Due Diligence of Inca Pacific's Magistral Copper/Molybdenum Project

Executive Summary

Prepared for

Cutfield Freeman & Co. Limited

June 16, 2008

80539

pincock allen & holt

1.0 EXECUTIVE SUMMARY

At the request of Cutfield Freeman & Co. Limited (CF & Co), the consulting firm of Pincock, Allen and Holt (PAH) has completed a technical due diligence and review of the Magistral Copper Project (Magistral) Final Feasibility Study (FFS) dated December 2007. The FFS was prepared by Samuel Engineering Inc. (Samuel) with the assistance of other engineering/consulting groups. Magistral is controlled by Inca Pacific Resources Inc. (Inca Pacific) through its wholly-owned subsidiary Compania Minera Ancash Cobre S.A. This report is a summary of PAH's findings from the review of the FFS, correspondence with Inca Pacific personnel and review of supporting technical reports prepared by other consultants. PAH representatives visited the Magistral Project site during January 2008 as a part of this technical review.

Magistral, as defined by the FFS, involves the development of a 20,000 tonnes per day (tpd) open-pit mine and concentrator operation that will produce separate copper and molybdenum concentrates over a 15-year period. Magistral is located in northern Peru approximately 260 kilometers northeast of the seaport of Chimbote. Concentrates will be trucked from the mine to a port located at Salaverry near Trujillo, 260 kilometers west of Magistral, and then shipped to smelters and refineries overseas. Plant tailings will be impounded in tailings storage facilities located near the mining operation. The project also includes major improvements to the site access roads and construction of site support facilities, including a man-camp and a 50-kilometer electrical transmission line.

The Magistral cash flow parameters are based on the production schedule, capital costs and operating cost estimates prepared by Samuel Engineering, Vector Peru, MDA, and MTB Project Management Professionals (MTB) and then adjusted by PAH to reflect our view of the project economics. These data were developed as a series of spreadsheets to generate a cash flow model based on first-quarter 2007 U.S. dollars, and long-term metal prices of $1.50 per pound for copper, $12 per pound for molybdenum and $12 per troy ounce for silver. The model includes no inflation of revenue or costs.

Table 1-1 is a summary of the general parameters used in the FFS economic model. PAH has checked to ensure the values are equal to those developed in the engineering analysis and are in agreement with PAH's technical review. PAH has prepared a revised economic model, which reflects minor adjustments to projected metal recoveries and concentrate grades and the working capital and sustaining capital costs. PAH believes the revised economic model to be an accurate reflection of our technical findings throughout this report. Both economic models cover the construction period, 15 years of production, and the closure period.

In PAH's opinion the FFS is a comprehensive stand-alone document and comprises a technically complete study that validates the feasibility of the project. The project is well conceived though certain risks to the development of the project do exist, as noted in this report. The Environmental and Social Impact Assessment was submitted and work towards obtaining the requisite permits for the project is ongoing. Though there is always some uncertainty in these areas, there does not appear to be any serious impediments to their issuance and approval.

TABLE 1-1
Inca Pacific Resources, Inc.
Magistral Project - Due Diligence Review
General Financial Evaluation Criteria (FFS Data)

Criteria	Units	Value
Construction Period	Months	33
Mine Life	Years	15
LOM Ore Tonnage	Million	102.9
LOM Ore Grade		
Cu	Percent	0.523
Mo	Percent	0.053
Average Copper Price		
Years 1-2	US$/lb	2.76
Years 3-15	US$/lb	1.50
Average Molybdendum Price		
Years 1-2	US$/lb	22.38
Years 3-15	US$/lb	12.00
Silver Price (LOM)	US$/oz	11.55
Ore Tonnes Per Year		
Year 1	Million	6.3
Years 2-15	Million	7.00
Average Copper Recovery	Percent	95.5
Average Molybendum Recovery	Percent	78.4
Average Copper Concentrate Grade	%Cu	29.8
Average Molybdenum Concentrate Grade	%Mo	57.3
Income Tax	Percent	30
Equity	Percent	100
Inflation Escalator	N/A	none
Discount Rate	Percent	8

PAH's adjustments to Inca Pacific's economic model have resulted in a reduction of the project NPV (@ 8 percent discount rate) from US$152 million to US$108 million with a DCFROR of 13.1 percent. The PAH adjusted model is provided in Table 1-2.

A recent market update by H&H Metals suggests an approximate 15 percent increase in copper and silver prices during the first six years of operation, while keeping molybdenum prices unchanged. A comparison of the FFS and updated metal prices is provided in Table 1-3. Applying the updated forecasts to PAH's adjusted model results in a project NPV of US$206 million and a DCFROR of 18.1 percent.

