

**2004**

**Sulliden Exploration Inc.**

.....  
*Third Quarter  
Interim Report  
January 31, 2005*

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## President's Message

Sulliden Exploration Inc. is pleased to report on progress and developments during the third quarter relating to its exploration projects in Peru.

### HIGHLIGHTS

- **Sulliden successfully registers six Shahuindo claims** at the National Public Registry Office (SUNARP) in Lima, Peru. The remaining twenty claims are expected to be completed at the local level in the coming weeks
- **The second phase drilling program confirms large scale gold system** extending over an area 8 km by 4 km and vertically to a depth of at least 400 meters. A new resource estimate by Met-Chem Canada Inc. is expected to be announced by the end of March 2005
- **The scoping study by Aruntani to develop the Shahuindo project into a heap-leach gold/silver producer** is expected to be available by the end of March 2005
- **Exploration has begun at the Torrine project** located in Aruntani's Santa Rosa-Tucari volcanic complex in southern Peru with an initial program of geophysics and geochemistry

### Registration of Title

On February 22, 2005 Sulliden announced the registration of title on the six Shahuindo claims under the jurisdiction of the National Public Registry Office (SUNARP) in Lima, Peru. The registration was expedited by a resolution from the Fifth Civil Chamber of the Superior Court of Lima following its decision to declare null and void an earlier illegal injunction that had temporarily suspended the registration process. Accordingly, the resolution has been presented to the Registry in Trujillo where the remaining twenty claims are expected to be registered in the weeks ahead.

### Phase II Drilling Program

The second phase of drilling was concluded in early December 2004 consisting of 54 drill holes for a total of approximately 8,500 meters of drilling, including 3,800 meters at the Moyan Alto zone previously reported.

The success of the second phase drilling program is twofold:

- 1) infill drilling at the Breccia and East zones confirmed the potential of these two zones as excellent starting pits for a large-scale, heap-leach gold and silver mining operation;
- 2) it confirmed the extension of mineralization for a strike length that can be traced virtually continuously over 6 km. The program confirmed the presence of a large scale gold system extending over an area of 8 km x 4 km and vertically to a depth of at least 400 meters.

Infill drilling at the **East zone** comprised eight drill holes for 1,230 meters, each hole returning mineralized intercepts expected to positively impact the mineralized envelope and tonnage. The East zone has been confirmed to represent a potential starting pit at Shahuindo in view of its low waste-to-ore strip ratio, substantive volume and grades, as well as availability of flat surface areas for a nearby leach pad.

Infill drilling at the **Breccia zone** (part of the eastern extension of San Jose) where previous drilling identified a high grade gold and silver orebody at surface, comprised five drill holes for 1,195 meters which added 150 meters of strike length to the northwest of the Breccia zone. One hole targeted the Chimu quartzite at depth, a potential reservoir rock underlying the Santa formation. While it intersected a porphyry intrusive before reaching the Chimu, it clearly illustrates that mineralization is found at the porphyry contact to a vertical depth of 410 meters.

The **Gap Zone** connecting the Breccia to the East zone opened up a highly prospective corridor of 500 meters x 250 meters located on strike between the Breccia zone and the East zone. All the drill holes were located on the Breccia side of the 'Quebrada Choloque', a topographic break which is interpreted as a fault separating the mineralized area of the two zones. As for the 400- meter wide corridor connecting the East Zone to the Moyan Alto zone, seven drill holes tested a total of 900 meters with mineralization encountered within 25 meters south of the baseline. In addition, drilling at the Pauquilla area approximately 2 km north of the main zone near the portal of the old Shahuindo mine, yielded encouraging soil, grab sampling and trenching results.

