrero Resources Inc.

Condensed Interim Carve-out Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian dollars)

	Three months ended September 30, 2020		Nine months ended September 30, 2020	
	2020	2019	2020	2019
Operating expenses:				
Exploration and evaluation costs (Note 5)	\$ 919,355	\$ 329,699	\$ 1,541,710	\$ 2,094,265
Fees, salaries and other employee benefits	39,284	13,134	79,558	41,953
Legal and professional fees	22,888	3,208	56,003	8,770
Office and administration	20,738	9,625	57,065	31,547
Project investigation costs	3,417	-	21,833	-
	1,005,682	355,666	1,756,169	2,176,535
Other expenses				
Foreign exchange loss, net	3,354	3,469	13,186	9,209
Loss for the period	\$ 1,009,036	\$ 359,135	\$ 1,769,355	\$ 2,185,744
Other comprehensive loss (income)				
Unrealized currency loss (gain) on translation	(9,221)	(11,699)	(64,889)	29,414
Comprehensive loss for the period	\$ 999,815	\$ 347,436	\$ 1,704,466	\$ 2,215,158

The Spinout Exploration Business of Sombrero Resources Inc.

Condensed Interim Carve-out Statements of Cash Flows

(Unaudited - Expressed in Canadian dollars)

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Operating activities:		
Loss for the period	\$ (1,769,355)	\$ (2,185,744)
Non-cash transactions:		
Donation credit (Note 6)	-	(4,120)
Share-based compensation (Note 5 and 6)	92,657	427,234
Changes in non-cash working capital:		
Prepaid expenses and deposits	3,174	(38,608)
Accounts payable and accrued liabilities	30,436	51,861
Cash used in operating activities	(1,643,088)	(1,749,377)
Investing activities:		
Purchase of mineral property	(3,888,372)	(54,552)
Cash used in investing activities	(3,888,372)	(54,552)
Financing activities:		
Advances from parent	5,892,537	1,838,657
Cash provided by financing activities	5,892,537	1,838,657
Increase in cash and cash equivalents	361,077	34,728
Cash and cash equivalents, beginning of the period	23,751	8,482
Cash and cash equivalents, end of the period	\$ 384,828	\$ 43,210

The Spinout Exploration Business of Sombrero Resources Inc.

Condensed Interim Carve-out Statements of Changes in Net Parent Investment

(Unaudited - Expressed in Canadian dollars)

	Nine months ended September 30, 2020		Nine months ended September 30, 2019
Balance, beginning of period	\$ (1,388,164)	\$ (1,249,402)	
Cash contributions from parent	(5,892,537)	(1,838,657)	
Non-cash contributions from parent	(92,657)	(427,234)	
Net loss	1,769,355	2,185,744	
Other comprehensive loss (income)	(64,889)	29,414	
Balance, end of period	\$ (5,668,892)	\$ (1,300,135)	

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Notes to the Condensed Interim Carve-out Financial Statements

(Unaudited - Expressed in Canadian dollars)

Periods ended September 30, 2020 and 2019

1. Arrangement agreement, nature of operations, and going concern

On July 29, 2020, Auryn Resources Inc. ("Auryn") and Eastmain Resources Inc. ("Eastmain") entered into a definitive agreement pursuant to which Auryn would acquire all the issued and outstanding shares of Eastmain, immediately following a spin out of the Auryn's Peruvian projects to its shareholders and completion of a concurrent financing (collectively, the "Transaction"). The Transaction created Fury Gold Mines Limited (the continuance of the formerly named public company Auryn Resources Inc.) and two independent spin-out entities which would hold the Auryn's Peruvian projects: Sombrero Resources Inc. and Tier One Metals Inc.

Sombrero Resources Inc. (the "Business" or "Sombrero") was incorporated under the British Columbia Business Corporations Act on July 23, 2020 and is a reporting issuer in the province of British Columbia. The head office and principal address of Sombrero is located at 1199 West Hastings Street, Suite 600, Vancouver, British Columbia, Canada, V6E 3T5.

Upon completion of the Transaction, Sombrero will have a wholly owned subsidiary: Sombrero Minerales, S.A.C. ("Sombrero Minerales"), a Peruvian company which was incorporated on May 22, 2017 pursuant to the General Law of Companies (Ley General de Sociedades).

On October 5, 2020, the shareholders of Auryn and Eastmain approved the Transaction. Court approval from the British Columbia Supreme Court and the Ontario Superior Court of Justice was received on October 7, 2020 and the transaction closed on October 9, 2020. On October 9, 2020, the Business received \$8,242,000 in cash from Auryn pursuant to the Transaction, which Management believes will be sufficient to pursue its near-term activities.

