Dear Shareholders,

In 2006 we saw the copper price hit US$4.00/lb, a price driven by strong demand, low inventory levels and constrained supply. Copper producers have generated unprecedented profits, are very cash rich and carry low levels of debt. However the stock market has not yet bought into the concept of a "super cycle" as many analysts feel that copper equity valuations still imply a US$1.40/lb long term copper price even though the price at the end of 2006 was double that at US$2.85/lb.

Mergers and acquisitions at the senior copper producer level have dominated market activity. Xstrata bought Falconbridge, CVRD bought Inco and Freeport is expected to buy Phelps Dodge, and there have been very few major new discoveries. Oyu Tolgoi in Mongolia, Pebble in Alaska and Regalito in Chile are probably the most important. Except for Regalito, it will take many years to bring them into production. A number of world class deposits in Africa, discovered many years ago, are finally undergoing development, although most plan to start production at modest levels.

All over the world average copper mine grade continues to drop. The majority of major new mines will probably be underground while many existing open pit mines will need to convert to underground operations as waste-to-ore stripping ratios get too high for economic extraction. Open pit mines tend to be low cost and large tonnage production operations while underground mines tend to be higher cost and lower daily tonnage operations. All these factors will continue to constrain supply to the extent that copper prices are unlikely to fall below US$2.00/lb. With these industry realities uppermost in mind, Inca Pacific has chosen to sell off non-core assets (Antoro Sur) and focus on the development of the Magistral copper-molybdenum project in Peru, where 2006 saw the completion of a Preliminary Feasibility Study (PFS) and the initiation of a Final Feasibility Study (FFS).

The PFS, prepared by SRK Consulting, confirmed that an open pit mining operation at Magistral is economically viable, with robust project economics driven by a high grade starter pit, simple processing technology and excellent recoveries of copper and molybdenum. Proven & Probable Reserves were estimated to be 106 million tonnes grading 0.52% copper, 0.054% molybdenum and 2.6 grams/tonne silver. The Base Case Net Present Value (after-tax) was US$62 million using conservative metal prices of US$1.25/lb copper, US$10.00/lb molybdenum and US$7.50/oz silver and a rigorous 8% discount rate. To the benefit of Peru, the project will generate approximately 360 permanent jobs, 645 jobs during the two year construction period and $225 million in taxes, government royalties and employee profit sharing payments.

The next step in the development of Magistral will be the completion of the FFS. This study is well underway and is scheduled for completion by the 4th quarter of 2007. In parallel to feasibility work, we have engaged mine finance specialists Cutfield Freeman & Co. to advise and assist in developing a strategy to place Magistral into production. Initially Cutfield Freeman will focus on the strategic options for financing the development of the project, including the potential to bring in one or more joint venture partners. Other financing options to be investigated by Cutfield Freeman will include debt, equity issue, "off-take" finance, alternative financial products and assistance from government agencies.

All in all, we are moving forward assisted by a great staff, world class consultants and excellent advisers. Peru remains a favorite development location for the world's mining industry. With responsible development, Magistral can become a mine that will benefit Inca Pacific shareholders, the communities surrounding the project and the citizens of Peru.

INCA PACIFIC RESOURCES INC

Magistral Property

The Magistral copper-molybdenum property, in which Inca Pacific owns a 100% interest, is located in north-central Peru, about 450 kilometres northwest of Lima. Exploration, engineering, and environmental work on the Magistral project were greatly advanced in 2006. Numerous important studies and work programs were completed, most notable being a Preliminary Feasibility Study prepared by SRK Consulting. The results demonstrate that an open pit mining operation at Magistral is economically viable. The salient details of the PFS are summarized in the table below on an after-tax basis (all dollar figures are in US dollars unless otherwise stated):

NPV ($1.25/lb Cu, $10.00/lb Mo, 8% discount rate)	$62 million
IRR	12.3 %
Initial Capital Expenditure (before IGV)	$259 million
LOM C-1 Cash Costs (net by-product credits)	$0.77/lb Cu mined
Mill Capacity	20,000 tpd
Annual Throughput	6.7 million tonnes
Mine Life	16 years
Strip Ratio	1.8:1
LOM average annual copper-in-concentrate production	31,100 tonnes
LOM average annual molybdenum-in-concentrate production	2,500 tonnes


MAGISTRAL VALLEY LOOKING SW

Resources & Reserves

SRK Consulting used the existing NI 43-101 resource estimate for Magistral and the corresponding block model to develop a mine plan and production schedule for the Project. That resource estimate determined Measured and Indicated Resources of 189 million tonnes grading 0.51% copper and 0.052% molybdenum at a cut-off grade of 0.40% copper equivalent.

Using Whittle (Lerschs-Grossman) optimizations of potential economic pit limits on the Measured & Indicated Resource, SRK Consulting determined the mine plan and production schedule. Proven and Probable Mineral Reserves have been estimated as follows:

Reserve Category*	Tonnes Millions	Grade (% Cu)	Grade (% Mo)	Grade (g/t Ag)	Cu lbs Millions	Mo lbs Millions
Proven	69	0.52	0.056	2.45		
Probable	37	0.54	0.051	2.83		
Proven and Probable	**106**	**0.52**	**0.054**	**2.58**	**1,215**	**126**

Source: Preliminary Feasibility Study - November 2006. by SRL Consulting Engineers & Scientists. Peter Clarke, P Eng, is the qualified person as defined by NI 43-101.

For more details on the Preliminary Feasibility Study please refer to Management's Discussion and Analysis following this section.

Magistral Valley looking south

Outlook

A final feasibility study has been initiated and contracts have been awarded to the following engineering firms:

- mine design services: Mine Development Associates of Reno, Nevada;
- geotechnical engineering, environmental, permitting and social: Vector of Lima, Peru; and
- detailed feasibility study engineering: Samuel Engineering of Denver, Colorado.

Project management for the study is being provided by MTB Project Management Professionals of Denver, Colorado. The final feasibility study will be of a form and content that will satisfy the requirements of banking institutions to provide financing to construct a mining operation at Magistral. The final feasibility study is scheduled to be completed in the 4th quarter of 2007.

In addition to preparing a final feasibility study, the Company has engaged Cutfield Freeman & Co. ("Cutfield Freeman") to advise and assist in developing a strategy for financing the development of Magistral. Currently Cutfield Freeman is focused on assessing the strategic options for financing the development of the project. These options will include the potential to bring one or more joint venture partners into the project. Also to be considered are debt, equity, mezzanine products, "off take" finance, alternative financial products and assistance from government agencies.

Drill core

Cutfield Freeman team at Magistral camp

Moving man portable drill rig to new site

Inca Pacific Resources Inc. ("Inca Pacific" or the "Company") is a resource exploration company with a focus on copper and molybdenum projects with robust economics located in Peru. Peru possesses some of the world's most profitable mines and remains one of the mining industry's top choices for the development of new projects. The Company's principal asset is its 100% owned Magistral Copper-Molybdenum deposit.

