CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

Years ended
December 31, 2020 and 2019

TSXV | **AGC**

AMARILLO GOLD CORPORATION:
ON TRACK TO BECOMING A BRAZILIAN GOLD PRODUCER

We are advancing two gold projects located near excellent infrastructure in mining-friendly states in Brazil.

Our development stage Posse Gold Project is on our Mara Rosa Property in Goiás State. A positive definitive feasibility study shows Posse can be built into a profitable operation with low costs and a strong financial return. Mara Rosa also shows the potential for discovering additional near-surface deposits that will extend Posse's mine life beyond its initial 10 years.

Our exploration stage Lavras do Sul Project in Rio Grande do Sul State has more than 22 prospects centered on historic gold workings.

In this document: *we*, *us*, *our*, *Company*, and *Amarillo* mean Amarillo Gold Corporation and its wholly owned subsidiaries.

We trade on the TSXV under the symbol AGC and on the OTCQB under the symbol AGCBF. Learn more about our focus on becoming a mid-tier Brazilian gold producer at www.amarillogold.com.

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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 management. 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 that 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 with respect to 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.

/s/ Hemdat Sawh

Chief Financial Officer

Toronto, Ontario

February 25, 2021

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Amarillo Gold Corporation:

OPINION

We have audited the consolidated financial statements of Amarillo Gold Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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 during the year ended December 31, 2020, the Company had a net loss and, as of that date, had an accumulated deficit. 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.

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

February 25, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

	Notes	As at December 31 2020 $	 2019 $
Current assets			
Cash and cash equivalents		**52,423,488**	7,635,296
Accounts receivable		**65,361**	25,891
Receivable from Western Potash Corporation (WPC)	16	**510,438**	–
Prepaids and deposits		**194,454**	14,791
		53,193,741	7,675,978
Non-current assets			
Receivable from WPC – long-term portion	16	**573,268**	–
Resource properties and deferred exploration expenditures	7	**33,656,034**	30,610,913
Property and equipment	8	**4,784,406**	1,986,671
Total assets		**92,207,449**	40,273,562
Liabilities and equity			
Current liabilities			
Accounts payables and accrued liabilities		**1,224,012**	1,014,594
Due to related parties	12	**–**	224,500
Concession fees payable	16	**275,818**	363,594
		1,499,830	1,602,688
Non-current liabilities			
Concession fees payable – long-term portion	16	**504,268**	1,001,597
Total liabilities		**2,004,098**	2,604,285
Equity			
Capital stock	9	**117,900,368**	62,839,327
Contributed surplus		**11,213,116**	8,763,661
Warrants	9	**5,293,100**	6,399,688
Deficit		**(44,203,233)**	(40,333,399)
Total equity		**90,203,351**	37,669,277
Total liabilities and equity		**92,207,449**	40,273,562

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

Business of the Company and going concern (Note 1)

Commitments and contingency (Note 17)

Approved by the Board

/s/ Lawrence Lepard
Chair
Audit Committee

/s/ Rowland Uloth
Chair
Board of Directors

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(expressed in Canadian dollars except weighted average shares)

	Notes	Years ended December 31 2020 $	 2019 $
Expenses (income)			
General and administrative	13	**2,407,308**	2,745,792
Recovery of legal fees from Western Potash Corporation	16	**(187,000)**	–
Stock-based compensation	10 (e)	**1,342,867**	1,004,270
Financing advisory services		**540,965**	36,000
Foreign exchange (gain) loss		**(195,284)**	153,489
Interest income		**(50,295)**	–
Interest and finance charges		**11,273**	121,041
		3,869,834	4,060,592
Loss before the following adjustments		**(3,869,834)**	(4,060,592)
Gain on settlement of payables		**–**	5,417
Loss before income tax		**(3,869,834)**	(4,055,175)
Deferred tax (expense) recovery		**–**	–
Total loss and comprehensive loss	**10**	**(3,869,834)**	(4,055,175)
Basic and diluted loss per share		**(0.01)**	(0.03)
Weighted average shares outstanding basic and diluted	**10**	**264,858,109**	147,102,806

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(expressed in Canadian dollars)