TABLE 1-2
Inca Pacific Resources, Inc
Magistral Due Diligence Review
Revised Cash Flow

Description	Units		LoM Total	preproduction -05	-04	2008 -03	2009 -02	2010 -01	production 2011 01	2012 02	2013 03	2014 04	2015 05	2016 06	2017 07	2018 08	2019 09	2020 10	2021 11	2022 12	2023 13	2024 14	2025 15	2026 16	2027 17	2028 18
PRODUCTION SUMMARY																										
Material Moved																										
Waste	**kt**		**226,962**	0	0	0	1,575	10,129	11,246	7,118	21,454	24,189	27,365	14,486	8,055	11,582	23,684	24,376	27,113	8,691	3,757	1,675	465	0	0	2
Ore	**kt**		**102,913**	0	0	0	0	0	6,300	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	5,613	0	0	0
Total	**kt**		**329,874**	**0**	**0**	**0**	**1,575**	**10,129**	**17,546**	**14,118**	**28,454**	**31,189**	**34,365**	**21,486**	**15,055**	**18,582**	**30,684**	**31,376**	**34,113**	**15,691**	**10,757**	**8,675**	**6,078**		**0**	**2**
Market Price																										
Copper	**US$/lb**			$0.00	$0.00	$0.00	$0.00	$0.00	$2.76	$2.76	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50			
Molybdenum	**US$/lb**			$0.00	$0.00	$0.00	$0.00	$0.00	$20.14	$20.14	$10.08	$10.08	$10.08	$10.08	$10.08	$10.08	$10.08	$10.08	$10.08	$10.08	$10.08	$10.08	$10.08			
Silver	**US$/oz**			$0.00	$0.00	$0.00	$0.00	$0.00	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55	$11.55			
Payable Metal																										
Copper Concentrate																										
Copper	**klb**		**1,057,732**	0	0	0	0	0	76,650	82,579	84,553	71,118	65,529	69,866	71,258	71,712	71,235	61,870	62,353	81,880	75,181	62,055	49,894			
Silver	**koz**		**3,477**	0	0	0	0	0	280	274	290	233	229	234	233	243	234	195	186	262	247	195	142			
Cu Concentrate	**klb-Cu Eq**		**1,082,561**	**0**	**0**	**0**	**0**	**0**	**77,820**	**83,727**	**86,786**	**72,912**	**67,296**	**71,671**	**73,056**	**73,582**	**73,034**	**63,369**	**63,788**	**83,897**	**77,085**	**63,553**	**50,987**		**0**	**0**
Molybdenum Concentrate																										
Molybdenum	**klb**		**88,424**	0	0	0	0	0	5,394.2	6,829.1	6,950.9	7,150.4	3,010.6	4,574.7	5,415.9	5,647.7	6,486.7	7,072.1	6,872.5	5,955.9	5,771.8	5,206.4	6,085.3			
-	**-**		**0**																							
Mo Concentrate	**klb-Cu Eq**		**601,273**	**0**	**0**	**0**	**0**	**0**	**39,366**	**49,838**	**46,710**	**48,050**	**20,232**	**30,742**	**36,395**	**37,953**	**43,591**	**47,524**	**46,183**	**40,023**	**38,787**	**34,987**	**40,893**		**0**	**0**
Copper Equivalent	**klb-Cu Eq**		**1,683,834**	**0**	**0**	**0**	**0**	**0**	**117,186**	**133,565**	**133,495**	**120,963**	**87,527**	**102,412**	**109,450**	**111,534**	**116,625**	**110,893**	**109,971**	**123,921**	**115,871**	**98,540**	**91,880**	**0**	**0**	**0**
OPERATING MARGIN (EBITDA)																										
Gross Income from Mining																										
Gross Revenue																										
Copper	**US$000**		**1,852,048**	0	0	0	0	0	219,226	236,184	131,429	110,546	101,859	108,600	110,764	111,469	110,728	96,171	96,922	127,275	116,862	96,459	77,555	0	0	0
Silver	**US$000**		**40,164**	0	0	0	0	0	3,229	3,170	3,349	2,692	2,649	2,707	2,696	2,805	2,698	2,248	2,153	3,026	2,855	2,247	1,640	0	0	0
Moybdenum	**US$000**		**1,014,307**	0	0	0	0	0	108,651	137,553	70,065	72,076	30,347	46,113	54,592	56,929	65,386	71,287	69,274	60,035	58,180	52,480	61,340	0	0	0
