AMARILLO GOLD CORPORATION

(A Development Stage Company)

Consolidated Financial Statements
(Expressed in Canadian Dollars)

(Audited)

Years Ended December 31, 2017 and 2016

TABLE OF CONTENTS

Management’s Responsibility for Financial Statements

To the Shareholders of Amarillo Gold Corporation:

The accompanying consolidated financial statements have been prepared by and are the responsibility of the management of Amarillo Gold Corporation (“the Company”). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect management’s best estimate and judgement based on currently available information.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded, liabilities are recognized and that the accounting systems provide timely and accurate financial reports.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities in respect of financial reporting and internal control. The Audit Committee of the Board of Directors meets periodically with management and the Company’s independent auditors to discuss auditing matters and financial reporting issues. In addition, the Audit Committee reviews the annual consolidated financial statements before they are presented to the Board of Directors for approval.

The Company’s independent auditors, MNP LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

Toronto, Ontario

April 26, 2018

/s/ Hemdat Sawh
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Amarillo Gold Corporation:

We have audited the accompanying consolidated financial statements of Amarillo Gold Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Amarillo Gold Corporation as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Amarillo Gold Corporation's ability to continue as a going concern.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

April 26, 2018 — Licensed Public Accountants

AMARILLO GOLD CORPORATION
(A Development Stage Company)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash	**$ 130,257**	$ 1,546,218
Accounts receivable	**91,152**	88,328
Subscriptions receivable (Note 11)	**-**	340,000
Prepaids	**97,953**	198,307
	319,362	2,172,853
Non-current assets		
Resource properties and deferred exploration expenditures (Note 8)	**33,803,666**	32,004,986
Equipment (Note 9)	**63,464**	69,088
Total assets	**$34,186,492**	$34,246,927
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 984,515**	$ 1,159,852
Due to related parties (Note 10)	**239,272**	339,748
Loans payable (Note 13(ii))	**1,127,971**	151,294
	2,351,758	1,650,894
Non current liabilities		
Deferred tax liability (Note 15)	**719,495**	233,330
Loans payable (Note 13(i))	**10,330,902**	8,564,844
Total liabilities	**13,402,155**	10,449,068
Equity		
Capital stock (Note 11)	**47,033,760**	45,288,058
Contributed surplus	**5,991,374**	5,715,856
Warrants (Note 11)	**167,306**	426,618
Deficit	**(32,408,103)**	(27,632,673)
Total equity	**20,784,337**	23,797,859
Total liabilities and equity	**$34,186,492**	$34,246,927

Business of the Company and Going Concern (Note 1)
Contingency (Note 16)
Subsequent Events (Note 17)
The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board:

Signed: "**Colin Sutherland**" Signed: "**Rowland Uloth**"

Director Director

AMARILLO GOLD CORPORATION
(A Development Stage Company)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended December 31		2017		2016
Expenses				
Accretion expenses (Note 13(i))	**$**	**1,288,023**	$	1,119,546
Interest and bank charges		**50,753**		247,910
Management and consulting fees (Note 10)		**893,376**		645,419
Stock-based compensation		**990,573**		641,241
General and administrative (Note 10)		**334,796**		237,667
Professional fees		**267,560**		170,105
Foreign exchange		**(179,488)**		(31,370)
Filing and transfer agent fees		**165,637**		56,148
		3,811,230		3,086,666
Loss before adjustments to gold loan		**(3,811,230)**		(3,086,666)
Foreign exchange gain on gold loan		**632,050**		100,004
Loss on fair value of derivatives (Note 13(i))		**(1,110,085)**		(557,586)
Loss before taxes		**(4,289,265)**		(3,544,248)
Deferred tax expenses		**486,165**		233,330
Total loss and comprehensive loss	**$**	**(4,775,430)**	$	(3,777,578)
Basic and diluted loss per share (Note 12)	**$**	**(0.06)**	**$**	(0.05)
Weighted average shares outstanding basic and diluted (Note 12)		**82,565,854**		70,586,138

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

AMARILLO GOLD CORPORATION
(A Development Stage Company)
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Capital stock	Contributed surplus	Warrants	Deficit	Total
At December 31, 2015	**$ 42,256,552**	**$ 5,074,615**	**$ 217,623**	**$ (23,855,095)**	**$ 23,693,695**
Private placements – net	3,159,120	-	-	-	3,159,120
Fair value of warrants, net of tax	(127,614)	-	208,995	-	81,381
Fair value of stock options granted	-	641,241	-	-	641,241
Loss and comprehensive loss for the year	-	-	-	(3,777,578)	(3,777,578)
At December 31, 2016	**45,288,058**	**5,715,856**	**426,618**	**(27,632,673)**	**23,797,859**
Shares issued pursuant to restricted shares units	**765,680**	**-**	**-**	**-**	**765,680**
Shares issued pursuant to exercise of options	**35,000**	**-**	**-**	**-**	**35,000**
Fair value of stock options exercised	**28,840**	**(28,840)**	**-**	**-**	**-**
Fair value of stock options granted	**-**	**224,893**	**-**	**-**	**224,893**
Shares issued pursuant to exercise of warrants	**736,335**	**-**	**-**	**-**	**736,335**
Fair value of warrants exercised	**179,847**	**-**	**(179,847)**	**-**	**-**
Expired warrants	**-**	**79,465**	**(79,465)**	**-**	**-**
Loss and comprehensive loss for the year	**-**	**-**	**-**	**(4,775,430)**	**(4,775,430)**
At December 31, 2017	**$ 47,033,760**	**$ 5,991,374**	**$ 167,306**	**$ (32,408,103)**	**$ 20,784,337**

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

AMARILLO GOLD CORPORATION
(A Development Stage Company)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

For the years ended December 31	2017	2016
Operating activities		
Net loss for the year	**$ (4,775,430)**	$ (3,777,578)
Unrealized foreign exchange gain	**(188,725)**	(101,877)
Accrued interest on loan payable	**17,706**	12,193
Stock-based compensation	**990,573**	641,241
Accretion expenses	**1,288,023**	1,119,546
Foreign exchange gain on gold loan	**(632,050)**	(100,004)
Loss on fair value of derivative	**1,110,085**	557,586
Deferred tax expenses (recovery)	**486,165**	233,330
	(1,703,653)	(1,415,563)
Accounts receivable	**(2,824)**	(29,907)
Subscriptions receivable	**340,000**	-
Prepaid expenses	**100,354**	(194,123)
Accounts payable and accrued liabilities	**(175,337)**	304,206
Due to related parties	**(100,476)**	(101,312)
	(1,541,936)	(1,436,699)
Investing activities		
Resource properties and deferred exploration expenditures	**(1,604,331)**	(927,582)
Financing activities		
Common shares	**771,335**	2,960,000
Share issuance costs	**-**	(140,880)
Loans	**958,971**	861,294
Debt issuance costs	**-**	(51,563)
	1,730,306	3,628,851
Change in cash during the year	**(1,415,961)**	1,264,570
Cash, beginning of year	**1,546,218**	281,648
Cash, end of year	**$ 130,257**	$ 1,546,218
Non-cash investing activities		
Capitalized depreciation	**$ 10,812**	$ 9,843
Interest received	**$ -**	$ -

