

**CANDENTE COPPER CORP.**  
**(Formerly Candente Resource Corp.)**

Management Discussion and Analysis  
Year Ended December 31, 2010

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# **CANDENTE COPPER CORP. (formerly Candente Resource Corp.)**

Management's Discussion and Analysis  
Years Ended December 31, 2010 and 2009  
(Expressed in U.S. Dollars, Unless Otherwise Noted)

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## **INTRODUCTION**

The following Management's Discussion and Analysis ("MD&A") of Candente Copper Corp. ("Candente Copper") and its subsidiary companies (collectively, the "Company") is prepared as of March 22, 2011 and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2010, which were prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. The Company's accounting policies are set out in Note 2 of the audited consolidated financial statements. The Company's accounting policies have been consistently followed in the preparation of the 2010 consolidated financial statements.

All the financial information presented in this document is expressed in U.S. dollars, unless otherwise noted.

Candente Copper's common shares are listed on both the Toronto and Lima Stock Exchanges under the trading symbol "DNT".

Additional information on the Company can be found in the Company's Annual Information Form ("AIF"), filed with the Canadian regulators and available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **DESCRIPTION OF BUSINESS**

Candente Copper is a Vancouver, Canada, based mineral exploration company that conducts its operations through wholly-owned subsidiaries. The Company currently has projects in Peru and is primarily focused on copper properties.

The Company is in the exploration stage and there can be no assurance that commercially viable ore deposits may exist in any of its properties until the Company completes further exploration work and comprehensive economic evaluation based upon that work.

The Cañariaco Norte copper project is the Company's highest priority and most advanced exploration project to date. No other properties that the Company is presently exploring or is in possession of contain a National Instrument 43-101 mineral resource.

## **CORPORATE DEVELOPMENTS**

The worldwide economic crisis of 2008 and 2009 had a significant effect on the Company's operations. The Company made the strategic decision to complete a plan of arrangement that included the transfer of the Company's interests in its precious metals properties to a newly incorporated company, Candente Gold Corp. ("Candente Gold") in exchange for consideration that included shares in Candente Gold. The properties transferred to Candente Gold were those where the precious metal component was considered dominant or essential to making the project economic based on then current metal prices and the Company's geological knowledge of the properties at the time of the transfer. On April 30, 2009 and on December 17, 2009 respectively, the Company completed the transfer of its interests in the El Oro property and its Peruvian silver-gold properties to Candente Gold. Candente Gold's shares started trading on the Toronto Stock Exchange ("TSX") on January 4, 2010.

The arrangement allowed the Company to dedicate its resources to copper and base metals exploration and development, specifically the Cañariaco Norte copper project. Management completed a financing for gross proceeds of \$6,060,695 in 2010 and immediately resumed work at Cañariaco Norte.

On June 28, 2010, the Company awarded AMEC Americas Limited ("AMEC") with the contract to complete a comprehensive pre-feasibility study on Cañariaco Norte. On November 1, 2010, the Company announced a significant increase in the mineral resource estimate for Cañariaco Norte and on December 17, 2010, it filed a technical report prepared by AMEC to support the increase in the mineral resource estimate.

Subsequent to December 31, 2010, the Company announced the receipt from AMEC of a positive pre-feasibility study progress report for Cañariaco Norte entitled "Cañariaco Project, Lambayeque Department, Peru, NI 43-101 Technical Report on Pre-feasibility Study Progress Report" (the "January 2011 Pre-Feasibility Study Progress Report") and filed a copy of such report on March 4, 2011. Details of the January 2011 Pre-Feasibility Study

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Progress Report are contained in the Company's Annual Information Form for the year ended December 31, 2010, under "Mineral Projects – Cañariaco Project".

The Company posted a loss in the year of \$1,737,620. The most significant expenses were \$897,376 for stock-based compensation expense (a non-cash expense), management and office salaries and benefits of \$317,063 and office, rent and miscellaneous expenses of \$175,908.

Other comprehensive income in 2010 was \$4,152,096, mostly resulting from unrealized fair value adjustments of the Company's investment in Candente Gold. Comprehensive income for the year ended December 31, 2010 was \$2,414,476. Loss per share was \$0.02.

Subsequent to December 31, 2010, the Company completed a financing for gross proceeds of Cdn\$30,174,801 (see *Subsequent Events*).

## TRANSFER OF SILVER AND GOLD PROPERTIES TO CANDENTE GOLD – INVESTMENT IN CANDENTE GOLD

During 2009 management made the strategic decision to complete a plan of arrangement (the "Arrangement") that included the transfer of the Company's interests in its precious metals properties to a newly incorporated company, Candente Gold, which was incorporated by the Company and Canaco Resources Inc. ("Canaco") on April 24, 2009. Candente Gold's focus is on exploration and development of precious metals projects in Latin America.

On April 30, 2009, the Company and Canaco transferred to Candente Gold their respective 50% interests in Minera CCM, S.A. de C.V., the Mexican company that holds an option on the El Oro gold property in Mexico, for consideration that included 5 million Candente Gold common shares (recorded at a nominal value of \$1) and a promissory note to each of the Company and Canaco. Each promissory note had a principal amount of Cdn\$1,300,000. The Company converted its promissory note into 3,250,000 Candente Gold shares and 1,625,000 Candente Gold warrants on December 31, 2009, recorded at the exchange value of \$1,239,157. The Candente Gold warrants have an exercise price of Cdn\$0.60 per common share to January 4, 2012. In connection with the transfer of the El Oro property the Company recorded an increase to deficit of \$146,073.

On December 17, 2009, the Company transferred its Peruvian silver and gold properties to Candente Gold. In connection with this transaction the Company received Court, regulatory and shareholder approval of the Arrangement.

On January 6, 2010, the Company and Candente Gold implemented the final steps of the Arrangement, which included the issuance of 13,500,000 shares of Candente Gold to the Company for the transfer of the Company's Peruvian silver-gold properties and the distribution by the Company to its shareholders of a total of 16,213,627 Candente Gold shares as a return of capital, on the basis of one Candente Gold share distributed for every five shares of the Company held by each shareholder. The transfer of the Peruvian silver-gold properties was valued at \$4,220,142. Also in connection with the transfer of these properties, Candente Gold granted a copper net smelter return royalty to the Company. The properties were transferred at their carrying value of \$4,663,250.

On January 4, 2010, Candente Gold's common shares were listed on the TSX. Adjustments to the fair value of the shares are required at each balance sheet date. Given that the Company's investment in Candente Gold is designated as "available for sale" for accounting purposes, which means it is an investment that is not held for trading, gains or losses arising from changes in fair value are recorded in Accumulated Other Comprehensive Income (Loss) in the Company's Balance Sheet until the investment is sold or management determines that an other than temporary impairment in the value of the investment has occurred, at which time gains or losses are transferred into earnings. At December 31, 2010 Candente Gold's closing share price was Cdn\$1.01 and the fair value of the Company's 5,536,373 shares in Candente Gold was \$5,590,619. The Company recorded other comprehensive income of \$4,149,592 for the increase in fair value of this investment during 2010.

