



INCA ONE GOLD CORP.
(Formerly Inca One Resources Corp.)

Condensed Interim Consolidated Financial Statements
For the Three Months Ended July 31, 2014 and 2013
(Unaudited – Expressed in Canadian Dollars)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

INCA ONE GOLD CORP.

(Formerly Inca One Resources Corp.)

Condensed Interim Consolidated Statements of Financial Position

As at July 31, 2014 and April 30, 2014

(Unaudited - Expressed in Canadian Dollars)

	Note	July 31, 2014	April 30, 2014
		\$	\$
Assets			
Current:			
Cash and cash equivalents	4	1,033,033	78,710
Receivables		12,761	9,511
Marketable securities	5	471,826	847,448
Prepaid expenses and deposits		65,167	65,288
Inventory	6	534,582	408,228
		2,117,369	1,409,185
Deferred financing costs		-	23,421
Property, plant and equipment	7	1,752,579	1,093,456
Exploration and evaluation assets	8	20,000	20,000
Total assets		3,889,948	2,546,062
Liabilities			
Current:			
Accounts payable and accrued liabilities		461,702	497,284
Due to related parties	13	54,659	295,927
Convertible debenture advances	10	-	325,000
Promissory notes payable – current portion	9	100,000	120,000
		616,361	1,238,211
Promissory notes payable	9	337,178	428,998
Convertible debentures – liability component	10	426,668	197,351
Bond payable	11	2,318,220	-
		3,698,427	1,864,560
Shareholders' Equity			
Share capital	12	11,306,914	11,231,319
Reserves	12	983,548	675,005
Accumulated other comprehensive loss		(830,401)	(457,566)
Convertible debentures – equity component	10	158,223	73,087
Deficit		(11,426,763)	(10,840,343)
		191,521	681,502
Total liabilities and shareholders' equity		3,889,948	2,546,062

Nature of operations and going concern (Note 1)

Commitments (Notes 8, 11 and 14)

Subsequent events (Notes 9, 11, and 17)

Approved on behalf of the Board of Directors on September 26, 2014

“Edward Kelly”

Director

“Gunther Roehlig ”

Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

INCA ONE GOLD CORP.

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Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three months ended July 31, 2014 and 2013

(Unaudited – Expressed in Canadian Dollars)

		Three months ended July 31,	
	Note	2014	2013
		\$	\$
Operating expenses:			
Consulting and management fees	13	69,930	26,458
Depreciation	7	2,320	989
Foreign exchange (gain) loss		(12,166)	4,275
Office, rent and administration		42,470	18,418
Professional fees	13	73,836	48,272
Regulatory fees		2,212	934
Share-based payments	12 & 13	285,984	89,197
Transfer agent and shareholder information		80,133	87,423
Travel, advertising and promotion		54,641	68,937
Total operating expenses		(599,360)	(344,903)
Finance income (expense):			
Accretion of convertible debentures	10	(7,750)	-
Finance and other costs		(92,870)	(2,030)
Finance income		310	1,019
		(100,310)	(1,011)
Net loss for the period		(699,670)	(345,914)
Other comprehensive income (loss):			
Unrealized loss on marketable securities	5	(375,622)	-
Foreign currency translation adjustment		2,787	(44,335)
		(372,835)	(44,335)
Comprehensive loss for the period		(1,072,505)	(390,249)
Basic and diluted loss per share		(0.01)	(0.01)
Weighted average number of common shares outstanding		63,685,054	43,489,174

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

INCA ONE GOLD CORP.

(Formerly Inca One Resources Corp.)

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended July 31, 2014 and 2013

(Unaudited – Expressed in Canadian Dollars)

