

2006/2007

Sulliden Exploration Inc.

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*First Quarter
Interim Report
July 31, 2006*

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Sulliden Exploration Inc.

Consolidated Balance Sheets

	July 31, 2006 (unaudited)	April 30, 2006 (audited)
Assets		
Current assets		
Cash	\$ 299,973	\$ 240,682
Guaranteed investment certificates	775,811	1,779,811
Accounts receivable	31,387	50,595
	<u>1,107,171</u>	<u>2,071,088</u>
Mining properties	23,729,417	23,729,417
Deferred exploration costs	17,748,331	16,621,532
	<u>\$ 42,584,919</u>	<u>\$ 42,422,037</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 841,444	\$ 553,630
Shareholders' Equity		
Share capital (Note 2)	65,914,794	65,914,794
Options (Note 2)	1,074,112	1,256,027
Contributed Surplus (Note 2)	2,040,941	1,859,026
Deficit	(27,286,372)	(27,161,440)
	<u>41,743,475</u>	<u>41,868,407</u>
	<u>\$ 42,584,919</u>	<u>\$ 42,422,037</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 July 31,	
	2006	2005
Interest income, net	\$ 14,093	\$ 26,373
Administrative expenses		
Professional fees	73,595	134,659
Salaries and fringe benefits	45,056	53,802
Travel and entertainment	12,238	30,419
Shareholders' information	6,544	11,577
Exchange loss	1,886	14,039
General administrative expenses	(294)	54,060
Stock-based compensation cost (Note 2)	-	100,246
	<u>139,025</u>	<u>398,802</u>
Net loss	124,932	372,429
Deficit at beginning	<u>27,161,440</u>	<u>26,014,731</u>
Deficit at end	<u>\$ 27,286,372</u>	<u>\$ 26,387,160</u>
Basic and diluted net loss per share	<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	
	2006	2005
Operating activities		
Net loss	\$ (124,932)	\$ (372,429)
Adjustment for:		
Stock-based compensation cost	-	100,246
	<u>(124,932)</u>	<u>(272,183)</u>
Net change in non-cash working capital items		
Accounts receivable	19,208	(31,073)
Accounts payable and accrued liabilities	287,814	65,173
	<u>307,022</u>	<u>34,100</u>
	<u>182,090</u>	<u>(238,083)</u>
Investing activities		
Deferred exploration costs	(1,126,799)	(907,963)
Redeemable guaranteed investment certificates	1,004,000	1,029,000
Mining properties	-	(34,155)
	<u>(122,799)</u>	<u>86,882</u>
Net change in cash	59,291	(151,201)
Cash at beginning	<u>240,682</u>	<u>347,746</u>
Cash at end ⁽¹⁾	<u>\$ 299,973</u>	<u>\$ 196,545</u>

See accompanying notes

Additional information

Item not affecting cash related to financing and investing activities

Shares issued - acquisition of mining properties	\$	-	\$	165,000
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(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, 2006 and 2005

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, 2006, specifically the Note 1 on the Description of Business and Continuation of the Business and Note 2 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)	61,458,522	\$ 65,914,794	60,792,231	\$ 65,522,397
Issued following the acquisition of mining properties	-	-	300,000	165,000
Balance at end (July 31)	61,458,522	\$ 65,914,794	61,092,231	\$ 65,687,397

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.

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2. Share capital (cont'd)

The status of the Company's fixed-price share option plan as at July 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)	3,095,000	\$ 0.82	3,942,950	\$ 0.89
Granted	-	-	350,000	\$ 0.68
Exercised	-	-	-	-
Cancelled or expired	(300,000)	\$ 1.10	(200,000)	\$ 1.30
Outstanding at end (July 31)	<u>2,795,000</u>	<u>\$ 0.79</u>	<u>4,092,950</u>	<u>\$ 0.85</u>
Options outstanding and exercisable	<u>2,795,000</u>		<u>4,092,950</u>	

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

Options Outstanding and Exercisable		
Exercise Price	Number Outstanding as at 07/31/06	Weighted- Average Remaining Contractual Life
\$ 0.29	395,000	0.50 year
\$ 0.39	350,000	4.35 years
\$ 0.84	250,000	2.05 years
\$ 1.00	1,600,000	2.93 years
\$ 0.68	200,000	0.84 years
	<u>2,795,000</u>	<u>2.54 years</u>

Sulliden Exploration Inc.