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## PROJECTS UPDATE

### Cañariaco

The Cañariaco property (the "Property") is a 13,400 hectare advanced stage porphyry copper exploration and development project located in Northern Peru. The Company's main focus is to progress development of the Cañariaco Norte project through completion of a Definitive Feasibility (Engineering) Study and to conduct an exploratory search for additional mineable mineral deposits within the Cañariaco property.

The Company acquired the Property through an auction process in 2001 and has since made annual property payments to maintain the Property in good standing. The Company has a 100% interest in the mineral rights of the Property and is in discussions with the local communities regarding long term surface rights.

The Cañariaco porphyry system lies within a belt of porphyry copper deposits, which follow a northwesterly trend 350 km from Cajamarca to the Ecuadorian border. The known porphyry deposits within this belt comprise two types: porphyry copper-molybdenum and porphyry copper-gold deposits.

Three separate porphyry systems have been identified on the property: Cañariaco Norte, Cañariaco Sur and Quebrada Verde. Mineralization at Cañariaco Norte is copper-gold and is associated with a composite, multiphase porphyry stock and breccias with a well developed fine to medium grained quartz-sulphide stockwork. Copper mineralization at Cañariaco Norte occurs mainly as primary hypogene chalcopyrite, chalcocite and minor bornite, covellite, and lesser enargite and tennantite. Copper mineralization at Cañariaco Sur is primarily chalcopyrite and bornite in intrusive rocks and breccias similar to those which host the bulk of the copper mineralization at the Cañariaco Norte deposit.

The Company started diamond drilling at Cañariaco Norte in 2004 and continued through 2008. By October 31, 2008 the Company had completed 71,162.70 metres of diamond drilling in 244 holes. Total meterage drilled by all companies to date (since 1973) is 74,072.31 m. Since the inception of drilling and other exploration activities, the Company has applied Quality Assurance and Quality Control protocols. The sampling, analysis, and security/chain of custody procedures are all conducted to industry standards, overseen by qualified professionals and conducted by registered professional consultants and certified laboratories.

In May 2007, the Company commissioned a feasibility study and an Environmental Impact Assessment. In May 2008 an updated resource estimate was completed on Cañariaco Norte by SRK Consultants Canada ("SRK").

Due to the severe downturn in the world economy in late 2008 through 2009, work on the feasibility study and the Environmental and Social Impact Assessment ("ESIA") for Cañariaco Norte was suspended. An updated, NI 43-101 compliant Preliminary Economic Assessment ("PEA") was completed by SRK in December 2008 based on the updated resource estimate issued in September 2008 ("2008 PEA"). The 2008 PEA demonstrated that the project had very positive economics at a copper price of \$2/lb and robust economics at a copper price of \$2.50/lb.

The ESIA was resumed in February 2010 by AMEC Peru SA. In April 2010, AMEC Americas Ltd ("AMEC") started a pre-feasibility level study ("PFS") and SGS Lakefield of Santiago, Chile resumed feasibility level metallurgical test-work.

Following re-modeling and re-classifying of the Mineral Resource, AMEC issued an updated, significantly larger Resource Estimate on November 1, 2010 (report filed on December 17, 2010), which renders the 2008 resource estimate by SRK as historical. At the base case 0.30% copper cut-off grade, Cañariaco Norte's 2010 Measured and Indicated tonnage increased by 21% and the Measured and Indicated contained copper increased by 16% from the Mineral Resource Estimate released in September 2008.

- Measured and Indicated: 752.4 million tonnes ("Mt") grading 0.45% copper containing 7.53 billion pounds of copper (0.52% copper equivalent\*; 0.49% copper equivalent with gold and silver recoveries applied\*\*).
- Inferred: 157.7 Mt grading 0.41% copper containing 1.43 billion pounds of copper (0.47% copper equivalent\*; 0.44% copper equivalent with gold and silver recoveries applied\*\*).

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To show sensitivity of the estimate to cut-off grade, a 0.20% copper cut-off grade was also modeled. Using this cut-off grade, Cañariaco Norte's Measured and Indicated tonnage increased by 22% and contained copper increased by 18% from the 2008 Mineral Resource Estimate.

- Measured and Indicated: 1.003 billion tonnes grading 0.40% copper containing 8.94 billion pounds of copper (0.46% copper equivalent\*; 0.44% copper equivalent with gold and silver recoveries applied\*\*).
- Inferred: 293.3 million tonnes grading 0.33% copper containing 2.16 billion pounds of copper (0.38% copper equivalent\*; 0.36% copper equivalent with gold and silver recoveries applied \*\*).

\*Copper equivalent grade including gold and silver values and based on 100% metal recoveries. Copper grade equivalent calculation:  $Cu\ Eq\% = (Cu\ \% + ((Au\ grade\ x\ Au\ price) + (Ag\ grade\ x\ Ag\ price)) / (22.0462\ x\ Cu\ price\ x\ 31.0135\ g/t))$

\*\*Copper equivalent grade including gold and silver, metal recoveries (gold 55%; silver 50%) and smelter returns (copper 96.5%; gold 93%; silver 90%) applied. Copper grade equivalent calculation:  $Cu\ Eq\% = (Cu\ \% + ((Au\ grade\ x\ Au\ price\ x\ Au\ recovery\ x\ Au\ smelter\ return\%) + (Ag\ grade\ x\ Ag\ price\ x\ Ag\ recovery\ x\ Ag\ smelter\ return\%)) / (22.0462\ x\ Cu\ price\ x\ 31.0135\ g/t\ x\ Cu\ recovery\ x\ Cu\ smelter\ return\%))$

## Pre-Feasibility Study Progress Report:

On January 18, 2011, AMEC reported key results from a Pre-Feasibility Study Progress Report (filed on March 4, 2011). The mine plan is based on Measured and Indicated mineral resources only, with Inferred mineral resources considered as waste. The metallurgical test work, process development and economic analyses have been completed to a pre-feasibility level; however, additional geotechnical drilling and rock quality assessment is required to complete the open pit slope design to a level consistent with generally accepted prefeasibility requirements and therefore, this report does not meet the criteria of a Pre-Feasibility Study and is considered to be a PEA under NI 43-101. Additional geotechnical drilling and investigations are planned for 2011 as part of the Definitive Feasibility Study.

Both the 2008 PEA and the 2010 Pre-Feasibility Study Progress Report propose a large scale mining and processing operation utilizing proven industry technology to produce copper concentrate, including open pit mining utilizing trucks and shovels. Processing would utilize primary crushing, semi-autogenous and ball mill grinding followed by rougher and cleaner flotation for copper recovery and concentrate production. Copper concentrate would be de-watered at site and transported by truck to a load-out port on the Peruvian coast to be loaded onto vessels for trans-ocean shipment to offshore smelters for refining.

