MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2020

(Expressed in Canadian dollars)

The following is management's discussion and analysis ("MD&A") of the results of operations and financial condition of Sun Peak Metals Corp. (the "Company" or "Sun Peak") for the year ended December 31, 2020 and up to the date of this MD&A, and should be read in conjunction with the accompanying audited consolidated financial statements for the year ended December 31, 2020, together with the notes thereto (the "Financial Report").

All financial information in this MD&A is derived from the Company's financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

The effective date of this MD&A is April 20, 2021.

Description of the Business

Sun Peak is a publicly traded company incorporated pursuant to the provisions of the British Columbia Business Corporations Act on June 2, 2016. The Company's head office and registered and records office address is Unit 1 – 15782 Marine Drive, White Rock, B.C. Canada V4B 1E6.

Effective August 17, 2020, the Company's common shares commenced trading on the TSX Venture Exchange under the symbol PEAK.

Effective March 4, 2021, the Company's common shares commenced trading on the OTCQB Venture Market in the United States under the symbol SUNPF.

The Company's principal business is the acquisition, exploration, and development of resource properties for the mining of precious or base metals.

Conflict in Ethiopia and force majeure

In early November 2020, armed conflicts broke out in the Tigray Region of northern Ethiopia and a state of emergency was declared in the Tigray Region by the Federal Democratic Republic of Ethiopia government. The Company immediately suspended all work programs. In late November 2020, the Company invoked force majeure on all four of its exploration licenses by notification to Ethiopia's Ministry of Mines and Petroleum. In March 2021, the Company received letters from the Ministry of Mines and Petroleum stating that the Ministry has accepted the force majeure declaration on all four exploration licences. The Company also invoked force majeure pursuant to the joint venture agreement between the Company and Ezana by notification to Ezana. During force majeure all work and contractual commitments on the projects are deferred until it is deemed safe and stable by the Company to resume exploration work in the region.

COVID-19

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, has adversely affected workforces, customers, economies, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business. Risks include, but are not limited to, the ability of the Company to raise funds, the ability of the Company to conduct operations in the event of safety lockdowns, the inability to travel for professionals and contractors involved in exploration, regional travel and quarantine restrictions within the country, and the disruption of shipping material and samples to and from the project. The Company suspended exploration operations in March 2020 due to the pandemic and implemented a COVID response plan to comply with local and international regulations. In September 2020, the Company returned to full exploration operations in Ethiopia, however in November 2020, suspended exploration operations again due to the conflicts in Ethiopia.

Overview

The Company organized its wholly owned subsidiary, Sun Peak Ethiopia Mining PLC ("Sun Peak Ethiopia") under the provisions of the Commercial Code of Ethiopia on October 3, 2016. Sun Peak Ethiopia holds a 100% interest in the Nefasit and Adi Da-iro exploration licenses ("ELs").

In addition to Sun Peak Ethiopia, the Company also has a corporate joint venture (the "JV Agreement") with Ezana, that governs the funding and activities of Axum Metals Share Company ("Axum"). Axum holds the Terer and Meli ELs.

The JV Agreement

Pursuant to the JV Agreement, the Company has an option to earn up to a 70% interest in Axum, which holds the Terer EL and the Meli EL (the "JV Properties"). The respective interests of the Company and Ezana in Axum during the earn-in period are set out in the table below:

Shareholder	Effective Date	Completion of Phase 1	Completion of Phase 2	Phase 3 (purchase of 2.5%)
Sun Peak	0%	51%	67.5%	70%
Ezana	100%	49%	32.5%	30%

To acquire a 51% ownership in Axum, the Company must solely fund Axum's exploration expenditures (and other qualifying expenses) on the JV Properties totalling US$5,000,000 by December 4, 2022 (the "Phase 1 Earn-in"). Funding of the Phase 1 Earn-in will be completed by way of the Phase 1 Loan from the Company to Axum in the amount of US$5,000,000. Upon completion of the Phase 1 Earn-in, the Company will convert the Phase 1 Loan to that number of shares in Axum representing 51% of the issued and outstanding shares of Axum.