These carve-out financial statements (the "carve out financial statements") are prepared in connection with the Transaction described above. Management believes the assumptions and allocations underlying the carve-out financial statements are reasonable and appropriate. The expenses and allocations have been determined on a basis considered by Auryn to be a reasonable reflection of the utilization of services provided from or the benefit received by the Auryn subsidiaries for the years presented. Therefore, these carve-out financial statements are not necessarily indicative of the results that would be attained if the Business had operated as a separate legal entity during the periods presented and are not necessarily indicative of future operating results.

Sombrero's primary asset is its Sombrero copper-gold project located in Southern Peru, which covers approximately 130,000 hectares in which it holds indirect and direct interests through a combination of staking and an option agreement as outlined in Note 5. The Business must do additional work in order to be able to determine whether the property contains mineral reserves where extraction is likely to be both technically feasible and commercially viable. The Business operates in one reportable operating segment, being the acquisition, exploration and development of mineral resource properties in Peru.

As a normal part of the exploration process, the Business seeks to enter into access and use agreements with local communities surrounding a project. The Business is currently pursuing a renewed extended term social agreement with Huanca Sancos, and two initial community agreements, one at Lucanamarca and one at San Jose de Huarcaya, communities in proximity to additional target areas. The process of securing such agreements requires achieving a local consensus and so can be challenging, however positive dialogue continues with all three communities and Management believes that agreements will be reached in the ordinary course, although there can be no certainty at this time about their timing or extent.

The Business 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 its ability to obtain the financing necessary to continue to fund its mineral properties through intercompany loans from the ultimate parent company, the realization of future profitable production, proceeds from the disposition of its mineral interests, and/or other sources. These

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conditions create a material uncertainty that may cast significant doubt about the Business's ability to continue as a going concern.

These carve-out financial statements do not give effect to adjustments to the carrying values and classification of assets and liabilities that would be necessary should the Business be unable to continue as a going concern. Such adjustments could be material.

In light of the recent developments related to the COVID-19 pandemic, and the restrictions on travel and other activities, both within Canada and globally, in early 2020, the Business recalled all personnel who were conducting project investigation activities in the field and delayed certain site visits. The Business subsequently 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 Business is continually monitoring the situation along with government guidelines and allowing work to be undertaken once it is confident that it is safe for its employees to do so.

2. Basis of presentation

Statement of compliance and basis of presentation

These interim carve-out financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These interim carve-out financial statements should be read in conjunction with the Business' audited carve-out financial statements as at and for the year ended December 31, 2019 as some disclosures from the annual carve-out financial statements have been condensed or omitted.

These interim carve-out financial statements include the accounts of Sombrero Minerales and all assets, liabilities, transactions and costs incurred by Auryn (and its subsidiaries) that are specifically identifiable with Sombrero Minerales. The Business' ultimate parent (the "Parent"), pursuant to these interim carve-out financial statements, is Auryn. All intercompany balances, transactions, including income and expenses arising from intercompany transactions are eliminated in preparing the interim carve-out financial statements.

These interim carve-out financial statements are for the periods from January 1, 2019 to September 30, 2019, and January 1, 2020 to September 30, 2020, which is the period during which Sombrero Minerales was wholly owned by Auryn.

These unaudited interim carve-out financial statements were approved and authorized for issuance on November 25, 2020, by the Board of Directors.

3. Significant accounting policies, estimates, and judgements

The preparation of condensed interim carve-out financial statements in conformity with IAS 34 requires management to select accounting policies and make estimates and judgments that may have a significant impact on the interim carve-out 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. Revisions to estimates and the resulting impacts on the carrying amounts of the Business' assets and liabilities are accounted for prospectively.

The accounting policies followed to prepare these interim carve-out financial statements are the same as those disclosed in Note 3 of the Business' most recent audited carve-out financial statements for the year ended December 31, 2019, except as follows:

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

The amendments are intended to clarify the definition of material in IAS 1 and 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 Business adopted the amendments to IAS 1 and IAS 8 effective January 1, 2020, which did not have a material impact on the Business' unaudited interim carve-out financial statements

- Amendments to International Financial Reporting Standards ("IFRS") 3 - Business Combinations

In October 2018, the IASB issued narrow-scope amendments to IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments, which are effective for annual reporting periods beginning on or after January 1, 2020, clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, narrow the definition of outputs, add guidance to assess whether an acquired process is substantive and introduce an optional concentration test to permit a simplified assessment.