	Share Capital		Reserves					Convertible debenture – equity component	Deficit	Total shareholders' equity
	Common shares	Amount	Stock options	Warrants	Total Reserves	Accumulated Other Comprehensive Loss				
	#	\$	\$	\$	\$	\$				
Balance, April 30, 2013	43,489,174	9,206,889	650,746	44,508	695,254	(6,453)	-	(6,678,603)	3,217,087	
Comprehensive loss for the period	-	-	-	-	-	(44,335)	-	(345,914)	(390,249)	
Share-based payments	-	-	89,197	-	89,197	-	-	-	89,197	
Balance, July 31, 2013	43,489,174	9,206,889	739,943	44,508	784,451	(50,788)	-	(7,024,517)	2,916,035	
Comprehensive loss for the period	-	-	-	-	-	(406,778)	-	(3,923,729)	(4,330,507)	
Private placements for cash	7,125,500	712,550	-	-	-	-	-	-	712,550	
Private placement for GRIT Shares	12,000,000	1,320,000	-	-	-	-	-	-	1,320,000	
Finder fees paid in shares	960,000	105,600	-	-	-	-	-	-	105,600	
Share issuance costs – cash	-	(131,724)	-	-	-	-	-	-	(131,724)	
Convertible debentures	-	-	-	-	-	-	76,336	-	76,336	
Convertible debentures issuance costs – cash	-	-	-	-	-	-	(3,249)	-	(3,249)	
Expired warrants	-	18,004	-	(18,004)	(18,004)	-	-	-	-	
Expired options	-	-	(107,903)	-	(107,903)	-	-	107,903	-	
Share-based payments	-	-	16,461	-	16,461	-	-	-	16,461	
Balance, April 30, 2014	63,574,674	11,231,319	648,501	26,504	675,005	(457,566)	73,087	(10,840,343)	681,502	
Comprehensive loss for the period	-	-	-	-	-	(372,835)	-	(699,670)	(1,072,505)	
Convertible debentures	-	-	-	-	-	-	90,215	-	90,215	
Convertible debentures issuance costs – cash	-	-	-	-	-	-	(5,079)	-	(5,079)	
Exercise of options	180,000	40,595	(17,495)	-	(17,495)	-	-	-	23,100	
Exercise of warrants	175,000	35,000	-	-	-	-	-	-	35,000	
Finder's warrants – bond financing	-	-	-	153,304	153,304	-	-	-	153,304	
Expired options	-	-	(113,250)	-	(113,250)	-	-	113,250	-	
Share-based payments	-	-	285,984	-	285,984	-	-	-	285,984	
Balance, July 31, 2014	63,929,674	11,306,914	803,740	179,808	983,548	(830,401)	158,223	(11,426,763)	191,521	

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

INCA ONE GOLD CORP.

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Condensed Interim Consolidated Statements of Cash Flows

For the three months ended July 31, 2014 and 2013

(Unaudited – Expressed in Canadian Dollars)

	Three months ended July 31,	
	2014	2013
	\$	\$
Cash flows provided by (used in):		
Operating activities:		
Net loss for the period	(699,670)	(345,914)
Items not involving cash:		
Depreciation	2,320	989
Share-based payments	285,984	89,197
Accretion of convertible debentures	7,750	-
Accrued interest	8,180	-
Changes in non-cash operating working capital:		
Receivables	(3,250)	43,245
Prepaid expenses and deposits	121	5,531
Inventory	(126,354)	-
Accounts payable, accrued liabilities and due to related parties	(276,850)	(55,590)
	(801,769)	(262,542)
Financing activities:		
Repayments of promissory notes	(120,000)	-
Convertible debentures issuance costs	(18,297)	-
Convertible debenture advances	-	150,000
Bond payable, net	2,471,524	-
Proceeds on issuance of common shares	58,100	-
Deferred financing costs	23,421	(4,815)
	2,414,748	145,185
Investing activities:		
Purchase of property, plant and equipment	(661,521)	(350,008)
Exploration and evaluation assets	-	(154,537)
	(661,521)	(504,545)
Increase (decrease) in cash and cash equivalents	951,458	(621,902)
Effect of exchange rates on cash held in foreign currencies	2,865	2,637
Cash and cash equivalents, beginning of period	78,710	684,724
Cash and cash equivalents, end of period	1,033,033	65,459

Supplemental disclosure with respect to cash flows (Note 16)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

INCA ONE GOLD CORP.

(Formerly Inca One Resources Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended July 31, 2014 and 2013

(Unaudited – Expressed in Canadian Dollars)

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN

Inca One Gold Corp. (formerly Inca One Resources Corp.) (the "Company") was incorporated under the laws of Canada on November 9, 2005 and was continued under the British Columbia Business Corporations Act on November 26, 2010. On September 17, 2014, the Company changed its name from Inca One Resources Corp. to Inca One Gold Corp. The Company's shares are traded on the TSX Venture Exchange (the "TSX-V") under the symbol "IO" and on the Frankfurt Stock Exchange under the symbol "SU9.F". The head office and principal address of the Company are located at Suite 1125 – 595 Howe Street, Vancouver, Canada, V6C 2T5 and its registered office is located at Suite 2600 – 1066 West Hastings Street, Vancouver, Canada, V6E 3X1.

These condensed interim consolidated financial statements ("interim financial statements") are prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. For the three months ended July 31, 2014, the Company incurred a net loss of \$699,670. As of that date the Company had a deficit of \$11,426,763 and working capital of \$1,501,008. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds from its Peruvian toll-milling operations and its ability to raise equity capital or borrowings sufficient to meet current and future obligations. These conditions indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These interim financial statements do not reflect the adjustments to the carrying values and classifications of assets and liabilities that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. Subsequent to July 31, 2014, the Company received gross proceeds of \$1,400,000 from the second tranche of a bond financing (Note 17). Management intends to finance operating costs over the next year with the proceeds from the bond financing, its current working capital and net profits from ore processing operations at the Company's gold milling facility in Peru.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The interim financial statements of the Company have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting* ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended April 30, 2014.

These interim financial statements were approved and authorized for issue by the Board of Directors of the Company on September 26, 2014.