Inca Pacific's head office is located in Vancouver, British Columbia, Canada. Exploration headquarters are located in Lima, Peru. The Company's common shares trade on the TSX Venture Exchange under the symbol "IPR".

This management's discussion and analysis ("MD&A") focuses on significant factors that affected the Company and its subsidiaries (collectively, the "Company") during the year ended November 30, 2006 and to the date of this report. The MD&A supplements, but does not form part of, the audited consolidated financial statements of the Company and the notes thereto for the year ended November 30, 2006. Consequently, the following discussion and analysis should be read in conjunction with the audited consolidated financial statements, and the notes thereto, for the year ended November 30, 2006. All amounts presented in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

This MD&A contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Forward-looking statements include Inca Pacific's commitment to, and plans for completing a final feasibility study, obtaining approval of an Environmental Impact Assessment and developing the Magistral Project. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "can", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Inca Pacific to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: risks related to the exploration and potential development of the Magistral Project, risks related to international operations, the actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, future prices of copper, silver and molybdenum. Although Inca Pacific has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Inca Pacific does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

Significant Events, Transactions and Activities on Mineral Properties

Magistral Property

The principal asset of Inca Pacific Resources Inc. is the Magistral Copper-Molybdenum deposit located in Ancash, Peru. Under the terms of an agreement with the Government of Peru, Inca Pacific must:

1. deliver a feasibility study by December 31, 2006 (delivered);
2. deliver a bankable feasibility study by December 31, 2007; and
3. place the Magistral Project into production by December 31, 2011.

Upon delivery of the feasibility study by the Company to the Government of Peru, additional reporting requirements were requested by the Government. The Company is in the process of complying with this request.

From October 1999 to October 2001 Anaconda Peru, a leading copper producer in Chile, earned a 51% interest in the project by spending over US$5 million on the property. In February 2004, Inca Pacific acquired Anaconda Peru's 51% interest in the Magistral Project for US$2.1 million thus increasing its interest to 100%. On March 3, 2005, Quadra Mining Ltd. and Inca Pacific signed an agreement for the development of the Magistral Project. On October 27, 2005, after spending US$4 million, Quadra withdrew from the agreement stating that the project did not meet its investment criteria. Accordingly, Inca Pacific has retained a 100% interest in the project.

To November 30, 2006, over US$20 million has been spent on the Magistral Project by Inca Pacific and its former joint venture partners. Work has included a total of 46,220 metres of core drilling in 165 holes, geotechnical analyses, preliminary metallurgical testing, preliminary mine layout and open pit design, tailings studies, environmental base line studies, and socio-economic studies.

In September, 2006 the Company completed a Preliminary Feasibility Study ("PFS") of the project. The results demonstrate that an open pit mining operation at Magistral is economically viable.

Highlights of the study are as follows (all amounts are in US dollars unless otherwise stated):

- Robust project economics driven by high grade starter pit, simple processing technology and excellent recoveries of copper and molybdenum.
- Base Case Net Present Value ("NPV") of $62 million (after-tax) and an Internal Rate of Return ("IRR") of 12.3% (using $1.25/lb copper, $10.00/lb molybdenum, $7.50/oz silver, 8% discount rate, $82.50/tonne treatment charge and $0.0825/lb refining charge).
- Capital payback in 6 years.
- Average copper-in-concentrate production and molybdenum-in-concentrate production of 31,100 tonnes per year and 2,500 tonnes per year respectively for 16 years. Life of mine ("LOM") waste-to-ore strip ratio will be 1.8:1
- Life of mine cash costs (net of by-product credits) are estimated to average $0.77 per pound of copper mined.
- The Project will generate approximately 360 permanent jobs and 645 jobs during the two-year construction period and $225 million in taxes, government royalties and employee profit sharing payments over the life of the mine.

The salient details of the PFS base case are summarized in the table below on an after-tax basis (all amounts are in US dollars unless otherwise stated):

NPV ($1.25/lb Cu, $10.00/lb Mo, 8% discount rate)	$62 million
IRR	12.3 %
Initial Capital Expenditure (before IGV*)	$259 million
LOM C-1 Cash Costs (net of by-product credits)	$0.77/lb Cu mined
Mill Capacity	20,000 tpd
Annual Throughput	6.7 million tonnes
Mine Life	16 years
Strip Ratio	1.8:1
LOM average annual copper-in-concentrate production	31,100 tonnes
LOM average annual molybdenum-in-concentrate production	2,500 tonnes

* refers to Peruvian value added tax of 19%

The PFS was managed by SRK Consulting (SRK) and included work by SRK, Mine Development Associates (MDA), SVS Ingenieros SA, MTB Project Management Professionals Inc. and others. Three independent Qualified Persons from SRK participated in the completion of the PFS. Certain information prepared by MDA and previously filed on SEDAR was used by SRK in the PFS. This information includes the existing NI 43-101 resource estimate for Magistral and the corresponding block model, which were used by SRK to develop a mine plan and production schedule for the Project.

Project Economics

SRK Consulting developed a cash flow valuation model on the Project based upon the geological and engineering work completed to date. The base case was developed using long term forecast metal prices (all amounts are in US dollars) of $1.25/lb for copper, $10.00/lb for molybdenum and $7.50/oz for silver. However, if one uses $2.00/lb for copper, $16.00/lb for molybdenum and $7.50/oz for silver, the Net Present Value, at an 8% discount rate, would be $446 million. These price forecasts are still considerably lower than current prices which, as of February 2, 2007 were $2.49/lb for copper, $13.33/oz for silver and $25.00/lb for molybdenum.

The following table shows the NPV of the base case at various discount rates:

Discount Rate	NPV
0%	$352 million
5%	$134 million
8%	**$62 million**
10%	$29 million
12%	$4 million

The following chart in millions shows the sensitivity of the base case's NPV to changes in the copper and molybdenum price (8% discount rate):

Metal Price/lb	Cu $1.00	Cu $1.25	Cu $1.50	Cu $1.75
Mo $14.00	93	168	244	319
Mo $12.00	40	115	191	266
Mo $10.00	(12)	**62**	138	213
Mo $8.00	(62)	9	84	160

Resources & Reserves

SRK Consulting used the existing NI 43-101 resource estimate for Magistral and the corresponding block model to develop a mine plan and production schedule for the Project. That resource estimate determined Measured and Indicated Resources of 189 million tonnes grading 0.51% copper and 0.052% molybdenum at a cut-off grade of 0.40% copper equivalent.

