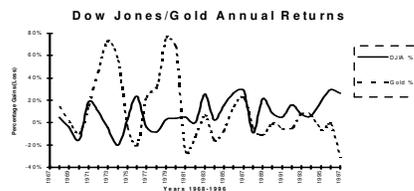




Gold



Energy & Tech Stocks

Weekly Hotline Message

(Now in our 37th Year)

July 6, 2018

Update & Review:

Amarillo Gold Corporation



Business: Exploration and development of gold mining projects in Brazil.

Trades Toronto: AGC
 OCTQB: AGCBF
 Price 7/6/18: US\$0.20
 Shares Outstanding: 114.6 million
 O/W Management: 15%
 O/W Institutions: 42%
 Market Cap: US\$21 million
 Fully Diluted: 89,713,925
 Gold Reserves¹: 997,536 oz.
 Gold Resources¹: 2,083,000 oz.
 Progress Rating: A2
 Telephone: (416) 230-6454
 Website: <https://www.amarillogold.com/>

¹Resources and reserves from the company's Mara Rosa

Project are displayed in the chart below on your left. Resources from the Butiá Prospect on the company's Lavras do Sul Project are displayed below on your right.

AMARILLO GOLD CORPORATION Resource and Reserves

| Category | Tonnes MT | Grade g/t | Ounces of Au |
|--------------|-----------|-----------|--------------|
| Measured | 10.00 | 1.70 | 580,000 |
| Indicated | 15.00 | 1.40 | 680,000 |
| Resource M&I | 25.00 | 1.56 | 1,250,000 |
| Inferred | 8.50 | 1.10 | 310,000 |

Notes:
 1. Posse Deposit Resource @ 0.35 g/t cut-off
 2. Source: Keith Whitehouse Member of the AUSIMM Qualified person Australian Exploration Field Services; 43-101 Technical Report; prepared by BRK Consulting; April 2017
 titled "2017 Updated Pre-Feasibility Study Posse Mine Project-Mara Rosa Q2"

| Category | Tonnes MT | Grade g/t | Ounces of Au |
|-----------|-----------|-----------|--------------|
| Proven | 9.27 | 1.81 | 540,567 |
| Probable | 9.75 | 1.46 | 456,968 |
| P&P Total | 19.01 | 1.63 | 997,536 |

AMARILLO GOLD CORPORATION Butiá Prospect is now a focus

| Category | M. Tonnes | Grade g/t | Ounces of Au |
|-----------|-----------|-----------|--------------|
| Indicated | 6.4 | 1.05 | 215,000 |
| Inferred | 12.9 | 0.74 | 308,000 |
| Total | 19.3 | 0.84 | 523,000 |

I first wrote about Amarillo Gold Corporation (AGC) and added it to this letter's coverage on January 26 of this year. With some very important things taking place now, I thought I should refresh your memory about this advanced-stage gold exploration company and update you

on a couple of important things taking place at AGC.

- Economic Optimization** – On January 31, 2018, management announced plans to use Whittle Consulting (a firm in which AGC's mining engineer President & CEO was formerly a partner), engaging in an optimization study on its flagship property, the Mara Rosa in Goias State, Brazil. In April of 2017, a pre-feasibility study under a \$1,200 gold price assumption revealed an IRR of 35% and a 2.2-year payback.

Management headed by Mike Mutchler, a mining engineer and a QP, believes the economics can be improved through the use of Whittle Consulting's proprietary optimization tool. Whittle Consulting claims that in applying their optimization software to other projects they have been able to improve NPV of projects by between 5% and 35%. I'm always skeptical of "black box" magic, but I have no reason to believe Whittle Consulting is lying about past performance.

- On April 12, management announced it raised \$5.15 million via a private placement sale of 18,427,780 units. Each unit provides the investor with ½ warrant and each full warrant can be exercised into a share at \$0.38, which would bring in another \$3.5 million. The proceeds from the unit sales are to be used for advancing the company's projects and for general working capital. It is my understanding that as of this date, approximately \$3 million remains in the company's treasury. But of course shareholders have suffered some dilution. The share count rose by about 22% with possible further dilution in the future from warrants.
- On May 24, management announced it was starting a 10,000-meter drill program, the objective of which was to convert the 310,000 of inferred resources into indicated and extend the mine life to at least 10 years. Also, management will be doing some stepout drilling to explore for additional resources along trend and down dip from the current resource. Management noted that it expects a new resource by year-end to provide the optimized case for mining the deposit that is timed to coincide with the beginning of the feasibility study in early 2019.
- On June 13, management announced assays from four drill holes drilled in 2011 that were drilled only for geotechnical data but have been assayed now as part of this year's exploration campaign. The following table lays out the results of those four holes. Marc Ducharme, Amarillo's chief exploration geologist, commented: *"These early assays confirm good orebody thickness and grade continuity as anticipated in our resource block model. We now have three core drills working at Mara Rosa and have mobilized two reverse circulation drills this week. Our program is targeting infill and stepout drilling primarily on the northern, shallower end of the planned pit. In addition, we plan to explore the resource at Mara Rosa down dip with our step out drilling."*

