



# SOMBRERO RESOURCES

(An exploration stage business)

Sombbrero Resources Inc.

Management's Discussion & Analysis

For the three and nine months ended September 30,  
2021

Dated: November 15, 2021

## **Sombrero Resources Inc.**

### Management's Discussion and Analysis of Financial Condition and Results of Operations

for the Three and Nine months ended September 30, 2021 (In Canadian dollars, unless otherwise noted)

---

#### **1. HIGHLIGHTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND THE PERIOD UP TO NOVEMBER 15, 2021**

- On July 22, 2021, the Company entered into a share purchase option agreement with Pembroke Copper Corp ("Pembroke") to acquire Pembroke's Peruvian subsidiary Chukuyo Exploraciones S.A.C. ("Chukuyo") which owns the Takana copper-nickel district ("Takana") located in southeastern Peru. Takana is approximately 50,300 hectares, has numerous high-grade copper-nickel occurrences and is located approximately 90 kilometres (km) northwest of the city of Cusco and approximately 235 km northeast of the Sombrero project district.
- On June 22, 2021, the Company announced it had filed an election with the Canada Revenue Agency to become a public corporation under the Income Tax Act (Canada) (the "Tax Act"). The election is retroactively effective to a date prior to the October 9, 2020, transaction, pursuant to which Sombrero shares were spun out from Auryn Resources Inc. ("Auryn"). As a result of making this election, the shares of the Company are now considered to be qualified investments under the Tax Act and the regulations thereto in respect of Canadian residents holding shares via trusts covered by a "registered retirement savings plan" ("RRSP"), "registered retirement income fund" ("RRIF"), "tax-free savings account" ("TFSA"), "registered education savings plan" ("RESP"), "registered disability savings plan" ("RDSP") (collectively referred to as "Registered Plans") and a "deferred profit sharing plan".
- On March 31, 2021, the Company entered into an option agreement with Ximenita de Casma S.M.R.L. ("Ximenita") to acquire the Soldaduyocc concession in Peru. Under the terms of this agreement, Sombrero Minerales S.A.C., a wholly owned subsidiary of Sombrero, has the option to acquire the Soldaduyocc concession for US\$199,500. An initial payment of US\$79,500 has been paid on execution of this agreement, and the option is granted for an 18-month period until September 16, 2022, at which time the final option payment of US\$120,000 is payable to exercise the option and acquire the concession in full. Should the option be exercised, a 0.5% net smelter return remains on the concession, payable on all minerals extracted and commercialized.
- 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 deferral of the June 2019 and 2020 payments and any subsequent property payments and work expenditures until May 20, 2023.

< 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 condensed consolidated interim financial statements and results of operations of the Company as at September 30, 2021 and for the three and nine month periods then ended.

This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the Company and related notes thereto as at and for the three and nine months ended September 30, 2021, and 2020. These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 November 15, 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 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.

## **Sombrero Resources Inc.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**for the Three and Nine months ended September 30, 2021 (In Canadian dollars, unless otherwise noted)**

---

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 Mines Limited's (“Fury Gold”) 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 the Company's MD&A for the year ended December 31, 2020, and subsequent continuous disclosure filings with the Canadian Securities Administrators available at [www.sedar.com](http://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 website at [www.sombreroresources.com](http://www.sombreroresources.com). For discussion regarding the former parent company, refer to the SEDAR profile for Fury Gold.

### **3. DESCRIPTION OF THE BUSINESS**

The Company continues to focus on creating significant value for shareholders through the exploration and potential discovery of world-class copper and gold deposits in southeast Peru. The Company is a reporting issuer in British Columbia, Alberta and Ontario. Management is planning to apply for listing on the Toronto Stock Exchange (“TSX”) in early 2022 and has initiated this process. As at the date of this MD&A, the corporate organization structure remains largely the same as the most recent annual financial statements of the Company, with one wholly owned subsidiary, Sombrero Minerales S.A.C. The Company is primary focused on the Sombrero Project, a copper-gold project, located in southern Peru, covering approximately 130,000 hectares acquired through a combination of staking and option agreements, and the Takana District, a copper-nickel project, located Southeastern Peru, covering 50,300 hectares acquired through an option agreement.

#### **3.1 Impacts of COVID-19**

As a supportive partner in the region, the Company continues to provide support as needed to the Huanca Sancos, Lucanamarca and San Jose Huaracaya communities. Furthermore, protocols to aid in the prevention of COVID-19 transmission have been observed throughout the Company's work and community activities.