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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

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

The cost recorded for the options granted to directors, officers and consultants during the three-month period ended July 31, 2005 is \$100,246 (nil in 2006) as Stock-based compensation cost and the counterpart \$100,246 (nil in 2006) has been credited to the Options account.

As at July 31, 2006, the cost of the cancelled or expired options is \$181,915 and has been transferred to Contributed Surplus.

Warrants

The status of the warrants as at July 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
Issued	-	-	-	-
Exercised	-	-	-	-
Cancelled or expired	-	-	-	-
Outstanding at end	-	\$ -	8,176,000	\$ 2.92

3. Related party transactions

During the period ended July 31, 2006, the Company agreed to pay \$57,110 (\$129,722 in 2005) in professional fees and general administration expenses to related parties. 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. In addition, as at July 31, 2006, an amount of \$181,735 (included into the accounts payable and accrued liabilities) is due to companies whose shareholders are related to the Company's officers and directors.

Sulliden Exploration Inc.

Notes to Consolidated Financial Statements

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4. Contingency

Litigation Uncertainty With Respect to the Shahuindo Property

Legal Proceedings

Sulliden's rights to the Shahuindo property have been challenged in various legal proceedings in Peru.

Background:

On July 25, 2002, Sulliden Exploration Inc. ("Sulliden") signed a Letter of Intent with Compañía Minera Algamarca S.A. and its subsidiary, Compañía de Exploraciones Algamarca S.A. ("Algamarca") to buy a 100% interest in the mining rights and surface lands known as the Shahuindo property located in the Department of Cajamarca, Peru, for an acquisition price of US\$4,130,000 to be paid in cash instalments over a period of 24 months and bearing interest of 5% annually.

On July 31, 2002, the shareholders of Algamarca approved Sulliden's proposal by a majority vote and authorized the General Manager of Algamarca to sign the Final Letter of Intent dated August 15, 2002. The signature of the Final Letter of Intent was accompanied by an initial cash payment by Sulliden of US\$10,000.

Following due diligence, Sulliden, through its wholly-owned subsidiary, Minera Sulliden Shahuindo S.A.C. guaranteed by Sulliden, entered into a Transfer Contract with Algamarca dated November 6, 2002, which was notarized as a public deed in Lima on November 11, 2002. On the signature of the Letter of Intent and on the signature of the Transfer Contract, amounts of US\$10,000 and US\$320,000 respectively were paid by Sulliden according to the instructions of Algamarca. Of this latter amount and in fulfillment of Algamarca's instructions, US \$107,244 was turned over to Compañía de Minas Buenaventura S.A.A. to release Algamarca from a previous option obligation, with the remaining US\$212,756 having been accepted and received by the Algamarca shareholders.

The acquisition cost on this property carried an interest rate of 5% per year and was payable as follows:

May 6, 2003	US\$ 500,000 plus the interest
November 6, 2003	US\$ 800,000 plus the interest
May 6, 2004	US\$1,000,000 plus the interest
November 6, 2004	US\$1,500,000 plus the interest
	<hr/>
	US\$3,800,000

The Company may accelerate any of the further instalments, at its own discretion.

If the Company does not comply with the terms of this Transfer Contract, the property will revert to Algamarca with the Company retaining a 0.5 per-cent net smelter royalty for each US\$1 million paid. The royalty will be capped at the total amount paid by the Company.

On November 11, 2002, Sulliden entered into possession of the property. The mining concessions remained mortgaged in favour of Algamarca as security for payment of the balance of the purchase price.

Sulliden Exploration Inc.

