AMARILLO GOLD CORPORATION

A Development Stage Company

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

Years ended December 31,
2018 and 2017

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AMARILLO GOLD CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

AMARILLO GOLD CORPORATION

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 2, 2019

/s/ Hemdat Sawh
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Amarillo Gold Corporation:

Opinion

We have audited the consolidated financial statements of Amarillo Gold Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has a net loss for the year ended December 31, 2018 of $3,870,121 and negative cash flows from operating activities of $1,788,333. In addition, the Company has an accumulated deficit of $36,278,224. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Isabella Lee.

MNP LLP

Mississauga, Ontario

Chartered Professional Accountants

April 2, 2019

Licensed Public Accountants

MNP

AMARILLO GOLD CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars

	DECEMBER 31, 2018	DECEMBER 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	$ 2,268,514	$ 130,257
Accounts receivable	141,731	91,152
Prepaids	15,118	97,953
	2,425,363	319,362
NON-CURRENT ASSETS		
Resource properties and deferred exploration expenditures (Notes 8 and 9)	26,244,154	33,803,666
Property and equipment (Note 9)	710,118	63,464
TOTAL ASSETS	$ 29,379,635	$ 34,186,492
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,328,939	$ 984,515
Due to related parties (Note 14)	205,000	239,272
Concession fees payable (Note 20)	395,553	-
Loans (Note 13)	-	1,127,971
	1,929,492	2,351,758
NON CURRENT LIABILITIES		
Deferred tax liability (Note 17)	-	719,495
Concession fees payable – long term portion (Note 20)	1,407,357	-
Gold-linked loan (Note 12)	-	10,330,902
TOTAL LIABILITIES	3,336,849	13,402,155
EQUITY		
Capital stock (Note 10)	53,594,862	47,033,760
Contributed surplus	7,491,946	5,991,374
Warrants (Note 10)	1,234,202	167,306
Deficit	(36,278,224)	(32,408,103)
TOTAL EQUITY	26,042,786	20,784,337
TOTAL LIABILITIES AND EQUITY	$ 29,379,635	$ 34,186,492

Business of the company and going concern (Note 1)
Commitments (Note 19)
Litigation (Note 20)
Subsequent events (Note 21)

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

Approved by the Board:

Signed: "**Colin Sutherland**" Director ________________

Signed: "**Rowland Uloth**" Director ________________

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

For the years ended December 31		**2018**		2017
Expenses				
Accretion on gold-linked loan (Note 12)	**$**	**635,591**	$	1,288,023
Interest and finance charges		**136,708**		50,753
Stock-based compensation (Note 10)		**1,480,249**		990,573
General and administrative (Note 15)		**2,456,513**		1,661,369
Foreign exchange (loss) gain		**65,999**		(179,488)
Write-off of accounts payable		**(118,171)**		-
		4,656,889		3,811,230
Loss before the following adjustments		**(4,656,889)**		(3,811,230)
Gain on debt settlement (Note 16)		**140,830**		-
Gain on settlement of gold-linked loan (Note 12)		**173,863**		-
(Loss) gain on foreign exchange of gold-linked loan		**(503,210)**		632,050
Gain (loss) on fair value of derivatives (Note 12)		**255,790**		(1,110,085)
Loss before taxes		**(4,589,616)**		(4,289,265)
Deferred tax recovery (expense) (Note 17)		**719,495**		(486,165)
Total loss and comprehensive loss	**$**	**(3,870,121)**	$	(4,775,430)
Basic and diluted loss per share (Note 11)	**$**	**(0.04)**	$	(0.06)
Weighted average shares outstanding basic and diluted (Note 11)		**103,889,947**		82,565,854

The accompanying notes are an integral part of these consolidated financial statement

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

	Capital stock	Contributed surplus	Warrants	Deficit	Total
At December 31, 2016	**$ 45,288,058**	**$ 5,715,856**	**$ 426,618**	**$ (27,632,673)**	**$ 23,797,859**
Shares issued pursuant to restricted share units	765,680	-	-	-	765,680
Shares issued pursuant to exercised options	35,000	-	-	-	35,000
Stock-based compensation	-	224,893	-	-	224,893
Expired warrants	-	79,465	(79,465)	-	-
Fair value of stock options exercised	28,840	(28,840)	-	-	-
Shares issued pursuant to exercise of warrants	736,335	-	-	-	736,335
Fair value of warrants exercised	179,847	-	(179,847)	-	-
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**
Private placement – net of issuance cost	**5,055,085**	**-**	**-**	**-**	**5,055,085**
Fair value of warrants, net of tax	**(1,106,588)**	**-**	**1,106,588**	**-**	**-**
Stock-based compensation	**-**	**1,480,249**	**-**	**-**	**1,480,249**
Expired warrants	**-**	**20,323**	**(20,323)**	**-**	**-**
Exercise of warrants	**189,449**	**-**	**-**	**-**	**189,449**
Fair value of warrants exercised	**19,369**	**-**	**(19,369)**	**-**	**-**
Shares issued to settle gold-linked loan	**1,344,455**	**-**	**-**	**-**	**1,344,455**
Shares issued to settle payables	**1,059,332**	**-**	**-**	**-**	**1,059,332**
Loss and comprehensive loss for the year	**-**	**-**	**-**	**(3,870,121)**	**(3,870,121)**
At December 31, 2018	**$ 53,594,862**	**$ 7,491,946**	**$ 1,234,202**	**$ (36,278,224)**	**$ 26,042,786**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

