



Amarillo Gold - An Emerging Gold Mining Company

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Ari Zoldan

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Summary

- Amarillo is on a path to become a mid-tier gold mining company with the commissioning of its Posse Gold Project and progress at the Lavras Do Sul project.
- The company's flagship asset, the Posse Gold Project, is located in central Brazil with fine infrastructure facilities and minimal political and environmental risk.
- The Posse Gold Project is a conventional open-pit, CIL project with commissioning expected in 1H2023 (subject to financing).
- Amarillo's Lavras Do Sul project is currently in the exploration stage providing long-term growth optionality.
- We remain bullish on Amarillo Gold.

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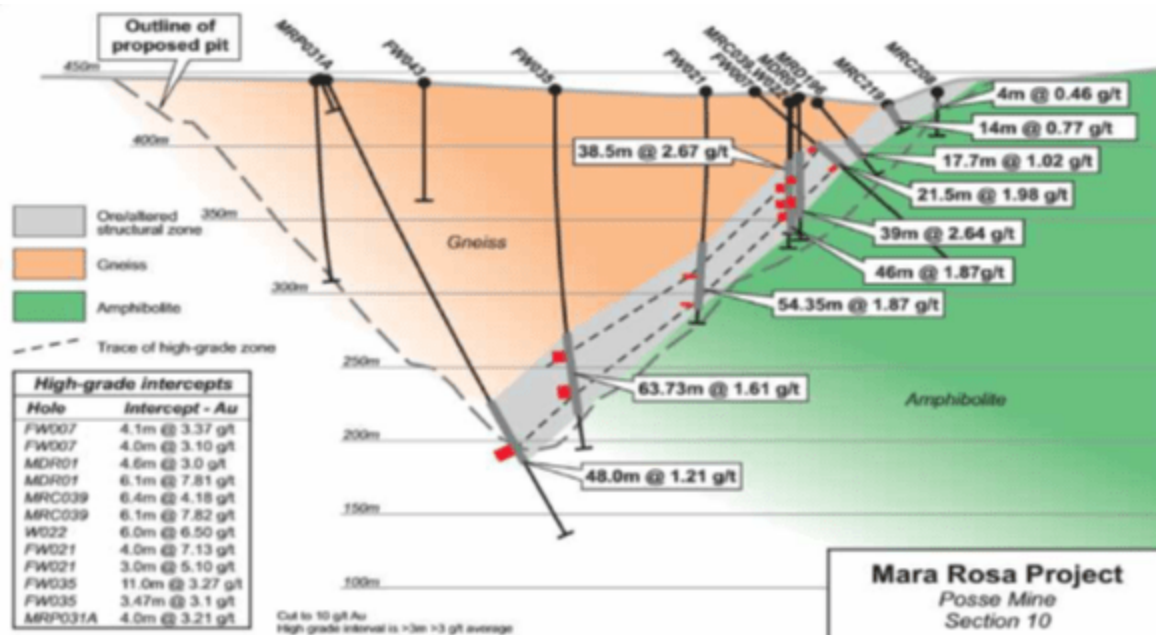
Company Overview

Amarillo ([OTCQB:AGCBF](#)) is a Canadian junior gold mining company with two gold projects under its portfolio located in the mining-friendly jurisdiction of Brazil. The company's flagship open pit project – Posse Gold Project – is currently under the development stage located in the municipality of Mara Rosa. With the announcement of positive feasibility results and a construction permit in hand, the company is in the process of securing finances to build its operation. Amarillo expects to commence the ~100,000 ounces per year project within two years. In addition to the Posse Gold Project, Amarillo's Lavras Do Sul (LDS) gold project covers 22,000 hectares in the state of Rio Grande Do Sul in southern Brazil, an area partially owned by the company. The LDS project is currently in the Exploration and Prospecting phase providing long-term growth optionality for a company that is striving to become a mid-tier Brazilian gold producer.

Posse Gold Project – The Flagship Asset

Amarillo's flagship asset, the Posse Gold Mine, will be located in the state of Goiás about 5 km away from Mara Rosa, a small town situated in central Brazil. The Posse Gold Mine will be a conventional open pit and carbon-in-leach (CIL) operation and is expected to commence production in 2023. The company enjoys excellent infrastructure in its proximity to transportation networks which include a railway line 1.5km away from the planned pit, a major national highway within 11km, and a supportive local population. The mine is a brownfield site that was excavated in the 1990s by Western Mining, which sold it to Metallica which proceeded to sell it to Amarillo in 2004.