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4. Contingency (cont'd)

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

During January 2003, the original shareholders of Algamarca sold their shares to a third party, a Peruvian company Alta Tecnología e Inversión Minera y Metalúrgica S.A. ("Atimmsa"). At a meeting of the new shareholders of Algamarca held on in February 2003, new directors and a new general manager were appointed.

Since that time, Algamarca, under the direction of Attimmsa, has sought to rescind the Transfer Contract or to frustrate its terms. Algamarca has commenced numerous legal actions against Sulliden in Peru including:

- (a) Four civil actions in Lima questioning the Transfer Contract;
- (b) A Constitutional Action in Trujillo seeking the registration of eight mining concerns in Atimmsa's name;
- (c) Four criminal procedures in Cajamarca against Sulliden officers (and employees)
- (d) Four constitutional actions in Lima and two in Cajamarca challenging the Arbitration; and
- (e) Four criminal procedures in Lima against the Arbitrators personally.

In May 2003, Sulliden tendered payment for the next required instalment to Algamarca which was rejected. Consequently, Sulliden then made the payment of US\$500,000 to the Tenth Civil Court in Lima. By April 30, 2004, Sulliden had deposited the remaining final payment of US\$3,300,000 plus interest due, for the Shahuindo property with the Courts in Lima. Under the terms of the Agreement, Sulliden has paid the full amount of US\$4,130,000 plus interest (including payment made under judicial consignment to the Civil Court at Lima).

Court Proceedings:

In March 2003, Atimmsa filed for an injunction in the Courts of La Esperanza Trujillo seeking to direct the Public Registry in Trujillo to (a) register the suspension of the Transfer Agreement and (b) suspend all recording proceedings of the transfer and registration of the mining claims and surface lands. In the following month, Atimmsa was granted the injunction and commenced a lawsuit in the Courts of La Esperanza in Trujillo against Sulliden seeking a declaration that the Transfer Agreement was null and void and an order that Algamarca remain as the holder of the property. The lawsuit alleged that the Transfer Agreement was not valid because in executing the contract the General Manager of Algamarca violated the Power of Attorney confirmed on him by the shareholders of Algamarca in July 2002.

In response to the La Esperanza Trujillo injunction and lawsuit, Sulliden applied to the Courts in Lima to challenge the competency (jurisdiction) of the Judge in Trujillo and to move the hearing to the Courts in Lima. In November 2003, the Supreme Court confirmed Sulliden's application and ordered the transfer of the case to the Tenth District Civil Court in Lima.

In July 2004, the Tenth District Civil Court in Lima dismissed Atimmsa's lawsuit and declared the injunction granted to Atimmsa by the Courts of Trujillo to be unlawful and revoked. The decision of the La Esperanza Trujillo injunction was revoked upon Appeal by the Fifth Civil Chamber of the Superior Court of Lima on September 23, 2004 which ultimately revoked the injunction and dismissed Atimmsa's lawsuit against Sulliden.

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4. Contingency (cont'd)

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

Transfer and Registration of Mining Claims:

Of the twenty-six mining claims comprising the Shahuindo property, six are registered in the National Public Registry (SUNARP) in Lima, while twenty are registered in the District Public Registry in Trujillo pursuant to Peruvian judicial procedures.

Following the injunctions issued to Atimmsa in March 2003, the District Public Registry in Trujillo suspended all registrations and declined to register any further transfer of claims. Sulliden appealed this decision to the Registration Tribunal without success.

Following the decision of the Fifth Civil Chamber of the Superior Court of Lima in September 2004 to revoke the injunction granted to Atimmsa and dismiss the proceedings initiated by Atimmsa, the National Public Registry (SUNARP) in Lima registered the transfer of the six mining claims to Sulliden. Ownership of these six claims is now registered in Sulliden's name.

Sulliden has also made application to the District Public Registry in Trujillo to have the Registry abide by the decision of the Fifth Civil Chamber of the Superior Court of Lima and has requested the registration of the transfer of the remaining twenty claims to Sulliden's name. This registration has not been made.

