



## INCA ONE GOLD CORP.

Condensed Interim Consolidated Financial Statements  
For the Three and Six Months Ended October 31, 2016 and 2015  
(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.

# INCA ONE GOLD CORP.

Condensed Interim Consolidated Statements of Financial Position  
(Unaudited - Expressed in Canadian Dollars)

|   | Note  | October 31, 2016 | April 30, 2016 |
|---|-------|------------------|----------------|
|   |       | \$               | \$             |
| <b>Assets</b>   |       |                  |                |
| Current:  |       |                  |                |
| Cash  |       | 84,434           | 45,135         |
| Receivables   | 5     | 636,803          | 1,664,029      |
| Marketable securities                                   | 6     | -                | 87,439         |
| Prepaid expenses and deposits                           | 7     | 1,830,401        | 824,075        |
| Inventory   | 8     | 1,827,286        | 888,676        |
|   |       | 4,378,924        | 3,509,354      |
| Property, plant and equipment                           | 9     | 6,243,523        | 5,860,770      |
| Total assets  |       | 10,622,447       | 9,370,124      |
| <b>Liabilities</b>                                      |       |                  |                |
| Current:  |       |                  |                |
| Accounts payable and accrued liabilities                | 10    | 1,233,004        | 2,437,740      |
| Current portion of bond payable                         | 4, 13 | -                | 1,193,182      |
| Promissory notes payable                                | 4, 11 | 308,325          | 2,774,843      |
| Deferred revenue  | 19    | 517,084          | 359,179        |
| Convertible debentures                                  | 4, 12 | -                | 1,795,580      |
| Debenture units   | 4, 14 | -                | 2,593,915      |
|   |       | 2,058,413        | 11,154,439     |
| Convertible debentures                                  | 4, 12 | -                | 375,253        |
| Bond payable  | 4, 13 | -                | 3,961,501      |
| Secured debentures                                      | 4, 15 | 2,764,830        | -              |
| Mineral notes   |       | 64,238           | 59,575         |
| Asset retirement and reclamation obligations            | 16    | 340,710          | 308,840        |
|   |       | 5,228,191        | 15,859,608     |
| <b>Shareholders' Equity (Deficiency)</b>                |       |                  |                |
| Share capital   | 4, 17 | 21,861,570       | 13,636,263     |
| Reserves  | 4, 17 | 5,574,293        | 1,735,807      |
| Convertible debentures - equity component               | 12    | -                | 39,286         |
| Accumulated other comprehensive earnings                |       | 576,253          | 597,826        |
| Deficit   |       | (22,617,860)     | (22,498,666)   |
|   |       | 5,394,256        | (6,489,484)    |
| Total liabilities and shareholders' equity (deficiency) |       | 10,622,447       | 9,370,124      |

Nature of operations and going concern (note 1)

Commitments and Contingencies (notes 9, 10, 11, 12, and 17)

**Approved on behalf of the Board of Directors on December 22, 2016:**

*"Bruce Bragagnolo"*

Director

*"Phu Van Bui"*

Director

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

# INCA ONE GOLD CORP.

Condensed Interim Consolidated Statements of Operations  
(Unaudited - Expressed in Canadian Dollars)

|   | Note  | Three months ended |                     | Six months ended   |                     |
|---|-------|--------------------|---------------------|--------------------|---------------------|
|   |       | 2016               | October 31,<br>2015 | 2016               | October 31,<br>2015 |
|   |       | \$                 | \$                  | \$                 | \$                  |
| <b>Revenue</b>  |       | <b>2,438,054</b>   | 4,330,350           | <b>4,513,616</b>   | 10,880,220          |
| <b>Cost of goods sold</b> (including \$221,462 and \$325,733 of depreciation (2015 - \$91,739 and \$187,627), respectively) |       | <b>1,880,835</b>   | 4,667,587           | <b>4,275,004</b>   | 10,781,958          |
| <b>Gross operating margin (deficit)</b>   |       | <b>557,219</b>     | (337,237)           | <b>238,612</b>     | 98,262              |
| Corporate and administrative expenses   | 23    | <b>(583,313)</b>   | (704,407)           | <b>(1,134,571)</b> | (1,817,292)         |
| <b>Loss from operations</b>   |       | <b>(26,094)</b>    | (1,041,644)         | <b>(895,959)</b>   | (1,719,030)         |
| Finance and other income (expense)  | 23    | <b>(299,609)</b>   | (887,305)           | <b>(711,683)</b>   | (801,226)           |
| Restructuring gain, net   | 4, 23 | <b>1,498,671</b>   | -                   | <b>1,498,671</b>   | -                   |
| <b>Earnings (loss) before income taxes</b>  |       | <b>1,172,968</b>   | (1,928,949)         | <b>(108,971)</b>   | (2,520,256)         |
| Deferred income tax (expense) recovery  |       | <b>(10,223)</b>    | -                   | <b>(10,223)</b>    | 10,223              |
| <b>Earnings (loss) for the period</b>   |       | <b>1,162,745</b>   | (1,928,949)         | <b>(119,194)</b>   | (2,510,033)         |
| <b>Other comprehensive earnings (loss)</b>  |       |                    |                     |                    |                     |
| Foreign currency translation adjustment   |       | <b>197,879</b>     | 234,791             | <b>(21,573)</b>    | (140,273)           |
| <b>Comprehensive earnings (loss) for the period</b>   |       | <b>1,360,624</b>   | (1,694,158)         | <b>(140,767)</b>   | (2,650,306)         |
| <b>Weighted average shares outstanding</b>  |       |                    |                     |                    |                     |
| Basic   | 24    | <b>37,152,037</b>  | 10,173,008          | <b>24,381,676</b>  | 9,464,433           |
| Diluted   | 24    | <b>38,726,874</b>  | 10,173,008          | <b>24,381,676</b>  | 9,464,433           |
| <b>Earnings (loss) per share</b>  |       |                    |                     |                    |                     |
| Basic   | 24    | <b>0.03</b>        | (0.02)              | <b>(0.00)</b>      | (0.04)              |
| Diluted   | 24    | <b>0.03</b>        | (0.02)              | <b>(0.00)</b>      | (0.04)              |

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

# INCA ONE GOLD CORP.

## Condensed Interim Consolidated Statements of Changes in Equity (Unaudited - Expressed in Canadian Dollars)

|  | Share capital                    |                   | Reserves         |                  |                  | Convertible<br>debenture –<br>equity<br>component | Accumulated<br>other<br>comprehensive<br>(loss) earnings | Deficit             | Total<br>shareholders'<br>equity<br>(deficiency) |
|--|----------------------------------|-------------------|------------------|------------------|------------------|---|--|---------------------|--|
|  | Common<br>shares<br>(note 17(b)) | Amount            | Stock<br>options | Warrants         | Total            |   |  |                     |  |
|  | #                                | \$                | \$               | \$               | \$               |   |  |                     |  |
| <b>Balance, April 30, 2015</b>   | <b>9,911,559</b>                 | <b>12,520,642</b> | <b>624,900</b>   | <b>441,226</b>   | <b>1,066,126</b> | <b>15,432</b>                                     | <b>312,557</b>   | <b>(14,926,136)</b> | <b>(1,011,379)</b>                               |
| Comprehensive loss for the year  | -                                | -                 | -                | -                | -                | -   | (140,273)  | (2,510,033)         | (2,650,306)                                      |
| Convertible debentures – equity portion<br>(note 12(b))                              | -                                | -                 | -                | -                | -                | 23,854  | -  | -                   | 23,854   |
| Issuance of shares on private placement<br>(note 16(c))                              | 572,818                          | 581,371           | -                | -                | -                | -   | -  | -                   | 581,371  |
| Warrants issued on debenture unit<br>financings (note 14)                            | -                                | -                 | -                | 26,008           | 26,008           | -   | -  | -                   | 26,008   |
| Issuance of shares on exercise of<br>warrants (note 17(c)(e))                        | 14,286                           | 20,000            | -                | -                | -                | -   | -  | -                   | 20,000   |
| Exercised options (note 17(d))   | 30,000                           | 68,761            | (31,261)         | -                | (31,261)         | -   | -  | -                   | 37,500   |
| Shares issued for services (note 17(d))  | 22,612                           | 24,930            | -                | -                | -                | -   | -  | -                   | 24,930   |
| Share-based payments (note 17(d))  | -                                | -                 | 361,633          | -                | 361,633          | -   | -  | -                   | 361,633  |
| <b>Balance, October 31, 2015</b>   | <b>10,551,275</b>                | <b>13,215,704</b> | <b>955,272</b>   | <b>467,234</b>   | <b>1,422,506</b> | <b>39,286</b>                                     | <b>172,284</b>   | <b>(17,436,169)</b> | <b>(2,586,389)</b>                               |
| Comprehensive loss for the year  | -                                | -                 | -                | -                | -                | -   | 425,542  | (5,062,497)         | (4,636,955)                                      |
| Issuance of shares on private placement<br>(note 17(c))                              | 657,019                          | 177,848           | -                | 313,301          | 313,301          | -   | -  | -                   | 491,149  |
| Shares issued for settlement of interest<br>on debt (note 17(c))                     | 305,122                          | 192,227           | -                | -                | -                | -   | -  | -                   | 192,227  |
| Shares issued for services (note 17(d))  | 48,080                           | 50,484            | -                | -                | -                | -   | -  | -                   | 50,484   |
| <b>Balance, April 30, 2016</b>   | <b>11,561,496</b>                | <b>13,636,263</b> | <b>955,272</b>   | <b>780,535</b>   | <b>1,735,807</b> | <b>39,286</b>                                     | <b>597,826</b>   | <b>(22,498,666)</b> | <b>(6,489,484)</b>                               |
| Comprehensive loss for the period  | -                                | -                 | -                | -                | -                | -   | (21,573)   | (119,194)           | (140,767)  |
| Convertible debentures – equity portion<br>(note 12(b))                              | -                                | -                 | -                | -                | -                | (39,286)  | -  | -                   | (39,286)   |
| Issuance of shares on private<br>placement, net of share issue costs<br>(note 17(c)) | <b>25,369,447</b>                | <b>3,559,718</b>  | -                | <b>2,508,276</b> | <b>2,508,276</b> | -   | -  | -                   | <b>6,067,994</b>                                 |
| Shares issued for debt settlement (note<br>4)  | <b>20,322,340</b>                | <b>4,582,875</b>  | -                | -                | -                | -   | -  | -                   | <b>4,582,875</b>                                 |
| Warrants issued for debt settlement<br>(note 4)                                      | -                                | -                 | -                | <b>874,655</b>   | <b>874,655</b>   | -   | -  | -                   | <b>874,655</b>                                   |
| Shares issued for services (note 17(c))  | <b>78,870</b>                    | <b>82,714</b>     | -                | -                | -                | -   | -  | -                   | <b>82,714</b>                                    |
| Share-based payments (note 17(d))  | -                                | -                 | <b>455,555</b>   | -                | <b>455,555</b>   | -   | -  | -                   | <b>455,555</b>                                   |
| <b>Balance, October 31, 2016</b>   | <b>57,332,153</b>                | <b>21,861,570</b> | <b>1,410,827</b> | <b>4,163,466</b> | <b>5,574,293</b> | <b>-</b>  | <b>576,253</b>   | <b>(22,617,860)</b> | <b>5,394,256</b>                                 |