Gross Revenue	**US$000**		**2,906,519**	**0**	**0**	**0**	**0**	**0**	**331,106**	**376,906**	**204,843**	**185,313**	**134,856**	**157,420**	**168,052**	**171,203**	**178,812**	**169,705**	**168,349**	**190,335**	**177,897**	**151,186**	**140,535**	**0**	**0**	**0**
Smelter Charges																										
Cu Concentrate																										
TC/RC & PP	**US$000**		**(298,846)**	0	0	0	0	to year 1	(24,740)	(27,420)	(23,293)	(18,988)	(17,917)	(18,954)	(19,540)	(19,710)	(19,060)	(16,518)	(17,509)	(24,181)	(20,763)	(16,931)	(13,321)	0	0	0
Ag Charges	**US$000**		**(60)**	0	0	0	0	0	(5)	(5)	(5)	(4)	(4)	(4)	(4)	(4)	(4)	(3)	(3)	(5)	(4)	(3)	(2)	0	0	0
Freight & Marketing	**US$000**		**(155,065)**	0	0	0	0	To year 1	(11,582)	(12,478)	(12,776)	(10,746)	(9,901)	(10,557)	(10,767)	(10,836)	(10,764)	(9,348)	(9,421)	(12,372)	(11,360)	(9,376)	(2,782)	0	0	0
Mo Concentrate																										
Roasting Charges	**US$000**		**(1,521)**	0	0	0	0	0	(163)	(206)	(105)	(108)	(46)	(69)	(82)	(85)	(98)	(107)	(104)	(90)	(87)	(79)	(92)	0	0	0
Freight & Marketing	**US$000**		**(13,144)**	0	0	0	0	To year 01	(807)	(1,015)	(1,029)	(1,050)	(457)	(689)	(807)	(843)	(958)	(1,031)	(1,033)	(900)	(866)	(768)	(890)	0	0	0
Net Smelter Return	**US$000**		**2,437,882**	**0**	**0**	**0**	**0**	**0**	**293,809**	**335,783**	**167,635**	**154,418**	**106,531**	**127,146**	**136,852**	**139,725**	**147,929**	**142,697**	**140,278**	**152,788**	**144,817**	**124,028**	**123,447**	**0**	**0**	**0**
NSR Cu Equiv.	*US$/lb-Cu*		*1.448*	-	-	-	-	-	*2.507*	*2.514*	*1.256*	*1.277*	*1.217*	*1.242*	*1.250*	*1.253*	*1.268*	*1.287*	*1.276*	*1.233*	*1.250*	*1.259*	*1.344*	-	-	-
NSR	*US$/t-ore*		*23.69*	-	-	-	-	-	*46.64*	*47.97*	*23.95*	*22.06*	*15.22*	*18.16*	*19.55*	*19.96*	*21.13*	*20.39*	*20.04*	*21.83*	*20.69*	*17.72*	*21.99*	-	-	-
Peruvian Royalty %				0.00%	0.00%	0.00%	0.00%	0.00%	8.19%	9.45%	3.10%	2.18%	0.22%	2.71%	3.86%	3.66%	1.93%	1.37%	1.38%	4.90%	5.18%	4.34%	5.76%			
Peruvian Royalty % Applied			**3.3%**	0.00%	0.00%	0.00%	0.00%	0.00%	4.10%	4.73%	1.55%	1.09%	0.50%	2.71%	3.86%	3.66%	1.93%	1.37%	1.38%	4.90%	5.18%	4.34%	5.76%			
Peruvian Royalty	**US$000**		**(80,792)**	0	0	0	0	0	(12,036)	(15,870)	(2,602)	(1,686)	(533)	(3,443)	(5,281)	(5,116)	(2,849)	(1,958)	(1,930)	(7,493)	(7,509)	(5,377)	(7,110)	0	0	0
Gross Income from Mining	**US$000**		**2,357,090**	**0**	**0**	**0**	**0**	**0**	**281,773**	**319,913**	**165,033**	**152,732**	**105,998**	**123,704**	**131,571**	**134,609**	**145,080**	**140,738**	**138,348**	**145,295**	**137,308**	**118,651**	**116,337**	**0**	**0**	**0**
Realized Price (Cu-Eq)	*US$/lb-Cu*		*1.400*	-	-	-	-	-	*2.404*	*2.395*	*1.236*	*1.263*	*1.211*	*1.208*	*1.202*	*1.207*	*1.244*	*1.269*	*1.258*	*1.172*	*1.185*	*1.204*	*1.266*	-	-	-
"	*US$/t-ore*		*22.90*	-	-	-	-	-	*44.73*	*45.70*	*23.58*	*21.82*	*15.14*	*17.67*	*18.80*	*19.23*	*20.73*	*20.11*	*19.76*	*20.76*	*19.62*	*16.95*	*20.73*	-	-	-
Operating Margin																										
Operating Costs		**1.00**																								
Mining	**US$000**		**457,456**	Pre-production costs are capitalize				-	33,221	27,286	40,075	44,036	47,302	25,749	20,951	23,505	43,886	46,736	47,159	19,446	14,995	13,073	10,037			
Process	**US$000**		**360,884**						22,561	24,535	24,438	24,438	24,438	24,438	24,438	24,438	24,438	24,438	24,438	24,438	24,438	24,438	20,528			