In the meantime Algamarca has succeeded in registering the transfer to Atimmsa of the surface land, eight mining claims to Minera Pilacones S.A. and five mining claims to Inversiones Sudamericanas S.A. Sulliden has presented civil complaints, a criminal petition, and an appeal against this unlawful transfer, and has applied for an injunction to prevent Algamarca, Atimmsa and any other persons different from Sulliden from further transferring the property.

Permits/Work Orders – Occupation of Property:

In November 2002, Sulliden entered into possession of the Property.

In May 2003, Sulliden received an official permit from the Ministry of Energy and Mines to initiate the first phase of drilling on the Shahuindo property. In January 2004, Sulliden received an official permit from the Ministry of Energy and Mines of Peru to initiate the second phase of drilling at Shahuindo. No permit has been granted to any other party to explore, develop or mine the Shahuindo property other than to Sulliden.

In October 2003, Algamarca forcibly occupied part of the mining concession areas, established a camp near Sulliden's exploration camp and commenced a civil lawsuit against Sulliden which continues without decision. Algamarca also initiated four criminal procedures in Cajamarca against Sulliden officers. Algamarca attempted to execute some mining work on the property without official authorization. The Ministry of Energy and Mines and Provincial Attorneys Office in Cajamarca ordered Algamarca to cease their activities but Algamarca remained physically on the property.

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4. Contingencies (cont'd)

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

Arbitration Process:

In July 2003, Sulliden proposed to Algamarca that the dispute be referred to arbitration. Algamarca did not respond. In September 2003, Sulliden invoked the arbitration clause in the Transfer Agreement which provided that any dispute between the parties would be settled by arbitration in Peru.

Algamarca rejected the demand for Arbitration and refused to nominate an Arbitrator. In December 2003, at Sulliden's request, a second Arbitrator was appointed by the National Institute of Mining, Petroleum and Energy Law. On January 21, 2004, at Sulliden's petition, the Arbitration Tribunal was formally installed with three Arbitrators, one proposed by Sulliden, and a second proposed by the Institute of Mining, Petroleum and Energy Law. The two arbitrators then nominated the President of the Tribunal.

Thereafter, the Arbitration Proceedings continued with the active involvement of representatives of both Sulliden and Algamarca, despite the repeated objections of Algamarca to submit itself to Arbitration. By May 2005, the Arbitration had concluded the evidentiary stage, leaving only the closing arguments.

In the arbitration proceedings Sulliden sought a declaration that Algamarca is compelled to fulfill the Transfer Contract and the obligations contained therein. Algamarca challenged the effectiveness of the Transfer Contract and the validity of the arbitration clause and the competence of the Arbitration Tribunal.

Algamarca alleged that in executing the Purchase Contract, the General Manager of Algamarca exceeded the authority of the Power of Attorney conferred on him by the shareholders meeting of Algamarca held in July 2002, which approved the purchase by the Canadian company Sulliden Exploration Inc. which is a different legal entity than the purchaser, Minera Sulliden Shahuindo S.A.C.

Attempts to Suspend Arbitration:

As part of its objection and opposition to the Arbitration Process, Algamarca initiated several legal actions including civil actions, constitutional proceedings and criminal proceedings. In addition, Algamarca has sought various injunctions in an effort to prevent the Arbitration Tribunal from issuing a Decision.

In January 2004, Algamarca filed, in the Court of Villa Maria del Triunfo, a petition for constitutional relief alleging violations to its right to due process of law before a competent independent and impartial court and not before an Arbitration Tribunal, the appointment of which it alleges was invalid and comprising of one member with an alleged conflict of interest. In May 2004, the Court of Villa Maria del Triunfo declared Algamarca's petition for constitutional relief unfounded. On Appeal in November 2005, the Fifth Civil Chamber of the Court of Appeal of Lima rejected Algamarca's petition for constitutional relief, and Algamarca appealed to the Constitutional Tribunal in December 2005.

