

2004

Sulliden Exploration Inc.

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*Second Quarter
Interim Report
October 31, 2004*

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President's Message

Second quarter report and update

Montreal, Canada – December 10, 2004. Sulliden Exploration Inc. (TSX: SUE) is pleased to report a second quarter update on progress relating to its exploration projects in Peru.

HIGHLIGHTS

- Sulliden signs Letter of Intent with Aruntani S.A.C. to option the Torrine gold project
- Scoping study underway at Shahuindo as Aruntani proceeds with bulk sampling and basic engineering following announcement of strategic & technical cooperation agreement to advance the Shahuindo project to production
- Phase II drilling program – results to be released in January 2005
- Superior Court ruling in Sulliden's favour expected to resume title transfer process

On August 18, 2004, Sulliden announced the signing of a strategic and technical cooperation agreement with Aruntani S.A.C., Peru's largest privately held gold producer, to assist in advancing its Shahuindo gold/silver project towards production. Aruntani, widely recognized for its expertise in the design, construction and operation of heap leach gold mines, is acclaimed for the rapid advancement of two of southern Peru's largest open pit gold mines, the Santa Rosa and Tucari deposits, currently producing over 250,000 ounces of gold per year. These mines were developed for a combined capital cost of US\$35 million and within three years from discovery.

Subsequently, on October 14, 2004, Sulliden announced the signing of a Letter of Intent with Aruntani for the Torrine gold project, the first such option agreement within Aruntani's massive 75,000 hectare volcanic complex in southern Peru.

Option to acquire Torrine gold project, southern Peru

The Torrine gold project is located 18 km northeast of the Santa Rosa mine, representing a large alteration zone of approximately 4.5 x 2 km trending northwest to southeast at the center of a volcanic caldera. The property exhibits similar orientation and structural setting as the nearby Santa Rosa and Tucari gold deposits.

Previous work by Aruntani on the property consisted of surface grab samples, some of which have displayed anomalous gold, arsenic and mercury content with similar geological and mineralogical characteristics. Sulliden may earn a 50% interest in the project through a combination of exploration commitments totaling US \$800,000, cash payments of US \$300,000 and 3,000,000 common shares of Sulliden over a two-year period. Thereafter, the property will be managed on a 50-50 basis by both Sulliden and Aruntani, with the latter as the operator.

In 2005, Sulliden intends to complete geophysical and magnetometer surveying with 60 km lines of chargeability, IP resistivity and soil and rock geochemistry followed by 1,500 meters of drilling.

The Torrine option in addition to the following scoping study at Shahuindo are viewed as important steps towards the development of mutual interests and synergies between Sulliden and Aruntani.

Scoping Study at Shahuindo gold/silver project, northern Peru

Aruntani has commenced pre-feasibility work at Sulliden's 100% owned Shahuindo gold and silver property with bulk sampling having been taken from an outcrop of the main orebody. Sulliden's chief geologist has been collaborating with Aruntani engineers and a potential production leach pad site has been defined. Further technical data is being provided towards a pit delimitation study. The scoping study is expected to be completed and released by the first quarter of 2005.

Phase II drilling program - Shahuindo

Drilling by Sulliden at the eastern extension of the property consisted of 24 holes over 3,800 m, commencing approximately 500 meters east of the last drilled section of the East zone. A new breccia zone was outlined which returned continuous mineralization ranging from 0.4 g/t to 4.83 g/t gold over widths between 12 - 121.5 m. The best intersection was recorded in hole SH04-44 returning 21.5m at 2.96 g/t gold which included 12 meters grading 4.83 g/t gold. The widest intersection was found in hole SH04-34 with 121.5 m at 0.44 g/t gold.

Follow up drilling on surface values opened up two additional zones, one of which parallels the East zone lying roughly 500 m to the south and appears to extend for over 600 m. Another soil anomaly about 1.3 km to the south, also runs parallel to the East zone in a geological context similar to the main San Jose zone, indicating the presence of a porphyry which appears to extend 3.8 km and opens a totally new target area to be followed up at a later date. This drilling confirms our belief that the mineralization at Shahuindo is widespread and extends almost continuously for more than 6 km.

Drilling has been ongoing at the northern extension of the Breccia zone and the Pampa de Arena (East Zone). The phase II drilling program came to a close on December 9, 2004 and a summary of results are expected to be released in January 2005. The resource defined prior to the current drilling program is 25.8 Mt of 1.07 g/t gold and 23.97 g/t silver in the indicated category, and 8.5 Mt of 0.92 g/t gold and 22.54 g/t silver in the inferred category for a total of 1.14 M oz of gold and 26.1 M ounces of silver, or 1.6 M ounces of gold equivalent.