## Principal Changes in the January 2011 Pre-Feasibility Study Progress Report from the 2008 PEA:

- Production rate was increased from 75,000 to 95,000 tonnes per day with only minimal increase to overall capital expenditures.
- Selection of a concentrate roasting process by Outotec Oyj ("Outotec") of Finland to reduce the arsenic content in the copper concentrate to non-penalty levels. This process technology has also been selected by CODELCO for a similar application at its new Ministro Hales mine in northern Chile.
- A proposed new port site has been selected for a copper concentrate load-out facility for Cañariaco Norte project. The new port is located close to Eten in northern Peru and is under development by Lumina Copper SAC (owner of the El Galeno copper project). Lumina Copper SAC has stated that they plan to make this load-out facility available for use by Candente Copper and possibly other users. This facility is much closer to the Cañariaco Norte project than the Port of Salaverry which was specified for the PEA, and will significantly reduce life-of-mine concentrate transport costs.

## Principal Outcomes from the January 2011 Pre-Feasibility Study Progress Report:

- After-tax NPV of \$1,063.4 million for base case with \$2.25 per pound copper, \$1,015 per ounce gold, \$15.85 per ounce silver, and eight percent discount rate

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- After-tax IRR of 18.8 percent for base case with \$2.25 per pound copper, \$1,015 per ounce gold, and \$15.85 per ounce silver
- Payback of preproduction capital in 2.9 years (on a pre-tax basis) and 4.1 years (on an after-tax basis)
- Cash operating cost of \$0.99 per pound of copper including all on-site and offsite costs, toll treatment and refinery (TCRC) charges, net of by-product credits
- Average metal production of 262 million pounds (119,000 tonnes) copper per year, 37,000 ounces of gold per year, and 850,000 ounces of silver per year.
- Average production of 295 million pounds (139,000 tonnes) copper per year for the first three years of production
- Pre-production capital cost of \$1.437 billion based on leased mining equipment and including contingency of 20 percent
- All-in capital cost of \$1.565 billion based on leased mining equipment and including working capital, life-of-mine sustaining capital, and closure costs
- Processing rate of 95,000 tonnes per day using conventional crush/grind and flotation technology
- Waste to ore strip ratio of 0.98 to 1
- Average life-of-mine metal recoveries of 89.7 percent for copper, 55 percent for gold and 50 percent for silver
- Concentrate grades average approximately 30 percent copper, three grams per tonne gold and 73 grams per tonne silver
- 22 year mine life, with potential for extension by mining additional resources identified below proposed pit
- Cañariaco Norte is located at a moderate elevation with pit centroid and process plant at approximately 3,000 metres above sea level;
- Connection to Peruvian national power grid; distance of approximately 57 kilometres
- New access road to major paved highway; distance of approximately 42 kilometres
- Significant potential for discovery of additional resources.

The results of the January 2011 Pre-Feasibility Study Progress Report enabled the Company to complete a financing of Cdn\$30,174,800 in February 2011. Use of proceeds will include completion of a Definitive Feasibility Study on Cañariaco Norte and significant exploration drilling on the Cañariaco Sur and Quebrada Verde targets on the Cañariaco Norte Project, as well as drilling on several other 100% owned Candente Copper properties in Peru.

Joanne Freeze, P.Geol., Director and CEO and Sean Waller, P. Eng., Director and President are the qualified persons responsible for the review of the technical information contained under the Cañariaco Property.

## **Other Peruvian Properties**

The Company's main properties other than Cañariaco are listed below. The following disclosure has been prepared by or under the supervision of Sean I. Waller, President and Director of the Company and Joanne C. Freeze, CEO and Director of the Company, both of whom are qualified persons for the purposes of NI-43-101. All of these properties are 100% owned by the Company and are without reserves.

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## **Arikepay**

The Arikepay property covers six claim blocks totalling 4,000 hectares, is road accessible 109 kilometres from the city of Arequipa, and lies 45 kilometres south of the Cerro Verde copper-molybdenum mine in southern Peru.

Highly anomalous levels of copper, gold, and molybdenum ranging from 100 to 1,460 ppm copper, 50 ppb to 2,560 ppb (2.5 g/t) gold, and 0.5 ppm to 143 ppm molybdenum occur in strongly altered and leached volcanic and intrusive rocks. The copper values in the leached rocks are typical of the upper levels of other Andean porphyry copper deposits discovered in Peru, Chile, and Argentina. An apparent zoning of the system with an anomalous molybdenum core flanked by stronger copper and gold values adds to the exploration potential of Arikepay.

The anomalous gold and copper values found at Arikepay are associated with jarosite-goethite stockwork, veins, and disseminations occurring within argillic-phyllic altered rocks. Anomalous molybdenum values are associated with pervasive hematite in zones of silicification, with quartz stockwork zones occurring locally within altered areas. Propylitic alteration occurs south and southwest of the phyllic and silicic alteration, and is characterized by epidote-chlorite-magnetite in stockwork, veins, and matrix-fill in andesitic volcanic rocks.

The phyllic and silicic alteration, which is poorly exposed, covers an area approximately 700 metres north-south by 900 metres east-west, and remains open to the northwest for over 2,000 additional metres under younger gravel cover and to the northeast for approximately 500 metres under recent sand and gravel cover.

Arikepay was explored previously (believed to be in the 1990s), but only a very small area appears to have been drill tested, with the copper and gold anomalies delineated by the Company remaining untested.

## **Miraflores**

The Miraflores property is located in Northern Peru in the department of La Libertad and consists of single claim called "Las Flores" totaling 796.32 hectares. The limited data that exists on the property suggests it hosts a copper/molybdenum porphyry of the classic form. Clearly exposed are the oxide zone with copper staining and extensive areas with quartz and pyrite stockwork in phyllic and potassic alteration.

## **La Huaca (Los Cedros)**

The property is located in Northern Peru in the department of Cajamarca and consists of 6 mineral claims (Los Cedros 1 to 6 and 11) totaling 2700 hectares. The property is located approximately 30 km northeast of Cañariaco Norte and has undergone significant previous exploration, including mapping, rock geochemical and induced polarization surveys (IP) and drilling. Twelve drill holes tested a large, coincident IP chargeability and copper-gold rock geochemical anomaly and intersected significant, disseminated and veined copper-gold mineralization over a broad area. Mineralization remains open vertically and laterally in several directions. IP chargeability and copper-gold rock geochemical anomalies suggest the mineralization could be much more extensive.

## **Las Pavas**

The property is located in Northern Peru in the department of Ancash and consists of one mineral concession totaling 887.9 hectares. Previous work includes regional mapping and surface rock samples. Las Pavas has the potential to be host to a copper/molybdenum porphyry.

## **La Grama**

This property is located in Northern Peru in the department of Cajamarca and consists of a single claim totaling 800 hectares. It appears to host a copper/molybdenum porphyry system with quartz stockwork and breccias bodies. Previous work on the property includes reconnaissance mapping at 1:10,000 scale and 18 surface rock samples.