A very promising target for the next phase of drilling is the **western corridor** from the San Jose zone to and beyond the West zone where a geochemical soil anomaly striking for at least 1 km to the west has been confirmed by a trench 400 meters west of the western-most hole drilled to date at the same intrusive-sediment contact. This trench crosses the contact between the porphyry and a sediment package consisting mainly of coarse-grained siliceous sandstone (Chimu formation). Continuous five meter sampling returned 190 meters at 1.57 g/t Au and 18.6 g/t Ag in the sediments starting at the boundary with the porphyry, with three gold values ranging between 12g/t and 16g/t. The Mag anomaly, interpreted as a porphyry contact with the sediments, can be followed 3 km to the northwest of this trench up to the Vikingo claims over which Sulliden has an option to acquire a 66% interest. The western corridor has not been included in the resource estimate which is currently being updated by Met-Chem Canada Inc. to include the results of the second phase drilling program. This report is expected to be announced by the end of this month.

### **Scoping Study at Shahuindo**

The scoping study to develop Shahuindo into a heap-leach gold/silver producer is being compiled by Aruntani SAC, one of Peru's largest and most successful private heap-leach gold producing companies. Bulk sampling has been taken from an outcrop of the main orebody and a potential production leach pad site has been identified. Sulliden's geologists have collaborated with Aruntani's engineers and technical data is being provided towards a pit delimitation study. The results of the scoping study are expected to be available by the end of March 2005.

### **Torrine Option, Southern Peru**

Sulliden has also commenced a new exploration program at the Torrine project located in Aruntani's Santa Rosa-Tucari volcanic complex in southern Peru. Initially comprising geophysics and geochemistry, the program includes a commitment to drill a minimum of 1,500 meters during the first year. Results from this new exploration program will be announced as they become available.

Jacques Trottier  
President and Chief Executive Officer  
March 14, 2005

## Sulliden Exploration Inc.

### Consolidated Balance Sheets

(unaudited)

	January 31, 2005 (unaudited)	April 30, 2004 (restated)
<b>Assets</b>		
Current assets		
Cash	\$ 136,236	\$ 417,794
Guaranteed investment certificates	6,935,266	15,068,000
Accounts receivable	147,849	117,126
	<u>7,219,351</u>	15,602,920
 Mining properties	 22,680,791	 4,873,583
 Deferred exploration costs	 12,266,701	 4,329,047
	<u>\$ 42,166,843</u>	<u>\$ 24,805,550</u>
 <b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 559,333	\$ 626,040
 <b>Shareholders Equity</b>		
Share capital (Note 3)	64,478,014	46,605,866
Share capital to be issued	34,350	34,350
Warrants	995,485	318,579
Options	1,178,862	543,699
Deficit	(25,079,201)	(23,322,984)
	<u>41,607,510</u>	<u>24,179,510</u>
	<u>\$ 42,166,843</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 January 31,		Nine-month period ended January 31,	
	2005 (unaudited)	2004 (restated)	2005 (unaudited)	2004 (restated)
<b>Management fees and other income</b>	\$ 45,572	\$ 8,711	\$ 146,573	\$ 148,337
<b>Administrative expenses</b>				
Professional fees	160,746	209,360	610,800	482,638
Compensation cost-options	425,578	-	590,008	224,813
General administrative expenses	76,015	48,219	183,152	101,600
Salaries and fringe benefits	54,922	31,695	155,021	93,552
Travel and entertainment	39,802	34,663	127,690	83,595
Shareholders' information	17,739	16,098	121,370	42,271
Exchange loss	2,311	-	114,749	-
Write-off of a mining property and deferred exploration costs	-	205,137	-	205,137
General exploration expenses	-	-	-	3,949
	<b>777,113</b>	<b>545,172</b>	<b>1,902,790</b>	<b>1,237,555</b>
<b>Net loss</b>	<b>731,541</b>	<b>536,461</b>	<b>1,756,217</b>	<b>1,089,218</b>
<b>Deficit at beginning</b>				
As previously reported	24,347,660	19,083,336	22,755,917	18,322,223
Accounting for the compensation cost pursuant to the new section (Note 1b)	-	342,254	567,067	342,254
As restated	24,347,660	19,425,590	23,322,984	18,664,477
Share issue expenses	-	36,492	-	244,848
<b>Deficit at end</b>	<b>\$ 25,079,201</b>	<b>\$ 19,998,543</b>	<b>\$ 25,079,201</b>	<b>\$ 19,998,543</b>
<b>Basis and diluted net loss per share</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.03</b>	<b>\$ 0.01</b>