For the years ended December 31	**2018**	2017
Operating activities		
Net loss for the year	**$ (3,870,121)**	$ (4,775,430)
Unrealized foreign exchange gain	**-**	(188,725)
Interest on loan payable	**45,051**	17,706
Stock-based compensation	**1,480,249**	990,573
Write-off of accounts payable	**(118,171)**	-
Gain on settlement of payables	**(140,830)**	-
Accretion on gold-linked loan	**635,591**	1,288,023
Gain on settlement of gold-linked loan	**(173,863)**	-
Foreign exchange loss (gain) on gold loan	**503,210**	(632,050)
(Gain) loss on fair value of derivative	**(255,790)**	1,110,085
Deferred tax	**(719,495)**	486,165
	(2,614,169)	(1,703,653)
Accounts receivable	**(50,579)**	(2,824)
Subscriptions receivable	**-**	340,000
Prepaids	**82,835**	100,354
Payment of concession fees	**(239,771)**	-
Accounts payable and accrued liabilities	**917,621**	(175,337)
Due to related parties	**115,728**	(100,476)
	(1,788,333)	(1,541,936)
Investing activities		
Resource properties and deferred exploration expenditures	**(3,997,302)**	(1,604,331)
Property and equipment	**(703,817)**	-
	(4,701,119)	(1,604,331)
Financing activities		
Proceeds from sale of royalty	**14,221,440**	-
Common shares	**5,349,228**	771,335
Share issuance costs	**(104,694)**	-
Related party loan proceeds	**550,000**	
Loan repayments	**(1,635,000)**	958,971
Gold-linked loan	**(9,695,595)**	-
Interest paid	**(57,670)**	-
	8,627,709	1,730,306
Change in cash during the year	**2,138,257**	(1,451,961)
Cash, beginning of year	**130,257**	1,546,218
Cash, end of year	**$ 2,268,514**	$ 130,257
Non-cash operating activities		
Shares issued to settle payables	**$ 605,027**	$ -
Non-cash investing activities		
Shares issued to settle payables on resource properties	**$ 564,783**	$ -
Capitalized depreciation	**$ 57,163**	$ 10,812
Capitalized concession fees	**$ 2,042,681**	-
Non-cash financing activities		
Shares issued to settle payables	**$ 1,169,810**	$ -
Shares issued to settle gold-linked loan	**$ 1,344,455**	$ -

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

Note 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 201 – 82 Richmond Street East, Toronto, ON, Canada, M5C 1P1. Amarillo is a development stage company engaged in the acquisition and exploration of mineral properties, primarily in Brazil. Amarillo currently has two properties in Brazil: Mara Rosa which is located in the State of Goiás, and Lavras do Sul, which is located in the State of Rio Grande do Sul.

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, 2018, the Company had positive working capital of $495,871 (December 31, 2017 – deficiency of $(2,032,396)) and an accumulated deficit of $36,278,224 (December 31, 2017 - $32,408,103).

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. These 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.

Note 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 ("AMB")	100%
LDS Mineraçâo do Brasil Ltda	100%

Note 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 classification and measurement

Financial instruments are measured on initial recognition at fair value, and, in the case of financial instruments other than those classified as ‘‘fair value through profit and loss" ("FVTPL"), directly attributable transaction costs.

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

- Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss. The Company's cash is classified as financial assets and measured at FVTPL.

- Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest". The Company's other receivables are classified as financial assets and measured at amortized cost.

Note 3 Significant Accounting Policies (Continued)

d) Financial instruments classification and measurement (continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

- Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination. The Company's accounts payable and accrued liabilities and due from related parties do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Impairment

A financial asset carried at amortized cost is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset and that the estimated future cash flow of that asset can be estimated reliably. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For trade receivables, the Company uses a combined approach of specific account identification and a provision matrix to estimate lifetime expected impairment. For all other financial assets, the Company uses specific account identification to determine the amount of expected impairment. Losses are recognized in the consolidated statement of comprehensive income and reflected as an expected credit loss allowance against the financial asset. When a subsequent event causes the amount of the allowance to decrease, the decrease in allowance is reversed through the consolidated statement of comprehensive income.

