Corriente Resources Inc.

(A Development Stage Enterprise)

Consolidated Financial Statements
As at December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004
(expressed in Canadian dollars)

AUDITORS' REPORT

To the Shareholders of Corriente Resources Inc.

We have audited the consolidated balance sheets of Corriente Resources Inc. as at December 31, 2006 and 2005 and the consolidated statements of changes in its shareholders' equity, loss and deficit and cash flows for each year in the three year period ended December 31, 2006. 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, after the restatement of the U.S. GAAP reconciliation described in note 13, present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations, changes in its shareholders' equity and its cash flows for each of the years in the three year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, BC
March 29, 2007

Comments by Auditors for U.S. Readers on Canada - U.S. Reporting Difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the company's financial statements, such as a restatement as described in note 13 to the financial statements. Our report to the shareholders dated March XX, 2007, is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles or a restatement in the auditors' report when they are properly accounted for and adequately disclosed in the financial statements.

Chartered Accountants

Vancouver, B.C.
March 29, 2007

Corriente Resources Inc.

(a development stage enterprise)

Consolidated Balance Sheets

As at December 31, 2006 and 2005

(expressed in Canadian dollars)

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 127,110,679	$ 32,440,690
Prepayments and other current assets	213,856	156,816
	127,324,535	32,597,506
Mineral properties (note 3)	61,249,060	34,205,955
Plant and equipment (note 4)	2,490,457	265,617
Other assets (note 5)	4,933,384	30,930
TOTAL ASSETS	$ 195,997,436	$ 67,100,008
Liabilities		
Current liabilities		
Accounts payable relating to mineral properties	$ 6,448,508	$ 386,546
Accounts payable relating to plant and equipment	547,638	–
Accounts payable and accrued liabilities	263,871	589,698
	7,260,017	976,244
Shareholders' Equity		
Share capital (note 6 (b))	233,552,783	112,367,655
Options (note 6 (c))	2,584,710	2,622,248
Contributed surplus	993,697	930,660
Deficit	(48,393,771)	(49,796,799)
	188,737,419	66,123,764
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 195,997,436	$ 67,100,008

Commitments – note 3

Subsequent events – note 15

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, 2006, 2005 and 2004

(expressed in Canadian dollars)

	Common Shares		Estimated Fair Value				
	Number	Share Capital	Options	Share Purchase Warrants	Contributed Surplus	Deficit	Total Shareholders' Equity
Since inception:							
Common shares issued for cash, net of issue costs	31,919,872	$ 68,953,436	$ –	$ –	$ –	$ –	$ 68,953,436
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	6,871,477	6,787,054	–	–	–	–	6,787,054
Fair value of warrants issued	–	–	–	597,506	676,407	–	1,273,913
Fair value of options exercised	–	286,608	(286,608)	–	–	–	–
Fair value of warrants exercised	–	170,326	–	(170,326)	–	–	–
Fair value of warrants expired	–	–	–	(254,253)	254,253	–	–
Stock based compensation expense on unexercised vested options	–	–	1,407,222	–	–	–	1,407,222
Losses since inception	–	–	–	–	–	(45,738,598)	(45,738,598)
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	–	76,472	–	(76,472)	–	–	–
Stock based compensation expense on unexercised vested options (note 6 (c))	–	–	709,424	–	–	–	709,424
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	–	96,455	–	(96,455)	–	–	–
Stock based compensation expense on unexercised vested options (note 6 (c))	–	–	1,224,274	–	–	–	1,224,274
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
Common shares issued for cash pursuant to private placements, net of issue costs	19,231,000	117,662,735	–	–	–	–	117,662,735
Common shares issued for cash pursuant to exercise of options	1,770,000	2,354,950	–	–	–	–	2,354,950
Fair value of options exercised (note 6 (c))	–	1,167,443	(1,167,443)	–	–	–	–
Fair value of options terminated (note 6 (c))	–	–	(63,037)	–	63,037	–	–
Stock based compensation expense on unexercised vested options (note 6 (c))	–	–	1,192,942	–	–	–	1,192,942
Income for the year ended December 31, 2006	–	–	–	–	–	1,403,028	1,403,028
Balance at December 31, 2006	74,752,393	$ 233,552,783	$ 2,584,710	$ –	$ 993,697	$ (48,393,771)	$ 188,737,419

Corriente Resources Inc.

