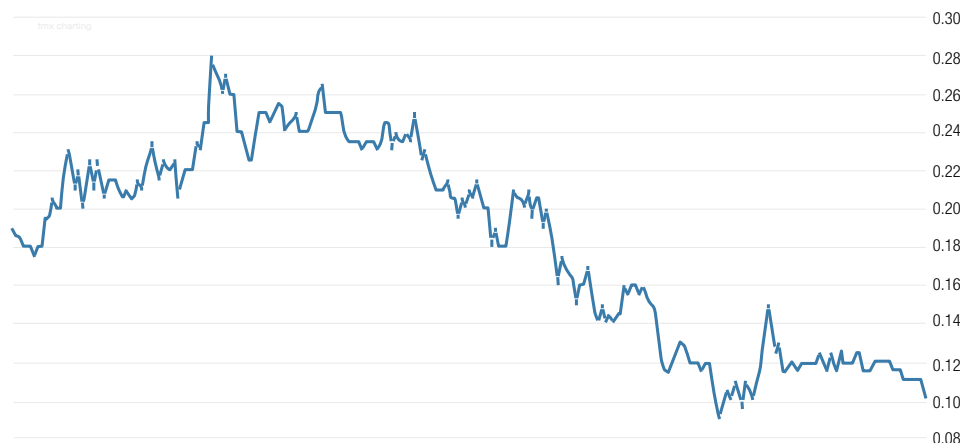


Inca One Gold

Site Visit





Price	C\$ 0.100
Ticker	TSX-V: IO OTC: INCAF FRA: SU9
O/S	94M (excl. TON-deal)
MarketCap	9.4M
Average Volume	71,011
Commodity	Gold
Countries Active	Peru

Working Capital C\$ -1.2M

52 week high C\$ 0.280
52 week low C\$ 0.090

www.incaone.com



Introduction

As **Inca One Gold (IO.V)** has made some major steps forward in the past months and quarters, we wanted to see the changes for ourselves and flew to Peru to kick the proverbial tires of the Chala One and Mollehuaca ore processing plants.

The Chala One plant is ready to hit the ground running

It has been eleven months since we previously visited the Chala One plant near Chala in the Arequipa region of Peru. We attended the plant's inauguration ceremony in December of last year and there have been quite a few changes since then.

The two 50 tonnes per day ball mills have now been fully commissioned and from our observations the true capacity could be even higher than



100 tonnes per day as the plant exceeded this nameplate level while testing the circuit several days during the summer. Thereafter, the throughput rate was scaled down again to allow the company to implement additional measures to fine-tune the recovery process.

Inca One has also bought a desorption plant and installed it on-site. This will increase the company's financial performance as acquiring (and using) the desorption plant effectively means the company is cutting one of the 'middle men' out by bringing this process in-house. An additional benefit is the fact that a large part of the carbon used in the leach tanks will be recovered, reducing the annual cost to purchase 'fresh' carbon, and thus providing a very high Return on Investment ('ROI') on the acquisition of the desorption plant.

In the past few months, the company has also completed the construction of a new laboratory and finished the warehouse. Additionally, the three small mills used for crushing are now located inside a building, reducing the dust and cross-contamination and increasing the safety situation. Security cameras have now also been installed at the 'critical' points of the operation where the ore is being crushed, bagged and analyzed.

Chala One seems to be ready to hit the ground running, and we expect another smooth ramp-up phase to reach a consistent 100 tonnes per day throughput again, on the condition the company will be able to secure a sufficient amount of ore to process (see later).



Our impressions of the Mollehuaca plant

We also drove up to the Mollehuaca plant which is located approximately 40 kilometers away from the Chala One plant. Mollehuaca was designed to be a 100-120 tpd plant, but we don't expect the plant will be able to reach a steady-state output of more than 70-80 tonnes per day in its current configuration. Fortunately Inca One also realized this, and

added this component into its offer to acquire this plant from **Montan Mining (MNY.V)** and its underlying owner.

We discussed the current setting of the plant with Emilio Ortiz, Chala One's plant manager, and he thinks it could be pretty easy to relocate the crushing circuit from where it is now to the spot where the ore was supposed to be stockpiled. This would allow Inca One to de-

bottleneck the plant and increase the crushing capacity to indeed move up to 100 tonnes per day in the not-so-distant future. An additional positive feature of moving the crushing circuit to another spot would be the fact this would open up space for an additional ball mill, right next to where the two existing mills are. So moving the crushing circuit would be an excellent move in the longer run.