	Capital stock $	Contributed surplus $	Warrants $	Deficit $	Total equity $
At December 31, 2018	53,594,862	7,491,946	1,234,202	(36,278,224)	26,042,786
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)	–	–
Stock-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)
At December 31, 2019	**62,839,327**	**8,763,661**	**6,399,688**	**(40,333,399)**	**37,669,277**
Private placement, net of issuance cost	55,061,041	–	–	–	55,061,041
Expired warrants	–	1,106,588	(1,106,588)	–	–
Stock-based compensation	–	1,342,867	–	–	1,342,867
Loss and comprehensive loss for the year	–	–	–	(3,869,834)	(3,869,834)
At December 31, 2020	**117,900,368**	**11,213,116**	**5,293,100**	**(44,203,233)**	**90,203,351**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

	Years ended December 31	
	2020	2019
	$	$
Operating activities		
Net loss for the year	**(3,869,834)**	(4,055,175)
Unrealized foreign exchange gain on concession fees payable net of loss on receivable from Western Potash Corporation (WPC)	**(145,185)**	(129,702)
Interest on concession fees payable	**21,231**	97,784
Stock-based compensation	**1,342,867**	1,004,270
Gain on settlement of payables	**–**	(5,417)
	(2,650,921)	(3,088,240)
Accounts receivable	**(39,470)**	115,840
Prepaids and deposits	**(179,663)**	327
Receivable from WPC	**390,457**	–
Concession fees payable	**(274,082)**	(379,175)
Accounts payable and accrued liabilities	**209,416**	(314,346)
Due to related parties	**(224,500)**	19,500
Net cash used in operating activities	**(2,768,763)**	(3,646,094)
Investing activities		
Resource properties and deferred exploration expenditures	**(4,587,264)**	(4,164,830)
Property and equipment	**(2,895,591)**	(1,364,734)
Net cash used in investing activities	**(7,482,855)**	(5,529,564)
Financing activities		
Common shares	**57,199,800**	15,281,589
Share issuance costs	**(2,138,759)**	(712,524)
Related party loan proceeds	**–**	1,000,000
Related party loan repayment	**–**	(1,000,000)
Interest paid on concession fees payable	**(21,231)**	(26,625)
Net cash from financing activities	**55,039,810**	14,542,440
Change in cash and cash equivalents during the year	**44,788,192**	5,366,782
Cash and cash equivalents, beginning of year	**7,635,296**	2,268,514
Cash and cash equivalents, end of year	**52,423,488**	7,635,296
Non-cash investing activities		
Capitalized depreciation	**97,856**	91,096
Shares issued to settle payables on resource properties	**–**	113,748
Non-cash financing activities		
Shares issued to settle payables on resource properties	-	113,748

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(expressed in Canadian dollars)

1. Business of the Company and going concern

Amarillo Gold Corporation 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, Ontario, Canada, M5C 1P1.

Amarillo is a development stage company engaged in the acquisition, exploration, and development 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.

Management is not aware of any cases of the novel strain of coronavirus known as Covid-19 among its personnel and the outbreak has not had a significant impact on operations to date. Management has an appropriate response plan in place, and will continue to monitor and assess ongoing developments and respond accordingly. However, the Company's business could be adversely impacted by the effects of Covid-19 or other pandemics.

The Company has not earned any revenue to date from its operations. It is in the process of exploring and developing its resource properties.

The recoverability of the properties' carrying values and of the related deferred evaluation and exploration expenditures depends on:

- discovering economically recoverable reserves
- maintaining the Company's interest in the underlying mineral claims
- the Company's ability to obtain necessary financing to complete their development
- establishing profitable production in the future or selling the properties for sufficient proceeds.

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 that it will be able to do so in the future. For the year ended December 31, 2020, the Company has a net loss of $3,869,834 and negative cash flows from operating activities of $2,768,763. In addition, the Company has an accumulated deficit of $44,203,233.

These consolidated financial statements have been prepared on the assumption that the Company will continue to operate for the foreseeable future and 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 obtain financing and to attain profitable operations. There are no assurances that the Company will successfully achieve 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 using 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.

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 and the International Financial Reporting Interpretations Committee. These consolidated financial statements are presented in Canadian dollars and include the Company's subsidiaries as detailed below.

Subsidiary	Ownership
Amarillo Mineraçâo do Brasil Ltda (AMB)	100%
LDS Mineraçâo do Brasil Ltda	100%

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 prevailing rates of exchange on 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.

d) Classifying and measuring financial instruments

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:

- one – the object of the Company's business model for these financial assets is to collect their contractual cash flows, and
- two – 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.

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 for 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 and cash equivalents

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and guaranteed investment certificates. 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 maintaining 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 on the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete the development of the properties, and on future production or proceeds of disposition.

