

Condensed Consolidated Interim Financial Statements of

Azucar Minerals Ltd.

For the three and six months ended June 30, 2020
(Unaudited)

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED
CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of Azucar Minerals Ltd. (“the Company”) for the three and six months ended June 30, 2020 have been prepared by the management of the Company and approved by the Company’s Audit Committee and the Company’s Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the consolidated interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of the condensed consolidated interim financial statements by an entity’s auditor.

Azucar Minerals Ltd.

Condensed consolidated interim statements of financial position
(Unaudited - Expressed in Canadian dollars)

	June 30, 2020	December 31, 2019
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (Note 10)	5,723,031	7,528,104
Accounts receivable and prepaid expenses (Note 4)	68,075	145,265
	5,791,106	7,673,369
Non-current assets		
Property and equipment (Note 5)	167,801	174,865
Exploration and evaluation assets (Note 6)	20,198,522	18,879,741
	20,366,323	19,054,606
TOTAL ASSETS	26,157,429	26,727,975
LIABILITIES		
Current liabilities		
Trade and other payables (Note 8(b))	271,570	211,341
Total liabilities	271,570	211,341
EQUITY		
Share capital (Note 7)	24,043,321	24,043,321
Reserves (Note 7)	3,323,487	3,302,237
Deficit	(1,480,949)	(828,924)
Total equity	25,885,859	26,516,634
TOTAL EQUITY AND LIABILITIES	26,157,429	26,727,975

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on August 12, 2020.

They are signed on the Company's behalf by:

/s/Duane Poliquin
Director

/s/Mark T. Brown
Director

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Azucar Minerals Ltd.

Condensed consolidated interim statements of comprehensive loss
(Unaudited - Expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Expenses				
Administrative services fee (Note 8(a)(b))	249,641	149,298	489,681	298,896
Depreciation (Note 5)	3,532	1,715	7,064	3,368
Salaries and benefits	-	26,409	-	61,165
Office	26,782	29,396	31,120	38,799
Professional fees	34,989	78,808	53,735	120,789
Transfer agent and filing fees	14,082	12,151	29,776	47,006
Travel and promotion	5,717	19,050	28,876	37,880
Share-based payments (Note 7(c))	21,250	63,030	21,250	182,730
	355,993	379,857	661,502	790,633
Other income (loss)				
Interest income	11,535	81,304	36,376	107,012
Foreign exchange loss	(395)	(20,430)	(26,899)	(47,587)
	11,140	60,874	9,477	59,425
Total comprehensive loss for the period	(344,853)	(318,983)	(652,025)	(731,208)
Basic and diluted net loss per share (Note 9)	(0.01)	(0.00)	(0.01)	(0.01)

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Azucar Mineral Ltd.Condensed consolidated interim statements of cash flows
(Unaudited - Expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Operating activities				
Net loss for the period	(344,853)	(318,983)	(652,025)	(731,208)
Items not affecting cash				
Depreciation	3,532	1,715	7,064	3,368
Share-based payments	21,250	63,030	21,250	182,730
Changes in non-cash working capital components				
Accounts receivable and prepaid expenses	75,298	131,702	77,190	129,583
Trade and other payables	(46,624)	(152,185)	(38,505)	(150,042)
Net cash used in operating activities	(291,397)	(274,721)	(585,026)	(565,569)
Investing activities				
Exploration and evaluation assets - costs	(359,519)	(1,492,034)	(1,220,047)	(2,978,421)
Property and equipment - purchase	-	-	-	(9,688)
Net cash used in investing activities	(359,519)	(1,492,034)	(1,220,047)	(2,988,109)
Financing activities				
Issuance of share, net of share issue costs	-	18,683	-	18,683
Net cash from financing activities	-	18,683	-	18,683
Change in cash and cash equivalents	(650,916)	(1,748,072)	(1,805,073)	(3,534,995)
Cash and cash equivalents, beginning of period	6,373,947	12,682,966	7,528,104	14,469,889
Cash and cash equivalents, end of period	5,723,031	10,934,894	5,723,031	10,934,894
Supplemental cash flow information (Note 10)				

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Azucar Mineral Ltd.