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Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended July 31, 2014 and 2013

(Unaudited – Expressed in Canadian Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) Basis of Consolidation**

These interim financial statements are presented in Canadian dollars unless otherwise noted. The interim financial statements include the accounts of the Company, its wholly owned subsidiaries, Inca One Metals Peru S.A. (“IO Metals”), Dynasty One S.A. (“Dynasty One”), Chala One S.A.C. (“Chala One”), and during the year ended April 30, 2014 Minera Huaquillas SAC (“Minera”), a private company incorporated in Peru (Note 8(b)). Although Minera was not a subsidiary of the Company the Company consolidated 100% of its operations as they had effective control and therefore the right to obtain the majority of the benefits and were exposed to the risks of the activities of Minera.

Control is achieved when the Company is exposed to, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions and unrealized intercompany gains and losses are eliminated upon consolidation.

(c) Use of Estimates and Judgments

The preparation of the Company’s interim 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 interim 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. The areas involving a higher degree of judgment or complexity where assumptions and estimates are significant to the financial statements include the going concern assumption, the economic recoverability and probability of future economic benefits of exploration and evaluation assets, exploration and evaluation assets title, the commencement of commercial production, the functional currency, the valuation of marketable securities, convertible debentures and share-based compensation, decommissioning liabilities, and deferred taxes.

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The assessment of the Company’s ability to source future operations and continue as a going concern involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited – Expressed in Canadian Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

If the going concern assumption were not appropriate for the financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used (Note 1).

Management has determined the exploration and evaluation costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities, the evaluation of permitting and environmental issues and local support for the project, and the ability to find joint venture partners if necessary.

Management has determined that operations have not yet progressed beyond the test toll milling stage and therefore has not begun to deplete property, plant and equipment or record revenue. The Company assesses the stage of its mineral properties or processing plant to determine when they estimate it is substantially complete and ready for its intended use. Criteria used to assess when a property has commenced commercial production include the level of capital expenditures incurred relative to the expected costs to complete, the completion of a reasonable period of testing of the property, plant and equipment, the ability to produce saleable metals, the attainment of relevant permits, the ability to sustain ongoing production; and the achievement of pre-determined production targets. Once management determines that a property or plant has reached commercial production, costs capitalized during development begin to be amortized.

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of exploration and evaluation assets. Although the Company has taken steps to verify title to exploration and evaluation assets in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and regulatory requirements. To the best of the Company's knowledge, title to all of its exploration and evaluation assets is in good standing.

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for decommissioning obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and exploration and development property.

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(Formerly Inca One Resources Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended July 31, 2014 and 2013

(Unaudited – Expressed in Canadian Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, future changes to environmental laws and regulations may increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for site closure and reclamation. The provision represents management's best estimate of the present value of the future decommissioning obligation. The calculation of this estimate is based on a number of input variables including the quantity and sales price of gold expected to eventually be recovered from the Company's tailings pond.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future decommissioning costs is subject to change based on amendments to laws and regulations, changes in technology, actual quantities and grade of gold eventually recovered from tailings, price increases and changes in interest rates, and as new information concerning the Company's closure and reclamation obligations becomes available.

Marketable securities have been classified as available-for-sale financial instruments and are measured at fair market value each reporting period with any change in fair value recognized through other comprehensive income (loss). The fair value of the shares currently included in marketable securities has been estimated using their July 31, 2014 share trading price which, due to the absence of a lengthy trading history and restrictive holding periods attached to these shares, may not be indicative of actual fair value. Changes in the share trading price after July 31, 2014 can materially affect the fair value estimates and the Company's earnings.

For accounting purposes, each convertible debenture is separated into its liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue is calculated as the discounted cash flows for the convertible debenture assuming a 20% effective interest rate which was the estimated rate for a debenture without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible debenture and the fair value of the liability component. Changes in the input assumptions can materially affect the fair value estimates and the Company's classification between debt and equity components.

The Company uses the Black-Scholes option pricing model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimates and the Company's earnings and equity reserves.

Deferred tax assets and liabilities are measured using the tax rates expected to be in effect in future periods. Management estimates these future tax rates based on information available at the period end. Actual future rates may be significantly different. Factors causing such differences include changes in the ruling government or changes in national or regional economic circumstances of the areas where mines are located.

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Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited – Expressed in Canadian Dollars)

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

The following revised standard is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Company has not completed its assessment of the impact that the new and amended standard will have on its financial statements.

IFRS 9 “Financial instruments”

The IASB intends to replace IAS 39 “Financial Instruments: Recognition and Measurement” in its entirety with IFRS 9 which is intended to reduce the complexity in the classification and measurement of financial instruments.

The Company has not early adopted any amendment, standard or interpretation that has been issued but is not yet effective.