The Company will continue to monitor the situation surrounding COVID-19 so that it may respond appropriately.

## Sombrero Resources Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations  
for the Three and Nine months ended September 30, 2021 (In Canadian dollars, unless otherwise noted)

### 4. DISCUSSION OF OPERATIONS

Three months ended September 30, 2021 and 2020 (Q3 2021 vs. Q3 2020)

During the three months ended September 30, 2021, the Company reported a loss of \$681,449 compared to a loss of \$691,616 for the same period in 2020. Significant variances within operating expenses and other expenses, which in combination resulted in the \$10,167 decrease in the current period's loss, are discussed as follows:

#### Operating expenses

- Exploration and evaluation costs in Q3 2021 were \$314,466 compared to \$601,935 in Q3 2020, representing a decrease of \$287,469 due to limited access to the projects without community agreements, COVID-19 restrictions, and due to share based payment charges allocated by the former parent, Auryn (now Fury Gold), in the comparative period.
- The comparative information provided for Q3 2020 derives from carve-out financial statements prepared for the business of Sombrero; certain costs were not incurred during this comparative period. This includes fees, salaries, and other employee benefits, marketing and investor relations, and regulatory and transfer agent, as these costs were carried by the former parent, Auryn (now Fury Gold). The costs incurred in Q3 2021 relate to corporate management team, corporate directors and investor communications.
- Legal and professional fees were \$27,355 in Q3 2021 compared to \$22,888 in Q3 2020, representing an increase of \$4,467 largely as a result of being a separate corporate entity. Sombrero is a reporting issuer incurring audit and review fees, as well as legal and other professional costs, including those relating to the listing application to the TSX.
- Office and administration costs increased \$48,372 from \$20,738 in Q3 2020 to \$69,110 in Q3 2021, now that Sombrero is incurring its own office administration costs as a standalone entity.

Nine months ended September 30, 2021, and 2020 (YTD 2021 vs YTD 2020)

Loss for the nine months ended September 30, 2021, was \$2,326,602 compared to a loss of \$1,706,060 for the nine months ended September 30, 2020.

Significant variances for the comparable nine-month period are generally driven by the same factors discussed above for the three-month periods. Specifically, the decrease of \$382,906 in the exploration and evaluation costs were the result of COVID-19 restrictions and the change in cost relating to community relations activities. The Company is ready to advance its drill permitting efforts once the community access agreements are in place.

#### Summary of Project Costs

During the three and nine months ended September 30, 2021, the Company incurred \$229,628 and \$786,339 respectively of mineral property additions. The additions are related to the initial payment of the Soldaduyocc option in the first quarter, the scheduled Aceros option payment in the second quarter, and the initial payment of the Takana share purchase option during the third quarter.

	Sombrero	Soldaduyocc	Takana	Total
<b>Balance as at December 31, 2019</b>	<b>\$ 1,331,097</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,331,097</b>
Mineral property additions	3,945,212	-	-	3,945,212
Currency translation adjustment	(223,116)	-	-	(223,116)
<b>Balance as at December 31, 2020</b>	<b>\$ 5,053,193</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,053,193</b>
Mineral property additions	463,724	100,600	222,015	786,339
Currency translation adjustment	8,593	1,328	2,226	12,147
<b>Balance as at September 30, 2021</b>	<b>\$ 5,525,510</b>	<b>\$ 101,928</b>	<b>\$ 224,241</b>	<b>\$ 5,851,679</b>

## Sombrero Resources Inc.

### Management's Discussion and Analysis of Financial Condition and Results of Operations

for the Three and Nine months ended September 30, 2021 (In Canadian dollars, unless otherwise noted)

Exploration and evaluation costs	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Concession holding costs	\$ 125,572	\$ 127,062	\$ 448,222	\$ 381,187
Salaries and wages	65,866	89,252	237,615	366,459
Camp cost, equipment and field supplies	2,655	66,018	96,241	89,003
Permitting, environmental and community costs	117,121	232,120	184,661	431,032
Aircraft and travel	3,252	279	64,949	11,166
Assays and geophysical analysis	-	39,557	27,750	57,604
Geological consulting services	-	37,252	28,981	48,043
Fuel and consumables	-	1,264	7,090	1,264
Share based compensation	-	9,131	-	92,657
	\$ 314,466	\$ 601,935	\$ 1,095,509	\$ 1,478,415

The majority of these costs relate to the Sombrero Project; during the three and nine months ended September 30, 2021, the Company incurred \$10,929 on salaries and wages related to the Takana District.