(a development stage enterprise)

Consolidated Statements of Loss and Deficit

For the years ended December 31, 2006, 2005 and 2004

(expressed in Canadian dollars)

	2006	2005	2004	For the period from inception (February 16, 1983) to December 31, 2006 unaudited
Administration				
Management fees, wages, benefits & stock-based compensation	$ 1,458,749	$ 1,811,185	$ 1,146,396	$ 8,641,226
Legal and accounting	536,589	149,214	82,459	2,352,708
Corporate development and shareholder expenses	349,643	344,218	276,906	2,516,603
Office and related	234,463	172,617	157,157	2,709,574
Regulatory fees	192,625	56,071	26,735	555,175
Travel	124,156	91,378	74,053	870,551
Other	52,906	15,296	14,304	346,649
	2,949,131	2,639,979	1,778,010	17,992,486
Other expenses (income)				
Interest income	(3,994,855)	(209,422)	(382,237)	(7,392,021)
Loss (gain) on sale of marketable securities (note 11)	(336,253)	96,877	(199,323)	(1,125,312)
Foreign exchange loss (gain)	(58,667)	9,379	58,219	(23,290)
General exploration	37,616	38,535	8,393	4,222,915
Write-down of deferred power project costs	–	2,739,111	–	2,739,111
Gain on sale of assets	–	(1,970,320)	(549,000)	(4,417,284)
Other (note 12)	–	–	–	36,397,166
	(4,352,159)	704,160	(1,063,948)	30,401,285
Loss (income) for the period	(1,403,028)	3,344,139	714,062	48,393,771
Deficit – beginning of period	49,796,799	46,452,660	45,738,598	–
Deficit – end of period	$ 48,393,771	$ 49,796,799	$ 46,452,660	$ 48,393,771
Loss (earnings) per share				
Basic	$ (0.02)	$ 0.07	$ 0.02	
Diluted	$ (0.02)	$ 0.07	$ 0.02	
Weighted average number of shares outstanding				
Basic	66,603,215	45,825,859	44,594,782	
Diluted	66,603,215	46,431,960	46,193,268	

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, 2006, 2005 and 2004

(expressed in Canadian dollars)

	2006	2005	2004	For the period from inception (February 16, 1983) to December 31, 2006 unaudited
Cash flows from (applied to) operating activities				
Income (loss) for the period	$ 1,403,028	$ (3,344,139)	$ (714,062)	$ (48,393,771)
Items not affecting cash				
Stock-based compensation	567,734	1,224,274	709,424	3,908,655
Depreciation	19,291	15,296	14,304	260,065
Write-down of deferred power project costs	–	2,739,111	–	2,739,111
Gain on sale of assets	–	(1,882,000)	(549,000)	(3,254,486)
Loss (gain) on sale of marketable securities	(336,253)	96,877	(199,323)	(1,461,565)
Other (note 12)	–	–	–	36,910,450
Changes in non-cash working capital				
Prepayments and other current assets	(57,040)	(61,483)	139,155	(142,053)
Accounts payable and accrued liabilities	(325,827)	54,244	123,532	(1,326,671)
	1,270,933	(1,157,820)	(475,970)	(10,760,265)
Cash flows from (applied to) investing activities				
Mineral property costs, net of accounts payable	(21,553,066)	(8,642,746)	(8,452,935)	(80,507,485)
Other assets – EIA deposit	(3,518,971)	–	–	(3,518,971)
Payments to acquire plant and equipment, net of accounts payable	(1,882,845)	(154,859)	(213,820)	(3,925,199)
Proceeds from sale of marketable securities	336,253	2,339,123	529,323	4,578,451
Deferred power project costs	–	(1,034,449)	(1,704,662)	(2,739,111)
Deposit	–	–	–	(50,528)
	(26,618,629)	(7,492,931)	(9,842,094)	(86,162,843)
Cash flows from financing activities				
Proceeds from issuance of share capital, net of issue costs	120,017,685	28,488,614	4,232,862	225,718,373
Repayment of long-term debt	–	–	–	(1,684,586)
	120,017,685	28,488,614	4,232,862	224,033,787
Increase (decrease) in cash and cash equivalents	94,669,989	19,837,863	(6,085,202)	127,110,679
Cash and cash equivalents – beginning of period	32,440,690	12,602,827	18,688,029	–
Cash and cash equivalents – end of period	$ 127,110,679	$ 32,440,690	$ 12,602,827	$ 127,110,679

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 a 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, receipt of necessary permits and regulatory approvals, the ability of the company to obtain financing to complete their development and future profitable operations or sale of the properties. The investment in and expenditures on mineral properties comprise a significant portion of the company's assets.

