Corriente Resources Inc.

(A Development Stage Enterprise)

Consolidated Financial Statements
As at December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003
(expressed in Canadian dollars)

MANAGEMENT'S REPONSIBILITY FOR FINANCIAL REPORTING

March 24, 2006

The consolidated financial statements of Corriente Resources Inc. have been prepared by management and approved by the Board of Directors. Management of Corriente Resources Inc. is responsible for the preparation, objectivity and integrity of the information contained in these financial statements and other sections of this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management maintains the necessary systems of internal controls, policies and procedures to provide assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is composed of non-management directors. This committee, which reports to the Board of Directors, meets with the independent auditors and reviews the consolidated financial statements.

PricewaterhouseCoopers LLP, the company's auditors, have examined these consolidated statements and their report follows.

"Kenneth R. Shannon"
Kenneth R. Shannon
Chief Executive Officer

"Darryl F. Jones"
Darryl F. Jones
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Corriente Resources Inc.

We have audited the consolidated balance sheets of **Corriente Resources Inc.** as at December 31, 2005 and 2004 and the consolidated statements of changes in shareholders'equity, loss and deficit and cash flows for each year in the three year period ended December 31, 2005. These 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 the 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 December 31, 2005 and 2004 and the results of its operations, changes in shareholders' equity and its cash flows for each of the years in the three year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

"PricewaterhouseCoopers LLP"

Chartered Accountants
March 3, 2006
Vancouver, BC

Corriente Resources Inc.

(a development stage enterprise)

Consolidated Balance Sheets

As at December 31, 2005 and 2004

(expressed in Canadian dollars)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 32,440,690	$ 12,602,827
Marketable securities (note11)	–	554,000
Accounts receivable and prepaids	187,746	153,133
	32,628,436	13,309,960
Mineral properties (note 3)	34,205,955	25,220,211
Property, plant and equipment (note 4)	265,617	266,749
Deferred power project costs (note 5)	–	1,704,662
TOTAL ASSETS	$ 67,100,008	$ 40,501,582
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	$ 976,244	$ 746,567
Shareholders' Equity		
Share capital (note 6 (b))	112,367,655	83,525,397
Options (note 6 (c))	2,622,248	1,655,163
Share purchase warrants (note 6 (d))	–	96,455
Contributed surplus	930,660	930,660
Deficit accumulated during the exploration stage	(49,796,799)	(46,452,660)
	66,123,764	39,755,015
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 67,100,008	$ 40,501,582

Subsequent event – note 6 (c)

Approved by the Board of Directors

____________________________ Director   ____________________________ Director

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

Corriente Resources Inc.

(a development stage enterprise)

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2005, 2004 and 2003

(expressed in Canadian dollars)

	Common Shares		Estimated Fair Value				
	Number	Share Capital	Options	Share Purchase Warrants	Contributed Surplus	Deficit accumulated during the exploration stage	Total Shareholders' Equity
Since inception:							
Common shares issued for cash, net of issue costs	24,169,872	$ 52,994,066	$ –	$ –	$ –	$ –	$ 52,994,066
Common shares issued for mineral properties and settlement of debt	6,621,477	6,554,554	–	–	–	–	6,554,554
Net fair value of warrants issued	–	–	–	501,051	676,407	–	1,177,458
Stock based compensation expense on unexercised vested options	–	–	644,665	–	–	–	644,665
Net losses since inception	–	–	–	–	–	(45,056,506)	(45,056,506)
Balance at December 31, 2002	30,791,349	59,548,620	644,665	501,051	676,407	(45,056,506)	16,314,237
Common shares issued for cash pursuant to private placements, net of issue costs	7,750,000	15,959,370	–	–	–	–	15,959,370
Common shares issued for cash pursuant to exercise of warrants	2,239,946	2,380,513	–	–	–	–	2,380,513
Common shares issued for cash pursuant to exercise of options	575,000	463,250	–	–	–	–	463,250
Common shares issued for mineral property interests	250,000	232,500	–	–	–	–	232,500
Fair value of warrants issued (note 6 (d))	–	–	–	96,455	–	–	96,455
Fair value of options exercised (note 6 (c))	–	286,608	(286,608)	–	–	–	–
Fair value of warrants exercised (note 6 (d))	–	170,326	–	(170,326)	–	–	–
Fair value of warrants expired (note 6 (d))	–	–	–	(254,253)	254,253	–	–
Stock based compensation expense on unexercised vested options	–	–	762,558	–	–	–	762,558
Net loss for the year ended December 31, 2003	–	–	–	–	–	(682,092)	(682,092)
Balance at December 31, 2003	41,606,295	79,041,187	1,120,614	172,927	930,660	(45,738,598)	35,526,790
Common shares issued for cash pursuant to exercise of warrants	3,500,098	3,928,512	–	–	–	–	3,928,512
Common shares issued for cash pursuant to exercise of options	315,000	304,350	–	–	–	–	304,350
Fair value of options exercised (note 6 (c))	–	174,876	(174,876)	–	–	–	–
Fair value of warrants exercised (note 6 (d))	–	76,472	–	(76,472)	–	–	–
Stock based compensation expense on unexercised vested options	–	–	709,424	–	–	–	709,424
Net loss for the year ended December 31, 2004	–	–	–	–	–	(714,062)	(714,062)
Balance at December 31, 2004	45,421,393	83,525,397	1,655,163	96,455	930,660	(46,452,660)	39,755,015
Common shares issued for cash pursuant to private placements, net of issue costs	7,605,000	27,853,364	–	–	–	–	27,853,364
Common shares issued for cash pursuant to exercise of options	475,000	435,250	–	–	–	–	435,250
Common shares issued for cash pursuant to exercise of warrants	250,000	200,000	–	–	–	–	200,000
Fair value of options exercised (note 6 (c))	–	257,189	(257,189)	–	–	–	–
Fair value of warrants exercised (note 6 (d))	–	96,455	–	(96,455)	–	–	–
Stock based compensation expense on unexercised vested options (note 6 (c))	–	–	1,224,274	–	–	–	1,224,274
Net loss for the year ended December 31, 2005	–	–	–	–	–	(3,344,139)	(3,344,139)
Balance at December 31, 2005	53,751,393	$ 112,367,655	$ 2,622,248	$ –	$ 930,660	$ (49,796,799)	$ 66,123,764