We consider the Mollehuaca plant to be a satellite plant for the company's Chala operations. As the facilities at Chala One (for instance, the laboratory) are far superior to the facilities at Mollehuaca, it would make a lot of sense to use Chala One as a central ore purchasing point where after the purchased ore could be re-distributed. This might be the best solution until Chala is ramped up to capacity once again.

This doesn't mean the acquisition of Mollehuaca is a bad deal, not at all. We consider the plant to be a nice bolt-on addition to the activities in Chala. The (future operating) expenses of considering Mollehuaca to be a satellite plant are also quite low. As the throughput at the plant is relatively limited, Inca One would only need one truck and one truck driver to fill the capacity of the plant on a daily bases (three round-trips per day between the Chala One stockpile and the Mollehuaca plant would be sufficient).

And there's an additional interesting kicker. Montan also owns a mining property and has used ore from that operation to keep the Mollehuaca plant going. No geological studies



have been completed and a drill program could be warranted to increase the efficiency of this small-scale mining operation, but further down the road this small mine could provide additional mill feed to Mollehuaca, reducing the total amount of truck rides from Chala to Mollehuaca to just one or two per day.

The implications of the revised deal with Standard Tolling

There also was some unsettling news last week as the local authorities plan to revoke the operating permit for Standard Tolling's operations, which effectively means Standard Tolling will no longer be allowed to process and stockpile ore at the current project site.

No details of the new agreement with Standard Tolling have been provided just yet, but we have the impression revoking the permit will ONLY have an impact on using the company's land to purchase and stockpile the ore that would have been sourced in the north. Inca One was planning to relocate the ball mill anyway, and it will still be allowed to truck the existing ore in the Standard Tolling inventory to the Chala One plant to be processed there.

It is our understanding Inca One's asset purchase agreement with Standard Tolling will include the acquisition of the plant as well as the existing ore. Additionally, Inca One will assume the US\$1.85M in ore financing raised by Standard Tolling. The final terms of the re-worked agreement have not been released yet but we would assume Inca One is getting an excellent deal



out of the current situation. That's too bad for the shareholders of Standard Tolling (we still own shares of that company as well), but shareholders of Inca One will very likely be able to see the new deal as a positive development.

Discussing the recently-announced capital raise

Inca One Gold recently announced it intends to raise US\$2.5M in debt to purchase more ore whilst simultaneously raising C\$2.5M to fund its working capital position.

There's literally zero doubt that acquiring more ore is (and should be) priority number one for Inca One Gold. When we visited the Chala One plant, the plant was operating at 40 tonnes per day, as the company was awaiting assay results on ore that had just been delivered from **Standard Tolling's (TON.V)** stockpile in the northern part of Peru. The only way to generate a decent operating margin in this business is by making sure your mill is running at full capacity to capture all economies of scale.

The US\$2.5M bond financing (which could very well be oversubscribed) will be very helpful in making sure the Chala One plant gets enough ore intake for the foreseeable future which will be necessary to increase the output to 100 tonnes per day again.

The 'hard dollar' financing will be used to fund the company's general working capital and to finance the upgrades at the company's Chala One and Mollehuaca plants. Right now, we'd prefer if Inca One would just fine-tune the Chala One plant (as spending C\$1M on improvements would result in a yearly cost saving of C\$600,000, a very impressive return on investment) and keep the 'excess' cash on the balance sheet as a financial buffer or perhaps use it for additional ore purchases as well.

As long as the company doesn't have a substantial stockpile of ore, it doesn't make a lot of sense to re-start the Mollehuaca plant which has been placed on care and maintenance. The only priority should be to acquire as much ore as possible to ensure Chala



One will be able to continuously operate at 100 tonnes per day.

You should also keep in mind Inca One will receive its first repayment of Peruvian VAT (the company has paid approximately US\$1.85M in VAT to date) and we would feel much more comfortable if these funds would be used to further expand and improve the Mollehuaca plant.

Conclusion

Purchasing more ore should be priority number one for Inca One, and we're glad CEO Edward Kelly is agreeing with us. The Mollehuaca plant can wait as the cash flows from a Chala One plant in full production could be sufficient to fund the plans at Mollehuaca, and right now there's no need to upgrade the latter.

We hope this will be the final capital raise for Inca One, as we would expect the company will be self-sufficient from here on. A continuous production rate of 100 tonnes per day (in Q1 2016) at Chala should result in a substantial multi-million annual EBITDA which could then be used to pursue Inca One's additional growth strategy towards the 1,000 tonnes per day. The Standard Tolling mill will very likely be broken down in the next few weeks (which was already planned before the negative permitting decision regarding Standard Tolling's plant) and will very likely be transported to the Chala One facility where it will be stored until Inca One receives the permits to expand the capacity at Chala One even further.



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