GOLD FIRE ASSAY RESULTS -- GEOTECHNICAL HOLES

| Drill hole | From (m) | To (m) | Width (m) | Au (g/t) | True width (m) | Comments |
|-------------|----------|--------|-----------|----------|----------------|---|
| 2011MRP006 | 173 | 183 | 10 | 0.90 | 7.5 | |
| | 190 | 193 | 3 | 1.01 | 2.7 | |
| | 199 | 257 | 58 | 1.75 | 40.7 | Includes 1 m @ 10.65 g/t from 208 m to 209 m uncut and 4 m @ 6.5 g/t from 231 m to 235 m uncut and 2 m @ 6.02 g/t from 240 m to 242 m |
| 2011MRP0010 | 213 | 258 | 45 | 1.70 | 31.0 | Includes 7 m @ 7.35 g/t from 226 m to 233 m uncut, 0.52m of core loss in this zone |
| 2011MRP0012 | 118 | 127.6 | 9.6 | 1.17 | 6.5 | |
| | 142 | 214 | 72 | 0.96 | 47.5 | Includes 6 m @ 3.30 g/t from 196 to 202 m, 1.61 m of core loss |
| 2011MRP0013 | 112 | 119 | 7 | 0.95 | 4.7 | |

- On July 3, AGC received a vote of confidence and US\$10.8 million in cash for the sale of a 1.75% NSR on its flagship Mara Rosa Property located in Goias State, Brazil, to Royal Gold. Management plans to apply some of the proceeds from the NSR sale along with some equity financing to get the gold loan off its books.

Following are results from the April 2017 PFS:

| | | |
|--|-----------------------|-------------------------------|
| *NPV(5%) US\$ 178M | *IRR 35% | *Payback 2.2 Years |
| April 2017 PFS Summary (US\$1,200 Au) | | |
| Upfront Capex | \$148M USD | |
| Sustaining Capex | \$13.5M USD | |
| Years 1-4 Average Production | 140,000 Ounces | |
| Average Annual Production | 112,000 Ounces | |
| Initial Mine Life | 8 Years | |
| Operating Cost per Ounce Au | \$545 USD | |
| AISC per Ounce | \$630 USD | |
| Mineable Reserve | 997,536 Ounces | |

*Post-tax

Proven Mineral Reserve 0.5 g Au/t cut-off

- Tonnes ('000): 5,361 Average Grade: 1.87 g/t, Ounces Au: 339,600

Probable Mineral Reserve 0.5 g Au/t cut-off

- Tonnes ('000): 11,739 Average Grade: 1.60 g/t, Ounces Au: 606,600

Total Proven and Probable Mineral Reserve

- Tonnes ('000): 17,117 Average Grade: 1.72 g/t, Ounces 945,200

Inferred Mineral Reserve

- Tonnes ('000): 3,630 Average Grade: 1.34 g/t, Ounces 156,400

I spoke with Mike Mutchler of AGC on July 5 and he said that the optimization process is about 95% complete. Based on those results, he is confident that even before additional mineable ounces are upgraded and thus added to the project, the economics will be better than those revealed by the April PFS. He expects to issue a report in the next couple of months on the results of the optimization studies.

THE BOTTOM LINE

In the concluding remarks in my initial report on AGS I noted that based on the valuation of its peers, this much-forgotten story is quite undervalued. I suggested that as this story is told, I could see an easy double or triple in its valuation. Management did meet with some folks in Toronto and overseas, but the combination of a very weak gold share market combined with a gold loan that had a balance as of March 31 of 12,874,658 was a major stumbling block, especially for European investors who would otherwise like the project.

Well, the gold loan problem is now solved, thanks to the sale of the 1.75% NSR, which as noted above will enable management to rid the gold loan from its books. The weak gold share market during the first half of this year has nudged these shares a tiny bit lower, but with the second half of this year looking better for gold and gold shares and with management now starting to get this story in front of serious investors, I fully expect these shares to start to reach levels akin to its peers' average of around \$72/oz. By comparison, AGC's valuation is around \$28/oz of gold. To reach the average, the per-ounce-in-the-ground valuation would need to increase by more than 2.5 times. As I noted previously, I'm not real keen on adding A2 companies to my list since share prices generally don't move much to the upside while engineering and construction are taking place. But in the case of AGC, I feel that because it is largely forgotten, it should start to move higher, especially now that the gold loan thorn in its side will soon be removed.

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