The company concluded a definitive feasibility study (DFS) last year which provides positive results. Amarillo has already received the Brazilian Preliminary License and the construction license, also called the License to Install (LI). The company is currently in the process of securing funds to finance the construction and related equipment. The company is currently operating under the License to Install and will easily transition to the third license, the License to Operate. The difference in licensing is a formality as long as the operation stays within the parameters of the earlier license, which it has.



Source: Investor Presentation

Understanding the Definitive Feasibility Study (DFS)

The 100% owned Posse Gold Project is a conventional open-pit project with a CIL flowsheet that uses drill, blast, load, and haul techniques. The mine utilizes a 74 ton hydraulic excavator, a 45 ton tipper truck in addition to 38 ton and 22 ton track dozers. The DFS report showed a Life of Mine (LOM) of approximately 10 years with high grader production of ~100,000 ounces for the first four years and ~84,000 ounces for the duration of the mine's life. The results indicated an expected ore throughput of 2.5mtpa (million metric tonnes per annum) with an average LOM recovery of approximately ~90%.

Table 15-1: June 2020 Mineral Reserve Estimate

Mineral Reserve	Diluted tonnes (Mt dry)	Diluted grade (g/t Au)	Contained metal (koz Au)	Estimated recovery (%Au)	Recoverable metal (koz Au)
Proven	11.8	1.20	456	89.9%	410
Probable	12.0	1.16	446	89.8%	401
Total Mineral Reserve	23.8	1.18	902	89.9%	811

Notes: - A gold price of US\$1,400/oz is assumed.
 - An exchange rate of R\$4.20 to US\$1.00 is assumed.
 - Mineral Reserves are based on Measured and Indicated Mineral Resources only.
 - Mineral Reserves above an economic cut-off grade of 0.37 g/t Au.
 - The Mineral Reserve is included in the Mineral Resource quoted in Table 14-17.

Source: AGC DFS 2020 report

Amarillo has Proven and Probable resources totaling to 23.8Mt and a contained metal weight of 902koz coupled with an average reserve grade of 1.18 g/t is indicative of an economically robust project with a favorable risk profile. The DFS indicated a low LOM strip ratio of 4.4:1 (waste: ore) exhibiting a positive outlook for the project. The company announced its exploration plans for 2021 in April and expects to follow up its previous success by drilling a total of 8500m, which include 6500m of diamond drilling and 2000m of reverse circulation drilling within four priority target areas located in proximity to the Posse Gold Project.

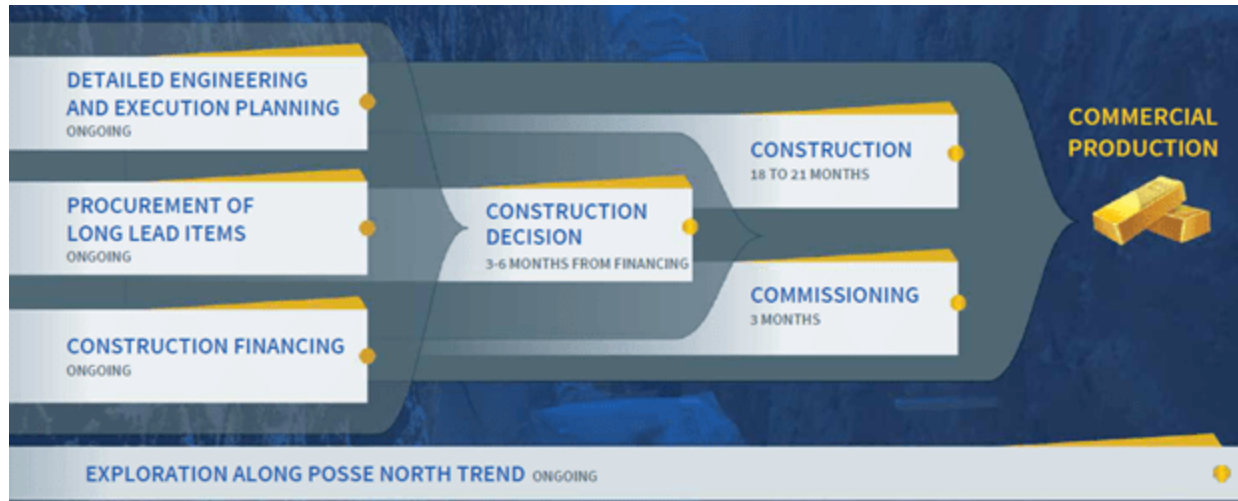
	Amarillo	Min. Requirement
Exploration Potential	902koz	≥2 million oz
Reserve grade	1.18g/t	> 1g/t
Strip Ratio	4.44x	≤ 8x
AISC	~900/oz	≤ 1100/oz
Au Recovery	89.90%	≥ 90%
Location and Jurisdiction	Favorable	Favorable
After-Tax IRR @ \$1500	27%	≥20%

