

# MANAGEMENT'S DISCUSSION & ANALYSIS

*(Expressed in Canadian dollars unless otherwise noted)*

March 24, 2006

Management's Discussion and Analysis supplements, but does not form part of, the audited consolidated financial statements of the company and the notes thereto for the fiscal year ended December 31, 2005. Consequently, the following discussion and analysis of the financial condition and results of operations for Corriente Resources Inc. should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2005 and 2004 and related notes therein, which have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied.

Additional information regarding the company, including its Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## ***Forward-Looking Statements***

Certain statements contained in the following Management's Discussion and Analysis (MD&A) and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

## ***Corporate Governance***

Management of the company is responsible for the preparation and presentation of the annual consolidated financial statements and notes thereto, MD&A and other information contained in this annual report. Additionally, it is Management's responsibility to ensure the company complies with the laws and regulations applicable to its activities.

The company's Management is accountable to the Board of Directors (Directors), each member of which is elected annually by the shareholders of the company. The Directors are responsible for reviewing and approving the annual audited consolidated financial statements and the MD&A. Responsibility for the review and approval of the company's quarterly unaudited interim consolidated financial statements and MD&A is delegated by the Directors to the Audit Committee, which is comprised of three directors, all of whom are independent of Management. Additionally, the Audit Committee pre-approves audit and non-audit services provided by the company's auditors.

The auditors are appointed annually by the shareholders to conduct an audit of the consolidated financial statements in accordance with generally accepted auditing standards. The external auditors have complete access to the Audit Committee to discuss audit, financial reporting and related matters resulting from the annual audit as well as assist the members of the Audit Committee in discharging their corporate governance responsibilities.

The disclosure of Corriente's corporate governance policies is contained in the company's Information Circular prepared for the May 2006 Annual General Meeting and which is available for review at [www.sedar.com](http://www.sedar.com). The disclosure statement has been prepared by the company's Corporate Governance Committee and approved by the Board of Directors.

## ***DISCLOSURE CONTROLS***

Corriente has daily, weekly, monthly and annual processes that, when considered in the aggregate and in conjunction with current internal controls, are considered to be effective disclosure controls. In addition, Corriente has created a Corporate Disclosure Committee, comprised of the Chief Executive Officer, Senior Vice-President, and Chief Financial Officer. This Committee supplements these periodic processes.

Disclosure Controls and Procedures have been developed to ensure that material information relating to Corriente and its subsidiaries is made known to us by others within those entities, particularly within a period in which a disclosure report is being prepared. These involve:

- identification of all continuous disclosure requirements under securities laws, rules and policies applicable to Corriente.
- identification of the individuals responsible for preparing reportable information and individuals, whether internal or external, responsible for reviewing reports or portions of reports to verify disclosure made with respect to their areas of responsibility or expertise.
- establishment of timetables for the preparation and adequate review of reportable information.
- procedures for obtaining "sign-off" on disclosure of reportable information and receipt of written consents from all experts whose reports are included or referred to in any disclosure.
- procedures for the identification and timely reporting to the Committee of information which may constitute material information or which may constitute a material change to previously disclosed material information, including the identification of individuals who are likely to learn first about events outside the control of Corriente that may give rise to material information.
- procedures for the identification and reporting to the Audit Committee of the Board of Directors of any fraud, whether or not material, that involves management or other employees who have a significant role in Corriente's internal controls.
- ensuring the procedures are followed with respect to the release of each disclosure made in writing and for the review of any disclosure made orally.
- ongoing evaluation of Corriente's disclosure controls and procedures.

Corriente and its subsidiaries are relatively small in size and operate in a very integrated management environment. That is, senior management is in constant contact with many of Corriente's staff, suppliers, regulators and the like on an ongoing and detailed basis. This allows one or more of senior management to be in a position where they are more likely to be aware (than not) of material events or information. While senior management may not be aware of all things at all times, it believes that the probability of a material event or material information being missed or not disclosed on a timely basis is very small.