Using Whittle (Lerschs-Grossman) optimizations of potential economic pit limits on the Measured & Indicated Resource, SRK Consulting determined the mine plan and production schedule. Proven and Probable Mineral Reserves have been estimated as follows:

Reserve Category	Tonnes Millions	Grade (% Cu)	Grade (% Mo)	Grade (g/t Ag)
Proven	69	0.52	0.056	2.45
Probable	37	0.54	0.051	2.83
Proven and Probable	**106**	**0.52**	**0.054**	**2.58**

Mining & Milling

The Project will utilize conventional mining and milling processes. Production is scheduled to deliver 20,000 tonnes per day (6.7 million tonnes per year) of sulphide ore to the primary crusher for 16 years. The processing plant is forecast to produce, on average, 31,100 tonnes per year of copper in concentrate, 350,000 ounces per year of silver in copper concentrate, and 2,500 tonnes per year of molybdenum in concentrate. Average LOM metallurgical recoveries have been estimated to be 89% for copper and 69% for molybdenum, producing a copper concentrate grading on average 31% copper and 109g/t silver, and molybdenum concentrate grading 53% molybdenum.

Capital Costs

SRK Consulting developed capital cost estimates (all amounts are in US dollars unless otherwise stated) for the proposed mining and processing operation at Magistral. The following table summarizes the capital cost estimates in the PFS for the Project:

Direct Capital Costs	$227.6 million
Indirect Capital Costs	$15.5 million
Owner Direct and Indirect Capital Costs	$22.0 million
Total (Base Case)	**$265.1 million**
Delayed IGV Rebate	$5.8 million
Initial Capital Expenditure	**$259.3 million**
Upfront Working Capital	$6.0 million
LOM Sustaining Capital Costs	$97.3 million

The Total (Base Case) Capital Cost estimates are inclusive of IGV payments and delayed IGV rebate and have been compiled with an accuracy level typically in the range of -9% to +17%.

Operating Costs

The results of the PFS show that a mine at Magistral will be a low cost operation. The PFS estimates that the cash costs (net of by-products) over the life of the mine will average US$0.77 per pound of copper mined. Cash costs include at-mine-process plant-G&A cash operating costs, port costs, concentrate transportation and freight costs and all treatment and refining charges.

Infrastructure

Magistral is 183 kms by road from the port of Chimbote from which concentrate can be shipped to smelters. 103 kms of this road will require upgrading to allow the passage of 40 tonne trucks. Electrical power for the Project will require the construction of a 55 kms power line (138kV) from the existing grid at Sihuas to Magistral. Water will be sourced locally from the Magistral valley and stored in the tailings impoundment.

Environmental

The Project will utilize World Bank Guidelines for environmental management practice development and design. Preliminary baseline studies completed to date have included initial surface water quality sampling, archaeological studies, socio-economic reviews and biological and re-vegetation studies. A water treatment plant will be constructed as geochemical studies indicate discharges from the tailings impoundment are likely to require water treatment.

Final Feasibility Study

In October the Company initiated a final feasibility study and awarded contracts to engineering firms for the Magistral project. The final feasibility study will be of a form and content that will satisfy the requirements of banking institutions to provide financing to construct a mining operation at Magistral. The final feasibility study is scheduled to be completed in the fourth quarter of calendar 2007. Project management for the study will be provided by MTB Project Management Professionals of Denver.

The following engineering firms have been contracted to complete the final feasibility study:

- Mine Design Services - Mine Development Associates (Reno);
- Geotechnical Engineering, Environmental, Permitting & Social - Vector (Peru);
- Detailed Feasibility Study Engineering - Samuel Engineering (Denver);

Project Financing

Subsequent to the year end, in January 2007 the Company engaged Cutfield Freeman to advise and assist in developing a strategy for financing the development of Magistral. Cutfield Freeman is a London-based independent advisory firm that specializes in the mining sector and has an extensive track record in securing financing for mine development.

Initially, Cutfield Freeman will be focused on the strategic options for financing the development of the project. These options will include the potential to bring one or more joint venture partners into the project. Also to be considered are debt, equity, mezzanine products, "off take" finance, alternative financial products and assistance from government agencies.

Antoro Sur

On February 22, 2006, the Company exercised its option and purchased a 100% interest in the Antoro Sur property by making the remaining US$1,300,000 payment to the optionors. Simultaneously, the Company sold all of its interest in the Antoro Sur property, and assigned its right to purchase the royalty interest on the property to the purchaser for a total cash consideration of US $3,597,000 (Cdn $4,079,177). The Company has no continuing obligations relating to this property.

Financial Results of Operations

During the year ended November 30, 2006, the Company's activities were primarily concentrated on the preparation of the feasibility study on Magistral, as discussed above.

For the year ended November 30, 2006, the Company incurred a loss of $856,738 compared to a loss of $2,594,936 for the prior year. General and administrative expenses ("G&A") during the fourth quarter of fiscal 2006 were generally consistent with the first three quarters of the year with slight increases for investor relations, due to increased activity in this area, and audit fees in connection with the fiscal year end audit.

Compared on a year by year basis, total G&A expenses increased from a total of $665,367 for fiscal 2005 to $828,477 for fiscal 2006, primarily as a result of stock based compensation expense in connection with stock options granted by the Company. Investor relations expenses also increased in fiscal 2006 due to the increased activity in this area, consisting of attendance and participation at trade shows and meetings with investment bankers in North America and Europe for the purposes of raising the Company's profile and to assist in on-going financing efforts. Accounting and audit fees increased due to higher audit fees.

Other expenses decreased from a total of $1,929,569 in fiscal 2005 to $28,261 in fiscal 2006. In fiscal 2005, the Company wrote-off costs of $1,542,398 incurred on the Cueva Blanca property. There were no property write-offs in fiscal 2006. In February, 2006 the Company sold its Antoro Sur property for a loss of $136,761. The Company earned $153,415 of interest income during fiscal 2006 compared to $11,968 for fiscal 2005 due to the larger balance of cash and cash equivalents held during fiscal 2006. Foreign exchange losses also decreased from $137,357 in fiscal 2005 to $49,972 in fiscal 2006. Foreign exchange losses are due solely to the fluctuations of the US dollar against the Canadian dollar and Peruvian sol. In fiscal 2005, the Company sold marketable securities for a loss of $260,900; no marketable securities were sold in fiscal 2006.

Cash and cash equivalents significantly increased during fiscal 2006 due to $4,079,177 of proceeds received from the sale of the Antoro Sur property and $6,755,975 of net proceeds from a financing completed in March, 2006.

During the year ended November 30, 2006, the Company incurred expenditures in the aggregate of $6,591,904 on mineral properties, net of recoveries. Of this amount, $4,881,910 was spent on the Magistral property and $1,709,994 was spent on the Antoro Sur property. Magistral property expenditures were incurred primarily for work on the preliminary feasibility study, as discussed above.

