



# AMARILLOGOLD

A development stage company

Consolidated financial statements  
(Expressed in Canadian dollars)

Years ended  
December 31, 2019 and 2018



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# 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  
March 17, 2020

/s/ Hemdat Sawh  
Chief Financial Officer

## **Independent Auditor's Report**

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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, 2019 and December 31, 2018, and the consolidated statements of loss and 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, 2019 and December 31, 2018, 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 incurred a net loss of \$4,055,175 during the year ended December 31, 2019 and negative cash flows from operating activities of \$3,646,094. In addition, as of that date, the Company had an accumulated deficit of \$40,333,399. 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 Shaila Rani Mehta.

*MNP LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Mississauga, Ontario

March 17, 2020

**MNP**

# AMARILLO GOLD CORPORATION

## Consolidated statements of financial position

(Expressed in Canadian dollars)

	Notes	As at December 31 2019 (\$)	As at December 31 2018 (\$)
<b>Current assets</b>			
Cash		7,635,296	2,268,514
Accounts receivable		25,891	141,731
Prepays		14,791	15,118
		<b>7,675,978</b>	<b>2,425,363</b>
<b>Non-current assets</b>			
Resource properties and deferred exploration expenditures	8&9	30,610,913	26,244,154
Property and equipment	9	1,986,671	710,118
<b>Total assets</b>		<b>40,273,562</b>	<b>29,379,635</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		1,095,344	1,328,939
Due to related parties	14	143,750	205,000
Concession fees payable	19	363,594	395,553
		<b>1,602,688</b>	<b>1,929,492</b>
<b>Non-current liabilities</b>			
Concession fees payable – long-term portion	19	1,001,597	1,407,357
<b>Total liabilities</b>		<b>2,604,285</b>	<b>3,336,849</b>
<b>Equity</b>			
Capital stock	10	62,839,327	53,594,862
Contributed surplus		8,763,661	7,491,946
Warrants	10	6,399,688	1,234,202
Deficit		(40,333,399)	(36,278,224)
<b>Total equity</b>		<b>37,669,277</b>	<b>26,042,786</b>
<b>Total liabilities and equity</b>		<b>40,273,562</b>	<b>29,379,635</b>

**Business of the company and going concern** (Note 1)

**Concession fees payable and litigation** (Note 19)

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

Approved by the Board:

Signed: “Colin Sutherland”  
Director \_\_\_\_\_

Signed: “Rowland Uloth”  
Director \_\_\_\_\_

# AMARILLO GOLD CORPORATION

## Consolidated statements of loss and comprehensive loss

(Expressed in Canadian dollars except weighted average shares)

	Notes	Years ended December 31	
		2019	2018
		\$	\$
<b>Expenses (income)</b>			
General and administrative	15	2,745,792	2,456,513
Stock-based compensation		1,004,270	1,480,249
Financing advisory services		36,000	–
Foreign exchange (gain) loss		153,489	65,999
Interest and finance charges		121,041	136,708
Accretion on gold-linked loan	12	–	635,591
Write off of accounts payable		–	(118,171)
		<b>4,060,592</b>	<b>4,656,889</b>
<b>Loss before the following adjustments</b>		<b>(4,060,592)</b>	<b>(4,656,889)</b>
Gain on debt settlement	16	5,417	140,830
Gain on settlement of gold-linked loan	12	–	173,863
Loss on foreign exchange of gold-linked loan	12	–	(503,210)
Gain on fair value of derivative	12	–	255,790
<b>Loss before tax</b>		<b>(4,055,175)</b>	<b>(4,589,616)</b>
Deferred tax (expense) recovery		–	719,495
<b>Total loss and comprehensive loss</b>		<b>(4,055,175)</b>	<b>(3,870,121)</b>
<b>Basic and diluted loss per share</b>	<b>11</b>	<b>(0.03)</b>	<b>(0.04)</b>
<b>Weighted average shares outstanding basic and diluted</b>	<b>11</b>	<b>147,102,806</b>	<b>103,889,947</b>

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

# AMARILLO GOLD CORPORATION

## Consolidated statements of changes in equity

(Expressed in Canadian dollars)

	Capital stock \$	Contributed surplus \$	Warrants \$	Deficit \$	Total equity \$
<b>At December 31, 2017</b>	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
Exercise of warrants	189,449	–	–	–	189,449
Fair value of warrants exercised	19,369	–	(19,369)	–	–
Expired warrants	–	20,323	(20,323)	–	–
Shares issued to settle gold-linked loan	1,344,455	–	–	–	1,344,455
Shares issued to settle payments	1,059,332	–	–	–	1,059,332
Loss and comprehensive loss for the year	–	–	–	(3,870,121)	(3,870,121)
<b>At December 31, 2018</b>	<b>53,594,862</b>	<b>7,491,946</b>	<b>1,234,202</b>	<b>(36,278,224)</b>	<b>26,042,786</b>
Private placement, net of issuance cost	14,429,234	139,831	–	–	14,569,065
Fair value of warrants, net of tax	(5,293,100)	–	5,293,100	–	–
Expired warrants	–	127,614	(127,614)	–	–
Stocked-based compensation	–	1,004,270	–	–	1,004,270
Shares issued to settle payables	108,331	–	–	–	108,331
Loss and comprehensive loss for the year	–	–	–	(4,055,175)	(4,055,175)
<b>At December 31, 2019</b>	<b>62,839,327</b>	<b>8,763,661</b>	<b>6,399,688</b>	<b>(40,333,399)</b>	<b>37,669,277</b>