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

## INCA ONE GOLD CORP.

Condensed Interim Consolidated Statements of Cash Flows  
(Unaudited - Expressed in Canadian Dollars)

|  | Six Months Ended October 31, |                    |
|--|------------------------------|--------------------|
|  | 2016                         | 2015               |
|  | \$                           | \$                 |
| <b>Cash flows provided by (used in):</b>   |                              |                    |
| <b>Operating activities:</b>   |                              |                    |
| Net loss for the period  | (119,194)                    | (2,510,033)        |
| Items not involving cash:  |                              |                    |
| Depreciation and amortization  | 421,144                      | 243,922            |
| Share-based payments   | 455,555                      | 361,633            |
| Loss on sale of marketable securities  | 11,648                       | -                  |
| Impairment of marketable securities  | -                            | 151,580            |
| Accretion expense  | 106,932                      | 368,655            |
| Accrued interest   | -                            | 100,895            |
| Interest expense   | 259,440                      | 750,357            |
| Shares issued for services   | 82,714                       | -                  |
| Unrealized foreign exchange  | (217,632)                    | 279,053            |
| Deferred income taxes  | 10,223                       | (10,223)           |
| Gain on restructuring, net   | (1,498,671)                  | -                  |
| Changes in non-cash operating working capital:   |                              |                    |
| Receivables  | 1,027,226                    | (2,271,254)        |
| Prepaid expenses and deposits  | (1,603,446)                  | (444,517)          |
| Inventory  | (938,610)                    | 76,696             |
| Accounts payable and accrued liabilities   | (1,717,628)                  | 252,946            |
| Deferred revenue   | 157,906                      | -                  |
|  | <b>(3,562,393)</b>           | <b>(2,650,290)</b> |
| <b>Financing activities:</b>   |                              |                    |
| Proceeds from promissory notes payable, net of issuance costs                          | -                            | 1,988,114          |
| Repayments of promissory notes   | -                            | (253,030)          |
| Proceeds from convertible debentures, net of issuance costs                            | -                            | 1,043,711          |
| Repayments of convertible debentures   | (652,752)                    | -                  |
| Proceeds from debenture financing  | -                            | 589,637            |
| Repayments of debt on restructuring  | (1,609,109)                  | -                  |
| Proceeds on issuance of common shares through private placement, net of issuance costs | 6,067,994                    | 581,371            |
| Proceeds on issuance of common shares on exercise of share options                     | -                            | 37,500             |
| Proceeds on issuance of common shares on exercise of share warrants                    | -                            | 20,000             |
| Interest paid  | -                            | (674,670)          |
|  | <b>3,806,133</b>             | <b>3,332,633</b>   |
| <b>Investing activities:</b>   |                              |                    |
| Purchase of marketable securities  | -                            | (330,000)          |
| Proceeds from sale of marketable securities  | 75,790                       | -                  |
| Purchase of property, plant and equipment  | (278,975)                    | (684,551)          |
|  | <b>(203,185)</b>             | <b>(1,014,551)</b> |
| Increase (decrease) in cash and cash equivalents                                       | 40,555                       | (332,208)          |
| Effect of exchange rates on cash held in foreign currencies                            | (1,256)                      | (1,033)            |
| Cash and cash equivalents, beginning of the period                                     | 45,135                       | 454,321            |
| <b>Cash and cash equivalents, end of the period</b>                                    | <b>84,434</b>                | <b>121,080</b>     |

Supplemental disclosure with respect to cash flows (note 25)

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

## **INCA ONE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements  
For the Three and Six Months Ended October 31, 2016 and 2015  
(Unaudited - Expressed in Canadian Dollars)

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### **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", on the Frankfurt Stock Exchange under the symbol "SU9.F", and the Santiago Stock Exchange Venture under the symbol "IOCL". The head office and principal address of the Company are located at Suite 1915 - 1030 West Georgia Street, Vancouver, Canada, V6E 2Y3 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 six months ended October 31, 2016, the Company earned net loss of \$119,194. As of that date the Company had a deficit of \$22,617,860 and working capital surplus of \$2,320,511. These conditions indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Management intends to finance operating costs over the year with the proceeds from debt financing, equity financing, its current working capital, proceeds from option and warrant exercises, and net profits from processing operations at the Company's gold milling facility in Peru. On August 26, 2016, the Company restructured and settled approximately \$13.7 million of the Company's long and short term debt and related unpaid interest (note 4).

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 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.

### **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Basis of Presentation**

These interim financial statements have been prepared in accordance 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"). The accounting principles adopted are consistent with those of the previous financial year.

These interim financial statements have been prepared using the significant accounting policies and measurement bases summarized below and were approved by the board of directors for issue on December 22, 2016.

## **INCA ONE GOLD CORP.**

Notes to the Condensed Interim Consolidated Financial Statements  
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### **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(b) Basis of Consolidation**

The 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 Minera Huaquillas SAC (“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 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.

##### Significant accounting judgments

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include but are not limited to the following:

##### *(i) Going concern*

The interim 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. If the going concern assumption were not appropriate for the consolidated financial statements, then adjustments to the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position would be necessary (note 1).



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Notes to the Condensed Interim Consolidated Financial Statements  
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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(ii) Economic recoverability and probability of future economic benefits of exploration and evaluation assets*

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 the exploration and evaluation costs incurred which were capitalized do not have future economic benefits and are not economically recoverable. As at April 30, 2015, the Company fully impaired all of its exploration and evaluation assets.

*(iii) Commencement of commercial production*

Management conducted an assessment of commercial production indicators and concluded that commercial production commenced as at February 1, 2015. This assessment included key parameters being met such as: a) all major and auxiliary processing circuits were fully operational including ball mill, crushing, and leaching circuits, and related facilities in place; b) average production throughput at the plant since February 1, 2015 has been in excess of 50 tonnes per day (“TPD”) with production ramping up to the full 100 TPD production capacity; and c) a reasonable testing and commissioning period had completed. As a result of the commencement of commercial production the Company began on that date reporting the results of its mineral processing operations in the consolidated statement of operations and amortizing the capitalized costs of its milling plant.

*(iv) Determination of functional currency*

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.

*(v) Exploration and evaluation assets title*

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. As at April 30, 2015, the Company fully impaired all of its exploration and evaluation assets.

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### **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### Significant estimates and assumptions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

##### *(i) Value of share-based compensation*

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.

##### *(ii) Fair value measurement*

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

##### *(iii) Value of marketable securities*

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 earnings (loss). The fair value of the shares currently included in marketable securities has been estimated using their October 31, 2016 share trading price. Changes in the share trading price after October 31, 2016 can materially affect the fair value estimates and the Company's earnings.

##### *(iv) Depreciation*

Property, plant and equipment depreciation is determined at rates which will reduce original cost to estimated residual value over the expected useful life of each asset. The expected useful lives used to compute depreciation could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production, differences between estimated and actual useful lives and costs of production and differences in gold prices.

Significant judgement is involved in the estimation of useful life and residual values for the computation of depreciation and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

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### **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *(v) Inventory*

Expenditures incurred, and depreciation of assets used in production activities are deferred and accumulated as the cost of stockpiled gold-bearing material and in process inventory and finished goods gold inventory. These deferred amounts are carried at the lower of average cost or net realizable value (“NRV”) and are subject to significant measurement uncertainty.

Write-downs of stockpiled gold-bearing material and in process inventory and finished goods gold inventory resulting from NRV impairments are reported as a component of current period costs. The primary factors that influence the need to record write-downs include prevailing and long-term metal prices and prevailing costs for production inputs such as labour, fuel and energy, materials and supplies, as well as realized material grades and actual production levels.

Costs are attributed to the material in process based on current mining costs, including applicable depreciation and depletion relating to production operations incurred up to the point of placing the material in the leach tanks. Costs are removed from material in process based on the average cost per estimated recoverable ounce of gold in the leach tanks as the gold is recovered. Estimates of recoverable gold in the leach tanks are calculated from the quantities of material placed in the tanks, the grade of material placed in the leach tanks and an estimated percentage of recovery. Timing and ultimate recovery of gold contained in leach tanks can vary significantly from the estimates.

The quantities of recoverable gold placed in the leach tanks are reconciled to the quantities of gold actually recovered (metallurgical balancing), by comparing the grades of material placed in the leach tanks to actual ounces recovered. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and the engineering estimates are refined based on actual results over time. The ultimate recovery of gold from a leach tank will not be known until the leaching process is completed.

The allocation of costs to stockpiled gold-bearing material and in process inventory and finished goods gold inventory, and the determination of NRV involve the use of estimates. There is a high degree of judgement in estimating future costs, future production level, gold prices, and the ultimate estimated recovery for material in process. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying value of inventories.

#### *(vi) Asset retirement and reclamation obligations*

The Company assesses its asset retirement and reclamation obligation at each reporting date. Significant estimates and assumptions are made in determining the asset retirement obligation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates, and changes in discount rates.

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### **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required.

#### *(vii) Deferred taxes*

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.

#### *(viii) Contingencies*

Due to the nature of the Company's operations, various legal and tax matters can arise from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its interim consolidated financial statements for the period in which such changes occur.

### **(d) Foreign Currency Translation**

#### *(i) Functional currency and presentation currency*

The functional currency of a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its financial statements.

These interim financial statements are presented in Canadian dollars, which is the functional currency of the Canadian company. The functional currency of Dynasty One, Chala One and IO Metals is the US dollar. Prior to April 30, 2015 IO Metal's functional currency was the Peruvian Sol. On May 1, 2015, the functional currency of IO Metals changed from the Peruvian Sol to the US dollar. The change was based on management's assessment, taking into consideration the currency that most strongly influences primary operating and capital decisions in addition to the currency in which funding requirements are met. This change in accounting treatment is applied prospectively and the assets and liabilities of IO Metals were translated from Peruvian Sol to US dollar at the exchange rate in effect on the date of change in functional currency.

#### *(ii) Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in profit or loss.

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### **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *(iii) Consolidated entities*

The results and financial position of consolidated entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses for each income statement are translated at exchange rates at the dates of the transactions and where appropriate, approximated by the average exchange rates for the period; and
- All resulting exchange differences are recognized in other comprehensive earnings as foreign currency translation adjustment.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to the foreign currency translation reserve. When a foreign operation is disposed, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on disposal.

### **NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after January 1, 2015. Pronouncements that are not applicable to the Company have been excluded from this note.

The Company has not applied the following new standards and amendments to standards that have been issued but are not yet effective:

- a) IFRS 15 - Revenue from Contracts with Customers - Establishes a new single five-step control-based revenue recognition model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. In May 2015, the IASB proposed to defer the effective date to January 1, 2018. Management is currently assessing the impact of the new standard.
- b) IFRS 9 - Financial Instruments - This standard introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. Management is currently assessing the impact of the new standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.
- c) IFRS 16 - Leases - IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor). Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases that is currently required by IAS 17 Leases and, instead, introduces a single lessee accounting model. From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17.

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**NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS (continued)**

Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently. Management is currently assessing the impact of the new standard. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

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

**NOTE 4 – RESTRUCTURING**

Early 2016 the Company began a comprehensive capital restructuring (the “Restructuring”) which involved three major components including: (i) negotiating with debt holders to significantly reduce long and short term debt (the “Debt Settlement”), (ii) raising sufficient new capital in a private placement to provide sufficient working capital to ramp-up operations at the Chala Plant; and (iii) consolidating the Company’s shares.

On August 16, 2016, the Company consolidated its capital on a one-for-seven basis and effective August 19, 2016 the Company’s common shares commenced trading on a consolidated basis (note 17(b)).

On August 26, 2016, the Company received approval by the TSX-V for the Debt Settlement, which converted approximately \$13.5 million of the Company’s long and short term debt and related unpaid interest (the “Debts”) generally as follows:

- (i) Approximately \$8.0 million was settled into 20.3 million common shares plus 9.2 million warrants (notes 17(c) and 17(e));
- (ii) Approximately \$3.8 million was settled into interest bearing debenture agreements with deferred payment terms (Note 15) or non-interest bearing repayment notes (Note 11);
- (iii) Approximately \$1.8 million was settled into a combination of warrant deposits (note 14), and contingent debt (note 19); and
- (iv) Approximately 1.1 million warrants were issued to select parties relating to the warrant deposit and certain other settlement requirements (Note 17(e)).