G&A	**US$000**		**121,829**						7,671	7,849	8,014	8,028	9,801	8,038	7,981	8,026	8,026	9,849	8,003	7,949	7,903	7,866	6,824			
Operating Costs	**US$000**		**940,170**	**0**	**0**	**0**	**0**	**0**	**63,453**	**59,670**	**72,528**	**76,502**	**81,542**	**58,225**	**53,370**	**55,970**	**76,351**	**81,023**	**79,600**	**51,833**	**47,337**	**45,377**	**37,389**	**0**	**0**	**0**
Cu Equiv.	*US$/lb-Cu*		*0.558*	-	-	-	-	-	*0.541*	*0.447*	*0.543*	*0.632*	*0.932*	*0.569*	*0.488*	*0.502*	*0.655*	*0.731*	*0.724*	*0.418*	*0.409*	*0.460*	*0.407*	-	-	-
Milled Ore	*US$/t-ore*		*9.14*	-	-	-	-	-	*10.07*	*8.52*	*10.36*	*10.93*	*11.65*	*8.32*	*7.62*	*8.00*	*10.91*	*11.57*	*11.37*	*7.40*	*6.76*	*6.48*	*6.66*	-	-	-
Cash Cost Cu net of Mo & Ag	**US$000**		**354,336**	**0**	**0**	**0**	**0**	**0**	**(11,130)**	**(39,929)**	**36,322**	**32,630**	**76,870**	**39,679**	**27,282**	**27,713**	**39,150**	**34,497**	**36,244**	**26,320**	**19,382**	**17,809**	**(8,504)**	**0**	**0**	**0**
Copper	*$/lb-Cu payable*		*0.335*	-	-	-	-	-	*(0.145)*	*(0.484)*	*0.430*	*0.459*	*1.173*	*0.568*	*0.383*	*0.386*	*0.550*	*0.558*	*0.581*	*0.321*	*0.258*	*0.287*	*(0.170)*	-	-	-
Milled Ore	*US$/t-ore*		*3.44*	-	-	-	-	-	*(1.77)*	*(5.70)*	*5.19*	*4.66*	*10.98*	*5.67*	*3.90*	*3.96*	*5.59*	*4.93*	*5.18*	*3.76*	*2.77*	*2.54*	*(1.52)*	-	-	-
EBITDA	**US$000**		**1,416,921**	**0**	**0**	**0**	**0**	**0**	**218,320**	**260,244**	**92,505**	**76,229**	**24,456**	**65,479**	**78,201**	**78,640**	**68,729**	**59,715**	**58,748**	**93,462**	**89,971**	**73,274**	**78,948**	**0**	**0**	**0**
Cu Equiv.	*US$/lb-Cu*		*0.841*	-	-	-	-	-	*1.863*	*1.948*	*0.693*	*0.630*	*0.279*	*0.639*	*0.714*	*0.705*	*0.589*	*0.538*	*0.534*	*0.754*	*0.776*	*0.744*	*0.859*	-	-	-
Milled Ore	*US$/t-ore*		*13.77*	-	-	-	-	-	*34.65*	*37.18*	*13.22*	*10.89*	*3.49*	*9.35*	*11.17*	*11.23*	*9.82*	*8.53*	*8.39*	*13.35*	*12.85*	*10.47*	*14.07*	-	-	-
PROJECT CASH FLOW																										
Net Income After Tax																										
NIBT																										
Depreciation/Amortorization	**US$000**		**506,734**						36,718	45,025	46,050	47,521	49,861	29,894	25,367	28,140	29,934	30,761	31,024	31,115	28,220	26,433	20,670			
NIBT	**US$000**		**910,186**	**0**	**0**	**0**	**0**	**0**	**181,602**	**215,218**	**46,455**	**28,709**	**(25,404)**	**35,584**	**52,834**	**50,500**	**38,794**	**28,954**	**27,724**	**62,347**	**61,751**	**46,840**	**58,278**			
Profit Share	**US$000**	8%	**74,847**	0	0	0	0	0	14,528	17,217	3,716	2,297	0	2,847	4,227	4,040	3,104	2,316	2,218	4,988	4,940	3,747	4,662			
NIBT after Profit Share	**US$000**		**835,339**	**0**	**0**	**0**	**0**	**0**	**167,074**	**198,001**	**42,739**	**26,412**	**(25,404)**	**32,737**	**48,607**	**46,460**	**35,691**	**26,638**	**25,506**	**57,359**	**56,811**	**43,093**	**53,616**	**0**	**0**	**0**
Loss Carry-Forward				**Note: Loss carry-forward limited to 4 years.**																						
Opening Balance	**US$000**			0	0	0	0	0	0	0	0	0	0	25,404	0	0	0	0	0	0	0	0	0			
Available	**US$000**		**25,404**	0	0	0	0	0	0	0	0	0	25,404	0	0	0	0	0	0	0	0	0	0			
Applied	**US$000**		**(25,404)**	0	0	0	0	0	0	0	0	0	0	(25,404)	0	0	0	0	0	0	0	0	0			
Closing Balance	**US$000**			0	0	0	0	0	0	0	0	0	25,404	0	0	0	0	0	0	0	0	0	0			