The Company ended fiscal 2006 with cash and cash equivalents of $5,872,768 compared to $1,338,905 at the end of fiscal 2005. The increase was due to a financing completed in March, 2006 for proceeds of $6,755,975, net of issue costs. Proceeds were used for Magistral property expenditures and for general working capital.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("Canadian GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used in determining the deferral of costs incurred for mineral properties, the fair value for recording stock-based compensation and the amount of future income tax liabilities the Company may be exposed to. The Company evaluates its estimates on an on-going basis and bases them on various assumptions that are believed to be reasonable under the circumstances. The Company's estimates form the basis for making judgments about the carrying value for assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Selected Financial Information

Summary of Quarterly Results

Three months ended:	Nov 30, 2006	Aug 31, 2006	May 31, 2006	Feb 28, 2006	Nov 30, 2005	Aug 31, 2005	May 31, 2005	Feb 28, 2005
(Unaudited)								
Revenue	$ Nil	$ Nil	$ Nil	$ Nil	$ Nil	$ Nil	$ Nil	$ Nil
General & administrative expenses	239,377	145,863	315,405	127,832	177,946	72,810	246,050	168,561
Other income (expenses)	108,348	22,866	(54,739)	(104,736)	(1,714,918)	65,119	(296,539)	16,769
Loss for the period	(131,029)	(122,997)	(370,144)	(232,568)	(1,892,864)	(7,691)	(542,589)	(151,792)
Basic and diluted loss per share	(0.01)	-	(0.02)	(0.01)	(0.18)	-	(0.05)	(0.02)

Selected Annual Financial Information

	Year Ended November 30, 2006	Year Ended November 30, 2005	Year Ended November 30, 2004
Revenue	$ Nil	$ Nil	$ Nil
General & administration expenses	828,477	665,367	621,149
Other income (expenses)	(28,261)	(1,929,569)	99,937
Loss for the year	(856,738)	(2,594,936)	(521,212)
Basic and diluted loss per share	(0.04)	(0.25)	(0.06)
Working capital	4,987,241	1,095,325	646,335
Properties:			
Acquisition and deferred exploration cost	11,185,927	8,809,961	10,623,980
Other assets	126,062	74,043	80,799
Total assets	17,340,914	10,726,363	11,407,806
Shareholders' equity:			
Capital stock	31,466,316	24,670,861	23,591,611
Contributed surplus	942,373	561,189	112,335
Deficit	(16,109,459)	(15,252,721)	(12,352,832)
Outstanding share capital – common shares	24,358,808	10,527,706	9,400,622

The quarterly and annual financial information disclosed above have been prepared in accordance with Canadian GAAP. The significant accounting policies are outlined within Note 2 to the audited consolidated financial statements of the Company for the year ended November 30, 2006. These accounting policies have been applied consistently for the year ended November 30, 2006.

In January 2005, the CICA issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement." It prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. It also specifies how financial instrument gains and losses are to be presented. It applies to interim and annual financial statements for fiscal periods beginning on or after October 1, 2006 and was adopted by the Company on December 1, 2006. Transitional provisions vary based on the type of financial instruments under consideration. The effect on the Company's consolidated financial statements is not expected to be material.

CICA Handbook Section 1530, “Comprehensive Income,” was issued in January 2005 to introduce new standards for reporting and presenting comprehensive income. Comprehensive income is the change in equity (net assets) of a company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except for changes resulting from investments by owners and distributions to owners. It applies to interim and annual financial statements for fiscal periods beginning on or after October 1, 2006 and was adopted by the Company on December 1, 2006. Financial statements for prior periods will be required to be restated for certain comprehensive income items. The effect on the Company's consolidated financial statements is not expected to be material.

Financings, Principal Purposes and Milestones

In September, 2006 the Company completed the preliminary feasibility study on the Magistral property, as discussed above.

In February, 2006 the Company exercised its option and acquired a 100% interest in the Antoro Sur property. Simultaneously, it sold its interest in the property for proceeds of US$3,597,000 (C$ 4,079,177), as discussed above.

In January 2006, the Company entered into agreements for a non-brokered private placement of 13,597,160 common shares at a price of $0.50 per share. Upon closing of the financing in March, 2006, the Company received proceeds of $6,755,975, net of issue costs. The Company also issued 203,942 common shares for a finder's fee in connection with this offering. Proceeds from the offering were used to fund the preliminary feasibility study on the Magistral property, completed in September, 2006, and are currently being used to fund the final feasibility study and for general working capital purposes.

Liquidity and Solvency

The Company has limited financial resources and has financed its operations primarily through the sale of its common shares and mineral properties. The Company has no significant source of operating cash flow and no revenues from operations. The long-term profitability of the Company is directly related to the success of its mineral property acquisition and exploration activities and its ability to raise financing when required.

As at November 30, 2006, the Company had working capital of $4,987,241 compared to working capital of $1,095,325 at November 30, 2005. The increase in working capital is primarily due to the financing completed in March, 2006, as discussed above. On a quarterly basis, working capital decreased by $1,708,433 since August 31, 2006 due to expenditures on the Magistral property and G&A. Working capital items at November 30, 2006 included cash and cash equivalents of $5,872,768, marketable securities of $336 (having a market value of $630), receivables of $117,123, prepaid expenses of $38,698 and accounts payable and accrued liabilities totaling $1,041,684.

The Company has no long term debt or off-balance sheet arrangements.

As at November 30, 2006 the Company had working capital of $4,987,241. In February 2007, the Company entered into an agreement for a brokered private placement, on a best efforts basis, of common shares for gross proceeds of $6,000,000 to $8,000,000, at a price per share to be determined in the context of the market. A 6% commission will be payable on the gross proceeds upon closing of the financing. In addition, the Company will issue warrants to the Agent representing 6% of the number of common shares to be issued under the private placement. Each warrant will entitle the Agent to acquire one common share exercisable at a price of $1 per share for an 18 month period from the closing of the private placement but may not be exercised for 12 months following the closing unless the common shares of the Company close at or above a price of $1.50 per share for a period of ten consecutive trading days or a take-over bid is received for all the common shares of the Company. The financing is subject to regulatory acceptance and is expected to close in March 2007.

With the completion of the proposed financing, management is of the opinion that the Company will have sufficient financial resources to fund its planned corporate overheads for the ensuing year and to complete the final feasibility study on the Magistral property.

Related Party Transactions

Refer to Note 10 of the consolidated financial statements for November 30, 2006.

Share Capital and Options

As at November 30, 2006 and to the date of this report, the Company had:

- 24,358,808 common shares issued and outstanding; and
- options outstanding for the purchase of up to 2,923,000 common shares exercisable at prices ranging from $0.61 per share to $0.99 per share.

Outlook

The Company has initiated a final feasibility study and awarded contracts to engineering firms for the Magistral project. The final feasibility study will be of a form and content that will satisfy the requirements of banking institutions to provide financing to construct a mining operation at Magistral. The final feasibility study is scheduled to be completed in the fourth quarter of calendar 2007.

Risks and Uncertainties

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, fluctuating metal prices, political and economics. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practicable.