The adoption of the amended standard did not have an immediate impact on the Business' interim financial statements but will be applied in assessing any future business combination and asset acquisition scenarios.

- Amendments to IFRS 16 Leases

To provide practical relief to lessees in accounting for rent concessions arising as a result of COVID-19 the International Accounting Standards Board ("IASB") proposed an amendment to IFRS 16 which provide lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted. This amendment did not have a significant impact to the Business' financial statements as the Business has not received any COVID-19 related rent concessions as of the date of these financial statements.

4. Prepaid expenses and deposits

	September 30, 2020	December 31, 2019
Prepays and deposits related to:		
Mineral property interests	\$ 13,339	\$ 12,988
Exploration and evaluation expenditures	55,459	59,100
Community and surface agreements	4,411	4,295
Total prepaid expenses and deposits	\$ 73,209	\$ 76,383

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5. Mineral property interests

The Sombrero copper-gold project, located in southern Peru, covers approximately 130,000 hectares acquired through a combination of staking and option agreements which are outlined below:

i) Alturas Option

On June 28, 2016, the Business entered into an option agreement (the “Alturas Option”) with Alturas Minerals Corp (“Alturas”) to acquire an 80% or 100% interest in the Sombrero concessions held by Alturas.

On September 3, 2020, the Business 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 Business 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.

ii) Mollecruz Option

On June 22, 2018, the Business entered an option agreement (the “Mollecruz Option”) giving the Business the right to acquire a 100% interest in the Mollecruz concessions which are located in the northern area of the Sombrero project. Under the Mollecruz Option, the Business may acquire a 100% interest, subject to a 0.5% Net Smelter Royalty (“NSR”), through a combination of work expenditures and cash payments as detailed below.

Due Dates	Payment & Work Expenditure Status	Property Payments (in '000 US\$)	Work Expenditures (in '000 US\$)
Effective Date (June 22, 2018)	Completed	\$ 50	\$ -
June 22, 2019 *	Deferred *	50	150
June 22, 2020 *	Deferred *	100	150
June 22, 2021 *		200	500
June 22, 2022 *		300	700
June 22, 2023 *		900	1,500
Total		\$ 1,600	\$ 3,000

* Effective May 20, 2019, the Business formally declared the existence of a force majeure event under the Mollecruz Option thereby deferring the Business' obligation to make the June 22, 2019 and June 2020 property payments and any subsequent property payments and work expenditures for a maximum of 24 months from the declaration date. To date, the Business has not been able to reach an access agreement with the local community in order to commence work in the region but has continued to have open communications with the community and continues to negotiate in good faith to obtain access to the property.

iii) Aceros Option

On December 13, 2018, the Business entered a series of agreements (the “Aceros Option”) with Corporacion Aceros Arequipa S.A. (“Aceros”) giving the Business the right to option three key mineral concessions located within the Business’ Sombrero project. If the Aceros Option is exercised, a joint venture would be formed in which the Business would hold an 80% interest (Aceros – 20%). The joint venture would combine the 530 hectare Aceros concessions plus 4,600 hectares of the Business’ Sombrero land position. Below is a schedule of work expenditures and cash payments required under the agreement of which US\$0.4 million in work expenditures has been completed to date.

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Due Dates	Payment & Work Expenditure Status	Property Payments (in '000 US\$)	Work Expenditures (in '000 US\$)
Effective Date (December 13, 2018)	Completed	\$ 140	\$ -
December 13, 2019	Completed	60	150
December 13, 2020		250	500
December 13, 2021		350	1,500
December 13, 2022		-	3,000
Total		\$ 800	\$ 5,150

For the three and nine months ended September 30, 2020 and 2019, the Business' exploration and evaluation costs are broken down as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Assaying	\$ 5,450	\$ 15,414	\$ 12,273	\$ 61,064
Camp cost, equipment, and field supplies	61,916	7,475	80,337	112,309
Geological consulting services	37,252	31,617	48,043	449,720
Geophysical analysis	34,107	5,224	45,331	5,550
Permitting, environmental and community costs	730,632	106,255	929,544	627,471
Expediting and mobilization	4,102	4,273	8,666	25,461
Salaries and wages	35,222	61,970	312,429	291,321
Fuel and consumables	1,264	1,032	1,264	11,666
Aircraft and travel	279	15,174	11,166	82,469
Share-based compensation (Note 6)	9,131	81,265	92,657	427,234
Total	\$ 919,355	\$ 329,699	\$ 1,541,710	\$ 2,094,265

A continuity of the Business' mineral property expenditures for the nine month period ended September 30, 2020 and the year ended December 31, 2019 is as follows:

	September 30, 2020	December 31, 2019
Balance, beginning of the period	\$ 1,331,097	\$ 1,206,362
Acquisition costs	3,888,372	175,684
Functional currency translation	64,889	(50,949)
Total	\$ 5,284,358	\$ 1,331,097

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6. Related party balances and 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.