#### Future operations and community involvement

The Company continues to have regular communications with the Huanca Sancos, Lucanamarca and San Jose Huarcaya communities surrounding the Sombrero Project and is actively working toward securing long-term access agreements. The Company has had recent positive developments with a community within the Sombrero land position, and while there remains some minority opposition, the Company hopes to finalize the access agreement prior to the end of the year. Once the access agreements are in place, the Company is prepared to advance its drill permitting efforts. The Company continues to support communities with applications to Agroideas, a government organization that sponsors agricultural programs within the local area.

The recent execution of the share purchase option agreement in relation to Takana is a key activity for the Company going forward. The Company is currently pursuing community access for this project as well, and exploration plans are being developed to commence once access is granted.

Sombrero plans to apply to list its shares on the TSX; the Company's listing is anticipated for early 2022.

## 5. SUMMARY OF QUARTERLY RESULTS

Three months ended	Loss for the period	Comprehensive loss
	\$	\$
September 30, 2021	681,449	530,529
June 30, 2021	812,444	867,601
March 31, 2021	832,709	888,665
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

During the last eight quarters, the Company's net loss has ranged between \$455,564 and \$892,426. As a result of continuing to focus on community engagement to develop successful working relationships and access agreements to perform exploration work, the Company's activities remain relatively low, ensuring the concessions remain in good standing. Furthermore, the Company incurred additional expenses since the corporate restructuring in October 2020 and it is now a separate reporting entity with its own corporate reporting and compliance obligations, as well as the cost of initiation of the listing application process.

## Sombrero Resources Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations  
for the Three and Nine months ended September 30, 2021 (In Canadian dollars, unless otherwise noted)

### 6. FINANCIAL POSITION, LIQUIDITY, AND CAPITAL RESOURCES

	September 30, 2021	December 31, 2020
Cash	\$ 4,119,651	\$ 7,850,131
Accounts receivable	\$ 12,430	\$ 7,308
Mineral property interests	\$ 5,851,679	\$ 5,053,193
Current liabilities	\$ 567,576	\$ 834,616

The Company did not have any restricted cash nor did it have long-term liabilities at September 30, 2021 and December 31, 2020. The working capital balance at September 30, 2021 was \$4,082,451 (December 31, 2020 - \$7,167,732). Contractual obligations as at September 30, 2021, are accounts payable and accrued liabilities of \$567,576, which are due within normal business terms.

During the nine months ended September 30, 2021, the Company used cash of \$2,945,663 in operating activities as compared to \$ 1,697,118 during nine months ended September 30, 2020. The cash outflow during Q3 2021 was higher than the cash outflow in Q3 2020 due to the increase in the prepaid expenses and deposits, and the timing of payments on accounts payable and accrued liabilities.

During the nine months ended September 30, 2021, the Company used cash in investing activities of \$786,339 whereas \$3,888,372 was used in Q3 2020, relating to mineral property additions. Mineral property additions in 2021 are the initial payment of the Soldaduyocc option in the first quarter, the scheduled Aceros option payment in the second quarter, and the initial payment of the Takana share purchase option during the third quarter. The Company paid \$198,793 (US\$157,773) in option payments related to the Takana share purchase option arrangement. The payments are subject to 18% Value Added Tax (IGV) in Peru. Mineral property additions in 2020 related primarily to the exercise of the Alturas option agreement in the third quarter of 2020.

During the nine months ended September 30, 2020, the business of Sombrero, for which the carve-out financial statements were prepared, earned contributions from its former parent company, Auryn (now Fury Gold), of \$5,946,567 to conduct its operations. No such contributions were received during the nine months ended September 30, 2021, as Sombrero was incorporated in Q3 2020.

As at September 30, 2021, the Company has net working capital of \$4,082,451 while it incurred a net loss of \$2,326,602 for the nine months ended September 30, 2021. 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 acquisition and exploration of 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 of \$4,119,651 at September 30, 2021 (December 31, 2020: \$7,850,131). Working capital was \$4,082,451 at September 30, 2021 (December 31, 2020 \$7,167,732).