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

g) 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 there is an indication, 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 that the asset belongs to. Where it can identify a reasonable and consistent basis of allocation, it also allocates corporate assets to individual cash-generating units, or otherwise allocates them to the smallest group of cash-generating units for which it can identify a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to 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, 2020 and 2019.

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. 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.

l) Loss per share

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

m) Measurement uncertainty

Preparing financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Items affected by significant estimates include, but are not limited to, 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, which could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to the following:

- *The recoverability of the receivable from WPC*
  There is no allowance for credit loss on the receivable from WPC. In determining the recoverability of this receivable, the Company considered the credit quality of WPC. The Company has determined that there are no indications of an impairment in this receivable. However, this assessment could change if there is a deterioration in the financial condition of WPC.

- *The recoverability of resource properties and deferred exploration expenditures*
  The recoverability of resource properties is uncertain because of the estimates and judgments like 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 management to forecasts 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 during 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 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. Management believes 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.

4. Capital risk management

Amarillo uses its capital structure and the funds its capital generates to acquire, explore, and develop mineral properties. The Company's capital is made up of share capital, other equity components, and accumulated deficit. It totalled $90,203,351 at December 31, 2020 (December 31, 2019 – $37,669,277).

Amarillo depends on external financing to fund its activities, because all the properties that the Company has an interest in are in the exploration and development stage. The Company will continue to assess new properties and may seek to acquire interests in more properties if:

- there is enough geologic or economic potential, and
- the Company has the financial resources to do so.

The Board of Directors has not set quantitative return on capital criteria for management, and relies on the expertise of the Company's management team to sustain the future development of the business.

Management believes that its approach to capital management is appropriate to the size of the company. It reviews this approach on an ongoing basis, and made no changes during the year ended December 31, 2020.

The Company and its subsidiaries are not subject to any externally imposed capital requirements.

5. Financial risk factors

Amarillo's activities expose it to three key financial risks:

- credit risk
- liquidity risk
- market risk, including interest rate, foreign rate, and gold price risk.

The Company's management team is responsible for managing these risks. It receives guidance from the Audit Committee under policies approved by the Board of Directors, which also provides regular guidance on overall risk management.

CREDIT RISK

Credit risk is the risk of loss associated with a counterparty's inability to make its payment obligations.

The Company's credit risk is primarily attributable to cash and cash equivalents, receivable from WPC, and accounts receivable. Credit risk on cash and cash equivalents is remote, as they are held with reputable financial institutions and closely monitored by management.

Management believes that the credit risk for financial instruments included in accounts receivable is remote. Most of the receivables are made up of taxes receivable, so no amount was applied to the expected credit losses.

As at December 31, 2020 and December 31, 2019, no receivable was considered impaired.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will be unable to meet its short-term financial obligations.

The Company's goal in managing this risk is making sure it can meet its liabilities when they are due. However, 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 favourable (Note 1).

At December 31, 2020, the Company had a cash and cash equivalents balance of $52,423,488 (December 31, 2019 – $7,635,296) to settle current liabilities of $1,499,830 (December 31, 2019 – $1,602,688).

MARKET RISK

Market risk is the risk of loss from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company regularly monitors its cash management policy of investing excess cash in high yield savings accounts. 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. It transacts major purchases in Canadian dollars and Brazilian Reais (BRL). It maintains a Brazilian Real-denominated bank account to fund exploration expenses with enough 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 at December 31, 2020, the Company was not a gold producer. However, gold price risk affects the completion of future equity transactions like equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are *reasonably possible* over a three-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, 2020 and 2019.

b) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable, receivable from WPC, and accounts payable denominated in Brazilian Reais, 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 year ended December 31, 2020 by approximately $111,100 (December 31, 2019 – $3,400).

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, 2020 by approximately $441,100 (December 31, 2019 – $5,200).

6. Categories of financial instruments

	As at December 31	
	2020	2019
	$	$
Financial assets		
Fair value through profit and loss		
Cash and cash equivalents	**52,423,488**	7,635,296
Amortized cost		
Accounts receivable, excludes HST/GST receivable	**11,460**	12,881
Receivable from WPC	**1,083,706**	–
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	**1,224,012**	1,014,594
Due to related parties	**–**	224,500
Concession fees payable	**780,086**	1,365,191

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 to make the measurements. The fair value hierarchy has the following levels:

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

The fair value of cash and cash equivalents, accounts receivable, receivable from WPC 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, 2020 and December 31, 2019, cash and cash equivalents were measured at fair value and are classified within Level 1 of the fair value hierarchy.