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

1. BUSINESS OF THE COMPANY AND GOING CONCERN

Amarillo Gold Corporation ("Amarillo" or the "Company") is incorporated under the laws of the Province of British Columbia, Canada. The address of the Company's registered office is Suite 1400 – 1111 West Georgia Street, Vancouver, BC, Canada, V6E 4M3. Amarillo is a development stage company engaged in the acquisition and exploration of mineral properties, primarily in Brazil. Amarillo currently has three properties in Brazil: Mara Rosa and Santo Antonio which are located in the state of Goiás, and Lavras do Sul, which is located in Rio Grande do Sul state.

The Company has not earned any revenue to date from its operations. It is in the process of exploring its resource properties and has not yet determined whether the resource properties contain ore reserves that are economically recoverable. The recoverability of the properties' carrying values and of the related deferred evaluation and exploration expenditures depends on discovering economically recoverable reserves, on maintaining the Company's interest in the underlying mineral claims, and on the Company's ability to obtain necessary financing to complete the development and to establish profitable production in the future, or else on receiving sufficient proceeds from disposing of the properties. The Company's management is actively pursuing additional sources of financing, and while it has been successful in doing so in the past, no assurance exists it will be able to do so in the future.

As at December 31, 2017, the Company had a working capital deficiency of $(2,032,396) (December 31, 2016 – positive $521,959) and an accumulated deficit of $32,408,103 (December 31, 2016 - $27,632,673).

These consolidated financial statements have been prepared on a basis which contemplates that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue to do so is dependent on its ability to raise equity financing and to attain profitable operations. There are no assurances that the Company will be successful in achieving these goals. These circumstances cast significant doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of accounting principles applicable to a going concern.

The consolidated financial statements do not give effect to any adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements are presented in Canadian dollars and include the Company's subsidiaries as detailed below.

Subsidiary	Ownership
Amarillo Mineraçâo do Brasil Ltda	100%
LDS Mineraçâo do Brasil Ltda	100%

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation and preparation

These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial assets and financial liabilities at fair value through profit or loss. The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company and of its two wholly-owned and controlled subsidiaries, Amarillo Mineração do Brasil Ltda and LDS Mineração do Brasil Ltda, both incorporated in Brazil. The Company achieves control over another when it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Where necessary, the Company makes adjustments to the subsidiaries' financial statements to bring its accounting policies into line with those used by the Company itself. It eliminates all intra-group transactions, balances, income and expenses in full on consolidation

c) Foreign currency translation

The functional currency of the Company and its subsidiaries, as determined by management, is the Canadian dollar and this is also the currency in which it presents these consolidated financial statements. The Company recognizes transactions in currencies other than the Canadian dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the consolidated statements of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

d) Financial instruments

The Company recognizes a financial asset or financial liability when it becomes a party to the instrument's contractual provisions. It initially measures financial assets and financial liabilities at their fair value, adding or deducting directly attributable transaction costs (except for transaction costs directly attributable to acquiring financial assets or financial liabilities at fair value through profit or loss ("FVTPL"), which it recognizes immediately in profit or loss).

The Company's financial instruments and their classifications, described further below, are as follows:

Financial assets:	Classification:
Cash	FVTPL
Accounts receivable, exclude HST/GST receivable	Loans and receivables
Subscriptions receivable	Loans and receivables

Financial liabilities:	Classification:
Accounts payable and accrued liabilities	Other financial liabilities
Amounts due to related parties	Other financial liabilities
Loans payable	Other financial liabilities
Derivative instruments	FVTPL

Financial assets

The Company recognizes and derecognizes all financial assets on the trade date. It derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of its ownership to another entity. It classifies financial assets into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. It determines the classification at the time of initial recognition, depending on the nature and purpose of the financial assets. The Company does not currently have any financial assets in the held-to-maturity or available-for-sale categories.

FVTPL

This category comprises assets acquired or incurred for the purpose of selling or repurchasing them in the near future. The Company measures financial assets at FVTPL at fair value, recognizing any gains or losses arising from this measurement in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Company measures loans and receivables at amortized cost using the effective interest method, less any impairment, except for short-term receivables for which recognizing interest would be immaterial. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the instrument's expected life (or, where appropriate, a shorter period) to the net carrying amount on initial recognition.

Financial liabilities

The Company classifies financial liabilities as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities

The Company initially measures other financial liabilities, consisting of accounts payable and accrued liabilities, amounts due to related parties and loans payable from third parties, at their fair value, net of transaction costs, and subsequently at amortized cost using the effective interest method, recognizing interest expense on an effective yield basis.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

FVTPL

The Company initially measures financial liabilities classified as FVTPL at their fair value with subsequent changes in fair values recognized in profit or loss.

Impairment of financial assets

The Company assesses financial assets, other than those at FVTPL, for indications of impairment at the end of each reporting period. For financial assets carried at amortized cost, the amount of any impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- The likelihood that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2017 and 2016, cash was measured at fair value and is classified within Level 1 of the fair value hierarchy. The derivative instruments embedded in the Gold-Linked Loan is classified within Level 2 of the fair value hierarchy. At the end of each reporting period, management remeasures the fair value of such derivative using the gold price at the reporting period end.

e) Cash

Cash in the consolidated statements of financial position comprise cash at banks and on hand. The Company's cash is invested with major financial institutions in business accounts. Cash may also be invested in guaranteed investment certificates that are available on demand by the Company for its program. The Company does not invest in any asset-backed deposits/investments.

f) Resource properties and deferred evaluation and exploration expenditures

The Company capitalizes all costs of acquiring, retaining, evaluating and exploring resource properties or an interest in such properties. Such costs include, but are not limited to, geological consulting, drilling and related expenses, sampling, assay expenditures, geophysical studies and other exploration costs directly related to the development of such properties. The Company expenses costs incurred before obtaining the legal rights to explore an area. It also writes off the accumulated capitalized costs relating to non-productive properties in which it abandons an interest.

