



**MANAGEMENT DISCUSSION AND ANALYSIS**

For the Three and Six Months Ended October 31, 2019 and 2018

Report Dated December 30, 2019

# **INCA ONE GOLD CORP.**

## Management Discussion & Analysis

For the Three and Six Months Ended October 31, 2019, and 2018

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This Management's Discussion and Analysis ("MD&A") of Inca One Gold Corp. (the "Company" or "Inca One") has been prepared by management as of December 30, 2019 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the Three and Six Months Ended October 31, 2019 and 2018 and the related notes thereto. This MD&A has been reviewed and approved by the Board of Directors of the Company. Unless otherwise specified, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar amounts herein are expressed in United States Dollars unless stated otherwise. During the quarter ended July 31, 2018, the Company changed its presentation currency to the United States Dollar. References to CAD\$ are to Canadian dollars and references to restated ("Restated") financial information are to amounts previously reported in Canadian dollars.

This MD&A contains forward-looking statements and should be read in conjunction with the risk factors described in "**Risks and Uncertainties**" and "**Cautionary Statement on Forward-Looking Information**" at the end of this MD&A.

### **Description of the Business**

Inca One was incorporated on November 9, 2005 and is in the business of developing mineral processing operations in Peru, to service government permitted small scale miners. In recent years the Peruvian government instituted a formalization process for informal miners as part of its efforts to regulate their activities. The Company, has two Peruvian gold milling facilities ("Chala One" and "Kori One") with a total permitted capacity of 450 tonnes per day ("TPD") and has been in commercial production since 2015. The Company purchases high-grade gold mill feed from legally recognized Peruvian small scale miners and processes the material for the export and sale of gold doré and refined gold.

Inca One is listed on the TSX Venture Exchange (the "TSX-V") under the symbol "IO", on the Frankfurt Stock Exchange under the symbol "SU9.F", and the Santiago Stock Exchange Venture under the symbol "IOCL".

Inca One's vision is to become the largest, undisputed ore processor of choice in Peru, while maintaining its uncompromising guiding principles while it grows. This vision will be achieved through:

- Continuing to increase purchases of high-grade gold mill feed;
- The acquisition and development of mineral concessions that could be mined by contract miners and that would provide long-term supply to Chala One and Kori One; and
- Pursuing growth via merger and acquisition, including additional mineral processing operations.

### **Key Period Definitions (used below)**

- three months ended October 31, 2019 ("**the Quarter**" or "**Q2 2020**");
- six months ended October 31, 2019 ("**YTD Q2 2020**")
- three months ended July 31, 2019 ("**Q1 2020**")
- three months ended April 30, 2019 ("**Q4 2019**");
- three months ended January 31, 2019 ("**Q3 2019**");
- three months ended October 31, 2018 ("**Q2 2019**"); and
- six months ended October 31, 2018 ("**YTD Q2 2019**")

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### Second Quarter 2020 Highlights and Key Business Developments

- During the Q2 2020, the Company processed 13,205 tonnes, which represents an increase of 2,464 tonnes when compared to 10,741 processed during Q1 2020. The daily production averages during Q2 2020 was 144 TPD, which represents an increase of 27 TPD when compared with the 117 TPD average of Q1 2020.
- Gold sales during Q2 2020 totaled 6,978 ounces, which represents an increase of 2,786 ounces compared to 4,192 ounces sold in Q1 2020. Total revenues for Q2 2020 were \$10.4 million, an increase of \$4.9 million when compared to Q1 2020 of \$5.5 million.

