

**2005/2006**

**Sulliden Exploration Inc.**

.....  
*Third Quarter  
Interim Report  
January 31, 2006*

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# Sulliden Exploration Inc.

## Consolidated Balance Sheets

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	January 31, 2006 (unaudited)	April 30, 2005 (audited)
<b>Assets</b>		
Current assets		
Cash	\$ 153,824	\$ 347,746
Guaranteed investment certificates	2,552,911	5,309,984
Accounts receivable	42,942	97,618
	<hr/>	<hr/>
	2,749,677	5,755,348
Mining properties	23,716,924	23,517,769
Deferred exploration costs	16,027,769	13,583,101
	<hr/>	<hr/>
	\$ 42,494,370	\$ 42,856,218
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<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 407,035	\$ 331,200
<b>Shareholders' Equity</b>		
Share capital (Note 2)	65,695,942	65,522,397
Warrants (Note 2)	995,485	995,485
Options (Note 2)	2,119,568	2,021,867
Deficit	(26,723,660)	(26,014,731)
	<hr/>	<hr/>
	42,087,335	42,525,018
	<hr/>	<hr/>
	\$ 42,494,370	\$ 42,856,218
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See accompanying notes

On behalf of the Board (signed) Jacques Trottier, Director (signed) Charles Rondeau, Director

## Sulliden Exploration Inc.

### Consolidated Statements of Operations and Deficit (unaudited)

	Three-month period ended January 31,		Nine-month period ended January 31,	
	2006	2005	2006	2005
<b>Interest income and other</b>	\$ 20,817	\$ 45,572	\$ 69,297	\$ 146,573
<b>Administrative expenses</b>				
Professional fees	72,661	160,746	281,109	610,800
Stock-based compensation cost (Note 2)	-	425,578	100,246	590,008
Salaries and fringe benefits	46,232	54,922	145,100	155,021
General administrative expenses	28,150	76,015	102,626	183,152
Travel and entertainment	33,319	39,802	75,641	127,690
Shareholders' information	5,537	17,739	31,543	121,370
Exchange loss	11,318	2,311	41,961	114,749
	197,217	777,113	778,226	1,902,790
<b>Net loss</b>	176,400	731,541	708,929	1,756,217
<b>Deficit at beginning</b>	26,547,260	24,347,660	26,014,731	23,322,984
<b>Deficit at end</b>	\$ 26,723,660	\$ 25,079,201	\$ 26,723,660	\$ 25,079,201
<b>Basic and diluted net loss per share</b>	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01

See accompanying notes

## Sulliden Exploration Inc.

### Consolidated Statements of Cash Flows

(unaudited)

	Three-month period ended January 31		Nine-month period ended January 31	
	2006	2005	2006	2005
<b>Operating activities</b>				
Net loss	\$ (176,400)	\$ (731,541)	\$ (708,929)	\$ (1,756,217)
Adjustments for:				
Stock-based compensation cost	-	425,578	100,246	590,008
Professional fees	-	3,630	-	58,442
	<u>(176,400)</u>	<u>(302,333)</u>	<u>(608,683)</u>	<u>(1,107,767)</u>
Net change in non-cash working capital items				
Accounts receivable	19,717	(43,969)	54,676	(30,723)
Accounts payable and accrued liabilities	12,829	(124,853)	75,835	(66,707)
	<u>32,546</u>	<u>(168,822)</u>	<u>(130,511)</u>	<u>(30,723)</u>
	<u>(143,854)</u>	<u>(471,155)</u>	<u>(478,172)</u>	<u>(1,205,197)</u>
<b>Investing activities</b>				
Deferred exploration costs	(575,754)	(1,774,970)	(2,444,668)	(6,101,213)
Redeemable guaranteed investment certificates	653,000	2,264,000	2,757,073	8,132,734
Mining properties	-	-	(34,155)	-
Business acquisition	-	-	-	(4,000,000)
	<u>77,246</u>	<u>489,030</u>	<u>278,250</u>	<u>(1,968,479)</u>
<b>Financing activity</b>				
Share capital	6,000	18,000	6,000	2,892,118
	<u>6,000</u>	<u>18,000</u>	<u>6,000</u>	<u>2,892,118</u>
<b>Net change in cash</b>	<b>(60,608)</b>	<b>35,875</b>	<b>(193,922)</b>	<b>(281,558)</b>
<b>Cash at beginning</b>	<b>214,432</b>	<b>100,361</b>	<b>347,746</b>	<b>417,794</b>
<b>Cash at end (1)</b>	<b>\$ 153,824</b>	<b>\$ 136,236</b>	<b>\$ 153,824</b>	<b>\$ 136,236</b>