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



# AMARILLO GOLD CORPORATION

## Consolidated statements of cash flows

(Expressed in Canadian dollars)

	Years ended December 31	
	2019	2018
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(4,055,175)	(3,870,121)
Unrealized foreign exchange gain on concession fees	(129,702)	–
Interest on loan payable	–	45,051
Interest on concession fees	97,784	–
Stock-based compensation	1,004,270	1,480,249
Write-off of accounts payable	–	(118,171)
Gain on settlement of payables	(5,417)	(140,830)
Accretion on gold-linked loan	–	635,591
Gain on settlement of gold-linked loan	–	(173,863)
Foreign exchange loss on gold-linked loan	–	503,210
Gain on fair value of derivative	–	(255,790)
Deferred tax	–	(719,495)
	(3,088,240)	(2,614,169)
Accounts receivable	115,840	(50,579)
Prepays	327	82,835
Concession fees	(379,175)	(239,771)
Accounts payable and accrued liabilities	(233,596)	917,621
Due to related parties	(61,250)	115,730
	(3,646,094)	(1,788,333)
<b>Investing activities</b>		
Resource properties and deferred exploration expenditures	(4,164,830)	(3,997,302)
Property and equipment	(1,364,734)	(703,817)
	(5,529,564)	(4,701,119)
<b>Financing activities</b>		
Common shares	15,281,589	5,349,228
Share issuance costs	(712,524)	(104,694)
Proceeds from sale of royalty	–	14,221,440
Gold-linked loan	–	(9,695,595)
Related party loan proceeds	1,000,000	550,000
Related party loan repayment	(1,000,000)	(1,635,000)
Interest paid on concession fees	(26,625)	–
Interest paid on related party loan	–	(57,670)
	14,542,440	8,627,709
Change in cash during the year	5,366,782	2,138,257
Cash, beginning of the year	2,268,514	130,257
Cash, end of year	7,635,296	2,268,514
<b>Non-cash operating activities</b>		
Shares issued to settle payables	–	605,027
<b>Non-cash investing activities</b>		
Shares issued to settle payables on resources properties	113,748	564,783
Capitalized depreciation	88,182	57,163
Capitalized concession fees	–	2,042,681
<b>Non-cash financing activities</b>		
Shares issued to settle payables	113,748	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.*

# **AMARILLO GOLD CORPORATION**

## **Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018**

(Expressed in Canadian dollars)

### **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 the 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. The Company has a net loss for the year ended December 31, 2019 of \$4,055,175 and negative cash flows from operating activities of \$3,646,094. In addition, the Company has an accumulated deficit of \$40,333,399.

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 indicate that a material uncertainty exists that may 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.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 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.

<b>Subsidiary</b>	<b>Ownership</b>
Amarillo Mineração do Brasil Ltda (AMB)	100%
LDS Mineração 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 year-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.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 3. Significant accounting policies – continued

#### 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 fair value through other comprehensive income (“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 accounts receivable, excluding harmonized sales tax, are classified as financial assets and measured at amortized cost.

##### *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, concession fees payable and amounts due to 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.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 3. Significant accounting policies – continued

#### d) Financial instruments classification and measurement – continued

##### *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.

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.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 3. Significant accounting policies – continued

#### f) Resource properties and deferred evaluation and exploration expenditures – continued

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) Property and equipment

The Company records land at cost, and 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, equipment and vehicles	– 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.

# **AMARILLO GOLD CORPORATION**

## **Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018**

(Expressed in Canadian dollars)

### **3. Significant accounting policies – continued**

#### **h) Impairment of long-lived assets – continued**

Recoverable amount is the higher of fair value less costs to dispose 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, 2019 and 2018.

# **AMARILLO GOLD CORPORATION**

## **Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018**

(Expressed in Canadian dollars)

### **3. Significant accounting policies – continued**

#### **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.

#### **k) Income taxes**

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expensed to apply when the deferred tax asset or liability is settled.

Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.



# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 3. Significant accounting policies – continued

#### l) Loss per share

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

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.

#### *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:

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 3. Significant accounting policies – continued

#### m) Measurement uncertainty – continued

- 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.
- Valuation of options and warrants  
The determination of the fair value of stock options and warrants is not based on historical cost, but is derived based on subjective assumptions input into an option pricing model. The model requires that management make forecasts as to future events, including estimates of the average future hold period of issued stock options and warrants before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period (using historical volatility as a reference); and the appropriate risk-free rate of interest. Stock options incorporate an expected forfeiture rate. The expected forfeiture rate is estimated based on historical forfeiture rates and expectations of future forfeiture rates, and is adjusted if the actual forfeiture rate differs from the expected rate. The resulting value calculated is not necessarily the value that the holder of the option or warrant could receive in an arm's length transaction, given that there is no market for the options or warrants and they are not transferable. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made.
- Provisions and contingent liabilities  
Judgments are made as to whether a past event has led to a liability that should be recognized in the consolidated financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgments and estimations. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received, past experience and the probability of a loss being realized. Several of these factors are sources of estimation uncertainty.