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.

Note 3 Significant Accounting Policies (Continued)

f) Resource properties and deferred evaluation and exploration expenditures (continued)

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
Software		50% 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.

Note 3 Significant Accounting Policies (Continued)

h) Impairment of long-lived assets (continued)

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) 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, 2018 and 2017.

j) 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 10. 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.

Note 3 Significant Accounting Policies (Continued)

k) Income taxes

Income taxes are calculated using the liability method where current income taxes are recognized as an expense for the estimated income taxes payable for the current period.

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward, to the extent that it is probable that deductions, credits and tax losses can be utilized, and are measured using the enacted or substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred income taxes relating to the initial recognition of an asset or liability in a transaction that, at the time of the transaction, neither affects the accounting nor taxable income, or is the result of a business acquisition are not recognized. The deferred tax relating to items recorded in other comprehensive income is linked to these items for reporting purposes.

On a consolidated basis the Company does not offset asset and liability amounts with those of the subsidiary and with amounts owing to different taxation authorities. Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off deferred tax assets and liabilities from the same taxation authority.

l) 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.

m) 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, concession fees payable, income taxes, 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.

Note 3 Significant Accounting Policies (Continued)

m) Measurement uncertainty (continued)

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 regards 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.

- *The concession fee payable*

The provision of concession fee payable requires the incorporation of a market borrowing rate to total future obligation to arrive a present value of the provision. The borrowing rate is based on the economic environment in Brazil which is subject estimates and judgements.

- *Income taxes*

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Note 4 New Accounting Standards

IFRS 9 – FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT

The Company has retrospectively adopted these amendments effective January 1, 2018. This accounting pronouncement 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 the adoption of this pronouncement did not have a significant impact on its consolidated financial statements.

Management has assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 36, as follows:

(Expressed in Canadian Dollars)

Financial Instrument	Classification under IFRS 9	Classification under IAS 39
Cash and cash equivalents	FVTPL	FVTPL
Accounts Receivable	Amortized Cost	Loans and Receivables
Trade and other payables	Amortized cost	Other Financial Liabilities
Amounts due to related parties	Amortized Cost	Other Financial Liabilities
Loans Payable	Amortized Cost	Other Financial Liabilities
Derivative instruments	FVTPL	FVTPL

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company has retrospectively adopted these amendments effective January 1, 2018. This accounting pronouncement 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 the adoption of this pronouncement did not have a significant impact on its consolidated financial statements.

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.

Note 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, 2018 totaled $26,042,786 (December 31, 2017 - $20,784,337).

The properties in which the Company currently has an interest are in the exploration and development 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 year ended December 31, 2018. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

Note 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, therefore there was no amount applied to the expected credit losses. As at December 31, 2018 and December 31, 2017, no accounts receivable were considered impaired or past due.

LIQUITY 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, 2018, the Company had a cash balance of $2,268,514 (December 31, 2017 - $130,257) to settle current liabilities of $1,929,492 (December 31, 2017 - $2,351,758).

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 its 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.

(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 expenditures, it maintains a Brazilian Real-denominated bank account containing sufficient funds to support monthly forecasted cash outflows.

(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, 2018, the Company was not a gold producer. However, gold price risk affects 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.

Note 6 Financial Risk Factors (Continued)

(C) COMMODITY PRICE RISK (continued)

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, 2018 and 2017.

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 cash 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 for the years ended December 31, 2018 by approximately $17,800 (December 31, 2017 - $26,200). A plus or minus 5% change in foreign exchange rate of the US dollar against the Canadian dollar would affect net loss for the year ended December 31, 2018 by approximately $97,000 (December 31, 2017 - $497,000).

Note 7 Categories of Financial Instruments

	December 31, 2018	December 31, 2017
FINANCIAL ASSETS:		
FVTPL		
Cash	**$ 2,268,514**	$ 130,257
Amortized cost		
Accounts receivable, excludes HST/GST receivable	**$ 79,356**	$ 59,728
FINANCIAL LIABILITIES:		
Amortized cost		
Accounts payable and accrued liabilities	**$ 1,328,939**	$ 984,515
Due to related parties	**$ 205,000**	$ 239,272
Loans payable	**$ -**	$ 11,458,873
Concession fees payable	**$ 1,802,910**	-
FVTPL		
Derivative embedded within loans payable to AIMS, Doug Pollitt and Alchemist Inc.	**$ -**	$ (758,420)

Note 7 Categories of Financial Instruments (Continued)

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).

The fair value of cash and cash equivalents, receivables and payables approximate their carrying amounts due to their short-term nature. The fair value of the concession fees payable approximates their carrying values due to current market rates and consistency of credit spread.