As new Canadian accounting standards are released, the Chief Financial Officer undertakes a review and evaluation to determine if it is applicable. If there is any uncertainty in its applicability, Corriente solicits the input of the external auditor. If the new standard is applicable to Corriente, it is then analyzed and summarized in a manner that effectively documents and

evaluates the impact on Corriente, and to determine the immediate action, if any, Corriente would need to undertake in order to comply with the new standard. Quarterly, the documented standards are reviewed, and updated as required, to ensure that a standard is still applicable, and that Corriente remains in compliance.

Through implementation of the above, senior management believes that the company's disclosure controls are sufficient while being practical for a company of its size.

### **General**

Corriente is a Canadian-based junior resource exploration company engaged in the exploration and development of copper-gold resource properties located primarily in the Corriente Copper Belt in Ecuador. Under various agreements signed with certain Ecuadorian subsidiaries of BHP Billiton LLC ("BHP Billiton"), the company has earned a 100% interest in certain of 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 concessions 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, Panantza and San Carlos resource properties upon the payment of US\$2 million for each option exercised to BHP Billiton.

As a result, Corriente controls a 100% interest in over 50,000 hectares located within the Corriente Copper Belt. The Belt extends over a 20 x 80 kilometre area in southeast Ecuador. The Belt currently contains three copper and copper-gold porphyry deposits, Mirador, Panantza and San Carlos. Six additional copper and copper-gold exploration targets have been identified in the Corriente Copper Belt to date.

### **Mirador Project**

#### **Feasibility Study**

On April 14, 2005, the company announced the completion of its feasibility study at the Mirador project which confirmed the economics of a 25,000 tonne/day open pit milling operation. The prime consultant for the study is AMEC Americas Limited, who completed the resource estimation, the metallurgical studies and the mine model. The tailings facility was designed by Knight Piesold Ltd. and Merit Consultants International Inc. prepared the final capital cost. The Indicated Mineral Resources internal to the pit were estimated to be 111 Million tonnes at an average grade of 0.67% copper and 0.22 g/t gold (with an average cut-off of 0.4% Cu). The feasibility study highlights were:

- The project was forecast to annually produce approximately 128 Million pounds of copper, 32,000 ounces of gold and 395,000 ounces of silver during the first five years of production
- The mine model indicated a 12 year mine life
- At a long term copper price of US\$1.00/lb, the study indicated a Pre-Tax Internal Rate of Return for the project of 15.5% and a Net Present Value of US\$78 Million at an 8% discount rate
- The capital cost for the project was estimated to be US\$204 Million

The initial 25,000 tonnes/day development phase for the Mirador project is able to support the infrastructure requirements of a large copper operation and includes allowances for expansion in the future. For example, the tailings site has up to three times the required storage capacity, meaning the operation can expand significantly in size without needing to locate new tailings facilities. The feasibility study was made available in final report form on May 13, 2005 and is posted on [www.sedar.com](http://www.sedar.com), as well as [www.corriente.com](http://www.corriente.com).

Assumptions for the financial conclusions of the feasibility study included: pricing of US\$1.00/lb for copper, US\$400/oz for gold, US\$6.50/oz for silver, and a discount rate of 8%. The estimated Indicated Mineral Resources included in the mine plan total approximately 111 Million tonnes grading 0.67% Cu and 0.22 g/t Au (with an average cut-off of 0.4% Cu). Approximately 91 Million tonnes of waste rock will be removed over the mine life, resulting in an average strip ratio of about 0.8:1. The mine plan was based on a contract mining company providing ore to a conventional copper concentrator at a rate of 25,000 tonnes/day (9.125 Million tonnes/a). All facilities were designed for this throughput and operate on a continuous basis, 24 hours/day, 365 days/annum, subject to maintenance downtime. Average production was estimated to be about 174,000 t/annum of copper concentrate over the mine life of 12 plus years.