On August 30, 2016 and October 5, 2016, the Company closed the first and second tranches of its restructuring-related private placement for total gross proceeds of \$6,342,364 and issuing 25,369,447 shares (note 17(c)).

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**NOTE 5 – RECEIVABLES**

|                          | <b>October 31,<br/>2016</b> | April 30,<br>2016 |
|--------------------------|-----------------------------|-------------------|
|                          | \$                          | \$                |
| GST recoverable (Canada) | <b>94,669</b>               | 31,518            |
| VAT recoverable (Peru)   | <b>500,453</b>              | 1,516,206         |
| Trade receivable         | <b>41,681</b>               | 116,305           |
|                          | <b>636,803</b>              | 1,664,029         |

During the six months ended October 31, 2016, the Company impaired VAT recoverable in Peru for \$303,341 (2015 - \$nil) that is deemed to be uncollectible.

**NOTE 6 – MARKETABLE SECURITIES**

On February 28, 2014, the Company acquired 733,007 shares in Global Resources Investment Trust PLC (“GRIT”) in exchange for the issue of 12,000,000 common shares in the Company at a value of \$0.11 (GBP £0.060) per share. On June 23, 2016 the Company sold all GRIT shares at a price of \$0.10 (GBP £0.060) per share for total proceeds of \$75,790, resulting in a loss on marketable securities of \$11,648. As a result, for the three months and six months ended October 31, 2016, a realized loss on marketable securities of \$11,648 was included in net loss (2015 - \$nil) (note 21).

On October 7, 2015, the Company acquired 6,000,000 shares in Standard Tolling Corp (“TON” or “Standard Tolling”) at a value of \$0.055 per share for a total fair value of \$330,000 at time of acquisition. As of October 31, 2016 the TON shares were recorded at a fair value of \$nil (April 30, 2016 - \$nil) based on the TON share trading price of \$0.005. On November 30, 2015, TON halted trading of their shares and announced that they are illiquid. TON resumed trading on January 12, 2016. The share price has continued to be low (equal to or below \$0.01/share) since that time. Management included this fact pattern, along with the fair value, in their determination that the TON share impairment is permanent.

**NOTE 7 – PREPAID EXPENSES AND DEPOSITS**

|                                 | <b>October 31,<br/>2016</b> | April 30,<br>2016 |
|---------------------------------|-----------------------------|-------------------|
|                                 | \$                          | \$                |
| Deposits with mineral suppliers | <b>273,244</b>              | 245,080           |
| Other deposits and advances     | <b>176,127</b>              | 143,049           |
| Prepaid taxes                   | <b>383,071</b>              | 313,791           |
| Prepaid expenses                | <b>291,696</b>              | 122,155           |
| Prepaid marketing services      | <b>706,263</b>              | -                 |
|                                 | <b>1,830,401</b>            | 824,075           |

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**NOTE 8 – INVENTORY**

|   | <b>October 31,<br/>2016</b> | April 30,<br>2016 |
|---|-----------------------------|-------------------|
|   | \$                          | \$                |
| Stockpiled gold-bearing material and in process inventory | <b>1,564,392</b>            | 622,228           |
| Finished goods - gold                                     | -                           | 46,201            |
| Materials and supplies                                    | <b>262,894</b>              | 220,247           |
|   | <b>1,827,286</b>            | 888,676           |

The costs of inventories recognized as an expense for the three and six months ended October 31, 2016 were \$1,880,835 and \$4,275,004, respectively (2015 - \$4,667,587 and \$10,781,958, respectively) and are included in cost of goods sold.

During the three and six months ended October 31, 2016, the Company recorded inventory impairments totaling \$nil and \$nil, respectively (2015 - \$60,000 and \$106,000, respectively) related to stockpiled gold-bearing material and in process inventory.



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**NOTE 9 – PROPERTY, PLANT AND EQUIPMENT**

|   | Chala<br>Plant   | Computer      | Furniture and<br>Equipment | Total            |
|---|------------------|---------------|----------------------------|------------------|
|   | \$               | \$            | \$                         | \$               |
| <b>Costs:</b>   |                  |               |                            |                  |
| <b>Balance, April 30, 2015</b>                                | <b>5,241,843</b> | <b>20,413</b> | <b>54,327</b>              | <b>5,316,583</b> |
| Additions <sup>(i)</sup>                                      | 1,359,076        | -             | -                          | 1,359,076        |
| Reclassification of<br>IGV/VAT to receivables <sup>(ii)</sup> | (339,088)        | -             | -                          | (339,088)        |
| Foreign exchange  | 159,617          | 1,713         | 2,508                      | 163,838          |
| <b>Balance, April 30, 2016</b>                                | <b>6,421,448</b> | <b>22,126</b> | <b>56,835</b>              | <b>6,500,409</b> |
| Additions   | 276,871          | 2,104         | -                          | 278,975          |
| Foreign exchange  | 439,381          | 876           | 3,635                      | 443,892          |
| <b>Balance, October 31, 2016</b>                              | <b>7,137,700</b> | <b>25,106</b> | <b>60,470</b>              | <b>7,223,276</b> |
| <b>Accumulated Depreciation:</b>                              |                  |               |                            |                  |
| <b>Balance, April 30, 2015</b>                                | <b>102,874</b>   | <b>11,769</b> | <b>23,236</b>              | <b>137,879</b>   |
| Depreciation  | 503,234          | 1,162         | 6,243                      | 510,639          |
| Foreign exchange  | (11,169)         | 828           | 1,461                      | (8,880)          |
| <b>Balance, April 30, 2016</b>                                | <b>594,939</b>   | <b>13,759</b> | <b>30,940</b>              | <b>639,638</b>   |
| Depreciation  | 288,288          | 480           | 1,729                      | 290,497          |
| Foreign exchange  | 46,317           | (2,949)       | 6,250                      | 49,618           |
| <b>Balance, October 31, 2016</b>                              | <b>929,544</b>   | <b>11,290</b> | <b>38,919</b>              | <b>979,753</b>   |
| <b>Net Book Value:</b>  |                  |               |                            |                  |
| April 30, 2016  | 5,826,509        | 8,367         | 25,895                     | 5,860,770        |
| <b>October 31, 2016</b>                                       | <b>6,208,156</b> | <b>13,816</b> | <b>21,551</b>              | <b>6,243,523</b> |

<sup>(i)</sup> For the year ended April 30, 2016, the additions to property, plant and equipment included \$775,708 or USD\$618,192 of VAT that the Company incurred on capitalized Chala plant costs that were deemed unrecoverable from the Peruvian tax authorities. This VAT balance includes \$113,549 or USD\$90,491 of incurred tax filing penalties. The VAT balance was reclassified from VAT recoverable in Receivables (note 4).

<sup>(ii)</sup> During the six months ended October 31, 2016, the Company reclassified \$nil (year ended April 30, 2016 - \$339,088) of VAT in Peru to VAT Recoverable in Receivables that was previously included in pre-operating expenses as a result of the review of the VAT receivable from the Peruvian tax authorities (note 4).

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**NOTE 9 – 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. As part of the terms of the original purchase agreement for the Chala Plant, Inca One has an agreement between its wholly owned subsidiary, Chala One, and the seller and initial permit applicant, to operate under the umbrella of formalization until the successful completion of all the environmental and operating permits. 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 gold-bearing material. VAT paid became refundable to the Company in fiscal 2015 as the Company began commercial production and the exportation of gold.

As at October 31, 2016, total plant upgrade costs and capitalized pre-operating costs was \$6,633,105 (April 30, 2016 - \$6,421,448) which includes \$1,712,199 (April 30, 2016 - \$1,712,199) of incidental revenue generated during the pre-operating period and \$264,531 (April 30, 2016 - \$264,531) of capitalized interest.

Depreciation during the six months ended October 31, 2016 was \$290,497 (2015 - \$114,759).

**NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|  | <b>October 31,<br/>2016</b> | April 30,<br>2016 |
|--|-----------------------------|-------------------|
|  | \$                          | \$                |
| Trade accounts payable and accruals                  | <b>978,211</b>              | 1,509,474         |
| Management, consulting and professional fees payable | <b>161,879</b>              | 325,661           |
| Accrued interest                                     | <b>92,914</b>               | 602,605           |
|  | <b>1,233,004</b>            | 2,437,740         |

Management, consulting and professional fees payable include \$26,566 (April 30, 2016 - \$325,661) due to related parties (note 16).

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**NOTE 11 – PROMISSORY NOTES PAYABLE**

|  | <b>October 31,<br/>2016</b> | April 30,<br>2016 |
|--|-----------------------------|-------------------|
|  | \$                          | \$                |
| Director and officer advances                    | -                           | 561,920           |
| Third party advances (US \$200,000)              | -                           | 250,960           |
| Redeemable notes                                 | -                           | 104,500           |
| TON Mineral Loan (US\$550,000)                   | -                           | 690,140           |
| TON Mineral Purchase Note (US\$930,286)          | -                           | 1,167,323         |
| Non-interest bearing notes (post- Restructuring) | <b>308,325</b>              | -                 |
|  | <b>308,325</b>              | 2,774,843         |

**Post-Restructuring Balances**

## a) Non-interest bearing notes

During the quarter ended October 31, 2016, the Company enacted a Restructuring and Debt Settlement (note 4) whereby the majority of outstanding promissory notes payable balances which were outstanding both at April 30, 2016 and prior to the TSX Debt Settlement approval on August 26, 2016 were converted (depending on the specific settlement agreements terms) to a varied combination of equity (shares and warrants), contingent debt, cash repayments, and short term non-interest bearing notes. Upon settlement \$416,725 of new non-interest bearing notes were recognized including \$62,456 from settled CAD denominated convertible notes and related unpaid interest (note 12(a)). The non-interest bearing notes are scheduled to be repaid through May 31, 2017. During the quarter ended October 31, 2016, \$108,400 of the new non-interest bearing notes was repaid and \$308,325 remains outstanding as at October 31, 2016.

## b) Accelerated Notes (arising from settlement of the USD Debenture Notes)

As a result of the Restructuring and Debt Settlement (note 4) the Company also recognized USD\$500,000 in non-interest bearing notes and CAD\$775,020 in a non-interest bearing Warrant Deposit (note 14) which arose from the conversion of certain USD Debenture Notes (note 14) (together the “Accelerated Notes”). The Accelerated Notes holders retained the option for repayment or accelerated repayment of the outstanding Accelerated Notes in part (or in full) through achieving certain fundraising criteria including sourcing proceeds for the Company in a market-priced private placement after close of the Debt Settlement. During the three months ended October 31, 2016 the lender achieved the fundraising criteria, and consequently on the close of the October 5, 2016 tranche (note 17(c)) the lender was repaid their Accelerated Debt amount in full, therefore the remaining Accelerated Notes balance as at October 31, 2016 is \$nil (April 30, 2016 - \$nil).

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**NOTE 11 – PROMISSORY NOTES PAYABLE (continued)****Pre-Restructuring Balances**

## c) Director and officer advances

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. During the year ended April 30, 2014, \$50,000 of the principal was repaid with the remaining \$120,000 repaid during the year ended April 30, 2015.

During December 2014, directors and officers advanced to the Company a total of \$205,000. The advances were unsecured and non-interest bearing. During the year ended April 30, 2015 the \$205,000 was repaid in full.

During May 2015, a director and officer and an officer of the Company advanced to the Company a total of \$100,000 in cash in exchange for short term promissory notes. The notes are unsecured with an interest rate of 20% per annum payable on maturity in six months. During April 2016, the parties agreed to extend the maturity date while the Company evaluated some balance sheet restructuring. During the year ended April 30, 2016, \$40,000 of the principal was repaid.