The Company expects to amortize the capitalized costs in the future, over the estimated useful life of the producing properties, on a method relating recoverable reserve volumes to production volumes. The current carrying amount, based on capitalized costs, does not necessarily reflect present or future fair values.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete the development of the properties, and on future production or proceeds of disposition.

The Company reviews the recoverability of the carrying values of its resource properties and deferred evaluation and exploration expenditures at the end of each reporting period. Since the Company is in the exploration stage, it has not yet conclusively determined whether the properties have economically recoverable reserves.

g) Equipment

The Company records equipment at cost less accumulated depreciation and accumulated impairment losses. It recognizes depreciation to write off the cost of assets less their residual values over their useful lives, using the following methods and rates:

Furniture and fixtures	-	20% declining balance
Computer hardware	-	45% declining balance

The Company capitalizes depreciation of equipment used in evaluating and exploring its properties and recognizes depreciation of all other equipment as part of profit or loss. The Company reviews the estimated useful lives, residual values and depreciation method at each year end, accounting for the effect of any changes in estimate on a prospective basis.

An item of equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment consists of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

h) Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its equipment and finite life intangible assets, including deferred evaluation and exploration expenditures, to determine whether any indication exists that any of those assets have suffered an impairment loss. If any such indication exists, it estimates the asset's recoverable amount to determine the extent of the impairment loss (if any). Where it is not possible to estimate an individual asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where it can identify a reasonable and consistent basis of allocation, it also allocates corporate assets to individual cash-generating units, or otherwise allocates them to the smallest group of cash-generating units for which it can identify a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company discounts estimated future cash flows to their present value using a pre-tax discount rate. This rate reflects current market assessments of the time value of money and also reflects the risks specific to the asset (unless these risks are reflected in the estimates of future cash flows).

If the Company estimates an asset or cash-generating unit's recoverable amount to be less than its carrying amount, it reduces the carrying amount to the recoverable amount, recognizing an impairment loss immediately in profit or loss. Where an impairment loss subsequently reverses, the Company increases the asset or unit's carrying amount to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have existed if no impairment loss had been recognized in prior years. It recognizes a reversal of an impairment loss immediately in profit or loss.

i) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales tax or duty. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
Revenue is recognized as interest accrues (using the effective interest rate - that is, the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Other income
Revenue from other income is recognized upon completion of the services for which the measurement of the consideration can be reasonably assured, and the ultimate collection is reasonably assured.

j) Provisions including asset retirement obligations

The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable it will be required to settle the obligation, and it can make a reliable estimate of its amount. The amount it recognizes as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the surrounding risks and uncertainties. Where it measures a provision using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows, calculated using a pre-tax discount rate reflecting the risks specific to the liability. The Company adjusts the liability at the end of each reporting period for the unwinding of the discount rate and for changes to the discount rate or to the amount or timing of the estimated cash flows underlying the obligation.

In particular, as a result of exploring, developing and operating its mineral properties, the Company may incur legal or constructive obligations to incur asset retirement or site restoration costs. It measures these obligations at its best estimate of their net present value and capitalizes their cost to the related asset's carrying amount.

There was no provision for asset retirement obligations as at December 31, 2017 and 2016.

k) Share-based payment transactions

The Company's share option plan allows the Company's employees and consultants to acquire shares of the Company. The Company measures equity-settled share-based payments issued under the stock option plan at the fair value of the equity instruments at the grant date, described in Note 11. The Company calculates the fair value using the Black-Scholes option valuation model and expenses this amount over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, crediting the amounts to contributed surplus. It revises its estimate of the number of equity instruments expected to vest at the end of each reporting period, recognizing the impact of revising the original estimates, if any, in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. When options are exercised, the Company credits the proceeds, together with the amount originally credited to contributed surplus, to capital stock.

In the case of consultants, the value of the options is measured based on the fair value of goods or services provided, unless it cannot be reliably determined, in which case the options are also measured using the Black-Scholes method.

l) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The Company bases the tax currently payable on its taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of loss and comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company calculates its liability for current tax using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Company recognizes deferred tax on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in computing taxable profit or loss. Deferred tax assets and liabilities are measured using income tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in income tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

Deferred tax assets attributable to these differences, if any, are recognized to the extent that the realization of such benefits is probable.

m) Loss per share

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. It calculates diluted loss per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

n) Measurement uncertainty

Preparing financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Items affected by significant estimates include, but are not limited to, the fair value of the derivative instruments embedded in the Gold-linked Loan, and the estimated net realizable value of the resource properties and deferred evaluation and exploration expenditures. In this case, actual results could differ from the estimates that the Company used.

The impacts of such 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 also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to the following:

- *The recoverability of resource properties and deferred exploration expenditures*

  The uncertainty in regard to the recoverability of resource properties arises as a result of the estimates and judgments such as forecasts of metal prices, operating costs, capital costs and income taxes among numerous other valuation inputs, discount rates, comparability of the Company's properties to those of other market participants and the selection of market-participant assumptions used in the determination of fair value.

4. NEW ACCOUNTING STANDARDS

a) Amendments to IAS 7 – Statement of cash flows

The Company has prospectively adopted these amendments effective January 1, 2017. These new amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The adoption of these amendments does not have a significant impact on the Company's consolidated financial statements.

b) Amendments to IAS 12 – Deferred taxes

The Company has retrospectively adopted these amendments effective January 1, 2017. These amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The adoption of these amendments does not have a significant impact on the Company's consolidated financial statements.

c) IFRS 9 – Financial instruments: Classification and measurement

This new accounting pronouncement, which will be effective for periods beginning on or after January 1, 2018, establishes two primary measurement categories for financial assets – amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available for sale and loans and receivable categories.

The Company has determined that this new pronouncement does not have a significant impact on its consolidated financial statements.

d) IFRS 15 – Revenue from contracts with customers

This new accounting pronouncement, which will be effective periods beginning on or after January 1, 2018, establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Company has determined that this new pronouncement does not have a significant impact on its consolidated financial statements.

e) IFRS 16 - Leases

This new accounting pronouncement, which will be effective for periods beginning on or after January 1, 2019, eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all lease with exemptions permitted for short-term leases and leases of low value assets. In addition, the new accounting standard sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements.

The Company has determined that this new pronouncement does not have a significant impact on its consolidated financial statements.

5. CAPITAL RISK MANAGEMENT

The Company manages and makes adjustments to its capital structure, based on the funds available to it, to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative "return on capital" criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the business.