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

Corriente Resources Inc.

(a development stage enterprise)

Consolidated Statements of Loss and Deficit

For the years ended December 31, 2005, 2004 and 2003

(expressed in Canadian dollars)

	2005	2004	2003	For the Period from Inception (February 16, 1983 to December 31, 2005)
Administration				
Stock-based compensation (note 6 (c))	$ 1,224,274	$ 709,424	$ 762,558	$ 3,340,921
Management fees, wages & benefits	586,911	436,972	395,637	3,841,556
Investor relations and promotion	255,780	189,486	209,791	1,422,045
Legal and accounting	149,214	82,459	91,625	1,816,119
Travel	91,378	74,053	58,321	746,395
Printing and shareholder information	74,296	68,496	31,094	570,855
Rent and utilities	72,461	69,984	40,826	1,161,103
Insurance	67,640	53,178	43,889	358,799
Regulatory fees	56,071	26,735	45,758	362,550
Office and miscellaneous	32,516	33,995	21,730	955,209
Depreciation	15,296	14,304	15,034	240,775
Transfer agent fees	14,142	18,924	11,386	174,060
Loss on disposal of capital assets	–	–	–	52,968
	2,639,979	1,778,010	1,727,649	15,043,355
Other				
Write-down of deferred power project costs (note 5)	2,739,111	–	–	2,739,111
Gain on sale of assets (note 3)	(1,970,320)	(549,000)	(882,261)	(4,081,031)
Interest income	(209,422)	(382,237)	(136,738)	(3,397,166)
Loss (gain) on sale of marketable investments	96,877	(199,323)	(105,244)	(1,125,312)
General exploration	38,535	8,393	42,746	4,185,299
Foreign exchange loss	9,379	58,219	35,940	35,377
Write-down of mineral properties	–	–	–	33,387,725
Write-down of capital assets	–	–	–	3,080,392
Write-down of marketable securities	–	–	–	374,838
Gain on sale of subsidiary	–	–	–	(335,900)
Rental income	–	–	–	(71,546)
Gain on settlement of debt	–	–	–	(26,792)
Gain on disposal of capital assets	–	–	–	(11,551)
	704,160	(1,072,341)	(1,088,303)	34,753,444
Loss for the period	3,344,139	714,062	682,092	49,796,799
Deficit – beginning of period	46,452,660	45,738,598	45,056,506	–
Deficit – end of period	$ 49,796,799	$ 46,452,660	$ 45,738,598	$ 49,796,799
Basic and diluted loss per share	$ 0.07	$ 0.02	$ 0.02	
Weighted average number of shares outstanding	45,825,859	44,594,782	33,666,622	

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

Corriente Resources Inc.