TABLE 1-2
Inca Pacific Resources, Inc
Magistral Due Diligence Review
Revised Cash Flow

				preproduction					production														
Description	**Units**		**LoM Total**	**-05**	**-04**	**2008 -03**	**2009 -02**	**2010 -01**	**2011 01**	**2012 02**	**2013 03**	**2014 04**	**2015 05**	**2016 06**	**2017 07**	**2018 08**	**2019 09**	**2020 10**	**2021 11**	**2022 12**	**2023 13**	**2024 14**	**2025 15**	**2026 16**	**2027 17**	**2028 18**
Tax Loss Carry-Forward	**US$000**		**0**	0	0	0	0	0	0	0	0	0	25,404	(25,404)	0	0	0	0	0	0	0	0	0	0	0
Taxable Income	**US$000**		**835,339**	**0**	**0**	**0**	**0**	**0**	**167,074**	**198,001**	**42,739**	**26,412**	**0**	**7,333**	**48,607**	**46,460**	**35,691**	**26,638**	**25,506**	**57,359**	**56,811**	**43,093**	**53,616**	**0**	**0**	**0**
Income Tax	**US$000**	30%	**250,602**	0	0	0	0	0	50,122	59,400	12,822	7,924	0	2,200	14,582	13,938	10,707	7,991	7,652	17,208	17,043	12,928	16,085	0	0	0
NIAT	**US$000**		**584,737**	**0**	**0**	**0**	**0**	**0**	**116,952**	**138,600**	**29,917**	**18,488**	**0**	**5,133**	**34,025**	**32,522**	**24,984**	**18,646**	**17,854**	**40,151**	**39,768**	**30,165**	**37,531**	**0**	**0**	**0**
Cash Flow																										
Depreciation																										
Depreciation/Amortorization	**US$000**		**(506,734)**	0	0	0	0	0	(36,718)	(45,025)	(46,050)	(47,521)	(49,861)	(29,894)	(25,367)	(28,140)	(29,934)	(30,761)	(31,024)	(31,115)	(28,220)	(26,433)	(20,670)	0	0	0
Total	**US$000**		**(506,734)**	**0**	**0**	**0**	**0**	**0**	**(36,718)**	**(45,025)**	**(46,050)**	**(47,521)**	**(49,861)**	**(29,894)**	**(25,367)**	**(28,140)**	**(29,934)**	**(30,761)**	**(31,024)**	**(31,115)**	**(28,220)**	**(26,433)**	**(20,670)**	**0**	**0**	**0**
Initial Capital		1.00																								
Mining	**US$001**		**41,946**				16,779	25,168																		
Process	**US$000**		**113,394**			11,339	56,697	45,358																		
Infrastructure	**US$001**		**102,929**			10,293	51,464	41,171																		
Contracted Indirects	**US$002**		**108,981**			32,694	54,490	21,796																		
Owner's Cost	**US$000**		**34,083**			3,408	15,338	15,338																		
Closure Initial Payment	**US$000**		**1,055**					1,055																		
IGV (VAT)	**US$000**		**63,588**			9,029	30,872	23,686																		
IGV Refund	**US$000**		**(63,588)**						(63,588)																	
Initial Capital	**US$000**		**402,389**	**0**	**0**	**66,764**	**225,640**	**173,572**	**(63,588)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Sustaining & Working Capital																										
Infrastructure	**US$000**		**21,846**						0	3,908	932	4,903	2,333	1,710	1,929	5,105	686	103	102	134	0	0	0			
Owner's Cost	**US$000**		**13,574**						0	6,570	0	1,092	0	279	0	3,731	0	531	242	1,130	0	0	0			
Tailings Dam & Haul Roads	**US$000**		**49,056**						0	8,268	2,711	5,817	14,310	5,340	3,866	2,050	3,257	1,581	664	554	428	211	0			
Mining	**US$000**		**68,957**						1,128	28,984	3,293	3,005	3,840	0	1,404	11,970	8,934	5,899	500	0	0	0	0			
GoP Special Fee	**US$000**		**5,000**						5,000																	
Closure Cost Payments	**US$000**		**31,426**						1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,331	1,331	276	$ 5,276	$ 5,276	$ 5,276
Closure Cost Reimbursement	**US$000**		**(15,827)**																					(5,276)	(5,276)	(5,276)
Usufruct	**US$000**		**380**						25	25	25	25	25	25	25	25	25	25	25	25	25	25	25			
Working Capital	**US$000**		**0**						$ 4,529														(4,529)			
Sust. & Working Capital	**US$000**		**174,411**	**0**	**0**	**0**	**0**	**0**	**11,737**	**48,810**	**8,017**	**15,897**	**21,564**	**8,410**	**8,279**	**23,937**	**13,958**	**9,195**	**2,587**	**2,898**	**1,784**	**1,567**	**(4,228)**	**0**	**0**	**0**
Capital Costs	**US$000**		**576,800**	**0**	**0**	**66,764**	**225,640**	**173,572**	**(51,851)**	**48,810**	**8,017**	**15,897**	**21,564**	**8,410**	**8,279**	**23,937**	**13,958**	**9,195**	**2,587**	**2,898**	**1,784**	**1,567**	**(4,228)**			
Cash Flow	**US$000**		**514,671**	**0**	**0**	**(66,764)**	**(225,640)**	**(173,572)**	**205,521**	**134,816**	**67,950**	**50,112**	**28,297**	**26,618**	**51,113**	**36,724**	**40,960**	**40,213**	**46,291**	**68,368**	**66,204**	**55,031**	**62,429**	**0**	**0**	**0**
Cumulative	**US$000**		**2,919,439**	0	0	(66,764)	(292,405)	(465,977)	(260,456)	(125,640)	(57,690)	(7,578)	20,719	47,338	98,450	135,175	176,135	216,347	262,638	331,007	397,211	452,242	514,671	514,671	514,671	514,671
IRR	**%**		**13.1%**																							
NPV	**US$000**	**8.0%**	**108,036**																							
Payback	**months**		**50**																							