### Operational Highlights - Consolidated

Quarter over Quarter highlights	Q2 2020 <sup>(2)</sup>	Q1 2020 <sup>(2)</sup>	Q4 2019 <sup>(2)</sup>	Q3 2019 <sup>(2)</sup>	Q2 2019 <sup>(1)</sup>	Variance % Q1 2020 to Q4 2019	Variance % Q1 2020 to Q1 2019
Tonnes processed in period (t)	13,205	10,741	14,372	16,099	15,264	22.9%	(13.5%)
Average daily processing volume (t)	144	117	161	175	187	23.1%	(23.0%)
Mineral grade processed (oz/t gold)	0.52	0.55	0.54	0.57	0.54	(5.4%)	(3.7%)
Gold production (oz)	6,195	5,419	6,830	8,343	7,238	14.3%	(14.4%)
Gold sold (equivalent oz) <sup>(3)</sup>	7,149	4,277	6,456	9,339	7,409	67.2%	(3.5%)
Gold sold (oz)	6,978	4,192	6,320	9,129	7,118	66.4%	(2.0%)
Silver sold (oz)	14,298	7,286	11,367	16,854	24,198	96.2%	(40.9%)
Sales revenue (\$)	10,374,957	5,549,466	8,413,716	11,574,969	8,939,622	86.9%	16.1%
Cost of goods sold ("COGS") (\$)	10,819,937	5,982,020	7,947,986	10,410,518	8,703,606	80.9%	24.3%
Gross operating margin (deficit) (\$)	(444,980)	(432,554)	465,730	1,164,451	236,016	(2.9%)	(288.5%)
Gross operating margin %	(4.3%)	(7.8%)	5.5%	10.0%	2.6%	45.0%	(262.4%)
Revenue per tonne (\$)	773	642	639	658	611	20.3%	26.5%
Cost per tonne (\$)	806	693	603	592	595	16.4%	35.5%
Gross margin per tonne (\$)	(33)	(51)	36	66	16	34.0%	(306.3%)
Average gold (equivalent) price per oz sold (\$)	1,451	1,298	1,303	1,239	1,207	11.8%	20.3%
Cost per oz sold (\$)	1,513	1,399	1,231	1,115	1,175	8.2%	28.8%
Gross margin per oz sold (\$)	(62)	(101)	72	125	32	38.6%	(293.8%)
Average London Close price (\$)	1,501	1,354	1,302	1,254	1,205	10.9%	24.6%

(1) All amounts in Q2 2019 include amounts of Kori One for the period of August 21 to October 31, 2018 on a 100% basis.

(2) All amounts include amounts of Kori One on a 100% basis.

(3) Actual ounces of gold sold plus an estimate of the equivalent ounces of gold that could be purchased for the equivalent number of silver ounces sold.

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## **Future Outlook**

The Company operated at 144 TPD during Q2 2020 and is currently operating at approximately 151 TPD of production through November 2020. With 450 TPD of permitted capacity, the Company has approximately 300 TPD of available capacity (67% availability).

Production improved during Q2 2020 as compared to Q1 2020, due to an increase of deliveries from our mining partners and production is expected to continue to increase in the coming months. The Company believes that it currently has the working capital available to increase production to 170 to 200 TPD at current gold prices and at the same time remains optimistic that the operations at both Chala One and Kori One can grow organically and achieve ongoing profitability.

In addition, for a number of months, trading activity of the Company's shares have been below the minimum level of 5 cents to allow for a financing. This has placed a constraint on the Company's ability to raise growth capital and in turn give confidence to current and future shareholders. After reviewing all possible options, the Board of Directors has approved a motion to consolidate 264,517,440 pre consolidation shares on the basis of 1:10, and if completed, the consolidation would reduce the issued shares in the company to approximately 26,451,744 post consolidation shares.

The Company is in the process of applying for TSX Venture Exchange approval and anticipates the consolidation process to be completed in early January 2020, at which time its common shares will trade on a consolidated basis under the existing name and trading symbol.

Once the share consolidation is complete, the Company will explore all opportunities to raise growth capital so that it can commence filling its excess plant capacity.

