



## **Amarillo Gold: Finding Lots and Lots of Yellow Metal**

**A Monday Morning Musing from Mickey the Mercenary Geologist**

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When the gold market began to turn strongly positive in mid-2003, those of us who had weathered a long five years with meager work and little opportunity in the junior resource sector realized we were on the verge of the next big boom. We had thought that previously with the false start of May 2002. But this later move has proven to have very long legs.

We are now in year six of a secular bull market for commodities, and it has been led by gold and oil. The main ingredient for a robust junior resource stock market is a robust gold price. It's been that way in our microcap market for about as long as I can remember.

By Q4 of 2003, the Venture Exchange was off and running. Smart money poured in. Shells reincarnated so fast that within a year there were none of merit left. I was going all in. As fast as my consulting fees came in the front door, they went out the back door for another stock opportunity.

At the time I was working in Latin America with a group of Aussie geos called Ironbark International. You may know some of these guys or at least have heard of their success with several companies that emerged from the ashes in 2002-2003. But realize they are Aussies so their real claim to fame is the craziest party of the year at PDAC.

One of the movers and shakers in the group was Rick Brown, a geologist and businessman largely responsible for identifying and acquiring the flagship properties. Rick was bullish on the gold potential of Brazil so he moved there, learned Portuguese, got an MBA, and acquired the flagship property with his own out-of-pocket money. Then he found a shell and vended it in.

Have you ever heard of this issuer: "Consolidated Excellerated Resources"? Not only is that a mouthful but I think it's a really bad name for a venture capital company; sounds like a black hole into which naive investors throw shovelfuls of money.

It may have been one of those bottom-feeder internet companies in the late '90s whose business model was so bad they couldn't get listed in the US during the dotcom bubble. So they used the Vancouver Stock Exchange as a last resort to go public.

But what the company once was is not important because it morphed thru a reverse takeover into a good exploration company with a neat name:

### **Amarillo Gold Corporation (AGC.V).**

*Amarillo* means yellow in Spanish: *Yellow* Gold Corp. You gotta love that. You also have to love its success as a gold explorer. AGC has found lots and lots of the yellow metal in four years of exploration. I'll explain that later.

But first let's review the five-year chart and Amarillo's share structure:



I show the five year chart to illustrate the company's progression as drilling results and a gold resource were delivered. AGC traded in a flat range from the mid 20 to mid 30 cent range from its inception with a property of merit until late 2006. At that time, positive news on its projects initiated a bull phase with the stock rapidly rising to 75c and then as high as \$1.60. It sold off to 70 cents and traded from that price to \$1.00 in mid '07 to early '08. High volume spikes in Q1 and Q2 2008 coincided with positive drill results and took the stock to an all time high of \$1.84. The economic crash left the company as low as 35 cents in late 2008. Since the selloff of September to December 2008, Amarillo Gold built a strong chart thru Q3 of 2009. Since that time, it has sold off again to a share price of about 65-70 cents but has a strong base in the present trading range.

Amarillo has a well managed and tightly held share structure with 47.7 million shares outstanding and 50.6 million fully diluted, with 2.9 million options and no warrants. The options are priced from 32 cents to \$1.15 with expiries from Jan 2011 to Jan 2012. The 52 week high is \$1.06, the low is 51 cents, and it has traded between 65 and 84 cents in the past 30 days. With its most recent close of 65 cents, market capitalization is about \$31 million.

Insiders control about 12% of the company and various institutions and core investors own about 60%, and gold mining companies own 8%. The public float is only 20% or about nine million shares. This