TABLE 1-3
Inca Pacific Resources, Inc.
Magistral Due Diligence Review
Comparison of H&H Metals Magistral Market Update, June 2008

	Units	FFS Price Forecasts	Updated Price Forecasts
Copper			
Years 2011-2012	US$/lb	2.76	3.20
Year 2013	US$/lb	1.50	3.20
Years 2014-2016	US$/lb	1.50	1.70
Years 2017-2025	US$/lb	1.50	1.50
Silver			
Years 2011-2013	US$/oz	11.55	13.50
Years 2014-2016	US$/oz	11.55	13.50
Years 2017-2025	US$/oz	11.55	11.55

Table 1-4 presents a tabular summary of PAH's risk analysis regarding the completeness of the FFS produced and compiled by Samuel. PAH's assessment is based on the work completed to date, the potential impact of each component of the study, and the potential impact of each component. The format is intentionally brief to provide a rapid overview of the project status.

Definitions of the terms used in Table 1-4 are as follows:

- **Component** identifies the information topic reviewed by PAH.

- **Completeness** expresses PAH's opinion of the coverage of the topic by Samuel/Inca Pacific compared to the efforts of others on similar projects which have reached this point in the financing stage.

  High Completeness indicates that Samuel/Inca Pacific effort exceeds the norm of similar projects and meets the standard for corporate cost forecasting.