Additionally, the Company has completed the recruitment of key management personnel in Peru as part of an overall plan to improve the organizational capability within Inca One as it pushes to increase throughput and grow the business. These appointments are:

### **Ivan Salas – Country Manager Peru**

Ivan has more than 12 years of managerial achievements directing and accelerating the growth in transnational companies operating in Peru. He is an executive with proven experience in business management and has a Master's in Business Administration, International Diploma in Marketing and is a Chemical Metallurgist. Most recently Ivan was the Commercial Director - Energy and Resources for Sodexo in Lima, Peru working in energy and resources (mining, gas, oil and power generation). Prior to this, he was the Country Manager for the Achilles Group, focusing on risk management in the supply chain for mining companies in the hydrocarbon and industrial gases industry.

### **Jimmy Chu – Global Director of Trading**

Jimmy has over 10 years of professional experience in commercial, logistics and financial areas for large scale multinational companies, including the metal trading business, servicing small and medium mining companies in Peru and Ecuador. Most recently Jimmy was a Metals Trader for IXM Trading (a Louis Dreyfus company) in Lima, Peru.

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### Selected Quarterly and Annual Information

The following selected financial data with respect to the Company's financial condition and results of operations has been derived from the unaudited condensed interim consolidated financial statements of the Company for the Three and Six Months Ended October 31, 2019 and 2018 and from the audited consolidated financial statement for the year ended April 30, 2019 as applicable. The selected financial data should be read in conjunction with those financial statements and the notes thereto.

	Three Months Ended		
	October 31, 2019	July 31, 2019	April 30, 2019
	\$	\$	\$
Revenue	10,374,957	5,549,466	8,413,716
Cost of goods sold	(10,819,937)	(5,982,020)	(7,947,986)
Gross margin (deficit)	(444,980)	(432,554)	465,730
Finance and other income (expense), net	(318,463)	(416,462)	94,632
Net income (loss) for the period	(1,437,625)	(1,439,302)	1,204,566
Net income (loss) per share (basic and diluted)	(0.01)	(0.01)	0.00
Other comprehensive loss	(1,534,530)	(1,585,462)	1,148,102

	Three Months Ended		
	October 31, 2019	July 31, 2019	April 30, 2019
	\$	\$	\$
Total assets	20,442,144	24,175,991	24,057,897
Total current liabilities	10,034,868	9,412,584	7,982,730
Total long term liabilities	4,415,066	7,344,978	7,091,690

The following table sets out selected quarterly financial data from the Company's unaudited quarterly financial statements for the last eight quarters.

Quarter ended	Working capital (deficiency)	Total assets	Long term liabilities	Net income (loss)	Basic loss per share
	\$	\$	\$	\$	\$
October 31, 2019 <sup>(2)</sup>	(1,835,724)	20,442,144	4,415,066	(1,437,625)	(0.01)
July 31, 2019	2,259,771	24,175,991	7,344,978	(1,439,302)	(0.01)
April 30, 2019	3,417,245	24,057,897	7,091,690	1,204,566	0.00
January 31, 2019	3,695,305	21,251,543	8,522,216	29,793	0.00
October 31, 2018	3,010,284	21,094,908	8,337,432	(1,132,371)	(0.00)
July 31, 2018	727,893	8,597,041	2,713,920	(186,479)	(0.00)
April 30, 2018 <sup>(1)</sup>	776,225	9,468,096	2,788,264	(1,112,921)	(0.01)
January 31, 2018 <sup>(1)</sup>	(1,576,040)	8,976,399	513,478	(879,833)	(0.01)

(1) Amounts previous to Q1 2019 have been Restated to United States dollars

(2) The working capital deficiency at October 31, 2019 includes \$3.6 million of current liabilities that are non-interest bearing and payable in cash or shares at the Company's option.

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## **Results of Operations**

### **Three months ended October 31, 2019 compared to three months ended October 31, 2018**

Revenue for Q2 2020 was \$10.4 million (Q2 2019 - \$8.9 million), and cost of goods sold was \$10.8 million (Q2 2019 – \$8.7 million) resulting in a gross operating deficit of \$0.4 million (Q2 2019 – gross operating margin of \$0.2 million). The gross operating margin decreased mainly due to a decrease of production and gold sales from the prior year and generally more difficult commercial terms for purchasing high-grade gold mill feed. There were also approximately \$0.1 million of unexpected costs related to employee turnover and recruitment during the quarter.