NOTE 4 – CASH AND CASH EQUIVALENTS

	July 31, 2014	April 30, 2014
Cash and cash equivalents consist of:	\$	\$
Cash	833,033	78,710
Guaranteed Investment Certificates	200,000	-
	1,033,033	78,710

NOTE 5 – MARKETABLE SECURITIES

Marketable securities consist of 733,007 shares in Global Resources Investment Trust PLC (“GRIT”) which were acquired on February 28, 2014 in exchange for the issue of 12,000,000 common shares in the Company at a value of \$0.11 per share.

As of July 31, 2014 the GRIT shares were recorded at a fair value of \$471,826 (April 30, 2014 – \$847,448) based on the GRIT share trading price of CDN\$0.644 (GBP £0.35), and an unrealized loss of \$375,622 resulting from the revaluation was included in other comprehensive loss for the three months ended July 31, 2014 (2013 – \$nil).

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Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended July 31, 2014 and 2013

(Unaudited – Expressed in Canadian Dollars)

NOTE 6 – INVENTORY

	July 31, 2014	April 30, 2014
	\$	\$
Stockpiled ore and ore in process	13,504	8,128
Gold and activated carbon	400,100	400,100
Materials and supplies	120,978	-
	534,582	408,228

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	Chala Plant	Computer	Furniture and Equipment	Total
	\$	\$	\$	\$
Costs:				
Balance, April 30, 2013	-	19,308	23,040	42,348
Additions	1,035,105	404	35,423	1,070,932
Foreign exchange	-	281	195	476
Balance, April 30, 2014	1,035,105	19,993	58,658	1,113,756
Additions	661,858	465	-	662,323
Foreign exchange	-	(16)	(123)	(139)
Balance, July 31, 2014	1,696,963	20,442	58,535	1,775,940
Accumulated Depreciation:				
Balance, April 30, 2013	-	5,960	4,729	10,689
Depreciation	-	3,271	6,085	9,356
Foreign exchange	-	142	113	255
Balance, April 30, 2014	-	9,373	10,927	20,300
Depreciation	-	617	2,505	3,122
Foreign exchange	-	(6)	(55)	(61)
Balance, July 31, 2014	-	9,984	13,377	23,361
Net Carrying Value:				
April 30, 2014	1,035,105	10,620	47,731	1,093,456
July 31, 2014	1,696,963	10,458	45,158	1,752,579

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Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended July 31, 2014 and 2013

(Unaudited – Expressed in Canadian Dollars)

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (continued)

On June 6, 2013, the Company entered into a Letter of Intent to acquire 100% of a permitted and operational milling facility (“Chala Plant”) in Southern Peru for US\$240,000. Of this amount, US\$150,000 has been paid and the remaining US\$90,000 has been accrued and is payable once transfer of the permitted facility is complete. Transfer of formal title is subject to a number of conditions. A finder fee of US\$40,000 and a sourcing and technical advice fee of US\$59,000, inclusive of value added taxes (“VAT”), were paid in connection with the acquisition of the milling facility. An additional US\$59,000, including VAT for sourcing and technical advice, was paid once the plant became operational and had processed 250 tons of ore. All VAT paid is not currently refundable to the Company, but the amounts may be used in the future to offset amounts due to the Peruvian tax administration by the Company, resulting from VAT charged on future sales.

As at July 31, 2014, total additional plant upgrade costs and capitalized pre-operating costs of \$1,275,749 have been incurred.

Depreciation during the three months ended July 31, 2014 was \$3,122 (2013 – \$1,885), of which \$802 was capitalized to pre-operating costs of the Chala Plant (2013 – \$nil) and \$nil was capitalized to exploration and evaluation assets (2013 – \$896).

NOTE 8 – EXPLORATION AND EVALUATION ASSETS**(a) Corizona Project**

Pursuant to an Assignment of Contractual Position Agreement formalized under Peruvian law on January 25, 2013, and amended on May 28, 2013 and June 5, 2013, between the Company and Canadian Mining S.A. (“Canadian Mining”), a privately held Peruvian company, the Company was granted an exclusive right to acquire 100% of a mining lease and purchase option for a mineral property (“the Corizona Project”) located in Peru in exchange for cash of US\$50,000 (paid).

Pursuant to the underlying Mining Lease with Purchase Option Agreement dated January 24, 2013, between Canadian Mining and the Peruvian owner of the mineral property, Sociedad Minera Corizona Limited Liability Lima (“SMRL”), Canadian Mining is entitled to conduct mining activity on the Corizona Project property and holds an option to purchase the Corizona Project until February 27, 2015.

In order to earn its interest in the mineral property option the Company will be required to pay SMRL cash of US\$730,000 at the date of signing the transfer of the concession, US\$730,000 at the date such transfer is registered in the Lima, Peru Mining Registry office and will also be required to pay US\$490,000 to Canadian Mining within five days of the date that the option is legally acquired by the Company. A finder fee of \$20,000 was paid with respect to the option assignment acquisition.