7. Resource properties and deferred exploration expenditures

	Mara Rosa $	Lavras do Sul $	December 31, 2020 $	December 31, 2019 $
Resource properties				
Balance, beginning of year	1,067,278	2,968,088	4,035,366	4,035,366
Additions during the year	74,153	–	74,153	–
Balance, end of year	1,141,431	2,968,088	4,109,519	4,035,366
Deferred evaluation and exploration expenditures				
Balance, beginning of year	13,410,650	13,164,897	26,575,547	22,208,788
Expenditures during the year				
Engineering and consulting	1,896,848	188,573	2,085,421	1,957,876
Drilling and related costs	450,768	347,651	798,419	780,183
Assays and metallurgy	340,797	97,388	438,185	319,156
Aeromagnetic survey	–	–	–	125,249
Exploration	–	144,297	144,297	14,475
Transportation	24,186	12,919	37,105	21,414
Concession taxes	91,836	13,598	105,434	106,020
Travel	23,435	989	24,424	71,781
Depreciation	97,448	408	97,856	91,096
Salaries	425,607	144,384	569,991	615,526
Other evaluation and exploration expenses	173,040	136,796	309,836	263,983
ANM concession fees recoverable from WPC (Note 16)	(1,640,000)	–	(1,640,000)	–
	1,883,965	1,087,003	2,970,968	4,366,759
Balance, end of year	15,294,615	14,251,900	29,546,515	26,575,547
Total	16,436,046	17,219,988	33,656,034	30,610,913

MARA ROSA

The Mara Rosa Property, which includes Amarillo's flagship Posse Gold Project, is located near the town of Mara Rosa in Goiás State in central Brazil, 335 kilometres northwest of the national capital of Brasilia, Brazil.

Mara Rosa consists of exploration tenements covering an area totalling 68,974 hectares, including the 6,940 hectares described below, and the mining concessions (the Posse Gold Project) that cover an area totalling 2,553 hectares.

This property is 100% controlled by Amarillo, although the ground is subject to a:

- 1% Net Smelter Return (NSR) royalty to Franco Nevada Corporation, and
- 1.0% NSR royalty to Royal Gold, Inc. that was increased to 2.75% as of June 29, 2018.

On June 29, 2018 the Company entered into an agreement to sell a 1.75% NSR royalty on the Posse Gold Project (the Royalty Agreement) to RG Royalties, LLC, for US$10,800,000 (CDN$14,221,440).

RG Royalties is a wholly-owned subsidiary of Royal Gold, Inc. (Royal Gold).

The Company's obligations under the royalty will be secured by Posse Gold Project assets; however, the Royalty Agreement contemplates and permits a potential future first ranking project financier.

On January 8, 2020, the Company acquired from an unrelated party nine exploration tenements comprising 6,940 hectares approximately four kilometres north east of the Posse Gold Project. The Company paid US$50,000 upon signing the agreement and paid an additional US$50,000 on January 8, 2021.

In addition, the Company will be required to pay US$500,000 upon the successful conversion of any of these exploration tenements into a mining concession before November 19, 2021. These tenements are also subject to a 1% net smelter royalty payable to the acquiree that can be purchased for US$500,000.

LAVRAS DO SUL PROPERTY

Rio Tinto Agreement

The Company acquired an option on the Lavras do Sul property (the Lavras Project) from Rio Tinto Desenvolvimentos Ltda. (Rio Tinto) in October 2006.

The Lavras project area covers 220 square kilometres and is located in the state of Rio Grande do Sul, approximately 320 kilometres by paved road southwest of the state capital Porto Alegre.

Amarillo's requirements under the option terms were to:

- pay US$1,265,000 through various instalments up to January 31, 2008, to acquire an initial 60% interest in the property – payments made
- issue 2,000,000 warrants exercisable at $0.50 to Rio Tinto within 60 days of signing the final agreement – these warrants were issued and expired on January 22, 2010
- spend US$2,550,000 by January 31, 2008 exploring the property – spent.

Having met these 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 have to pay a 1.5% net smelter royalty (NSR) on production. The Company has not entered into a joint venture, but continues to negotiate this agreement with prospective partners. Amarillo may withdraw from this agreement at any time by giving 30 days written notice.

If Amarillo forms a joint venture with the underlying owners as set out in the option agreement, Amarillo must also make the following payments to Rio Tinto:

- US$1,806,000 upon receipt of the Installation License covering the Lavras Project, and
- Pay a 0.5% NSR on production from the Lavras Project.