  Moderate Completeness indicates that the Samuel/Inca Pacific effort is in line with the norm of similar projects and should be sufficient to satisfy financing requirements. Refinements might be made with additional effort; however, such refinements would not produce significant changes.

  Low Completeness indicates that the data provided by Samuel/Inca Pacific is somewhat less than the norm of similar projects. This level combined with a high impact potential suggests that additional analysis and engineering are required. Combined with a low impact potential, it suggests that it is probably acceptable.

- **Impact Potential** identifies the degree of sensitivity reflected in project economics by the category. This allows rapid identification of areas that require substantial scrutiny versus those areas less likely to affect overall project performance.

High Impact categories, such as reserves and recovery, have a high impact on cash flow. Relatively small variations in these areas could significantly alter the return on investment.

Moderate Impact categories, such as tailings, processing and power generation, can undergo minor to possibly moderate variations without significantly affecting the overall project. Substantial variations, depending upon their nature, may significantly affect the overall project.

Low Impact categories, such as the majority of the infrastructure, can undergo moderate to substantial variation without significantly affecting the overall project.

- **PAH Risk Assessment** combines Completeness and Impact Potential in a subjective measure of the likelihood that the category poses any significant chance of adversely affecting the overall project.

  Low Risk indicates one or more of the following combinations:

  - High, Moderate or Low Impact with High Completeness. This indicates that the item is critical to the success of the project, and that Samuel/Inca Pacific has performed adequate analysis and engineering to assure anticipated performance.

  - Low Impact with Moderate or Low Completeness. These are typically items which do not require a substantial amount of advance analysis and engineering and whose costs are known to a sufficient level to assure that estimates are not exceeded, regardless of the final design.

  Moderate Risk is applied to a category where additional work is required to adequately define, analyze or engineer an item to assure that future detail development work does not uncover unanticipated problems that could substantially affect the overall project. Moderate risk indicates one of the following combinations:

  - Moderate Impact with Low Completeness, or
  - High or Moderate Impact with Moderate Completeness.

  High Risk is applied to a category where additional work is required and where presently unknown and/or unforeseen problems have a high probability of negatively affecting the overall project. High risk indicates the following combination:

  - High Impact with Low Completeness, or
  - High impact with aggressive assumptions.

TABLE 1-4
Inca Pacific Resources, Inc.
Magistral Copper Project – Due Diligence Review
Project Risk Analysis Summary

Component	Complete-ness	Impact Potential	PAH Risk Assessment	Remarks
Geology/Geologic Setting	High	Moderate	Low	Geologic investigations are high quality.
Resource Model	High	Moderate	Low	Resource estimate has been updated with Geologic Model.
Ore Reserves	High	Low	Low	The mine schedule was prepared including measured and indicated Resource to constitute a Bankable Feasibility Study accordingly to the International Standards.
Pit Slopes	High	High	Moderate	The pit slope design for this project is considered to be of critical importance due to the height of the slopes.
Mine Plan	Moderate	Low	Low	Based on conventional, medium-scale, open pit mining methods. No year end waste dump status was prepared.
Production Schedule	Moderate	Low	Low	Annual plans are adequate for use in cost estimation.
Mine Equipment	Moderate	Low	Low	Small loading equipment requires a special operation procedure to work 10 meter benches. The large equipment selection is appropriate.
Metallurgical Testing	Moderate	High	Moderate	The testing is reasonable with representative core samples used in both bench and pilot plant testing. PAH recommends slightly lower metal recoveries and concentrate grades and more testing in the area of grinding.
Process Flowsheet	High	Moderate	Low	The flowsheet is conventional for copper-molybdenum concentrators and reflects the metallurgical response of the ore samples tested.
Process Equipment	High	Moderate	Low	The process equipment selections are acceptable and based upon metallurgical testing, material balances and conventional concentrator equipment applications. PAH recommends more investigations into sizing grinding mills.
Tailings Storage Facility Design	High	Moderate	Low	Design is appropriate. PAH recommends an independent technical review should be performed per international standards for impoundments during detailed design.
Power Supply	High	Moderate	Low	Plans for overland line are adequately conceived and reasonable engineering is completed to date.
Port Facility	Low	Moderate	Moderate	Design for a new port facility at Salaverry was completed; however, privatization of the port leaves Magistral without a definitive port facility. Alternatives are being investigated but plans need to be finalized.