During June 2015 a company controlled by an individual who was subsequently appointed a director of the Company on July 8, 2015 advanced to the Company USD\$500,000 in cash in exchange for a short term promissory note of which USD\$100,000 was repaid during August 2015. The note was unsecured with an interest rate of 20% per annum payable on maturity in six months.

Pursuant to the Debt Settlement (note 4) all director and officer balances owing were settled during the quarter ended October 31, 2016, and as at October 31, 2016, the principal balance was \$nil (April 30, 2016 - \$561,920), and interest expense recorded during the three and six months ended October 31, 2016 was \$5,556 and \$7,064, respectively (2015 - \$3,209 and \$7,657, respectively), of which \$nil (April 30, 2016 - \$36,487) is in accounts payable and accrued liabilities as of October 31, 2016.

## d) Third party advances

On January 14, 2015, the Company received USD\$200,000 in cash in exchange for a promissory note with a third party. The note is unsecured, originally had a six month term, and carried an interest rate of 20% per annum calculated and payable on the maturity date. In July 2015 and in October 2015, the Parties agreed to cumulatively extend the maturity date for an additional six months while the Company evaluated some balance sheet restructuring.

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### **NOTE 11 – PROMISSORY NOTES PAYABLE (continued)**

Pursuant to the Debt Settlement (note 4) all balances owing were settled during the quarter ended October 31, 2016, and as at October 31, 2016, the principal balance was \$nil (April 30, 2016 - \$250,960) and interest expense recorded during the three and six months ended October 31, 2016 was \$8,867 and \$17,543, respectively (2015 - \$14,894 and \$30,392, respectively), of which \$nil (April 2016 - \$39,696) is in accounts payable and accrued liabilities as of October 31, 2016.

#### e) Redeemable notes

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 an aggregate of \$150,000 was issued to an officer and a company controlled by a director. The promissory notes had a maturity date 24 months after issuance and bore interest at 20% per annum.

At the option of one of the subscribers, accrued interest of \$5,632 (April 30, 2016 - \$50,222) 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. 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 (note 12).

During the year ended April 30, 2015, \$100,000 of the promissory notes were redeemed by an officer of the Company and \$50,000 of the promissory notes were redeemed by a company controlled by a director of the Company. On May 31, 2015, \$120,000 of the notes was repaid. On December 31 2015, \$125,000 was paid as partial payment of principal and interest for the remaining promissory note outstanding.

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.

Pursuant to the Debt Settlement (note 4) a final agreement on the remaining redeemable note balance was not settled and the disputed settlement balance was transferred to accounts payable until the issue is resolved.

As at October 31, 2016 the principal balance of the redeemable notes was \$nil (April 30, 2016 - \$104,500).

#### f) TON Mineral Loan

On October 6, 2015, the Company entered into a binding letter of intent with TON (the "Binding LOI") to acquire all of the issued and outstanding shares of TON under a plan of arrangement, subject to due diligence and other conditions. As part of the Binding LOI, the Company entered into a loan with TON for US\$550,000 less US\$55,000 of prepaid interest for net proceeds of US\$495,000 (the "Mineral Loan").

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**NOTE 11 – PROMISSORY NOTES PAYABLE (continued)**

The Mineral Loan bears an annual interest rate of 20% and is due April 6, 2016 or earlier subject to certain maturity conditions including 30 days after the termination of the Binding LOI, which was terminated on November 30, 2015.

Pursuant to the Debt Settlement (note 4) all balances owing were settled during the quarter ended October 31, 2016, and as at October 31, 2016, the principal balance of the Mineral Loan was \$nil (April 30, 2016 - \$690,140) and interest expense recorded during the three and six months ended October 31, 2016 was \$24,384 and \$48,245, respectively (2015 - \$11,976 and \$11,976, respectively), of which \$nil (April 30, 2016 - \$9,172) is in accounts payable and accrued liabilities as of October 31, 2016..

## g) TON Mineral Purchase Note

As part of the Binding LOI, on October 21, 2015, the Company also entered into a mineral purchase agreement with TON (the “Mineral Purchase Note”) whereby TON would advance the Company up to US\$1,750,000 for the purpose of the acquisition of mineral at the Company’s Chala One toll milling plant. The Mineral Purchase Note paid a profit sharing fee to TON at a fixed rate of 12% per annum on advances approximately four weeks after the advance. The Mineral Purchase Note was subject to various maturity clauses including two months after the termination of the Binding LOI, which was terminated on November 30, 2015.

Pursuant to the Debt Settlement (note 4) all balances owing were settled during the quarter ended October 31, 2016, and as at October 31, 2016 \$nil (April 30, 2016 - \$1,167,323) had been advanced/outstanding and interest expense recorded during the three and six months ended October 31, 2016 was \$24,747 and \$48,962, respectively (2015 - \$1,225 and \$1,225, respectively) of which \$nil (April 30, 2016 - \$67,255) is in accounts payable and accrued liabilities as of October 31, 3016.

**NOTE 12 – CONVERTIBLE DEBENTURES****(a) CAD denominated convertible debentures**

|                                  | Liability<br>Component | Equity<br>Component |
|----------------------------------|------------------------|---------------------|
|                                  | \$                     | \$                  |
| Balance, April 30, 2015          | 348,716                | -                   |
| Accretion and amortization       | 27,350                 | -                   |
| Additional issuance cost         | (813)                  | -                   |
| Balance, April 30, 2016          | 375,253                | -                   |
| Accretion and amortization       | 6,943                  | -                   |
| Restructuring (note 4)           | (382,196)              | -                   |
| <b>Balance, October 31, 2016</b> | <b>-</b>               | <b>-</b>            |

**INCA ONE GOLD CORP.**

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**NOTE 12 – CONVERTIBLE DEBENTURES (continued)**Post-Restructuring Balances

As a result of the Restructuring and Debt Settlement (note 4) the \$463,750 outstanding CAD denominated convertible debentures principal balance plus accrued and unpaid interest was converted (depending on the specific settlement agreements terms) to a combination of equity (shares and warrants – note 17(c) and (e)), and short term non-interest bearing notes (note 11(a)). As at October 31, 2016 the outstanding principal and interest payable balances are \$nil.

Pre-Restructuring Balances

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 whom they were related. The debentures had a maturity date of October 30, 2018 and were 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 the equity component based on an effective interest rate of 20%.

The debenture was 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 (note 11).

Until October 30, 2014 each debenture holder had 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 was based on a share price of \$0.70 and the conversion of any interest payable was based on the greater of \$0.70 per share or the closing share price on the date the Company received notice from the holder. On October 30, 2014, \$55,000 of the convertible debentures were converted to 78,571 common shares of the Company. Interest on the debenture was payable at the rate of 10% per annum calculated and paid quarterly in arrears. Professional fees of \$11,705 were incurred in connection with the debenture offering and were recorded against the liability and equity components on a pro-rata basis.

During the three and six months ended October 31, 2016, the Company recorded accretion expense and amortization of issuance costs of \$1,156 and \$4,559, respectively (2015 - \$3,221 and \$6,383, respectively), and interest expense of \$1,863 and \$7,393, respectively (2015 - \$5,545 and \$11,090, respectively) of which \$nil (April 30, 2016 - \$5,410) is in accounts payable and accrued liabilities as of October 31, 2016.

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**NOTE 12 – 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 bore interest at a rate of 10% per annum, calculated and paid quarterly in arrears, 25% of which could 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 \$0.875 per common share. The debentures had a maturity date of May 22, 2019 and were redeemable by the Company at any time after May 22, 2017. The debentures were 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 the equity component based on an effective interest rate of 20%. On December 1, 2014, \$81,250 of the convertible debentures were converted to 92,857 common shares of the Company. Professional fees of \$18,297 were incurred in connection with the debenture offering and were recorded against the liability and equity component on a pro-rata basis.

During the three and six months ended October 31, 2016, with respect to this second debenture offering, the Company recorded accretion expense and amortization of issuance costs of \$1,202 and \$4,742, respectively (2015 - \$3,352 and \$6,642, respectively), and interest expense of \$2,070 and \$8,197, respectively (2015 - \$3,352 and \$6,642, respectively) of which \$nil (April 30, 2016 - \$4,063 is in accounts payable and accrued liabilities as at October 31, 2016.

**(b) USD denominated convertible debentures**

|   | Liability<br>Component | Equity<br>Component |
|---|------------------------|---------------------|
|   | \$                     | \$                  |
| Balance, April 30, 2015                 | 607,681                | 15,432              |
| May 19, 2015 second tranche             | 591,631                | 19,968              |
| Issuance costs allocated second tranche | (36,089)               | (1,178)             |
| May 29, 2015 third tranche              | 481,237                | 16,243              |
| Issuance costs allocated third tranche  | (40,012)               | (956)               |
| Deferred tax impact on equity component | -                      | (10,223)            |
| Accretion and amortization              | 142,271                | -                   |
| Foreign exchange                        | 48,861                 | -                   |
| Balance, April 30, 2016                 | 1,795,580              | 39,286              |
| Accretion and amortization              | 7,967                  | -                   |
| Debenture repayment                     | (652,750)              | -                   |
| Foreign exchange                        | 154,803                | -                   |
| Restructuring (note 4)                  | (1,305,600)            | (39,286)            |
| <b>Balance, October 31, 2016</b>        | <b>-</b>               | <b>-</b>            |



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**NOTE 12 – CONVERTIBLE DEBENTURES (continued)**Post-Restructuring Balances

As a result of the Restructuring and Debt Settlement (note 4) the remaining USD\$1,000,000 principal balance and unpaid and accrued interest was converted to a combination of equity (shares and warrants) at the same terms as the August 30, 2016 private placement (note 17(c)), other than approximately USD\$12,700 of interest which was settled in cash. As at October 31, 2016 the outstanding principal and interest payable balances are \$nil.

Pre-Restructuring Balances

On March 20, 2015, the Company announced the terms of a convertible loan with a group of lenders for gross proceeds of USD\$1,500,000 (the “USD Convertible Loan”). The USD Convertible Loan bore interest at a rate of 15% per annum and was available to be drawn down in three tranches of USD\$600,000, USD\$500,000, and USD\$400,000, respectively, with the third tranche at the option of the Company. Each tranche of the USD Convertible Loan had a twelve month term and was subject to a twelve month renewal option, subject to certain conditions. The USD Convertible Loan was secured by a pledge of the inventory and related assets of the Company’s subsidiary, Chala One.

The Company paid an arrangement fee of 5% of the proceeds of the USD Convertible Loan to a third party for its role in arranging the USD Convertible Loan. In certain circumstances, up to 40% of the outstanding indebtedness under the USD Convertible Loan was convertible into common shares the Company at the option of the Lenders at a conversion price of CAD\$1.75. The conversion amount would have been based on a fixed foreign exchange rate which could have resulted in maximum of 426,828 common shares issuable upon conversion.

On April 27, 2015, the Company closed the first tranche for gross proceeds of USD\$600,000. At the date of issue \$704,902 was attributed to the liability component of the convertible debenture and \$23,858 to the equity component based on an effective interest rate of 20%.

Professional and arrangement fees of \$104,654 were incurred in connection with the USD Convertible Loan offering and were recorded against the liability and equity component on a pro-rata basis.

During the three and six months ended October 31, 2016, the Company recorded accretion expense and amortization of issuance costs of \$nil and \$nil, respectively (2015 - \$28,383 and \$55,560, respectively), and interest expense of \$6,666 and \$32,609, respectively (2015 - \$29,661 and \$59,277, respectively) of which \$nil (April 30, 2016 - \$22,401) is in accounts payable and accrued liabilities as of October 31, 2016.