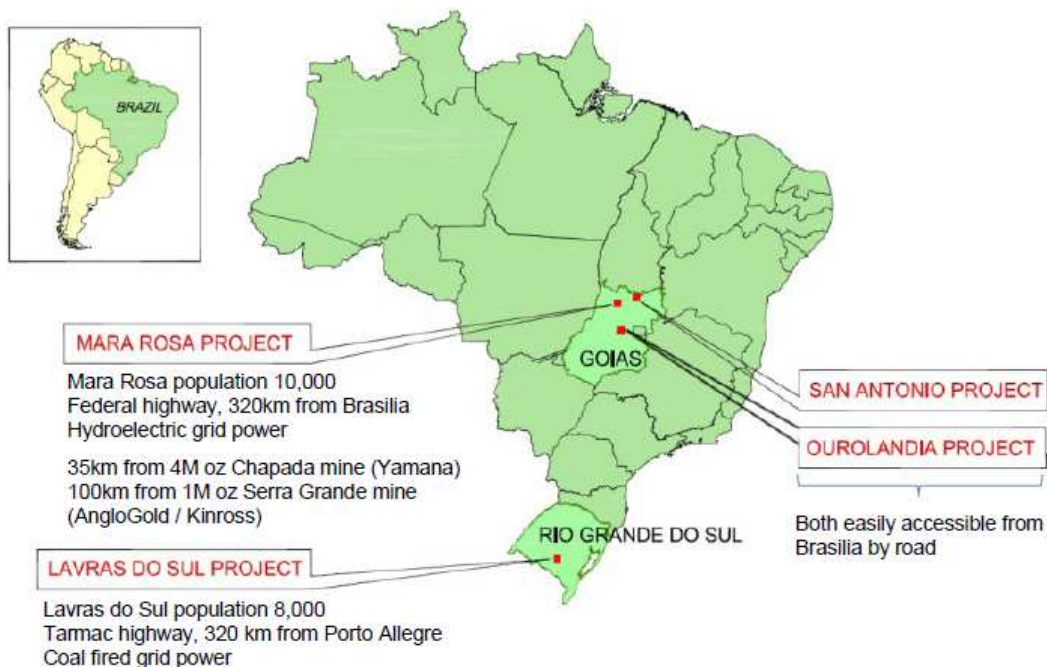
explains why the stock has low liquidity, trading about 90,000 shares per week over the past 12 months. Obviously there are not a lot of sellers at this price.

Current burn rate is \$300,000 / month with a drill program on-going. AGC has working capital of \$1.2 million and will go to the market for a major financing within the next couple of months.

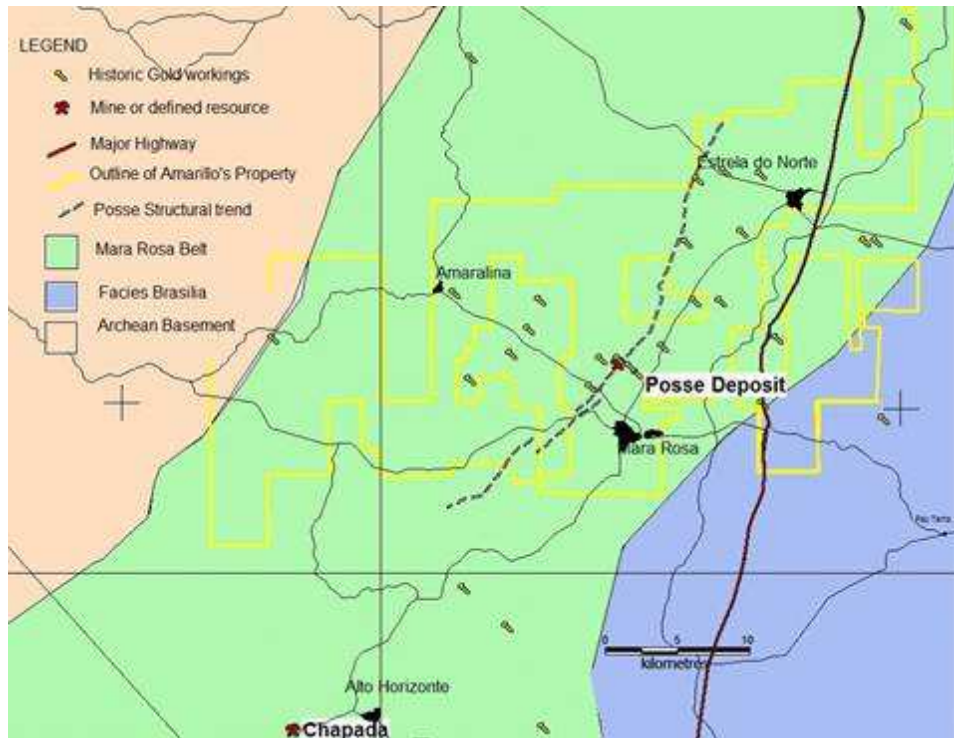
Management of Amarillo Gold Corporation is top notch. I mentioned founder, director, and COO Rick Brown, a geologist with 35 years of broad ranging exploration, development, and business experience for majors and junior resource companies. He was responsible for identifying and acquiring the original flagship project and the shell. Geologist and CEO Buddy Doyle has an impressive 23 year track record with Rio Tinto, including major roles at the Lihir gold and Diavik diamond mines. He left Rio Tinto to become part of the AGC team in early 2004. I have known these two principals since the company was founded.