The Company may withdraw from its obligations under the JV Agreement at any time prior to completing the Phase 1 Earn-in. If the Company withdraws from its obligations under the JV Agreement or fails to meet the Phase 1 Earn-in requirements, the Company will have no right, title or interest in Axum or the JV Properties and amounts advanced to Axum under the Phase 1 Loan will not be repaid to the Company.

Within 30 days of completing the Phase 1 Earn-in, the Company must give notice to Ezana as to whether it wishes to proceed to exercise the Phase 2 Earn-in (described below). If the Company does not elect to proceed to exercise the Phase 2 Earn-in, the joint venture relationship between the Company and Ezana will be terminated, with the Company holding 51% of Axum and Ezana holding 49%.

If the Company elects to proceed with the exercise of the Phase 2 Earn-in, the Company will continue to solely fund Axum's exploration expenditures by way of the Phase 2 Loan at a minimum rate of US$1,000,000 for each one year period following the date of the Company's election to exercise the Phase 2 Earn-in, to advance the JV Properties through to completion of a definitive feasibility study and the completion of any other studies required to apply for a mining license (the "Phase 2 Earn-in") and Axum will apply for a mining license. Upon completion of the Phase 2 Earn-in, the Company will convert the amount drawn against the Phase 2 Loan to that number of shares in Axum representing 16.5% of the issued and outstanding shares of Axum, thus increasing the Company's total interest in Axum to 67.5%. Upon receipt of the feasibility study, the board of directors of Axum will determine whether Axum will proceed with development of the JV Properties.

Within 60 days of Axum being granted a mining license on some or all of the JV Properties, the Company will have an option to purchase 2.5% of the shares of Axum held by Ezana for a purchase price of US$6,000,000 to be paid within 10 days of delivering the notice of exercise in writing to Ezana, which would result in the Company owning a 70% interest in Axum.

During the Phase 1 Earn-in and Phase 2 Earn-in, all programs on the JV Properties will be funded, designed and managed solely by the Company. After the Phase 2 Earn-in is completed and a mining license is granted, the shareholders of Axum will jointly seek funding from financial institutions for the development of the mine, and work programs and operations will be funded by the shareholders of Axum on a pro-rata basis in proportion to their respective shareholdings in Axum.

During the Phase 1 Earn-in and Phase 2 Earn-in periods, unless as otherwise agreed, the board of directors of Axum will be comprised of four directors, two of whom will be nominated by the Company and two of whom will be nominated by Ezana, with the chairman of the board being one of the directors selected by the Company. The chairman of the board will have a casting vote if there is an equality of votes cast by board members. Pursuant to the JV Agreement, the Company has been appointed as the manager of the joint venture until its resignation, with overall management responsibility for operations of the JV Properties.

Pursuant to the terms of the JV Agreement, Ezana or its nominee is entitled, upon acquiring the necessary licenses, to exclusively conduct precious mining activities for its exclusive benefit on the oxide gold caps located above the massive sulphide zone on the JV Properties.

Exploration Licenses ("ELs")

Under the Mining Proclamation of Ethiopia, ELs grant the holder an exclusive right to search for any mineral in order to establish the existence of any mineral and to determine the extent and economic value of the deposit within the area specific in the license. ELs are valid for an initial period specified in the license, which must not exceed three years. This period may be extended for a maximum period of 10 years if the legal requirements for extension have been met, including the obligations set out in the initial license having been fulfilled. When an application for renewal is made, the holder is generally required to relinquish one quarter of exploration license area; however, the licensing authority may allow renewal of an exploration license without relinquishment of a portion of the license in certain circumstances.

In order to conduct mining operations on a property, a holder of an EL must first conduct a feasibility study on the property and then apply for a mining license. The government of Ethiopia is entitled to a 5% carried interest in any large-scale mining investment and further royalty payments may be required by local law.

The Terer EL and the Meli EL are held by Axum and the Company is indirectly earning into those two ELs pursuant to the JV Agreement. The Nefasit EL and the Adi Da-iro EL are held by Sun Peak Ethiopia.