During Q2 2020, the Company reported a net loss of \$1.4 million, a decrease of \$0.3 million compared to a net loss of \$1.1 million during Q2 2019. This change is partially explained by the combination of the decrease in operating margin of \$0.7 million and offset by a decrease in corporate and administrative expenses of \$0.1 million, a decrease of \$0.2 million in business development expenses and a decrease of \$0.1 million in finance expenses.

### **Six months ended October 31, 2019 compared to six months ended October 31, 2018**

Revenue for YTD Q2 2020 was \$15.9 million (YTD Q2 2019 - \$14.5 million), and cost of goods sold was \$16.8 million (YTD Q2 2019 – \$13.9 million) resulting in a gross operating deficit of \$0.9 million (YTD Q2 2019 – gross operating margin of \$0.7 million). The gross operating margin decreased mainly due to a decrease of production and gold sales from the prior year and generally more difficult commercial terms for purchasing high-grade gold mill feed.

During YTD Q2 2020, the Company reported a net loss of \$2.9 million, an increase in the net loss of \$1.56 million compared to a net loss of \$1.3 million during YTD Q2 2019. This change is partially explained by the combination of the decrease in operating margin of \$1.54 million, the decrease of \$0.16 million in business development expenses and the increase of \$0.21 million in finance expenses.

## **Liquidity and Capital Resources**

As at October 31, 2019, the Company financed its operations and met its capital requirements primarily through the re-investment of operational cash flows from the Chala One and the Kori One plants.

The Company had cash of \$0.4 million at October 31, 2019, representing a decrease of \$1.4 million compared to a cash of \$1.8 million as at April 30, 2019 and working capital deficiency of \$1.8 million at October 31, 2019 representing decrease of \$5.2 million when compared to a working capital of \$3.4 million as at April 30, 2019. The decrease in the working capital is mainly attributable to the combined effect of the reduction in receivables of \$2.4 million (historical IGV recovered) and the reclassification of approximately \$2.8 million from non-current liabilities to current liabilities. The reclassification includes \$2.5 million of contractual liabilities as result of the acquisition of Anthem United and \$0.3 million of secured debentures. The current liabilities of \$3.6 million related to

Management intends to continue funding operations, administration, debt and debt service costs and any capital requirements with the proceeds of the sale of gold doré and refined gold from the Company's Chala One and Kori One plants. Where required and depending on the strength of the junior resource markets, the Company will continue to be dependent on its capital resource's to cover any deficiencies in working capital. It is also important to note that current liabilities include \$3.6 million due to Equinox Gold Corp. ("Equinox") as a result

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of the acquisition of Anthem United. This debt is non-interest bearing and is payable in either cash or shares at Inca One's option. Although the debt is presented as a current liability, the Company has elected to pay the debt in shares and therefore the debt will be settled at some date in the future, which may be greater than one year.

#### Contractual Liabilities as a result of the Acquisition of Anthem United

As a result of the acquisition of Anthem and Kori One, the Company issued Promissory Notes payable to Equinox as follows:

- CAD\$7.5 million payable to Equinox in three equal payments of CAD\$2.5 million on the first, second and third anniversaries of the completion of the Purchase Agreement to be paid in cash or Inca One Shares at the discretion of Inca One, based on the higher of CAD\$0.065 per share and the preceding 20-day volume-weighted average price of Inca One Shares, subject to Equinox's ownership of Inca One Shares not exceeding 19.99% of the outstanding Inca One Shares (the "Equinox Ownership Limit").

On August 21, 2019, the Company exercised its share payment election to pay the first installment and issued 1,607,328 shares at \$0.065 per share as partial payment. Due to the Equinox Ownership Limit, this was the maximum number of shares that the Company could issue. The Company has an additional obligation of 36,854,210 shares at \$0.065 per share to satisfy this payment and will do so when Equinox's ownership is reduced below 19.99%.