Condensed consolidated interim statement of changes in equity
(Unaudited - Expressed in Canadian dollars)

	<u>Share Capital</u>		<u>Reserves</u>			<u>Retained earnings (Deficit)</u>	<u>Total</u>
	Number of shares	Amount	Share-based payments	Warrants	Total Reserves		
		\$	\$	\$	\$	\$	\$
Balance, January 1, 2019	73,679,371	23,991,008	2,998,745	-	2,998,745	493,384	27,483,137
Share-based payments	-	-	182,730	-	182,730	-	182,730
Private placement, net	59,654	18,683	-	-	-	-	18,683
Total comprehensive loss for the period	-	-	-	-	-	(731,208)	(731,208)
Balance, June 30, 2019	73,739,025	24,009,691	3,181,475	-	3,181,475	(237,824)	26,953,342
Share-based payments	-	-	135,492	-	135,492	-	135,492
Options exercised	90,000	18,900	-	-	-	-	18,900
Fair value of options transferred to share capital	-	14,730	(14,730)	-	(14,730)	-	-
Total comprehensive loss for the period	-	-	-	-	-	(591,100)	(591,100)
Balance, December 31, 2019	73,829,025	24,043,321	3,302,237	-	3,302,237	(828,924)	26,516,634
Share-based payments	-	-	21,250	-	21,250	-	21,250
Total comprehensive loss for the period	-	-	-	-	-	(652,025)	(652,025)
Balance, June 30, 2020	73,829,025	24,043,321	3,323,487	-	3,323,487	(1,480,949)	25,885,859

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Azucar Minerals Ltd.

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020

(Unaudited - Expressed in Canadian dollars)

1. Nature of Operations

Azucar Minerals Ltd. (the “Company” or “Azucar”) was incorporated on April 10, 2015 under the laws of the Province of British Columbia pursuant to a Plan of Arrangement to reorganize Almaden Minerals Ltd. (“Almaden”) which was completed on July 31, 2015. The Company’s business activity is the exploration of the El Cobre project in Veracruz, Mexico. The address of the Company’s registered and records office is Suite 1710 –1177 West Hastings Street, Vancouver, BC, Canada V6E 2L3.

A global pandemic related to COVID-19 was declared in March 2020. The current and expected impacts on global commerce have been, and are anticipated to be, far-reaching. To date, there has been significant volatility in commodity prices and foreign exchange rates, restrictions on the conduct of business in many jurisdictions, including travel restrictions, and supply chain disruptions. There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impact that it may have.

On April 1, 2020, the Company announced that the Mexican federal government has mandated that all non-essential businesses, including mining and exploration, temporarily suspend operations due to the COVID-19 virus. The Mexican government has since considered mining and exploration activities as essential businesses, thus allowing such businesses to resume operations. In mid-March, Azucar has been working to raise awareness of COVID-19 amongst its workforce. On March 27, 2020, Azucar terminated its field activities and asked all remaining employees to take paid leave at home until further notice from Mexican government health authorities.

2. Basis of Presentation

(a) Statement of Compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance and compliance with International Accounting Standards (“IAS”) 34 “*Interim Financial Reporting*” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

(b) Basis of preparation

These condensed consolidated interim financial statements are prepared on a going concern basis, which assumes the Company will continue its operations for a reasonable period of time. The Company’s ability to continue its operations is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future.

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries. This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period.

Except as described below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the annual audited consolidated financial statements for the year ended December 31, 2019.

The changes in accounting policies are also expected to be reflected in the Company’s consolidated financial statements as at and for the year ended December 31, 2020.

Azucar Minerals Ltd.