### **Optimization Study**

In November 2005, Corriente announced the results of an ongoing optimization study completed by Mine Development Associates (MDA) of Reno, Nevada for the starter project at the Mirador copper-gold deposit in Ecuador. This study built on the 25,000 tonnes per day base case feasibility study which was released in April 2005. The main change in the new work was the incorporation of the results of 52 new drill holes which were completed during the summer of 2005 and led to the calculation of a new resource model. The optimization work was based on a Lerchs-Grossmann pit optimization completed by MDA and included a measured and indicated resource of 346,968,000 tonnes at an average grade of 0.62% copper, 0.2 g/t gold and 1.6 g/t silver (with an average cut-off grade of 0.37% Cu). For the purposes of the optimization study, all of the elements of the feasibility study completed in April 2005 were retained (except for reduced pre-stripping associated with the new pit optimizations). Approximately 491 Million tonnes (Mt) of waste rock will be removed over the mine life, resulting in an average strip ratio of about 1.4:1. The initial starter pit will have a 0.53:1 strip ratio containing 101.5 Mt of ore at 0.67% Cu, 0.21 g/t gold and 1.8 g/t silver. The mine plan was based on a contract mining company providing ore to a conventional copper concentrator at a rate of 25,000 tonnes/day (9,125 Mt/a).

### **Optimization Study Highlights**

- The project is forecast to annually produce approximately 131 Million pounds of copper, 32,000 ounces of gold and 398,000 ounces of silver, during the first five years of production.
- The mine model indicates a 38 year mine life at a throughput of 25,000 tonnes per day.
- At a long-term copper price of US\$1.10/lb, the study indicates a Pre-Tax Internal Rate of Return (IRR) for the project of 22.6% and a Net Present Value (NPV) of US\$224 Million at an 8% discount rate. The Investment Contract with the Government of Ecuador will determine the final tax regime for the project, so after-tax numbers are not being presented here.
- The capital cost for the project was revised to total approximately US\$195 Million (reflecting reduced pre-strip with the new mine plan).

With the results of the optimization study showing a robust project, Corriente intends to move forward with development of the 25,000 tonnes per day starter project at Mirador in the second half of 2006.

This optimization work demonstrated improved economics of the company's starter project which is planned as the platform for later expansions at Mirador and development of Corriente's Panantza-San Carlos and other copper projects in the Corriente Copper Belt district.

Tabulation of the revised project resources at Mirador using a cut-off of 0.40%Cu is set out in the table below. This work was carried out by Mine Development Associates (Reno, NV) under

the direction of Steve Ristorcelli, P.Geo., C.P.G., an independent Qualified Person as defined by NI 43-101. The resource estimate is based on 142 drill holes totaling 36,284 metres of core.

### Revised Mirador Resources

Cu Cut-off Grade of 0.40%							
Class	Tonnes (000's)	Cu lbs (000's)	Cu (%)	Au (oz)	Au (g/t)	Ag (oz)	Ag (g/t)
Measured	52,610	753,000	0.65	360,000	0.21	2,770,000	1.6
Indicated	385,060	5,134,000	0.60	2,380,000	0.19	18,760,000	1.5
Inferred	235,400	2,708,000	0.52	1,250,000	0.17	9,900,000	1.3
Previous Resources from September 2004 Disclosure							
Indicated	310,000		0.65		0.20		
Inferred	315,000		0.56		0.17		

*Resource classifications conform to CIM standards on Mineral Resources and Reserves referred to in National Instrument 43-101. Mineral resources that are not reserves do not demonstrate economic viability. Measured and Indicated Mineral Resources are that part of a mineral resource for which quantity and grade can be estimated with a level of confidence sufficient to allow the application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. An Inferred Mineral Resource is that part of a mineral resource for which quantity and grade can be estimated on the basis of geological evidence and limited sampling that can be reasonably assumed, but not verified.*

Selection of financing options for the project is planned during the first half of 2006 and issuance of the Mining Permit is targeted for the second quarter following approval of the Environmental Impact Assessment ("EIA"), which was filed with the Ministry of Energy and Mines for Ecuador ("the Ministry") in December 2005.

#### Environmental Impact Assessment

The EIA covered both the environmental aspects of proposed mining operations in Mirador and community and social plans associated with the same project. During the lengthy preparation of the EIA, the company worked closely with the Ministry to help ensure that the report met all required government guidelines and regulations. The Mirador EIA is expected to be one of the most comprehensive documents on social and environmental issues ever submitted to the Mines Ministry in Ecuador. The submission followed an extensive consultation process with the local communities that was carried out in late November and early December 2005. Approval of the EIA is expected in the first half of 2006.