IAMGOLD Agreement

On May 23, 2008, a Heads of Agreement was signed between IAMGOLD Corporation (IAMGOLD) and Amarillo. This agreement gave Amarillo the right to acquire an 80% interest in eight license areas with a cumulative net area of approximately 7,000 hectares (the Property) that are contiguous to the Lavras Project.

Under the agreement, Amarillo can earn a 51% interest by spending US$800,000 on exploration over three years that includes at least 2,000 metres of drilling. At least US$200,000 must be spent in the first 12-month period. If IAMGOLD does not 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.

Once a feasibility study is completed on the Property, IAMGOLD has 60 days to choose one of the following three options:

- Contribute its pro rata share to future funding.
- Dilute its interest to a 2.0% NSR; Amarillo can buy back 1.0% of this NSR for US$1,000,000 any time before production starts.
- If Amarillo has identified a gold mineral reserve that's at least 2.5 million ounces on the Property, IAMGOLD can exercise a one-time back-in right to increase its participating interest to 60% and become the operator by paying three times Amarillo's exploration costs up to the date that IAMGOLD exercised this right.

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

8. Property and equipment

	Property $	Deposits on equipment $	Software $	Furniture equipment and vehicles $	Computer hardware $	Total $
Cost						
Balance as at December 31, 2018	482,567	–	142,584	178,918	65,918	869,987
Additions for the year	1,329,504	–	29,079	3,674	2,478	1,364,735
Balance as at December 31, 2019	1,812,071	–	171,663	182,592	68,396	2,234,722
Additions for the year	**2,026,794**	**714,054**	**39,608**	**83,166**	**34,845**	**2,898,468**
Balance as at December 31, 2020	**3,838,865**	**714,054**	**211,271**	**247,781**	**103,241**	**3,638,334**
Accumulated depreciation						
Balance as at December 31, 2018	–	–	35,646	84,883	39,340	159,869
Depreciation for the year	–	–	72,666	12,544	2,972	88,182
Balance as at December 31, 2019	–	–	108,312	97,427	42,312	248,051
Depreciation for the year	**–**	**–**	**72,940**	**22,413**	**5,380**	**100,733**
Balance as at December 31, 2020	**–**	**–**	**181,252**	**119,840**	**47,692**	**348,784**
Carrying amounts						
At December 31, 2019	1,812,071	–	63,351	85,165	26,084	1,986,671
At December 31, 2020	**3,838,865**	**714,054**	**30,019**	**145,919**	**55,549**	**4,784,406**

Depreciation for the year ended December 31, 2020 amounting to $97,856 (December 31, 2019: $91,096) has been included as a deferred exploration cost of the Mara Rosa property.

9. Capital stock

a) Authorized

Unlimited number of common shares.

b) Issued

	Shares	Amount ($)
Balance, December 31, 2018	114,455,208	53,594,862
Private placement, net issuance cost (i)	26,382,950	5,204,966
Fair value of warrants issued under private placement (i)	–	(1,554,131)
Private placements, net of issuance cost (ii)	50,025,000	9,224,268
Fair value of warrants issued under private placement (ii)	–	(3,738,969)
Issued to settle payables (iii)	541,656	108,331
Balance, December 31, 2019	**191,404,814**	**62,839,327**
Private placement and prospectus offerings, net of issuance cost (iv)	190,666,000	55,061,041
Balance, December 31, 2020	**382,070,814**	**117,900,368**

(i) 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 has 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.

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%.

(ii) 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 2 years, forfeiture rate of 0%, and dividend yield of 0%.

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

(iii) 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 a payable of $113,748. 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.

(iv) On August 13, 2020, the Company closed a combined private placement and short form prospectus offering (the Offerings) through the issuance of 190,666,000 common shares of the Company at a subscription price of $0.30 per common share for aggregate gross proceeds to the Company of $57,199,800. The Company paid total commissions of $1,710,696, plus legal, filing and other related costs of $428,063 for aggregate cost of issue of $2,138,759 and net proceeds of $55,061,041.

Management and directors of the Company subscribed for 1,940,000 common shares for an aggregate amount of $582,000.

Mackie Research Capital Corporation (Mackie) offered the private placement, purchasing 118,967,000 common shares for $35,690,100 on an underwritten basis as sole underwriter and bookrunner. Mackie also led the public offering as lead underwriter and sole bookrunner on behalf of a syndicate of underwriters including Sprott Capital Partners LP (the Underwriters). The Underwriters purchased 71,699,000 common shares for $21,509,700 for the bought deal short form prospectus offering.