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For the Three Months Ended July 31, 2014 and 2013

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NOTE 8 – EXPLORATION AND EVALUATION ASSETS (continued)

On June 5, 2013, the Company committed to a three year renewable Joint Venture Agreement with Canadian Mining for purposes of development and operation of the Corizona Project and further exploration and evaluation. Pursuant to the terms of this agreement the joint venture would be operated by Canadian Mining and the Company would contribute all of the initial funding in exchange for an 80% share of the Corizona Project's net profits.

Subsequent to July 31, 2014 the Company terminated the Joint Venture Agreement between itself and Canadian Mining and has commenced discussions with SMRL in order to continue exploration activity and acquire an option to purchase the Corizona property. For accounting purposes due to the uncertainty of successfully acquiring an option to purchase the Corizona property from SMRL, a write-down of exploration and evaluation assets of \$367,337 was recorded during the year ended April 30, 2014.

As at July 31, 2014, the Company has paid the following amounts with respect to the Corizona Project:

	Corizona Project Peru
	\$
Balance, April 30, 2013	195,390
Exploration costs:	
Field expenses	78,639
Geology	40,586
Office and administration	1,234
Site advisory	10,018
Rent, utilities and maintenance	17,166
Travel and accommodation	29,276
Value added tax	13,244
Foreign exchange	1,784
	191,947
Write-down of exploration and evaluation assets	(367,337)
Balance, April 30, 2014 and July 31, 2014	20,000

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For the Three Months Ended July 31, 2014 and 2013

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NOTE 8 – EXPLORATION AND EVALUATION ASSETS (continued)**(b) Las Huaquillas Project**

	Las Huaquillas Project Peru
	\$
Balance, April 30, 2013	2,392,978
Exploration costs:	
Field expenses	1,343
Geology	93
Office and administration	2,497
Professional fees	8,673
Rent, utilities and maintenance	10,584
Travel and accommodation	198
Value added tax	2,358
Wages and contract labor	51,324
Foreign exchange	(17,718)
	59,352
Write-down of exploration and evaluation assets	(2,452,330)
Balance, April 30, 2014 and July 31, 2014	-

On March 25, 2011 and later amended on January 18, 2012, the Company entered into a definitive letter agreement (the “Agreement”) with Rial Minera SAC (“Rial”) and its shareholders (collectively the “Optionors”) pursuant to which the Company was granted an option to acquire all of the issued and outstanding shares of Rial (the “Rial Shares”). Rial is a private Peruvian company that owns a 100% interest in the Las Huaquillas gold-copper project (the “Las Huaquillas Project”). Pursuant to the Agreement, the Company could acquire 100% of the Rial Shares, by paying an aggregate of US\$5,000,000 to the Optionors; issuing 8,000,000 common shares of the Company; and incurring exploration expenditures of US\$10,000,000 over a period of four years. As at July 31, 2014, the Company has paid US\$375,000 and issued 325,000 shares for acquisition costs payable pursuant to the terms of the Agreement. As further consideration for the acquisition, the Company entered into a finder fees agreement dated July 31, 2011 and later amended by a letter agreement dated January 19, 2012, to pay finder fees of US\$282,500 and to issue 400,000 common shares of the Company over a period of four years. As at July 31, 2014, the Company had issued 16,250 shares and paid US\$35,625 in cash pursuant to the terms of this finder fees agreement.

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NOTE 8 – EXPLORATION AND EVALUATION ASSETS (continued)

After entering into the two agreements the Company expended considerable time and expense to obtain the requisite drilling permits for the Las Huaquillas Project and in June 2013, these drill permits were received. After the Company determined that it was unable to source a joint venture partner or formalize an amended agreement with the Optionors the Company terminated the option. For financial reporting purposes, due to the absence of sufficient verifiable information to support a recoverable value of the Las Huaquillas Project and drilling permits thereon, this value has been deemed to be zero. Accordingly a write-down of exploration and evaluation assets of \$2,452,330 was recorded during the year ended April 30, 2014.

NOTE 9 – PROMISSORY NOTES PAYABLE

During the year ended April 30, 2014, two directors and officers of the Company advanced to the Company a total of \$170,000 in cash in exchange for promissory notes. The notes were unsecured and payable on demand with an interest rate of 20% per annum calculated and paid quarterly in arrears. \$50,000 of the principal was repaid during the year ended April 30, 2014 and the remaining \$120,000 was repaid during the three months ended July 31, 2014. Interest expense of \$3,036 was incurred and paid with respect to these promissory notes during the three months ended July 31, 2014.

On October 22, 2013 and November 6, 2013, the Company closed a non-brokered private placement of secured, redeemable promissory notes for gross proceeds of \$420,000. Of this amount \$150,000 was issued to a director and officer and to a company controlled by a director. The promissory notes mature after 24 months and bear interest at 20% per annum. At the option of one of the subscribers, accrued interest of \$22,218 has been added to the principal of the promissory notes instead of being paid in cash. Subscribers are entitled to redeem their investment principal plus accrued interest on or after six months by providing 30 days written notice in advance of three month promissory note rollover periods. Subsequent to July 31, 2014, \$100,000 of the promissory notes was requested to be redeemed.