The Company considers its capital to be equity, which comprises share capital, other components of equity and accumulated deficit, which at December 31, 2017 totaled $20,152,287 (December 31, 2016 - $23,797,859).

The properties in which the Company currently has an interest are in the exploration stage; as such the Company depends on external financing to fund its activities. The Company will continue to assess new properties and may seek to acquire interests in additional properties if management believes sufficient geologic or economic potential exists and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in its approach during the years ended December 31, 2017 and December 31, 2016. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

6. FINANCIAL RISK FACTORS

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk including interest rate, foreign exchange rate, and commodity, specifically gold, price risk. Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

The key risks attaching to the Company's financial instruments are as follows:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Credit risk on cash is remote as it is held with reputable financial institutions and is closely monitored by management. Management believes that the credit risk with respect to financial instruments included in accounts receivable is remote as the majority of the receivables largely represent taxes receivable. As at December 31, 2017 and December 31, 2016, no accounts receivable were considered impaired or past due.

Liquidity risk

The Company manages liquidity risk with the objective of ensuring it will have sufficient liquidity to meet liabilities when due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of the financing will be favorable (Note 1).

As at December 31, 2017, the Company had a cash balance of $130,257 (December 31, 2016 - $1,546,218) to settle current liabilities of $2,351,758 (December 31, 2016 - $1,650,894).

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 and equity prices.

(a) Interest rate risk

The Company has cash balances and interest bearing debt. The Company's current policy is to invest excess cash in high yield saving accounts. The Company regularly monitors its cash management policy. Interest rate risk is remote as the Company’s cash is relatively unaffected by changes in short-term interest rates and the interest rate on the debt is a fixed rate.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and it transacts major purchases in Canadian dollars and Brazilian Reals. To fund exploration expenses, it maintains a Brazilian Real-denominated bank account containing sufficient funds to support monthly forecasted cash outflows. In addition, the loans payable is denominated in US dollars. Management does not hedge its foreign exchange risk.

(c) Commodity price risk

Commodity price risk, specifically relating to the price of gold, could adversely affect the Company. In particular, the Company’s future profitability and viability of development depends upon the world market price of gold. Gold prices have fluctuated significantly in recent years. As of December 31, 2017, the Company was not a gold producer. However, gold price risk affects the repayment amount to the loans payable, see Note 13 for details. In addition, gold price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period.

a) Cash is subject to floating interest rates. Sensitivity to a plus or minus one percentage point change in interest rates would not have a material impact on the reported net loss for the years ended December 31, 2017 and 2016.

b) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable and accounts payable denominated in Brazilian Reals, and loans payable denominated in US dollars. A plus or minus 5% change in foreign exchange rate of the Brazilian Real against the Canadian dollar would affect net loss by approximately $26,200 (December 31, 2016 - $4,300). A plus or minus 5% change in foreign exchange rate of the US dollar against the Canadian dollar would affect net loss by approximately $497,000 (December 31, 2016 - $425,000).

c) The Company is exposed to the commodity price risk on fluctuation of gold price. A plus or minus 5% change in gold price applied to the financial instruments held at the end of the reporting period would affect net loss by approximately $411,000 (December 31, 2016 - $304,000).

7. CATEGORIES OF FINANCIAL INSTRUMENTS

	As at December 31, 2017	As at December 31, 2016
Financial assets:		
At fair value through profit or loss (FVTPL)		
Cash	**$ 130,257**	$ 1,546,218
Loans and receivables		
Accounts receivable, excludes HST/GST receivable	**$ 59,728**	$ -
Subscriptions receivable	**$ -**	$ 340,000
Financial liabilities:		
Other financial liabilities		
Accounts payable and accrued liabilities	**$ 984,515**	$ 1,159,852
Due to related parties	**$ 239,272**	$ 339,748
Loans payable	**$ 10,700,453**	$ 9,067,803
FVTPL		
Derivative embedded within loans payable to AIMS, Doug Pollitt and Alchemist Inc.	**$ (758,420)**	$ 351,665

8. RESOURCE PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	Mara Rosa	**Lavras do Sul**	**December 31, 2017**	December 31, 2016
Resource properties				
Balance, beginning of year	**$ 1,067,278**	**$ 2,968,088**	**$ 4,035,366**	$ 4,035,366
Additions during the year	**-**	**-**	**-**	-
Impairment losses	**-**	**-**	**-**	-
Recoveries	**-**	**-**	**-**	-
Balance, end of the year	**1,067,278**	**2,968,088**	**4,035,366**	4,035,366

Deferred evaluation and exploration expenditures

	Mara Rosa	Lavras do Sul	December 31, 2017	December 31, 2016
Balance, beginning of year	**15,903,341**	**12,066,279**	**27,969,620**	27,037,734
Expenditures during the year				
Consulting	**1,100,763**	**46,541**	**1,147,304**	566,053
Geophysics	**-**	**-**	**-**	-
Drilling and related costs	**-**	**-**	**-**	-
Assays	**6,825**	**-**	**6,825**	4,338
Other evaluation and exploration expenses	**491,826**	**152,725**	**644,551**	361,495
	1,599,414	**199,266**	**1,798,680**	931,886
Balance, end of the year	**17,502,755**	**12,265,545**	**29,768,300**	27,969,620
Total	**$ 18,570,033**	**$ 15,233,633**	**$ 33,803,666**	$ 32,004,986

(i) Mara Rosa Property

During the year ended December 31, 2017, Amarillo incurred total deferred exploration expenditures of $1,599,414 on the Mara Rosa property (December 31, 2016 - $725,499).

Mara Rosa (Posse)

The Mara Rosa project is Amarillo's primary asset located near the town of Mara Rosa in Goias State in central Brazil, 335 kilometres northwest of the national capital of Brasilia, Brazil. The property consists of exploration permits covering an area totalling 74,089 hectares and 3 mining concessions (the "Posse" mine) which cover an area totalling 2,552 hectares. This package of ground is 100% controlled by Amarillo, although the ground is subject to a 1% Net Smelter Returns ("NSR") royalty to Franco Nevada Corporation and a 1% NSR royalty to Royal Gold, Inc.

Crusader

Prior to 2013, Crusader Minerals NL ("Crusader") held permits on a property totalling 4,560 hectares, which was contiguous to the Company's holdings at Mara Rosa. Amarillo entered into an agreement with Crusader to acquire a 70% interest in 4 exploration permits. During 2012, Crusader's permits on the properties expired. During 2012, Amarillo wrote off its $50,000 expenditures on the property. No further expenditures have been incurred on this property.