## **Yasica**

Yasica is located in Southern Peru in the department of Tacna and consists of one mineral concession of 1,000 hectares. From field mapping, it would appear that the property shows signs of alteration and mineralization that suggest the presence of a copper-moly porphyry system.

## **La Cuesta**

The property is located in Northern Peru in the department of Cajamarca. Only preliminary exploration work has been conducted on the property to date.

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## Los Acos

This property is located in Southern Peru between the departments of Ayacucho and Ica and consists of an area of 400 hectares. Los Acos covers a coastal geological environment with possibilities of hosting a porphyry type deposit and covers soils and rocks with anomalous copper values. Exploration work in the property has been limited to date.

## El As de Zinc

The property is located in Central Peru in the department of Huanuco and consists of an area of 6,000 hectares. The geological target is carbonate hosted lead-zinc-silver in a stratigraphically controlled setting. Some drilling has been carried out which has shown lead-zinc mineralization.

## Jhuamarca

This 3,600 hectare property is held jointly with ASC Silver (Silex S.A.) and is located in Northern Peru in the department of Lambayeque. It hosts a high sulphidation vein system located adjacent to Cañariaco with a possible genetic relationship to the porphyry systems. The property shows anomalous silver values with associated lead-zinc in a volcanic and sedimentary setting.

## El Naranjo

This property is located in Northern Peru in the department of Lambayeque, approximately 22 km to the southwest of the Cañariaco project. It consists of two mineral concessions for a total of 2,000 hectares.

## SELECTED ANNUAL FINANCIAL INFORMATION

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	Years Ended December 31,		
	2010	2009	2008
Total revenue	\$ -	\$ -	\$ -
Net loss for the year	(1,737,620)	(1,348,379)	(5,031,651)
Basic and diluted loss per share	(0.02)	(0.02)	(0.07)

  

	December 31		
	2010	2009	2008
Working capital	\$ 2,179,928	\$ 469,065	\$ 1,556,633
Mineral properties	40,326,754	36,103,660	40,918,819
Total assets	48,952,284	43,838,498	45,256,038

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## RESULTS OF OPERATIONS

During the year ended December 31, 2010 the Company posted a net loss of \$1,737,620, compared to \$1,348,379 in the year ended December 31, 2009. The Company is in the exploration stage, with no significant sources of revenue.

The increase of \$389,241 in net losses in 2010 can be traced mostly to a negative variance in foreign exchange losses of \$669,934 (in 2010 the Company posted a foreign exchange loss of \$360 and in 2009, a foreign exchange gain of \$669,574). In 2010, excluding the reduction in foreign exchange gains, the Company's aggregate expenditures decreased by \$280,693, despite significantly increased levels of corporate activity.

The \$669,574 foreign exchange gain in 2009 (compared to a loss in foreign exchange of \$360 in 2010) was mostly of an unrealized nature. The U.S. dollar depreciated in value compared to the Canadian dollar and the Peruvian sol during the year; monetary assets held by the Company in both of those currencies were translated into U.S. dollars at each balance sheet date for financial statement purposes, resulting in higher U.S. dollar values and foreign exchange gains.

The most significant expense in 2010 was stock-based compensation of \$897,376 (2009: \$1,091,021). Stock-based compensation is a non-cash expense. Stock-based compensation decreased from 2009 due to a lower vesting cost for options vested in the year.

The second most significant expense for the Company in 2010 was management and office salaries and benefits of \$317,063 (2009: \$236,250). This expense increased due to additional hiring of staff to support levels of corporate activity.

Most other expenses in 2010 were in aggregate comparable to 2009 levels, except for write-downs of mineral properties, which were \$11,404 in 2010, compared to \$238,051 in 2009.

The Company posted other comprehensive income of \$4,152,096 in 2010 (2009: \$12,726), mostly for fair value adjustments to its investment in shares of Candente Gold, which the Company designated as "available for sale" financial instruments. The unrealized gains on fair value adjustments to securities held by the Company are not included in the determination of net loss for the year.

## SUMMARY OF QUARTERLY FINANCIAL RESULTS

	QE Dec. 31, 2010	QE Sept. 30, 2010	QE June 30, 2010	QE March 31, 2010
Total revenue	\$ -	\$ -	\$ -	\$ -
Net loss	(503,258)	(534,234)	(423,833)	(276,295)
Basic and diluted loss per share	(0.01)	(0.01)	(0.00)	(0.00)

	QE Dec. 31, 2009	QE Sept. 30, 2009	QE June 30, 2009	QE March 31, 2009
Total revenue	\$ -	\$ -	\$ -	\$ -
Net loss	(298,778)	(833,990)	179,883	(395,494)
Basic and diluted loss per share	(0.00)	(0.01)	(0.00)	(0.01)

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## LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summary of key liquidity and cash flow indicators for the years ended December 31, 2010 and 2009:

	Year Ended December 31, 2010	Year Ended December 31, 2009
Cash provided by (used in)		
Operating activities	\$ (1,126,913)	\$ (673,097)
Investing activities	(4,914,353)	(2,074,257)
Financing activities	6,680,959	-
Foreign exchange (loss) gain on cash held in foreign currency	58,815	291,432
Increase (decrease) in cash and cash equivalents during the year	698,508	(2,455,922)
Cash and cash equivalents – beginning	992,400	3,448,322
Cash and cash equivalents – ending	1,690,908	992,400
Working capital	2,179,928	469,065

At December 31, 2010 the Company had cash and cash equivalents of \$1,690,908 and working capital of \$2,179,928, compared to cash and cash equivalents of \$992,400 and working capital of \$469,065 at December 31, 2009.

In recent years the Company has relied on the issuance of share capital to fund acquisitions, exploration activities and general and administrative expenses.

The Company's ability to continue operations is contingent on its ability to obtain additional financing. Subsequent to year end, the Company completed a private placement for gross proceeds of Cdn\$30,174,800.

### Operating Activities

Cash used in operations during the year, including the changes in non-cash working capital items, was \$1,126,913 (year ended December 31, 2009: \$673,097).

### Financing Activities

On March 9, 2010, the Company completed a private placement (the "Offering") of 12,938,011 units ("Units") and 4,856,185 special warrants ("Special Warrants"), for gross proceeds of \$6,060,695 (Cdn\$6,227,969).

The Units and Special Warrants were sold for a price of Cdn\$0.35 each. Each Unit consisted of one common share in the capital of the Company ("Share") and one half of one share purchase warrant ("Warrant"). Each whole Warrant is exercisable for the 3 year period from the date of closing to purchase one Share at a price of Cdn\$0.50 per Share.

The Warrants issued were valued by the Company at \$1,325,501 and the Warrants attached to the Special Warrants were valued by the Company at \$497,517.

