

**2005**

**Sulliden Exploration Inc.**

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*First Quarter  
Interim Report  
July 31, 2005*

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## President's Message

The initial quarter of the new fiscal year was predominated by the subject of the Arbitration process which received nation-wide attention in the Peruvian judiciary and press. The unusual legal measure by Algamarca aimed at imposing penal sanctions against the three members of the Arbitration Tribunal in the wake of a final decision that was expected to be favourable to Sulliden, evoked a precedent-setting Directive by the Supreme Court addressed to each of the Presidents of the 28 Superior Courts to uphold the sanctity and constitutional autonomy of the Arbitration institution.

Also precipitated by numerous recorded instances of illegal obstructions to the Arbitration Process by certain magistrates resulting in unnecessary conflicts, the President of the Supreme Court of Peru, the Hon. Walter Humberto Vasquez Vejarano, addressed the nation on the importance of defending Arbitration against outside intervention by other interests for its integral role in the legal system to resolve conflict. The ratification from the Supreme Court has sparked the collective support of such organizations as the CONFIEP (National Confederation of Private Companies spanning industries from forestry to mining), the Canada-Peru and American Chambers of Commerce, in addition to mining organizations including the National Institute of Mining, Petroleum and Energy. Sulliden's case has been at the forefront of a nation-wide appeal to uphold the integrity of the Constitution and Arbitration and with the latest decision of the Supreme Court having judicial precedence in similar cases. Sulliden is hopeful that the Arbitration Tribunal will resolve to resume the Arbitration hearing as soon as possible.

In the interim, the Company continues to maintain its presence in Peru to safeguard its interests and rights, including a firm commitment to social responsibility vis-à-vis the communities in and around the Shahuindo property. Amid the backdrop of anti-mining and other group protests throughout the region – cited in numerous articles such as the Mining Journal of August 2005 - a key concern for local and foreign mining companies, Sulliden demonstrates a clear competitive advantage in its commitment to the local people who continue to support the Company. Working as a member of the community, Sulliden provides basic medical services and resources related to education, infrastructure including roads, communal structures and potable water, giving priority to local residents and goods in support of the local economy. Recently the Company's dedication in this area was recognized in having received top prize for best technical and social responsibility program at the IV International Congress of the Environment in Mining & Metallurgy. The emphasis on social responsibility has become increasingly important and is now a strong requirement for the granting of mining permits.

Exploration work at the Torrine property in southern Peru is progressing well commencing with a ground geophysical survey. A team of mapping/prospecting personnel will be mobilized at Torrine to begin surface sampling and drill program planning over the next several weeks.

Jacques Trottier  
President and Chief Executive Officer  
September 12, 2005

# Sulliden Exploration Inc.

## Consolidated Balance Sheets

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	July 31, 2005 (unaudited)	April 30, 2005 (audited)
<b>Assets</b>		
Current assets		
Cash	\$ 196,545	\$ 347,746
Guaranteed investment certificates	4,280,984	5,309,984
Accounts receivable	128,691	97,618
	<hr/>	<hr/>
	4,606,220	5,755,348
Mining properties	23,716,924	23,517,769
Deferred exploration costs	14,491,064	13,583,101
	<hr/>	<hr/>
	\$ 42,814,208	\$ 42,856,218
	<hr/>	<hr/>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 396,373	\$ 331,200
<b>Shareholders' Equity</b>		
Share capital (Note 2)	65,687,397	65,522,397
Warrants	995,485	995,485
Options	2,122,113	2,021,867
Deficit	(26,387,160)	(26,014,731)
	<hr/>	<hr/>
	42,417,835	42,525,018
	<hr/>	<hr/>
	\$ 42,814,208	\$ 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)

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	Three-month period ended July 31,	
	2005	2004
<b>Interest income and others</b>	<u>\$ 26,373</u>	<u>\$ 54,856</u>
<b>Administrative expenses</b>		
Professional fees	134,659	235,944
Stock-based compensation cost	100,246	164,430
General administrative expenses	54,060	56,588
Salaries and fringe benefits	53,802	45,050
Travel and entertainment	30,419	44,716
Shareholders' information	11,577	61,745
Exchange loss	14,039	58,206
	<u>398,802</u>	<u>666,679</u>
<b>Net loss</b>	372,429	611,823
<b>Deficit at beginning</b>	<u>26,014,731</u>	<u>23,322,984</u>
<b>Deficit at end</b>	<u>\$ 26,387,160</u>	<u>\$ 23,934,807</u>
<b>Basis and diluted net loss per share</b>	<u>\$ 0.01</u>	<u>\$ 0.01</u>

See accompanying notes

## Sulliden Exploration Inc.

### Consolidated Statements of Cash Flows (unaudited)

	Three-month period ended July 31	
	2005	2004
<b>Operating activities</b>		
Net loss	\$ (372,429)	\$ (611,823)
Adjustments for:		
Stock-based compensation cost	100,246	164,430
Professional fees	-	54,812
	<u>(272,183)</u>	<u>(392,581)</u>
Net change in non-cash working capital items		
Accounts receivable	(31,073)	(35,423)
Accounts payable and accrued liabilities	65,173	(244,280)
	<u>34,100</u>	<u>(279,703)</u>
	<u>(238,083)</u>	<u>(672,284)</u>
<b>Investing activities</b>		
Deferred exploration costs	(907,963)	(2,240,113)
Redeemable guaranteed investment certificates	1,029,000	4,891,700
Mining properties	(34,155)	-
Business acquisition	-	4,000,000
	<u>86,882</u>	<u>(1,348,413)</u>
<b>Financing activity</b>		
Share capital	-	2,495,618
	<u>-</u>	<u>2,495,618</u>
<b>Net change in cash</b>	<u>(151,201)</u>	<u>474,921</u>
<b>Cash at beginning</b>	<u>347,746</u>	<u>417,794</u>
<b>Cash at end (1)</b>	<u>\$ 196,545</u>	<u>\$ 892,715</u>