Ourolandia

The project, located in Goias state, consists of an area totaling 40,372 hectares of exploration licenses granted by the Brazilian Mines Department. All tenements in the Ourolandia project (collectively, the "Ourolandia Property") are contiguous.

To date, limited work has been conducted on this project. Costs incurred are considered insignificant and have been accumulated with deferred exploration expenditures of the Mara Rosa Property.

Sacramento

During 2008, Amarillo acquired exploration permits over an area of 7,525 hectares in Minas Gerais state, 288 kilometres west of Belo Horizonte. Amarillo controls 100% of the rights to these properties.

(ii) Santo Antonio Property

As of December 31, 2013, Amarillo discontinued further exploration on the Santo Antonio property in Goiás State, which was centered on the Santo Antonio River, 50 kilometers east of the municipality of Minacu. Amarillo has properties totaling 25,460 hectares in the district. Amarillo's interest in this area stems from an agreement with Phelps Dodge do Brasil Mineração Ltda. ("Phelps Dodge") to test artisanal mine workings.

Prior to yearend 2008, the Company had drill tested a portion of the Santo Antonio gold prospect (in 2006) with disappointing results. Subsequently the exploration permits associated with land returning disappointing results were allowed to lapse. Accordingly, a partial write-down on the property in the amount of $159,805 was taken in the year ended December 31, 2008. The Company continued to explore other parts of the property and incurred cumulative expenditures of $484,571, which were fully written off as of December 31, 2013.

(iii) Lavras do Sul Property

The Company acquired an option on the Lavras project from Rio Tinto Desenvolvimentos Ltda. ("Rio Tinto") in October 2006. The Lavras project area covers a total of 220 square kilometers and is located in the state of Rio Grande do Sul, approximately 420 kilometers by paved road southwest of the state capital Porto Alegre.

A summary of the option terms are:

- Amarillo was required to make payments of US$1,265,000 through various installments up to January 31, 2008 in order to acquire an initial 60% interest in the property (payments made).
- Amarillo was required to issue 2,000,000 warrants - exercisable at $0.50 – to Rio Tinto within 60 days of signing the final agreement (issued). The warrants expired on January 22, 2010.
- Amarillo was required to spend US$2,550,000 by January 31, 2008 on exploration of this property (spent).

Upon completion of the above terms Amarillo can form a Joint Venture with the underlying owners. If the underlying owners elect not to contribute then Amarillo will earn a 100% interest in the Property and be required to pay a 1.5% NSR royalty on production. The Company has yet to enter into a Joint Venture; however it continues to work with prospective partners to negotiate this agreement.

Amarillo may withdraw from this agreement at any time by giving 30 days written notice.

In addition, should Amarillo choose to exercise at least one of its options related to the formation of a Joint Venture with the underlying owners, as set out in the option agreement these additional terms apply:

- Amarillo must make a payment of US$806,000 to Rio Tinto;
- Amarillo must make a US$1,000,000 payment to Rio Tinto within 90 days of a bankable feasibility being delivered; and
- Amarillo must make a US$6,500,000 payment for every one million ounces of recoverable gold reserves discovered on the Property in which Rio Tinto has an option to acquire a 60% equity interest.

Rio Tinto will have a back-in-right to acquire 70% of the Amarillo interest in the project by paying Amarillo three times their exploration expenditures in the event that Amarillo's equity interest in the Property contains in excess of seven million ounces of recoverable gold.

IAMGOLD

On May 23, 2008, a Heads of Agreement was signed between IAMGOLD Corporation ("IAMGOLD") and Amarillo, which gave Amarillo the right to acquire a 70% interest in eight license areas with a cumulative net area of approximately 7,000 hectares (the "Property") and which are contiguous with the Company's current Lavras do Sul project.

The terms of the agreement are that Amarillo can earn a 51% interest by expending US$800,000 on exploration over 3 years which will include a minimum of 2,000 metres drilling (of which US$200,000 must be spent within the first 12-month period). In the event that IAMGOLD elects not to contribute pro-rata funding after the first earn-in period then Amarillo may earn a further 29% interest (for a total of 80%) by funding any mineral resource discovered on the Property through to feasibility study.

At the completion of a feasibility study on the Property, and up to a period of 60 days from this date, IAMGOLD may either:

- elect to contribute its pro-rata share to future funding; or
- dilute its interest to a 2.0% NSR, of which 1.0% may be bought back by Amarillo for US$1,000,000 at any time up to the commencement of production; or exercise a one-time back-in right to increase its participating interest to 60%, if Amarillo has established a total mineral reserve in excess of 2.5 million ounces of gold on the Property, and become operator by paying three times Amarillo's exploration costs up to the date of IAMGOLD exercising its back-in right.

As of December 31, 2012, Amarillo had met its commitments in respect of the IAMGOLD agreement, earning a 51% interest in the license areas.

During the year ended December 31, 2017, Amarillo incurred total deferred exploration expenditures of $199,266 on the Lavras do Sul property (December 31, 2016 - $206,387).

9. EQUIPMENT

	Furniture and fixtures	Computer hardware	Total
Cost			
Balance as of December 31, 2015	$ 111,004	$ 44,439	$ 155,443
Additions	3,385	2,154	5,539
Balance as of December 31, 2016	$ 114,389	$ 46,593	$ 160,982
Additions	**1,797**	**3,391**	**5,188**
Balance as of December 31, 2017	**$ 116,186**	**$ 49,984**	**$ 166,170**
Accumulated depreciation			
Balance as of December 31, 2015	$ 50,992	$ 31,059	$ 82,051
Depreciation for the year	7,323	2,520	9,843
Balance as of December 31, 2016	$ 58,315	$ 33,579	$ 91,894
Depreciation for the year	**8,382**	**2,430**	**10,812**
Balance as of December 31, 2017	**$ 66,697**	**$ 36,009**	**$ 102,706**
Carrying amounts			
At December 31, 2016	$ 56,074	$ 13,014	$ 69,088
At December 31, 2017	**$ 49,489**	**$ 13,975**	**$ 63,464**

Depreciation for the year ended December 31, 2017 amounting to $10,812 (December 31, 2016 - $9,843) has been included as a deferred exploration cost of the Mara Rosa property.

10. RELATED PARTY TRANSACTIONS AND BALANCES

As at December 31, 2017 and 2016, the balance due to related parties is comprised of the following:

	December 31, 2017	December 31, 2016
Due to an officer	**$ 23,590**	$ -
Due to corporations controlled by directors	**115,682**	259,748
Due to directors	**100,000**	80,000
	$ 239,272	$ 339,748

These amounts are non-interest bearing, unsecured and subject to normal trade payment terms.