Superior Court rules in favour of Sulliden – nullifies injunction

As a result of a ruling by the Fifth Civil Chamber of the Superior Court of Lima, Peru announced on September 23, 2004, the injunction illegally obtained by Atimmsa, the new shareholder of Algamarca, has been nullified. Algamarca had originally sold the Shahuindo property to Sulliden in November 2002. This decision of the Superior Court is expected to have a definitive impact on the process of re-registering the Shahuindo claims into Sulliden's name.

Arbitration

As previously disclosed in May and July of this year, the arbitration process which Sulliden initiated is, in management's view, the most appropriate procedure to bring a final resolution to certain outstanding issues such as mineral and surface rights. The arbitration having been deemed competent, is recognized by the Peruvian Constitution. The decision of the arbitration is expected to be announced by the end of March 2005 and management is optimistic its result will be favourable to Sulliden.

Annual Shareholders Meeting

At the Annual Meeting held on October 14, 2004 in Montreal, the shareholders of the Corporation voted to approve all business brought before the meeting; the approval of the amendment to the stock option plan, the reappointment of the Company's auditors, and the election of the Directors - Jean-Charles Potvin as Chairman, Jacques Trottier, Leonard Harris, Charles Rondeau, including the newly elected Directors - Guido del Castillo, James H. Coleman and Sylvain Perreault.

Following the Annual Meeting, the Directors appointed the Company's officers – Jacques Trottier, President & CEO, Michel Rathe, Executive Vice-President, CFO & Secretary, Donna Yoshimatsu, Vice President Investor Relations, and Enrique Lastres, Vice President, Corporate & Legal Affairs in Peru.

Sulliden's management is optimistic that the strategic developments outlined in the foregoing will have a significant positive influence on Sulliden's future operations and growth as its wholly-owned Shahuindo gold/silver project advances towards the production stage and the Company diversifies its exposure along the prolific tertiary volcanic gold belt of Peru.

Jacques Trottier
President and Chief Executive Officer
December 10, 2004

Sulliden Exploration Inc.

Consolidated Balance Sheets

(unaudited)

	October 31, 2004 (unaudited)	April 30, 2004 (restated)
Assets		
Current assets		
Cash	\$ 100,361	\$ 417,794
Guaranteed investment certificates	9,199,266	15,068,000
Accounts receivable	103,880	117,126
	<u>9,403,507</u>	<u>15,602,920</u>
Mining properties	23,394,189	4,873,583
Deferred exploration costs	<u>10,448,082</u>	<u>4,329,047</u>
	<u>\$ 43,245,778</u>	<u>\$ 24,805,550</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 684,186	\$ 626,040
Shareholders' Equity		
Share capital (Note 3)	65,165,776	46,605,866
Share capital to be issued	34,350	34,350
Warrants	995,485	318,579
Options	713,641	543,699
Deficit	<u>(24,347,660)</u>	<u>(23,322,984)</u>
	42,561,592	24,179,510
	<u>\$ 43,245,778</u>	<u>\$ 24,805,550</u>

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 October 31,		Six-month period ended October 31,	
	2004	2003	2004	2003
	(unaudited)	(restated)	(unaudited)	(restated)
Management fees and other income	\$ 46,145	\$ 21,458	\$ 101,001	\$ 139,626
Administrative expenses				
Professional fees	214,110	101,918	450,054	273,278
Compensation cost-options	-	115,325	164,430	224,813
Salaries and fringe benefits	55,049	30,929	100,099	61,857
General administrative expenses	50,549	34,186	107,137	53,381
Travel and entertainment	43,172	32,683	87,888	48,932
Shareholders' information	41,886	12,534	103,631	26,173
General exploration expenses	-	2,576	-	3,949
Exchange loss	54,232	-	112,438	-
	<u>458,998</u>	<u>330,151</u>	<u>1,125,677</u>	<u>692,383</u>
Net loss	412,853	308,693	1,024,676	552,757
Deficit at beginning				
As previously reported	23,367,740	18,566,287	22,755,917	18,322,223
Accounting for the compensation cost pursuant to the new section (Note 1b)	567,067	342,254	567,067	342,254
As restated	<u>23,934,807</u>	<u>18,908,541</u>	<u>23,322,984</u>	<u>18,664,477</u>
Share issue expenses	-	208,356	-	208,356
Deficit at end	<u>\$ 24,347,660</u>	<u>\$ 19,425,590</u>	<u>\$ 24,347,660</u>	<u>\$ 19,425,590</u>
Basis and diluted net loss per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>

See accompanying notes

Sulliden Exploration Inc.