As at December 31, 2018 and 2017, 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 was classified within Level 2 of the fair value hierarchy. At the end of each reporting period, management remeasured the fair value of such derivative using the gold price at the reporting period end.

(Expressed in Canadian Dollars)

Note 8 Resource Properties and Deferred Exploration Expenditures

	Mara Rosa	Lavras do Sul	December 31, 2018	December 31, 2017
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				
Balance, beginning of year	17,502,755	12,265,545	29,768,300	27,969,620
Expenditures during the year				
Consulting	812,763	32,883	845,646	820,477
Optimization study	647,718	-	647,718	-
Drilling and related costs	1,493,427	-	1,493,427	62,618
Assays	224,486	20,298	244,784	112,362
DNPM concession fees	2,042,681	-	2,042,681	
Aeromagnetic survey	130,000	85,000	215,000	-
Exploration	13,390	11,665	25,055	-
Transporation	63,719	10,846	74,565	50,030
Concession taxes	84,602	23,650	108,252	108,917
Travel	57,638	20,148	77,786	95,151
Depreciation	46,832	-	46,832	8,277
Salaries	438,260	187,021	625,281	386,628
Other evaluation and exploration expenses	138,756	76,145	214,901	154,220
	6,194,272	467,656	6,661,928	1,798,680
Sale of royalty	(14,221,440)	-	(14,221,440)	-
Balance, end of the year	9,475,587	12,733,201	22,208,788	29,768,300
Total	$ 10,542,865	$ 15,701,289	$ 26,244,154	$ 33,803,666

(I) MARA ROSA PROPERTY

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 totaling 65,175 hectares and 3 mining concessions (the "Posse" mine) which cover an area totaling 2,552 hectares. This property is 100% controlled by Amarillo, although the ground is subject to a 1% Net Smelter Returns ("NSR") royalty to Franco Nevada Corporation; and a 1.0% NSR royalty to Royal Gold, Inc. which was increased to 2.75% as of June 29, 2018.

On June 29, 2018 the Company entered into an agreement for the sale of a 1.75% Net Smelter Return Royalty on the Mara Rosa gold project (the "Royalty Agreement") to RG Royalties, LLC, a wholly-owned subsidiary of Royal Gold, Inc. ("Royal Gold"), for USD$10,800,000 (CAD$14,221,440). The Company's obligations under the royalty will be secured by Mara Rosa project assets; however, the Royalty Agreement contemplates and permits a potential future first ranking project financier.

Note 8 Resource Properties and Deferred Exploration Expenditures (Continued)

(II) LAVRAS DO SUL PROPERTY

RIO TINTO AGREEMENT

The Company acquired an option on the Lavras do Sul property (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 instalments 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 to Rio Tinto 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 AGREEMENT

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.

(Expressed in Canadian Dollars)

Note 8 Resource Properties and Deferred Exploration Expenditures (Continued)

(II) LAVRAS DO SUL PROPERTY (continued)

IAMGOLD AGREEMENT (continued)

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.

Note 9 Property and Equipment

	Property	Software	Furniture, equipment and vehicles	Computer hardware	Total
Cost					
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
Additions	**482,567**	**142,584**	**62,732**	**15,934**	**703,817**
Balance as of December 31, 2018	**$ 482,567**	**$ 142,584**	**$ 178,918**	**$ 65,918**	**$ 869,987**
Accumulated depreciation					
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
Depreciation for the year	**-**	**35,646**	**18,186**	**3,331**	**57,163**
Balance as of December 31, 2018	**-**	**$ 35,646**	**$ 84,883**	**$ 39,340**	**$ 159,869**
Carrying amounts					
At December 31, 2017	-	-	$ 49,489	$ 13,975	$ 63,464
At December 31, 2018	**$ 482,567**	**$ 106,938**	**$ 94,035**	**$ 26,578**	**$ 710,118**

Depreciation for the year ended December 31, 2018 amounting to $57,163 (December 31, 2017 - $10,812) has been included as a deferred exploration cost of the Mara Rosa property.

(Expressed in Canadian Dollars)

Note 10 Capital Stock

(a) AUTHORIZED

Unlimited number of common shares.