During the year ended December 31, 2017 and 2016, the Company incurred charges with directors, officers and companies with a common director as follows:

	2017	2016
Management fees charged by an officer	**$ 103,000**	$ 87,000
Consulting fees charged by directors' and officers' corporations	**224,800**	131,600
General and administrative expenses charged by directors' corporations	**85,038**	59,033
Director fees and expenses (included in management and consulting fees)	**140,000**	180,000
	$ 552,838	$ 457,633

During the year ended December 31, 2017, the Company granted to directors and officers 700,000 (2016: 1,450,000) options at an exercise price of $0.37 (2016: $0.28) expiring up to June 8, 2022.

These transactions were in the normal course of business and are measured at amounts representing normal commercial terms.

11. CAPITAL STOCK

a) Authorized

unlimited number of common shares

b) Issued

	Shares	Amount
Balance, December 31, 2015	69,938,085	$ 42,256,552
Private placements	10,312,500	3,300,000
Finder's Fee	-	(128,545)
Issuance Expenses	-	(12,335)
FV of broker Warrants	-	(127,614)
Balance, December 31, 2016	80,250,585	$ 45,288,058
Restricted share units	**2,378,000**	**765,680**
Exercise of warrants	**2,945,340**	**736,335**
Exercise of options	**140,000**	**35,000**
Fair value of warrants and options	**-**	**208,687**
Balance, December 31, 2017	**85,713,925**	**$ 47,033,760**

The Company issued the shares as follows:

During the year ended December 31, 2017, the Company issued 2,378,000 shares upon redemption of restricted share units.

During the year ended December 31, 2017, the Company received cash of $35,000 pursuant to the exercise of 140,000 stock options.

During the year ended December 31, 2017, the Company received cash of $736,335 pursuant to exercise of 2,945,340 warrants.

During the year ended December 31, 2016, the Company closed a non-brokered private placement by issuing 10,312,500 shares at a price of $0.32 per share for gross cash proceeds of $3,300,000. The Company paid $128,545 cash finder’s fees and incurred expenses of $12,335. The Company also issued 618,750 broker’s warrants with the exercise price of $0.32 at a fair value of $127,614, using the Black-Scholes option-pricing model with the following assumptions: expected life of two years, risk-free interest rate of 0.5% expected dividend yield of 0% and expected volatility of 145%.

c) Warrants

As at December 31, 2017, the Company had 1,074,860 (December 31, 2016 – 5,692,250) warrants outstanding, detailed below:

	Number of warrants	Weighted average exercise price	Value of warrants
Balance, December 31, 2015	4,677,596	$0.25	$ 217,623
Issued	395,904	$0.25	$ 81,381
Issued	618,750	$0.32	$ 127,614
Balance, December 31, 2016	5,692,250	$0.29	$ 426,618
Exercised	**(2,945,340)**	**$0.25**	**$ (179,847)**
Expired	**(1,672,050)**	**$0.25**	**$ (79,465)**
Balance December 31, 2017	**1,074,860**	**$0.29**	**$ 167,306**

As of December 31, 2017, the Company had the following warrants outstanding:

Number of Warrants	Expiry date	Weighted average exercise price $
192,294	January 16, 2018	0.25
192,294	March 31,2018	0.25
71,522	June 8, 2019	0.25
618,750	December 9, 2019	0.32
1,074,860		**0.29**

d) Stock options

The Company has a stock option plan (the "Plan") for directors, senior officers, employees, consultants and management. The Plan provides for the issuance of stock options to acquire up to a maximum of 10% (2016: 5%) of the issued and outstanding common shares of the Company. Options are granted for a term not exceeding five years and vest immediately when granted to directors, senior officers, employees and consultants (other than those performing investor relations). Options granted to consultants performing investor relations activities vest over a period of twelve months. The following is a continuity of stock options for the year ended December 31, 2017:

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2015	-	$	-
Granted	2,395,000	$	0.27
Exercised	-	$	-
Expired/Cancelled	-		-
Balance, December 31, 2016	**2,395,000**	**$**	**0.27**
Granted	**715,000**	**$**	**0.36**
Exercised	**(140,000)**	**$**	**0.25**
Expired/Cancelled	**-**	**$**	**-**
Balance, December 31, 2017	**2,970,000**	**$**	**0.29**

As at December 31, 2017, the Company had the following stock options outstanding and exercisable:

Number of Options	Exercise Price	Fair Value at date of grant	Remaining Contractual Life (years)
805,000	$0.25	$ 165,610	3.34
1,450,000	$0.28	$ 446,791	3.36
200,000	$0.37	$ 64,671	4.13
500,000	$0.36	$ 156,472	4.44
15,000	$0.31	$ 3,750	4.92
2,970,000	**$0.29**		**3.60**

The grant date fair value of the options granted was estimated using the Black-Scholes option pricing model using the following estimates:

	Years Ended December 31	
	2017	**2016**
Weighted average risk-free interest rate (%)	**1.07 - 1.15**	0.66
Expected life (years)	**5.0**	5.0
Weighted average expected volatility (%)	**134**	132
Expected rate of forfeiture	**nil**	Nil
Expected dividend yield	**nil**	Nil

12. NET LOSS PER COMMON SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2017 was based on the loss attributable to common shareholders of $4,775,430 (December 31, 2016 - $3,777,578) and the weighted average number of common shares outstanding of 82,565,854 (December 31, 2016 – 70,586,138).

13. LOANS PAYABLE

i) Gold-linked Loan

	December 31	
	2017	**2016**
Balance, beginning of year	**$ 8,564,844**	$ 6,399,737
Drawdown	**-**	587,979
Accretion	**1,288,023**	1,119,546
Foreign exchange gain	**(632,050)**	(100,004)
Loss on derivatives	**1,110,085**	557,586
Balance, end of year	**$ 10,330,902**	$ 8,564,844

Gold Ounces Outstanding	December 31	
	2017	**2016**
Principal, beginning of the year	**4,469**	3,929
Drawdown during the year.	**-**	540
Principal, end of year	**4,469**	4,469
Accumulated interest, beginning of the year	**1,183**	570
Accrued interest	**709**	613
Accrued interest, end of year	**1,893**	1,183
Gold Ounces due, end of year	**6,362**	5,652

Gold loan ounces ownership is as follows:

Gold Ounces Outstanding	December 31 **2017**	**2016**
AIMS	**3,382**	3,005
Alchemist Inc.	**2,820**	2,505
Douglas Pollitt	**160**	142
Gold Ounces due, end of year	**6,362**	5,652