<u>Terer EL</u>

On June 12, 2019, the Terer EL was transferred by Ezana to Axum with a remaining term that expired March 29, 2020. The Terer EL was subsequently renewed for a further one-year term until March 29, 2021 (extended indefinitely due to force majeure). In accordance with the Ministry of Mines regulations for ELs, 25% of the area covered by the original EL was relinquished on the renewal. The Company does not consider the 25% area relinquished to be prospective and it does not affect the exploration program for the Terer project. Axum has completed the required expenditure of Birr 16,901,340 (approximately $800,000). The renewal of the Terer EL has a required expenditure of Birr 32,382,240 (approximately $1.5 million).

<u>Meli EL</u>

The Meli EL was issued to Axum on December 4, 2019 for an initial period of three years expiring December 3, 2022 (extended indefinitely due to force majeure) provided Axum has fulfilled the spending obligations of Birr 63,426,750 (approximately $3.0 million) specified in the license agreement. The EL may be renewed twice for additional terms of one year each and beyond under certain circumstances.

<u>Nefasit EL</u>

The Nefasit EL was issued to Sun Peak Ethiopia on January 1, 2018 for an initial period of three years expiring on December 31, 2020 (extended indefinitely due to force majeure) provided the licensee has fulfilled the spending obligations of Birr 37,175,925 (approximately $1.7 million) specified in the license agreement. The EL may be renewed twice for additional terms of one year each and beyond under certain circumstances.

<u>Adi Da-iro EL</u>

The Adi Da-iro EL was issued to Sun Peak Ethiopia on April 16, 2019 for an initial period of three years expiring on April 15, 2022 (extended indefinitely due to force majeure) provided the licensee has fulfilled the spending obligations of Birr 41,127,665 (approximately $1.9 million) specified in the license agreement. The EL may be renewed twice for additional terms of one year each and beyond under certain circumstances.

Royalty Agreements

Two companies (together, the "Royalty Holders") each hold a 1% net smelter returns ("NSR") royalty on all economic marketable material produced from the Nefasit EL, the Adi-Dario EL, the Terer EL, the Meli EL and any properties the Company subsequently acquires within five kilometres of the external boundaries of such properties (collectively, the "Royalty Properties"). Pursuant to the Royalty Agreements, the Royalty Holders have a right of first refusal on the purchase of any proposed metal royalty or metal stream on production from the Royalty Properties. Furthermore, in the event the Company wishes to abandon, relinquish, terminate or fail to renew or extend all or any portion of the Royalty Properties, the Royalty Holders have the right to acquire any such relinquished property for $10.00.

Exploration

The Shire property area comprises the Terer EL, the Nefasit EL and the Adi Da-iro EL. The Terer EL and Nefasit EL have had considerable exploration work conducted by predecessor companies. Sun Peak has obtained results of previous work wherever possible and compiled the results in their exploration database, along with the results of their own work undertaken since 2017, which is presented below for each of the three exploration license areas.

The Axum data compilation and preliminary field work defined five sulphidic trends in the Terer EL with Volcanic Massive Sulphide ("VMS") potential. These VMS-bearing mineralized trends have over 45 kilometers of combined strike length, so will require modern VMS exploration concepts and techniques to identify specific targets with economic potential.

In 2018, Axum had Aster satellite image analysis covering the Terer and Nefasit EL areas. Some of the highest priority Aster image targets have been followed up with geological mapping and prospecting traverses crossing the main VMS zones and regional trends. These and other promising targets will continue to receive follow-up work.

In 2019, Sun Peak commissioned an airborne magnetic and VTEM electromagnetic survey over the entire Terer EL area, the northern half of the Nefasit EL, and a small area of the Adi Da-iro EL.

In the latter part of 2019, the Company undertook detailed geological and structural mapping and gravity surveying at two zones on the Terer EL to better understand the configuration of the mineralized gossans on surface, with potential for extension of the zone and possible parallel mineralized horizons that have not been tested by drilling. These zones have never been drilled and hold promise for massive sulphide mineralization at depth. In addition, a partially defined density high, 500 m to the southeast of the one of the zones gossan indicates potential for another parallel mineralized horizon. Further gravity surveying is required to properly outline this anomaly.