On May 19, 2015, the Company closed the second tranche for gross proceeds of USD\$500,000. At the date of issue \$591,631 was attributed to the liability component of the convertible debenture and \$19,969 to the equity component based on an effective interest rate of 20%.

Professional and arrangement fees of \$37,267 were incurred in connection with the second tranche of the USD Convertible Loan offering and were recorded against the liability and equity component on a pro-rata basis.

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**NOTE 12 – CONVERTIBLE DEBENTURES (continued)**

During the three and six months ended October 31, 2016, the Company recorded accretion expense and amortization of issuance costs of \$nil and \$nil, respectively (2015 - \$4,291 and \$5,718, respectively), and interest expense of \$1,111 and 22,731, respectively (2015 - \$20,859 and \$38,993, respectively) of which \$nil (April 30, 2016 - \$18,668) is in accounts payable and accrued liabilities as of October 31, 2016.

On June 1, 2015, the Company closed the third tranche for gross proceeds of USD\$400,000. At the date of issue \$481,237 was attributed to the liability component of the convertible debenture and \$16,243 to the equity component based on an effective interest rate of 20%.

Professional and arrangement fees of \$40,968 were incurred in connection with the third tranche of the USD Convertible Loan offering and were recorded against the liability and equity component on a pro-rata basis.

During the three and six months ended October 31, 2016, the Company recorded accretion expense and amortization of issuance costs of \$nil and \$nil, respectively (2015 - \$3,491 and \$4,652, respectively), and interest expense of \$4,444 and \$21,739 (2015 - \$26,292 and \$39,193, respectively), of which \$nil (April 30, 2016 - \$14,934) is in accounts payable and accrued liabilities as of October 31, 2016.

On July 20 2016, USD\$500,000 of the USD Convertible Loan was repaid.

**NOTE 13 – BOND PAYABLE**

|  | <b>October 31,<br/>2016</b> | April 30,<br>2016 |
|--|-----------------------------|-------------------|
|  | \$                          | \$                |
| First tranche (closed June 3, 2014)      | 2,700,000                   | 2,700,000         |
| Second tranche (closed August 29, 2014)  | 1,400,000                   | 1,400,000         |
| Third tranche (closed November 20, 2014) | 1,400,000                   | 1,400,000         |
| Financing and issuance costs             | (742,982)                   | (742,982)         |
| Accretion and amortization               | 459,914                     | 397,665           |
| Restructuring (note 4)                   | (5,216,932)                 | -                 |
| <b>Current portion</b>                   | <b>-</b>                    | <b>1,193,182</b>  |
| <b>Long-term portion</b>                 | <b>-</b>                    | <b>3,961,501</b>  |

Post-Restructuring Balances

As a result of the Restructuring and Debt Settlement (note 4) the full \$5,5000,000 principal balance plus unpaid and accrued interest was converted partially to equity (shares and warrants – note 17(c) and (e)) and partially through the issuance of a new Secured Debenture (note 15). As at October 31, 2016 the remaining outstanding principal and interest payable balances are \$nil.

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### **NOTE 13 – BOND PAYABLE (continued)**

#### Pre-Restructuring Balances

On May 20, 2014, the Company announced a bond financing for gross proceeds of \$5,500,000. The bond financing was closed over three tranches, and each tranche bore interest at 10% per annum calculated and payable quarterly in arrears commencing no later than 6 months after the closing date, and each tranche had a maturity date three years from the respective close date.

The bond was secured by a security interest in all of the Chala One present and after acquired property pursuant to an underlying Security Agreement. In addition, Inca One Gold Corp. was a guarantor of the debt. During the year ended April 30, 2015, the Company amended the security terms, whereby the bond financing lenders released their priority security over the Chala One's inventory assets for a temporary 1% increase in the annual interest rate from 10% to 11%. The 1% interest rate increase was in effect until the USD Convertible Loan has been repaid/settled in full.

Pursuant to the terms of the bond financing agreement the Company had granted to the lender the right of first refusal for future debt and equity financings of up to \$1,500,000 subject to certain restrictions as outlined in those agreements.

In connection with the bond financing the Company and the purchaser entered into a financing fee agreement whereby the Company has a commitment, which continues post-Restructuring, 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 USD\$1,500,000 or a corresponding pro-rata portion thereof and otherwise the fee will continue to be payable until December 31, 2034.

In connection with the financing, during the three and six months ended October 31, 2016, the Company recorded accretion expense and amortization of issuance costs of \$23,096 and \$91,478, respectively (2015 - \$67,728 and \$130,594, respectively).

#### First tranche

On June 3, 2014, the Company closed the first tranche of the bond financing for gross proceeds of \$2,700,000. The first tranche bond bore interest at 10% per annum, calculated and payable quarterly in arrears commencing no later than November 12, 2014. The bond principal of \$2,700,000 was 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 addition a finder's 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 first tranche bond. The warrants are exercisable at \$1.05 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.

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**NOTE 13 – BOND PAYABLE (continued)**

For purposes of the calculations of compensation charge associated with the 1,440,000 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 |

During the three and six months ended October 31, 2016, with respect to the first tranche of the bond financing the Company recorded interest expense of \$25,153 and \$99,811, respectively (2015 - \$74,860 and 149,721, respectively) of which \$nil (April 30, 2016 - \$91,396) is in accounts payable and accrued liabilities as of October 31, 2016.

*Second tranche*

On August 29, 2014, the Company closed the second tranche of the bond financing for gross proceeds of \$1,400,000. The second tranche bond bore interest at 10% per annum, calculated and payable quarterly in arrears commencing no later than February 19, 2015. The bond principal of \$1,400,000 was repayable in increments of \$102,273 on each of August 29, 2016, November 29, 2016, February 28, 2017 and May 29, 2017, with the remainder due August 29, 2017.

In addition professional fees of \$3,779, finder's fees of \$112,000 were paid in cash and 746,667 finder's warrants were issued in connection with the second tranche bond. The warrants are exercisable at \$1.05 for 3 years, and \$60,586 arising from the issue of these compensation warrants was charged against the bond amount payable and credited to warrant reserve.

For purposes of the calculations of compensation charge associated with the 746,667 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     | 94%     |
| Expected life           | 3 years |

During the three and six months ended October 31, 2016, with respect to the second tranche of the bond financing the Company recorded interest expense of \$11,858 and \$50,568, respectively (2015 - \$38,816 and \$77,633, respectively) of which \$nil (April 30, 2016 - \$47,391) is in accounts payable and accrued liabilities as of October 31, 2016.

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**NOTE 13 – BOND PAYABLE (continued)***Third tranche*

On November 20, 2014, the Company received the third and final tranche for gross proceeds of \$1,400,000. The third tranche bore interest at 10% per annum, calculated and payable quarterly in arrears commencing no later than April 25, 2015. The bond principal of \$1,400,000 was repayable in increments of \$102,273 on each of November 20, 2016, February 20, 2017, May 20, 2017 and August 20, 2017, with the remainder due November 20, 2017.

In addition professional fees of \$1,439, finder's fees of \$112,000 were paid in cash and 746,667 finder's warrants were issued in connection with the third tranche bond. The warrants are exercisable at \$1.05 for 3 years, and \$71,398 arising from the issue of these compensation warrants was charged against the bond amount payable and credited to warrant reserve.

For purposes of the calculations of compensation charge associated with the 746,667 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     | 93%     |
| Expected life           | 3 years |

During the three and six months ended October 31, 2016, with respect to this third tranche of the bond financing the Company recorded interest expense of \$13,079 and \$51,886, respectively (2015 - \$39,238 and \$77,633, respectively) of which \$nil (April 30, 2016 - \$47,391) is in accounts payable and accrued liabilities as of October 31, 2016.

**NOTE 14 – USD DEBENTURE UNITS**

|  | <b>October 31,<br/>2016</b> | April 30,<br>2016 |
|--|-----------------------------|-------------------|
|  | \$                          | \$                |
| First debenture (USD\$1,600,000) (closed March 18, 2015) | 1,932,517                   | 1,932,517         |
| Second debenture (USD\$500,000) (closed July 10, 2015)   | 599,432                     | 599,432           |
| Financing and issuance costs                             | (263,200)                   | (263,200)         |
| Accretion and amortization                               | 337,472                     | 332,110           |
| Foreign exchange   | 99,735                      | (6,944)           |
| Restructuring (note 4)                                   | (2,705,956)                 | -                 |
|  | -                           | 2,593,915         |

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### **NOTE 14 – USD DEBENTURE UNITS (continued)**

#### Post-Restructuring Balances

As a result of the Restructuring and Debt Settlement (note 4) the full USD\$2,100,000 debenture principal balance plus unpaid and accrued interest was converted (depending on the specific settlement agreements terms) to a combination of equity (shares and warrants – note 17(c) and (e)), Warrant Deposits (see below), and short term non-interest bearing notes (note 11(a)). As at October 31, 2016 the outstanding USD debenture principal and interest payable balances are \$nil.

#### Warrant Deposit

As part of the settlement, the Company issued a \$775,020 non-interest bearing warrant deposit note (the “Warrant Deposit”) which could only be used to exercise certain higher rate warrants issued with the warrant deposit (note 17(e)). As a provision to the Warrant Deposit, the holder retained the option to attain repayment of the Warrant Deposit in part (or in full) through achieving certain fundraising criteria including sourcing proceeds for the Company in a market-priced private placement after close of the Debt Settlement. During the three months ended October 31, 2016 the lender achieved the fundraising criteria, and consequently on the close of the October 5, 2016 tranche (note 17(c)) the holder was repaid their Warrant Deposit amount in full, therefore the remaining Warrant Deposit balance as at October 31, 2016 is \$nil.

#### Pre-Restructuring Balances

#### First debenture

On March 18, 2015, the Company closed a non-brokered private placement of debenture units with warrants (the “Debenture Unit Financing”) for gross proceeds of USD\$1,600,000 including a USD\$100,000 over-subscription. Pursuant to the closing of the Debenture Unit Financing, the Company issued 64 units (the “Units”), with each Unit comprising one non-convertible debenture in the principal amount of USD\$25,000, and 3,571 non-transferable warrants. Each warrant is exercisable into one common share of the Company at a price of \$1.75 until March 18, 2016. The holders of the debenture were entitled to receive interest at the rate of 14% per annum, calculated and paid quarterly in arrears. The debenture matured on March 18, 2016. A finder’s fee of 8% of the gross proceeds of the Debenture Unit Financing was payable in cash by the Company to the finders, as applicable. The Company also issued to the finders that number of finder’s warrants equal to 8% of the proceeds of the Debenture Unit Financing, divided by the exercise price of \$1.75, as applicable. Each finder warrant is exercisable into one common share of the Company at a price of \$1.75 until March 18, 2016.

In addition professional and finder’s fees of \$182,029 were paid in cash, 91,943 finder’s warrants were issued, and 228,571 subscriber warrants were issued. The warrants are exercisable at \$1.75 per share for 18 months and 12 months respectively.

At the date of issue \$1,932,517 was attributed to the debenture and \$84,081 to the warrants based on an effective interest rate of 20%. The fair value of the finder’s warrants was \$45,353.

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**NOTE 14 – USD DEBENTURE UNITS (continued)**

For purposes of the calculations of compensation charge associated with the 91,942 finder's warrants granted, the following assumptions were used for the Black-Scholes model:

|                         |           |
|-------------------------|-----------|
| Risk-free interest rate | 0.78%     |
| Expected dividends      | \$nil     |
| Expected volatility     | 64%       |
| Expected life           | 1.5 years |

During the three and six months ended October 31, 2016, the Company recorded accretion expense and amortization of issuance costs of \$nil and \$nil, respectively (2015 - \$70,275 and \$140,398, respectively), and interest expense of \$24,885 and \$98,245 (2015 - \$73,942 and \$135,970, respectively) of which \$ nil (April 30, 2016 - \$102,935) is in accounts payable and accrued liabilities as of October 31, 2016.