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 13, 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, its subsidiaries, all of which are wholly-owned and any variable interest entities ("VIEs") where the company is the primary beneficiary. The company has determined that it does not have any VIEs as at December 31, 2006 and 2005. All significant inter-company balances have been eliminated.

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, exploration and development 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, abandoned, the company's mineral rights allowed to lapse or written down to fair value if the properties are impaired.

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 down to fair value if the properties are abandoned, become impaired or the claims allowed to lapse.

Asset impairment

When events or changes in circumstances indicate that the carrying amounts of the related mineral properties, plant and equipment may not be recoverable, management of the company reviews and evaluates the carrying value of each asset for impairment. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value which is normally the discounted value of future cash flows. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that an asset is impaired, it is written down to its estimated fair value in accordance with the CICA Handbook Section 3063 "Impairment of Long-Lived Assets".

Plant and equipment

Depreciation of plant and equipment is provided on a declining-balance basis over their estimated useful lives at annual rates of between 20% and 30%, commencing when the related asset is available for use.

Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit with banks, net of overdrafts, and highly liquid short-term interest bearing investments with a term to maturity at the date of purchase of 90 days or less from the date of acquisition.

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 the company's reported income or loss for the period.

Income taxes

Income taxes are calculated using the asset and 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 assets 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. A valuation allowance is provided against future income tax assets to the extent it is considered not likely that the future income tax assets will be realized.

Earnings/loss per share

Earnings or loss per share are presented for basic and diluted loss (income). Basic earnings per share is computed by dividing income or loss by the weighted average number of outstanding common shares for the year. The computation of diluted earnings per share reflects the dilutive effect of the exercise of stock options and warrants outstanding as at year-end using the treasury stock method. In years of loss, basic and diluted loss per share are the same because the effect of potential issuances of shares under options and warrants would be anti-dilutive.

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 or a charge to mineral properties in the period the options are vested, ranging from terms of up to 48 months, based on the estimated fair value at the measurement date using the Black-Scholes Option Pricing Model.

Asset retirement obligations

The company accounts for asset retirement obligations ("ARO") by recognizing the fair value of a liability for an ARO 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. The company has determined that it has no material ARO's at December 31, 2006 and 2005.

Comparative figures

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

(expressed in Canadian dollars)

3 Mineral properties

Corriente Copper Belt, Ecuador

Under various agreements signed and completed with certain Ecuadorian subsidiaries of BHP Billiton Plc ("BHP Billiton"), the company has earned a 100% interest in BHP Billiton's mineral 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 mineral 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 mineral properties upon the payment of US$2 million to BHP Billiton for each such option exercised.

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, 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, net of accounting for exchange of mineral property interests	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
Property acquisition	2,313,836	59,260	–	2,373,096
Deferred exploration and development costs	20,417,923	2,478,768	1,773,318	24,670,009
Balance December 31, 2006	$ 51,415,646	$ 6,242,751	$ 3,590,663	$ 61,249,060

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

(expressed in Canadian dollars)

Mineral Property Titles

Although the company has taken steps to verify the title to mineral properties it has acquired, 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.

Other

In 2003, the company sold the 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. Pursuant to the original and subsequently amended sale agreement, the company received a total of US$50,000 and 400,000 equivalent shares of the purchaser. Should the Taca-Taca property achieve commercial production, the purchaser is obligated to pay the company a further US$1,000,000.

During the course of 2004 to 2006, the company sold the shares received (note 11).

4 Plant and equipment

		2006				2005
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Construction barge	$ 1,401,529	$ –	$ 1,401,529	$ –	$ –	$ –
Computer equipment	792,580	262,782	529,798	218,291	161,620	56,671
Vehicles	290,950	69,634	221,316	201,965	50,796	151,169
Office furniture and equipment	253,473	74,519	178,954	71,742	57,638	14,104
Communications equipment	117,471	18,853	98,618	18,284	9,272	9,012
Field equipment	88,041	27,799	60,242	57,326	22,665	34,661
	$ 2,944,044	$ 453,587	$ 2,490,457	$ 567,608	$ 301,991	$ 265,617

5 Other assets

The following table summarizes information about other assets as at December 31, 2006:

	2006	2005
EIA security deposit	$ 3,518,971	$ –
Advances on mineral property expenditures	1,414,413	30,930
	$ 4,933,384	$ 30,930

As a requirement of the Ministry of Energy and Mining (“MEM”) of Ecuador to approve the Mirador project’s Environmental Impact Assessment (“EIA”), the company was required to post US$3,019,539 ($3,518,971) in favour of the MEM as a security deposit against the company’s obligations under the EIA.