The company meets all the minimum requirements with a low strip ratio, high recovery, and operating in a favorable jurisdiction. Countries like South Africa, Venezuela, Bolivia, and The Philippines are considered risky given their political or environmental restrictions. The optimal scenario for an investment opportunity would involve an exploration potential of greater than 2 million ounces in order to provide sufficient financial growth potential. In this case, the potential resources are half of the necessary financial growth potential, however, the valuation (discussed in detail below) is financially favorable given the expected opportunity coupled with a low risk profile. Posse's estimated after-tax IRR is 27% assuming \$1400 an ounce on the base case assumptions of cost inputs and gold prices.

Capital Requirement and Expected timeline

According to the DFS, the initial capital requirement is estimated to be \$145.2 million which includes the initial cost to build Posse. The All in Sustaining Capital (AISC), which incorporates G&A expense, mining cost, processing cost, and royalties is estimated at \$738/oz which is an optimistic assumption. The mining cost for different locations and using different techniques is \$2/t - \$6/t. The current estimates provided in the DFS are optimistic at \$1.6/t. Assuming a conservative case of mining cost at \$2.50/t, the company's AISC comes out to be ~\$900/oz.

The majority of the necessary land has been acquired and the remaining land is expected to be purchased within the next few months. The company has received all the necessary licensing, except for the operating license which requires the inspection of the mine and plant to ensure compliance with laws and provisions. The company is currently in the process of securing funds to complete the construction process which would take approximately two years.



Source: Investor Presentation

Lavras Do Sul (LDS) – Providing an Optionality for Long term growth.

Amarillo's second gold project, currently in the exploration stage, is located in the southern part of Brazil in the state of Rio Grande do Sul. The company had purchased the options to cover the 222.8 square kilometer land area that hosts 23 defined exploration targets from Rio Tinto ([RIO](#)) and IAMGOLD Corporation ([IAG](#)). Amarillo has concentrated its exploration on Butia and Cerrito prospects. According to NI 43-101 released by Amarillo in 2010 on the Butia prospect, inferred the resources to amount to 6.84 mt at 1.07 g/t using 0.5 g/t gold cut-off with a contained metal of 235,000 oz. The company's recent drill results at a third target, Matilde, were positive and showed wide intervals of gold mineralization beginning at the surface. Two holes were drilled to confirm the primary source of gold to target, however, there may be more sources on the property. The project is in the initial stages but provides a huge upside potential given the size, infrastructure, and potential for high-grade gold.

Financial Position

Amarillo currently does not have any source of revenue and is completely dependent on outside sources of financing to continue its operations. The company raised CA\$57.2 million during Q3 of 2020 in order to continue its day-to-day operations and support the Posse Gold Project. Amarillo has a cash burn rate of \$2.5-\$3.5 million with a cash balance of CA\$40.5 million at June 30, 2021, and zero debt balance as per the latest filings. The company's cash burn rate is quite minimal, but it must raise approximately CA\$110-CA\$120 million to finance its construction activity at Posse Gold Project.

“Securing the balance of the construction financing for our Posse Gold Project is taking longer than we anticipated.” Mike Mutchler, [Amarillo's Chief Executive Officer](#).

“However, we have considerably de-risked the project since completing the feasibility study, and with a robust cash position, we believe that we should explore all our options to make sure that our ultimate choice minimizes dilution and maximizes return for our shareholders.”

Amarillo had an arrangement with a financier but wants to reconsider the terms and has been continually looking for all financing options. As per the recent update, the management has implied that it would be weighing more towards debt as a source of financing while minimizing the dilution of equity.

Management Team with Prior Experience in the Mining Sector

Amarillo is led by a strong and competent management team with extensive experience in mining and processing. The company's CEO Mike Mutchler worked as a mining engineer and has been associated with different mining companies. As a COO for Large Resources, he built the Vanadium mine and mill, as a project director he was responsible for the operations of Kinross Gold Corporation's ([KGC](#)) Paracatu Mine. He has also worked as a partner in Whittle Consulting Pty, a consulting firm specializing in mine optimization. Due to his vast experiences, which span multiple decades, of successfully managing and completing numerous mining projects, he is more than capable to lead the company as a CEO.