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020

(Unaudited - Expressed in Canadian dollars)

2. Basis of Presentation (Continued)

These condensed consolidated interim financial statements do not include all note disclosures required by IFRS for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the period ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ended December 31, 2020.

3. Significant Accounting Policies

The preparation of these condensed consolidated interim financial statements requires management to make judgements and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgements and estimates. The condensed consolidated interim financial statements include judgements and estimates which, by their nature, are uncertain. The impacts of such judgements and estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. There have been no changes in estimates since the annual consolidated financial statements as at and for the year ended December 31, 2019.

4. Accounts Receivable and Prepaid Expenses

Accounts receivable and prepaid expenses consist of the following:

	June 30, 2020	December 31, 2019
	\$	\$
Accounts receivable	36,681	98,922
Prepaid expenses	31,394	46,343
	68,075	145,265

5. Property and Equipment

	Computer hardware	Computer software	Field equipment	Building	Total
	\$	\$	\$	\$	\$
Cost					
December 31, 2019	3,068	27,719	39,582	118,420	188,789
Additions	-	-	-	-	-
June 30, 2020	3,068	27,719	39,582	118,420	188,789
Accumulated depreciation					
December 31, 2019	1,361	1,043	11,520	-	13,924
Depreciation	513	3,745	2,806	-	7,064
June 30, 2020	1,874	4,788	14,326	-	20,988
Carrying amounts					
December 31, 2019	1,707	26,676	28,062	118,420	174,865
June 30, 2020	1,194	22,931	25,256	118,420	167,801

Azucar Minerals Ltd.

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020

(Unaudited - Expressed in Canadian dollars)

6. Exploration and Evaluation Assets

Exploration and evaluation assets – El Cobre	\$
Acquisition costs:	
Opening balance – December 31, 2019	1,539,062
Additions	-
Closing balance – June 30, 2020	1,539,062
Deferred exploration costs:	
Opening balance - December 31, 2019	17,340,679
Costs incurred during the period:	
Drilling and related costs	486,358
Professional/technical fees	19,966
Claim maintenance/lease costs	50,286
Geochemical, metallurgy	104,963
Technical studies	31,620
Travel and accommodation	87,600
Geology, geophysics, exploration	367,872
Supplies and miscellaneous	37,308
Environmental	1,311
Value-added tax	131,497
Total deferred exploration costs during the period	1,318,781
Closing balance – June 30, 2020	18,659,460
Total exploration and evaluation assets	20,198,522

The following is a description of the Company's property interest and related spending commitments:

El Cobre

During 2011, Almaden completed the sale of its 30% interest in the Caballo Blanco property located in the state of Veracruz, Mexico to Goldgroup Mining Inc. ("Goldgroup"). As part of the sale, Goldgroup transferred to Almaden its 40% interest in the El Cobre property also located in the state of Veracruz, Mexico. The Company owns a 100% interest in the El Cobre property.

7. Share Capital and Reserves

(a) *Authorized share capital*

At June 30, 2020, the Company's authorized share capital consisted of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

Azucar Minerals Ltd.

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020

(Unaudited - Expressed in Canadian dollars)

7. Share Capital and Reserves (Continued)

(b) Warrants

The continuity of warrants for the period ended June 30, 2020 is as follows:

Expiry date	Exercise Price	December 31, 2019	Issued	Exercised	Expired	June 30, 2020
March 27, 2020	\$ 1.41	1,999,995	-	-	(1,999,995)	-
Warrants outstanding and exercisable		1,999,995	-	-	(1,999,995)	-
Weighted average exercise price		\$ 1.41	-	-	\$ 1.41	-

(c) Stock option plan

The Company's stock option plan permits the issuance of options to acquire up to a maximum of 10% of the Company's issued common shares. Stock options issued to any consultant or person providing investor relations services cannot exceed 2% of the issued and outstanding common shares in any twelve month period. At June 30, 2020, the Company may reserve up to 657,903 shares that may be granted as stock options. The exercise price of any option cannot be less than the volume weighted average trading price of the shares for the five trading days immediately preceding the date of the grant. The maximum term of all options is ten years. The Board of Directors determines the term of the option and the time during which any options may vest. Options granted to consultants or persons providing investor relations services shall vest in stages with no more than 25% of such option being exercisable in any three month period. All options granted during the period ended June 30, 2020 vested on the date of grant.