The notes are secured by a security interest in all of the Company's present and after acquired property pursuant to an underlying Security Agreement but are subordinate to any security held by holders of the Convertible Debentures.

A cash finder fee of \$2,500 and legal and regulatory costs of \$2,540 incurred in connection with the financing were charged against the promissory notes amount payable. Interest expense of \$21,922 has been recorded with respect to these promissory notes during the three months ended July 31, 2014, and \$2,181 of interest expense incurred to date has been included in accounts payable and accrued liabilities and due to related parties.

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NOTE 10 – CONVERTIBLE DEBENTURES

	Liability Component	Equity Component
	\$	\$
Balance, April 30, 2013	-	-
October 30, 2013 convertible debenture issuance	198,664	76,336
Issuance costs allocated	(8,456)	(3,249)
Accretion and amortization	7,143	-
Balance, April 30, 2014	197,351	73,087
May 23, 2014 convertible debenture issuance	234,785	90,215
Issuance costs allocated	(13,218)	(5,079)
Accretion and amortization	7,750	-
Balance, July 31, 2014	426,668	158,223

On October 30, 2013, the Company completed a secured convertible debenture offering for gross proceeds of \$275,000. Of this amount \$75,000 was issued to two directors and officers or to individuals to who they were related. The debentures mature on October 30, 2018 although are redeemable at the Company's option after October 30, 2016. At the date of issue \$198,664 was attributed to the liability component of the convertible debenture and \$76,336 to equity.

The debentures are secured by a security interest in all of the Company's present and after acquired property pursuant to an underlying Security Agreement and hold preference to any security held by holders of the promissory notes.

Until October 30, 2014 each debenture holder has the option to convert up to 20% of the debenture principal and all of the interest payable into common shares by providing 30 days written notice in advance of three month debenture rollover periods. The conversion of debenture principal will be based on a share price of \$0.10 and the conversion of any interest payable will be based on the greater of \$0.10 per share or the closing share price on the date the Company receives notice from the holder.

Interest on the debentures is payable at the rate of 10% per annum calculated and paid quarterly in arrears. Professional fees of \$11,705 have been incurred in connection with the debenture offering and have been recorded against the liability and equity components on a pro-rata basis. During the three months ended July 31, 2014, with respect to this debenture offering the Company recorded accretion expense and amortization of issuance costs of \$3,671, and interest expense of \$6,856 all of which has been paid as of July 31, 2014.

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NOTE 10 – CONVERTIBLE DEBENTURES (continued)

On May 23, 2014, the Company closed a second debenture financing for gross proceeds of \$325,000. The Company had received all of the proceeds in advance of the closing and accordingly they were reflected as current liabilities on the Consolidated Statements of Financial Position as at April 30, 2014. The debentures bear interest at a rate of 10% per annum, calculated and paid quarterly in arrears, 25% of which shall be convertible into shares during the first year of the debenture term. Also during the first year of the debenture term a maximum of 25% of the principal may, at the option of the holder, be converted into common shares of the Company at a price of \$0.125 per common share. The debentures mature on May 23, 2019 and are redeemable by the Company at any time after May 23, 2017. They are secured by a security interest in all of the Company's present and after acquired property pursuant to a security agreement. At the date of issue \$234,785 was attributed to the liability component of the convertible debenture and \$90,215 to equity.

Professional fees of \$18,297 have been incurred in connection with the debenture offering and have been recorded against the liability and equity components on a pro-rata basis. During the three months ended July 31, 2014, with respect to this second debenture offering the Company recorded accretion expense and amortization of issuance costs of \$4,079, and interest expense of \$2,760 which has been included in accounts payable and accrued liabilities and due to related parties as of July 31, 2014.

NOTE 11 – BOND PAYABLE

On May 20, 2014, the Company announced a bond financing for gross proceeds of \$5,500,000. On June 3, 2014, the Company closed the first tranche of this financing after the gross proceeds of \$2,700,000 were received.

The first tranche bond bears interest at 10% per annum, calculated and payable quarterly in arrears commencing no later than December 3, 2014. The bond principal of \$2,700,000 is repayable in increments of \$170,454 on each of June 3, 2016, September 3, 2016, December 3, 2016 and March 3, 2017, with the remainder due June 3, 2017.

In connection with the financing the Company and the purchaser have entered into a financing fee agreement whereby the Company has a commitment to pay a financing fee equal to 3.5% of the net revenues from the Chala plant as defined by the agreement. All or a portion of the financing fee can be repurchased by the Company on either December 31, 2024 or December 31, 2029 in exchange for the cash payment of US\$1,500,000 or a corresponding pro-rata portion thereof and otherwise the fee will continue to be payable until December 31, 2034.