# **AMARILLO GOLD CORPORATION**

## **Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018**

(Expressed in Canadian dollars)

### **4. New accounting standards**

#### **IFRS 16 – Leases**

This new pronouncement, which was 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 retrospectively adopted the amendments under this new pronouncement, effective January 1, 2019, which did not have a significant impact on these 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, 2019 totaled \$37,669,277 (December 31, 2018 – \$26,042,786).

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, 2019. 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 attached to the Company's financial instruments are as follows.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 6. Financial risk factors – continued

#### 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, 2019 and December 31, 2018, 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, 2019, the Company had a cash balance of \$7,635,296 (December 31, 2018 – \$2,268,514) to settle current liabilities of \$1,602,688 (December 31, 2018 – \$1,929,492).

#### 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, 2019, 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.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 6. Financial risk factors – continued

#### Market 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 12-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, 2019 and 2018.
- 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 U.S. 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 year ended December 31, 2019 by approximately \$3,400 (December 31, 2018 – \$17,800). A plus or minus 5% change in foreign exchange rate of the U.S. dollar against the Canadian dollar would affect net loss for the year ended December 31, 2019 by approximately \$5,200 (December 31, 2018 – \$97,000).

### 7. Categories of financial instruments

	December 31, 2019 \$	December 31, 2018 \$
<b>Financial assets</b>		
FVTPL		
Cash	7,635,296	2,268,514
Amortized cost		
Accounts receivable, excludes HST/GST receivable	12,881	79,356
<b>Financial liabilities</b>		
Amortized cost		
Accounts payable and accrued liabilities	1,095,344	1,328,939
Due to related parties	143,750	205,000
Concession fees payable	1,365,191	1,802,910

#### 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:

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 7. Categories of financial instruments – continued

#### Financial instruments recorded at fair value – continued

- 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)
- 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, accounts receivable and payables approximate their carrying amounts due to their short-term nature. The fair value of the accounts payable and accrued liabilities, and concession fees payable approximates their carrying values due to current market rates and consistency of credit spread.

As at December 31, 2019 and December 31, 2018, cash was measured at fair value and is classified within Level 1 of the fair value hierarchy.

### 8. Resource properties and deferred exploration expenditures

	Mara Rosa \$	Lavras do Sul \$	December 31, 2019 \$	December 31, 2018 \$
<b>Resource properties</b>				
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 year	1,067,278	2,968,088	4,035,366	4,035,366
<b>Deferred evaluation and exploration expenditures</b>				
Balance, beginning of year	9,475,587	12,733,201	22,208,788	29,768,300
Expenditures during the year				
Engineering and consulting	1,888,741	69,135	1,957,876	845,646
Optimization study	–	–	–	647,718
Drilling and related costs	780,183	–	780,183	1,493,427
Assays	312,733	6,423	319,156	244,784
DNPM concession fees	–	–	–	2,042,681
Aeromagnetic survey	57,498	67,751	125,249	215,000
Exploration	5,724	8,751	14,475	25,055
Transportation	14,309	7,105	21,414	74,565
Concession taxes	93,257	12,763	106,020	108,252
Travel	63,097	8,684	71,781	77,786
Depreciation	91,096	–	91,096	46,832
Salaries	425,601	189,925	615,526	625,281
Other evaluation and exploration expenses	202,824	61,159	263,983	214,901
	3,935,063	431,696	4,366,759	6,661,928
Sale of royalty	–	–	–	(14,221,440)
Balance, end of year	13,410,650	13,164,897	26,575,547	22,208,788
Total	14,477,928	16,132,985	30,610,913	26,244,154

# **AMARILLO GOLD CORPORATION**

## **Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018**

(Expressed in Canadian dollars)

### **8. Resource properties and deferred exploration expenditures – continued**

#### **(i) Mara Rosa property**

The Mara Rosa project is Amarillo's flagship project 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 1.0% 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 US\$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.

#### **(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 Desenvolvidos 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 kilometres 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.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 8. Resource properties and deferred exploration expenditures – continued

#### (ii) Lavras do Sul Property – continued

##### Rio Tinto Agreement – continued

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
- 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 80% 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
- 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.



# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 9. Property and equipment

	Property \$	Software \$	Furniture, equipment and vehicles \$	Computer hardware \$	Total \$
<b>Cost</b>					
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	<b>178,918</b>	<b>65,918</b>	869,987
Additions	<b>1,329,504</b>	<b>29,079</b>	<b>3,674</b>	<b>2,478</b>	<b>1,364,735</b>
<b>Balance as of December 31, 2019</b>	<b>1,812,071</b>	<b>171,663</b>	<b>182,592</b>	<b>68,396</b>	<b>2,234,722</b>
<b>Accumulated depreciation</b>					
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
Depreciation for the year	–	<b>72,666</b>	<b>12,544</b>	<b>2,972</b>	<b>88,182</b>
<b>Balance as of December 31, 2019</b>	–	<b>108,312</b>	<b>97,427</b>	<b>42,312</b>	<b>248,051</b>
<b>Carrying amounts</b>					
At December 31, 2018	482,567	106,938	94,035	26,578	710,118
<b>At December 31, 2019</b>	<b>1,812,071</b>	<b>63,351</b>	<b>85,165</b>	<b>26,084</b>	<b>1,986,671</b>

Depreciation for the year ended December 31, 2019 amounting to \$88,182 (December 31, 2018 – \$57,163) has been included as a deferred exploration cost of the Mara Rosa property.