Other key personnel include Chairman Bob Landis, an investment banker and attorney, director Pat Power, a Vancouver broker, and geologist Luis Silva, the general manager in Brazil, recently appointed director Todd Bruce, ex-CEO of IAM Gold, and Michaela Durose, a Toronto-based mining analyst.

The share structure and people meet my strict criteria but as an economic geologist, it's all about the projects. Amarillo Gold's two flagship properties in Brazil, Mara Rosa and Lavras do Sul, are the primary reason I'm covering this company. It also has two early stage projects, Ouarolandia and San Antonio.



**Mara Rosa** is a greenstone gold project located near the village of Mara Rosa, Goiás state. The project encompasses approximately 60,000 hectares of exploration permits and 2600 hectares of mining permits. Local infrastructure is excellent, with access to the country's main north-south highway 11 km away, grid power on site, abundant surface water, and a hydroelectric dam at 35 km. Nearby cities include Brasilia and Goiania within 300-350 km. The main target is the Posse deposit within a 12 km trend of prospective shear-hosted gold mineralization that Amarillo controls.



### **Geology of Mara Rosa with land in yellow, gold workings, and structural trend.**

Mara Rosa was discovered in the early 1980's by BHP. Western Mining Corp conducted a small-scale open pit mining operation from 1992-1995. About 80,000 ounces of sulfide ore was produced by WMC. Metallica Resources bought the project in 1996 and conducted minor exploration. Prior operators completed 233 holes totaling nearly 20,000 m on the project, mainly on the Posse deposit.

Amarillo Gold bought Mara Rosa in late 2003 for \$450,000 subject to an NSR of 2%. The RTO was finally completed in late 2005 and the company started drilling immediately. Since acquisition it has drilled 37 holes for 7000 meters on the property in 2005-2008 and completed a 43-101 qualified mineral resource estimate in early 2007. It should be noted that there have only been seven holes drilled on the 12 km trend of prospective ground outside the Posse resource area.

Using a 0.5 g/t cut-off grade and a high cut of 30 g/t Au, the Posse deposit has an indicated resource of 13.5 million tonnes at 1.48 g/t Au or 643,000 oz gold and an inferred resource of 13.3 million tonnes at 1.26 g/t Au or 538,000 oz gold.