#### **Personnel**

Corriente continues to build its mine development and management team with the September 2005 appointment of Tom Milner as President of Corriente.

Mr. Milner will be responsible for the execution of the Mirador Development Plan utilizing his background experience as a mine developer and operator. Most recently, Mr. Milner was Chief Operating Officer for Taseko Mines Ltd., with responsibility for the successful 2004 restart of the open pit copper-molybdenum Gibraltar Mine located in south central B.C. The Gibraltar Mine mills 35,000 tonnes of ore per day with an overall mining rate of 115,000 tonnes per day. In addition to extensive operations experience at Gibraltar, Mr. Milner was President of Brinco Coal Corporation, with responsibility for developing the Quinsam Coal Mine on Vancouver Island from the feasibility study stage through environmental approvals, permitting, construction and operations.

Mr. Ken Shannon will continue on as the company's Chairman and Chief Executive Officer while Mr. Ron Simkus will assist Mr. Milner in the overall development of the Mirador project.

### **Other**

In June 2004, J. David Lowell exercised his option to obtain 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 (including Mirador, Panantza and San Carlos). The Warintza resource includes four concessions totalling 20,000 hectares. As a result of this transaction, the company has complete ownership of its Corriente Copper Belt resource properties, comprised of concessions covering 50,000 hectares within the Corriente Copper Belt, subject only to a 2% Net Smelter Royalty obligation to BHP Billiton.

In March 2004, the company entered into an agreement with Hidrelgen, S.A., an associated company of Caminosca Caminos y Canales C. Limitada, to develop, construct, and operate a 30-megawatt run-of-river hydroelectric generation facility on the Sabanilla River (Sabanilla Power Project, or "SPP"), to supply power to Corriente's planned Mirador copper mine. Market conditions for bank financing of power projects did not allow the company to meet the deadline for financing of the Sabanilla project, with the result that the agreement lapsed in 2005. Accordingly, deferred power project costs of \$2,739,111 associated with the Sabanilla project have been written off by the company at December 31, 2005. In March 2006, the company announced that it has entered into a letter of intent with Hidroabanico S.A. to supply the power needs of the Mirador project.

In December 2005, the company and BHP Billiton agreed to terminate the Global Strategic Alliance Agreement. No commitments remain for either party.

The company's executive office is located in Vancouver, Canada while its Ecuador operations are run from its subsidiary office located in Quito, Ecuador. With the exception of short-term operational requirements for the subsidiaries, funds have been maintained and controlled in Vancouver, both in Canadian and U.S. dollars. In addition to its core staff, the company engages consultants as necessary, to provide geological, mine development and pre-construction consulting, design and other services. Overhead costs and efficiencies in Ecuador continue to compare favourably with other South American exploration areas.

### **Financial Results of Operations**

All of the financial information referenced below has been prepared in accordance with Canadian generally accepted accounting principles, applied on a consistent basis.

<b>Financial Data for Last Three Fiscal Years</b>			
<b>Fiscal year ended</b>	<b>Dec 31-05</b>	<b>Dec 31-04</b>	<b>Dec 31-03</b>
Total revenues (000's)	\$ 0	\$ 0	\$ 0
Loss before extraordinary items (000's)	\$ 3,344	\$ 714	\$ 682
Net loss (000's)	\$ 3,344	\$ 714	\$ 682
Basic and diluted loss per share	\$ 0.07	\$ 0.02	\$ 0.02
Cash and cash equivalents (000's)	\$ 32,441	\$ 12,603	\$ 18,688
Total assets (000's)	\$ 67,100	\$ 40,502	\$ 35,948
Total long-term financial liabilities (000's)	\$ 0	\$ 0	\$ 0
Total shareholders' equity (000's)	\$ 66,124	\$ 39,755	\$ 35,527
Cash dividends declared per share	\$ 0.00	\$ 0.00	\$ 0.00

The company's operations during the year ended December 31, 2005 produced a net loss of \$3,344,139 or \$0.07 per share compared to a net loss of \$714,062 or \$0.02 per share for 2004 and \$682,092 or \$0.02 per share for 2003. As the company has not owned any revenue-producing resource properties, no mining revenues have been recorded to date. The increase in

net loss from 2004 was primarily due to the write-down of the company's deferred power project, and offset somewhat by the receipt and sales of marketable securities received on assets previously written off.