The \$1,654,015 (Cdn\$1,699,665) in gross proceeds from the sale of the Special Warrants was deposited into and held in escrow pending shareholder approval, which was obtained at the Company's annual general meeting held on May 13, 2010. On May 14, 2010 each Special Warrant was automatically converted into one Unit at no additional cost to the holder, and the net proceeds of \$1,586,411 were released to the Company from escrow.

In connection with the Offering, the Company paid a 6% cash commission of \$412,047 and issued 661,876 broker/finder warrants ("Broker Warrants") and 242,602 special broker/finder warrants ("Special Broker Warrants") on

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all of the brokered portions of the offering and on part of the non-brokered portion of the offering. Each Broker Warrant is exercisable for a period of 36 months from closing to purchase one share at a price of Cdn\$0.45 per share. Each of the Special Broker Warrants was automatically converted into one Broker Warrant on May 14, 2010. The Broker Warrants and Special Broker Warrants were valued by the Company at \$192,524.

In 2010, the Company received cash proceeds of \$683,167 and \$407,141 from the exercise of stock purchase warrants and stock purchase options, respectively.

There were no financing activities in the year ended December 31, 2009.

## Investing Activities

The mineral property additions summarized in the following table represent costs incurred, not necessarily cash spent, on mineral property expenditures during the most recently completed financial year.

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	Balance at December 31, 2009	Additions/ (Transfers)/ (Write-Downs)	Balance at December 31, 2010
<b>PERU</b>			
<b>Cañariaco Property</b>			
Acquisition costs	346,663	\$ 38,370	\$ 385,033
Exploration costs			
Assays	1,790,368	192,109	1,982,477
Camp, field supplies & travel	7,185,731	91,251	7,276,982
Drilling	9,032,894	-	9,032,894
Equipment maintenance & rental	879,985	107,313	987,298
Engineering studies	3,281,235	2,337,039	5,618,274
Field support & personnel	5,495,648	736,151	6,231,799
Geological and geophysical	2,590,677	240,443	2,831,120
Mapping	263,625	10,440	274,065
	30,866,826	3,753,116	34,619,942
<b>Other Peruvian Properties</b>			
Acquisition costs	2,339,366	75,480	2,414,846
Exploration costs			
Assays	235,571	8,904	244,475
Camp, field supplies & travel	653,310	13,252	666,562
Drilling	700,417	-	700,417
Equipment maintenance & rental	304,373	5,931	310,304
Field support & personnel	2,092,222	99,104	2,191,326
Geological and geophysical	1,871,478	48,579	1,920,057
Mapping	139,154	898	140,052
Property option payments received	(1,980,153)	-	(1,980,153)
Write-down of mineral properties	(263,051)	(11,404)	(274,455)
Transfer of properties	(4,663,250)	-	(4,663,250)
	1,429,437	240,744	1,670,181
<b>Value Added Tax Credits</b>			
	3,807,397	229,234	4,036,631
Total for Peru	36,103,660	4,223,094	40,326,754
Total of Mineral Properties	36,103,660	\$4,223,094	\$ 40,326,754

The Company spent cash resources of \$110,668 and \$4,511,603 respectively for acquisition and exploration costs during the year. The Company also recorded an increase of \$99,120 on its gold bullion investments, made payments of \$8,017 for the purchase of equipment in Peru and Canada and paid \$229,234 for VAT in Peru. The VAT in Peru is not currently refundable to the Company, but can be used in the future to offset amounts due to the Peruvian taxation authorities by the Company resulting from VAT charged to clients on future sales. The aggregate of these investment activities during the year ended December 31, 2010 totaled \$4,914,353 (year ended December 31, 2009: \$2,074,257).

## SUMMARY OF CONTRACTUAL OBLIGATIONS

The Company has commitments relating to the lease of office, warehouse and accommodation facilities in Vancouver and Lima. The future minimum lease payments by calendar year are approximately as follows:

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	Total	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Lease of premises	\$ 144,401	\$ 78,568	\$ 78,568	\$ 78,568	\$ 55,653

## TRANSACTIONS WITH RELATED PARTIES

During 2010, a total of \$178,941 (2009: \$91,994) for geological consulting services rendered was paid or accrued to corporations controlled by various directors and officers and to an individual director of the Company. These amounts are included as a component of deferred exploration costs.

During 2010, \$199,225 (2009: \$142,940) was paid as salaries to various officers of the Company and \$98,130 (2009: \$65,872) was paid or accrued to corporations controlled by various officers and a director of the Company for management services rendered. These amounts are included in general and administrative expenses.

Included in accounts receivable at December 31, 2010 is \$5,520 (2009: \$2,455) owed to the Company by certain officers for expense advances. Included in accounts payable and accrued liabilities at December 31, 2010 is \$71,539 (2009: \$68,975) owed by the Company to certain officers and directors of the Company for services rendered and reimbursement of expenses.

The above transactions have been recorded at the exchange amounts agreed to by the related parties. Amounts due to related parties are considered by the Company to be accounts payable and are unsecured and non-interest bearing.

At December 31, 2010, a director and officer and three officers of the Company acted as a director and officer and as officers of Candente Gold. During the years ended December 31, 2010 and 2009, the Company and Candente Gold shared certain office and administrative expenses and the Company made certain payments on behalf of Candente Gold. As of December 31, 2010, a total of \$112,716 was due from Candente Gold to the Company for reimbursement of expenses (2009: \$278,835) and \$7,367 was due to Candente Gold for its share of proceeds from an option exercise in December 2010 (2009: \$nil).

## FOURTH QUARTER

In the quarter ended December 31, 2010 ("Q4-2010") the Company posted a loss of \$503,258, or \$0.01 per share. The main expense during the quarter was stock-based compensation of \$400,284. Other items included office, rent and miscellaneous expenses of \$57,920, audit fees of \$54,264 and a gain on foreign exchange of \$51,361. A summary of general and administrative expenses incurred on a quarterly basis in 2010 is presented below:

	Q1-2010 \$	Q2-2010 \$	Q3-2010 \$	Q4-2010 \$
Amortization	5,281	5,281	5,282	5,816
Audit	2,449	23,779	3,173	54,264
Bank charges and interest	5,105	1,753	1,570	1,897
Consulting	2,936	-	-	-
Corporate development	10,562	11,671	11,538	11,840
Legal	19,676	74,439	4,961	(53,167)
Management and office salaries and benefits	86,244	99,537	93,127	38,155
Office, rent and miscellaneous	36,165	42,270	39,553	57,920
Travel and accommodations	14,729	19,765	27,833	23,684
Regulatory and filing fees	39,405	19,956	15,968	12,920
Shareholder communications	26,225	16,545	3,618	22,425
Stock-based compensation	68,137	26,515	402,440	400,284
Interest and other income	(12,027)	(43,207)	(29,613)	(32,823)
Write-down of mineral properties	-	-	-	11,404
Loss (gain) on foreign exchange	(28,592)	125,529	(45,216)	(51,361)
Net loss	(276,295)	(423,833)	(534,234)	(503,258)

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## SUBSEQUENT EVENTS

On February 17, 2011, the Company closed a financing by way of a bought deal private placement (the "Bought Deal Offering") with a syndicate of underwriters (the "Underwriters") for total gross proceeds of Cdn\$26,969,800. The Company issued an aggregate of 13,156,000 common shares at a purchase price of Cdn\$2.05 per share. In addition to the Bought Deal Offering, the Company completed a non-brokered private placement issuing 1,563,415 shares at a price of Cdn\$2.05 per share, for gross proceeds of Cdn\$3,205,001 (the "Non-Brokered Offering").