Advances on mineral property expenditures include payments to contractors and suppliers made pursuant to supply agreements prior to the contracted goods and services being provided.

(expressed in Canadian dollars)

6 Share capital

a) Authorized

100,000,000 common shares without par value

b) Issued

See Consolidated Statements of Changes in Shareholders' Equity.

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

On May 25, 2006, the company completed a public offering of 19,231,000 common shares at $6.50 per share pursuant to a short form prospectus dated May 18, 2006 to raise gross proceeds of $125,001,500 before issue costs of $7,338,765.

c) Stock options

The company has in place an incentive stock option plan dated November 1996, last amended April 18, 2006 (the "Option Plan") for directors, officers, employees, and consultants to the company and its subsidiaries. The Option Plan provides that the directors of the company may grant options to purchase common shares on terms that the directors may determine, within the limitations of the Option Plan. The number of common shares available for the grant of options under the Option Plan and all other share compensation arrangements of the company is set at a rolling maximum number that shall not be greater than 10% of the company's current outstanding share capital at any given time. The exercise price of each option cannot be lower than the closing market price of the shares on the trading day immediately prior to the date of grant of the option. As at December 31, 2006, options to purchase a total of 2,435,000 shares were outstanding, 1,208,436 of which were vested.

For the year ended December 31, 2006, the estimated fair value of the granted options which vested during the year totalled $1,192,942 (2005 - $1,224,274; 2004 - $709,424), of which $567,734 (2005 – $1,224,274; 2004 – $709,424) is included in management fees, wages, benefits & stock-based compensation and $625,208 (2005 – $Nil; 2004 – $ Nil) is included in mineral properties. Non-cash stock-based compensation expense for options is determined based on estimated fair values of the options at the time of grant, the cost of which is recognized on a straight-line basis over the vesting period of the respective options and grants. The fair value of the stock options is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2006	2005	2004
Risk-free interest rate	3.87–4.16%	2.95–3.19%	2.71–3.71%
Expected dividend yield	–	–	–
Expected stock price volatility	62–67%	68–71%	67–72%
Expected option life in years	3	3	3

(expressed in Canadian dollars)

Option pricing models require the input of highly subjective assumptions including 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, 2006, 2005 and 2004 was credited to share capital and the estimated fair value assigned to the stock options terminated during the year ended December 31, 2006 was credited to contributed surplus.

The following table summarizes information about options granted during the twelve months ended December 31, 2006:

Expiry dates	Number of options		Exercise Price $
January 23, 2009	25,000	[3]	4.50
February 6, 2011	400,000	[1]	5.25
May 22, 2011	60,000	[2]	5.50
June 1, 2011	85,000	[2]	5.35
June 1, 2011	125,000	[1]	5.35
August 31, 2011	100,000	[1]	5.37
September 13, 2011	75,000	[1]	5.10
September 29, 2011	345,000	[2]	4.70
December 18, 2011	150,000	[2]	4.59
December 18, 2011	10,000	[1]	4.59
Granted during the year ended December 31, 2006	1,375,000		

[1] Options granted to senior management, directors and non-senior management vest on the basis of 1/16th of the total each quarter (from grant date), with such vesting being accelerated based on a change in control of the company and/or the attainment of clearly identified milestones, as determined by the company's Board of Directors.

[2] Options granted to the company's subsidiary personnel vest on a cumulative basis of 50% of the total granted after 12 months from the grant date, 75% of the total granted after 18 months from the grant date and 100% of the total granted after 24 months from grant date, with such vesting being accelerated based on a change in control of the company, as determined by the company's Board of Directors.

[3] Fully vested on grant date.