- CAD\$1.5 million payment to Equinox in cash on the second anniversary of the completion of the Purchase Agreement.

As part of the transaction the Company also agreed to the following contractual obligations:

- Payment of an amount equal to 50% of the Historical IGV recovered prior to the fifth anniversary of the Closing Date. During Q1 2020, the company recovered approximately \$2.4 million of Historical IGV, of which approximately \$1.2 million was payable to Equinox. On October 3, 2019, the Company paid \$1.0 million.
- Payment in cash to Equinox on or before the third anniversary of the completion of the Purchase Agreement for the difference between the amount of working capital at closing and \$3 million. Anthem's working capital at such date was approximately \$3.7 million, and therefore the estimated amount payable is \$0.7 million payable on August 21, 2021.

#### Share Issuances

On August 21, 2019 the Company issued 1,607,328 shares as partial payment of the installment due to Equinox as part of the consideration for the acquisition of Anthem United Inc.

#### Summary of Outstanding Share Data

As at the date of this MD&A, the Company had 264,517,440 common shares issued and outstanding, 20,712,857 share-based options and 47,723,686 warrants outstanding (with exercise prices ranging between CAD\$0.05 and CAD\$1.26 per share). The fully diluted shares outstanding at the date of this MD&A is 332,953,983.

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### Transactions with Related Parties

#### (a) Related Party Transactions

The Company's related parties consist of the Company's directors, officers and companies associated with these individuals including the following:

- A company owned by Edward Kelly, the Company's CEO (also a director).
- A company owned by Mark Wright, the Company's VP Operations & New Projects.

The following expenditures were charged by related parties during the Three and Six Months Ended October 31, 2019 and 2018:

	Three months ended October 31,		Six months ended October 31,	
	2019	2018	2019	2018
			\$	\$
Management, salaries and consulting fees	98,034	83,864	197,174	153,386
Director fees	7,228	7,454	14,380	14,900
Share-based payments	7,534	19,166	25,469	47,484
	112,796	110,484	237,023	215,770

Consulting and management fees were paid to companies controlled by the CEO and VP Operations & New Projects.

#### (b) Compensation of Key Management Personnel

The Company's key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and includes the Directors, CEO, CFO, and VP Operations & New Projects. Compensation in respect of services provided by key management consists of consulting and management fees paid to companies controlled by the CEO and VP Operations & New Projects and by the issue of options. The compensation for key management personnel paid as management were for the Three and Six Months Ended October 31, 2019 and 2018 as follows:

	Three months ended October 31,		Six months ended October 31,	
	2019	2018	2019	2018
			\$	\$
Management fees	60,324	46,051	121,754	92,060
Salaries	37,710	37,813	75,420	61,326
Share-based payments	6,932	19,166	19,185	47,484
	104,966	103,030	216,359	200,870



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### (c) Related Party Balances

All related party balances payable, including for business expenses reimbursements, annual bonuses approved by the board of directors, and for services rendered as at October 31, 2019 are non-interest bearing and payable on demand, and are comprised of \$0.44 million (April 30, 2019 - \$0.12 million) payable to the CEO and a company controlled by the CEO, \$0.05 million (April 30, 2019 - \$0.05 million) payable to the VP Operations & New Projects or a company controlled by the VP Operations & New Projects, \$0.43 million (April 30, 2019 - \$0.11 million) payable to the CFO and \$0.37 million payable (April 30, 2019 - \$0.02 million payable) to the Directors or companies controlled by the Directors.

### Commitments

In addition to the commitments in connection with the Company's financings, the Company has:

- a three-year rent agreement for its corporate office in Lima, Peru, with a monthly payment of \$3,574 and termination date on July 31, 2021, and
- a five-year rent agreement for its corporate office in Vancouver, Canada with a monthly fee of CAD\$3,768 and termination date on July 31, 2023.