As consideration for the services rendered in connection with the Offerings:

- Mackie received a cash commission of up to 4.0% of the gross proceeds from the private placement
- the Underwriters received a cash commission of up to 6.0% of the gross proceeds from the public offering.

c) Warrants

	Warrants #	Weighted average exercise price $	Value of warrants $
Balance, December 31, 2018	9,832,636	0.38	1,234,202
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)	0.32	(127,614)
Balance, December 31, 2019	85,621,836	0.31	6,399,688
Expired	(9,213,886)	0.38	(1,106,588)
Balance, December 31, 2020	**76,407,950**	**0.30**	**5,293,100**

Details of the warrants outstanding are as follows:

Expiry date	Warrants #	Weighted average exercise price $
May 31, 2021	25,424,435	0.30
June 14, 2021	958,515	0.30
August 29, 2021	50,025,000	0.30
	76,407,950	**0.30**

d) Broker compensation options

As described in Note 9(b)(ii), 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%.

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 at a minimum over a period of 12 months.

	Options #	Weighted average exercise price $
Balance, December 31, 2018	8,765,000	0.29
Granted	5,000,000	0.25
Expired	(270,000)	(0.35)
Balance, December 31, 2019	13,495,000	0.28
Granted	**7,980,000**	**0.33**
Expired	**(415,000)**	**(0.29)**
Balance, December 31, 2020	**21,060,000**	**0.29**

Details of the stock options outstanding and exercisable are as follows:

Number of options	Exercisable at December 31, 2020	Exercise price $	Fair value at date of grant $	Remaining contractual life years
440,000	440,000	0.25	90,521	0.34
1,000,000	1,000,000	0.28	308,132	0.49
200,000	200,000	0.37	64,671	1.12
500,000	500,000	0.36	156,472	1.44
4,390,000	4,390,000	0.31	1,237,464	2.01
200,000	200,000	0.23	40,000	2.39
50,000	50,000	0.22	10,000	2.44
1,400,000	1,400,000	0.23	318,640	2.71
300,000	300,000	0.21	50,580	3.50
4,200,000	4,200,000	0.25	751,402	3.74
400,000	–	0.25	69,898	3.74
7,930,000	5,282,500	0.33	1,930,162	4.75
50,000	12,500	0.30	10,900	4.90
21,060,000	**17,975,000**	**0.29**	**5,038,842**	**3.37**

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	
	2020	2019
Weighted average fair value per options ($)	**0.24**	0.17
Weighted average risk-free interest rate (%)	**0.35**	1.41
Expected life (years)	**5.0**	5.0
Weighted average expected volatility (%)	**100**	108
Expected rate of forfeiture	**nil**	nil
Expected dividend yield	**nil**	nil

The fair value compensation and contributed surplus relating to stock options vested for the year ended December 31, 2020 was $1,342,867 (2017: $1,004,270).

10. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2020 was based on the loss attributable to common shareholders of $3,869,834 (December 31, 2019 – $4,055,175) divided by the weighted average number of common shares outstanding of 264,858,109 (December 31, 2019 – 147,102,806).

11. Related party loan

	As at December 31	
	2020	**2019**
	$	**$**
Balance, beginning of year	–	–
Advances	–	1,000,000
Interest accrual	–	–
Repayment	–	(1,000,000)
Balance, end of year	–	–

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.

12. Related party transactions and balances

As at December 31, 2020 and December 31, 2019, the balance due to related parties is comprised of the following:

	As at December 31	
	2020	2019
	$	$
Due to corporations controlled by directors	–	28,750
Due to directors	–	195,750
	–	224,500

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

During the years ended December 31, 2020 and 2019, the Company incurred charges with directors, officers, and companies with a common director as follows:

	Years ended December 31	
	2020	2019
	$	$
Salaries paid to officers	**500,000**	500,000
Directors' fees	**210,000**	172,500
Exploration costs and consulting fees charged by directors' corporations	**37,950**	113,748
	747,950	786,248

During the year ended December 31, 2020, the Company granted to directors and officers 6,600,000 (2019: 4,050,000) options at a weighted average exercise price of $0.33 (2019: $0.25) expiring up to October 1, 2025 (2019: September 25, 2024).