(expressed in Canadian dollars)

A summary of changes to stock options outstanding and exercisable is as follows:

	2006		2005		2004	
	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	2,855,000	$ 1.89	2,390,000	$ 1.46	2,190,000	$ 0.96
Granted	1,375,000	5.05	940,000	2.49	515,000	3.33
Exercised	(1,770,000)	1.33	(475,000)	0.92	(315,000)	0.97
Terminated	(25,000)	5.35	–	–	–	–
Options outstanding – End of year	2,435,000	$ 4.05	2,855,000	$ 1.89	2,390,000	$ 1.46
Options outstanding and vested – End of year	1,208,436	$ 3.05	2,855,000	$ 1.89	2,177,500	$ 1.28

The following table summarizes information about stock options outstanding and exercisable at December 31, 2006:

		Outstanding			Exercisable	
Year of Grant	Range of exercise prices $	Number of options outstanding at December 31, 2006	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number of options exercisable at December 31, 2006	Weighted average exercise price $
2004	3.16 – 3.55	350,000	3.35	0.3	350,000	3.35
2005	2.15 – 2.99	735,000	2.55	1.6	735,000	2.55
2006	4.50 – 5.50	1,350,000	5.04	4.5	123,436	5.12
		2,435,000	4.05	3.0	1,208,436	3.05

7 Related party transactions and balances

Included in management fees, wages and benefits expense, mineral property expenditures and corporate development and shareholder expenses are expenditures of $Nil (2005 – $48,599; 2004 – $124,194), $Nil (2005 – $60,500; 2004 – $ Nil) and $Nil (2005 – $Nil; 2004 – $66,667), respectively, for the year ended December 31, 2006 in respect of administrative and technical services provided by companies affiliated with employed officers. Included in legal and accounting are fees of $2,600 (2005 – $ 710; 2004 – $ Nil) for the year ended December 31, 2006 in respect of tax services provided by a firm employing a director of the company.

At December 31, 2006, $Nil (2005 – $15,000; 2004 – $1,538) was due to companies affiliated with employed officers.

(expressed in Canadian dollars)

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:

	2006	2005	2004
	34.12%	34.12%	35.62%
Income tax expense/(benefits) computed at Canadian statutory rates	$ 478,713	$ (1,141,020)	$ (254,348)
Difference in foreign tax rates	(113,278)	(438,922)	(263,663)
Permanent differences	197,837	1,162,583	953,603
Decrease in tax rates	–	207,049	–
Share issuance costs and other	(704,639)	(753,076)	–
Recognized tax losses	141,367	–	–
Change in valuation allowance	–	963,386	(435,592)
	$ –	$ –	$ –

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

	2006	2005	2004
Future income tax assets			
Losses carried forward	$ 2,244,769	$ 2,348,685	$ 1,798,535
Mineral properties	2,529,734	2,730,220	2,836,521
Share issuance costs	2,506,445	726,515	212,738
Plant and equipment and other	77,842	74,705	68,945
	7,358,790	5,880,125	4,916,739
Valuation allowance	(7,358,790)	(5,880,125)	(4,916,739)
	$ –	$ –	$ –

At December 31, 2006, the company has Canadian losses for tax purposes of approximately $6,579,040 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 mineral properties, plant and equipment and other assets is as follows:

	2006			2005	
	Mineral properties	Plant and equipment	Other assets	Mineral properties	Plant and equipment
Canada	$ –	$ 73,142	$ –	$ –	$ 48,128
Ecuador	61,249,060	2,417,315	4,933,384	34,205,955	217,489
	$ 61,249,060	$ 2,490,457	$ 4,933,384	$ 34,205,955	$ 265,617

(expressed in Canadian dollars)

10 Supplemental cash flow information

Cash and cash equivalents at December 31 comprise the following:

	2006	2005
Cash on hand and balances with banks, net of overdrafts	$ 1,778,235	$ (16,750)
Short-term investments	125,332,444	32,457,440
	$ 127,110,679	$ 32,440,690

During the years ended December 31, 2006, 2005 and 2004, the company conducted non-cash operating, investing and financing activities as follows:

	2006	2005	2004
Depreciation included in mineral properties	$ 152,455	$ 54,658	$ 35,630
Loss on disposal of plant and equipment capitalized to mineral properties	$ 33,897	$ 86,038	$ –
Stock-based compensation included in mineral properties	$ 625,208	$ –	$ –
Change in other assets and accounts payable and accrued liabilities relating to mineral properties	$ 4,678,479	$ 202,303	$ 174,327
Change (decrease) in accounts payable and accrued liabilities relating to plant and equipment	$ 547,638	$ –	$ –
Marketable securities received from sale of subsidiary company	$ –	$ 1,882,000	$ 549,000

11 Financial instruments

(a) Fair Values

Canadian generally accepted accounting principles require that the company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. The carrying amounts for cash and cash equivalents, other current assets including the EIA security deposit, accounts payable related to mineral properties, accounts payable relating to plant and equipment and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited terms of these instruments.