Consolidated Statements of Cash Flows

(unaudited)

	Three-month period ended October 31		Six-month period ended October 31	
	2004 (unaudited)	2003 (restated)	2004 (unaudited)	2003 (restated)
Operating activities				
Net loss	\$ (412,853)	\$ (308,693)	\$ (1,024,676)	\$ (552,757)
Adjustments for:				
Compensation cost-options	-	115,325	164,430	224,813
Professional fees-options	-	-	54,812	-
	<u>(412,853)</u>	<u>(193,368)</u>	<u>(805,434)</u>	<u>(327,944)</u>
Net change in non-cash working capital items				
Accounts receivable	48,669	(4,853)	13,246	(43,606)
Accounts payable and accrued liabilities	302,426	(243,984)	58,146	(189,350)
	<u>351,095</u>	<u>(248,837)</u>	<u>71,392</u>	<u>(232,956)</u>
Cash flows used in operating activities	<u>(61,758)</u>	<u>(442,205)</u>	<u>(734,042)</u>	<u>(560,900)</u>
Investing activities				
Deferred exploration costs, net	(2,086,130)	(605,785)	(4,326,243)	(1,322,289)
Guaranteed investment certificate	977,034	(3,555,100)	5,868,734	(3,955,100)
Mining properties, net	-	(1,147,683)	-	(1,164,802)
Business acquisition (Note 2)	-	-	(4,000,000)	-
Cash flows used in investing activities	<u>(1,109,096)</u>	<u>(5,308,568)</u>	<u>(2,457,509)</u>	<u>(6,442,191)</u>
Financing activities				
Share capital	378,500	6,127,050	2,874,118	7,387,634
Share issue expenses	-	(208,356)	-	(208,356)
Cash flows generated from financing activities	<u>378,500</u>	<u>5,918,694</u>	<u>2,874,118</u>	<u>7,179,278</u>
Net change in cash	<u>(792,354)</u>	<u>167,921</u>	<u>(317,433)</u>	<u>176,187</u>
Cash at beginning	<u>892,715</u>	<u>166,456</u>	<u>417,794</u>	<u>158,190</u>
Cash at end (1)	<u>\$ 100,361</u>	<u>\$ 334,377</u>	<u>\$ 100,361</u>	<u>\$ 334,377</u>

See accompanying notes

Additional information

Items not affecting cash related to financing and investing activities

Warrants exercised	\$ -	\$ -	\$ 36,492	\$ -
Options granted – deferred exploration costs	\$ -	\$ 3,295	\$ -	\$ 3,295
Options exercised	\$ 49,300	\$ 2,545	\$ 49,300	\$ 42,914
Shares issued - acquisition of a mining property	\$ -	\$ -	\$ -	\$ 143,000
Shares issued - business acquisition	\$ -	\$ -	\$ 15,600,000	\$ -
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)

October 31, 2004 and 2003

1. a) 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, 2004, specifically the Note 1 on the Description of Business and Continuation of the Business and Note 2 on the Summary of Significant Accounting Policies.

b) Stock-Based Compensation and Other Stock-Based Payments

On May 1, 2003, the Company adopted retroactively with a restatement for 2004 the new recommendation of Section 3870 of the CICA Handbook entitled "Stock-Based Compensation and Other Stock-Based Payments" under which the costs of options granted to key employees, officers and directors is accounted for as compensation cost under operations. The effect of these new amendments is the increase of the deficit as at April 30, 2003 by \$342,254 and the increase of the compensation cost-options as at October 31, 2003 by \$224,813.

2. Shahuindo Property Acquisition

During the period ended July 31, 2004, the Company finalized, as previously announced in March 2004, the acquisition of 100 % of the shares of 9129-8398 Québec Inc., wholly-owned subsidiary of Socrate Capital Inc., which held the 30 % interest in the Shahuindo property. Subsequently, 9129-8398 Québec Inc. was merged with the Company.

This transaction is summarized as follows:

Assets acquired

Deferred costs	\$1,792,792
Acquisition costs – Mining properties	<u>18,520,606</u>
	<u>\$20,313,398</u>

Consideration

Cash	\$4,000,000
Shares issued	15,600,000
Warrants issued	<u>713,398</u>
	<u>\$20,313,398</u>

At the date of acquisition, 4,000,000 warrants at \$3.00 for an eighteen-month period were issued. The fair value of the warrants at the date of acquisition was \$713,398 and was accounted for as an increase to the Warrants heading of the shareholders' equity.

Sulliden Exploration Inc.

