

INCA ONE RESOURCES

IO.V; INCAF.PK
604-568-4877
incaone.com

In a financing environment in which junior mining companies can find it difficult to keep going, a move to a near-term production model makes a great deal of sense.

That's exactly what Inca One Resources, my next new recommendation this month, has elected to do.

Back in June 2013, the company purchased a 25 tonne per day ("tpd") processing plant in the Chala region of Peru. Since then, it has begun processing a small amount of ore through the facility, generating a modest amount of gold and silver.

The Chala One plant's success hinges on a decision by Peru's President, Ollanta Humala, to modernize the country's informal mining sector.

This move was motivated by a desire to capture tax revenue currently lost to the informal mining sector, which is responsible for more than 20 percent of Peru's gold production. It was also designed to minimize the environmentally damaging methods informal miners use to extract payable metal from ore.

The new rules require informal miners to have their ore processed at permitted mining facilities. With Chala One, Inca One has created just such a facility in a region filled with informal mining activity.

The rules also allow for a sin-

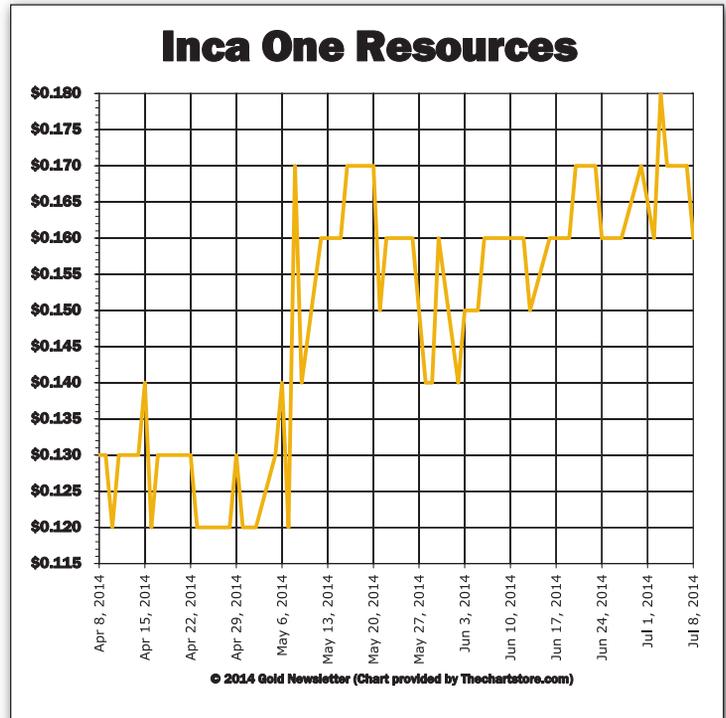
gle processing plant to operate at a maximum of 350 tpd capacity. Should Chala One grow to that size, it would represent a multiple of 14 times its current processing capacity.

The only real barrier to getting to that level is financing, and Inca One has already made a couple of key moves on that front.

The first was to secure a \$5.5 million debt financing at 10% interest. That financing leaves the door open for another \$15 million in either debt or equity financing, should the company's plan at Chala One prove successful.

The second potential source of funds is an innovative deal with Global Resources Investments. In exchange for receiving 12 million shares of Inca One at C\$0.11 a share, Global Resources has issued 733,000 shares of Global Resources Investment Trust to Inca One. Once GRIT lists on the London Stock Exchange, Inca One could raise around C\$1.32 million by selling its GRIT shares.

All this is money Inca One can use to quickly expand production at Chala One. Comparable operations by Dynacor Gold Mines



managed to generate US\$9.1 million in net earnings in 2013. That was based on 76,883 ounces of gold produced at an average head grade of 1.04 ounces/ton.

Dynacor has averaged US\$265/ounce in gross profit during the three years prior. Using a slightly more conservative number of \$250/ounce, Inca One's management figures it can make around C\$8 million in annual cash flow by quickly expanding Chala One to a 100 tpd operation and consistently processing at least 0.8 ounces/ton ore.

In order to attract the additional capital it will need to expand, the company will have to prove to existing and future investors that it can grow to the 100-tpd level and beyond. That said, I like Inca One's business model and I'm

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confident in its ability to produce results for shareholders.

Moreover, I think the rules in Peru create something of a captive market for Inca One, provided that it can scale up quickly.

The company is currently trading at bargain basement prices and looks primed for significant appreciation once its business model gets a head of steam. It's another buy.

Inca One Resources Corp.

Recent Share Price:C\$0.17
Shares Outstanding:63.5 million
Market Cap:.....C\$10.8 million
Shares Outstanding
Fully Diluted:80.4 million
Market Cap
Fully Diluted:C\$13.7 million ▲

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