The company does not use any derivative financial instruments.

(b) Currency Risk

The company's expenditures are predominantly in U.S. dollars and any future equity raised is expected to be predominantly in Canadian dollars. The company conducts the majority of its business in Ecuador, which uses the U.S. dollar as its primary economic currency. As such, the company is subject to risk due to fluctuations in the exchange rates for the U.S. and Canadian dollar. The company does not enter into derivative financial instruments to mitigate its exposure to foreign currency risk. A breakdown by currency of the company's cash and cash equivalents, net of overdrafts, at year-end was as follows:

		2006		2005		2004
Canadian dollar	$	125,063,312	$	32,349,744	$	12,366,062
U.S. dollar	US$	1,756,794	US$	78,200	US$	196,976
December 31 closing exchange rate (Cdn$ to US$)		1.1654		1.1630		1.1202

(c) Other

During 2006, the company sold all of its remaining marketable securities for net proceeds of $336,253 (2005 - $2,339,123; 2004 - $529,323), realizing a gain of $336,253 (2005 - loss of $96,877; 2004 - gain of $199,323). As of December 31, 2006, marketable securities held by the company had a quoted market value of $Nil (2005 – $595,000) and a carrying value of $Nil (2005 – $Nil).

12 Supplemental information

The following table summarizes certain information from the Consolidated Statements of Loss and Deficit:

		For the period from inception (February 16, 1983) to December 31, 2006 unaudited
Other expenses (income)		
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)
Total other expenses (income)	$	36,397,166

(expressed in Canadian dollars)

The following table summarizes certain information from the Consolidated Statements of Cash Flows:

		For the period from inception (February 16, 1983) to December 31, 2006 unaudited
Other cash flows from (applied to) operating activities not affecting cash		
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
General exploration		40,550
Other cash flows from (applied to) operating activities not affecting cash	$	36,910,450

13 Reconciliation to U.S. Generally Accepted Accounting Principles ("GAAP")

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

a) As described in note 2, Canadian GAAP allows for the deferral of mineral exploration expenditures. Under U.S. GAAP, the company capitalizes acquisition costs. The company expenses, as incurred, exploration costs relating to unproven mineral properties. When proven and probable reserves are determined for a property and a positive feasibility study has been prepared, subsequent development costs of the property would be capitalized.

b) Under U.S. GAAP, marketable securities are classified as either 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 until realized and recorded as other comprehensive income, 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.

During the preparation of the 2006 Canadian to U.S. GAAP reconciliation for mineral exploration costs, the company determined that an error occurred in the 2005 reconciliation. Consequently, as referenced by (a) below, the company has restated its 2005 U.S. GAAP financial results to correct this error, with the result that 2005 mineral exploration costs expensed under U.S. GAAP totalling $2,741,988 should have been shown as $8,598,789. This restatement would have resulted in basic and diluted loss per share, calculated in accordance with U.S. GAAP, of $0.26 for 2005 and not $0.13 as disclosed in Note 12 in the 2005 financial statements.

(expressed in Canadian dollars)

Had the company followed U.S. GAAP, certain items in the financial statements would have been reported as follows:

Statements of Loss and Deficit

	Year ended December 31, 2006	2005	2004
Loss (income) under Canadian GAAP	$ (1,403,028)	$ 3,344,139	$ 714,062
Adjustment to reconcile to U.S. GAAP:			
Mineral exploration costs expensed under U.S. GAAP (a)	24,670,009	8,598,789	8,164,470
Loss under U.S. GAAP	23,266,981	11,942,928	8,878,532
Change in unrealized gain on available-for-sale securities	–	41,000	31,000
Comprehensive loss under U.S. GAAP	$ 23,266,981	$ 11,983,928	$ 8,909,532
Basic and diluted loss per share under U.S. GAAP	$ 0.35	$ 0.26	$ 0.20
Weighted average number of shares outstanding	66,603,215	45,825,859	44,594,782