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4. Contingency (cont'd)

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

In December 2004, Algamarca sought and obtained a precautionary measure (injunction) from a Judge in San Marcos to suspend the Arbitration Proceedings. The Arbitrators rejected the demand for suspension and resolved to continue with the proceedings. In February 2005, Algamarca requested the Judge of San Marcos to refer his ruling to the Supreme Court, but again the Arbitrators considered this injunction and unanimously resolved to continue with their proceedings and by May 2005, had concluded the evidence stage.

The reference to the Supreme Court of Peru from the Judge of San Marcos was heard by the Supreme Court which, on June 15, 2005, ratified the constitutional autonomy of the Arbitration Process. The Supreme Court's decision overruled the December 2004 decision of the Judge of San Marcos which had ordered the suspension of the Arbitration Proceedings. On July 12, 2005, the Supreme Court issued a Circular to the Presidents of the twenty-eight Superior Courts to uphold the sanctity and constitutional autonomy of the Institution of Arbitration.

In late May 2005, Algamarca obtained a second precautionary measure (injunction) from a Constitutional Judge from the District of Villa Maria Del Triunfo to suspend the Arbitration Proceedings. Faced with this constitutional injunction, the Arbitration Tribunal voted by a two to one majority to temporarily suspend the proceedings with the Arbitrators unanimously agreeing to appeal to the Superior Court of Lima.

In September 2005, the Superior Court of Lima unanimously rendered its judgment dated September 2, 2005, revoking the precautionary measure (injunction) that had temporarily suspended the Arbitration Process. Following the Superior Court decision revoking 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 attempted once again to suspend the Arbitration Process. In October 2005, Algamarca initiated two new "acciones de amparo" from the 41st and the 53rd Circuit Court of Lima seeking a Court Order to suspend the Arbitration Process, but these applications were not successful.

On October 18, 2005, a new Court Order was obtained by Algamarca from the 64th 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 and requesting that the Arbitration Process be suspended pending a determination by the 64th 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.

Following the rejection by the Arbitration Tribunal of Algamarca's request for a suspension, Algamarca sought and obtained from the 64th 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.

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4. Contingency (cont'd)

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

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 earlier in 2005 challenging the ownership of surface lands and 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 Court Orders from the 64th Civil Court of Lima and the Third Civil Court of Cajamarca, 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 64th Civil Court but temporarily suspending hearing the arbitration closing arguments, to protect the procedural legal terms to issue the arbitration award and to avoid any damage by the injunction issued by the Third Civil Court of Cajamarca.

Sulliden initiated the appropriate legal action to have the latest injunction revoked and the Arbitration finalized. On January 26, 2006, Sulliden filed before Lima's Thirty Fifth Civil Judge a competence lawsuit against Cajamarca's Third Civil Judge. On January 31, 2006, Lima's Thirty-Fifth Judge declared himself competent to deal with the judgment of 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 (jurisdiction) between them.

Sulliden has also filed an Appeal to the Superior Court in Lima against the Order of the 64th Civil Court and a competence dispute against Lima's Sixty Fourth 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 matter is resolved.

Meanwhile, in an Habeas Corpus procedure, which had previously been filed to the Constitutional Court by one of the members of the Arbitration Tribunal on the matter of the competence of that particular member of the Tribunal, a written judgment was issued on March 10, 2006, in which the Constitutional Court determined that the Arbitration Institution (process) has jurisdictional independence. The Court reaffirmed the full validity of Article 39 of the

General Law of Arbitration which empowers Arbitrators to decide regarding matters of their own business and Article 44 which guarantees the entitlement of the Arbitrators to judge and decide any controversial matters brought forward during the Arbitration Process, including claims related to the validity and efficacy of the underlying agreement. The Constitutional Court recognized the Arbitration Institution and its full and absolute competence to investigate and resolve the controversies referred to Arbitration with jurisdictional independence and without the intervention of any administrative or ordinary judicial authority.