See accompanying notes

#### Additional information

Items not affecting cash related to financing and investing activities

Warrants exercised - shares issue expenses	\$ -	\$ 36,492	\$ -	\$ 36,492
Options granted - deferred exploration costs	\$ -	\$ 43,649	\$ -	\$ 43,649
Options exercised - deferred exploration costs	\$ 2,545	\$ 7,636	\$ 2,545	\$ 56,936
Shares issued - acquisition of mining properties	\$ -	\$ -	\$ 165,000	\$ -
Shares issued - business acquisition	\$ -	\$ -	\$ -	\$ 14,886,602
Warrants issued - business acquisition	\$ -	\$ -	\$ -	\$ 713,398

(1) Cash at end excludes the guaranteed investment certificates for which maturities are greater than three months.

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

January 31, 2006 and 2005

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#### 1. General

The accompanying unaudited consolidated financial statements do not include all the disclosure required by generally accepted accounting principles for annual statements and should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended April 30, 2005, specifically the Note 1 on the Description of Business and Continuation of the Business and Note 4 on the Summary of Significant Accounting Policies.

#### 2. Share capital

##### Authorized

Unlimited number of voting common shares, without par value

##### Issued

Changes in the Company's share capital were as follows:

	2006		2005	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning (May 1)	60,792,231	\$ 65,522,397	44,342,831	\$ 46,605,866
Issued following the exercise of options	15,000	8,545	245,000	190,936
Issued following the acquisition of mining properties	300,000	165,000	-	-
Issued following the exercise of warrants	-	-	3,809,400	2,794,610
Issued following a business acquisition	-	-	12,000,000	15,600,000
Balance at end (January 31)	61,107,231	\$ 65,695,942	60,397,231	\$ 64,478,014

#### Options

The Company has a fixed-price share option plan. Under the Employee, Director and Consultant Share Option Plan, the Company may grant options to its employees, directors and consultants for up to 10,000,000 common shares. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of grant and an option's maximum term is ten years. The number of share options granted is determined by the Board of Directors and the aggregate number of share options granted to any one individual cannot exceed 5% of the issued and outstanding common shares of the Company. Options terminate 90 days following the optionee's date of departure, except in the case of retirement, death or disability, in which case they terminate one year after the event. The options are exercisable at any time, unless otherwise specified.

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

January 31, 2006 and 2005

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#### 2. Share capital (cont'd)

The status of the Company's fixed-price share option plan as at January 31, 2006 and 2005, and changes during the period then ended are summarized as follows:

	2006		2005	
	Number of common share purchase options	Weighted- Average Exercise Price	Number of common share purchase options	Weighted- Average Exercise Price
Outstanding at beginning (May 1)	3,942,950	\$ 0.89	2,837,950	\$ 0.64
Granted	350,000	\$ 0.68	2,562,000	\$ 1.05
Exercised	(15,000)	\$ 0.40	(245,000)	\$ 0.78
Cancelled or expired	(380,000)	\$ 1.30	(400,000)	\$ 0.58
Outstanding at end (January 31)	3,797,950	\$ 0.83	4,754,950	\$ 0.87
Options outstanding and exercisable	3,797,950		4,754,950	

The following table summarizes information on fixed-price share options outstanding as at January 31, 2006:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding as at 01/31/06	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable as at 01/31/06	Weighted- Average Exercise Price
\$0.29	395,000	1.00 year	\$0.29	395,000	\$0.29
\$0.39	350,000	4.85 years	\$0.39	350,000	\$0.39
\$0.40	102,950	0.03 year	\$0.40	102,950	\$0.40
\$0.84	250,000	2.55 years	\$0.84	250,000	\$0.84
\$1.00	2,150,000	3.85 years	\$1.00	2,150,000	\$1.00
\$1.30	200,000	0.42 year	\$1.30	200,000	\$1.30
\$0.68	350,000	1.33 years	\$0.68	350,000	\$0.68
	3,797,950	3.04 years	\$0.83	3,797,950	\$0.83