*Second debenture*

On July 10, 2015, the Company closed a non-brokered debenture financing (the "Second Debenture Unit Financing") for gross proceeds of USD\$500,000. The Second Debenture Unit Financing consisted of 20 units (the "Second Units") with each Second Unit comprising one non-convertible debenture in the principal amount of USD\$25,000, and 3,571 non-transferable warrants. Each warrant is exercisable into one common share of the Company at a price of CAD\$1.75 until July 9, 2016.

The holders of the debentures were entitled to receive interest at the rate of 14% per annum, calculated and paid quarterly in arrears. The term of the debentures was 12 months with a 12 month extension at the option of the Company and the debentures were secured by a security interest in certain of the Company's present and after acquired property to be registered in British Columbia.

In addition professional and finder's fees of \$35,818 were paid in cash and 71,429 subscriber warrants were issued with an exercise price of \$1.75 per share, expiring on July 9, 2016. At the date of issue \$599,432 was attributed to the debenture and \$26,008 to the warrants based on an effective interest rate of 20%.

During the three and six months ended October 31, 2016, the Company recorded accretion expense and amortization of issuance costs of \$nil and \$5,362, respectively (2015 - \$6,537 and \$7,672, respectively) and interest expense of \$7,776 and 30,702, respectively (2015 - \$35,295 and \$48,196, respectively), of which \$nil (April 30, 2016 - \$26,159) is in accounts payable and accrued liabilities as of October 31, 2016.

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**NOTE 15 – SECURED DEBENTURES**

|                                      | <b>October 31,<br/>2016</b> | April 30,<br>2016 |
|--------------------------------------|-----------------------------|-------------------|
|                                      | \$                          | \$                |
| CAD Secured Debenture (\$2,362,500)  | 2,362,500                   | -                 |
| USD Secured Debenture (USD\$300,000) | 393,480                     | -                 |
| Foreign exchange                     | 8,850                       | -                 |
|                                      | <b>2,764,830</b>            | <b>-</b>          |

As a result of the Restructuring and Debt Settlement (note 4) the Company issued the following secured debentures:

- a) On September 1, 2016 the Company issued a \$2,362,500 debenture which has a 24 month term to maturity, bears interest at a rate of 11% per annum, and has priority security over the assets of the Company (the “CAD Secured Debenture”). Principal is due on maturity, and the Company is required to make six equal quarterly interest payments beginning nine (9) months after the date of issuance. It is noted that the CAD Secured Debenture holder reserves the right to request that the Company use the proceeds from the exercise of approximately 2.1 million warrants (with an exercise price of \$0.40/share) which were issued on Debt Settlement towards early repayment of the CAD Secured Debenture.
- b) On September 1, 2016 the Company issued a USD\$300,000 debenture which has a 24 month term to maturity, bears interest at a rate of 11% per annum, and has general security over the assets of the Company (the “USD Secured Debenture”) second in priority to the CAD Secured Debenture. Principal is due on maturity, and the Company is required to make six equal quarterly interest payments beginning nine (9) months after the date of issuance.

**NOTE 16 – ASSET RETIREMENT AND RECLAMATION OBLIGATIONS**

The Company’s operations are governed by laws and regulations covering the protection of the environment. The Company will implement progressive measures for rehabilitation work to be carried out during the operation, closing and follow-up work upon closing of the gold processing plant. Consequently the Company accounted for its asset retirement obligations for the plant using best estimates of future costs, based on information available at the reporting date. These estimates are subject to change following modifications to laws and regulations or as new information become available.



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**NOTE 16 – ASSET RETIREMENT AND RECLAMATION OBLIGATIONS (continued)**

The table below presents the evolution of the asset retirement obligations for the mineral processing operations for the periods ended:

|                             | <b>October 31,<br/>2016</b> | April 30,<br>2016 |
|-----------------------------|-----------------------------|-------------------|
|                             | \$                          | \$                |
| Beginning of year           | <b>308,840</b>              | 278,829           |
| Accretion                   | <b>5,171</b>                | 18,825            |
| Unrealized foreign exchange | <b>26,699</b>               | 11,186            |
|                             | <b>340,710</b>              | 308,840           |

As at October 31, 2016, the estimated undiscounted cash flow required to settle the asset retirement obligation for the gold processing plant and related tailings pond is \$535,055 and is projected to be disbursed over years 10 (2025) and 11 (2026). A 6.40% discount rate was used to evaluate this and a 2.92% inflation rate.

**NOTE 17 – SHARE CAPITAL AND RESERVES****(a) Authorized**

Unlimited number of voting common shares without par value.

**(b) Issued Share Capital**

On August 16, 2016, the Company consolidated its capital on a one-for-seven basis. Effective August 19, 2016, the Company's common shares commenced trading on a consolidated basis. For the purpose of these financial statements the capital and per share amounts have been restated to present the post consolidated capital basis. At October 31, 2016, there were 57,332,153 issued and fully paid common shares (April 30, 2016 - 11,561,496, post consolidation).

**(c) Share Issuances**

Share capital transactions for the six months ended October 31, 2016 were:

- On June 1, 2016, the Company issued 71,428 common shares valued at \$75,000 to an external service provider as a settlement for outstanding balance owed to them for services.
- On June 21, 2016, the Company issued 7,442 common shares valued at \$7,814 to a key Peruvian employee for services pursuant to his employment agreement.
- On August 26, 2016, the Company finalized the Debt Settlement. As part of the Debt Settlement, the Company issued 20,322,340 common shares valued at a deemed price of \$0.25 per common share for a total value of \$4,582,875 (note 4).

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### **NOTE 17 – SHARE CAPITAL AND RESERVES (continued)**

- On August 30, 2016, the Company closed the first tranche of its announced private placement and issued 13,003,547 units (the “Units”) for gross proceeds of \$3,250,889 or \$0.25 per Unit. Each Unit is comprised of one common share and one full, transferable common share purchase warrant. The total value of the warrants contained in the Units issued is \$1,294,610. Total share issuance costs amounted to cash finder’s fees of \$246,070 and finder’s warrants valued at \$31,421.
- On October 5, 2016, the Company closed the second and final tranche of its announced private placement and issued 12,365,900 units (the “Units”) for gross proceeds of \$3,091,475 or \$0.25 per Unit. Each Unit is comprised of one common share and one full, transferable common share purchase warrant. The total value of the warrants contained in the Units issued is \$1,150,729. Total share issuance costs amounted to cash finder’s fees of \$28,300 and finder’s warrants valued at \$31,516.

Share capital transactions for the six months ended October 31, 2015, presented on a post consolidated basis (note 17(b)) were:

- During the six months ended October 31, 2015, 14,285 common shares were issued for proceeds of \$20,000 on the exercise of 14,285 warrants at \$1.40 per share.
- During the six months ended October 31, 2015, 30,000 common shares were issued for proceeds of \$37,500 on the exercise of 21,429 stock options at \$1.05 per share and 8,571 stock options at \$1.75 per share. A reclassification of \$31,261 from stock option reserve to share capital was recorded on the exercise of these options.
- On August 25, 2015, the Company closed a private placement of 572,818 common shares at \$1.05 per share for gross proceeds of \$601,459. No finder’s fees were incurred. Share issuance costs amounted to \$20,088.
- On October 16, 2015, the Company issued 22,612 common shares valued at \$23,743 to a related party as a form of compensation for services. No share issuance costs were incurred.

#### **(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.

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**NOTE 17 – SHARE CAPITAL AND RESERVES (continued)**

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, presented on a post consolidated basis (note 17(b)), is as follows:

|                                  | Options<br>(note 17(b)) | Weighted<br>Average<br>Exercise Price<br>(note 17(b)) |
|----------------------------------|-------------------------|---|
|                                  | #                       | \$  |
| Balance, April 30, 2015          | 518,714                 | 1.43  |
| Granted                          | 397,143                 | 1.75  |
| Exercised                        | (30,000)                | 1.25  |
| Balance, April 30, 2016          | 885,857                 | 1.58  |
| Granted                          | 4,710,000               | 0.26  |
| Expired/Cancelled                | (374,714)               | 1.60  |
| <b>Balance, October 31, 2016</b> | <b>5,221,143</b>        | <b>0.39</b>   |

The following table summarizes the options outstanding, presented on a post consolidated basis (note 17(b)), as at October 31, 2016:

| Options<br>(note 17(b)) | Exercise Price<br>(note 17(b)) | Expiry Date        | Vesting Provisions |
|-------------------------|--------------------------------|--------------------|--------------------|
| #                       | \$                             |                    |                    |
| 21,143                  | 1.05                           | October 30, 2017   | Vested             |
| 270,000                 | 1.75                           | May 5, 2018        | Vested             |
| 14,286                  | 1.05                           | May 30, 2018       | Vested             |
| 3,715,000               | 0.25                           | September 21, 2018 | Vested             |
| 995,000                 | 0.30                           | October 12, 2018   | Vested             |
| 28,571                  | 1.05                           | October 31, 2018   | Vested             |
| 78,571                  | 1.05                           | June 4, 2019       | Vested             |
| 42,857                  | 1.05                           | August 29, 2019    | Vested             |
| 14,286                  | 1.75                           | April 15, 2020     | Vested             |
| 3,571                   | 1.54                           | September 23, 2020 | Vested             |
| 37,858                  | 3.01                           | July 11, 2021      | Vested             |
| <b>5,221,143</b>        |                                |                    |                    |

As at October 31, 2016, the weighted average remaining contractual life of the options is 1.92 years (2015 - 3.32 years).

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**NOTE 17 – SHARE CAPITAL AND RESERVES (continued)**

During the three and six months ended October 31, 2016, the Company recognized share-based payments of \$455,555 and \$455,555 (2015 - \$nil and \$361,633) for stock options granted and vested during the period.

On September 22, 2016, pursuant to the Company's stock option plan, the Company granted 3,715,000 stock options to directors, officers, consultants and employees of the Company. The stock options have an exercise price of \$0.25 per share, immediate vesting and an expiry date of September 21, 2018. Using the Black-Scholes options pricing model, the fair value of the granted stock options was value at \$341,116 or \$0.09 per stock option.

On October 12, 2016, pursuant to the Company's stock option plan, the Company granted 995,000 stock options to directors, officers, consultants and employees of the Company. The stock options have an exercise price of \$0.30 per share, immediate vesting and an expiry date of September 21, 2018. Using the Black-Scholes options pricing model, the fair value of the granted stock options was value at \$114,439 or \$0.12 per stock option.

The fair value of stock options granted during the six months ended October 31, 2016 and 2015 was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

|                         | <b>2016</b> | <b>2015</b> |
|-------------------------|-------------|-------------|
| Risk-free interest rate | 0.94%       | 1.03%       |
| Expected dividends      | \$nil       | \$nil       |
| Expected volatility     | 69.63%      | 92.47%      |
| Expected life in years  | 2.00        | 3.00        |

The weighted average fair value of stock options granted during the six months ended October 31, 2016 was \$0.10 (2015 - \$0.91, on a post consolidated basis (note 17(b)) per option.