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4. Contingency (cont'd)

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

Following the decision of the Constitutional Court on March 10, Sulliden requested that the Arbitration Tribunal resume the Arbitration Process based on the judgment of the Constitutional Tribunal which established the autonomy of the Arbitration Jurisdiction, as well as the autonomy and legal capacity of the Arbitrators. By Resolution No. 202, notified by the Arbitration Tribunal on March 21, 2006, the Tribunal required Algamarca to deliver its opinion with regard to Sulliden's request for renewal and required both Sulliden and Algamarca to deliver a legal opinion with regard to the decision of the Judge of the 64th Civil Court which had ordered the sealing of the Arbitration File.

Finally, in June 2006, the Constitutional Tribunal published its decision (dated April 30, 2006) rejecting the appeal of Algamarca against the decision of the Superior Court of Lima of November 2005, (on appeal from the District Court of Villa Maria del Triunfo), and declared

invalid a constitutional petition filed by Algamarca in January 2004 seeking constitutional relief because of an alleged violation of its constitutional right to due process before a judicial court of competent jurisdiction.

In its decision, which is final, the Constitutional Tribunal confirmed that the requirements to initiate a Constitutional Petition required proper compliance with the requirements of the judicial system. The Constitutional Court established that it is mandatory to comply with the Justice System, the Arbitration Decision, and any appeal of the Arbitration Decision before a Constitutional complaint against a decision of Arbitration can commence.

The Constitutional Tribunal also ordered that no judge can interfere in the Arbitration Process until the Arbitration Award and Appeal process is finished. The Constitutional Tribunal confirmed that in the Arbitration started by Sulliden, the Arbitrators have the constitutional protection to finish the Arbitration without the interference of any Judge or Court.

In its decision, the Constitutional Tribunal also questioned the legitimacy of a separate injunction which had been granted in December 2005 by the Third Judge of Cajamarca forbidding the Tribunal from issuing an Arbitration award until a dispute with regard to the ownership of surface property had been determined. Based on that injunction from the Court of Cajamarca, the Arbitration Tribunal had suspended its hearings in December 2005. The Constitutional Tribunal recommended to the OCMA (Oficina de Control de la Magistratura) that the mandatory resolutions of the Constitutional Tribunal regarding the autonomy of the arbitration process should be enforced with personal responsibility.

Arbitration Resumes:

As a consequence of the Resolutions issued by the Constitutional Court, the Arbitration Tribunal resumed the Arbitration process by resolution No. 204, dated June 13, 2006. In this resolution, the Arbitrators resumed the arbitration process and called for closing arguments scheduled to be presented on June 27, 2006. On June 29, 2006, Sulliden was notified by the Arbitration Tribunal that they had concluded the Arbitration process with the final hearing that was held on June 27, 2006.

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4. Contingency (cont'd)

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

Arbitration Decision and Award:

On July 19, 2006, the Arbitration Tribunal rendered its unanimous Decision in the dispute between Sulliden and Algamarca concerning the Transfer Agreement relating to the Shahuindo property. In its Decision, the Arbitration Tribunal declared that Sulliden has fully met the terms and obligations of the Transfer Agreement dated November 11, 2002 between Minera Sulliden Shahuindo S.A.C. and Algamarca, including fulfillment of the payment of the full purchase price; and that Algamarca, and any third party that could have acquired any rights from Algamarca, must fulfill the obligations of the Transfer Agreement, including the execution of any act and any required public or private document.

The Tribunal also rejected Algamarca's Petition of Nullity based on lack of jurisdiction and also directed that the fees of the Arbitrators be recoverable from Algamarca, with the administrative and secretarial fees of the Arbitration to be assumed by both parties equally, and with each party paying its own legal fees.