### 10. Capital stock

#### (a) Authorized

Unlimited number of common shares.

#### (b) Issued

	Shares	Amount (\$)
Balance, December 31, 2017	85,713,925	47,033,760
Private placement, net issuance cost (i)	18,427,780	5,055,105
Fair value of warrants issued private placement (i)	–	(1,106,588)
Issued to settle gold-linked loads (ii)	5,377,819	1,344,455
Issued to settle payables (ii)	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
Private placement, net issuance cost (iii)	<b>26,382,950</b>	<b>5,204,966</b>
Fair value of warrants issued private placement (iii)	–	<b>(1,554,131)</b>
Private placements, net of issuance cost (iv)	<b>50,025,000</b>	<b>9,224,268</b>
Fair value of warrants issued under private placement (iv)	–	<b>(3,738,969)</b>
Issued to settle payables (v)	<b>541,656</b>	<b>108,331</b>
<b>Balance, December 31, 2019</b>	<b>191,404,814</b>	<b>62,839,327</b>

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 10. Capital stock – continued

#### (b) Issued – continued

- (i) 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. 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. Cost of issue of \$104,694 include legal and filing fees.

The 9,213,886 whole warrants were ascribed a total fair value of \$1,106,588 at a price of approximately \$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%.

- (ii) 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.

- (iii) On June 14, 2019, the Company closed a non-brokered private placement (the “Private Placement”) through the issuance of 26,382,950 units (“Units”) at a subscription price of \$0.20 per Unit for aggregate gross proceeds to the Company of \$5,276,590. Management and directors of the Company subscribed for Units in an aggregate amount of \$1,100,000. Each Unit is comprised of one common share (each, a “Common Share”) and one Common Share purchase warrant (each, a “Warrant”). Each Warrant entitles the holder to purchase one additional Common Share at an exercise price of \$0.30 for a period of 24 months following the date of issue, subject to customary adjustment provisions. Cost of issue of \$71,624 include legal and filing fees.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 10. Capital stock – continued

#### (b) Issued – continued

The 26,382,950 whole warrants were ascribed a total fair value of \$1,554,131 at a price of approximately \$0.06 per warrant on the date of grant using the Black-Scholes pricing model with assumptions of volatility of 75.5%, risk free interest rate of 1.60%, expected life of two years, forfeiture rate of 0%, and dividend yield of 0%.

- (iv) On August 29, 2019, the Company closed Private Placements through the issuance of 50,025,000 Units at a subscription price of \$0.20 per Unit for aggregate gross proceeds to the Company of \$10,005,000. Through the brokered portion of the Private Placements, which was underwritten on a bought-deal basis by Mackie Research Capital Corporation as sole underwriter and bookrunner (the “Underwriter”), the Company issued 47,599,000 Units. Through the non-brokered portion of the Private Placements, the Company issued 2,426,000 Units. Management and directors of the Company subscribed for 1,101,000 Units in an aggregate amount of \$220,200.

Each Unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share at a price of \$0.30 per warrant share until August 29, 2021.

The 50,025,000 whole warrants were ascribed a total fair value of \$3,738,969 at a price of approximately \$0.07 per warrant on the date of grant using the Black-Scholes pricing model with assumptions of volatility of 74.3%, risk free interest rate of 1.34%, expected life of two years, forfeiture rate of 0%, and dividend yield of 0%.

The Underwriter received an aggregate cash fee of \$471,188 from the brokered portion of the Private Placements (the “Commission”). In addition, the Company granted the Underwriter 1,355,940 non-transferable options (the “Compensation Options”). Each Compensation Option will entitle the holder thereof to purchase one Unit (a “Compensation Option Unit”) at a price of \$0.20, for a period of 24 months. The 1,355,940 Compensation Options were ascribed a total fair value of approximately \$0.10 per Unit on the date of grant using the Black-Scholes pricing model with assumptions of volatility of 74.3%, risk free interest rate of 1.34%, expected life of two years, forfeiture rate of 0%, and dividend yield of 0%.

Total cost of issue was \$780,732 including cash Commission of \$471,188, Compensation Options valued at \$139,831, plus legal and filing fees of \$169,713.

- (v) On December 24, 2019, the Company issued 541,656 common shares to a non-arm’s length party at an agreed price of \$0.21 per common share to settle \$113,748 payables. The Company’s closing price per share at settlement was \$0.20 for a total ascribed share value of \$108,331 which resulted in a gain of \$5,417 on settlement of this payable.