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**NOTE 17 – SHARE CAPITAL AND RESERVES (continued)****(e) Warrants**

The status of the share purchase warrants outstanding, presented on a post consolidated basis (note 17(b)), is as follows:

|                                  | Warrants<br>(note 17(b)) | Weighted<br>Average<br>Exercise Price<br>(note 17(b)) |
|----------------------------------|--------------------------|---|
|                                  | #                        | \$  |
| Balance, April 30, 2015          | 1,914,391                | 1.38  |
| Issued                           | 728,447                  | 1.31  |
| Expired/Cancelled                | (1,389,114)              | 1.46  |
| Exercised                        | (14,286)                 | 1.40  |
| Balance, April 30, 2016          | 1,239,438                | 1.25  |
| Issued                           | 36,319,875               | 0.39  |
| Expired/Cancelled                | (163,372)                | 1.75  |
| <b>Balance, October 31, 2016</b> | <b>37,395,941</b>        | <b>0.42</b>   |

The following table summarizes the share purchase warrants outstanding, presented on a post consolidated basis (note 17(b)), as at October 31, 2016:

| Warrants<br>(note 17(b)) | Exercise Price<br>(note 17(b)) | Expiry Date       |
|--------------------------|--------------------------------|-------------------|
| #                        | \$                             |                   |
| 205,714                  | 1.05                           | May 20, 2017      |
| 106,667                  | 1.05                           | August 29, 2017   |
| 320,000                  | 0.45                           | September 1, 2017 |
| 795,320                  | 0.85                           | September 1, 2017 |
| 106,667                  | 1.05                           | November 20, 2017 |
| 13,319,155               | 0.40                           | August 30, 2019   |
| 9,180,820                | 0.40                           | September 1, 2019 |
| 12,704,580               | 0.40                           | October 5, 2019   |
| 657,018                  | 1.26                           | December 22, 2020 |
| <b>37,395,941</b>        |                                |                   |

As at October 31, 2016, the weighted average remaining contractual life of the warrants is 2.81 years (2015 - 0.98 years).

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**NOTE 17 – SHARE CAPITAL AND RESERVES (continued)**

On August 26, 2016, the Company finalized the Debt Settlement (note 4). As part of the Debt Settlement, the Company issued 320,000 warrants with an exercise price of \$0.45 and expiry date of September 1, 2017; 795,320 warrants with an exercise price of \$0.85; and 9,180,820 warrants with an exercise price of \$0.40 and expiry date of September 1, 2019. The weighted average fair value of warrants granted under the Debt Settlement was \$0.18 per warrant using the Black-Scholes pricing model.

On August 30, 2016, the Company closed the first tranche of its announced private placement and issued 13,003,547 units (the “Units”) for gross proceeds of \$3,250,889 or \$0.25 per Unit. Each Unit is comprised of one common share and one full, transferable common share purchase warrant. The total value of the warrants contained in the Units issued is \$1,294,610 or \$0.10 per warrant, determined using the Black-Scholes pricing model.

On October 5, 2016, the Company closed the second and final tranche of its announced private placement and issued 12,365,900 units (the “Units”) for gross proceeds of \$3,091,475 or \$0.25 per Unit. Each Unit is comprised of one common share and one full, transferable common share purchase warrant. The total value of the warrants contained in the Units issued is \$1,150,729 or \$0.09 per warrant, determined using the Black-Scholes pricing model.

**NOTE 18 – RELATED PARTY TRANSACTIONS****(a) Related Party Transactions**

The Company incurred charges to directors and officers or to companies associated with these individuals during the three and six months ended October 31, 2016 and 2015 as follows:

|                                  | Three months<br>ended October 31, |         | Six months<br>ended October 31, |         |
|----------------------------------|-----------------------------------|---------|---------------------------------|---------|
|                                  | 2016                              | 2015    | 2016                            | 2015    |
|                                  |                                   | \$      |                                 | \$      |
| Accounting and professional fees | <b>53,329</b>                     | 4,168   | <b>76,706</b>                   | 11,974  |
| Management and consulting fees   | <b>110,500</b>                    | 171,546 | <b>217,000</b>                  | 301,873 |
| Restructuring fees (note 18(d))  | <b>500,000</b>                    | -       | <b>500,000</b>                  | -       |
| Share-based payments             | <b>200,410</b>                    | -       | <b>200,410</b>                  | -       |
| Finance costs                    | <b>27,759</b>                     | 2,016   | <b>104,593</b>                  | 4,011   |
| Rent                             | <b>11,250</b>                     | -       | <b>22,500</b>                   | -       |
|                                  | <b>903,248</b>                    | 177,730 | <b>1,121,209</b>                | 317,858 |

Professional fees are paid to a company controlled by the CFO. Management and consulting fees are paid to companies controlled by the President and CEO (the “CEO”), CFO, ex-COO or VP Operations & New Projects (the “VP Ops”). Finance costs on interest bearing debt instruments were paid or accrued to companies controlled by the CEO, or to a company controlled by a director. Office rent is paid or accrued to a company controlled by the CFO.

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**NOTE 18 – RELATED PARTY TRANSACTIONS (continued)****(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, CEO, CFO, ex-COO and VP Ops. Compensation in respect of services provided by key management consists of consulting and management fees paid to companies controlled by the CEO, CFO, ex-COO and VP Ops, and by the issue of options. Compensation for key management personnel for the three and six months ended October 31, 2016 and 2015:

|                                 | Three months<br>ended October 31, |         | Six months<br>ended October 31, |         |
|---------------------------------|-----------------------------------|---------|---------------------------------|---------|
|                                 | 2016                              | 2015    | 2016                            | 2015    |
|                                 | \$                                | \$      | \$                              | \$      |
| Management fees (note 18(a))    | <b>110,500</b>                    | 130,328 | <b>217,000</b>                  | 301,873 |
| Restructuring fees (note 18(d)) | <b>500,000</b>                    | -       | <b>500,000</b>                  | -       |
| Share-based payments            | <b>200,410</b>                    | -       | <b>200,410</b>                  | -       |
|                                 | <b>810,910</b>                    | 130,328 | <b>917,410</b>                  | 301,873 |

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 expenses reimbursements, interim advances to the Company, annual bonuses as approved by the board of directors, and for services rendered as at October 31, 2016 are non-interest bearing and payable on demand, with the exception of short term financing through unsecured promissory notes (note 11), convertible debenture financing (note 13), and are comprised of \$14,133 (April 30, 2016 - \$163,901) payable to the CEO and a company controlled by the CEO, \$12,432 (April 30, 2016 - \$111,104) payable to the CFO or a company controlled by the CFO, \$3,749 (April 30, 2016 - \$56,445) payable to the VP Operations & New Projects or a company controlled by the VP Operations & New Projects and \$nil (April 30, 2016 - \$1,929,635) payable to a companies controlled by directors.

**(d) Related Party Restructuring Transactions**

Pursuant to the Company's Restructuring, the majority of all director and officers advances owing were settled during the quarter ended October 31, 2016 (note 11(c)).

To incentivize the executive management team to continue working on a dedicated and full-time basis during the very complicated Restructuring period, particularly as the executive management team was not receiving regular monthly fee payments and significant amounts were owing to them, the Company offered them a one-time contingent fee only payable upon successful completion of the Restructuring. On August 26, 2016, the contingent criteria were met and the Company provided the executive management team a \$500,000 restructuring fee, which, as agreed in the contingent compensation plan, was fully reinvested in the August 30, 2016 private placement so that there would be \$nil cash cost to the Company.

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**NOTE 19 – COMMITMENTS AND CONTINGENCIES**

In addition to the commitments in connection with the Company's financings (notes 11, 12, 13 and 14), the Company has a three-year rent agreement for its corporate office in Lima, Peru, with a monthly payment of USD\$4,210 and termination date on July 31, 2018 as well as a month to month rental agreement for its corporate office in Vancouver, Canada with a monthly payment of \$3,750 until December 2016 and \$4,313 per month effective January 2017.

During the six months ended October 31, 2016, the Company entered into a purchase and sale contract to sell approximately 312 ounces of gold dore to a third party, which would be settled at a future date in either cash or through the delivery of gold. At October 31, 2016, the fair value of amounts owing under this contract was \$517,084 (April 30, 2016 - \$359,179) and is included in deferred revenue.

A summary of undiscounted liabilities and future operating commitments at October 31, 2016 are as follows:

|   | Total            | Within One<br>Year | Two to Five<br>Years |
|---|------------------|--------------------|----------------------|
| <b>Maturity analysis of financial liabilities</b> | <b>\$</b>        | <b>\$</b>          | <b>\$</b>            |
| Accounts payable and accrued liabilities          | <b>1,233,004</b> | 1,233,004          | -                    |
| Promissory notes payable                          | <b>308,325</b>   | 308,325            | -                    |
| Mineral notes payable                             | <b>64,238</b>    | 64,238             | -                    |
| Secured debentures                                | <b>2,764,830</b> | -                  | 2,764,830            |
|   | <b>4,370,397</b> | 1,605,567          | 2,764,830            |
| <b>Commitments</b>                                |                  |                    |                      |
| Office lease rental                               | <b>272,893</b>   | 119,508            | 153,385              |
| Gold sale contract deferred revenue               | <b>517,084</b>   | 517,084            | -                    |
| Asset retirement and reclamation obligations      | <b>340,710</b>   | -                  | 340,710              |
|   | <b>1,130,687</b> | 636,592            | 494,095              |
|   | <b>5,501,084</b> | 2,242,159          | 3,258,925            |

Contingent Debenture

As a result of the Restructuring and Debt Settlement (note 4), the Company issued a USD\$779,309 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 re-instatement, 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.



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**NOTE 20 – SEGMENTED INFORMATION**

The Company operates in one reportable operating segment, currently being gold milling facilities in Peru. All of the Company's operating and capital assets are located in Peru except for \$1,279,584 (April 30, 2016 - \$329,600) of cash and other current assets which are held in Canada.

Segmented information is provided on the basis of geographic segments consistent with the Company's core long-term and operating assets as follows:

|   | Three months ended,<br>October 31, |             | Six months ended,<br>October 31, |             |
|---|------------------------------------|-------------|----------------------------------|-------------|
|   | 2016                               | 2015        | 2016                             | 2015        |
|   | \$                                 | \$          | \$                               | \$          |
| Revenue   | <b>2,438,054</b>                   | 4,330,350   | <b>4,513,616</b>                 | 10,880,220  |
| Cost of goods sold (including<br>\$221,462 and \$325,733 of<br>depreciation (2015 - \$102,129 and<br>\$187,627) respectively) | <b>1,880,835</b>                   | 4,667,587   | <b>4,275,004</b>                 | 10,781,958  |
| Gross margin (deficit)  | <b>557,219</b>                     | (337,237)   | <b>238,612</b>                   | 98,262      |
| Earnings (loss)   | <b>1,162,745</b>                   | (1,928,949) | <b>(119,194)</b>                 | (2,510,033) |

|   | As at<br>October 31, 2016 | As at<br>October 31, 2015 | As at<br>April 30, 2016 |
|---|---------------------------|---------------------------|-------------------------|
|   | Peru                      | Peru                      | Peru                    |
|   | \$                        | \$                        | \$                      |
| Assets:                                 |                           |                           |                         |
| Inventory                               | <b>1,827,286</b>          | 1,391,725                 | 1,468,421               |
| Property, plant and equipment           | <b>6,243,523</b>          | 5,490,118                 | 5,175,055               |
| Total long-term and operating<br>assets | <b>8,070,809</b>          | 6,881,843                 | 6,643,476               |

During the three and six months ended October 31, 2016, the Company received 100% of its metal revenues from one major customer. During the three months and six ended October 31, 2015, the Company received its metal revenues from four customers, each representing 46%, 27%, 26% and 1% of metal revenues, respectively.

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**NOTE 21 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****(a) Fair Value of Financial Instruments**

As at October 31, 2016, the Company's financial instruments consist of cash, other receivables, marketable securities, accounts payable and accrued liabilities, promissory notes payable convertible debentures, debentures and loan payable. Cash and other receivables are designated as loans and receivables, which are measured at amortized cost. Marketable securities are designated as available-for-sale, which are measured at fair value through other comprehensive earnings or loss. Accounts payable and accrued liabilities, promissory notes payable, convertible debentures, debentures and loan payable are designated as other financial liabilities, which are measured at amortized cost.