The risks and uncertainties described in this section are considered by management to be the most important in the context of the Company's business. The risks and uncertainties below are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

The Company has no significant source of operating cash flow and no revenues from operations. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish ore reserves. The Company relies on the sale of equity to fund its operations. There is no guarantee that it will be able to obtain adequate financing in the future or that such financing will be advantageous to the Company. Additional funds raised by the Company through the issuance of equity or convertible debt securities will cause the Company's current stockholders to experience dilution. Such securities may grant rights, preferences or privileges senior to those of the Company's common stockholders.

The Company's ability to achieve and maintain profitability and positive cash flow is dependent upon the Company's ability to raise required funding through future equity issuances, debt financing, asset sales or a combination thereof.

Based upon current plans, the Company expects to incur operating losses in future periods due to continuing expenses associated with the holding and exploration of the Company's mineral properties. The Company may not be successful in generating revenues in the future. Failure to generate revenues or raise capital could cause the Company to cease operations.

The Company does not have any contractual restrictions on its ability to incur debt and, accordingly, the Company could incur significant amounts of indebtedness to finance its operations. Any such indebtedness could contain covenants, which would restrict the Company's operations.

The Company's mineral property is located in Peru and may be exposed to various and unpredictable levels of political, economic and other risks and uncertainties. The Company conducts operations through Peruvian subsidiaries which hold the rights to the mineral properties. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, expropriation of property, maintenance of claims, environmental legislation, land use and land claims. In addition, any limitation on the transfer of cash or other assets between the parent company and its Peruvian subsidiaries could restrict the Company's ability to fund its operations efficiently. Failure to comply with applicable laws, regulations and local practices relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements.

Although the Company has taken steps to verify the title to mineral properties 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 or transfers and title may be affected by undetected defects.

Even if the Company's mineral properties are proven to host economic reserves of copper or other precious or non-precious metals, factors such as governmental expropriation or regulation may prevent or restrict mining of any such deposits. Exploration and mining activities may be affected in varying degrees by government policies and regulations relating to the mining industry. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its business.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties or on properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

The Company's future performance is dependent on key personnel. The loss of the services of any of the Company's executives or directors could have a material adverse effect on the Company's business.

Internal Controls Over Financial Reporting

Management has designed, established and is maintaining a system of internal controls over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner in accordance with Canadian generally accepted accounting principles.

Disclosure Controls

Management is responsible for the design, establishment and maintenance of disclosure controls and procedures. Based on an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this MD&A, management believes its disclosure controls and procedures are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner.

News releases and additional information about the Company may be found on *www.sedar.com* and on the Company's website at *www.incapacific.com*.

INCA PACIFIC RESOURCES INC

CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2006 AND 2005

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of **Inca Pacific Resources Inc.** have been prepared by and are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgment based on information currently available.

Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

"Anthony Floyd" (signed)

Anthony Floyd
President

February 20, 2007

AUDITORS' REPORT

To the Shareholders of Inca Pacific Resources Inc.

We have audited the consolidated balance sheets of **Inca Pacific Resources Inc.** as at November 30, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"PricewaterhouseCoopers LLP" (signed)

Chartered Accountants

Vancouver, Canada
February 20, 2007

INCA PACIFIC RESOURCES INC.

Consolidated Balance Sheets
November 30, 2006 and 2005
(expressed in Canadian dollars)

	2006	2005
ASSETS		
Current		
Cash and cash equivalents	$ 5,872,768	$ 1,338,905
Marketable securities (market value $630)	336	336
Accounts receivable (note 5aii)	117,123	475,003
Prepaid expenses	38,698	28,115
	6,028,925	1,842,359
Fixed assets (note 4)	126,062	74,043
Mineral property interests (note 5)	11,185,927	8,809,961
	$ 17,340,914	$ 10,726,363
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 1,041,684	$ 747,034
SHAREHOLDERS' EQUITY		
Share capital (note 6)	31,466,316	24,670,861
Contributed surplus	942,373	561,189
Deficit	(16,109,459)	(15,252,721)
	16,299,230	9,979,329
	$ 17,340,914	$ 10,726,363

Nature of operations and going concern (note 1)
Contingencies and commitments (note 5ai)
Subsequent events (note 13)

Approved by the Directors: *"Anthony Floyd"* Anthony Floyd *"Bryan Morris"* Bryan Morris

See accompanying notes to the consolidated financial statements

INCA PACIFIC RESOURCES INC.

Consolidated Statements of Operations and Deficit
Years Ended November 30, 2006 and 2005
(expressed in Canadian dollars, except per share amounts)

	2006	2005
General and administrative expenses		
Stock-based compensation	$ 278,032	$ 100,775
Investor relations	224,765	169,739
Management and consulting services	101,383	85,337
Office and administration	78,843	85,546
Accounting and audit	68,005	47,729
Legal	38,825	57,356
Stock registration and transfer fees	29,301	28,579
Travel	4,858	2,891
Amortization	4,465	4,861
Financing costs	-	82,554
	828,477	665,367
Other income (expense)		
Investment and other income	153,415	11,968
Foreign exchange gain (loss)	(49,972)	(137,357)
Property investigations	(11,586)	(882)
Loss on sale of mineral property (note 5bii)	(136,761)	-
Gain on sale of fixed assets	16,643	-
Loss on sale of marketable securities	-	(260,900)
Write-off of mineral property interests	-	(1,542,398)
	(28,261)	(1,929,569)
Loss for the year	(856,738)	(2,594,936)
Deficit, beginning of year	(15,252,721)	(12,352,832)
Adjustment for change in accounting policy (note 2i)	-	(304,953)
Deficit, end of year	$ (16,109,459)	$ (15,252,721)
Basic and diluted loss per share	$ (0.04)	$ (0.25)
Weighted average number of shares outstanding	20,582,869	10,231,365

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows
Years Ended November 30, 2006 and 2005
(expressed in Canadian dollars)

	2006	2005
Cash flows from operating activities		
Loss for the year	$ (856,738)	$ (2,594,936)
Items not involving cash:		
Stock-based compensation	278,032	100,775
Amortization	4,465	4,861
Shares issued for financing costs	-	79,250
Gain on sale of fixed assets	(16,643)	-
Loss on sale of mineral property	136,761	-
Loss on sale of marketable securities	-	260,900
Write-off of mineral property interests	-	1,542,398
Net change in non-cash working capital		
Accounts receivable	357,880	(8,577)
Prepaid expenses	(10,583)	(22,476)
Accounts payable and accrued liabilities	16,434	(10,261)
	(90,392)	(648,066)
Cash flows from financing activities		
Shares issued for cash, net of issue costs	6,778,625	1,000,000
Cash flows from investing activities		
Proceeds from sale of marketable securities	-	943,564
Proceeds from sale of mineral properties	4,079,177	-
Expenditures on mineral property interests, net of recoveries	(6,177,445)	(618,388)
Purchase of fixed assets	(56,102)	(13,646)
	(2,154,370)	311,530
Increase in cash and cash equivalents	4,533,863	663,464
Cash and cash equivalents, beginning of year	1,338,905	675,441
Cash and cash equivalents, end of year	$ 5,872,768	$ 1,338,905

Supplemental cash flow information (note 9)

See accompanying notes to the consolidated financial statements

1. Nature of Operations and Going Concern

Inca Pacific Resources Inc. (the "Company") and its subsidiaries are engaged in the exploration and development of mineral properties in Peru, South America. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

The recoverability of amounts shown for mineral property interests is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete their development and future profitable operations or sale of the properties.