Additional work on the Nefasit EL was conducted in the same period. Seven VMS-style anomalies have been defined based on re-interpretation of historical exploration data, prospecting, soil and stream sampling geochemistry and the results of the recent airborne electromagnetic and ground gravity surveys. The Company will further evaluate the identified targets with geological, geochemical and ground geophysical surveys, to be followed by drilling if warranted. Ground follow up took place in 2018-19 to explore and test some of the most favourable targets. Soil sample grids were established over several target areas in the northern part of the Nefasit EL. Closer-spaced fill-in soil lines (200m x 20m) are planned in some parts of the grid to better define the anomalies. Localized gravity surveying was conducted in 2018 over several of the primary targets.

Since being issued the Adi Da-iro EL in April 2019, the Company has undertaken limited prospecting of selected area targets based on evaluation of historic data. In October 2019, a heliborne magnetic and VTEM electromagnetic survey was flown covering approximately 10 km by 7.5 km in the central part of the Adi Da-iro concession.

The airborne magnetic results indicate moderate to strong magnetic susceptibility over the metasedimentary rocks in the northwest, but also over some of the metavolcanic rocks in the northeast, with lower magnetic susceptibility farther to the south that may be indicative of the more frequent felsic volcanic rocks and porphyritic dykes that are mapped in that area. Based on geophysical signatures of host lithologies in areas containing VMS mineralization on the Terer and Nefasit concessions the lower magnetic susceptibility areas with smaller, discrete conductive highs appear to be the most prospective targets. This signature would suggest that the southeastern part of the Adi Da-iro survey area extending over a length of 7 km and width of 4 km may have the best potential for VMS mineralization.

In 2019, Axum applied for, and on December 4, 2019 was granted, the Meli EL, which surrounds the area of Ezana's small mining license area and Ezana's 2 small exploration licenses covering the Central and Western Gossan zones. In 2013, Ezana applied for, and was granted, a mining license and undertook mine planning and feasibility studies, followed by the construction of a small carbon-in-pulp extraction plant in 2016 adjacent to the Eastern Meli gossan zone within the Meli EL. Open cut extraction of the gossan cap commenced in 2017 and the mill has operated intermittently since that time.

Axum undertook compilation and re-interpretation of all the previous exploration data and input it into ArcGIS/MapInfo GIS software programs.

From these compiled & re-interpreted maps, as well as geological field visits, the Axum work indicated that at least two types of mineral deposits could exist in the Meli concession area:

1) VMS-style mineralization defined by oxide gossans underlain by sulphidic zones, and

2) Orogenic gold hosted by shear zones defined by alteration and geochemical anomalies.

Previous work on the Meli concession has focused on surface sampling and drilling of exposed gossanous oxide zones, however, the Axum exploration team strongly believes that more than 80% of the area is still under-explored for economic mineral potential. In November 2019, with approval by the Ministry of Mines before granting the license to Axum, a heliborne magnetic and VTEM electromagnetic survey was flown covering the entire concession area.

The first drill program on the Shire property area was completed in early 2020. This confirmation drill program consisted of 19 diamond drill holes totalling 2,167 meters on the Terer and Meli exploration licenses. On the Terer exploration license, 12 drill holes for 1420 meters were drilled to test the massive sulphide style mineralization at the Argo and Keel VMS prospects. At Meli 7 diamond drill holes for 746 meters were drilled at Meli Main (Eastern) VMS gossan.

2020-2021 work programs

As noted above, all operations were suspended in March 2020 due to measures taken to combat the COVID-19 pandemic. In September 2020, the Company returned to full exploration operations in Ethiopia, however in November 2020, suspended exploration operations again due to the conflicts in Ethiopia.

On October 29, 2020, the Company announced that two drills had commenced work. A third planned drill was expected to begin in late November 2020. The drill program was scheduled to complete 18,000 meters by June of 2021, with 8,000 meters expected by the end of 2020. The program was designed to test several high priority gold and copper VMS targets developed by the Company and also focus on the three targets previously drilled; Meli VMS target located ~40 km southwest of the town of Shire; Argo and Keel VMS targets located ~45 km north of Shire. As noted above, the Company suspended all drilling and operations in November 2020 due to the conflicts in Ethiopia.

Qualified Person

The Company's VP, Exploration & Geology, David Daoud, a Qualified Person as defined by NI 43-101, has reviewed, verified, and approved the exploration information and resource disclosures contained in this MD&A.