See accompanying notes

## Sulliden Exploration Inc.

### Consolidated Statements of Cash Flows (unaudited)

	Three-month period ended January 31		Nine -month period ended January 31	
	2005 (unaudited)	2004 (restated)	2005 (unaudited)	2004 (restated)
<b>Operating activities</b>				
Net loss	\$ (731,541)	\$ (536,461)	\$ (1,756,217)	\$ (1,089,218)
Adjustments for:				
Compensation cost-options	425,578	-	590,008	224,813
Professional fees-options	3,630	-	58,442	-
Write-off of a mining property and deferred exploration costs	-	205,137	-	205,137
	<b>(302,333)</b>	<b>(331,324)</b>	<b>(1,107,765)</b>	<b>(659,268)</b>
Net change in non-cash working capital items				
Accounts receivable	(43,969)	(9,961)	(30,723)	(53,567)
Accounts payable and accrued liabilities	(124,853)	(3,644)	(66,707)	(192,994)
	<b>(168,822)</b>	<b>(13,605)</b>	<b>(97,430)</b>	<b>(246,561)</b>
Cash flows used in operating activities	<b>(471,155)</b>	<b>(344,929)</b>	<b>(1,205,197)</b>	<b>(905,829)</b>
<b>Investing activities</b>				
Deferred exploration costs, net	(1,774,970)	(773,488)	(6,101,213)	(2,095,777)
Guaranteed investment certificates	2,264,000	694,000	8,132,734	(3,261,100)
Mining properties, net	-	(4,886)	-	(1,169,688)
Business acquisition (Note 2)	-	-	(4,000,000)	-
Cash flows used in investing activities	<b>489,030</b>	<b>(84,374)</b>	<b>(1,968,479)</b>	<b>(6,526,565)</b>
<b>Financing activities</b>				
Share capital	18,000	344,499	2,892,118	7,732,133
Share issue expenses	-	-	-	(208,356)
Cash flows generated from financing activities	<b>18,000</b>	<b>344,499</b>	<b>2,892,118</b>	<b>7,523,777</b>
<b>Net change in cash</b>	<b>35,875</b>	<b>(84,804)</b>	<b>(281,558)</b>	<b>91,383</b>
<b>Cash at beginning</b>	<b>100,361</b>	<b>334,377</b>	<b>417,794</b>	<b>158,190</b>
<b>Cash at end (1)</b>	<b>\$ 136,236</b>	<b>\$ 249,573</b>	<b>\$ 136,236</b>	<b>\$ 249,573</b>

See accompanying notes

#### Additional information

Items not affecting cash related to financing  
and investing activities

Warrants – share issue expenses	\$ (36,492)	\$ 36,492	\$ (36,492)	\$ 36,492
Options granted – deferred exploration costs	\$ 43,649	\$ -	\$ 43,649	\$ 3,295
Options exercised	\$ (7,636)	\$ (5,315)	\$ (56,936)	\$ (11,254)
Shares issued - acquisition of a mining property	\$ -	\$ -	\$ -	\$ -
Shares issued - business acquisition	\$ -	\$ -	\$ 14,886,602	\$ -
Warrants issued - business acquisition	\$ -	\$ -	\$ 713,398	\$ -
Options exercised – professional fees	\$ -	\$ (23,449)	\$ -	\$ (23,449)
Shares issued in consideration of the acquisition of a mining property	\$ -	\$ -	\$ -	\$ 143,000

(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, 2005 and 2004**

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#### 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 January 31, 2004 by \$224,813 and the deferred exploration costs by \$3,295.