In consideration for services with respect to the completion of the Bought Deal Offering, the Company paid a cash commission equal to \$1,348,490 or 5% of the gross proceeds of the sale of shares in the Bought Deal Offering. In consideration for services with respect to the closing of the Non-Brokered Offering, the Company paid a cash commission equal to 5% of the gross proceeds of the sale of Shares in the Non-Brokered Offering to an arm-length party.

The net proceeds of the Bought Deal Offering and Non-Brokered Offering will be used for the advancement of the Cañariaco Norte copper project, exploration, and general corporate purposes. The securities issued under the offerings are subject to a four month hold period in Canada.

## CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are summarized in Note 2 of its Audited Consolidated Financial Statements. The preparation of the Company's financial statements in conformity with generally accepted accounting principles in Canada requires management to make judgments with respect to certain estimates and assumptions. These estimates and assumptions, based on management's best judgment, affect the reported amounts of certain assets and liabilities, including disclosure of contingent liabilities. On an ongoing basis, management re-evaluates its estimates and assumptions. Actual amounts, however, could differ significantly from those based on such estimates and assumptions.

Significant areas critical in understanding the judgments that are involved in the preparation of the Financial Statements and the uncertainties inherent within them include the determination of impairment of long-lived assets, assets retirement obligations and stock-based compensation.

### *Impairment of Long-Lived Assets*

CICA Handbook Section 3063: "Impairment of Long-Lived Assets" ("Section 3063") established standards for the recognition, measurement and disclosure of impairment of long-lived assets. Long-lived assets are impaired whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable in which case an impairment loss is recognized and charged to operations.

The Company's long-lived assets consist of equipment and mineral properties. Equipment is recorded at cost and depreciated on a declining-balance basis at rates from 20% to 30%. Expenditures relating to mineral properties are capitalized at cost, less recoveries in the pre-production stage, until such time these properties are put into commercial production, sold or abandoned. Upon commencement of production, capitalized mineral property expenditures will be charged to the results of operations over the estimated life of the mine in accordance with the unit-of-production method.

At the end of each accounting period, the Company reviews the carrying value of its long-lived assets based on a number of factors. For capitalized mineral property expenditures, these factors include analysis of exploration results, permitting considerations and current economics. Should an impairment be determined, the Company would write-down the recorded value of the long-lived asset to the results of operations.

### *Stock-Based Compensation*

CICA Handbook Section 3870: Stock-Based Compensation and Other Stock-Based Payments ("Section 3870") established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. Section 3870 requires a fair value-based method of accounting for stock options granted to employees, including directors, and to non-employees.

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The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. This model requires the calculation of certain variables, including the volatility of the Company's stock price, requiring various estimates and assumptions be made by management. Actual results may be significantly different from those calculated using this model.

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## ACCOUNTING PRONOUNCEMENTS

### *Business Combinations, Consolidated Financial Statements and Non-controlling Interests*

For interim and annual financial statements relating to its fiscal year commencing on or after January 1, 2011, the Company will be required to adopt new Canadian Institute of Chartered Accountants ("CICA") Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Section 1582 replaces existing Section 1581 "Business Combinations", and Sections 1601 and 1602 together replace Section 1600 "Consolidated Financial Statements." The adoption of Sections 1582 and, collectively, 1601 and 1602 provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 "Business Combinations" and International Accounting Standards ("IAS") 27 "Consolidated and Separate Financial Statements" respectively. The adoption of these new standards will not impact significantly the Company's consolidated financial statements.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") IMPLEMENTATION PLAN

In February 2008, the Accounting Standards Board ("AcSB") approved a strategic plan which requires public companies to adopt IFRS for fiscal periods beginning on or after January 1, 2011. The Company will therefore be required to have comparative financial information prepared under IFRS as of January 1, 2010.

The Company essentially completed its IFRS conversion project in order to produce IFRS financial statements as of January 1, 2011.

In order to meet these objectives the Company's CFO attended IFRS courses and in-house training sessions in 2009 and 2010. Peruvian accountants are also familiar with IFRS.

The adoption of IFRS will not have a major effect on its overall operations except for the fact that on an ongoing basis, disclosure requirements will increase substantially. The Company will be able to continue using its current information technology platforms in Canada and Peru.

The key areas affected by the conversion to IFRS are functional currency, impairment analysis, related party transactions and measurement of stock-based compensation.

The functional currency of the parent company will be the Canadian dollar; functional currency of subsidiaries in Peru will be the U.S. dollar and the Company's presentation currency will continue to be the U.S. dollar. The translation of the financial statements of each company in the group to U.S. dollars, for presentation purposes, under IFRS will be as follows: All assets and liabilities will be translated at closing rates (as opposed to the translation under Canadian GAAP where non-monetary assets and liabilities are translated at historical rates) and income and expenses will be translated at average rates (as they are under Canadian GAAP), with all resulting exchange differences recognized as a separate component of equity (as opposed to including translation gains or losses in income as occurs under Canadian GAAP). The Company has elected to translate equity accounts at historical rates (under Canadian GAAP, historical rates are used), and not at current rates. The Company's choice of using historical rates translation of its equity accounts will not impact total equity as the resulting exchange differences will be recognized in a separate component of equity.

Impairment requirements are more stringent under IFRS than under Canadian GAAP. Annual impairment testing will be required in respect of the Company's mineral properties.

Under IFRS there are no special recognition or measurement requirements for related party transactions. Under Canadian GAAP, related party transactions are subject to special recognition or measurement requirements, as was the case with the transfer of properties from Candente Copper to Candente Gold (transferred at their carrying value). The transfer of properties will be re-measured under IFRS.

The Company has considered the potential effect of share based payments under IFRS and has concluded that there will be no material impact on its financial statements on adoption of IFRS, as these payments are normally restricted to stock options granted by the Company which in most cases vest within the year granted. There will be differences for certain options whose vesting extends beyond the fiscal year in which they were granted, but these will not be material. Under IFRS, the concept of "graded vesting" frontloads the stock based compensation expense for options granted such that the expense is higher in initial quarters and reduces as options vest, as opposed to "straight line vesting" under Canadian GAAP. However, the effect on annual results is the same under IFRS and Canadian GAAP provided options vest in full within the year granted, as is the case with most of the options granted by the Company. The calculation of the underlying fair value under both IFRS and Canadian GAAP is the same and the changes are

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only with respect to the timing of the allocation of the resulting cost as options vest. The Company has identified a software solution to compute and measure stock-based compensation under IFRS and to compute the transition cost of stock-based compensation expense in the comparative year 2010 from Canadian GAAP to IFRS.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management as is appropriate to permit timely decisions regarding public disclosure.