Trends

The Company is an exploration company. At this time, issues of seasonality or market fluctuations have had a minor impact on the expenditure patterns. The impact of COVID-19 and the conflicts in Ethiopia had a major impact on the expenditure patterns. The Company expenses its exploration, project investigation and general and administration costs, and these amounts are included in the net income (loss) for each quarter and year. The Company's treasury, in part, determines the levels of exploration.

Selected Annual Information

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
Statement of Loss:			
Net revenues	$Nil	$Nil	$Nil
Net loss	$(3,127,975)	$(1,646,335)	$(784,261)
Basic and diluted loss per share	$(0.05)	$(0.05)	$(0.02)
Financial Position:			
Total assets	$13,118,206	$15,396,884	$1,104,704
Long term debt	$Nil	$Nil	$Nil

Financial Condition and Results of Operations – year ended December 31, 2020

The consolidated net loss for the year ended December 31, 2020 was $3,127,975 (2019 - $1,646,335).

The significant changes between the current year and the comparative year are discussed below.

Consulting fees for the year ended December 31, 2020 totalled $116,000 (2019 - $66,000) and relates to fees paid to Golden Oak Corporate Services Ltd. ("Golden Oak"), a consulting company controlled by the Chief Financial Officer and the Corporate Secretary of the Company. Golden Oak provides the services of a Chief Financial Officer, a Corporate Secretary, and accounting and administrative staff to the Company. Effective February 1, 2020, Golden Oak's fees, along with other management, were increased while preparing for listing and the extra cost of maintain a public company as well as increased operations.

Exploration and evaluation expenditures for the year ended December 31, 2020 totalled $606,653 (2019 - $892,022) and relates to exploration work on the Nefasit and Adi Da-iro ELs. The Nefasit EL was acquired on January 1, 2018 and the Adi Da-iro EL was acquired on April 16, 2019.

During the year ended December 31, 2020, the Company also spent $2,033,181 (2019 - $546,174) on the Terer and Meli ELs and these expenditures are presented as deferred acquisition costs as at December 31, 2020, as the Company is earning an interest into Axum, the holder of the Terer and Meli ELs.

Marketing fees for the year ended December 31, 2020 totalled $126,000 (2019 - $22,000) and relates to fees paid to two related party companies engaged in anticipation of going public and increased operations.

Professional fees for the year ended December 31, 2020 totalled $152,659 (2019 - $105,671) and relates to legal, tax and audit fees. The increase in the current year primarily related to the Company going public in August 2020.

Salaries and benefits for the year ended December 31, 2020 totalled $536,217 (2019 - $346,624) and primarily relate to salaries paid to the Chief Executive Officer, the VP, Exploration & Geology, and the VP, Project Development. Effective February 1, 2020, executive salaries were increase in anticipation of the Company going public and increased operations.

Non-cash share-based compensation for the year ended December 31, 2020 totalled $1,183,069 (2019 - $Nil) and relates to stock options granted during the year.

Summary of Quarterly Results

	3 Months Ended December 31, 2020	3 Months Ended September 30, 2020	3 Months Ended June 30, 2020	3 Months Ended March 31, 2020
Total revenues	$ -	$ -	$ -	$ -
Net loss	$ (806,070)	$ (403,402)	$ (420,705)	$ (1,497,798)
Basic and diluted loss per share	$ (0.02)	$ (0.00)	$ (0.00)	$ (0.03)

	3 Months Ended December 31, 2019	3 Months Ended September 30, 2019	3 Months Ended June 30, 2019	3 Months Ended March 31, 2019
Total revenues	$ -	$ -	$ -	$ -
Net loss	$ (821,727)	$ (366,210)	$ (257,106)	$ (201,292)
Basic and diluted loss per share	$ (0.03)	$ (0.01)	$ (0.00)	$ (0.01)

Liquidity and Capital Resources

The Company began the fiscal year with $14,339,728 cash. During the year ended December 31, 2020, the Company spent $2,593,891 on operating activities, net of working capital changes, spent $2,160,342 on investing activities, and received $175,000 from financing activities to end at December 31, 2020 with $9,760,495 cash.

As at December 31, 2020, the Company had working capital of $9,774,823. Management estimates that these funds will provide the Company with sufficient financial resources to carry out currently planned exploration and operations through the next twelve months.