Deferred mineral property development expenditures made on the company's target projects within the Corriente Copper Belt totalled \$8,845,049 for 2005 versus \$8,627,262 during 2004 and \$1,511,358 for 2003, reflecting the company's significant activities in furthering development of the Mirador starter mine. These activities included costs incurred towards completion of the Mirador feasibility and optimization study reports, as well as the continuing development of the Mirador project infrastructure. Drilling of 52 holes for 2005 (2004 - 44 holes, 2003 - 7) has been done in order to achieve 2 goals. The first goal was to drill holes around the low-grade margin of the proposed open pit to test the geotechnical characteristics of the pit margins using oriented drill core. This drilling has provided a good data base of new structural information which will be used as part of an effort to redesign pit shells with steeper slopes. This means more mineable material in the pit and less waste tonnes, which ultimately leads to a lower mining cost. The second goal of this drill program was to provide in-fill assays so that resources that had been classified as inferred in the starter project block model could be upgraded to indicated status and be included in the economic analysis of the project. As in recent years, all exploration drilling in 2005 was contained to the company's Corriente Copper Belt resource properties.

Deferred power project expenditures made by the company pursuant to its JV contributions for development of the Sabanilla Power Project totalled \$1,034,449 in 2005 (2004 - \$1,704,602 and 2003 - \$Nil). At the end of 2005, the company wrote the costs of Sabanilla down to \$Nil.

Administration expenses increased for 2005 to \$2,639,979 from \$1,778,010 in 2004 and \$1,727,649 in 2003. The increase in 2005 is primarily due to an increase in stock-based compensation to \$1,224,274 (2004 - \$709,424, 2003 - \$762,558), management fees, wages and benefits to \$586,911 (2004 - \$436,972, 2003 - \$395,637), investor relations and promotion to \$255,780 (2004 - \$189,486, 2003 - \$209,791), legal and accounting to \$149,214 (2004 - \$82,459, 2003 - \$91,625), travel to \$91,378 (2004 - \$74,053, 2003 - \$58,321), insurance to \$67,640 (2003 - \$53,178, 2002 - \$43,889) and regulatory fees to \$56,071 (2003 - \$26,735, 2002 - \$45,758). The higher administrative costs reflected the granting of options to employees and directors, the addition of seasoned mining resource development management, the pursuit of financing, higher legal and accounting costs due to the company's recent application to be listed on the American Stock Exchange, increased corporate travel, higher insurance costs, and increased sustaining fees based on the company's higher market capitalization.

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 companies affiliated with employed officers.

Stock-compensation expenses were \$1,224,274 for 2005 versus \$709,424 for 2004 and \$762,558 for 2003, reflecting the fair value of stock options granted during 2005 as calculated using the Black-Scholes Option Pricing Model.

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 to the company from the purchaser 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);
- 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.

Due to the company's lower average cash balance on hand during 2005, interest income decreased to \$209,422 from \$382,237 and \$136,738 for 2004 and 2003, respectively.

Financial Data for Last Eight Quarters								
Three months ended	Dec-05	Sep-05	Jun-05	Mar-05	Dec-04	Sep-04	Jun-04	Mar-04
Total revenues (000's)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(Earnings) loss before extraordinary items (000's)	\$ 3,272	\$ 1,404	\$ 378	\$ (1,710)	\$ (429)	\$ 425	\$ 343	\$ 369
Net (earnings) loss (000's)	\$ 3,272	\$ 1,404	\$ 378	\$ (1,710)	\$ (429)	\$ 425	\$ 343	\$ 369
(Earnings) loss per share	\$ 0.07	\$ 0.03	\$ 0.01	\$ (0.04)	\$(0.01)	\$ 0.01	\$ 0.01	\$ 0.01

As the company has not had any revenue-producing resource properties, no mining revenues have been recorded to date. The significant net income generated in the Mar-05 and Dec-04 quarters was due to the proceeds received in 2005 and 2004 from the sale of the company's Argentinian and Bolivian assets, which had been written off in prior years. Excluding such proceeds, the company's net losses for the last 8 quarters generally reflect the impact and timing of the recording of stock-compensation expenses attributable to the Black Scholes Option Pricing Model calculation of the fair value of stock options granted within the period, offset by interest income earned from cash on hand.