**AMARILLO GOLD CORPORATION**  
**Notes to the consolidated financial statements for the years**  
**ended December 31, 2019 and 2018**  
(Expressed in Canadian dollars)

**10. Capital stock – continued**

**(c) Warrants**

	Number of warrants	Weighted average exercise price \$	Value of warrants \$
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)
<b>Balance December 31, 2018</b>	<b>9,832,636</b>	<b>0.38</b>	<b>1,234,202</b>
Issued under private placement	26,382,950	0.30	1,554,131
Issued under private placements	50,025,000	0.30	3,738,969
Expired	(618,750)	0.30	(127,614)
<b>Balance, December 31, 2019</b>	<b>85,621,836</b>	<b>0.31</b>	<b>6,399,688</b>

Expiry date	Number	Weighted average exercise price \$
March 29, 2020	7,091,664	0.38
April 12, 2020	2,122,222	0.38
May 31, 2021	25,424,435	0.30
June 14, 2021	958,515	0.30
August 29, 2021	50,025,000	0.30
	<b>85,621,836</b>	<b>0.31</b>

**(d) Broker compensation options**

As described in Note 10(b)(iv), the Company granted the Underwriter 1,355,940 compensation options which entitle the holder thereof to purchase one compensation option unit (CPU) at a price of \$0.20, expiring on August 29, 2021. Each CPU is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share at a price of \$0.30 per warrant share until August 29, 2021. The grant date fair value of the CPUs granted was estimated at approximately \$0.1031 per CPU for a total of \$139,831 using the Black-Scholes option pricing model with the following estimates: risk free interest rate – 1.24%, expected life – 2 years; volatility – 74%, and dividend yield – 0%.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 10. Capital stock – continued

#### (e) 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 12 months.

	Number of options	Weight average exercise price \$
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
Granted	<b>5,000,000</b>	<b>0.25</b>
Expired	<b>(270,000)</b>	<b>(0.35)</b>
<b>Balance, December 31, 2019</b>	<b>13,495,000</b>	<b>0.28</b>

During 2019, the Company granted 5,000,000 (2018: 6,540,000) stock options of which 4,600,000 (2018: 4,340,000) stock options vest immediately and the remaining 400,000 (2018: 2,200,000, vest over two years) vest upon the granting of the license to construct at the Mara Rosa project.

As at December 31, 2019, 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)
440,000 <sup>1</sup>	0.25	90,521	1.34
1,000,000 <sup>1</sup>	0.28	308,132	1.50
200,000 <sup>1</sup>	0.37	64,671	2.13
500,000 <sup>1</sup>	0.36	156,472	2.44
15,000 <sup>1</sup>	0.31	3,750	2.92
4,590,000 <sup>1</sup>	0.31	1,237,464	3.02
200,000 <sup>1</sup>	0.23	40,000	3.40
50,000 <sup>1</sup>	0.22	10,000	3.44
1,400,000 <sup>1</sup>	0.23	318,640	3.72
100,000 <sup>1</sup>	0.21	23,170	3.78
300,000 <sup>1</sup>	0.28	50,580	4.50
4,700,000 <sup>2</sup>	0.25	821,300	4.74
<b>13,495,000</b>	<b>0.28</b>	<b>3,124,700</b>	<b>3.53</b>

<sup>1</sup> Exercisable as at December 31, 2019.

<sup>2</sup> 4,300,000 exercisable as at December 31, 2019.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 10. Capital stock – continued

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	
	2019	2018
Weighted average fair value per options (\$)	0.17	0.25
Weighted average risk-free interest rate (%)	1.41	2.04
Expected life (years)	5.0	4.94
Weighted average expected volatility (%)	108	131
Expected rate of forfeiture	nil	nil
Expected dividend yield	nil	nil

The fair value compensation and contributed surplus relating to stock options for the year ended December 31, 2019 was \$1,004,270 (2017: \$1,480,249).

### 11. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2019 was based on the loss attributable to common shareholders of \$4,055,175 (December 31, 2018 – \$3,870,121) divided by the weighted average number of common shares outstanding of 147,102,806 (December 31, 2018 – 103,889,947).

### 12. Gold-linked loan

	Years ended December 31	
	2019	2018
	\$	\$
Balance, beginning of year	-	10,330,902
Accretion and interest expense	-	635,591
Loss on foreign exchange	-	503,210
Gain on derivatives	-	(255,790)
Gain on extinguishment of debt	-	(173,863)
Repayment	-	(11,040,050)
Balance, end of year	-	-

On July 31, 2014, the Company entered into agreements 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 U.S. 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 U.S. dollar value up to 2,500 ounces of gold with a reference price of US\$1,294.50/oz (“Initial Drawdown”).

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 12. Gold-linked loan – continued

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 U.S. 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.

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.

### 13. Loans

#### (a) Related party loan

	December 31	
	2019	2018
	\$	\$
Balance, beginning of year	–	1,038,192
Advances	1,000,000	550,000
Interest accrual	–	44,478
Repayment	(1,000,000)	(1,632,670)
<b>Balance, end of year</b>	<b>–</b>	<b>–</b>

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 was unsecured, due and payable on demand and bore interest at 6% per annum. On August 22, 2019 the total of \$1,000,000 drawn under this Facility was repaid and accrued interest of \$12,740 was waived.