On July 31, 2014, the Company entered into agreements with AIMS, Alchemist Inc. ("Alchemist") and Douglas Pollitt ("DP") to obtain a Gold-linked credit facility ("Gold-linked Loan"). The Gold-linked Loan must be repaid on the earliest of 1) a change of control of the Company, 2) three months following a declaration of commercial productions at the Company's Mara Rosa project; and 3) July 31, 2019 which was extended to June 30, 2022 on February 20, 2018. The facility bears a coupon of 12% and is secured by a 5% NSR on the Mara Rosa project, which relinquishes on repayment of the loan. The Lenders are granted a right of first refusal on equity issuance at a price less than $0.25 per share and a pro-rata right of participation at share prices above $0.25 per share. The Company can borrow up to the US dollar value of 5,000 ounces of gold calculated according to the Relevant Gold Reference Price (RGRP). The RGRP means the Initial Gold Reference Price if it relates to the initial drawdown or Subsequent Gold Reference Price if it relates to subsequent drawdowns. An initial tranche/drawdown of a US dollar value up to 2,500 ounces of gold with a reference price of US$1,294.50/oz ("Initial Drawdown"). Subsequent tranches can be filled quarterly (based on calendar year) with a reference price based on the LBMA PM seven business days prior to start of the quarter) up to 270 ounces ("Subsequent Drawdown"). The Company shall issue warrants to lenders representing an aggregate of 1200 warrants for each US$1000 in value of the Gold-linked Loan Initial Drawdown and 600 warrants for each US$1000 in value of the Gold-linked Loan Subsequent Drawdown. Each warrant is exercisable into a common share at $0.25 per share for a 36 months' period ("Lender Warrants"). During the year ended December 31, 2014, the Company had drawdowns of US$3,641,107 (2,849 gold ounces).

As a result of the indexation of the loan repayments to the movement in the price of gold, the Company has determined that the Gold-linked Loan contains a derivative which is embedded in the US dollar denominated debt instrument (the "Embedded Derivative"). The embedded derivative is marked to market at each period end with changes in fair value recorded as gain on fair value of derivative.

During the year ended December 31, 2015, the Company had drawdowns of US$1,243,728 (1,080 gold ounces). The Company also granted 1,040,524 warrants and paid US$73,579 transaction cost. The warrants were valued at $51,620 using the Black-Scholes option-pricing model with the following assumptions: expected life of three years, risk-free interest rate of 0.57% to 1.10%, expected dividend yield of 0% and expected volatility of 128 to 142%. The accretion expenses of $778,402 was recorded in the net loss using the effective rates of 14.42% to 14.98%. The gain on fair value of derivatives of $776,502 was recorded in the net loss during the year ended December 31, 2015.

During the year ended December 31, 2016 the Company had drawdowns of US$661,770 (540 gold ounces). The Company also granted 395,904 warrants and paid US$39,506 transaction cost. The warrants were valued at $81,381 using the Black-Scholes option-pricing model with the following assumptions: expected life of three years, risk-free interest rates of 0.52% to 0.53%, expected dividend yield of 0% and expected volatility of 152% to 156%. The effective rates were 16.57% to 21.02%.

As of December 31, 2017, the balance consisted of the accreted principal, net of unamortized transaction costs of $9,572,482 (2016 - $8,916,509) and embedded derivative liability of $758,420 (2016- asset of $351,665) for a net balance of $10,330,902 (2016: $8,564,844).

ii) Loans from related parties

	December 31 2017	2016
Related party loan (Note 13(ii)(a)	**$ 86,909**	$ 151,294
Related party loan (Note 13(ii)(b)	**1,041,061**	-
	$ 1,127,970	$ 151,294

a) Related party loan

On January 23, 2013, the Company obtained a loan from a person unrelated to the Company, in the amount of US$100,000. The loan bears simple interest at an annual rate of 12%. On July 31, 2013, the term of the loan was extended until December 31, 2014. On December 9, 2013, the Company repaid US$23,509 in respect of the loan. During the year ended December 31, 2013, this loan was assigned by the third party to Mr. Rick Brown, a then officer and director of the Company. US$76,491 plus unpaid interest of US$38,120 remained outstanding as at December 31, 2016 for a total of US$114,611 (CDN$151,294). During the year ended December 31, 2017, the Company repaid partial principal amount of US$50,404 and accrued US$4,443 interest. As at December 31, 2017, US$68,650 (CDN$86,909) remained outstanding.

On September 23, 2016, the Company received another loan amount of $96,850. The loan bore simple interest at an annual rate of 12%. The principal and accrued interest of $1,775 was fully repaid before December 31, 2016.

b) Related party loan

During the year ended December 31, 2017, the Company obtained $1,025,000 loans from the Executive Chairman of the Company. The loans bear simple interest at an annual rate of 6%. As at December 31, 2017, the Company accrued $16,061 (December 31, 2016 - $nil) interest on the loans.

Subsequent to the year ended December 31, 2017, a further $550,000 was loaned to the Company on terms similar to the loans existing as at December 31, 2017.

14. SEGMENTED INFORMATION

The Company operates in one reportable operating segment - mineral exploration. The Company's resource properties are located in Brazil and its corporate assets are located in Canada.

The Company is in the exploration stage and, accordingly, has no reportable segment revenues during the years ended December 31, 2017 and 2016.

Total assets by geographic region are as follows:

December 31, 2017	**Canada**	**Brazil**	**Total**
Current assets	**$ 247,243**	**$ 72,119**	**$ 319,362**
Resource properties and deferred exploration expenditures	**-**	**33,803,666**	**33,803,666**
Equipment	**-**	**63,464**	**63,464**
	$ 247,243	**$ 33,939,249**	**$ 34,186,492**

December 31, 2016	Canada	Brazil	Total
Current assets	$ 1,947,224	$ 225,629	$ 2,172,853
Resource properties and deferred exploration expenditures	-	32,004,986	32,004,986
Equipment	-	69,088	69,088
	$ 1,947,224	$ 32,299,703	$ 34,246,927

15. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26% (2016 – 26%) to the effective tax rate is as follows:

	2017	2016
Net loss before recovery of income tax	**$ (4,289,265)**	$ (3,544,248)
Expected income tax recovery	**(1,115,207)**	(921,500)
Difference in foreign tax rates	**(42,730)**	(32,320)
Tax rate changes and other adjustments	**17,370**	45,730
Permanent differences	**350,610**	219,030
Foreign currency translation	**728,880**	(1,223,050)
Change in tax benefits not recognized	**547,242**	2,145,440
Income tax expense	**$486,165**	$ 233,330