(a development stage enterprise)

Consolidated Statements of Cash Flows

For the years ended December 31, 2005, 2004 and 2003

(expressed in Canadian dollars)

	2005	2004	2003	For the Period from Inception (February 16, 1983 to December 31, 2005)
Cash flows from (applied to) operating activities				
Loss for the period	$ (3,344,139)	$ (714,062)	$ (682,092)	$ (49,796,799)
Items not affecting cash				
Write-down of deferred power project	2,739,111	–	–	2,739,111
Shares received on sale of assets	(1,882,000)	(549,000)	(330,000)	(3,254,486)
Stock-based compensation	1,224,274	709,424	762,558	3,340,921
Loss (gain) on sale of marketable securities	96,877	(199,323)	(105,244)	(1,125,312)
Depreciation	15,296	14,304	15,034	240,774
General exploration	–	–	–	40,550
Write-down of mineral properties	–	–	–	33,387,725
Write-down of capital assets	–	–	–	3,080,392
Write-down of marketable securities	–	–	–	374,838
Gain on sale of subsidiary	–	–	–	(65,000)
Foreign exchange loss on deposit	–	–	–	50,528
Loss on disposal of capital assets	–	–	–	41,417
Changes in non-cash working capital				
Accounts receivable and prepaids	(34,613)	111,785	(192,511)	(115,945)
Accounts payable and accrued liabilities	229,677	325,229	286,524	(614,297)
	(955,517)	(301,643)	(245,731)	(11,675,583)
Cash flows from (applied to) investing activities				
Mineral property costs	(8,845,049)	(8,627,262)	(1,511,358)	(59,310,035)
Deferred power project costs	(1,034,449)	(1,704,662)	–	(2,739,111)
Proceeds from sale of marketable securities	2,339,123	529,323	117,244	4,242,198
Payments to acquire property, plant and equipment	(154,859)	(213,820)	(76,288)	(2,042,353)
Refund of deposit	–	–	–	222,634
	(7,695,234)	(10,016,421)	(1,470,402)	(59,626,667)
Cash flows from financing activities				
Proceeds from issuance of share capital, net of issue costs	28,488,614	4,232,862	18,803,133	105,700,688
Repayment of long-term debt	–	–	–	(1,684,586)
Deposit	–	–	–	(273,162)
	28,488,614	4,232,862	18,803,133	103,742,940
Increase (decrease) in cash and cash equivalents	19,837,863	(6,085,202)	17,087,000	32,440,690
Cash and cash equivalents – beginning of period	12,602,827	18,688,029	1,601,029	–
Cash and cash equivalents – end of period	$ 32,440,690	$ 12,602,827	$ 18,688,029	$ 32,440,690

Supplemental cash flow information (note 10)

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

1 Nature of operations

Corriente Resources Inc. and its subsidiaries (collectively, “Corriente” or “the company”) are engaged in the exploration and development of mineral properties in Ecuador, South America. The company considers itself to be an exploration and development stage company.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for mineral properties 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.

2 Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada which as described in note 12, differ in certain respects from accounting principles generally accepted in the United States of America.

Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Corriente Resources Inc. (Cayman), CTQ Management Inc., Ecuacorriente S.A. (Ecuador), Minera Panantza B.V. (Netherlands) and Minera Curigem S.A. (Ecuador).

Mineral properties

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 expenditures. 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 allowed to lapse.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve or the Company’s assessment of its ability to sell the property for an amount less than the deferred costs, provision is made for the impairment in value and the property is written down to the estimated fair value.

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

These costs are depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned, become impaired or the claims allowed to lapse.

Property, plant and equipment

Depreciation of vehicles, furniture, computer, field and communications equipment is provided on a declining-balance basis over their estimated useful lives at annual rates between 20% and 30%. Leasehold improvements are depreciated on a straight-line basis over the term of the lease.

Deferred power project costs

Assets under construction or development are recorded as deferred (capitalized) costs or construction in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment or written off on abandonment.

General exploration

General exploration expenses, including the cost of evaluating potential projects, are charged to operations as incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with a term to maturity at the date of purchase of 90 days or less.

Marketable securities

Marketable securities are carried at the lower of cost and quoted market value.

Foreign currency translation

The company’s subsidiaries are considered 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, except for depreciation, which is translated at the same rate as the assets to which they relate. Translation gains and losses are reflected in loss for the year.

Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax asset and liabilities are measured using tax rates and laws that are expected to apply when the temporary differences are expected to reverse. Assets are recognized only to the extent it is more likely than not that they will be realized.

Loss per share

Loss per share is calculated based on the weighted average number of common shares issued and outstanding during the year. The effect of potential issuances of shares under options and warrants would be anti-dilutive, and therefore basic and diluted losses per share are the same.

Use of estimates

The preparation of financial statements in conformity with 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 estimates that involve highly subjective assumptions by management include the company's estimate of stock-based compensation expense and its assessment of possible impairment of its mineral properties. Actual results could differ from those reported.