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern. The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders, the ability of the Company to raise equity or debt financing (and specifically the successful completion of the brokered private placement described in note 13) or the attainment of profitable operations to meet the Company's liabilities as they become payable.

2. Significant Accounting Policies

a. Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Incpac Holdings Ltd., Inca Pacific S.A, Inca Cobre S.A., and Ancash Cobre S.A.

b. Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Significant areas where management's judgement is applied include recoverability of mineral property interests, stock based compensation and future income taxes. Actual results could differ from those reported.

c. Cash and Cash Equivalents

Cash and cash equivalents comprise cash and temporary investments maturing within three months from the original date of acquisition.

d. Marketable Securities

Marketable securities are held at the lower of cost or net realizable value.

e. Fixed Assets

Fixed assets are stated at cost. Amortization is provided on the declining balance basis on office furniture at 20% per annum, on computer equipment at 30% per annum and on exploration equipment at 20% per annum.

f. Mineral Property Interests

The Company capitalizes all costs related to investments in mineral property interests on a property by property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property sold or the Company's mineral rights are abandoned or allowed to lapse.

2. Significant Accounting Policies (continued)

Management of the Company reviews and evaluates the carrying value of each mineral property for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value which is normally the discounted value of future cash flows. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired it is written down to its estimated fair value.

Management's estimates of mineral prices, mineral resources, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the determination of the recoverability of deferred mineral property costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the net cash flows to be generated from its properties.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

Although the Company has taken steps to verify the title to mineral properties 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 or transfers and title may be affected by undetected defects.

g. Foreign Currency Translation

The Company's subsidiaries are integrated foreign operations and are translated using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; revenue and expense items are translated at the average rate of exchange for the period. Foreign exchange gains or losses on translation are included in the statement of operations in the period in which they occur.

h. Loss Per Share

Loss per share is calculated using the weighted average number of shares issued and outstanding during the year. The Company follows the treasury stock method in the calculation of diluted earnings per share. The effects of potential issuances of shares under options and warrants would be anti-dilutive, and therefore basic and diluted losses per share are the same.

i Stock-based Compensation

Pursuant to the accounting standard of the Canadian Institute of Chartered Accountants ("CICA"), Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" for accounting for stock-based compensation expense, stock-based payments to non-employees and employee awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, are accounted for using the fair value based method, and are recorded as an expense or capitalized to mineral properties in the period the stock-based payments are vested or the awards or rights are granted.

On December 1, 2004, pursuant to an amendment to Section 3870, the Company adopted the standard for stock options granted to directors and employees. The change in accounting for stock based compensation was adopted on a retroactive basis without restatement of the prior year's loss. An adjustment, in the amount of $304,953, has been made to the opening deficit balance to record the fair value of those options granted to directors and employees prior to December 1, 2004.

2. Significant Accounting Policies (continued)

j. Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized in the period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the potential benefit of income tax losses carried forward to future years.

Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized to the extent it is considered not likely that future income tax assets will be realized.

k. Environmental Protection Practices

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest.

The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

l. Asset Retirement Obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. As at November 30, 2006 and 2005, the Company did not have any asset retirement obligations.

3. Financial Instruments

The carrying value of cash and cash equivalents, marketable securities, accounts receivable and accounts payable and accrued liabilities approximates their fair values due to the short term to maturity of the instruments.

4. Fixed Assets

2006	Cost	Accumulated Amortization	Net Book Value
Exploration equipment	$ 158,544	$ 43,171	$ 115,373
Computer equipment	51,970	44,549	7,421
Office furniture	7,091	3,823	3,268
	$ 217,605	$ 91,543	$ 126,062

4. Fixed Assets (continued)

2005	Cost	Accumulated Amortization	Net Book Value
Exploration equipment	$ 130,058	$ 70,701	$ 59,357
Computer equipment	51,970	41,369	10,601
Office furniture	7,091	3,006	4,085
	$ 189,119	$ 115,076	$ 74,043

5. Mineral Property Interests

As at November 30, 2006 and 2005, the Company's mineral properties are comprised of properties located in Peru. Expenditures incurred on mineral properties are as follows:

	Magistral	Antoro Sur	Total
Balance, November 30, 2005	$ 6,304,017	$ 2,505,944	$ 8,809,961
Additions during year			
Acquisition costs	237,221	1,625,548	1,862,769
Exploration costs			
Geological consulting	1,823,855	6,622	1,830,477
Drilling	1,458,830	1,074	1,459,904
Value added tax	401,316	5,003	406,319
Travel and accommodation	346,497	2,574	349,071
Project management	256,915	20,292	277,207
Geological fieldwork	206,234	11,786	218,020
Surveys	168,915	-	168,915
Stock based compensation	119,982	-	119,982
Legal	59,338	34,964	94,302
Assays	77,184	941	78,125
Field office and administration	40,352	33,043	73,395
Amortization	14,346	1,916	16,262
Maps and reports	16,235	-	16,235
Tenure	13,089	-	13,089
	5,003,088	118,215	5,121,303
Less: recoveries	(358,399)	(33,769)	(392,168)
	4,644,689	84,446	4,729,135
Net additions during year	4,881,910	1,709,994	6,591,904
Mineral property interest sold (note 5bii)	-	(4,215,938)	(4,215,938)
Balance, November 30, 2006	$ 11,185,927	$ -	$ 11,185,927

5. **Mineral Property Interests (continued)**

	Magistral	Antoro Sur	Cueva Blanca	Total
Balance, November 30, 2004	$ 7,438,854	$ 1,649,145	$ 1,535,981	$ 10,623,980
Additions during year				
Exploration costs				
Drilling	1,752,432	244,238	-	1,996,670
Baseline studies	1,607,862	-	-	1,607,862
Value added tax	742,911	59,031	-	801,942
Geological consulting	531,134	46,364	-	577,498
Tenure	59,235	303,554	13,017	375,806
Travel and accommodation	284,048	12,046	-	296,094
Finders fees	269,753	-	-	269,753
Project management	189,581	43,440	-	233,021
Geological fieldwork	178,490	17,156	-	195,646
Assays	153,658	26,984	-	180,642
Legal	104,688	31,679	-	136,367
Field office and administration	60,802	53,632	-	114,434
Stock based compensation	34,372	8,754	-	43,126
Amortization	9,933	5,608	-	15,541
Maps and reports	7,765	4,313	-	12,078
	5,986,664	856,799	13,017	6,856,480
Less: recoveries	(7,121,501)	-	(6,600)	(7,128,101)
Net additions (recoveries) during year	(1,134,837)	856,799	6,417	(271,621)
Mineral property interests written-off	-	-	(1,542,398)	(1,542,398)
Balance, November 30, 2005	$ 6,304,017	$ 2,505,944	$ -	$ 8,809,961

During the year ended November 30, 2005, the Company wrote-off acquisition and exploration costs, net of recoveries, in the aggregate of $1,542,398, incurred on the Cueva Blanca property (note 5c).

a. **Magistral Property**

i. On January 29, 1999, the Company entered into an option agreement with the Government of Peru to purchase five claims (250 hectares) which lie within the Company's existing Magistral claims. The agreement was a three year option to purchase 100% of the property in consideration of cash payments totalling US $750,000 and exploration work commitments totalling US $2,100,000, to be paid and incurred over a three year period.