(a) Related party transactions

Universal Mineral Services Ltd., ("UMS") is a private company with certain directors and officers in common with the Parent. Pursuant to an agreement with the Parent dated March 30, 2012 and as amended on December 30, 2015, UMS provides geological, administrative, and financial and transactional advisory services to the Business on an ongoing, cost recovery basis. During the three and nine months ended September 30, 2020, the Business recovered \$14,182 and incurred \$155,033, respectively (three and nine months ended September 30, 2019 - \$61,970 and \$291,321, respectively) of geological services included under wages in exploration and evaluation costs.

Corisur Peru, S.A.C. and Magma Minerals S.A.C. (collectively "Tier One") are companies under common control by the Parent. Pursuant to the carve-out, during the three and nine months ended September 30, 2020, the Business was allocated \$nil and \$nil, respectively (three and nine months ended September 30, 2019 \$13,133 and \$41,953, respectively) of wage expense, and \$nil and \$nil, respectively (2019 - \$7,758 and \$22,622, respectively) of office expense from Tier One relating to costs benefitting the Business. Also, during first quarter of 2019 Tier One incurred \$4,120 of mineral property expenditure on the Business' mineral property, none in 2020. The 2019 expenditure credit was included under permitting in exploration and evaluation costs.

During the three and nine months ended September 30, 2020, \$9,131 and \$92,657, respectively (three and nine months ended September 30, 2019 - \$81,265, and \$427,234, respectively) of share-based compensation from the Parent was allocated to the Business for carve-out purposes.

The Parent uses the fair value method of accounting for all share-based payments. The fair value of the share-based options granted during the three and nine month periods ended September 30, 2020 and 2019 were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Risk-free interest rate	-	1.35%	0.39%	1.60%
Expected dividend yield	Nil	Nil	Nil	Nil
Share price volatility	-	53%	58%	62%
Expected forfeiture rate	-	0%	0%	0%
Expected life in years	-	3.30	4.90	4.32

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 the Business' common shares. The expected forfeiture rate and the expected life in years are based on historical trends.

(b) Related party balances

As at September 30, 2020, \$nil (December 31, 2019 - \$nil) was included in accounts payable, \$nil (December 31, 2019 - \$30,000) was in prepaids and/or deposits, and \$nil (December 31, 2019 - \$nil) was in amounts receivable relating to transactions with related parties.

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7. Financial instruments

The Business' financial instruments consist of cash, deposits, accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The following summarizes fair value hierarchy under which the Business' financial instruments are valued:

Level 1 – fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and

Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

As at September 30, 2020 and 2019 there were no financial instruments measured at fair value.

The Business' financial instruments are exposed to credit risk, and liquidity risk. As at September 30, 2020 the primary risk was as follows:

Liquidity risk

This is the risk that the Business will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. As at September 30, 2020, the Business has working capital of \$384,534 (December 31, 2019 - \$57,067).

Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Significant market risks to which the Business is exposed are as follows:

Foreign currency risk

The Business is exposed to currency risk by having balances and transactions in currencies that are different from its functional currency (the functional currency of Sombrero is the US dollar). As at September 30, 2020 and December 31, 2019, the Business' foreign currency exposure relates primarily to cash, prepaid expenses and deposits, and accounts payable and accrued liabilities that are in majority either US dollars or Peruvian Soles.

The currency risk exposure for financial instruments denominated in foreign currencies is as follows:

	September 30, 2020	December 31, 2019
Financial assets	\$ 458,037	\$ 100,134
Financial liabilities	(73,503)	(43,067)
Net exposure	\$ 384,534	\$ 57,067

A 10% increase or decrease in either the US dollar or Peruvian Soles exchange rate would not have a material impact on the Business' net loss.

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8. Subsequent event

As described under Note 1, on October 9, 2020, Auryn transferred its Peruvian assets to two newly incorporated subsidiary companies, Tier One Metals Inc. and Sombrero (collectively the “Spincos”) and distributed the shares of the Spincos to Auryn’s shareholders.

Auryn had 112,340,434 common shares outstanding as of that date. Accordingly, Auryn shareholders received, for each Auryn share held as of the closing date of the Transaction, a full share in Sombrero.