### *Related Party Transactions*

During 2005, the company's new President was paid \$60,500 (including \$15,000 accrued at December 31, 2005) for managerial services provided to the company through his consulting company, until he became an employee of the company at the beginning of 2006. These fees were included in mineral property costs. Also, a consulting firm owned by the company's Chief Financial Officer was paid a total of \$48,600 for managerial services until he became an employee at the beginning of July 2005. This amount is included in management fees, wages and benefits.

### *Fourth Quarter*

During the fourth quarter of 2005, the company's cash balance increased by \$26,211,530, due mostly to the public offering completed in December 2005, which raised net proceeds of \$27,853,364. The company also received \$63,400 in proceeds from the exercise of stock options in the fourth quarter. Uses of cash in the fourth quarter included \$1,907,761 for mineral property costs.

Additionally, the company recorded a loss of \$3,271,838 which was due primarily to the \$2,739,111 year-end write-down of costs previously capitalized for the company's Sabanilla power project. Management fees, wages and benefits during the fourth quarter were \$251,524, including \$160,000 in year-end bonuses. Related to the December 2005 financing, investor relations expenditures of \$71,669 and travel costs of \$48,999 were incurred in the fourth quarter. The company also incurred legal and accounting costs of \$106,730, which were primarily related to associated expenses and fees for the 2006 listing of the company's common shares on the American Stock Exchange. Interest income of \$45,239 contributed positively to the company's cash flow.

### ***Critical Accounting Policies***

The details of the company's significant accounting policies are presented in note 2 of the company's audited consolidated financial statements which can be found at [www.sedar.com](http://www.sedar.com). The following policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the company's financial statements and the uncertainties that could have a bearing on its financial results:

#### *Resource 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, including interest on any required guarantee. 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.

### *Stock-based Compensation*

Management is required to make significant estimates about future volatility and the period in which stock options will be exercised. The selection of the estimated volatility figure, and the estimate of the period in which an option will be exercised will have a significant impact on the costs recognized for stock based compensation. The estimates concerning volatility are made with reference to historical volatility, which is not necessarily an accurate indicator of volatility which will be experienced in the future. Management assumes that stock options will remain unexercised until near their expiry date because historical experience supports this assumption. However, the exercise of options may occur at times different than those estimated, or options may expire unexercised. For options which vest over future periods, management makes an estimate of the percentage of options which are expected to be forfeited prior to vesting based on historical experience, which may not be an accurate indicator of future results. No adjustment is made for actual experience, except for options which vest at specific dates over time, where management updates its estimate of the number of unexercised options which are expected to vest in the future. Such fair value is estimated using the Black-Scholes Option Pricing Model, the assumptions of which can be found in Note 6 c) of the company's consolidated financial statements for the year ended December 31, 2005.

### *Liquidity and Capital Resources*

Working capital as at December 31, 2005 was \$31,652,192, compared to \$12,563,393 at December 31, 2004 and \$18,866,608 at December 31, 2003. The increase for 2005 is primarily due to the completion of a brokered private placement on December 29, 2005 that raised net proceeds of \$27,853,364. The main uses of cash during 2005 were expenditures associated with the development of the planned Mirador mine of \$8,845,449 (2004 - \$8,627,262 and 2003 - \$1,511,358) and the Sabanilla Power Project of \$1,034,449 (2004 - \$1,704,662 and 2003 - \$Nil). Proceeds from the sale of the company's marketable securities received on assets previously written off also contributed positively to the company's working capital.