The continuity of stock options for the period ended June 30, 2020 is as follows:

Expiry date	Exercise price	December 31, 2019	Granted	Exercised	Expired/cancelled	June 30, 2020
April 30, 2020	\$ 0.73	300,000	-	-	(300,000)	-
December 15, 2020	\$ 0.39	330,000	-	-	-	330,000
April 28, 2021	\$ 0.60	3,934,200	-	-	-	3,934,200
June 4, 2021	\$ 0.29	553,000	-	-	-	553,000
July 7, 2021	\$ 0.34	967,800	-	-	-	967,800
February 28, 2022	\$ 0.36	515,000	-	-	-	515,000
May 9, 2022	\$ 0.11	-	425,000	-	-	425,000
Options outstanding and exercisable		6,600,000	425,000	-	(300,000)	6,725,000
Weighted average exercise price		\$ 0.51	\$ 0.11	-	\$ 0.73	\$ 0.48

Azucar Minerals Ltd.

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020

(Unaudited - Expressed in Canadian dollars)

7. Share Capital and Reserves (Continued)

(c) Stock option plan (continued)

The fair value of the options granted during the period ended June 30, 2020, was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	0.28%
Expected life	2 years
Expected volatility	78.28%
Expected dividend yield	Nil
Weighted average fair value per option	\$0.05

During the six months ended June 30, 2020, the Company recognized share-based payments expense of \$21,250 (2019 - \$182,730) associated with the vesting of stock options granted.

8. Related Party Transactions and Balances

(a) Compensation of key management personnel

Key management personnel include these persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Key management includes members of the Board, the President and Chief Executive Officer, the Chief Financial Officer and the Vice President Corporate Development. These amounts are included within administrative services fee expense. The aggregate value of compensation to key management personnel was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Management fees ⁽¹⁾	151,800	101,200	303,600	202,400
Share-based payments	15,000	56,430	15,000	149,130
	166,800	157,630	318,600	351,530

⁽¹⁾ Management fees are recorded within Administrative services fees.

(b) Other related party transactions

Administrative Services Agreement

The Company paid administrative services fees to Almaden pursuant to an Administrative Services Agreement dated May 15, 2015, under which Almaden provides the Company with office space, executive management, marketing support, technical oversight, and financial/corporate secretary duties, amongst other administrative services.

At June 30, 2020, included in trade and other payables is \$83,754 (December 31, 2019 - \$61,873) due to Almaden.

Azucar Minerals Ltd.

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020

(Unaudited - Expressed in Canadian dollars)

8. Related Party Transactions and Balances (Continued)

(b) Other related party transactions (continued)

Other

At June 30, 2020, the Company accrued \$168,728 (December 31, 2019 - \$Nil) payable to Almadex for drilling services in Mexico included in exploration and evaluation assets.

At June 30, 2020, the Company paid a company controlled by a former Director of the Company \$Nil (2019 - \$49,470) for geological services included in exploration and evaluation assets.

Amounts owing to related parties are unsecured, non-interest bearing and due on demand.

9. Net Loss per Share

Basic and diluted net loss per share

The calculation of basic net loss per share for the three months ended June 30, 2020 was based on the net loss attributable to common shareholders of \$344,853 (2019 – \$318,983) and a weighted average number of common shares outstanding of 73,829,025 (2019 – 73,731,814).