During the year ended December 31, 2009, the Company engaged legal counsel to formalize its disclosure controls and procedures. Based on those recommendations, a corporate disclosure policy was presented to the Company's board and formally adopted on March 25, 2009. The disclosure policy includes the setting up of a Disclosure Policy Committee that consists of the Company's CEO, President and Corporate Secretary.

The disclosure policy and committee have been in place since the adoption date. Management is reasonably confident that material information relating to the Company, including its consolidated subsidiaries, is being made known to senior management in a timely manner, and that the Company's disclosure controls and procedures are effective not only with respect to the Company's annual filing requirements but on an ongoing basis.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")**

Management is also responsible for designing, establishing and maintaining a system of ICFR to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner in accordance with generally accepted accounting principles.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's design and operating effectiveness of the Company's internal control over financial reporting as of December 31, 2010.

Management has concluded that, as December 31, 2010, the Company's ICFR was not effective due to the existence of material weaknesses, including the requirement to test effectiveness of ICFR and lack of adequate segregation of duties in the financial close process. As of December 31, 2010, the Company's Chief Financial Officer is responsible for preparing, authorizing and reviewing information that is key to the preparation of financial reports. She is also responsible for preparing and reviewing the resulting financial reports. This weakness has the potential to result in material misstatements in the Company's financial statements and should be considered a material weakness of the Company's system of ICFR.

Management has concluded, and the audit committee has agreed that, taking into account the present stage of the Company's development, the Company does not have sufficient size and scale to warrant the hiring of additional staff to correct the weakness at this time. Management is in the process of redesigning ICFR to accommodate for the Company's current level of operations; the Company will also need to test the effectiveness of ICFR.

## **RISKS AND UNCERTAINTIES**

The Company is subject to a number of significant risks due to the nature and the present stage of its business and the effect of worldwide economic conditions. Exploration of mineral properties involves a high degree of financial risk. While discovery of an ore body may result in substantial rewards, few exploration properties are ultimately developed into producing mines. Major expenditures may be required to establish reserves by drilling, constructing mining and process facilities, developing metallurgical processes and extracting base and precious-metals from ore. It is impossible to ensure that the current exploration programs of the Company will result in profitable commercial mining operations.

Risk factors that should be taken into account in assessing the Company's activities and any investment in the Company include, but are not limited to, those listed below. Any one or more of these risk factors could have a material impact on the financial condition of the Company. This information, by its nature, is not all-inclusive and risk factors that have not been listed could have a material impact on the future financial condition of the Company.

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## ***Economic conditions may prevent the Company from obtaining the capital required to continue operations***

The Company's ability to continue operations is contingent on its ability to obtain additional financing. Equity market conditions, funding environments and the price of the Company's common shares may make it dilutive and difficult to raise funds by the sale of the Company's shares. An investment in the shares of a junior resource company is considered to be a high-risk investment. While the Company currently has the necessary cash resources to fund operations and exploration work at its properties for a period of at least one year, there is no assurance that financing will be available to the Company in future periods.

## ***Limited Operating History***

The Company has limited operating history. The Company is exploring its mineral properties for base metals. The Company currently does not generate any revenues from production. Its success will depend largely upon its ability to locate commercially productive mineral reserves. As a result of these factors, it is difficult to evaluate the Company's prospects, and its future success is more uncertain than if it had a longer history of operations.

## ***History of Losses***

The Company has incurred net losses every year since inception, and as of December 31, 2010 had a deficit of \$19,430,481. The Company anticipates significant expenditures for its mineral exploration programs. Since most exploration projects do not result in the discovery of commercially productive mineral reserves and are ultimately expensed in full, the Company expects to report net losses at least into the foreseeable future.

The long-term profitability of the Company's operations will be in part directly related to the success of its exploration programs, which are affected by numerous factors including the cost of such programs, the amount of mineral reserves discovered and fluctuations in the price of any minerals produced.

## ***No History of Dividends***

Since incorporation, the Company has not paid any cash or other dividends on its common stock and does not expect to pay such dividends in the foreseeable future, as all available funds will be invested primarily to finance its mineral exploration programs. The Company will need to achieve profitability prior to any dividends being declared.

## ***Dilution***

The Company does not generate any revenues from production and does not have sufficient financial resources to undertake by itself all of its planned exploration programs. The Company has limited financial resources and has financed its operations primarily through the sale of securities such as common shares. The Company will need to continue its reliance on the sale of such securities for future financing, resulting in dilution to the Company's existing shareholders. The amount of additional funds required will depend largely on the success of the Company's exploration programs.

Further exploration programs will depend on the Company's ability to obtain additional financing which may not be available under favorable terms, if at all. If adequate financing is not available, the Company may not be able to commence or continue with its exploration programs or to meet minimum expenditure requirements to prevent the full or partial loss of its mineral properties. Also, failure to meet the Company's share of costs incurred under joint venture arrangements to which it may be a party may result in a reduction of its interests in mineral properties. Furthermore, if other parties to such agreements do not meet their share of such costs, the Company may be unable to finance the cost required to complete the recommended programs.

## ***No Known Mineral Reserves***

All of the Company's mineral properties are in the exploration stage and are without known mineral reserves. Although the Company may discover mineral reserves through its exploration programs, commercial production may not be warranted due to insufficient quantities. Development of any of the Company's properties will only follow upon obtaining satisfactory exploration results. However, few mineral properties that are explored are ultimately developed into producing mines.

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In the event a commercially productive mineral reserve is discovered, substantial expenditures are required to develop mineral reserves for production through drilling, development of metallurgical processes for extraction and to develop the mining and processing facilities and infrastructure at the production site. The marketability of any minerals discovered may be affected by numerous factors which are beyond the Company's control and which cannot be predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Depending on the price of minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

## ***Title to Mineral Properties***

The Company believes it has diligently investigated title to all of its mineral properties and, to the best of its knowledge, title to all properties are in good standing. However, the properties may be subject to prior unregistered agreements or transfers, which may affect the validity of the Company's ownership of such properties.

Although the Company has exercised the usual due diligence with respect to title to properties in which it has a material interest, title to such properties may be challenged or impugned in the future. The boundaries of the Company's mineral properties have not been surveyed and, therefore, the precise location and area of these mining properties may be in doubt. The Company makes a search of mining records in accordance with mining industry practices to confirm that it has acquired satisfactory title to its properties but does not obtain title insurance with respect to such properties. The possibility exists that title to one or more of its properties, particularly title to undeveloped properties, might be defective because of errors or omissions in the chain of title, including defects in conveyances and defects in locating or maintaining such claims. Should any defect in title be discovered by or disclosed to the Company, all reasonable steps would be taken to perfect title to the particular claims in question. The Company is not aware of any material defect in the title to its mineral properties.