#### (b) Other loan

	Years ended December 31	
	2019	2018
	\$	\$
Balance, beginning of year	–	89,779
Interest accrual and foreign exchange adjustments	–	573
Repayment	–	(60,000)
Gain on settlement	–	(30,352)
<b>Balance, end of year</b>	<b>–</b>	<b>–</b>

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 13. Loans – continued

#### (b) Other loan – continued

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 bore 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.

### 14. Related party transactions and balances

As at December 31, 2019, and December 31, 2018, the balance due to related parties is comprised of the following:

	2019	December 31 2018
	\$	\$
Due to officer	–	180,000
Due to corporations controlled by directors	28,750	5,000
Due to directors	115,000	20,000
	<b>143,750</b>	<b>205,000</b>

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

During the years ended December 31, 2019 and 2018, the Company incurred charges with directors, officers and companies with a common director as follows:

	Years ended December 31 2019	2018
	\$	\$
Salaries paid/payable to officer	500,000	370,000
Consulting fees charged by director's corporations	–	8,550
Directors' fees	172,500	244,167
Exploration costs changed by director's corporation	113,748	215,000
	<b>786,248</b>	<b>837,717</b>

During the year ended December 31, 2019, the Company granted to directors and officers 4,050,000 (2018: 5,850,000) options at a weighted average exercise price of \$0.25 (2018: \$0.29) expiring up to September 25, 2024 (2018: September 17, 2023).

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



# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 15. General and administrative expenses

General and administrative expenses consist of the following:

	Notes	Years ended December 31	
		2019	2018
		\$	\$
Consulting fees		323,434	350,981
Professional fees		856,267	601,160
Salaries, benefits, and management fees	14	698,986	560,845
Directors' fees	14	172,500	244,167
Marketing and promotion		314,507	271,444
Filing and transfer agent fees		78,509	112,127
Travel		41,304	52,144
Other general and administrative		260,285	263,645
		<b>2,745,792</b>	<b>2,456,513</b>

### 16. Gain on debt settlement

	Notes	Years ended December 31	
		2019	2018
		\$	\$
Gain on settlement of payables	10(b) (ii)&(v)	5,417	110,478
Gain on settlement of loan	13(b)	–	30,352
		<b>5,417</b>	<b>140,830</b>

### 17. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% for the year ended December 31, 2019 (2018: 26.5%) to the effective tax rate is as follows:

	Years ended December 31	
	2019	2018
	\$	\$
<b>Net loss before recovery of income taxes</b>	<b>(4,055,175)</b>	<b>(4,589,616)</b>
Expected income tax recovery	(1,074,620)	(1,239,194)
Difference in foreign tax rates	(90,180)	(36,432)
Tax rate differences	–	752,668
Share issuance costs charged to equity	(230,140)	(27,744)
Permanent differences	267,550	532,604
Resource properties not deductible for tax	475,610	21,092
Change in tax benefits not recognized	651,780	(722,489)
<b>Income tax expense (recovery)</b>	<b>–</b>	<b>(719,495)</b>

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 17. Income taxes – continued

The following table summarizes the components of deferred tax:

	December 31	
	2019	2018
	\$	\$
<b>Deferred tax assets</b>		
Non-capital losses carried forward	<b>2,239,990</b>	1,975,032
<b>Deferred tax liabilities</b>		
Mineral properties	<b>(15,660)</b>	(7,738)
Note payable/receivable	<b>(2,224,330)</b>	(1,967,294)
	<b>(2,239,990)</b>	(1,975,032)
Net deferred tax liability	–	–

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

### Unrecognized deferred tax assets

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:

	December 31	
	2019	2018
	\$	\$
Non-capital losses – Canada	<b>7,319,180</b>	6,694,150
Non-capital losses – Brazil	<b>769,660</b>	–
Share issue costs and financing fees	<b>794,950</b>	203,180
Resource pools	–	700,550
	<b>8,883,790</b>	7,597,880

The Canadian non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2023. 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.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 17. Income taxes – continued

#### Unrecognized deferred tax assets – continued

The Company's Canadian non-capital income tax losses expire as follows:

	\$
2026	387,420
2027	1,029,630
2028	129,220
2029	652,160
2030	774,720
2031	1,641,060
2032	1,198,160
2033	637,550
2034	419,480
2035	672,050
2036	1,967,250
2037	2,265,380
2038	1,124,840
2039	2,342,660
	<b>15,241,580</b>

### 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:

	Canada \$	Brazil \$	Total \$
<b>December 31, 2019</b>			
Current assets	6,834,606	841,372	7,675,978
Resource properties and deferred exploration expenditures	–	30,610,913	30,610,913
Property and equipment	–	1,986,671	1,986,671
	<b>6,834,606</b>	<b>33,438,956</b>	<b>40,273,562</b>
<b>December 31, 2018</b>			
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
	<b>2,268,309</b>	<b>27,111,326</b>	<b>29,379,635</b>

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 19. Concession fees payable and litigation

(a) The Company entered into a services agreement (the “Services Agreement”) dated April 28, 2008 with Western Potash Corporation (“WPC”), a British Columbia company, which replaced a letter agreement pursuant to which the Company staked exploration permits (the “Exploration Permits”) in Brazil’s Amazon Basin for WPC. Once the Company’s Brazilian subsidiary received the exploration permits from the Brazilian Departamento Nacional de Producao Mineral (“DNPM”), it was to transfer them to a Brazilian subsidiary of WPC.