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, 2016, the Company believes that the carrying values of cash, other receivables, accounts payable and accrued liabilities, promissory notes payable, convertible debentures, debentures and loan payable approximate their fair values because of their nature and relatively short maturity dates or durations or their interest rates approximate market interest rates. The fair value of marketable securities has been assessed based on the fair value hierarchy described above and are classified as Level 1.

**(b) 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 other 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.

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**NOTE 21 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

*(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, 2016, the Company had cash of \$84,434 (April 30, 2016 - \$45,135) and current working capital surplus of \$2,320,511 (April 30, 2016 - \$ 7,645,085) with total liabilities of \$5,228,191 (April 30, 2016 - \$15,859,608).

A summary of the Company's future operating commitments is presented in note 18.

*(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 October 31, 2016, the Company has 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 US 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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**NOTE 21 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

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

|   | <b>October 31, 2016</b> | April 30, 2016 |
|---|-------------------------|----------------|
|   | \$                      | \$             |
| US dollar:  |                         |                |
| Cash  | <b>66</b>               | 31,063         |
| Receivables   | <b>38,492</b>           | 108,809        |
| Accounts payable and accrued liabilities              | <b>(330,452)</b>        | (744,126)      |
| Debenture, convertible debenture and promissory notes | <b>(393,480)</b>        | (7,190,363)    |
| Net assets  | <b>(685,374)</b>        | (7,794,617)    |
| Sol:  |                         |                |
| Cash  | <b>3,756</b>            | 13,488         |
| Receivables   | <b>511,173</b>          | 1,523,703      |
| Accounts payable and accrued liabilities              | <b>(308,938)</b>        | (1,018,224)    |
| Net liabilities                                       | <b>205,991</b>          | 518,967        |

Assuming all other variables constant, an increase or a decrease of 10% of the US dollar against the Canadian dollar, the net loss of the Company and the equity for the three and six months ended October 31, 2016 would have varied by approximately \$95,917. Assuming all other variables constant, an increase or a decrease of 10% of the Sol against the Canadian dollar, the net loss of the Company and the equity for the three and six months ended October 31, 2016 would have varied by approximately \$12,316.

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 future gold price expectations and previously to the share trading price of its GRIT shares. The Company continuously monitors precious metal share trading prices as they are included in projections prepared to determine its future strategy.

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**NOTE 22 – CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders. The management of the capital structure is based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities, issue debt instruments or return capital to its shareholders.

On August 26, 2016, the Company completed a restructuring whereby \$13,479,415 of the Company's long and short term debt and related unpaid interest were settled or restructured through a combination of equity and new debt instruments (note 4). The Company considers its current capital structure to consist of promissory notes payable of \$308,325 (April 30, 2016 - \$2,774,843), convertible debentures of \$nil (April 30, 2016 - \$2,170,833), debenture units of \$nil (April 30, 2016 - \$2,593,915), bond payable of \$nil (April 30, 2016 - \$5,154,683), secured debentures of \$2,764,830 (April 30, 2016 - \$nil) and the items included in shareholders' equity of \$5,394,256 (April 30, 2016 - deficiency of \$6,489,484). The Company's projected future revenues from mineral processing operations are intended to generate sufficient funds to service its debts and to provide funding for future operations. Notwithstanding these proceeds the Company expects to continue to be dependent on its capital resources which are largely determined by the strength of the junior resource markets, by the status of the Company's projects in relation to these markets and by its ability to compete for investor support of its projects. The Company is not subject to externally imposed capital requirements except for the right of first refusal for future debt and equity financings provided to bond and debenture holders per financings entered during the 2016 fiscal year.

The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the further operation of its Peruvian toll-milling operations the Company prepares expenditure budgets which are updated as necessary, and are reviewed and approved by the Company's Board of Directors.

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Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended October 31, 2016 and 2015

(Unaudited - Expressed in Canadian Dollars)

**NOTE 23 – INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | Note  | Three months ended |                  | Six months ended |                  |
|--|-------|--------------------|------------------|------------------|------------------|
|  |       | October 31,        |                  | October 31,      |                  |
|  |       | 2016               | 2015             | 2016             | 2015             |
|  |       | \$                 | \$               | \$               | \$               |
| <b>Corporate and administrative expenses:</b>      |       |                    |                  |                  |                  |
| Consulting fees                                    | 18    | 3,759              | 127,738          | 43,835           | 207,134          |
| Management fees                                    | 18    | 154,594            | 87,424           | 289,323          | 216,949          |
| Depreciation                                       | 9     | 1,316              | 2,186            | 5,784            | 2,946            |
| Investor relations and regulatory fees             |       | 96,571             | 67,813           | 147,307          | 164,092          |
| Office, rent, utilities and other                  | 18    | 74,409             | 195,951          | 141,842          | 311,314          |
| Professional fees                                  | 18    | 174,824            | 73,634           | 311,949          | 139,500          |
| Salaries and benefits                              |       | 38,111             | 119,129          | 154,119          | 321,063          |
| Share-based payments                               | 16    | 7,814              | -                | 7,814            | 361,633          |
| Travel and accommodation                           | 18    | 31,915             | 30,532           | 32,598           | 92,661           |
| <b>Total corporate and administrative expenses</b> |       | <b>583,313</b>     | <b>704,407</b>   | <b>1,134,571</b> | <b>1,817,292</b> |
| <b>Finance and other income (expense):</b>         |       |                    |                  |                  |                  |
| Accretion expense                                  |       | (8,465)            | (191,138)        | (101,761)        | (368,655)        |
| Finance costs                                      |       | (185,600)          | (465,438)        | (687,327)        | (814,892)        |
| Foreign exchange (loss) gain                       |       | (117,196)          | (106,369)        | 105,086          | 533,656          |
| Finance income                                     |       | 11,652             | -                | 43,728           | 245              |
| Impairment of marketable securities                | 6     | -                  | (124,360)        | (59,761)         | (151,580)        |
| Loss on sale of marketable securities              | 6     | -                  | -                | (11,648)         | -                |
| <b>Total finance and other expense</b>             |       | <b>(299,609)</b>   | <b>(887,305)</b> | <b>(711,683)</b> | <b>(801,226)</b> |
| <b>Restructuring gain (expense):</b>               |       |                    |                  |                  |                  |
| Gain on restructuring                              | 4     | 3,424,959          | -                | 3,424,959        | -                |
| Restructuring advisory costs                       | 4, 18 | (873,616)          | -                | (873,616)        | -                |
| Share based compensation restructuring reset       | 4     | (455,555)          | -                | (455,555)        | -                |
| Amortized marketing restructuring costs            | 4     | (130,647)          | -                | (130,647)        | -                |
| Other impairment and restructuring costs           | 4     | (466,470)          | -                | (466,470)        | -                |
| <b>Total restructuring gain, net</b>               |       | <b>1,498,671</b>   | <b>-</b>         | <b>1,498,671</b> | <b>-</b>         |

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Notes to the Condensed Interim Consolidated Financial Statements  
For the Three and Six Months Ended October 31, 2016 and 2015  
(Unaudited - Expressed in Canadian Dollars)

**NOTE 24 – EARNINGS (LOSS) PER SHARE**

|                                      | Three months ended<br>October 31, 2016 |  |                       |                        | Three months ended<br>October 31, 2015       |                      |  |
|--------------------------------------|--|--|-----------------------|------------------------|--|----------------------|--|
|                                      | Earnings<br>for the<br>period          | Weighted<br>average<br>shares<br>outstanding | Earnings<br>per share | Loss for the<br>period | Weighted<br>average<br>shares<br>outstanding | Loss<br>per<br>share |  |
| <b>Basic EPS</b>                     | \$ 1,162,745                           | 37,152,037                                   | \$ 0.03               | \$ (1,928,949)         | 10,173,008                                   | \$ (0.02)            |  |
| Effect of<br>dilutive<br>securities: |  |  |                       |                        |  |                      |  |
| Share<br>options                     | -                                      | 1,574,837                                    | -                     | -                      | -  | -                    |  |
| Warrants                             | -                                      | -  | -                     | -                      | -  | -                    |  |
| <b>Diluted<br/>EPS</b>               | \$ 1,162,745                           | 38,726,874                                   | \$ 0.03               | \$ (1,928,949)         | 10,173,008                                   | \$ (0.02)            |  |

At October 31, 2016, 5,221,143 (October 31, 2015 - 885,857) share options were outstanding, of which 1,506,142 were anti-dilutive (October 31, 2015 - 885,857) because the underlying exercise price exceeded the average market price for the three months ended October 31, 2016 and the Company was in a loss position for the three months ended October 31, 2015.

At October 31, 2016, 37,395,941 (October 31, 2015 - 1,971,533) warrants were outstanding, of which 37,395,941 were anti-dilutive (October 31, 2015 - 1,971,533) because the underlying exercise price exceeded the average market price for the three months ended October 31, 2016 and the Company was in a loss position for the three months ended October 31, 2015.

|                                      | Three months ended<br>October 31, 2016 |  |                   |                        | Three months ended<br>October 31, 2015       |                      |  |
|--------------------------------------|--|--|-------------------|------------------------|--|----------------------|--|
|                                      | Loss for<br>the period                 | Weighted<br>average<br>shares<br>outstanding | Loss per<br>share | Loss for the<br>period | Weighted<br>average<br>shares<br>outstanding | Loss<br>per<br>share |  |
| <b>Basic EPS</b>                     | \$ (119,194)                           | 24,381,676                                   | \$ (0.00)         | \$ (2,510,033)         | 9,464,433                                    | \$ (0.04)            |  |
| Effect of<br>dilutive<br>securities: |  |  |                   |                        |  |                      |  |
| Share<br>options                     | -                                      | -  | -                 | -                      | -  | -                    |  |
| Warrants                             | -                                      | -  | -                 | -                      | -  | -                    |  |
| <b>Diluted<br/>EPS</b>               | \$ (119,194)                           | 24,381,676                                   | \$ (0.00)         | \$ (2,510,033)         | 9,464,433                                    | \$ (0.04)            |  |

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**NOTE 24 – EARNINGS (LOSS) PER SHARE (continued)**

At October 31, 2016, 5,221,143 (October 31, 2015 - 885,857) share options were outstanding, of which 5,221,143 were anti-dilutive (October 31, 2015 - 885,857) because the Company was in a loss position for the six months ended October 31, 2016 and 2015.

At October 31, 2016, 37,395,941 (October 31, 2015 - 1,971,533) warrants were outstanding, of which 37,395,941 were anti-dilutive (October 31, 2015 - 1,971,533) because the Company was in a loss position for the six months ended October 31, 2016 and 2015.

**NOTE 25 – SUPPLEMENTAL CASH FLOW INFORMATION**

Interest and income taxes paid in cash during the six months ended October 31, 2016, were \$58,275 (2015 - \$674,700) and \$nil (2015 - \$60,000), respectively. 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 six months ended October 31, 2016, the following transactions were excluded from the statements of cash flows:

- The Company recorded \$22,728 (2015 - \$22,966) of depreciation expense to gold inventory.
- Pursuant to the closing of the Company's private placements and Restructuring, the Company issued 36,319,875 (note 17(e)).
- The Company issued 4,710,000 stock options, at a fair value of \$455,555, which vested immediately.

During the six months ended October 31, 2015, the following transactions were excluded from the statements of cash flows:

- The Company issued 71,429 warrants, on a post consolidated basis (note 17(b)), at the fair value of \$26,008 pursuant to the convertible debenture financing.
- The Company issued 397,143 stock options, on a post consolidated basis (note 17(b)), at a fair value of \$361,633, which vested immediately.