Stock-based compensation plan

The company has a stock-based compensation plan as described in note 6 (c).

The company applies the fair value method of accounting for all stock options granted. Under this method, stock-based compensation on options granted to employees, directors and consultants is recorded as an expense in the period the options are vested, based on the estimated fair value at the measurement date using the Black-Scholes Option Pricing Model.

Asset Retirement Obligations

On January 1, 2004, the Company adopted the new accounting standard for asset retirement obligations, Canadian Institute of Chartered Accountants ("CICA") Section 3110. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

There is no material impact on the consolidated financial statements resulting from the adoption of Section 3110 either in the current or prior periods presented.

Variable Interest Entities

Effective January 1, 2005, the Company adopted Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities", which requires consolidation of entities in which the Company has a controlling financial interest. The Company has determined that it has no variable interest entities.

Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

3 Mineral properties

Corriente Copper Belt, Ecuador

Under various agreements signed with certain Ecuadorian subsidiaries of BHP Billiton LLC ("BHP Billiton"), the company has earned a 100% interest in BHP Billiton’s resource properties located in the Rio Zamora copper porphyry district (Corriente Copper Belt), in Ecuador. This required the issue of shares to BHP Billiton and the expenditure of exploration funds under the terms of these agreements. Additionally, these resource properties are subject to a 2% Net Smelter Royalty (“NSR”) payable to BHP Billiton, though the company has options to reduce the NSR to 1% for the Mirador/Mirador Norte, Panantza and San Carlos resource properties upon the payment of US$2 million for each option exercised to BHP Billiton.

During 2004, J. David Lowell exercised his option to acquire the company’s interest in the Warintza resource concession in exchange for his 10% interest in Corriente’s interests in the remaining concessions in the Corriente Copper Belt. As a result, the company has complete ownership of its Corriente Copper Belt resource properties. Mineral property costs associated with the Warintza property, in the amount of $2,461,946, were re-allocated to the company’s other Corriente Copper Belt resource properties (Mirador - $1,918,400 and Panantza/San Carlos - $543,546) at December 31, 2004.

(expressed in Canadian dollars)

Following is a summary of the company's deferred mineral property expenditures.

Corriente Copper Belt	**Mirador/ Mirador Norte**	**Panantza/ San Carlos**	**Other** (1)	**Total**
Balance December 31, 2002	$ 8,808,104	$ 2,495,629	$ 3,376,439	$ 14,680,172
Property acquisition	200,524	20,080	329,260	549,864
Deferred exploration and development costs	941,449	87,404	298,431	1,327,284
Balance December 31, 2003	9,950,077	2,603,113	4,004,130	16,557,320
Property acquisition	493,112	5,309	–	498,421
Deferred exploration and development costs and re-allocation	9,441,051	935,674	(2,212,255)	8,164,470
Balance December 31, 2004	19,884,240	3,544,096	1,791,875	25,220,211
Property acquisition	386,955	–	–	386,955
Deferred exploration and development costs	8,412,692	160,627	25,470	8,598,789
Balance December 31, 2005	$ 28,683,887	$ 3,704,723	$ 1,817,345	$ 34,205,955

(1) – comprised of the La Florida, San Luis, San Marcos, San Miguel, Sutzu and Trinidad copper and copper-gold exploration targets in the Corriente Copper Belt

Other

In 2003, the company sold its shares of its wholly-owned subsidiaries, Corriente Argentina Inc. (Cayman) and Corriente Argentina S.A. (Argentina), including its 100% interest in the Taca-Taca property in Argentina. These assets were written off in previous years. The following summarizes the amounts due from the purchaser to the company according to the original agreement:

- US $25,000 on the Closing Date (received in 2002);
- US $25,000 cash and 100,000 shares of the purchaser one year from the date of the Agreement (received in 2003);
- 100,000 shares of the purchaser two years from the date of the agreement (received in 2004);
- 100,000 shares of the purchaser three years from the date of the agreement (received in 2005);

(expressed in Canadian dollars)

- US $100,000 four years from the date of the agreement;
- US $1,000,000 five years from the date of the agreement;
- US $1,000,000 upon the Taca-Taca property achieving commercial production.

On March 22, 2005 the company and the purchaser executed an amending agreement whereby the payments due in years four and five of the agreement were changed to one final tranche of 100,000 shares of the purchaser on the amending date. US $1,000,000 remains due from the purchaser upon the Taca-Taca property achieving commercial production. As collectibility of this amount remains uncertain, this amount will be recorded when received. The company realized a total gain of $1,882,000 based on the market value of the 200,000 shares of the purchaser received in 2005. These shares were subject to a hold period which expired in July 2005. During the hold period, the purchaser underwent a reorganization in April 2005, at which time the company received an equivalent 200,000 shares of each of the four post-reorganization companies. With the exception of 200,000 shares in one of the post-reorganization companies which remains non-public and without market value, all of the shares were sold by the company before the end of 2005.