(b) ISSUED

		Shares	Amount
Balance, December 31, 2016		80,250,585	$ 45,288,058
Restricted share units	(iii)	2,378,000	765,680
Exercise of warrants	(iii)	2,945,340	736,335
Exercise of options	(iii)	140,000	35,000
Fair value of warrants and options		-	208,687
Balance, December 31, 2017		85,713,925	47,033,760
Private placement	(ii)	**18,427,780**	**5,159,779**
Private placement expense		**-**	**(104,694)**
Fair value of warrants issued under private placement		**-**	**(1,106,588)**
Issued to settle gold-linked loans	(i)	**5,377,819**	**1,344,455**
Issued to settle payables	(i)	**4,177,888**	**1,059,332**
Exercise of warrants		**757,796**	**189,449**
Fair value of warrants exercised		**-**	**19,369**
Balance, December 31, 2018		**114,455,208**	**$ 53,594,862**

(i) On August 9, 2018, the Company issued an aggregate of 4,177,888 common shares at an agreed price of $0.28 per common share to settle $1,169,810 payables including an aggregate of 2,892,952 common shares issued to certain non-arm's length parties. The Company's weighted average closing price per share at settlement was approximately $0.25 for a total ascribed share value of $1,059,332 which resulted in a gain of $110,478 on settlement of the payables.

On July 27, 2018, the Company issued 5,377,819 common shares at an agreed price of $0.28 per common share to settle the residual balance of $1,518,318 (US$1,143,522) of the gold-linked loans described in Note 12. The Company's weighted average closing price per share at settlement was $0.25 for a total ascribed share value of $1,344,455 which resulted in a gain of $173,863 on settlement of the debt. As part of the agreement to settle these loans, the Company issued 757,796 common shares upon the exercise of 757,796 warrants with exercise price of $0.25 per warrant for gross proceeds of $189,449.

(ii) On April 12, 2018, the Company 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 $5,159,779. Management and directors of the Company subscribed for Units in an aggregate amount of $1,056,000. 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.

(Expressed in Canadian Dollars)

Note 10 Capital Stock (Continued)

On March 29, 2018, Tranche I of the Private Placement resulted in 14,183,333 Units issued for gross proceeds of $3,971,334. On April 12, 2018, Tranche II of the Private Placement resulted in the remaining 4,244,447 Units issued for gross proceeds of $1,188,444.

The 9,213,886 whole warrants were ascribed a fair value of $0.12 per warrant on the date of grant using the Black-Scholes pricing model with assumptions of volatility of 94.68%, risk free interest rate of 1.795%, expected life of 2 years, forfeiture rate of 0%, and dividend yield of 0%.

(iii) During the year ended December 31, 2017, the Company issued 2,378,000 shares upon redemption of restricted share units for an ascribed share capital value and stock-based compensation expense of $765,680; received cash of $736,335 pursuant to exercise of 2,945,340 warrants; and received cash of $35,000 pursuant to the exercise of 140,000 stock options.

(c) WARRANTS

The following table reflects the continuity of warrants for the years ended December 31, 2018 and 2017.

	Number of Warrants	Weighted average exercise price ($)	Value of Warrants ($)
Balance, December 31, 2016	5,692,250	0.29	426,618
Exercised	(2,945,340)	0.25	(179,847)
Expired	(985,776)	0.25	(79,465)
Balance, December 31, 2017	**1,761,134**	**0.29**	**167,306**
Issued under private placement	**9,213,886**	**0.38**	**1,106,588**
Exercised	**(757,796)**	**0.25**	**(19,369)**
Expired	**(384,588)**	**0.25**	**(20,323)**
Balance, December 31, 2018	**9,832,636**	**0.38**	**1,234,202**

Number of Warrants	Expiry date	Weighted average exercise price ($)
618,750	December 9, 2019	0.32
7,091,664	March 29, 2020	0.38
2,122,222	April 12, 2020	0.38
9,832,636		**0.38**

(Expressed in Canadian Dollars)

Note 10 Capital Stock (Continued)

(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% of the issued and outstanding common shares of the Company. Options are granted for a term not exceeding five years and vest at the discretion of the board 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 years ended December 31, 2018 and 2017:

The following table reflects the continuity of options for the years ended December 31, 2018 and 2017.

	Number of Options	Weighted Average Exercise Price ($)
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**
Granted	**6,540,000**	**0.29**
Expired	**(745,000)**	**(0.27)**
Balance, December 31, 2018	**8,765,000**	**0.29**

During 2018, the Company granted 6,540,000 (2017: 715,000) to officers, directors and consultants of which 2,200,000 have a vesting term of two years and the remaining 4,340,000 (2017: 715,000) vest immediately.