See accompanying notes

#### Additional information

Items not affecting cash related to financing and investing activities

Shares issued - acquisition of a mining property	\$ 165,000	\$ -
Warrants exercised – share issue expenses	\$ -	\$ (36,492)
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)

**July 31, 2005 and 2004**

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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:

	2005		2004	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning	60,792,231	\$ 65,522,397	44,342,831	\$ 46,605,866
Issued following the acquisition of a mining property	300,000	165,000	-	-
Issued following the exercise of warrants	-	-	2,934,400	2,532,110
Issued following a business acquisition	-	-	12,000,000	15,600,000
Balance at end	<u>61,092,231</u>	<u>\$ 65,687,397</u>	<u>59,277,231</u>	<u>\$ 64,737,976</u>

#### 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)

July 31, 2005 and 2004

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

The status of the Company's fixed-price share option plan as at July 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	3,942,950	\$0.89	2,837,950	\$0.64
Granted	350,000	\$0.68	400,000	\$1.30
Exercised	-	-	-	-
Cancelled or expired	(200,000)	\$1.30	(400,000)	\$0.58
Outstanding at end	4,092,950	\$0.85	2,837,950	\$ 0.74
Options exercisable at end	4,092,950		2,837,950	

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

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding as at 07/31/05	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable as at 07/31/05	Weighted- Average Exercise Price
\$0.29	395,000	1.50 years	\$0.29	395,000	\$0.29
\$0.39	350,000	5.35 years	\$0.39	350,000	\$0.39
\$0.40	217,950	0.41 year	\$0.40	217,950	\$0.40
\$0.84	250,000	3.05 years	\$0.84	250,000	\$0.84
\$1.00	2,150,000	4.32 years	\$1.00	2,150,000	\$1.00
\$1.30	200,000	0.46 years	\$1.30	200,000	\$1.30
\$1.56	180,000	0.15 year	\$1.56	180,000	\$1.56
\$0.68	350,000	1.83 years	\$0.68	350,000	\$0.68
	4,092,950	3.27 years	\$0.85	4,092,950	\$0.85

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

July 31, 2005 and 2004

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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 July 31	2005	2004
	Weighted risk-free interest rate	2.86%
Expected volatility	75%	75%
Dividend yield	Nil	Nil
Weighted average expected life	2 years	2 years
Weighted average cost of option granted	\$0.29	\$0.55

The cost recorded for the options granted to directors, officers and consultants during the three-month period ended July 31, 2005 is \$100,246 as Stock-based compensation cost and the counterpart \$100,246 (\$219,242 in 2004) has been credited to the Options account (\$164,430 as Stock-based compensation cost and \$54,812 as professional fees in 2004).

#### Warrants

The status of the warrants as at July 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	8,176,000	\$ 2.92	10,468,350	\$ 1.73
Issued	-	-	4,000,000	\$ 3.00
Exercised	-	-	(2,934,400)	\$ 0.85
Cancelled or expired	-	-	(1,849,100)	\$ 1.26
Outstanding at end	8,176,000	\$ 2.92	9,684,850	\$ 2.60

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

July 31, 2005 and 2004

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

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

Exercise Price	Warrants Outstanding			Warrants Exercisable	
	Number Outstanding as at 07/31/05	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as at 07/31/05	Weighted-Average Exercise Price
\$0.75	301,000	0.68 year	\$0.75	301,000	\$0.75
\$3.00	3,875,000	0.02 year	\$3.00	3,875,000	\$3.00
\$3.00	4,000,000	0.38 year	\$3.00	4,000,000	\$3.00
	8,176,000	0.22 year	\$2.92	8,176,000	\$2.92

#### 4. Related party transactions

During the period ended July 31, 2005, the Company agreed to pay \$129,722 (\$65,749 in 2004), of which \$129,722 (\$58,249 in 2004) was professional fees and general administration expenses and none (\$7,500 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.

#### 5. 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

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

July 31, 2005 and 2004

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

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

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. Following the execution of the Agreement, the shareholders of Algamarca sold their shares to a third party, Alta Tecnología e Inversión Minera y Metalúrgica 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 María del Triunfo ordering the suspension of the arbitration proceedings pending a court hearing on the Algamarcas objection. Following the injunction, the arbitration tribunal resolved (by a majority decision) dated May 31, 2005, to suspend the proceedings. This suspension order is subject to an appeal by Sulliden, and by the tribunal itself, to the Supreme Court of Lima.

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 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 Compañía 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

## **Sulliden Exploration Inc.**

### **Notes to Consolidated Financial Statements** (unaudited)

**July 31, 2005 and 2004**

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#### **5. Contingencies (cont'd)**

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

Company will seek by every means possible to have its ownership of the Shahuindo property confirmed and the claims registered in its name. 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.