Fourth Quarter

The Company began the fourth quarter with $10,754,875 in cash. During the fourth quarter, the Company expended $610,483 on operating activities, net of working capital changes, and spent $383,897 on investing activities, to end the quarter and the year with $9,760,495 in cash.

Related Party Transactions

Compensation of key management personnel

Key management includes members of the Board of Directors, the President and Chief Executive Officer, the Vice President Exploration & Geology, the Vice President Project Development, the Chief Financial Officer, and the Corporate Secretary. The aggregate compensation paid, or payable, to key management personnel, which includes the amounts disclosed above, during the years ended December 31, 2020 and 2019 were as follows:

		Year ended December 31,	
		2020	**2019**
Consulting fees			
Golden Oak	(1)	$ 116,000	$ 66,000
Office expenses			
Sandstorm	(2)	56,921	37,267
Marketing fees			
Peak	(3)	111,000	10,000
VRIFY	(4)	15,000	12,000
		126,000	22,000
Salaries and benefits			
Greg Davis	Officer & Director	147,500	110,000
David Daoud	Officer	147,500	110,000
Scott Ansell	Officer	147,500	78,000
		442,500	298,000
Share-based compensation			
Greg Davis	Officer & Director	195,724	-
David Daoud	Officer	195,724	-
Scott Ansell	Officer	195,724	-
Golden Oak	Officers	117,434	-
David Awram	Director	117,434	-
Stephen de Jong	Director	78,290	-
Hayley De Witt	Director	52,193	-
		$ 952,523	$ -

(1) Golden Oak is a consulting company controlled by Dan O'Brien, the Chief Financial Officer, and Doris Meyer, a director and the Corporate Secretary, of the Company. Golden Oak provides the services of a Chief Financial Officer, a Corporate Secretary, and accounting and administrative staff to the Company. The Chief Financial Officer and the Corporate Secretary are employees of Golden Oak and are not paid directly by the Company.
(2) Sandstorm Gold Ltd. ("Sandstorm") is a company of which David Awram, a director of the Company, is an officer. Sandstorm provides the Company with shared office space.
(3) Peak Investor Marketing Corp. ("Peak") is a consulting company of which Nichola Vermiere is a principal. Ms. Vermiere is the spouse of Greg Davis, the President and Chief Executive Officer and a director of the Company. Peak provides marketing services to the Company.
(4) VRIFY Technology Inc. ("VRIFY") is a consulting company of which Stephen de Jong, a director of the Company, is a principal. VRIFY provides marketing services to the Company.

Amounts due to related parties

As at December 31, 2020, the Company owed $27,421 (2019 – $80,106) to related parties as follows: $15,179 to Sandstorm for shared office costs, and $7,534 to Greg Davis, $4,292 to David Daoud, and $416 to Golden Oak for the reimbursement of expenses. All amounts owed are unsecured and non-interest bearing.

Additional Disclosure for Venture Issuers without Significant Revenue

The components of exploration and evaluation assets are described in Note 8 to the Financial Report.

Outstanding Share Data as at the date of this MD&A

Authorized: an unlimited number of common shares without par value

	Common Shares Issued and Outstanding	Share Purchase Warrants	Stock Options
Balance as at December 31, 2020	78,438,634	8,957,130	4,500,000
Options cancelled	-	-	(100,000)
Balance as at the date of this MD&A	78,438,634	8,957,130	4,400,000

Use of accounting estimates, judgments and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

<u>The carrying value and the recoverability of exploration and evaluation assets</u> - Management has determined that exploration and evaluation costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, scoping and feasibility studies, accessibility of facilities and existing permits.

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

Determination of functional currency - In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates" management determined that the functional currency of the parent Company as well as the Company's Ethiopian subsidiary is the Canadian dollar.

Capitalization of deferred acquisition costs - The Company has entered into agreements to acquire a company holding mineral projects. The expenditures incurred on mineral projects are being accounted for as advances toward the purchase of a company interest in accordance with IFRS 10 and capitalized to the statement of financial position. Upon attaining control of such companies, the Company will consolidate as subsidiaries.

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2020 and have not been applied in preparing the Financial Report. In addition, these standards are not expected to impact the Company.