Under the Services Agreement, WPC was responsible for all direct and indirect costs incurred by the Company in connection with the staking of the Exploration Permits. The Services Agreement provided that the Company would not be liable for any losses, claims, expenses or other liabilities relating to the Services Agreement.

The Company, through its Brazilian subsidiary AMB, performed the following services for WPC: staked mineral claims in the Amazon Basin, formed a subsidiary of WPC called Potassio Occidental Mineracao Ltda (“POML”) in Brazil, set up bank accounts, provided an office, and did other things necessary for POML to commence business in Brazil.

On September 12, 2011, AMB received the Exploration Permits which it had staked for WPC. The Company submitted applications to assign the Exploration Permits to POML. The Exploration Permits, which had a three-year life, obligated the owner of the Permits to pay the Taxa Annual pro Hectare (“TAH”) on January 31, 2012, 2013 and 2014.

The Exploration Permits should, according to Brazilian law, have been transferred to POML within 60 days. However, the applications were not processed in a timely way as Brazil instituted a moratorium on all transfers of Exploration Permits pending the approval of a new Mining Code.

As a consequence, the transfer of the Exploration Permits was not processed. AMB remained the registered owner of the Exploration Permits and liable for the TAH thereon.

In recognition of its obligation under the Services Agreement to pay the TAH, on January 31, 2012, WPC paid the TAH due on the Exploration Permits.

On April 19, 2013, WPC sold its shares of POML to Pacific Potash Corporation (“PPC”).

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 to the DNPM for the TAH due on January 31, 2013 and 2014 as well as penalties for non-payment and interest on the amount due. Neither WPC nor POML paid the TAH due on January 31, 2013 or 2014.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 19. Concession fees payable and litigation – continued

Although WPC did not pay the TAH, penalties for non-payment and interest on the amount due, WPC continued to acknowledge to the Company its liability for these obligations.

In 2015, AMB appealed its liability for the TAH. The Company believed that, if its appeal was not successful, WPC would make good on its obligation to the Company to pay the accumulated TAH, penalties and interest. It also expected its appeal would be successful as the Exploration Permits should have been transferred to POML according to Brazilian law.

In January 2017, DNPM advised AMB that its appeal had not been allowed. DNPM brought proceedings against AMB for the unpaid TAH on the Exploration Permits for 2013 and 2014 in the amount of R\$ 4,790,407. The DNPM has also levied penalties in the amount of R\$600,769. The combined total of the unpaid TAH and penalties was R\$5,391,176 as at August 4, 2017.

In order to avoid enforcement proceedings by the DNPM and to satisfy one of the conditions underlying the sale of a 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. This total amount of TAH and penalties of R\$5,626,642 includes principal of R\$4,688,868 and interest of R\$937,774. Prior to entering into the plan, the Company advised WPC of the plan, that it was 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 along with a foreign exchange adjustment of R\$171,687 (CAD\$60,415) a total of R\$5,798,785 (CAD\$2,042,681) was capitalized at the Mara Rosa property (Note 8).

In 2019 the Company paid an aggregate of R\$1,204,347 (CAD\$405,801) (2018: R\$669,533 (CAD\$241,301)) including principal of R\$1,125,328 (CAD\$379,175) (2018: R\$656,442 (CAD\$235,541)) and interest of R\$79,019 (CAD\$26,625) (2018: R\$13,092 (CAD\$5,760)) under this plan. Interest is accrued on the unpaid balance at approximately 6.7% per annum with accrued interest as at December 31, 2019 of R\$380,416 (CAD\$122,913) (2018: R\$158,532 (CAD\$55,724)).

The balance payable at December 31, 2019 including accrued interest was R\$4,225,288 (CAD\$1,365,191) (2018: R\$5,128,732 (CAD\$1,802,910)). The Company has paid principal and interest of R\$1,873,881 (CAD\$647,102) from inception to December 31, 2019.

The following table provides the continuity of this payable in Canadian dollars:

	Years ended December 31	
	2019	2018
	\$	\$
<b>Balance, beginning of year</b>	<b>1,802,910</b>	–
Amount payable at inception	–	1,982,266
Accrued interest	71,158	55,724
Repayment	(379,175)	(235,541)
Foreign exchange adjustment	(129,702)	461
<b>Balance, end of year</b>	<b>1,365,191</b>	1,802,910
Less: current portion	363,594	395,553
<b>Long-term portion</b>	<b>1,001,597</b>	1,407,357

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 19. Concession fees payable and litigation – continued

The following table provides the continuity of this payable in Brazilian reais (R\$):