As at December 31, 2018, 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)
510,000[1]	0.25	104,921	2.07
1,000,000[1]	0.28	308,132	1.70
200,000[1]	0.37	64,671	3.13
500,000[1]	0.36	156,472	3.44
15,000[1]	0.31	3,750	3.92
4,590,000[2]	0.31	1,237,464	4.02
200,000[1]	0.23	40,000	4.40
50,000[1]	0.22	10,000	4.44
200,000[3]	0.38	34,280	2.62
1,400,000[1]	0.23	318,640	4.72
100,000[1]	0.28	23,170	4.78
8,765,000	**0.29**	**2,301,500**	**3.68**

(Expressed in Canadian Dollars)

Note 10 Capital Stock (Continued)

[1] Exercisable as at December 31, 2018
[2] 3,090,000 exercisable as at December 31, 2018
[3] 50,000 exercisable as at December 31, 2018

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	
	2018	2017
Weighted average fair value per option ($)	**0.25**	0.32
Weighted average risk-free interest rate (%)	**2.04**	1.13
Expected life (years)	**4.94**	5.0
Weighted average expected volatility (%)	**131**	134
Expected rate of forfeiture	**Nil**	Nil
Expected dividend yield	**Nil**	Nil

Stock-based compensation expense of $1,480,249 includes fair value attributed to stock option grants of $1,480,249 (2017: $224,893) and redemption of restricted share units of $Nil (2017: $765,680).

Note 11 Net Loss Per Common Share

The calculation of basic and diluted loss per share for the year ended December 31, 2018 was based on the loss attributable to common shareholders of $3,870,121 (December 31, 2017 - $4,775,430) divided by the weighted average number of common shares outstanding of 103,889,947 (December 31, 2017 - 82,565,854).

Note 12 Gold-Linked Loan

	December 31, 2018	**December 31, 2017**
Balance, beginning of year	**$ 10,330,902**	$ 8,564,844
Accretion and interest expense	**635,591**	1,288,023
Loss (gain) on Foreign exchange	**503,210**	(632,050)
(Gain) loss on derivatives	**(255,790)**	1,110,085
Gain on extinguishment of debt	**(173,863)**	-
Repayment	**(11,040,050)**	-
Balance, end of year	**$ -**	$ 10,330,902

(Expressed in Canadian Dollars)

Note 12 Gold-Linked Loan (Continued)

Gold Ounces Outstanding	December 31, 2018	December 31, 2017
Principal, beginning of the year	**4,469**	4,469
Drawdown during the year.	**-**	-
Principal, end of year	**4,469**	4,469
Accumulated interest, beginning of the year	**1,893**	1,183
Accrued interest	**393**	710
Accrued interest, end of year	**2,286**	1,893
Repayment	**(6,755)**	-
Gold Ounces due, end of year	**-**	6,362

Gold loan ounces ownership is as follows:

Gold Ounces Outstanding	December 31, 2018	December 31, 2017
AIMS	**-**	3,382
Alchemist Inc.	**-**	2,820
Douglas Pollitt	**-**	160
Gold Ounces due, end of year	**-**	6,362

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 had an original maturity date of July 31, 2019 which was extended to June 30, 2022 on February 18, 2018. The extension was accounted as an extinguishment which resulted in a gain on extinguishment of $5,360.

The facility bore interest of 12% and was secured by a 5% NSR on the Mara Rosa project, which relinquishes on repayment of the loan. The Company could borrow up to the US dollar value of 5,000 ounces of gold calculated according to the Relevant Gold Reference Price (RGRP). There was 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 were drawn down with a reference price based on the LBMA PM seven business days prior to start of the quarter (“Subsequent Drawdown”). Warrants were issuable to lenders representing an aggregate of 1,200 warrants for each US$1,000 in value of the Gold-linked Loan Initial Drawdown and 600 warrants for each US$1,000 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”).

As a result of the indexation of the loan repayments to the movement in the price of gold, the Company determined that the Gold-linked Loan contained a derivative which was embedded in the US dollar denominated debt instrument (the “Embedded Derivative”). The embedded derivative was marked to market at each period end with changes in fair value recorded as a gain/loss on fair value of derivative. The Company recorded a gain on derivatives of $255,790 during the year (December 31, 2017: loss of $632,050).

On July 27, 2018 the Company settled the entire balance of $11,040,050 (US$8,519,325) by paying cash of $9,695,595 (US$7,375,803) and issued 5,377,819 shares with a total value $1,344,455 (US$1,143,522) or $0.25 per share and recognized a gain of $173,863 on settlement of debt.

(Expressed in Canadian Dollars)

Note 13 Loans

	December 31, 2018	December 31, 2017
Loan (Note (a))	**$ -**	$ 89,779
Related party loan (Note (b))	**-**	1,038,192
	$ -	$ 1,127,971

a) Loan

	December 31, 2018	December 31, 2017
Balance, beginning of year	**$ 89,779**	$ 151,294
Interest accrual and foreign exchange adjustment	**573**	1,717
Repayment	**(60,000)**	(63,232)
Gain on settlement	**(30,352)**	-
Balance, end of year	**$ -**	$ 89,779

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. In November 2018 the Company and Mr. Rick Brown agreed to settle this loan by paying $60,000 resulting in a gain of $30,352.

b) Related party loan

	December 31, 2018	December 31, 2017
Balance, beginning of year	**$ 1,038,192**	$ -
Advances	**550,000**	1,025,000
Interest accrual	**44,478**	13,192
Repayment	**(1,632,670)**	-
Balance, end of year	**$ -**	$ 1,038,192

During the three months ended March 31, 2018, the Company obtained $550,000 loans (year ended December 31, 2017: $1,025,000) from the Executive Chairman of the Company. The combined loans of $1,575,000 bore simple interest at an annual rate of 6%. This loan was fully repaid on July 18, 2018.