The company's process manager, Frank Baker, boasts over three decades of experience in the mining industry with multiple stints across three continents: South America, Brazil, and Australia. He commissioned a 2mtpa gold mine in Western Australia before joining Amarillo. Mr. Baker brings metallurgical expertise to Amarillo and he has been responsible for guiding the engineering of certain aspects of both projects.

Risk Profile

Amarillo Gold has crossed all the major hurdles including exploration risk, licensing risk, and geopolitical risk. A couple of red flags that create concern while enumerating risk-reward scenarios are:

Timeline Issues: The company in its latest investor presentation mentioned that the construction would begin 3-6 months post financing and it would take a minimum of 8 quarters to construct and commission the project. Taking into account the above timeline, we can expect the project to be commissioned by 1H2023 assuming the company is able to raise funding by the end of the current quarter. The CEO has acknowledged that it has taken longer to raise money than they had anticipated. Any further delay in raising funds would extend the expected timeline while creating an overhang on the company's valuation.

Short Mine Life: Posse Gold Project has a mine life of just under 10 years, which is not a major concern in the short to medium term but raises skepticism regarding the company's growth & earning ability. Any progress towards Lavras Do Sul (LDS) project and recent discovery at Pastinho Deposit will likely mitigate this risk. Moreover, the company has been working on extending the mine life along the Posse North Trend.

Valuation & Catalyst

Amarillo is in the final stages of commissioning its Posse Gold Project, as the construction financing falls into place the overhang on the valuation is likely to be reduced considerably. To recap, the company's Posse Gold Project is a straightforward open pit CIL project located in the central region with fine infrastructure and minimal political and environmental risks. The important catalysts/inflection points to watch out for include: the completion of construction, financing, initiation of the construction project, and a first pour (phase where the company is in final stages of commissioning and commercial production is expected within 2-3 quarters). Recent results announced from 15 recently created drill holes uncovered a new primary gold deposit - Pastinho Deposit, which has boosted investor confidence. The Pastinho Deposit is located 3.5 kilometers northeast of Amarillo's flagship Posse Gold Deposit and showed promising results in terms of gold structure and grading.

		Gold Price/oz					
		24%	\$ 1,300	\$ 1,400	\$ 1,500	\$ 1,600	\$ 1,800
	\$ 800	21%	27%	33%	38%	49%	
	\$ 850	17%	24%	30%	35%	47%	
AISC/oz	\$ 900	14%	21%	27%	33%	44%	
	\$ 950	11%	17%	24%	30%	41%	
	\$ 1,000	7%	14%	21%	27%	38%	

Sensitivity Analysis

Based on the data provided in the DFS and our estimates, we have outlined the projected IRR at different levels of Gold Prices and All in Sustainable Cost (AISC)/oz is outlined in the table below. Our base case assumes a US\$1,500/oz price and a \$900/oz AISC providing an after-tax IRR of 27%. If the gold prices remain stable at current levels the IRR is most likely to increase above 40%. The management has yet to raise money and the cost of debt will likely affect the AISC estimates but are expected to be in the sub US\$950/oz range.

		Gold Price/oz				
		\$1,300.0	\$1,400.0	\$1,500.0	\$1,600.0	\$1,800.0
Price to	5x	\$161.16 M	\$201.45 M	\$241.74 M	\$282.03 M	\$362.61 M
	6x	\$177.28 M	\$221.60 M	\$265.91 M	\$310.23 M	\$398.87 M
FCF	6x	\$193.39 M	\$241.74 M	\$290.09 M	\$338.44 M	\$435.13 M
Multiple	7x	\$209.51 M	\$261.89 M	\$314.26 M	\$366.64 M	\$471.39 M
	7x	\$225.62 M	\$282.03 M	\$338.44 M	\$394.84 M	\$507.65 M

Sensitivity Analysis

The company's intrinsic value was calculated by only taking into account the Posse Gold Project. Lavras Do Sul provides huge upside optionality assuming Amarillo keeps progressing with the project. In the sensitivity analysis, assuming a base case scenario of valuing the company at 6x FCF, US\$1,500 gold price, and an AISC of US\$900, the company's value is determined to be at ~US\$291M or \$0.72 per share. This implies a potential upside of over 260%. Another potentially optimistic scenario, assuming the gold prices to remain stable near \$1,800, yields a value of ~US\$435M or ~US\$1.09 per share.

-We remain bullish on Amarillo Gold.

This article was written by



Ari Zoldan

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Ari Zoldan is the CEO of Quantum Media Group, a marketing and media agency based in New York City. As an on-air TV personality, Ari can be seen regularly on FOX, CNN & CNBC covering technology, media a

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