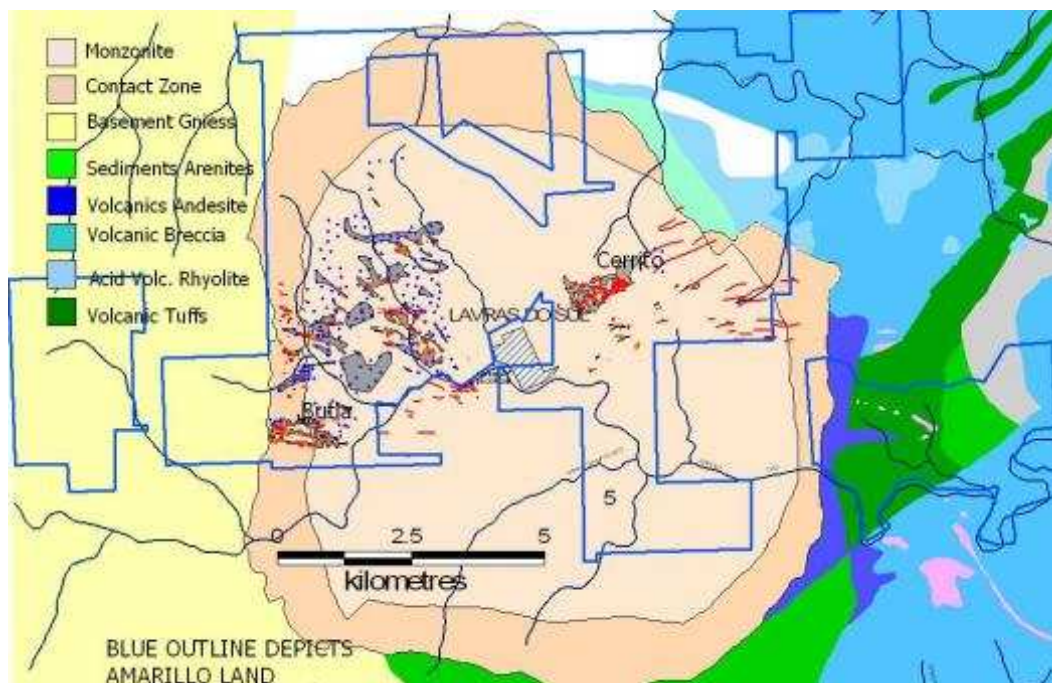
The project was dormant from early 2008 until recently as AGC focused on its second flagship project. A comprehensive metallurgical study was started in the fall of 2009 and results are expected within the next few weeks. Once it is received, a pre-feasibility study will be commissioned.

The **Lavras do Sul** project is an alkalic intrusion gold deposit and is located in the southern state of Rio Grande do Sul near the Uruguay border. The project encompasses over 20,000 hectares of exploration permits and private mineral holdings with 20 areas of old mine workings. Local infrastructure is excellent with a sealed road and farm tracks crossing the project.

Gold rushes in the 1880's and 1930's produced about 350,000 oz. of gold from placers and oxidized rock. Only grades above 4 g/t Au were mined. A state-owned company drilled holes at the Butia and Cerrito prospects in 1985 and returned assays in sulfide around 1 g/t Au. In 2004 Rio Tinto consolidated a large portion of the district's fractious land position and tested for a large oxide gold blanket with six meter drill holes in the northwest part of the intrusion. They also drilled four holes into Cerrito and Butia confirming the work in the mid-1980s and conducted preliminary metallurgical tests with gold recovery of 92 % using flotation and cyanide leach.

Amarillo acquired the project from Rio Tinto in September 2006. Under terms of that agreement, AGC owes \$800,000 to Rio upon entering a joint venture with local landowners. If a seven million ounce reserve is delineated, Rio has a claw-back right of 60% for three times Amarillo's exploration expenditures and it expires if not exercised. Amarillo must pay Rio Tinto \$6.50 per ounce of gold when it places one million ounces or more into reserve.

AGC has drilled initial scout holes on five large alteration targets with old workings. Four returned intercepts of >50 g/t Au and require more work. The most advanced prospects are Butia and Cerrito and are discussed further below.



**Geology of Lavras do Sul with land in blue, alteration in gray, and silica veins in red.**

Since acquiring the project in 2006, AGC has drilled 88 holes totaling over 17,000 meters. Highlights of the Butia drill program include:

Hole	Prospect	From	Intercept	Grade
LDH-122	Butia	46m	232m	1.95g/t
LDH-123	Butia	80m	227m	1.84g/t
LDH-128	Butia	87m	120m	3.23g/t
LDH-01	Butia	0m	170m	1.00g/t
LDH-37	Butia	32m	88m	1.70g/t

These long intercepts of ore grade material at shallow depths indicate strong potential for a significant gold deposit. Amarillo is currently drilling a minimum 5000 meter program to define and delineate Butia and Cerrito. When completed, the company will commission an initial 43-101 qualified resource that should be delivered in early Q3 of this year.