In addition a finder fee of \$216,000 and professional fees of \$12,476 were paid in cash and 1,440,000 finder's warrants were issued in connection with the financing. The warrants are exercisable at \$0.15 for 3 years, and \$153,304 arising from the issue of these compensation warrants was charged against the bond amount payable and credited to warrant reserve.

Subsequent to period end the Company received second tranche gross proceeds of \$1,400,000 (Note 17).

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NOTE 11 – BOND PAYABLE (continued)

For purposes of the calculations of compensation charge associated with the finder's warrants granted, the following assumptions were used for the Black-Scholes model:

Risk-free interest rate	1.13%
Expected dividends	\$nil
Expected volatility	96%
Expected life	3 years

The bond is secured by a security interest in all of the Company's present and after acquired property pursuant to an underlying Security Agreement but ranks secondary to any prior ranking security held by holders of the promissory notes and debentures.

Pursuant to the terms of the bond financing agreement the Company has granted the right of first refusal for future debt and equity financings subject to certain restrictions as outlined in those agreements.

NOTE 12 – SHARE CAPITAL AND RESERVES**(a) Authorized**

Unlimited number of voting common shares without par value.

(b) Issued Share Capital

At July 31, 2014, there were 63,929,674 issued and fully paid common shares (April 30, 2014 – 63,574,674).

(c) Share Issuances

During the three months ended July 31, 2014, 175,000 common shares were issued for proceeds of \$35,000 on the exercise of 175,000 warrants at \$0.20 per share.

During the three months ended July 31, 2014, 180,000 common shares were issued for proceeds of \$23,100 on the exercise of 120,000 stock options at \$0.125 per share and 60,000 stock options at \$0.135 per share. A reclassification of \$17,495 from stock option reserve to share capital was recorded on the exercise of these options.

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NOTE 12 – SHARE CAPITAL AND RESERVES (continued)**(d) Stock Options**

The Company adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Stock options will be exercisable for a period of up to 10 years from the date of grant.

In connection with the foregoing, the number of common shares reserved for issuance to any individual director or officer will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 30 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or consulting arrangement was by reason of death, the option may be exercised within a maximum period of twelve months after such death, subject to the expiry date of such option.

The status of the options outstanding is as follows:

	Options	Weighted Average Exercise Price
	#	\$
Balance, April 30, 2013	3,206,000	0.255
Granted	1,150,000	0.150
Forfeited	(558,000)	0.268
Balance, April 30, 2014	3,798,000	0.221
Granted	2,050,000	0.150
Exercised	(180,000)	0.128
Forfeited	(423,000)	0.368
Balance, July 31, 2014	5,245,000	0.185

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NOTE 12 – SHARE CAPITAL AND RESERVES (continued)

The following table summarizes the options outstanding as at July 31, 2014:

Options #	Exercise Price \$	Expiry Date	Vesting Provisions #
150,000	0.135	February 18, 2015	Vested
240,000	0.125	April 7, 2015	Vested
150,000	0.250	February 9, 2017	Vested
250,000	0.150	October 5, 2017	Vested
675,000	0.150	October 30, 2017	Vested
850,000	0.150	May 30, 2018	Vested
200,000	0.150	October 31, 2018	Vested
2,050,000	0.150	June 4, 2019	Vested
75,000	0.220	September 23, 2020	Vested
10,000	0.500	May 13, 2021	Vested
595,000	0.430	July 11, 2021	Vested
5,245,000			

As at July 31, 2014, the weighted average remaining contractual life of the options is 4.26 years.

During the three months ended July 31, 2014, the Company recognized share-based payments of \$285,984 (2013 – \$89,197) for stock options granted and vested during the year. The fair value of stock options granted during the three months ended July 31, 2014 and 2013 was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

	2014	2013
Risk-free interest rate	2.00%	1.63%
Expected dividends	\$nil	\$nil
Expected volatility	160.04%	165.58%
Expected life	5.00 years	5.00 years

The weighted average fair value of stock options granted during the three months ended July 31, 2014 was \$0.14 (2013 – \$0.09) per option.

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NOTE 12 – SHARE CAPITAL AND RESERVES (continued)**(e) Warrants**

The status of the share purchase warrants outstanding is as follows:

	Warrants	Weighted Average Exercise Price
	#	\$
Balance, April 30, 2013	18,767,143	0.273
Expired	(8,641,343)	0.360
Balance, April 30, 2014	10,125,800	0.200
Issued	1,440,000	0.150
Exercised	(175,000)	0.200
Balance, July 31, 2014	11,390,800	0.194

The following table summarizes the share purchase warrants outstanding at July 31, 2014:

Number of Warrants	Exercise Price	Expiry Date
#	\$	
9,950,800	0.200	April 5, 2016
1,440,000	0.150	May 20, 2017
11,390,800		