Upon exercise of the option, the Company would have a further seven years to complete a feasibility study and place the property into production. The government would retain a royalty whose magnitude will depend on metal prices but which is expected to be between a 0.5% and 3.0% net smelter royalty.

5. Mineral Property Interests (continued)

On July 1, 2004, the Company obtained approval from the Government of Peru to restructure the Company's obligations in order to retain ownership of the property. The Company now has until December 31, 2011 to place the property into production. The Company must expend US $1,000,000 in exploration by December 31, 2005 (expended), deliver a feasibility study by December 31, 2006 (delivered) and deliver a bankable feasibility study by December 31, 2007. A performance bond for an amount equal to 30% of the anticipated capital cost of the mine for the upcoming year must be delivered by December 31, 2008; the bond is to be renewed each year during construction of the mine. The Company is also obligated to make payments to the Government of Peru in the amount of US $200,000 commencing on January 1, 2006 (paid in December, 2005) and in the amount of US $400,000 on January 1 of each year thereafter to January 1, 2011 inclusive, as long as the property has not been placed into commercial production.

ii. On March 3, 2005 the Company granted an option to Quadra Mining Ltd. ("Quadra") to earn a 50.1% joint venture interest in the Magistral property in consideration of completing a bankable feasibility study for a minimum 15,000 tonnes per day operation by November 30, 2006 and consideration payable to the Company as follows:

- US $1,000,000 in shares of Quadra and US $1,000,000 in cash, valued at an aggregate of Cdn $2,408,800 and a further Cdn $1,000,000 in cash in exchange for 1,000,000 common shares of the Company on execution of a definitive agreement (completed in March, 2005);
- US $1,000,000 in shares of Quadra and US $1,000,000 in cash upon completion of a positive pre-feasibility study;
- US $1,000,000 in shares of Quadra and US $1,000,000 in cash upon completion of a positive bankable feasibility study; and
- US $2,000,000 in cash upon completion of project financing.

Upon earning a 50.1% interest, Quadra could have increased its ownership to 65% by arranging project financing by June 30, 2007. Once financing had been arranged, the Company could have elected to sell its 35% interest to Quadra at a price to be determined at that time based on the after-tax net present value of the project.

On October 27, 2005, Quadra terminated its option on the property. Pursuant to the terms of the agreement, the Company received option payments and funding for expenditures incurred in the aggregate of $7,121,501, which was recorded as a recovery against the carrying value of the property in fiscal 2005. Included in accounts receivable at November 30, 2005 was an amount of $444,479 which was received in December, 2005.

b. Antoro Sur Property

i. Pursuant to a letter of understanding dated May 29, 2002, the Company was granted an option to acquire a 100% interest in the Antoro Sur property in central Peru in consideration of cash payments in the aggregate of US $1,500,000 and incurring exploration expenditures on the property in the aggregate of US $3,000,000, to be paid and expended over a four year period to May 29, 2006. The property was also subject to net smelter royalties of 1% to 2% payable on production.

5. Mineral Property Interests (continued)

On November 3, 2005, a new agreement was entered into to modify the terms of the existing agreement. The new agreement granted the Company an exclusive option to acquire 100% of the optionors' interests in the property in consideration of payments in the aggregate of US $1,400,000, payable as to US $100,000 on November 29, 2005 (paid in November, 2005) and US $1,300,000 on March 31, 2006, and a net smelter royalty payable to the optionors of 1% to 2% on all sales of mineral products from the property. These royalties may be purchased at any time for US $700,000. On February 22, 2006, the Company exercised its option to purchase a 100% interest in the property and made the remaining US $1,300,000 payment to the optionors.

ii. Simultaneously, on February 22, 2006, the Company sold all of its interest in the Antoro Sur property in consideration of US $3,597,000 (C $4,079,177). In addition, the Company assigned to the purchaser its right to purchase the royalty interest. The Company has no continuing obligations relating to this property.

c. Cueva Blanca Property

The Company owns a 51% interest in the Cueva Blanca property. As the Company has no exploration plans for the property, as at November 30, 2005 the Company wrote-off acquisition and exploration costs incurred on the property, in the aggregate of $1,542,398.

6. Share Capital

a. Authorized
Unlimited number of common shares without par value.

b. Issued and outstanding

	2006		2005	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	10,527,706	$24,670,861	9,400,622	$23,591,611
Issued for cash:				
Private placements, net of issue costs (note 6c)	13,801,102	6,755,975	1,000,000	1,000,000
Issued for cash and other consideration:				
Exercise of options (note 7)				
- for cash	30,000	22,650	-	-
- fair value of options exercised	-	16,830	-	-
Financing costs (notes 6d and 10aiv)	-	-	127,084	79,250
Balance, end of year	24,358,808	$31,466,316	10,527,706	$24,670,861

c. Private Placements

i. In March 2006, the Company completed a private placement and issued 13,597,160 common shares for proceeds of $6,755,975, net of issue costs of $42,605. The Company also issued 203,942 common shares for a finder's fee in connection with the private placement.

6. Share Capital (continued)

ii. In March 2005, the Company completed a private placement of 1,000,000 common shares at a price of $1 per share, with Quadra, pursuant to the terms of an option agreement on the Magistral property (note 5aii).

d. Credit Facility

On February 15, 2005, the Company obtained a credit facility of up to $1,000,000, to be drawn down in increments, as and if required. Funds drawn down were to be repaid eight months from the date of advance with interest at the rate of 12% per annum. In consideration for the credit facility, the Company issued 108,334 shares for the standby fee and bonus shares on a drawdown of $250,000. On March 15, 2005 the Company repaid the $250,000 drawdown in full.

7. Stock Options

a. Options Outstanding

The Company has a stock option plan which authorizes the board of directors to grant options for the purchase of up to 4,865,700 common shares. Options granted under the plan vest over a period of time, ranging from one to five years, at the discretion of the board of directors.

Stock options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of the grant.