The Polymet plant site in Bolivia (which was previously written off in 1998) was sold during 2003. The company has received full consideration, totalling $570,841 (including $88,320 received in 2005) from the purchaser.

Mineral Property Titles

Although the Company has taken steps to verify the title to mineral properties in which it has an option to acquire, these procedures do not guarantee that the titles are without defects. Property title may be subject to unregistered prior agreements, transfers or claims of ownership by third parties.

4 Property, plant and equipment

			2005			2004
	Cost $	Accumulated Depreciation $	Net $	Cost $	Accumulated Depreciation $	Net $
Computer equipment	218,291	161,620	56,671	191,058	143,482	47,576
Vehicles	201,965	50,796	151,169	220,560	55,333	165,227
Office furniture and equipment	71,742	57,638	14,104	67,832	53,432	14,400
Field equipment	57,326	22,665	34,661	38,576	12,717	25,859
Communications equipment	18,284	9,272	9,012	18,284	4,597	13,687
	567,608	301,991	265,617	536,310	269,561	266,749

5 Deferred power project costs

In March 2004, the company entered into an Agreement with Hidrelgen, S.A. (Hidrelgen), an associated company of Caminosca Caminos y Canales C. Limitada (collectively referred to as Caminosca), to develop, construct, and operate a 30 megawatt run-of-river hydroelectric generation facility with the associated switchgear and transmission lines on the Sabanilla River (Sabanilla Power Project, or SPP), to supply power to Corriente's planned Mirador copper mine.

During 2005, the Agreement lapsed and because of the uncertainty of the company's negotiations with Caminosca and the exploration of other power alternatives, deferred power project costs of $2,739,111 associated with SPP have been written off by the company at December 31, 2005.

6 Share capital

a) Authorized

100,000,000 common shares without par value

b) Issued

On February 7, 2003 the company completed a non-brokered private placement of 1,000,000 units at a price of $1.00 per unit for gross proceeds of $1.0 million before issue costs of $6,250. Each unit issued comprised one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $1.10 on or before February 7, 2005. All of these warrants were exercised before the expiry date.

On October 9, 2003, the company completed a non-brokered private placement of 2,000,000 common shares at a price of $1.95 per share for proceeds of $3.9 million.

On November 5, 2003, the company completed a brokered private placement of 4,750,000 units at a price of $2.50 per unit for gross proceeds of $11.875 million before issue costs of $809,381. Each unit issued comprised one common share and one-quarter of one common share purchase warrant. Each whole share purchase warrant was exercisable at a price of $3.00 for a period of 18 months, subject to the right of the company to accelerate the expiry of the warrants if the company's common shares traded above $4.00 for twenty consecutive trading days, in any period after March 8, 2004. During 2004, warrants to acquire 193,750 common shares were exercised and the remaining 993,748 warrants expired unexercised in 2005.

On December 29, 2005, the company completed a brokered private placement of 7,605,000 common shares at a price of $3.95 pursuant to its short form prospectus dated December 19, 2005 to raise gross proceeds of $30,039,750 before issue costs of $2,186,386.

c) Stock options

The company has a stock option plan whereby the company may grant options to its directors, officers, employees and consultants of up to a total of 6,524,830 common shares (of which 2,855,000 are outstanding and 3,546,000 have been exercised since the inception of the company's stock option plan in 1996, leaving 123,830 available for grant). The exercise price of each option is determined in accordance with the company's stock option plan. The option term and vesting period is determined by the Board of Directors, within regulatory guidelines.

(expressed in Canadian dollars)

	2005		2004		2003	
	Number of Shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding – Beginning of year	2,390,000	$ 1.46	2,190,000	$ 0.96	2,490,000	$ 1.65
Granted	940,000	2.49	515,000	3.33	1,530,000	0.98
Exercised	(475,000)	0.92	(315,000)	0.97	(575,000)	0.81
Terminated	–	–	–	–	(150,000)	1.95
Expired	–	–	–	–	(1,105,000)	2.50
Options outstanding – End of year	2,855,000	$ 1.89	2,390,000	$ 1.46	2,190,000	$ 0.96
Options outstanding and exercisable – End of year	2,855,000	$ 1.89	2,177,500	$ 1.28	2,190,000	$ 0.96

During the year ended December 31, 2005 the company has recorded the estimated fair value of the 940,000 (2004 - 515,000, 2003 - 1,530,000) options granted and vested as stock-based compensation expense of $1,224,274 (2004 - $709,424, 2003 - $762,558). This fair value is estimated using the Black-Scholes Option Pricing Model with the following assumptions.