Notes to Consolidated Financial Statements (unaudited)

October 31, 2004 and 2003

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3. Share capital

Authorized

Unlimited number of voting common shares, without par value

Issued

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

	2004		2003	
	Number of Shares	Amount (restated)	Number of Shares	Amount
Balance at beginning	44,342,831	\$ 46,605,866	25,525,664	19,884,854
Issued and paid in cash	-	-	7,077,000	6,790,100
Issued following the exercise of options	200,000	165,300	710,000	251,489
Issued following the exercise of warrants	3,809,400	2,794,610	2,053,667	891,984
Issued following the acquisition of a mining property	-	-	100,000	143,000
Issued following a business acquisition (Note 2)	12,000,000	15,600,000	-	-
Balance at end	60,352,231	\$ 65,165,776	35,466,331	27,961,427

Common share purchase 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 10 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)

October 31, 2004 and 2003

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. 3 Share capital (cont'd)

The status of the Company's fixed-price share option plan as at October 31, 2004 and 2003, and changes during the period then ended are summarized as follows:

	2004		2003	
	Number of common share purchase options	Weighted- Average Exercise Price	Number of common share purchase options	Weighted- Average Exercise Price
Outstanding at beginning	2,837,950	\$ 0.64	3,472,950	\$ 0.47
Granted	400,000	\$ 1.30	380,000	\$ 1.42
Exercised	(200,000)	\$ 0.58	(710,000)	\$ 0.35
Forfeited	(400,000)	\$ 0.58	-	-
Outstanding at end	2,637,950	\$ 0.75	3,142,950	\$ 0.61
Options exercisable at end	2,637,950		3,142,950	

The following table summarizes information on fixed-price share options outstanding as at October 31, 2004:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding as at 10/31/04	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable as at 10/31/04	Weighted- Average Exercise Price
\$0.29	395,000	2.25 years	\$0.29	395,000	\$0.29
\$0.39	350,000	6.15 years	\$0.39	350,000	\$0.39
\$0.40	262,950	0.95 year	\$0.40	262,950	\$0.40
\$0.58	600,000	0.30 year	\$0.58	600,000	\$0.58
\$0.84	250,000	3.80 years	\$0.84	250,000	\$0.84
\$1.30	600,000	1.35 years	\$1.30	600,000	\$1.30
\$1.56	180,000	0.85 year	\$1.56	180,000	\$1.56
	2,637,950	2.05 years	\$0.75	2,637,950	\$0.75

Sulliden Exploration Inc.

Notes to Consolidated Financial Statements (unaudited)

October 31, 2004 and 2003

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3. 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 October 31	2004	2003
Weighted risk-free interest rate	2.93%	2.90%
Expected volatility	75%	75%
Dividend yield	Nil	Nil
Weighted average expected life	2 years	2 years
Weighted average cost of option granted	\$0.55	\$0.60

The total compensation cost recorded as expenses for the options granted during the six-month period ended October 31, 2004 is \$219, 242 (\$224,813 as compensation cost and \$3,295 as deferred exploration costs in 2003) as Compensation cost-options of which \$164,430 included as Compensation cost-options and \$54,812 as professional fees and the amount of \$219, 242 (\$228,108 in 2003) has been recorded under the heading Options.

Subsequently to October 31, 2004, the Company granted 2, 150,000 options to directors, officers and consultant at a price of \$1.00 for a five year period under certain conditions.

Warrants

The status of the warrants as at October 31, 2004 and 2003 and changes during the periods then ended are summarized as follows:

	2004		2003	
	Numbers of warrants	Weighted- Average Exercise Price	Numbers of warrants	Weighted- Average Exercise Price
Outstanding at beginning	10,468,350	\$ 1.75	4,554,267	\$ 0.41
Issued (Note 2)	4,000,000	\$ 3.00	4,488,000	\$ 1.09
Exercised	(3,809,400)	\$ 0.72	(2,053,667)	\$ 0.43
Forfeited	(1,849,100)	\$ 1.26	-	-
Outstanding at end	8,809,850	\$ 2.84	6,988,600	\$ 0.86

Sulliden Exploration Inc.

Notes to Consolidated Financial Statements (unaudited)

October 31, 2004 and 2003

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3. Share capital (cont'd)

The following table summarizes information on warrants outstanding as at October 31, 2004:

Exercise Price	Warrants Outstanding			Warrants Exercisable	
	Number Outstanding as at 10/31/04	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as at 10/31/04	Weighted-Average Exercise Price
\$0.75	431,000	1.40 years	\$0.75	431,000	\$0.75
\$0.80	77,600	0.42 year	\$0.80	77,600	\$0.80
\$2.30	426,250	0.26 year	\$2.30	426,250	\$2.30
\$3.00	3,875,000	0.76 year	\$3.00	3,875,000	\$3.00
\$3.00	4,000,000	1.12 years	\$3.00	4,000,000	\$3.00
	<u>8,809,850</u>	<u>0.75 year</u>	<u>\$2.84</u>	<u>8,809,850</u>	<u>\$2.84</u>

4. Related party transactions

During the period ended October 31, 2004, the Company agreed to pay \$201,120 (\$146,585 in 2003), of which \$193,620 (\$105,835 in 2003) as professional fees and general administration expenses and \$7,500 (\$40,750 in 2003) as 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.