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

January 31, 2006 and 2005

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#### 2. Share capital (cont'd)

The fair value of options granted was estimated using the Black-Scholes options pricing model with the following weighted average assumptions :

##### Period ending January 31

	2006	2005
Weighted risk-free interest rate	2.86%	3.63%
Expected volatility	75%	75%
Dividend yield	Nil	Nil
Weighted average expected life	2 years	4.5 years
Weighted average cost of option granted	\$0.29	\$0.62

The cost recorded for the options granted to directors, officers and consultants during the nine-month period ended January 31, 2006 is \$100,246 as Stock-based compensation cost (\$633,657 and \$58,442 as professional fees in 2005) as Stock-based compensation cost and the counterpart \$100,246 (\$692,099 in 2005) has been credited to the Options account

As at January 31, 2006, the cost of the cancelled or expired options is \$543,336.

#### Warrants

The status of the warrants as at January 31, 2006 and 2005 and changes during the periods then ended are summarized as follows:

	2006		2005	
	Numbers of warrants	Weighted- Average Exercise Price	Numbers of warrants	Weighted- Average Exercise Price
Outstanding at beginning	8,176,000	\$ 2.92	10,468,350	\$ 1.75
Issued	-	-	4,000,000	\$ 3.00
Exercised	-	-	(3,809,400)	\$ 0.72
Cancelled or expired	(7,875,000)	\$ 3.00	(1,849,100)	\$ 1.26
Outstanding at end	301,000	\$ 0.75	8,809,850	\$ 2.84

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

January 31, 2006 and 2005

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#### 2. Share capital (cont'd)

The following table summarizes information on warrants outstanding as at January 31, 2006:

Exercise Price	Warrants Outstanding			Warrants Exercisable	
	Number Outstanding as at 01/31/06	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as at 01/31/06	Weighted-Average Exercise Price
\$0.75	301,000	0.17 year	\$0.75	301,000	\$0.75

As at January 31, 2006, the cost of the cancelled or expired warrants is \$995,485.

#### 3. Related party transactions

During the period ended January 31, 2006, the Company agreed to pay \$274,188 (\$314,867 in 2005), of which \$274,188 (\$307,367 in 2005) was professional fees and general administration expenses and none (\$7,500 in 2005) was deferred exploration costs, to companies whose shareholders are related to the Company's officers and directors. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### 4. Contingencies

##### (a) Environmental

The Company's operations are subject to governmental laws and regulations regarding environmental protection. Environmental consequences, their impact and their duration are difficult to determine. To the best of its knowledge, management believes that the Company's operations are in compliance with all applicable laws and regulations. Any payment resulting from site restoration costs will be charged to operations in the year in which it can be reasonably estimated.

##### (b) Litigation Uncertainty With Respect to the Shahuindo Property

The rights of the Company to develop the Shahuindo property in Peru are derived from the following agreements entered into between Sulliden and Compania Minera Algamarca S.A. and its subsidiary, Compania de Exploraciones Algamarca S.A. ("Algamarca") to purchase 100% of the interest in the concessions and superficial lands of the Shahuindo property. An initial Letter of Intent dated July 25, 2002, and Final Letter of Intent dated August 15, 2002, were formalized in a Transfer Agreement (the "Agreement") dated November 6, 2002 between Sulliden and Algamarca (See Note 7 to the annual financial statements) pursuant to which Algamarca sold and transferred the Shahuindo property to Sulliden for a purchase price of US\$4.13 million. The amount was payable in installments and bearing interest of 5% annually.

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

January 31, 2006 and 2005

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#### 4. Contingencies (cont'd)

##### (b) Litigation Uncertainty With Respect to the Shahuindo Property (cont'd)

Following the execution of the Agreement, the shareholders of Algamarca sold their shares to a third party, Alta Tecnologia e Inversion Minera y Metalurgica S.A. ("Atimmsa"). The new shareholder Atimmsa claimed that the Transfer Agreement was invalid and commenced legal actions in Peru to have the Agreement declared invalid and obtained an illegal injunction to suspend the transfer of the mining claims to the Company by the Judge of the District of La Esperanza in Trujillo. Sulliden challenged the competence (jurisdiction) of the Judge of the District of La Esperanza in an application brought to the Supreme Court in Lima which decided in favor of Sulliden and ruled that the Judge lacked competency. The case was then referred to the Tenth District Civil Court in Lima. In June 2004, the Tenth District Civil Court of Lima declared the injunction previously granted to Atimmsa invalid and dismissed Atimmsa's litigation. This decision was subsequently confirmed by the Fifth Civil Chamber of the Superior Court of Lima in September 2004.