Financial Instruments and Risk Management

Financial Instruments

Financial instruments are classified into one of the following categories: fair value through profit or loss ("FVTPL"); fair value through other comprehensive income ("FVTOCI"); or at amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

		December 31, 2020	December 31, 2019
Cash	FVTPL	$ 9,760,495	$ 14,339,728
Receivables	Amortized cost	183,313	14,780
Trade and other payables	Amortized cost	212,469	721,241

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying values of receivables and trade and other payables approximate their fair values due to their short-term nature. These financial instruments are classified as financial assets and liabilities at amortized cost and are reported at amortized cost. The carrying value of cash was determined based on Level 1 of the fair value hierarchy.

Risk Management

The Company's risk exposures and the impact on the Company's financial instruments are summarized as follows:

Credit Risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and receivables. The Company limits the exposure to credit risk in its cash by only investing its cash with high-credit quality financial institutions in business and savings accounts, guaranteed investment certificates and in government treasury bills which are available on demand by the Company for its programs. The Company`s receivables are primarily due from the government of Canada.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that there is sufficient capital in order to meet short-term business requirements. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next sixty days. The Company has a working capital balance of $9,774,823 as at December 31, 2020.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity, political risk and equity prices. These fluctuations may be significant.

(a) <u>Interest Rate Risk:</u> The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

(b) <u>Foreign Exchange Risk:</u> The Company expects to continue to raise equity predominately in Canadian dollars. The Company is primarily conducting business in Ethiopia. As such, it is subject to risk due to fluctuations in the exchange rate between the Canadian dollar and the Ethiopian Birr. Management believes the foreign exchange risk related to currency conversions is minimal and therefore, does not hedge its foreign exchange risk. The effect of a ten percent change in the foreign exchange rate on the cash held in Ethiopian Birr at December 31, 2020 would be insignificant.

(c) <u>Commodity Price Risk:</u> While the value of the Company's exploration and evaluation assets will be related to the price of gold and the outlook for this mineral, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect to its operational activities.

Historically, the price of gold has fluctuated significantly and is affected by numerous factors outside of the Company's control, including but not limited to industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to gold.

(d) <u>Political Uncertainty Risk</u>: In conducting operations in Ethiopia, the Company is subject to considerations and risks not typically associated with companies operating in Canada. These include risks such as the political, economic and legal environments as well as the risk of military conflict. Among other things, the Company's results may be adversely affected by changes in the political and social conditions, including unrest, in Ethiopia, and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

Cautionary Note Regarding Forward-looking Statements

This MD&A may include or incorporate by reference certain statements or disclosures that constitute "forward-looking information" under applicable securities laws. All information, other than statements of historical fact, included or incorporated by reference in this MD&A that address activities, events or developments that the Company or its management expects or anticipates will or may occur in the future constitute forward-looking information. Forward-looking information is provided through statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur or continue. These forward-looking statements are based on certain assumptions and analyses made by the Company and its management in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances.

Although the Company believes such forward-looking information and the expectations expressed in them are based on reasonable assumptions, investors are cautioned that any such information and statements are not guarantees of future realities and actual realities or developments may differ materially from those projected in forward-looking information and statements. Whether actual results will conform to the expectations of the Company is subject to a number of risks and uncertainties, including those risk factors discussed under "Risk Factors" in the Company's prospectus dated August 10, 2020 with the additional risks of COVID-19 and the conflicts in Ethiopia and the impact and duration on the Company's work programs. In particular, if any of the risk factors materialize, the expectations, and the predictions based on them, of the Company may need to be re-evaluated. Consequently, all of the forward-looking information in this MD&A and any documents incorporated herein by reference is expressly qualified by these cautionary statements and other cautionary statements or factors contained herein or in documents incorporated by reference herein, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences for the Company.

Forward-looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. Unless otherwise required by law, the Company expressly disclaims any intention and assumes no obligation to update or revise any forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, should change, whether as a result of new information, future events or otherwise, and the Company does not have any policies or procedures in place concerning the updating of forward-looking information other than those required under applicable securities laws. Accordingly, readers should not place undue reliance on forward-looking statements or forward-looking information.

Other Information

Additional information relating to the Company is available for viewing on the Company's web site at www.sunpeakmetals.com.