As at December 31, 2005, the company had 53,751,393 (fully diluted – 56,606,393) common shares issued and outstanding versus 45,421,393 (fully diluted – 49,055,141) and 41,606,295 (fully diluted – 48,540,141) for 2004 and 2003, respectively. There was one brokered public offering in 2005 of 7,605,000 common shares that raised \$30,039,750 before issue costs of \$2,186,386. Other share issuances reflect the exercise of 475,000 stock options that raised \$435,250 and an exercise of 250,000 share purchase warrants that raised \$200,000. In 2004, there were no private placements, but 3,500,098 share purchase warrants and 315,000 stock options were exercised, raising \$3,928,512 and \$304,350, respectively. In 2003, the company raised a total of \$18,803,133 through the issue of new shares and the exercise of vested options and warrants, as follows: In February 2003, the company completed a non-brokered private placement of 1,000,000 units, which raised gross proceeds of \$1,000,000 equity capital (\$993,750 net of issue costs); in October 2003, the company closed a further non-brokered private placement of 2,000,000 common shares for proceeds of \$3.9 million; in November 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; and during 2003, the company received cash proceeds of \$2,380,513 and \$463,250 pursuant to the exercises of share purchase warrants and stock options, respectively.

Historically, the company's capital requirements have been met by equity subscriptions. While the company's current working capital is considered sufficient to meet the company's

administrative overhead for the next several years, substantial capital is required to complete the company's mine. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and project development activity and foreign exchange fluctuations. Management believes it will be able to raise equity capital as required in the long term but recognizes the risks attached thereto. The company continues to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partner and supplier financing where appropriate.

### ***Risk Factors***

Companies operating in the mining industry face many and varied kinds of risks. While risk management cannot eliminate the impact of all potential risks, the company strives to manage such risks to the extent possible and practical. Following are the risk factors which the company's management believes are most important in the context of the company's business. It should be noted that this list is not exhaustive and that other risk factors may apply. An investment in the company may not be suitable for all investors.

#### *Foreign Country and Political Risk*

The resource properties on which the company is actively pursuing its exploration and development activities are all located in Ecuador, South America. As a result, the company is subject to certain risks, including currency fluctuations and possible political or economic instability in Ecuador, which may result in the impairment or loss of mineral concessions or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political instability and government regulations relating to the mining industry. Any changes in regulations or shifts in political attitudes are beyond the control of the company and may adversely affect its business. Exploration may be affected in varying degrees by government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, expropriation of property, environmental legislation and mine and/or site safety. While Management believes that the current political climate in Ecuador is stable, there can be no certainty that this will continue going forward. To alleviate such risk, the company funds its Ecuador operations on an as-needed basis and is pursuing local partners. The company does not presently maintain political risk insurance for its foreign exploration projects.

#### *Exploration and Mining Risks*

The business of exploring for minerals and mining involves a high degree of risk. Due in some cases to factors that cannot be foreseen, only a small proportion of the properties that are explored are ultimately developed into producing mines. At present, only the company's Mirador project property has proven or probable reserves while any planned exploration programs for the company's other properties are an exploratory search for proven or probable reserves. The mining areas presently being assessed by the company may not contain economically recoverable volumes of minerals or metals. The operations of the company may be disrupted by a variety of risks and hazards which are beyond the control of the company, including labour disruptions, the inability to obtain suitable or adequate machinery, equipment or labour and other risks involved in the conduct of exploration programs. Once economically recoverable volumes of minerals are found, substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralised deposit, no assurance can be given that minerals will be discovered in sufficient quantities or having sufficient grade to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing copper, gold and other mineral properties is affected by

many factors including the cost of operations, variations of the grade of ore mined, fluctuations in the price of minerals produced, costs of processing equipment and such other factors as government regulations, including regulations relating to environmental protection. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Depending on the price of copper or other minerals produced, which have fluctuated widely in the past, the company may determine that it is impractical to commence or continue commercial production.

### *Financing Risks*

The company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the company's properties will be dependent upon the company's ability to obtain financing through joint venturing, equity or debt financing or other means, and although the company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects.

### *Limited Experience with Development-Stage Mining Operations*

The company has no previous experience in placing resource properties into production and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the company will have available to it the necessary expertise when and if it places its resource properties into production.