A summary of the status of the Company's stock options as at November 30, 2006 and 2005 and changes during the years then ended is as follows:

	2006		2005	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	600,000	$0.78	475,700	$2.14
Granted	2,403,000	0.77	640,000	0.79
Exercised	(30,000)	0.76	-	-
Cancelled	(50,000)	0.80	(515,700)	2.14
Outstanding at end of year	2,923,000	$0.78	600,000	$0.78
Options exercisable at end of year	1,255,000	$0.75	562,500	$0.80

7. **Stock Options (continued)**

The following summarizes information about stock options outstanding at November 30, 2006:

Options Outstanding			Options Exercisable	
Number of Shares	Expiry Date	Exercise Price	Number of Shares	
485,000	January 24, 2010	$ 0.80	485,000	
50,000	July 13, 2010	$ 0.61	50,000	
50,000	February 28, 2011	$ 0.72	50,000	
50,000	April 15, 2007	$ 0.67	25,000	
48,000	February 28, 2008	$ 0.71	30,000	
560,000	April 26, 2011	$ 0.71	535,000	
1,650,000	June 29, 2011	$ 0.80	50,000	(1)
30,000	September 20, 2011	$ 0.99	30,000	
2,923,000			1,255,000	

(1) The remainder of these options vest upon the completion of certain objectives.

b. **Stock based compensation**

During the year ended November 30, 2006 the Company granted an aggregate of 2,403,000 new stock options to directors, consultants and employees. The options have a weighted average exercise price of $0.77 per share.

During the year ended November 30, 2005 the Company cancelled the 475,700 stock options which were outstanding at November 30, 2004 and granted new stock options to directors, consultants and employees to acquire up to an aggregate of 590,000 common shares at an exercise price of $0.80 per share. Additional options to acquire up to 50,000 common shares at a price of $0.61 per share were also granted.

Pursuant to the Company's accounting policy for stock-based compensation (note 2i), the fair value of new stock options granted, and which vested during the year, in the amount of $398,014 (2005 - $143,901) has been recorded. Of this amount, $278,032 (2005 - $100,775) has been charged to expenses and $119,982 (2005 - $43,126) has been charged to deferred exploration costs. Compensation expense on stock options granted to replace cancelled options is recorded to the extent that the fair value of the replacement options exceed the fair value of the cancelled options on the modification date.

As at November 30, 2006 the fair value of unvested options is $420,518 (2005 - $13,056).

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2006	2005
Risk-free interest rate	3.96% - 4.42%	2.92% - 3.05%
Expected dividend yield	-	-
Expected stock price volatility	82% - 103%	99% - 101%
Expected option life in years	1 - 5 years	2.5 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

8. Warrants

There were no warrants outstanding at November 30, 2006.

Exercise Price	Expiry Date	Outstanding at November 30, 2005	Issued	Exercised	Expired/ Cancelled	Outstanding at November 30, 2006
$ 1.50	August 13, 2006	1,704,062	-	-	(1,704,062)	-
$ 3.00	November 27, 2006	2,500,000	-	-	(2,500,000)	-
$ 2.40	November 27, 2006	250,000	-	-	(250,000)	-
$ 2.00	November 27, 2006	75,000	-	-	(75,000)	-
		4,529,062	-	-	(4,529,062)	-

9. Supplemental Cash Flow Information

	2006	2005
Significant non-cash financing and investing activities		
Financing activities		
Shares issued for financing costs	-	79,250
Investing activities		
Option payment	-	1,204,800
Mineral property expenditures	-	(1,204,800)
Accounts payable and accrued liabilities incurred for mineral property expenditures	978,820	700,603
Mineral property recoveries included in accounts receivable	-	(444,479)
Stock based compensation included in mineral properties	(119,982)	(43,126)

10. Related Party Transactions

a. During the year, the following transactions with related parties occurred:

i. $253,408 (2005 - $279,205) was paid to officers and directors for management services, consulting fees and geological services.

ii. $126,717 (2005 - $71,174) was paid or is payable as legal fees to a law firm in which a partner is a director of the Company.

iii The Company shares general and administrative expenses on a pro-rata basis with two other companies with a director in common. These expenses include $18,492 (2005 - $18,513) for rental of office space.

iv. In January, 2005, the Company received loans in the aggregate of $150,000 from a director to assist with operations. The loans were payable with interest at the rate of prime plus 5% per annum. As additional consideration for the loans, a total of 18,750 common shares were issued to the director. The Company repaid the loans in full in February and March, 2005.

b. Pursuant to the terms of a management agreement with a director, the Company is committed to payments for management services in the amount of $5,000 per month until December 31, 2007. On September 1, 2006 the payments were increased to $10,000 per month.

11. Income Taxes

As at November 30, 2006, the Company has non-capital losses of approximately $1,261,000 which may be applied against future income for Canadian income tax purposes. The potential future tax benefits of these losses have not been recorded in these financial statements. The losses expire as follows:

11. Income Taxes (continued)

2016	$	487,000
2014		614,000
2010		160,000
	$	1,261,000

In addition, subject to certain restrictions, the Company has losses of approximately $1,681,000, expiring in various years to 2009, as well as certain exploration expenditures, available to offset future taxable income in Peru.

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2006	2005
Statutory rate	34.12%	35.00%
Income tax benefit computed at Canadian statutory rates	$ 292,319	$ 908,227
Foreign tax rates different from statutory rate	10,489	(99,500)
Non-deductible differences not recognized in year	(1,030,153)	(1,096,893)
Change in valuation allowance	628,660	(1,106,214)
Benefit on mineral property option payments received	-	2,492,525
Other	98,685	(1,098,145)
	$ -	$ -

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

		2006		2005
Future income tax assets				
Temporary differences in assets	$	4,568,144	$	5,065,630
Net tax losses carried forward		1,041,188		1,172,362
		5,609,332		6,237,992
Valuation allowance for future income tax assets		(5,609,332)		(6,237,992)
Future income tax assets, net	$	-	$	-

12. Segmented Disclosure

The Company has one operating segment, mineral exploration. All capital assets of the Company are located in Canada except for mineral properties as disclosed in note 5 and $115,372 (2005 - $59,357) of fixed assets which are located in Peru

13. Subsequent Events

The Company has entered into an agreement for a brokered private placement on a best efforts basis of common shares for gross proceeds of $6,000,000 to $8,000,000, at a price per share to be determined in the context of the market. A 6% commission will be payable on the gross proceeds upon closing of the financing. In addition, the Company will issue warrants to the Agent representing 6% of the number of common shares to be issued under the private placement. Each warrant will entitle the Agent to acquire one common share exercisable at a price of $1 per share for an 18 month period from the closing of the private placement but may not be exercised for 12 months following the closing unless the common shares of the Company close at or above a price of $1.50 per share for a period of ten consecutive trading days or a take-over bid is received for all the common shares of the Company. The financing is subject to regulatory acceptance and is expected to close in March 2007.