NOTE 13 – RELATED PARTY TRANSACTIONS**(a) Related Party Transactions**

The Company incurred charges to directors and officers, former directors and officers, or to companies associated with these individuals during the three months ended July 31, 2014 and 2013 as follows:

	2014	2013
	\$	\$
Accounting fees recorded in professional fees	27,220	28,696
Consulting and management fees	45,000	24,000
Finance costs	15,341	-
Legal fees and share issuance costs	18,555	8,887
	106,116	61,583

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NOTE 13 – RELATED PARTY TRANSACTIONS (continued)

Accounting fees are paid to a company which is owned by a director and in which the CFO is an associate, and a company controlled by a director of the Company. Consulting and management fees are paid to companies controlled by the President and/or Chief Operating Officer. Finance costs on interest bearing debt instruments were paid or accrued to companies which are owned by either the President or Chief Operating Officer or to a company owned by a director in which the CFO is an associate. Legal fees and share issuance costs are paid to a legal firm with which the Corporate Secretary is associated.

(b) Compensation of Key Management Personnel

The Company's key management personnel has authority and responsibility for planning, directing and controlling the activities of the Company and includes the Directors, President, Chief Financial Officer, and Chief Operating Officer. Compensation in respect of services provided by key management consists of consulting and management fees paid to the President and the COO, accounting fees paid to a company in which the CFO is an associate and a company which is controlled by a director, and by the issue of options.

	2014	2013
	\$	\$
Management, accounting and CFO fees included in Note 13(a) above	72,220	52,696
Share-based payments	177,868	32,367
	250,088	85,063

There was no other compensation paid or payable to key management for employee services.

(c) Related Party Balances

All related party balances payable, including for business expense reimbursements, advances to the Company and services rendered, as at July 31, 2014 are non-interest bearing and payable on demand and are comprised of \$16,203 (April 30, 2014 – \$48,856) payable to the President, \$nil (April 30, 2014 – \$52,670) payable to a company controlled by the President, \$8,796 (April 30, 2014 – \$21,661) payable to the Chief Operating Officer, \$973 (April 30, 2014 – \$48,450) payable to a company controlled by the Chief Operating Officer, \$13,467 (April 30, 2014 – \$57,739) payable to a company controlled by a director and in which the CFO is an associate, \$6,300 (April 30, 2014 – \$nil) payable to a company controlled by a director, and \$8,920 (April 30, 2014 – \$66,551) payable to a legal firm with which the Corporate Secretary is associated.

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NOTE 14 – COMMITMENTS

The Company has a consulting agreement with a company controlled by the President of the Company whereby it has committed to pay fixed monthly management fees of \$10,000, and whereby additional fees may be payable if certain conditions exist upon eventual termination of the contract.

NOTE 15 – SEGMENTED INFORMATION

The Company operates in one reportable operating segment, currently being the exploration and evaluation of mineral properties for development and gold milling facilities in Peru. Segmented information is provided on the basis of geographic segments consistent with the Company's core long-term and operating assets as follows:

July 31, 2014	Canada	Peru	Total
	\$	\$	\$
Inventory	-	534,582	534,582
Property, plant and equipment	2,650	1,749,929	1,752,579
Exploration and evaluation assets	-	20,000	20,000
Total long-term and operating assets	2,650	2,304,511	2,307,161

April 30, 2014	Canada	Peru	Total
	\$	\$	\$
Inventory	-	408,228	408,228
Other assets	23,421	-	23,421
Property, plant and equipment	2,851	1,090,605	1,093,456
Exploration and evaluation assets	-	20,000	20,000
Total long-term and operating assets	26,272	1,518,833	1,545,105

NOTE 16 – SUPPLEMENTAL CASH FLOW INFORMATION

Interest and income taxes paid in cash during the three months ended July 31, 2014 were \$40,670 and \$nil (2013 – \$nil and \$nil).

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the three months ended July 31, 2013, there were no transactions excluded from the statements of cash flows. During the three months ended July 31, 2014, the following transactions were excluded from the statements of cash flows:

The Company issued 1,440,000 finder's warrants at the fair value of \$153,304 pursuant to the bond financing.

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NOTE 17 – SUBSEQUENT EVENTS

(a) Bond Financing

On August 29, 2014, the Company entered into an amended subscription agreement (the “Amended Subscription Agreement”) with respect to the final tranche of its previously announced bond financing (the “Bond Financing”). The first tranche of the Bond Financing closed on June 3, 2014 for gross proceeds of \$2,700,000 (see Note 11). Under the terms of the Amended Subscription Agreement, the closing of the final tranche of the Bond Financing will occur in two separate tranches, each for gross proceeds of \$1,400,000, the first of which closed on August 29, 2014 and the second of which is scheduled to close late September 2014.

(b) Stock Options

Subsequent to July 31, 2014, the Company issued 500,000 incentive stock options at an exercise price of 0.15, expiring on August 29, 2019.