Balance Sheets

	2006	2005
Total assets under Canadian GAAP	$ 195,997,436	$ 67,100,008
Adjustment to reconcile to U.S. GAAP:		
Mineral exploration costs expensed under U.S. GAAP (a)	(52,824,252)	(28,154,243)
Total assets under U.S. GAAP	$ 143,173,184	$ 38,945,765
Shareholders' equity under Canadian GAAP	$ 188,737,419	$ 66,123,764
Adjustment to reconcile to U.S. GAAP:		
Mineral exploration costs expensed under U.S. GAAP (a)	(52,824,252)	(28,154,243)
Total shareholders' equity under U.S. GAAP	$ 135,913,167	$ 37,969,521

Statements of Cash Flows

	Years ended December 31 2006	2005	2004
Cash from (applied to) operating activities under Canadian GAAP	$ 1,270,933	$ (1,157,820)	$ (475,970)
Adjustment to reconcile to U.S. GAAP:			
Mineral exploration costs expensed under U.S. GAAP (a)	(19,179,970)	(8,255,790)	(7,954,513)
Cash from (applied to) operating activities under U.S. GAAP	$ (17,909,037)	$ (9,413,610)	$ (8,430,483)
Cash from (applied to) investing activities under Canadian GAAP	$ (26,618,629)	$ (7,492,931)	$ (9,842,094)
Adjustment to reconcile to U.S. GAAP:			
Mineral exploration costs expensed under U.S. GAAP (a)	19,179,970	8,255,790	7,954,513
Cash from (applied to) investing activities under U.S. GAAP	$ (7,438,659)	$ 762,859	$ (1,887,581)

14 Recent Accounting Pronouncements

a) Recent Canadian Accounting Pronouncements

i. In January 2005, the Canadian Institute of Chartered Accountants ("CICA") released new Handbook Section 3855, "Financial Instruments – Recognition and Measurement" (CICA 3855), effective for annual and interim periods beginning on or after October 1, 2006. CICA 3855 establishes standards for recognizing and measuring financial assets and liabilities and non-financial derivatives. All financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading, otherwise, they are measured at cost. Investments available for sale will be recorded at fair value with the unrealized gains or losses recorded through comprehensive income. The impact will be similar to the impact on comprehensive income for U.S. GAAP purposes.

ii. In January 2005, the CICA issued new Handbook Section 1530, "Comprehensive Income" (CICA 1530) and Handbook Section 3251, "Equity" (CICA 3251) effective for interim and annual periods beginning on or after October 1, 2006. CICA 1530 establishes standards for reporting and presenting certain gains and losses normally not included in net earnings or losses, such as unrealized gains and losses related to available for sale securities, in a statement of comprehensive income. CICA 3251 establishes standards for the presentation of equity and changes in equity as a result of the new requirements in CICA 1530.

The company believes there will be no material impact from the adoption of these sections.

b) Recent U.S. Accounting Pronouncements

i. On July 13, 2006, FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, Interpretation 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The company is currently evaluating whether the adoption of Interpretation 48 will have a material effect on its consolidated financial position, results of operations or cash flows.

ii. In 2006, FASB issued Statement No. 157, Fair Value Measurements. This new pronouncement provides guidance for using fair value to measure assets and liabilities. FASB believes the pronouncement also responds to investors' requests for expanded information about the extent to which corporations measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. Statement 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. The standard clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, not just the company's mark-to-market value. Statement 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data. The company is currently evaluating whether the adoption of Statement No. 157 will have a material effect on its consolidated financial position, results of operations or cash flows.

15 Subsequent events

On January 25, 2007, the company announced that it was extending the Mirador Project development timeline as key permits and government agreements had not been received consistent with the accelerated project plan. This decision also resulted in the termination clauses of certain agreements with suppliers of key long lead-time components to the Mirador project to be invoked, for which charges for work incurred of $2,951,000 ($US2,532,000) have been accrued at December 31, 2006. Subsequently, the company was able to sell these partially completed assets to third parties in 2007 for net proceeds of $2,776,000 ($US2,382,000), for which it is awaiting receipt.

In connection with this timeline extension, on February 23, 2007, the company implemented a restructuring of its Ecuador operations to reduce the number of its employees while still maintaining a core group of technical and professional staff. The company expects to record a severance expense of approximately $743,000 ($US 631,000) for the quarter ended March 31, 2007 as a result of this restructuring.