During the Three and Six months ended October 31, 2019 the Company had commitments through a derivative financial liability to sell approximately 742 ounces of gold doré to related parties, which would be settled at a future date in either cash or through the delivery of gold. At October 31, 2019, the fair value of amount owing under these contracts at the gold spot rate were \$1.1 million (April 30, 2019 - \$1 million) and is included in derivative financial liability

As at October 31, 2019 the Company had commitments to sell approximately 295 ounces of gold doré to third parties, which was settled subsequent to October 31, 2019 through the delivery of gold. At October 31, 2019 the fair value of these commitments is \$0.4 million. Additionally, the Company received advances of \$0.5 million to be offset against future sales of gold doré. Both amounts, totaling \$0.9 million (April 30, 2019 - \$1.8 million) have been included as current deferred revenues.

A summary of undiscounted liabilities and future operating commitments on October 31, 2019 are as follows:

	Total	Within One Year	One to Five Years
<b>Maturity analysis of financial liabilities</b>	\$	\$	\$
Accounts payable and accrued liabilities	2,948,343	2,948,343	
Secured debentures	1,479,189	300,000	1,179,189
Contractual liabilities as result of the acquisition of Anthem United	6,882,277	4,756,757	2,125,520
Derivative financial liability	1,121,125	1,121,125	-
	<b>12,430,934</b>	<b>9,126,225</b>	<b>3,304,709</b>
<b>Commitments</b>			
Office lease rental	203,960	77,263	126,697
Gold sale deferred revenue	908,643	908,643	-
Asset retirement and reclamation obligations	1,110,357	-	1,110,357
	<b>2,222,960</b>	<b>985,906</b>	<b>1,237,054</b>
	<b>14,653,894</b>	<b>10,112,131</b>	<b>4,541,763</b>

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### Contingent Debenture

In September 2016 the Company completed a comprehensive capital restructuring which involved: (i) negotiating with debt holders to reduce long and short term debt, (ii) a private placement to provide sufficient working capital to ramp-up operations at the Chala Plant; and (iii) consolidating the Company's shares. As result of this restructuring, the Company issued a \$0.78 million contingent debenture certificate (the "Contingent Debenture"), which only becomes payable on the date that the Company achieves two production milestones including (i) achieving 300 tonnes per day mineral processing capacity in Peru, and (ii) achieving three months of 200 tonnes per day average daily production. Upon reinstatement, the Contingent Debenture will have a 12% annual interest rate paid quarterly in arrears, twelve-month term to maturity, certain early redemption features, and a general security agreement will be issued. If the performance milestones are not achieved before August 31, 2026 the Contingent Debenture will be cancelled.

As of October 31, 2019, the value of the contingent debenture was \$nil because the Company has not achieved three months of consecutive 200 tonnes per day average daily production. However, the first milestone of 300 tonnes per day mineral processing capacity in Peru was achieved as a result of the acquisition of Anthem.

### Fair Value of Financial Instruments

As at October 31, 2019, the Company's financial instruments consist of cash, receivables, long term receivables, accounts payable and accrued liabilities, promissory notes payable, contractual liabilities, derivative financial liabilities and secured debentures.

IFRS requires disclosures about the inputs to fair value measurements for financial assets and liabilities recorded at fair value, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

As at October 31, 2019, the Company believes that the carrying values of cash, receivables, accounts payable and accrued liabilities, promissory notes payable, contractual liabilities and secured debentures approximate their fair values because of their nature and relatively short maturity dates or durations or their interest rates approximate market interest rates. The gold delivery contracts, being a derivative financial liability, have been assessed on the fair value hierarchy described above and are classified as Level 2.

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### **Financial Instruments Risk**

The Company's financial instruments are exposed in varying degrees to a variety of financial risks. The Board approves and monitors the risk management processes:

(i) *Credit risk*

Credit risk exposure primarily arises with respect to the Company's cash and receivables. The risk exposure is limited because the Company places its instruments in banks of high credit worthiness within Canada and continuously monitors the collection of other receivables.