(Expressed in Canadian Dollars)

Note 14 Related Party Transactions and Balances

As at December 31, 2018, and December 31, 2017, the balance due to related parties is comprised of the following:

	December 31, 2018	December 31, 2017
Due to officer	**$ 180,000**	$ 23,590
Due to corporations controlled by directors	**5,000**	115,682
Due to directors	**20,000**	100,000
	$ 205,000	$ 239,272

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

During the years ended December 31, 2018 and 2017, the Company incurred charges with directors, officers and companies with a common director as follows:

	Year ended December 31, 2018	**Year ended December 31, 2017**
Salaries paid/payable to officers	**$ 370,000**	$ 20,000
Management fees charged by officers' corporations	**-**	317,800
Consulting fees charged by director's corporation	**8,550**	-
Directors' fees	**244,167**	140,000
Capitalized exploration costs charged by director's corporation	**215,000**	-
General and administrative expenses charged by directors' corporations	**-**	85,038
	$ 837,717	$ 562,838

During the year ended December 31, 2018, the Company granted to directors and officers 5,850,000 (2017: 700,000) options at a weighted average exercise price of $0.29 (2017: $0.36) expiring up to September 17, 2023 (2017: June 8, 2022).

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

(Expressed in Canadian Dollars)

Note 15 General and Administrative Expenses

General and administrative expenses consist of the following:

	Year ended December 31, 2018	Year ended December 31, 2017
Consulting and professional fees (Note 14)	**$ 350,981**	$ 231,194
Professional fees	**601,160**	264,929
Salaries and benefits/Management fees (Note 14)	**560,845**	522,183
Directors' fees (Note 14)	**244,167**	140,000
Marketing and promotion	**271,444**	132,355
Filing and transfer agent fees	**112,127**	42,013
Travel	**52,144**	130,185
Other general and administrative	**263,645**	198,510
	$ 2,456,513	$ 1,661,369

Note 16 Gain on Debt Settlement

	Year ended December 31, 2018	Year ended December 31, 2017
Gain on settlement of payables (Note 10(i))	**$ 110,478**	$ -
Gain on settlement of loan (Note 13(a))	**30,352**	-
	$ 140,830	$ -

Note 17 Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% (2017 - 26%) to the effective tax rate is as follows:

	2018	2017
Net loss before recovery of income tax	**$ (4,589,616)**	$ (4,289,265)
Expected income tax recovery	**(1,239,194)**	(1,115,207)
Difference in foreign tax rates	**(36,432)**	(42,730)
Tax rate differences	**752,668**	728,880
Permanent differences	**532,604**	350,610
Other adjustments	**21,092**	17,370
Change in tax benefits not recognized	**(750,233)**	547,242
Income tax (recovery) expense	**$ (719,495)**	$ 486,165

(Expressed in Canadian Dollars)

Note 17 Income Taxes (Continued)

Deferred tax

The following table summarizes the components of deferred tax:

	2018	2017
Deferred Tax Assets		
Non-capital losses carried forward	**$ 1,048,055**	$ 884,790
Non-capital losses carried forward	**-**	-
Deferred Tax Liabilities		
Mineral properties	**-**	(719,495)
Note payable/receivable	**(1,048,055)**	(884,790)
Net deferred tax liabilities	**$ -**	$ (719,495)

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 not been recognized in respect of the following deductible temporary differences:

	2018	2017
Mineral Properties	**$ 1,721,013**	$ 1,020,460
Non-capital losses carried forward	**$ 6,217,058**	$ 8,371,010
Note payable/receivable	**$ 7,763,319**	$ 7,879,640
Share issue costs and financing fees	**$ 203,180**	$ 235,820
Other temporary difference	**$ -**	$ 9,110

The Canadian non-capital loss carry forwards expire 2026 and 2038. Share issue and financing costs will be fully amortized in 2022. 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.

Note 18 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.