	2005	2004	2003
Risk-free interest rate	2.95–3.19%	2.71–3.71%	3.05–3.78%
Expected dividend yield	–	–	–
Expected stock price volatility	68–71%	67–72%	66–81%
Expected option life in years	3	3	3

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 measure of the fair value of the company’s stock options.

The estimated fair value assigned to the stock options exercised during the years ended December 31, 2005, 2004 and 2003 was credited to share capital.

(expressed in Canadian dollars)

	Number of options	Exercise Price $	Expiry dates	Estimated Fair Value $
Balance – December 31, 2002	2,490,000			644,665
Exercised	(500,000)	0.79	January 9, 2005	(245,481)
Exercised	(75,000)	0.91	June 6, 2005	(41,128)
Expired	(775,000)	3.00	April 7, 2003	–
Expired	(330,000)	1.33	August 29, 2003	–
Terminated	(150,000)	1.95	March 9, 2004	–
Granted	25,000	1.14	March 5, 2006	15,903
Granted	695,000	0.90	May 28, 2006	305,432
Granted	480,000	0.89	July 28, 2006	224,802
Granted	330,000	1.28	September 10, 2006	216,421
	(300,000)			475,949
Balance – December 31, 2003	2,190,000			1,120,614
Exercised	(100,000)	1.02	March 11, 2005	(62,449)
Exercised	(125,000)	0.91	June 6, 2005	(68,547)
Exercised	(70,000)	0.90	May 28, 2006	(30,763)
Exercised	(20,000)	1.28	September 10, 2006	(13,116)
Granted	275,000	3.32	February 9, 2007	411,702
Granted	100,000	3.16	June 1, 2007	155,528
Granted	100,000	3.55	July 21, 2007	78,689
Granted	40,000	3.25	September 28, 2007	63,505
	200,000			534,549
Balance – December 31, 2004	2,390,000			1,655,163
Exercised	(235,000)	0.91	June 6, 2005	(128,868)
Exercised	(200,000)	0.79	October 9, 2005	(98,192)
Exercised	(20,000)	0.90	May 28, 2006	(8,789)
Exercised	(20,000)	2.27	July 25, 2008	(21,339)
Granted	100,000	2.15	June 1, 2008	104,250
Granted	540,000	2.27	July 25, 2008	576,164
Granted	300,000	2.99	September 6, 2008	422,475
Vested			July 21, 2007	97,517
Vested			February 9, 2007	23,867
	465,000			967,085
Balance – December 31, 2005	2,855,000			2,622,248

(expressed in Canadian dollars)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

	Exercise prices	Options outstanding and exercisable at December 31, 2005	Remaining contractual life (years)
$	3.55	100,000	1.6
	3.32	275,000	1.1
	3.25	40,000	1.7
	3.16	100,000	1.4
	2.99	300,000	2.7
	2.27	520,000	2.6
	2.15	100,000	2.4
	1.28	310,000	0.7
	1.14	25,000	0.2
	0.90	605,000	0.4
	0.89	480,000	0.6
		2,855,000	1.3

Subsequent to December 31, 2005 the company granted 25,000 stock options to a new director at an exercise price of $4.50 and 400,000 options to senior management at a price of $5.25. The latter grant is subject to shareholder approval at the company's May 2006 annual general meeting and these options vest on the basis of 1/20th of the total each month (from grant date). Such vesting would be accelerated based on the attainment of identified milestones.

(expressed in Canadian dollars)

d) Share purchase warrants

	Number of warrants	Exercise Price $	Expiry dates	Assigned Fair Value $
Balance – December 31, 2002	5,046,294			501,051
Issued	1,000,000	1.10	February 7, 2005	–
Issued	250,000	0.80	May 29, 2005	96,455
Issued	1,187,498	3.00	May 5, 2005	–
Exercised	(250,000)	0.80		(98,741)
Exercised	(250,000)	0.80		(71,585)
Exercised	(812,289)	1.00		–
Exercised	(186,917)	0.90		–
Exercised	(740,740)	1.35		–
Expired	(250,000)	0.80	April 20, 2003	(60,472)
Expired	(250,000)	0.80	May 29, 2003	(193,781)
	(302,448)			(328,124)
Balance – December 31, 2003	4,743,846			172,927
Exercised	(1,965,488)	1.00		–
Exercised	(90,860)	0.90		–
Exercised	(1,000,000)	1.10		–
Exercised	(193,750)	3.00		–
Exercised	(250,000)	0.80		(76,472)
	(3,500,098)			(76,472)
Balance – December 31, 2004	1,243,748			96,455
Expired	(993,748)	3.00	May 5, 2005	–
Exercised	(250,000)	0.80		(96,455)
	(1,243,748)			(96,455)
Balance – December 31, 2005	–			–

No share purchase warrants were issued in 2004 or 2005.