#### 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>17,807,208</u>
	<u>\$19,600,000</u>

##### Consideration

Cash	\$4,000,000
Shares issued	14,886,602
Warrants issued	<u>713,398</u>
	<u>\$19,600,000</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)

January 31, 2005 and 2004

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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:

	2005		2004	
	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	245,000	190,936	1,015,000	430,952
Issued following the exercise of warrants	3,809,400	2,794,610	2,212,667	1,085,784
Issued following the acquisition of a mining property	-	-	100,000	143,000
Issued following a business acquisition (Note 2)	12,000,000	14,886,602	-	-
Balance at end	60,397,231	\$ 64,478,014	35,930,331	28,334,690

##### 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)

January 31, 2005 and 2004

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

The status of the Company's fixed-price share option plan as at January 31, 2005 and 2004, and changes during the period then ended are summarized as follows:

	2005		2004	
	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	2,562,000	\$ 1.05	380,000	\$1.42
Exercised	(245,000)	\$ 0.78	(1,015,000)	\$0.42
Forfeited	(400,000)	\$ 0.58	-	-
Outstanding at end	<b>4,754,950</b>	<b>\$ 0.87</b>	2,837,950	\$ 0.64
Options exercisable at end	<b>4,754,950</b>		2,837,950	

The following table summarizes information on fixed-price share options outstanding as at January 31, 2005:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding as at 01/31/05	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable as at 01/31/05	Weighted- Average Exercise Price
\$0.29	395,000	2.00 years	\$0.29	395,000	\$0.29
\$0.39	350,000	5.90 years	\$0.39	350,000	\$0.39
\$0.40	217,950	0.70 year	\$0.40	217,950	\$0.40
\$0.58	600,000	0.05 year	\$0.58	600,000	\$0.58
\$0.84	250,000	3.55 years	\$0.84	250,000	\$0.84
\$1.00	2,150,000 (A)	4.85 years	\$1.00	2,150,000	\$1.00
\$1.01	12,000	0.15 year	\$1.01	12,000	\$1.01
\$1.30	600,000	1.10 years	\$1.30	600,000	\$1.30
\$1.56	180,000	0.60 year	\$1.56	180,000	\$1.56
	<b>4,754,950</b>	<b>3.18 years</b>	<b>\$0.87</b>	<b>4,754,950</b>	<b>\$0.87</b>

(A) As at January 31, 2005, 537,500 options are exercisable.

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements (unaudited)

January 31, 2005 and 2004

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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 January 31	2005	2004
Weighted risk-free interest rate	3.63%	2.90%
Expected volatility	75%	75%
Dividend yield	Nil	Nil
Weighted average expected life	4.5 years	2 years
Weighted average cost of option granted	\$0.62	\$0.60

The total cost recorded for the options granted during the nine-month period ended January 31, 2005 is \$692,099 (\$224,813 as compensation cost and \$3,295 as deferred exploration costs in 2004) of which \$590,008 is included as Compensation cost-options, \$58,442 as professional fees and \$43,649 as deferred exploration costs and the amount of \$692,099 (\$228,108 in 2003) has been recorded under the heading Options.

#### Warrants

The status of the warrants as at January 31, 2005 and 2004 and changes during the periods then ended are summarized as follows:

	2005		2004	
	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	(2,212,667)	\$ 0.49
Forfeited	(1,849,100)	\$ 1.26	-	-
Outstanding at end	<b>8,809,850</b>	<b>\$ 2.84</b>	6,829,600	\$ 0.87

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements (unaudited)

January 31, 2005 and 2004

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

The following table summarizes information on warrants outstanding as at January 31, 2005:

Exercise Price	Warrants Outstanding			Warrants Exercisable	
	Number Outstanding as at 01/31/05	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as at 01/31/05	Weighted-Average Exercise Price
\$0.75	431,000	1.15 years	\$0.75	431,000	\$0.75
\$0.80	77,600	0.17 year	\$0.80	77,600	\$0.80
\$2.30	426,250	0.01 year	\$2.30	426,250	\$2.30
\$3.00	3,875,000	0.51 year	\$3.00	3,875,000	\$3.00
\$3.00	4,000,000	0.87 year	\$3.00	4,000,000	\$3.00
	8,809,850	0.50 year	\$2.84	8,809,850	\$2.84

#### 4. Related party transactions

During the period ended January 31, 2005, the Company agreed to pay \$314,867 (\$207,585 in 2004), of which \$307,367 (\$141,335 in 2003) was professional fees and general administration expenses and \$7,500 (\$66,250 in 2004) 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.