The calculation of basic net loss per share for the six months ended June 30, 2020 was based on the net loss attributable to common shareholders of \$652,025 (2019 – \$731,208) and a weighted average number of common shares outstanding of 73,829,025 (2019 – 73,705,737).

The calculation of diluted net loss per share for the three and six months ended June 30, 2020 and 2019 did not include the effect of stock options and warrants as they were considered anti-dilutive.

10. Supplemental Cash Flow Information

Supplemental information regarding the split between cash and cash equivalents is as follows:

	June 30, 2020	December 31, 2019
	\$	\$
Cash	923,031	728,104
Term Deposits	4,800,000	6,800,000
	<u>5,723,031</u>	<u>7,528,104</u>

As at June 30, 2020, \$182,574 (December 31, 2019 - \$83,840) of exploration and evaluation asset costs is included in trade and other payables.

11. Financial Instruments

The fair values of the Company's cash and cash equivalents, accounts receivable and trade and other payables approximate their carrying values because of the short-term nature of these instruments.

The Company does not carry any financial instruments at fair value.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk and commodity and equity price risk

Azucar Minerals Ltd.

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020

(Unaudited - Expressed in Canadian dollars)

11. Financial Instruments (Continued)

(a) Currency risk

The Company's property interests in Mexico make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

As at June 30, 2020, the Company is exposed to foreign exchange risk through the following assets and liabilities denominated in currencies other than the functional currency of the applicable subsidiary:

	US dollar	Mexican peso
All amounts in Canadian dollars		
	\$	\$
Cash and cash equivalents	290,920	280,305
Total assets	290,920	280,305
Trade and other payables	865	171,028
Total liabilities	865	171,028
Net assets	290,055	109,277

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by \$29,000.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by \$11,000.

(b) Credit risk

The Company's cash and cash equivalents are held in large Canadian and Mexican financial institutions. The Company's accounts receivable consists primarily of sales tax due from the federal government of Canada. The Company is exposed to credit risks through its accounts receivable.

To mitigate exposure to credit risk on cash and cash equivalents, the Company has established policies to limit the concentration of credit risk with any given banking institution where the funds are held, to ensure counterparties demonstrate minimum acceptable credit risk worthiness and ensure liquidity of available funds.

As at June 30, 2020, the Company's maximum exposure to credit risk is the carrying value of its cash and cash equivalents and accounts receivable.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Trade and other payables are due within twelve months of the statement of financial position date.

Azucar Minerals Ltd.

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020

(Unaudited - Expressed in Canadian dollars)

11. Financial Instruments (Continued)

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to varying interest rates on cash and cash equivalents. The Company has no interest-bearing debt.

A 1% change in the interest rate would change the Company's net loss by \$57,000.

(e) Commodity and equity price risk

The ability of the Company to explore its exploration and evaluation assets and the future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors gold prices to determine the appropriate course of action to be taken by the Company. Equity price risk is defined as the potential adverse impact on the Company's operations due to movements in individual equity price or general movements in the level of the stock market. The Company closely monitors the individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

12. Management of Capital

The Company considers its capital to consist of components of equity. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares and acquire or dispose of assets.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with short-term maturities, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry its exploration plans and operations for the foreseeable future. There have been no changes to the Company's capital management approach during the year. The Company is not subject to externally imposed capital requirements.

13. Segmented Information

The Company operates in one reportable operating segment, being the acquisition and exploration of mineral resource properties in Canada, the United States, and Mexico.

Geographic information is as follows:

	Property and equipment	Exploration and evaluation assets	June 30, 2020
	\$	\$	\$
Mexico	145,344	20,198,522	20,343,866
Canada	22,457	-	22,457
	167,801	20,198,522	20,366,323

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Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020

(Unaudited - Expressed in Canadian dollars)

13. Segmented Information *(Continued)*

The Company's revenue from interest income on cash and cash equivalents was earned in Canada. Other income from drill equipment rental services was earned in Mexico.