A claim on any of the Company's mineral properties, especially if commercially productive mineral reserves have been located, could adversely affect the Company's long-term profitability as it may preclude entirely the economic development of a mineral property. Also, such a claim would affect the Company's current operations due to the high costs of defending against such claims and its impact on senior management's time.

## ***Key Personnel***

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the operations of the Company. The Company's success is dependent to a great degree on its ability to attract and retain qualified management personnel. The loss of such key personnel, through incapacity or otherwise, would require the Company to seek and retain other qualified personnel and could compromise the pace and success of its exploration activities. The Company does not maintain key person insurance in the event of a loss of any such key personnel. Also, certain management personnel of the Company are officers and/or directors of other publicly-traded companies and will only devote part of their time to the Company.

Additionally, the Company has relied on and is expected to continue relying upon consultants and others for exploration expertise. In the event a commercial ore deposit is discovered on any of the Company's properties, the Company will likely require the expertise of such consultants and others for the development and operation of a producing mine.

## ***Competition***

The resource industry is intensively competitive in all of its phases, and the Company competes with many companies possessing much greater financial and technical research resources. Competition is particularly intense with respect to the acquisition of desirable undeveloped base-metal and precious-metal properties. The principal competitive factors in the acquisition of such undeveloped properties include the staff and data necessary to identify, investigate and purchase such properties, and the financial resources necessary to acquire and develop such properties. Competition could adversely affect the Company's ability to acquire suitable prospects for exploration in the future.

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## ***Industry Operating Hazards and Risks***

Mineral exploration involves many risks, including location of commercially productive mineral reserves, which may not occur even with a combination of experience, knowledge and careful evaluation. The operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to resource companies, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the industry operating risks involved in the operation of mines and the conduct of exploration programs. Other risks include injury or loss of life, severe damage to or destruction of property, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. The occurrence of any of these operating risks and hazards may have an adverse effect on the Company's financial condition and operations.

Although the Company will, when appropriate, secure liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liability and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that may have a material adverse effect upon its financial condition and operations.

## ***Government Regulations and Political Climate***

Mineral exploration on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law reform; (iii) tax laws (iv) restrictions on production, price controls, and tax increases; (v) maintenance of claims; (vi) tenure; and (vii) expropriation of property through nationalization, requisition or confiscation. Any mineral exploration activities conducted by the Company, including commencement of production, require permits from governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, mining, production, exports, taxes, labour standards, occupation health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Companies engaged in the operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. All permits required for the conduct of mining operations, including the construction of mining facilities, may not be obtainable by the Company on reasonable terms which would have an adverse effect on any mining project the Company might undertake. Additionally, 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 mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

To the best of the Company's knowledge, the Company is and will be operating in compliance with all applicable regulations. However, amendments to current governmental laws and regulations affecting mining companies, or the more stringent application thereof, or shifts in political conditions or attitudes could adversely affect the Company's operations including the potential to curtail or cease exploration programs or to preclude entirely the economic viability of a mineral property. The extent of any future changes to governmental laws and regulations cannot be predicted or quantified, but it should be assumed that such laws and regulations will become more stringent in the future. Generally, new laws and regulations will result in increased compliance costs, including costs for obtaining permits, delays or fines resulting from loss of permits or failure to comply with the new requirements.

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## ***Environmental Liability***

Although the Company is not aware of any claims for damages related to any impact that its operations have had on the environment, it may become subject to such claims in the future. An environmental claim could adversely affect the Company's business due to the high costs of defending against such claims and its impact on senior management's time.

The Company conducts exploration activities in Peru. Such activities are subject to various laws, rules and regulations governing the protection of the environment. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed properties and a heightened degree of responsibility for companies and their officers, directors and employees.

Although the Company is committed to ensure compliance with all environmental regulations currently applicable, environmental hazards may exist on the Company's mineral properties, which hazards are not known to the Company at present, that have been caused by previous or existing owners or operators.

Also, environmental regulations may change in the future which could adversely affect the Company's operations including the potential to curtail or cease exploration programs or to preclude entirely the economic development of a mineral property. The extent of any future changes to environmental regulations cannot be predicted or quantified, but it should be assumed that such regulations will become more stringent in the future. Generally, new regulations will result in increased compliance costs, including costs for obtaining permits, delays or fines resulting from loss of permits or failure to comply with the new regulations.

## ***Fluctuations in Metal Prices***

Although the Company does not hold any known mineral reserves, its future revenues, if any, are expected to be in large part derived from the future mining and sale of base metals or interests related thereto. The prices of these commodities have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the Company's control including international economic and political conditions, expectations of inflation, international currency exchange rates, interest rates, global or regional consumptive patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and improved mining and production methods, availability and costs of metal substitutes, metal stock levels maintained by producers and others and inventory carrying costs. The effect of these factors on the price of base and precious metals, and therefore the economic viability of the Company's operations, cannot be accurately predicted.

Depending on the price obtained for any minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

## **OTHER MD&A REQUIREMENTS**

As of March 22, 2011, Candente has outstanding 118,101,744 common shares, 6,660,318 warrants (at prices ranging from Cdn\$0.45 to Cdn\$0.50 per share) and 8,587,000 exercisable options (at prices ranging from Cdn\$0.33 to Cdn\$1.82 per share).

Additional information, including the company's most recent Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CAUTIONARY STATEMENT ON FORWARD LOOKING INFORMATION**

This Report contains "forward looking statements". These forward looking statements include, but are not limited to, statements regarding the Company's strategic plans, property search and evaluation plans, estimated levels of expenditures, acquisition targets and commitments. Forward-looking statements express, as at the date of this Report, The Company's plans, estimates, forecasts, projections, or beliefs as to future events or results and the Company does not intend, and does not assume any obligation, to update these forward-looking statements. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects", or does

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# **CANDENTE COPPER CORP. (formerly Candente Resource Corp.)**

Management's Discussion and Analysis

Years Ended December 31, 2010 and 2009

(Expressed in U.S. Dollars, Unless Otherwise Noted)

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not expect", is expected", "budget", "schedule" , "estimates", "intends", "anticipates", or "does not anticipate", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken, "occur", or "be achieved". We caution that forward-looking statements involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events may differ materially from those anticipated in such statements. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward – looking statements include, but are not limited to the success of the Company's acquisition criteria, the success in completing further financing and closing on any target acquisitions, currency fluctuations, the ability of the Company to conduct its business in Peru, risks inherent with the mining industry, unexpected regulatory changes, delays in the completion of critical activities and other risks inherent to the Company's activities and other risks more fully described in Candente Copper's Annual Information Form filed with the Securities Commissions of the provinces of Alberta, British Columbia and Ontario which is available on SEDAR at [www.sedar.com](http://www.sedar.com)