(ii) *Liquidity risk*

Liquidity risk is the risk that the Company cannot meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure as far as possible, that it will have sufficient liquidity to settle obligations and liabilities when they become due. As at October 31, 2019, the Company had cash of \$0.4 million (April 30, 2019 - \$1.8 million) and current working capital deficit of \$1.8 million (April 30, 2019 - \$3.4 million) with total liabilities of \$14.4 million (April 30, 2019 - \$15.1 million).

A summary of the Company's future operating commitments is presented above under the Commitments and Contingencies section.

(iii) *Market risk*

a. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company invests cash in guaranteed investment certificates at fixed or floating interest rates in order to maintain liquidity while achieving a satisfactory return for shareholders. A change of 100 basis points in the interest rates would not be material to the financial statements. At April 30, 2019, the Company had no variable rate debt.

b. Foreign currency risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in the foreign exchange rates. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates associated with the fluctuations in its Canadian dollar and the Peruvian New Sol ("Sol") bank accounts as well as the translation of foreign-held assets and liabilities at current exchange rates.

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The Company's net exposure to the Canadian dollar and Sol on financial instruments, in US dollar equivalents, is as follows:

	October 31, 2019	April 30, 2019
	\$	\$
CAD dollar:		
Cash	15,414	7,140
Receivables	11,102	23,857
Accounts payable and accrued liabilities	(663,600)	(430,578)
Secured debentures	(1,179,190)	(1,148,011)
Contractual liabilities as result of the acquisition of Anthem United	(6,150,609)	(5,813,425)
Derivative financial liability	(1,121,125)	(951,467)
Net assets (liabilities)	(9,088,008)	(8,312,484)
Sol:		
Cash	337,225	109,747
Receivables	1,393,605	4,144,524
Accounts payable and accrued liabilities	(753,535)	(625,297)
Net assets (liabilities)	977,295	3,628,974

Assuming all other variables constant, an increase or a decrease of 10% of the Canadian dollar against the US dollar, as of October 31, 2019 would have changed the Company's net loss by approximately \$0.9 million. Assuming all other variables constant, an increase or a decrease of 10% of the Peruvian sol against the US dollar, as of October 31, 2019 would have changed the Company's net loss by approximately \$0.1 million.

The Company had no hedging agreements in place with respect to foreign exchange rates.

#### c. Commodity price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company's price risk relates primarily to: the spot price of gold for its derivative financial liability balance and future gold price expectations as it relates to sales revenues. The Company continuously monitors precious metal trading prices as they are included in projections prepared to determine its future strategy.

### Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements.

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## **Critical Accounting Policies and Estimates**

The preparation of the Company's consolidated financial statements in accordance with IAS 1, *Presentation of Financial Statements*, requires management to make certain critical accounting estimates and to exercise judgment that affect the accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities in future periods.

Significant accounting judgments that Management has made in the process of applying accounting policies which it considers have had the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to going concern, title to and economic recoverability and probability of future economic benefits of exploration and evaluation assets, date of commencement of commercial production, and determination of functional currency. Management considers the areas currently requiring a significant degree of estimation and assumption and which have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year, to include, but not be limited to, the value attributed to share-based compensation, promissory notes payable, secured debentures and debentures with warrants, marketable securities, long term receivable, asset retirement and reclamation obligation, and deferred taxes.

These accounting policies and estimates are further discussed in the Company's annual audited consolidated financial statements on April 30, 2019.

## **Risks and Uncertainties**

Mineral processing and natural resources exploration, development, and production involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

### *Operational Risks:*

The Company continuously monitors and responds to changes in operational risks, such as those noted below, and seeks to adhere to all regulations governing its operations.