Total assets by geographic region are as follows:

December 31, 2018	**Canada**	**Brazil**	**Total**
Current assets	**$ 2,268,309**	**$ 157,054**	**$ 2,425,363**
Resource properties and deferred exploration expenditures	**-**	**26,244,154**	**26,244,154**
Property and equipment	**-**	**710,118**	**710,118**
	$ 2,268,309	**$ 27,111,326**	**$ 29,379,635**

(Expressed in Canadian Dollars)

Note 18 Segmented Information (Continued)

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
Property and equipment	-	63,464	63,464
	$ 247,243	$ 33,939,249	$ 34,186,492

Note 19 Commitments

The Company has entered into contracts with three independent contractors to complete the detailed feasibility study at Mara Rosa. These contracts are estimated at $1.3 million and are expected to be completed by September 2019.

Note 20 Concession Fees Payable and Litigation

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”), now known as the ANM, 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 AMB, performed 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 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”).

(Expressed in Canadian Dollars)

Note 20 Concession Fees Payable and Litigation (Continued)

On October 7, 2013, PPC 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 PPC to make the outstanding TAH payments, related penalties and interest owed over a five year payment period. However, PPC 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. Accordingly, 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.

In order to avoid enforcement proceedings by the DNPM and to satisfy one of the conditions underlying the sale of royalty to Royal Gold as described in Note 8, AMB entered into an agreement with the DNPM to pay an estimated monthly amount of R$ 93,778 over a five year period commencing on June 29, 2018. The total amount of R$5,626,642 includes principal of R$4,688,868 and interest of R$937,774. The Company has communicated this payment plan to WPC which is done under protest and without any waiver of its claims against WPC. The Company recorded the initial liability of R$5,626,642 (CAD$1,982,266) and capitalized this amount at the Mara Rosa property. As at December 31, 2018 the Company paid R$669,533 (CAD$235,541) including interest of R$13,155 (CAD$4,691) under this plan. Interest is accrued on the unpaid balance at approximately 6.7% per annum with accrued interest of R$158,989 (CAD$55,724) as at December 31, 2018. Total interest paid and accrued, plus foreign exchange adjustment of R$171,687 (CAD$60,415) were also capitalized with total capitalization of R$5,798,785 (CAD$2,042,681) at the Mara Rosa property (Note 8). The balance payable at December 31, 2018, after interest adjustments was R$5,129,189 (CAD$1,802,910) with an estimated R$1,125,328 (CAD$395,553) due in 2019 and the remaining balance of R$4,003,861 (CAD$1,407,357) due until June 2023.

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ -	$ -
Amount payable at inception	1,982,266	-
Accrued interest	55,724	-
Repayment	(235,541)	-
Foreign exchange adjustment	461	-
Balance, end of year	1,802,910	-
Less: Current portion	395,553	-
Long term portion	$ 1,407,357	$ -

(Expressed in Canadian Dollars)

Note 20 Concession Fees Payable and Litigation (Continued)

Future payments under this installment arrangement for the next 5 years are as follows:

2019	**$ 395,553**
2020	**395,553**
2021	**395,553**
2022	**395,553**
2023	**164,814**

On October 19, 2018 the Company filed a Domestic Commercial Arbitration Notice and a Statement of Claim with the British Columbia International Commercial Arbitration Centre regarding this dispute with WPC. The Statement of Claim seeks an award of damages by reason of failure of WPC to pay for costs incurred by WPC's Brazilian subsidiary, and, or in the alternative, an order for specific performance of the Services Agreement. The value of the claim is at least R$5,798,785 (CAD$2,042,681) as at December 31, 2018. On December 21, 2018, WPC filed a petition (the "Petition") seeking an order that certain communications that were sent or received by Mr. Buddy Doyle, a former director of the Company and of WPC, are subject to solicitor-client privilege in favour of WPC, must be returned to WPC, and cannot be used in the Arbitration. The hearing of this Petition has been scheduled for April 23-24, 2019. The Arbitration is stayed pending the determination of the Petition.

The Company believes that it will be successful in causing WPC to pay all amounts accrued and paid to DNPM for liabilities arising in respect of the Exploration Permits as at December 31, 2018.

Note 21 Subsequent Events

(a) Property acquisition

Subsequent to the year ended December 31, 2018, the Company acquired mineral properties, property, plant and equipment for a total of approximately $1.4 million.

(b) Loan from Executive Chairman

On March 29, 2019, the Executive Chairman of the Company agreed to provide a $1,000,000 facility (the "Facility") to be drawn down from time to time. The Facility is unsecured, due and payable on demand and bears interest at 6% per annum. At the election of the lender, the Facility plus accrued interest can be converted into shares of the Company in the event of an equity financing, at the same price per share paid by subscribers. The Company has drawn $500,000 under this Facility.

Note 22 Authorization

These consolidated financial statements for the years ended December 31, 2018 and 2017 were reviewed and adopted by the Company's Audit Committee and full Board of Directors on April 2, 2019, and were subsequently certified by the Company's Chief Executive Officer and Chief Financial Officer.