The fair value assigned to the share purchase warrants exercised during the years ended December 31, 2003, 2004 and 2005 was credited to share capital. The fair value assigned to the share purchase warrants that expired during the years ended December 31, 2005 and 2003 was credited to contributed surplus.

(expressed in Canadian dollars)

7 Related party transactions and balances

Included in management fees, wages and benefits and in mineral properties and investor relations are expenditures of $48,599 (2004 – $124,194, 2003 – $263,088), $60,500 (2004 – $Nil, 2003 – $127,067) and $Nil (2004 – $66,667, 2003 – $36,000), respectively, for the year ended December 31, 2005 in respect of administrative and technical services provided by companies affiliated with employed officers. At December 31, 2005 $15,000 (2004 – $1,538, 2003 – $Nil) was due to these companies affiliated with employed officers.

8 Income taxes

The reconciliation of income taxes attributable to continuing operations computed at statutory rates to the income tax expense/(recovery) is as follows:

	2005	2004	2003
	34.12%	35.62%	35.62%
Income tax benefit computed at Canadian statutory rates	$ (1,141,020)	$ (254,348)	$ (256,603)
Difference in foreign tax rates	(438,922)	(263,663)	(364,698)
Permanent differences	1,162,583	953,603	288,106
Decrease in tax rates	207,049	–	–
Share issuance costs and other	(753,076)	–	(290,528)
Change in valuation allowance	963,386	(435,592)	623,723
	$ –	$ –	$ –

The significant components of the company's future income tax assets are as follows:

	2005	2004	2003
Future income tax assets			
Net tax losses carried forward	$ 2,348,685	$ 1,798,535	$ 1,632,789
Resource pools	2,730,220	2,836,521	3,341,539
Capital assets and other	801,220	281,683	378,002
	5,880,125	4,916,739	5,352,331
Valuation allowance	(5,880,125)	(4,916,739)	(5,352,331)
	$ –	$ –	$ –

At December 31, 2005, the company has Canadian losses for tax purposes of approximately $6,640,000 which expire on various dates to 2015.

9 Segmented information

The company operates within a single operating segment, which is mineral exploration. The company's mineral property interests are in Ecuador, South America, as set out in note 3. Geographic segmentation of property, plant and equipment and mineral properties is as follows:

(expressed in Canadian dollars)

	2005		2004		
	Mineral properties	Property, plant and equipment	Mineral properties	Property, plant and equipment	Deferred power project costs
Canada	$ –	$ 48,128	$ –	43,583	$ –
Ecuador	34,205,955	217,489	25,220,211	223,166	1,704,662
	$ 34,205,955	$ 265,617	$ 25,220,211	266,749	$ 1,704,662

10 Supplemental cash flow information

Cash and cash equivalents at December 31 comprise the following:

	2005	2004	2003
Cash on hand and balances with banks	$ (16,750)	$ 178,997	$ 184,094
Short-term investments	32,457,440	12,423,830	18,503,935
	$ 32,440,690	$ 12,602,827	$ 18,688,029

During the years ended December 31, 2005, 2004 and 2003, the company conducted non-cash operating, investing and financing activities as follows:

	2005	2004	2003
Mineral properties – non-cash deferred exploration	$ (54,658)	$ (35,630)	$ (25,019)
Mineral properties – non-cash acquisition payments	$ –	$ –	$ (328,955)
Marketable securities received from sale of subsidiary company	$ 1,882,000	$ 549,000	$ 330,000
Shares issued for mineral property acquisition costs	$ –	$ –	$ 232,500
Share purchase warrants issued for mineral property acquisition costs	$ –	$ –	$ 96,455

11 Financial instruments

The company does not use any derivative financial instruments. At December 31, 2005 the carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term nature of the instruments.

During the year, the company sold all of its marketable securities on hand for gross proceeds of $2,339,123, incurring a loss of $96,877. As of December 31, 2005 marketable securities held by the company, carried at a cost of $Nil (2004 – $554,000), had a quoted market value of $Nil (2004 – $595,000). At December 31, 2005 the company holds 200,000 shares of a company that remains non-public and does not have a quotable market value. Accordingly, these securities are being carried by the company at a Nil value.