	Years ended December 31	
	2019	2018
	R\$	R\$
<b>Balance, beginning of year</b>	<b>5,128,732</b>	–
Amount payable at inception	–	5,626,642
Accrued interest	<b>221,884</b>	158,532
Repayment	<b>(1,125,328)</b>	(656,442)
<b>Balance, end of year</b>	<b>4,225,288</b>	5,128,732
Less: current portion	<b>1,125,328</b>	1,125,328
<b>Long-term portion</b>	<b>3,099,960</b>	4,003,404

Total future principal payments under this installment arrangement for the remaining four years are as follows:

	\$	R\$
2020	<b>415,498</b>	<b>1,125,328</b>
2021	<b>442,505</b>	<b>1,125,328</b>
2022	<b>471,268</b>	<b>1,125,328</b>
2023	<b>205,291</b>	<b>468,887</b>

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 its claim against WPC for the TAH, penalties and interest. The Statement of Claim seeks an award of damages by reason of failure of WPC to pay for the TAH, penalties and interest paid and payable by the Company as a result of the staking of Exploration Permits in the name of AMB for WPC and, or in the alternative, an order for specific performance of the Services Agreement. The value of the claim is at least R\$5,970,016 (CAD\$2,042,681) as at December 31, 2019, excluding legal costs.

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, were subject to solicitor-client privilege in favour of WPC, had to be returned to WPC, and could not be used in the Arbitration. The Arbitration was paused pending the determination of the Petition.

The hearing of this Petition was originally scheduled for April 23-24, 2019. The Company filed a comprehensive response to the Petition, supported by the affidavits of Mr. Doyle, Mr. Dean Pekeski, a former VP Exploration of WPC, and Mr. Patricio Varas, the former President and CEO and director of WPC. Messrs. Pekeski and Varas, who were parties to the communications at issue, confirmed that the communications were not privileged or shared with the Company on matters of common interest. As a result of WPC failing to take steps to confirm the hearing date, on April 23, 2019, the Company applied to the court for directions and WPC was ordered, among other matters, to take steps to secure Petition hearing dates in July, 2019 and to file any procedural applications by May 10, 2019.

# AMARILLO GOLD CORPORATION

## Notes to the consolidated financial statements for the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

### 19. Concession fees payable and litigation – continued

On May 10, 2019, WPC delivered an application seeking to strike out all or portions of the affidavits filed by the Company. In support of its application, WPC tendered, among other things, the affidavit filed by Mr. Doyle in the Arbitration which attached the communications at issue. The Company then filed its own application seeking to strike all or portions of the affidavits relied on by WPC. The hearing of the Petition and the parties' respective applications and the Petition was heard as scheduled on October 15-17, 2019.

On January 8, 2020, the BC Supreme Court rendered judgment with respect to the Petition filed by WPC and two related applications

The court found that the disputed documents were either not privileged, were privileged but shared with Mr. Buddy Doyle in his capacity as a director of the Company to obtain his input or advice as a director of the Company, or to keep him informed as a director of the Company, or were shared with Mr. Buddy Doyle in circumstances in which WPC and the Company had a common interest – namely efforts to dispose of the Exploration Permits to a third party.

When privileged documents are shared on a matter of common interest, the documents remain privileged but can be used by one party against the other should a dispute arise. Consequently, the Company is entitled to use the documents to prove its claim in the arbitration.

The court made particularly critical comments about the affidavits of Mr. Lockwood, WPC's former lawyer, which were filed on behalf of WPC. The court described Mr. Lockwood's evidence as "inaccurate, incomplete and potentially misleading, extremely wanting, replete with general, vague and speculative propositions that are, at best, unhelpful to the Court; as fundamentally incorrect and misleading, and as unsatisfactory and insufficient".

Having determined the documents were not privileged, the court then turned its attention to the Company's claim for special costs. The court held that WPC had made serious allegations against Mr. Doyle that he had obtained the documents under false pretenses and surreptitiously. The court found these allegations unfounded and that they had absolutely no basis in fact. The court also noted that WPC had accused Messrs. Doyle, Varas and Pekeski of providing untruthful and unreliable evidence, although WPC did not challenge their evidence and hence WPC's arguments were without foundation. The court agreed that Fraser Litigation, counsel to the Company, should never have been named as a party. Finally, the court held that the accusations that Mr. Doyle and Fraser Litigation had brought the administration of justice into disrepute were "baseless" and "unfounded".

In order to chastise WPC for its conduct, the court awarded ordinary costs of the proceedings to May 10, 2019, and special costs after that date. The Company is in the process of settling the order made by the court. The Company and WPC have agreed to the appointment of Mr. Christopher O'Connor, Q.C., as the arbitrator and steps are being taken to move the claim forward.

**(b)** Due to the nature of the Company's operations, other than disclosed above, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated.

**AMARILLO GOLD CORPORATION**  
**Notes to the consolidated financial statements for the years**  
**ended December 31, 2019 and 2018**  
(Expressed in Canadian dollars)

**20. Authorization**

These consolidated financial statements for the years ended December 31, 2019 and 2018 were reviewed and adopted by the Company's Audit Committee and full Board of Directors on March 17, 2020, and were subsequently certified by the Company's Chief Executive Officer and Chief Financial Officer.