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

13. General and administrative expenses

General and administrative expenses consist of the following:

		Years ended December 31	
		2020	2019
	Notes	**$**	$
Consulting fees		**371,223**	323,434
Professional fees		**713,288**	856,267
Salaries and benefits	12	**667,522**	698,986
Directors' fees	12	**207,656**	172,500
Marketing and promotion		**107,417**	314,507
Filing and transfer agent fees		**135,904**	78,509
Travel		**9,688**	41,304
Other general and administrative		**194,610**	260,285
		2,407,308	2,745,792

14. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% for the year ended December 31, 2020 (2019: 26.5%) to the effective tax rate is as follows:

	Years ended December 31	
	2020	2019
	$	$
Net loss before income tax expense (recovery)	**(3,869,834)**	(4,055,175)
Expected income tax recovery	**(1,025,510)**	(1,074,620)
Difference in foreign tax rates	**(14,710)**	(90,180)
Share issuance costs charged to equity	**(566,770)**	(230,140)
Permanent differences	**356,110**	267,550
Resource properties not deductible for tax	**62,890**	475,610
Change in tax benefits not recognized	**1,187,990**	651,780
Income tax expense (recovery)	**–**	–

The following table summarizes the components of deferred tax:

	As at December 31	
	2020	2019
	$	$
Deferred tax assets		
Non-capital losses carried forward	**2,145,520**	2,239,990
Deferred tax liabilities		
Mineral properties	**–**	(15,660)
Note payable/receivable	**(2,145,520)**	(2,224,330)
	(2,145,520)	(2,239,990)
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:

	As at December 31	
	2020	2019
	$	$
Non-capital losses – Canada	**9,775,860**	7,319,180
Non-capital losses – Brazil	**1,266,990**	769,660
Share issue costs and financing fees	**2,373,020**	794,950
Mineral properties	**14,960**	–
	13,430,830	8,883,790

The Company's Canadian total non-capital income tax losses of $17,857,230 expire as noted in the table below. These include losses of $8,081,370 that are recognized as deferred tax assets, and $9,775,860, which are not. Share issue and financing costs will be fully amortized in 2024. 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.

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

	$
2026	382,000
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	2,073,160
2040	2,890,570
	17,857,230

15. 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 $
December 31, 2020			
Current assets	48,585,379	4,608,362	53,193,741
Receivable from Western Potash – long-term portion	573,268	–	573,268
Resource properties and deferred exploration expenditures	–	33,656,034	33,656,034
Property and equipment	–	4,784,406	4,784,406
	49,158,647	43,048,802	92,207,449
December 31, 2019			
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
	6,834,606	33,438,956	40,273,562

16. Concession fees payable and receivable from WPC

The Company entered into a services agreement (the Services Agreement) dated April 28, 2008 with Western Potash Corporation (WPC), a British Columbia Company. This 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 and now renamed ANM), 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 that 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 ANM for a total gross amount of TAH payments, penalties, and interest of BRL4,660,707. ANM 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 be liable to the ANM 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.

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, ANM advised AMB that its appeal had not been allowed. ANM brought proceedings against AMB for the unpaid TAH on the Exploration Permits for 2013 and 2014 in the amount of BRL4,790,407. The ANM has also levied penalties in the amount of BRL600,769. The combined total of the unpaid TAH and penalties was BRL5,391,176 as at August 4, 2017.

In order to avoid enforcement proceedings by the ANM and to satisfy one of the conditions underlying the sale of a royalty to Royal Gold as described in Note 7, AMB entered into an agreement with the ANM to pay an estimated monthly amount of BRL93,778 or a total of BRL5,626,642 plus monthly accrued interest over a five year period commencing on June 29, 2018.

Prior to entering into the plan, the Company advised WPC of the plan, and that it was done under protest and without any waiver of its claims against WPC. The Company recorded the initial liability of BRL5,626,642 (CAD$1,982,266) and along with a foreign exchange adjustment of BRL171,687 (CAD$60,415) a total of BRL5,798,785 (CAD$2,042,681) was capitalized at the Mara Rosa properties.

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

	As at December 31	
	2020	2019
	$	$
Balance, beginning of year	**1,365,191**	1,802,910
Accrued interest	**21,231**	71,158
Repayment	**(295,314)**	(379,175)
Foreign exchange adjustment	**(311,022)**	(129,702)
Balance, end of year	**780,086**	1,365,191
Less: current portion	**275,818**	363,594
Long-term portion	**504,268**	1,001,597

The following table shows the continuity of this payable in Brazilian Reais (BRL):

	As at December 31	
	2020	2019
	BRL	BRL
Balance, beginning of year	**4,225,288**	5,128,732
Accrued interest	**82,767**	221,884
Repayment	**(1,125,328)**	(1,125,328)
Balance, end of year	**3,182,727**	4,225,288
Less: current portion	**1,125,328**	1,125,328
Long-term portion	**2,057,399**	3,099,960

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

	$	BRL
2021	271,767	1,125,328
2022	271,767	1,125,328
2023	113,236	468,887

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.