(expressed in Canadian dollars)

12 Reconciliation to United States Generally Accepted Accounting Principles ("GAAP")

The consolidated financial statements have been prepared in accordance with Canadian GAAP which differs in certain respects from those principles that the Company would have followed had its consolidated financial statements been prepared in accordance with United States GAAP. Significant measurement differences that materially affect these consolidated financial statements are as follows:

- As described in Note 2, Canadian GAAP allows for the deferral of exploration expenditures and deferred power project costs. Under United States GAAP, the Company expenses, as incurred, exploration costs relating to unproven mineral properties and deferred power project costs. When proven and probable reserves are determined for a property and a feasibility study has been prepared, subsequent development costs of the property would be capitalized.

- Under U.S. GAAP, marketable securities are classified as trading or available-for-sale. Gains and losses on trading securities are recognized currently, whether or not realized. Securities are carried on the balance sheet at their fair value and unrealized gains and losses on available-for-sale securities are excluded from earnings and recorded as a separate component of shareholders' equity. Carrying values of available-for-sale securities which are considered impaired are written down and the charge is recognized currently.

Had the Company followed United States GAAP, certain items in the financial statements would have been reported as follows:

Statements of Loss and Deficit

	Year Ended December 31, 2005	2004	2003
Net loss under Canadian GAAP	$ 3,344,139	$ 714,062	$ 682,092
Mineral exploration costs expensed under U.S. GAAP	2,741,988	8,164,470	1,327,284
Net loss under U.S. GAAP	6,086,127	8,878,532	2,009,376
Change in unrealized gain on available-for-sale securities	41,000	31,000	16,500
Comprehensive loss under U.S. GAAP	$ 6,127,127	$ 8,909,532	$ 2,025,876
Basic and diluted loss per share, per U.S. GAAP	$ 0.13	$ 0.20	$ 0.06
Weighted average number of shares outstanding	45,825,859	44,594,782	33,666,622

(expressed in Canadian dollars)

Balance Sheets

		2005		2004
Total assets under Canadian GAAP	$	67,100,008	$	40,501,582
Adjustments to reconcile U.S. GAAP				
Mineral exploration costs expensed under U.S. GAAP		(22,297,442)		(19,555,454)
Unrealized gain on available-for-sale securities		–		41,000
Total assets under U.S. GAAP	$	44,802,566	$	20,987,128

		2005		2004
Shareholders' equity under Canadian GAAP	$	66,123,764	$	39,755,015
Adjustments to reconcile U.S. GAAP				
Mineral exploration costs expensed under U.S. GAAP		(22,297,442)		(19,555,454)
Unrealized gain on available-for-sale securities		–		41,000
Total shareholders' equity under U.S. GAAP	$	43,826,322	$	20,240,561

Statements of Cash Flows

	Year Ended December 31,					
		2005		2004		2003
Cash applied to operating activities under Canadian GAAP	$	(955,517)	$	(301,643)	$	(245,731)
Mineral exploration costs incurred in the year		(8,598,789)		(8,164,470)		(1,327,284)
Cash applied to operating activities under U.S. GAAP	$	(9,554,306)	$	(8,466,113)		(1,573,015)

		2005		2004		2003
Cash applied to investing activities under Canadian GAAP	$	(7,695,234)	$	(10,016,421)	$	(1,470,402)
Mineral exploration costs incurred in the year		8,598,789		8,164,470		1,327,284
Cash applied to investing activities under U.S. GAAP	$	903,555	$	(1,851,951)	$	(143,118)

Recent Accounting Pronouncements

Non-monetary Transactions

CICA Handbook Section 3831 "Non-Monetary Transactions" will be applicable to the company commencing with the 2006 financial year.

Derivative Instruments

In January 2005, the Canadian Institute of Chartered Accountants (CICA) issued three new standards relating to financial instruments. These standards are applicable for fiscal years beginning on or after October 1, 2006. The company is currently reviewing the impact of these new standards. These standards are as follows:

Financial Instruments – Recognition and Measurement, Section 3855

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. It also specifies how financial instrument gains and losses are to be presented.

Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the existing Accounting Guideline AcG–13 “Hedging Relationships”, and Section 1650 “Foreign Currency Translation”, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Comprehensive Income, Section 1530

This standard introduces new rules for the reporting and display of comprehensive income. Comprehensive income, which is currently reported under US GAAP, is the change in shareholders’ equity (net assets) of an enterprise 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 those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments and foreign currency gains and losses related to self-sustaining foreign operations (cumulative translation adjustment).

Recent U.S. Accounting Pronouncements

During June 2005, the FASB issued SFAS No. 154, Accounting for Changes and Error Corrections. The new standard requires that entities which make a voluntary change in accounting principle apply that change retroactively to prior period financial statements, unless this would be impracticable. For changes in methods of depreciation, amortization or depletion for long-lived assets, the change must be accounted for prospectively, as a change in estimate. SFAS No. 154 is effective for the company’s 2006 financial statements.