AGC intends to drill the numerous other targets in the district and if the project moves to development and production, envisions several pits feeding a central plant.

Amarillo Gold has a 43-101 indicated and inferred resource of nearly 1.2 million ounces of gold at Mara Rosa giving an in-situ market valuation of \$26 per ounce of gold. Current pre-production peer valuations are about \$85 per ounce of gold in the ground. Therefore, Amarillo is trading at a steep discount compared to its peers. This comparison gives no value for the pending resource estimate at Lavras do Sul and the exploration potential of the two company-controlled districts.

Why is Amarillo Gold Corporation currently undervalued?

Geopolitical risk, location, access, and mineral tenure are not factors. Brazil is a politically stable democracy with a robust economy, the project areas have good infrastructure and location, and they are in mining friendly environs. Brazil has no history of expropriation of the mining industry. Its cumbersome bureaucracy can be problematic but Amarillo's in-country experience will help mitigate that negative.

Let's consider other possible reasons:

- The company has financed thru non-brokered private placements and has received little analyst coverage.
- There has been no marketing program targeted to retail investors since the company's RTO approval in late 2005. It has not participated in investment conferences and is largely unknown to the investing community.
- In an effort to conserve its cash position, the company was dormant during the global economic crisis from mid 2008 to mid 2009 and news flow dried up.
- Recent drill results around the periphery of Butia to define its limits were disappointing to the marketplace and did not approach previous ore grade intercepts over long intervals. Drill results have been slow in coming due to heavy rains and mechanical breakdowns.

I conclude that Amarillo is undervalued because it is not well known in the marketplace, it had little news for over a year, the most recent news was disappointing, and drill results have been delayed.

Amarillo Gold has these pending catalysts that may cause its share price to increase in the short to mid term. These include:

- Current drilling at Butia is now concentrating on in-fill and delineation drilling. This program is to be followed by preparation of a 43-101 resource estimate.
- Metallurgical test results are expected for Mara Rosa within the next few weeks. If positive, a pre-feasibility study will commence shortly thereafter.
- The company is increasing its market profile with a recent European road show, an exhibition booth at the PDAC, and upcoming property tours for select analysts.
- A major financing is anticipated in the near future to finance the pre-feasibility at Mara Rosa and additional drilling at Lavras do Sul.
- The exploration potential of both projects is excellent. Amarillo controls two past producing gold districts that are largely unexplored. At Mara Rosa the company has 12 km of prospective strike with known gold occurrences along its length and tested by seven holes. At Lavras do Sul, there are 20 areas with old workings and only five have been drilled.

That said, Amarillo Gold Corp carries the same high risks as many junior resource explorers:

- The delineation of gold deposits is always a dicey matter and results cannot be predicted in advance for Butia.
- Metallurgical recoveries must be confirmed at Posse. Pending a completed pre-feasibility study, the basic economics of the deposit are unknown.
- The near term health of the world's economy and the major markets will determine whether AGC can raise the necessary funds at a favorable price and without significant dilution.

I consider my holdings in Amarillo Gold Corporation as a long term commitment to the company's management and projects. Note that I have taken profits over the past six years but still own a core position of my original investments dating from 2003-2005. In my opinion, AGC is well-situated for success with its share structure, people, and flagship projects.

Note that I have not yet visited the properties but anticipate doing so within the next few weeks. I wanted to alert subscribers and readers to Amarillo Gold while the share price and volumes remain low. There will be another report in the future based on my upcoming field exams.

Please realize that my cost basis is considerably lower than Amarillo's current trading range and that I have a vested interest in the success or failure of this company. I am extremely biased in this case.

You must do your own research and due diligence to determine if this is a junior resource company that meets your investing criteria.

Suffice to say, I think that better times lie ahead for Amarillo Gold Corporation.

Ciao for now,

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The [Mercenary Geologist Michael S. “Mickey” Fulp](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey’s professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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