On December 21, 2018, WPC filed a petition (the Petition) seeking an order that certain communications that were sent or received by 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.

On January 8, 2020, the Supreme Court of British Columbia rendered judgment in favour of the Company with respect to the Petition filed by WPC and two related applications. The court awarded ordinary costs of the proceedings up to May 10, 2019, and special costs after that date (together the Award) to the Company.

On April 15, 2020, the Company and WPC agreed to settle this dispute (the Agreement). Under the Agreement, WPC will pay Amarillo $426,000 for a portion of payments made by the Company from June 2018 until February 2020. This amount will be repaid in 24 monthly instalments of $17,000 starting on April 28, 2020 and ending March 28, 2022. A final instalment of $18,000 will be paid on April 28, 2022.

WPC has the right to pay any balance owing in a lump sum at any time.

WPC has also assumed full responsibility for the outstanding taxes payable to ANM. This amount was BRL4,540,748 (CDN$1,383,742) at February 29, 2020.

WPC will pay Amarillo $33,000 every month, starting with March 2020. The March payment was made on April 21, 2020. Every payment thereafter will be made on the 28th day of every month, up to and including May 28, 2023, as AMB continues to pay the outstanding taxes to ANM. The monthly payments are subject to quarterly adjustments to account for the fluctuations in the exchange rate between the Canadian dollar and Brazilian real. These adjustments began on July 15, 2020.

WPC also agreed to pay the costs awarded by the Court within 14 days of agreeing to the amount. On April 29, 2020, it was agreed that WPC would pay $187,000 to satisfy the Award. This amount was recorded as a recovery of legal expenses in the Company's statement of loss and comprehensive loss for the year ended June 30, 2020.

As security for its obligation to pay the settlement amounts described above (the Settlement Amounts), both Amarillo and WPC have jointly instructed the Arbitrator to make a consent award pursuant to Rule 37 of the Arbitral Rules that records WPC's obligations of WPC under the terms of the Agreement (the Consent Award). This Consent Award terminated the Arbitration without costs to any party.

If WPC defaults on any payment of the Settlement Amounts, and does not remedy this default within 15 days of the payment due date, then the entire amount remaining to be paid by WPC shall become immediately due and payable. Amarillo will be at liberty to file and/or register the Consent Award in the Supreme Court of British Columbia, or in any other court of competent jurisdiction, and be entitled to proceed against WPC to collect the outstanding amount.

The Settlement Amounts were recorded as a reduction in the carrying value of the Mara Rosa properties. The Settlement Amounts total $1,640,000 and include:

- $426,000 in payments previously made by the Company
- $1,214,000 (BRL4,061,559) liability to ANM at the end of February 2020.

The following table shows the continuity of the receivable from WPC:

	As at December 31	
	2020	2019
	$	$
Settlement for previous payments		
Balance, beginning of year	–	–
Settlement amount	**426,000**	–
Amount received	**(136,000)**	–
Balance, end of year	**290,000**	–
Less: current portion	**221,000**	–
Long-term portion	**69,000**	–
Receivable for ANM concession fees payable		
Balance, beginning of year	–	–
ANM fees payable at end of February 2020 (BRL4,061,559)	**1,214,000**	–
Amount received	**(254,457)**	–
Foreign exchange adjustment	**(165,837)**	–
Balance, end of year	**793,706**	–
Less: current portion	**289,438**	–
Long-term portion	**504,268**	–
Total receivable from WPC		
Total current portion	**510,438**	–
Total long-term portion	**573,268**	–
Total	**1,083,706**	–

17. Commitments and contingency

The Company has entered into agreements with certain landowners for surface rights at the Mara Rosa property. In addition, the Company has signed contracts for engineering and certain long lead time equipment in anticipation of construction of the mine at Mara Rosa. As at December 31, 2020, the aggregate commitment for these items amounted to $7.3 million (BRL29.9 million).

Due to the nature of the Company's operations, 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.

18. Authorization

These consolidated financial statements for the year ended December 31, 2020 and 2019 were reviewed and adopted by the Company's Audit Committee and Board of Directors on February 25, 2021, and subsequently certified by the Company's Chief Executive Officer and Chief Financial Officer.