The Transfer Agreement between the Company and Algamarca provides for the resolution of disputes by arbitration and, consequently, Sulliden invoked the arbitration clause in September 2003 and referred the dispute to arbitration. An Arbitration Tribunal was established in January 2004 and had completed its evidentiary stage by May 2005. Algamarca had objected to the Arbitration process and, although it is actively participating in the Arbitration, has attempted in various Courts in different locations and in different jurisdictions to have the Arbitration Proceedings suspended.

In May 2005, Algamarca obtained an injunction from the First Mixed Court of the Villa Maria del Triunfo ordering the suspension of the arbitration proceedings pending a court hearing on Algamarca's objection. Following the injunction, the Arbitration Tribunal resolved (by a majority decision) dated May 31, 2005, to suspend the proceedings. This suspension order was appealed by Sulliden, and by the tribunal itself, to the Superior Court of Lima.

In September 2005, the Superior Court of Lima unanimously rendered its judgment dated September 2, 2005 to revoke the precautionary measure (injunction) that had temporarily suspended the Arbitration Process. Algamarca has appealed the decision of the Superior Court of Lima to the Constitutional Tribunal. Following the Superior Court decision to revoke the injunction, the Arbitration Tribunal unanimously resolved to continue with the remaining stages of the Arbitration Process and called upon the parties for closing arguments to be held in October 2005.

Subsequently Algamarca again attempted to suspend the Arbitration Process. In October, Algamarca initiated another "accion de amparo" from the 53<sup>rd</sup> Circuit Court seeking a Court Order to suspend the Arbitration Process but this application was not successful.

On October 18, a new Court Order was obtained by Algamarca from the 64<sup>th</sup> Civil Court of Lima, where an action had earlier been filed by Algamarca in November 2004 arguing that the Transfer Agreement was not properly executed on behalf of Algamarca, requesting that the Arbitration Process be suspended pending a determination by the 64<sup>th</sup> Civil Court as to the proper execution of the agreement by Algamarca. By resolution #191 dated November 15, 2005 the Arbitration Tribunal rejected the request and resolved to hear the closing arguments in early December 2005.

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

January 31, 2006 and 2005

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#### 4. Contingencies (cont'd)

##### (b) Litigation Uncertainty With Respect to the Shahuindo Property (cont'd)

Following the rejection by the Arbitration Tribunal of Algamarca's request for suspension Algamarca sought and obtained from the 64<sup>th</sup> Civil Court of Lima a precautionary measure (injunction) ordering the suspension of the Arbitration Process pending the Court's decision on the principal matter of the valid execution of the Transfer Agreement and threatening to impose penal criminal charges against the Tribunal Arbitrators if the Order of the Court was not respected.

In addition, on December 1, 2005 Algamarca sought and obtained another precautionary measure (injunction) against the Arbitrators from the Third Civil Court of Cajamarca, where an action had earlier been filed by Algamarca in 2005 challenging the ownership of surface lands, prohibiting the Arbitration Tribunal from entering Final Judgment until the matter of the ownership of the surface lands at Shahuindo is resolved by the Third Civil Court.

Upon the resumption of the Arbitration Tribunal on December 5, 2005, and faced with the demands by Algamarca that the Tribunal be suspended and in light of the two Court Orders, the Arbitration Tribunal resolved by Resolution No. 199 dated December 5, 2005 not to proceed with the final arguments and gave the parties (Sulliden and Algamarca) five days to make submissions on the Court Orders and the suspension request from Algamarca. Following such submissions by Resolution 201 dated December 15, 2005 (notified December 20) the Arbitration Tribunal resolved rejecting the order of suspension ordered by the 64<sup>th</sup> Civil Court, but temporarily suspending the arbitration closing arguments hearing to protect the procedural legal terms to issue the arbitration award and to avoid any damages by the injunction issued by the Third Civil Court of Cajamarca.