Deferred tax

The following table summarizes the components of deferred tax:

	2017	20165
Deferred Tax Assets		
Non-capital losses carried forward	**$ 884,790**	$ -
Non-capital losses carried forward	**-**	748,550
Deferred Tax Liabilities		
Mineral properties	**(719,495)**	(233,330)
Note payable/receivable	**(884,790)**	(748,550)
Net deferred tax liabilities	**$ (719,495)**	$ (233,330)

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax value and the carrying amount of assets and liabilities. Deferred tax assets have been recognized in respect of the following deductible temporary differences:

	2017	2016
Mineral Properties	**$1,020,460**	$ 1,020,460
Non-capital losses carried forward	**8,371,010**	6,629,640
Note payable/receivable	**7,879,640**	7,029,390
Share issue costs and financing fees	**235,820**	352,220
Other temporary difference	**9,110**	9,110

The Canadian non-capital loss carry forwards expire 2026 and 2037. Share issue and financing costs will be fully amortized in 2020. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

16. CONTINGENCY

The Company entered into a services agreement (the "Services Agreement") dated April 28, 2008 with Western Potash Corporation ("WPC"), a British Columbia company, whereby the Company would acquire exploration permits (the "Exploration Permits") in Brazil's Amazon Basin and once received from the Brazilian Departamento Nacional de Producao Mineral ("DNPM") the Company would transfer those permits to a Brazilian subsidiary of WPC. Under the Services Agreement, WPC was responsible for all direct and indirect costs incurred on the WPC Properties. The Services Agreement expressly stated that the Company shall not be liable for any losses, claims, expenses or other liabilities relating to the Services Agreement.

Amarillo, through its Brazilian subsidiary Amarillo Mineraçâo do Brasil Ltda ("AMB"), preformed the following services for WPC: staked mineral claims in the Amazon Basin, formed a 100% owned subsidiary of WPC called Potassio Occidental Mineracao Ltda ("POML") in Brazil, set up bank accounts and other things necessary for POML to commence business in Brazil.

AMB applied for and received Exploration Permits for WPC (the "WPC Properties"). The Exploration Permits, which have a three year life, were received on September 12, 2011 which then obligated the owner of the permits to pay taxes on January 31, 2012, 2013 and 2014. Amarillo submitted applications to assign the Exploration Permits to POML in three tranches on November 7, 2011, November 8, 2011 and January 30, 2012. The Exploration Permits should, according to Brazilian law, have been transferred to POML within 60 days. These applications were not processed in a timely way as Brazil instituted a moratorium on all applications for Exploration Permits pending the approval of a new the Mining Code. This suspension was put into effect without any written order and without the publication of any act in the Official Gazette of Brazil.

As a consequence, the transfer of the Exploration Permits was not processed. AMB remained the registered owner of the Exploration Permits and liable for taxes thereon which became payable on January 31, 2012, and on January 31 of each of the next two years. The Taxa Annual pro Hectare ("TAH") taxes due in respect of the Exploration Permits on January 31, 2012 were paid by POML with funds provided by WPC. POML did not pay the TAH for the Exploration Permits due on January 31, 2013 and on April 19, 2013, WPC sold its shares of POML to Pacific Potash Corporation ("PPC").

On October 7, 2013, POML reached a settlement with DNPM for a total gross amount of TAH payments, penalties and interest of R$ $4,660,707. DNPM agreed to allow POML to make the outstanding TAH payments, related penalties and interest owed over a five year payment period. However, POML made only one monthly payment and then went into default and has not made any further payments.

As the Exploration Permits had not been transferred to POML due to the moratorium, AMB continued to have liability in the eyes of DNPM for the TAH, penalties and interest assessed in respect of the Exploration Permits for 2013 and 2014. In 2015, AMB appealed its liability for these costs. In January, 2017, DNPM advised AMB that its appeal had not been allowed. At this time. DNPM has brought proceedings against AMB for the unpaid taxes on the Exploration Permits for 2013 and 2014 amounting to R$ 4,790,407. The DNPM has also levied penalties in the amount of R$ 600,769.

Although the TAH and penalties in respect of the Explorations Permits for 2013 and 2014 were not paid, WPC continued to acknowledge to Amarillo its liability for these costs. The Company believed that WPC would make good on its obligations, and that the TAH and penalties were not the Company's obligation.

The Company has been of the view that the liability for the TAH, penalties and interest amounts rests with WPC and that WPC would honour its obligations to the DNPM. It also expected its appeal would be successful as the Exploration Permits should have been transferred to POML according to Brazilian law. As the DNPM has now denied the Company's appeal and WPC' has yet to pay its obligations to the DNPM, the Company will now be taking legal steps to ensure that WPC honours its obligations. As the Company believes that it will be successful in causing WPC to pay, no amounts have been accrued in the Company's financial statements for liabilities arising in respect of the Exploration Permits as at December 31, 2017.

17. SUBSEQUENT EVENTS

On January 8, 2018, the Company announced the appointment of Mike Mutchler as President and Chief Executive Officer of the Company, and granted 4,590,000 stock options with an exercise price of $0.31 to officers and directors of the Company.

On February 20, 2018, the Company obtained extension of the maturity date of the Gold-linked loan, described at Note 13(i), from July 31, 2019 to June 30, 2022.

The Executive Chairman advanced a further $550,000 to the Company for total advances of $1,575,000 to date on terms similar to those described at Note 13(ii)(b).

On April 12, 2018 closed a non-brokered private placement (the "Private Placement") through the issuance of 18,427,780 units ("Units") at a subscription price of $0.28 per Unit for aggregate gross proceeds to the Company of $5,159,778. Management and directors of the Company subscribed for Units in an aggregate amount of $1,056,000. In connection with the closing of the Private Placement, the Company will pay a cash finder's fee in the amount of $6,905 to Anarcho Capital Inc. Each Unit is comprised of one common share (each, a "Common Share") and one-half of one Common Share purchase warrant (each, a "Warrant"). Each whole Warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.38 for a period of 24 months following the date of issue, subject to customary adjustment provisions. The Private Placement remains subject to the final approval of the TSX Venture Exchange (the "TSX-V").

18. AUTHORIZATION

The consolidated financial statements for the years ended December 31, 2017 and 2016 were reviewed and adopted by the Company's Audit Committee and full Board of Directors on April 26, 2018 and were subsequently certified by the Company's Chief Executive Officer and Chief Financial Officer.