Infrastructure & Access Roads	High	Low	Low	Plans for access roads, camp, site support facilities and administrative functions are typical of this type project in South America and are adequately prepared. Access road route requires extensive upgrading with the completion critical to project schedule.
Mine Capital Cost Estimate	Moderate	Low	Low	Cost is reasonable. Owner's mine equipment capital cost is included in year two of production. Contractors will be involved in mining of the deposit.
Process and Infrastructure Capital Costs	High	Moderate	Low	Costs are reasonable and comparable to other similar projects. Costs developed using appropriate estimating techniques for process plants and support facilities.
Mine Operating Cost	Moderate	Low	Low	Adequate design and costing for feasibility. The mine operating cost includes 10% contingencies.
Process and Infrastructure Operating Cost	High	Moderate	Low	The estimate is thorough and largely based on metallurgical testing and conventional mill cost structure. Costs are comparable to other operations.
Environmental and Social Impact Assessment/ Permitting	Low	Moderate	Moderate	The environmental work seems to be of high quality. However, the ESIA is being submitted to governmental authorities and has not yet been reviewed by communities. Authorization has not been obtained for the port facility. Resettlement agreements have not been concluded and access to the property is under negotiation with the local community. These issues could delay the Project startup, with associated cash flow impacts.
Project Schedule	High	Moderate	Moderate	The schedule is comprehensive and reasonable, but late ESIA approval and lack of definitive port facility could result in delays.
Economic Model	High	High	Low	Economic Model prepared by MTB is reasonable and includes appropriate technical inputs for economic assessment of the project. PAH's cash flow model reflects adjustments to the model based upon our review of feasibility study.
Feasibility Study	High	High	Low	Technically complete and generally meets or exceeds industry standards. There are some regulatory issues to solve in the short term, such as submission of the ESIA and obtaining necessary authorizations.

1.1 *Conclusions and Recommendations*

PAH's general conclusions and recommendations regarding the Magistral Project are as follows:

- The operational objectives proposed appear reasonable and achievable.
- The measured resources have been developed in conformance with standard engineering practices.
- The mine design is practical and consistent with design criteria using proven, medium-scale equipment.
- Considering this is going to be one of the ten or so highest pit slopes in the world, PAH recommends having an independent technical review board to monitor slope engineering.
- PAH has reviewed the overall process plant and site infrastructure facilities for the project and finds them designed to industry standards, and, if properly installed, should produce the results anticipated in the FFS. PAH recommends, however, that additional grinding testing be performed during the final design phase to finalize equipment sizing.
- The Tailings Storage Facility appears properly designed; however, the design should undergo an Independent Technical Review per IFC Performance Standard 4.
- The Port Facility envisioned in the FFS may not be constructed by others as stated and has resulted in the Inca Pacific investigating alternatives for port facilities. Inca Pacific is having preliminary discussions with the owner of an existing and permitted Peruvian concentrate storage and ship-loading facility near Salaverry (Transportes Rodrigo Carranza S.A.C.) to determine if this option is more viable.
- PAH's opinion of metal recovery and concentrate grade estimates are slightly more conservative than those presented in the FFS. When applied, these lower values decrease the Net Present Value of the project.
- As presently envisioned, the project construction and startup schedule is reasonable as long as the permits are received within the time frames envisioned and the Access Road is completed on schedule.
- Initial and Sustaining capital cost estimates have been properly developed and supported for the critical components of the study. Areas of less certainty have been addressed through the allowance of reasonable contingency.
- Operating costs are based on sound engineering practice, metallurgical test results, equipment consumable costs, vendor's quotes plus logistical costs. The costs used in the development of the cash flow are adequately defended and are consistent with other operations of comparable size.

- The Environmental and Social Impact Assessment (ESIA) appears to be well done and addresses most of the Equator Principles. PAH was advised that as the project moves into the observation and approval process, the Equator Principles will be more completely addressed.

- Specific environmental action, management and monitoring plans have not been reviewed yet; however, the ESIA and other documentation present the basic approach for creating these plans.

- The archeological clearance certificate needs to be issued.

- PAH notes that definitive costs have not been developed for mine closure. A closure cost accrual mechanism, per Peruvian rather than World Bank guidelines, is envisioned for the Project.

- PAH has some concern that untimely ESIA approval and receipt of critical permits, as well as the delay in obtaining agreements with the local community regarding resettlement and access could cause a delay in achieving the project schedule.

- The Economic Model prepared by MTB for Magistral is acceptable, reflects the technical and economic assumptions of the FFS and is reasonable to utilize for project evaluation. PAH's cash flow for the project incorporates various adjustments to MTB's model inputs and are based upon our assessment of the technical and economic aspects of the project.