Sulliden initiated the appropriate legal action and appeals to have the latest suspension revoked and the Arbitration finalized. Sulliden has made submissions that the Tribunal is fully authorized to continue with the Closing Arguments Hearing and that all of the arguments and alleged grounds of dispute are properly to be determined by the Arbitrators and not by the Courts. Sulliden has also filed an Appeal to the Superior Court in Lima against the Order of the 64<sup>th</sup> Civil Court and a competence dispute against Lima's 64<sup>th</sup> Civil Judge. The file has been sent to the Superior Court in order to determine the competent judge. The appeal process will be suspended until the competence issue is solved.

On January 26<sup>th</sup>, 2006, Minera Sulliden Shahuindo SAC in written form, filed before Lima's Thirty Fifth Civil Judge a competence lawsuit against Cajamarca's Third Civil Judge. On January 31<sup>st</sup>, 2006, Lima's 35<sup>th</sup> Judge declared himself competent to deal with the judgment of the Cajamarca's Third Civil Judge. The Third Judge of Cajamarca has suspended the procedure and sent the file to the Supreme Court, in order to decide the competence between them.

The recent steps and Court actions by Algamarca mark the second, third and fourth occasions in which Algamarca has resorted to judicial injunctions in an attempt to suspend the closing arguments in the Arbitration Process and to prevent the Arbitrators from rendering a Final Decision. This strategy is consistent with their previous attempts to have the Arbitration Process declared inapplicable and of no judicial effect. The Arbitration Process has been conducted in accordance with all the Rules of Arbitration and Sulliden believes, in all cases, that its appeals of these latest court orders will be successful, as was the case in the earlier May injunction, and that the Arbitration Process will ultimately be concluded.

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

January 31, 2006 and 2005

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#### 4. Contingencies (cont'd)

##### (b) Litigation Uncertainty With Respect to the Shahuindo Property (cont'd)

As a result of the legal actions, the transfer of the Shahuindo mining claims to Sulliden had not been completed. Following the decision of the Fifth Civil Chamber of the Superior Court of Lima in September 2004 to remove the injunction and dismiss Atimmsa's litigation, six of the claims which are registered in the National Public Registry at Lima ("SUNARP") were transferred and registered in Sulliden's name on February 22, 2005. Sulliden has demanded the registration of the transfer of the remaining twenty claims, which are registered in the District Public Registry at Trujillo, but this registration has not yet taken place. In the meantime, Sulliden understands that Algamarca has succeeded in transferring the registered ownership of eight claims to a third party Minera Pilacones S.A.. Also Algamarca has transferred five of the claims to Inversiones Mineras Sudamericanas S.A.. Sulliden has presented a criminal petition to the prosecutor, a civil demand and a Constitutional action against the registration process and applied for a Court Injunction prohibiting any further transfer of these claims by Minera Pilacones or Inversiones Mineras Sudamericanas S.A pending the outcome of the Arbitration Hearing.

In the opinion of management, the claims of Atimmsa and Algamarca are made in bad faith and without merit and will be defended. The Company has paid the full purchase price of US \$4.13 million, including US\$10,000 accepted by the shareholders of Algamarca upon signing the Final Letter of Intent on August 15, 2002, as well as \$320,000 paid to Algamarca upon execution of the Transfer Agreement on November 11, 2002. Of this latter amount and in fulfillment of Algamarca's instructions, US \$107,244 was in favour of Compania de Minas Buenaventura S.A.A. to release Algamarca from a previous option obligation, with the remaining US \$212,756 having been accepted by the Algamarca shareholders. The balance of the total purchase price plus the interest was paid to the Court.

The Company will seek by every means possible to have its ownership of the Shahuindo property confirmed and the claims registered in its name. Sulliden has filed the appropriate appeals, review requests and nullity applications against all the interceding injunctions and will continue where appropriate to seek whatever legal redress is necessary to ensure that the Arbitration Process is completed. In view of its strong legal position Sulliden remains confident that the outcome of the Arbitration Process will be favourable to Sulliden and is of the view that the recent actions by Algamarca represent attempts to try to prevent the Arbitration Tribunal from issuing its Final Judgment. However, the Company cannot predict with certainty the outcome of the various legal actions in Peru or the impact of these actions on the Company's rights to the Shahuindo property.