The Tribunal ordered Algamarca, and any third party that could have acquired any rights from Algamarca, to:

- execute the minute and public deed acknowledging full payment of the purchase price and releasing the mortgage lien created on the property securing payment of the purchase price;
- restore to Sulliden possession of the mining concessions named Pilacones 8 and Accumulation Algamarca, and any other mining concessions that were transferred to Sulliden under the Transfer Agreement;
- restore to Sulliden possession of the surface lands transferred to Sulliden under the Transfer Agreement;
- restore to Sulliden possession of the mining camp established on the Shahuindo Property; and
- abstain from carrying out any act that limits, hinders or impedes the right of Sulliden to exercise any mining activity, exploration or exploitation or other act allowed by law in relation to the mining concessions, surface lands, or any other part of the Shahuindo Property acquired under the terms of the Transfer Agreement.

On August 1st, 2006, the Company has obtained an injunction from the Civil Court of Lima ordering Algamarca to comply with the Decision rendered by the Arbitration Tribunal.

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4. Contingency (cont'd)

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

Comment:

In the opinion of management, the claims of Atimmsa and Algamarca are made in bad faith and without merit and will be defended.

The Court actions and injunctions taken by Algamarca mark the numerous occasions in which Algamarca has resorted to judicial injunctions and procedures in an attempt to stop the Arbitration or 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 invalid. Sulliden has made submissions that the Tribunal is fully authorized to continue with the 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. 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 court actions and injunctions will be successful and that the Arbitration Process was properly concluded.

Sulliden has been advised by leading law firms in Peru that the original Transfer Agreement between Sulliden and Algamarca is valid and enforceable and this has now been confirmed by the Decision of the Arbitration Tribunal. Sulliden has acted in accordance with the principles of good faith in the negotiation, signing and execution of the Agreement and has satisfied all the criteria governing the basic articles of constitutional law protecting the freedom of two parties to enter into a contract having a legal purpose in complying with the laws of public order. Following the change in shareholding of Algamarca, which took place after the execution of the Transfer Agreement, Algamarca and its new shareholders have acted in bad faith and have refused to recognize and sought to ignore the Transfer Agreement and have sought to prevent by various means the transfer to Sulliden of the mining claims and the registration of title in Sulliden's name. Algamarca and its new shareholders have objected to the Arbitration Process and have sought various orders and injunctions from different courts and in different jurisdictions in an effort to stop the Arbitration Process.

Outlook

The Company will seek by every means possible to have its ownership of the Shahuindo property confirmed and the mining claims and surface lands 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 Decision of the Arbitration Tribunal is respected and enforced and that title to the Shahuindo property is registered in Sulliden's name.

In view of the Arbitration Decision and its strong legal position, Sulliden remains confident that the outcome of all the legal actions will be favourable to Sulliden, however the Company cannot predict with certainty the outcome of the various legal actions or the impact of these actions on Sulliden's rights and entitlements to the Shahuindo Property.

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5. Subsequent event

Private placements of \$7,500,000

On August 31, 2006, the Company announced the closing of a private placement with J. F. Mackie & Company Ltd. of Calgary, Alberta on a "bought deal" basis of 6,250,000 units at a price \$0.80 per unit for a total of \$5,000,000. Each unit consist of one common share and one-half of one common share purchase warrant. Each whole warrant entitle the holder to acquire an additional common share of the Company upon the payment of \$1.00 per share for a period of 12 months following the closing date. If the closing price of the common shares of Sulliden on the Toronto Stock Exchange is \$1.50 or higher for 15 consecutive trading days, the Company will notify the warrant holders who will have 40 business days to exercise, failing which their warrants will automatically expire.

In addition, the Company closed a second private placement in Europe on a "bought deal" basis of an additional 3,125,000 units on the same terms through Compania International Financiera SA of Geneva, Switzerland, for a proceeds of an additional \$2,500,000.

The Company paid a cash commission to each of J. F. Mackie and Compania International Financiera of 8% of the proceeds raised by such parties and issued to each of them brokers' warrants to purchase that number of units equal to 13% of the number units sold by them under the private placements, on the same terms outlined above.

Proceeds from the offerings will be used to finance the Company's exploration activities in Peru and for general working capital purposes.