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

### 7. 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.

## Sombrero Resources Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations  
for the Three and Nine months ended September 30, 2021 (In Canadian dollars, unless otherwise noted)

### 8. TRANSACTIONS WITH RELATED PARTIES

#### 8.1 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.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
<b>Universal Mineral Services Ltd.</b>				
Exploration and evaluation costs	\$ 7,634	\$ 39,848	\$ 53,223	\$ 209,063
Fees, salaries and other employee benefits	38,788	-	162,238	-
Legal and professional fees	4,693	-	17,468	-
Marketing and investor relations	12,494	-	59,358	-
Office and administration	51,679	-	148,130	-
Project investigation costs	79	-	4,222	-
Regulatory, transfer agent and shareholder information	29	-	29	-
<b>Universal Mineral Services Peru S.A.C.</b>				
Exploration and evaluation costs	71,993	-	71,993	-
Fees, salaries and other employee benefits	31,882	-	31,882	-
Legal and professional fees	11,073	-	11,073	-
<b>Total transactions for the period</b>	<b>\$ 230,344</b>	<b>\$ 39,848</b>	<b>\$ 559,616</b>	<b>\$ 209,063</b>

Universal Mineral Services Ltd., ("UMS") is a private Canadian company with two directors and one officer 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.

Universal Mineral Services Peru S.A.C ("UMS Peru"), a company incorporated by UMS Canada under Peruvian law, provides administrative and geological services to the Peruvian Subsidiaries. In order to comply with Peruvian transfer pricing rules, UMS Peru charges its services at cost plus a markup of 5% for administrative services and 7% for geological services.

During the three- and nine-month periods ended September 30, 2021, \$nil (September 30, 2020 – \$9,131 and \$92,657 respectively) of share-based compensation from Fury Gold were allocated to the Company. There was no further allocation of share-based compensation by Fury Gold to the Company after the close of the Transaction.

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 were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

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

## Sombrero Resources Inc.

### Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Nine months ended September 30, 2021 (In Canadian dollars, unless otherwise noted)

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 of the Transaction, there was no further allocation of share-based compensation and exploration and evaluation expenditures. The Company did not have any outstanding share options and share purchase warrants at September 30, 2021.

#### 8.2 Related party balances

As at September 30, 2021, \$31,835 (December 31, 2020 - \$40,196) was included in accounts payable, and \$370,000 (December 31, 2020 - \$50,000) was in prepaid expenses and deposits relating to transactions with UMS.

As at September 30, 2021, \$11,073 (December 31, 2020 - \$nil) was included in accounts payable and \$78,839 (December 31, 2020 - \$nil) was included in prepaid expenses and deposits relating to transactions with UMS Peru.

There was \$nil (December 31, 2020 - \$176,000) included in accounts payable and accrued liabilities owed to Fury Gold related to the closing cash pursuant to the Transaction.

#### 8.3 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:

	Three months ended September 30, 2021		Nine months ended September 30, 2021	
Salary and benefits provided to executives	\$	148,534	\$	444,541
Directors fees paid to non-executive directors		30,984		92,559
	\$	179,518	\$	537,100

## 9. 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:

#### 9.1 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 September 30, 2021 and December 31, 2020.

#### 9.2 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

## **Sombrero Resources Inc.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**for the Three and Nine months ended September 30, 2021 (In Canadian dollars, unless otherwise noted)**

---

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 September 30, 2021 and December 31, 2020.

#### **9.3 Share-based compensation**

During the nine months ended September 30, 2021, \$nil (nine months ended September 30, 2020 - \$92,657) of share-based compensation from the Fury Gold was allocated to the Company. As mentioned earlier, there was no further allocation of share-based compensation after the close of the Transaction.

#### **9.4 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.

#### **9.5 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 condensed 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.

### **10. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

The Company confirms that it has adopted and continued the same accounting policies that were disclosed in the consolidated financial statements for the year ended December 31, 2020, except as follows:

- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). This amendment had no impact on the condensed interim consolidated financial statements.

### **11. FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

As at September 30, 2021, the Company's financial instruments consist of cash, 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 condensed consolidated interim financial statements.

### **12. OTHER REQUIRED DISCLOSURE**

#### **13.1 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 September 30, 2021, and November 15, 2021: 112,340,434

## **Sombrero Resources Inc.**

Management's Discussion and Analysis of Financial Condition and Results of Operations  
for the Three and Nine months ended September 30, 2021 (In Canadian dollars, unless otherwise noted)

---

### **13.2 Disclosure controls and procedures**

Details relating to disclosure controls and procedures, and internal control over financial reporting, are disclosed in the Company's MD&A for the year ended December 31, 2020.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During the quarter ended September 30, 2021, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

On behalf of the Board of Directors,

"Ivan Bebek"

**Ivan Bebek**

President, Chief Executive Officer and Director

November 15, 2021