**Mineral Supply:** The Company may not be able to source sufficient mill feed to operate both the Chala One and Kori One plants economically. In particular, the Company currently sources material exclusively from third-party sources and faces a competitive marketplace for purchase of supply from Peruvian government-approved mineral sources. Consequently, the Company does not have control over the mineral grade, metallurgical recovery, nor quantities received, noting that the Company mitigates this risk by working with minimum cut-off purchase grades, providing fair terms to their customers, and sourcing material from established suppliers to ensure best efficiency and profitability of its plant operation.

**Production Schedules:** In relation to the mineral supply risks, no assurances can be provided that production schedules at the Chala One plant nor the Kori One plant, and the related operating margins and cash flows, are

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achieved, noting that failure to meet these schedules can have an adverse impact on the Company's profitability, results of operations, cash flows, and overall financial conditions.

**Qualified Staff:** Due to the competitive marketplace, the Company may have difficulty in hiring and retaining skilled employees and contractors to source sufficient mineral feed, operate the Chala One plant and the Kori One plant effectively (noting the diversity of mill feed received), and effectively administer the Peruvian permitting, compliance, exportation, and regulatory functions.

**Regulations, Permits, and Hazards:** The Company must also manage changing governmental laws and regulations, and the Company cannot guarantee title to its properties and permits. The Company must also contend with environmental hazards (including discharge of pollutants or hazardous chemicals), as well as industrial accidents and occupational and health hazards, mechanical failures, the unavailability of materials and equipment, and or lack of accessibility to required expertise.

**Resource Properties:** The Company may not be able to find and develop resource properties economically. In addition, the Company may have to deal with development and mining issues including pit slope failures, unusual or unexpected rock formations, poor or unexpected geological or metallurgical conditions, poor or inadequate ventilation, failure of mine communication systems, poor water conditions, interruptions to gas and electricity supplies, human error and adverse weather conditions.

**Acquisitions:** There is no assurance that the Company will acquire mineral properties and processing plants and any acquisitions may expose the Company to new risks, and the mining industry is intensely competitive for the acquisition of new properties and plants.

### *Financial risks:*

Financial risks include commodity prices, interest rates and fluctuating foreign exchange rates, all of which are beyond the Company's control. Additional financial risks are the Company's ability to raise capital to continue funding its operations.

### *Regulatory risks:*

Regulatory risks include the possible delays in getting regulatory approval to, and permits for, the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

### *Financial Instruments and Risk:*

For a description of the risks faced by the Company with respect to financial instruments, see the Company's unaudited condensed interim consolidated financial statements for the Three and Six Months Ended October 31, 2019.

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## **Cautionary Statement on Forward-Looking Information**

This MD&A contains forward-looking statements. All statements, other than statements of historical fact, constitute “forward-looking statements” and include any information that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future including the Company’s strategy, plans or future financial or operating performance and other statements that express management’s expectations or estimates of future performance.

Forward-looking statements are generally identifiable by the use of the words “may”, “will”, “should”, “continue”, “expect”, “anticipate”, “estimate”, “believe”, “intend”, “plan” or “project” or the negative of these words or other variations on these words or comparable terminology. All such forward-looking information and statements are based on certain assumptions and analyses made by the Company’s management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed, implied by or projected in the forward-looking information or statements.

Important factors that could cause actual results to differ from these forward-looking statements include but are not limited to: risks related to the exploration and potential development of the Company’s projects, risks associated to international operations, the actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, future prices of minerals, as well as those factors discussed in the sections relating to risk factors of the Company set out in this MD&A.

There can be no assurance that any forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader should not place any undue reliance on forward-looking information or statements. Except as required by law, the Company does not intend to revise or update these forward-looking statements after their date of issue, or to revise them to reflect the occurrence of future unanticipated events.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer’s Annual and Interim Filings) (“NI 52-109”), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited condensed interim consolidated financial statements for the Three and Six Months Ended October 31, 2019 and this accompanying MD&A (together, the “Interim Filings”).

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information, the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Annual Filings on SEDAR at [www.sedar.com](http://www.sedar.com).