### *Estimates of Mineral Resources and Production Risks*

The Mineral Resource estimates included herein are estimates only, and no assurance can be given that any proven or probable reserves will be discovered or that any particular level of recovery of minerals will in fact be realized or that an identified reserve or resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. In addition, the grade of mineralization which may ultimately be mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. The estimated Mineral Resources described herein should not be interpreted as assurances or evidence of commercial viability or potential or of the profitability of any future operations.

### *Base Metals Prices*

The principal activity of the company is the exploration and development of copper-gold resource properties. The mineral exploration and development industry in general is intensely competitive and there is no assurance that, even if commercial quantities of proven and probable reserves are discovered, a profitable market may exist for the sale of the same. Factors beyond the control of the company may affect the marketability of any substances discovered. Base metals prices have fluctuated widely, particularly in recent years. The feasible development of such properties is highly dependent upon the price of copper and, to a lesser extent, gold. A sustained and substantial decline in commodity copper prices could result in the write-down, termination of exploration and development work or loss of its interests in identified resource properties.

### *Competition*

The company competes with many companies that have substantially greater financial and technical resources than the company for the acquisition of mineral properties as well as for the recruitment and retention of qualified employees.

### *Environmental and other Regulatory Requirements*

The activities of the company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all permits which the company may require for exploration and development of its properties will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the company may undertake.

The company believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. However, there may be unforeseen environmental liabilities resulting from exploration and/or mining activities and these may be costly to remedy. Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in exploration operations may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on the company and cause increases in expenditures and costs or require abandonment or delays in developing new mining properties.

Corriente's policy is to abide by the regulations and requirements of Ecuador, Canada and the World Bank.

### *Title Matters*

Title to and the area of mining concessions may be disputed. 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.

### *Repatriation of Earnings*

Currently there are no restrictions on the repatriation from Ecuador of earnings to foreign entities. However, there can be no assurance that restrictions on repatriation of earnings from Ecuador will not be imposed in the future.

### *Dependence On Key Personnel*

The company's development to date has largely depended and in the future will continue to depend on the efforts of key management. Loss of any of these people could have a material adverse effect on the company and its business. The company has not obtained and does not intend to obtain key-person insurance in respect of any directors or other employees.

### *Share Price Fluctuations*

In recent years, the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered development-stage companies such as the company, have experienced wide fluctuations in price which have not necessarily been related to the underlying asset values or prospects of such companies. Price fluctuations will continue to occur in the future.

### *No Dividends*

Investors cannot expect to receive a dividend on their investment in the company in the foreseeable future, if ever. Investors should not expect to receive any return on their investment in the company's securities other than possible capital gains.

### **Outlook**

Corriente controls a 100% interest in over 50,000 hectares located within the Corriente Copper Belt in Ecuador. This includes three copper and copper-gold porphyry deposits, called Mirador, Panantza and San Carlos. Measured and indicated copper resources at a 0.40% cutoff at Mirador is 438 million tonnes at 0.61%Cu and 0.19g/t Au, while inferred resources at Panantza, San Carlos and Mirador (excluding Mirador Norte) at a 0.40% cutoff are 395 million tonnes at 0.67% Cu and 0.08 g/t Au, 657 million tonnes at 0.61% Cu, and 235 million tonnes at 0.52% Cu and 0.17 g/t Au, respectively.

The company fully intends to continue with the development and pre-construction work necessary to build and commission an initial 25,000 tonnes/day mine on its Mirador property. This starter mine is expected to serve as the base for the phased development of the entire Corriente Copper Belt in southern Ecuador, with financing for this project coming from a combination of equity, bank and joint-venture partner and supplier financing sources.

The Environmental Impact Assessment has been submitted to the government of Ecuador and approval of this application is the next major step in moving Mirador forward. This approval is targeted for the second quarter 2006. The beginning of the third quarter is planned for completion of a feasibility study which will provide an assessment of the economic value created by expanding the production of Mirador from 25,000 tpd to 50,000 tpd in the sixth year after start-up. Following completion of the expansion feasibility study, a construction decision will be made for Mirador.

A total of 15 to 20 thousand metres of drilling is also planned for 2006 with a particular goal of identifying high grade copper targets which would make a significant contribution to early mine development in the Corriente Copper Belt.