

**2006/2007**

**Sulliden Exploration Inc.**

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*Third Quarter  
Interim Report  
January 31, 2007*

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# Sulliden Exploration Inc.

## Consolidated Balance Sheets

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	<b>January 31, 2007</b> (unaudited)	<b>April 30, 2006</b> (audited)
<b>Assets</b>		
Current assets		
Cash	\$ 148,510	\$ 240,682
Guaranteed investment certificates	5,768,235	1,779,811
Accounts receivable	101,325	50,595
	<hr/>	<hr/>
	6,018,070	2,071,088
Mining properties	24,623,267	23,729,417
Deferred exploration costs	19,331,685	16,621,532
	<hr/>	<hr/>
	\$ 49,973,022	\$ 42,422,037
	<hr/>	<hr/>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 3)	\$ 378,608	\$ 553,630
	<hr/>	<hr/>
<b>Shareholders' Equity</b>		
Share capital (Note 2)	73,669,837	65,914,794
Options (Note 2)	2,075,219	1,256,027
Warrants (Note 2)	1,289,227	-
Contributed Surplus (Note 2)	2,040,941	1,859,026
Deficit	(29,480,810)	(27,161,440)
	<hr/>	<hr/>
	49,594,414	41,868,407
	<hr/>	<hr/>
	\$ 49,973,022	\$ 42,422,037
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See accompanying notes

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

## Sulliden Exploration In

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

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	Three-month period ended January 31,		Nine-month period ended January 31,	
	2007	2006	2007	2006
<b>Interest income, net</b>	\$ 59,951	\$ 20,817	\$ 119,129	\$ 69,297
<b>Administrative expenses</b>				
Professional fees (Note 3)	99,598	72,661	259,184	281,109
Salaries and consulting fees	62,538	46,232	218,284	145,100
Travel and accomodation	42,690	33,319	70,904	75,641
Shareholders' information	17,417	5,537	31,455	31,543
General administrative expenses	17,596	28,150	23,870	102,626
Stock-based compensation (Note 2)	70,995	-	811,674	100,246
Exchange (gain) loss	(14,675)	11,318	(8,452)	41,961
	<u>296,519</u>	<u>197,217</u>	<u>1,406,919</u>	<u>778,226</u>
<b>Net loss</b>	236,568	176,400	1,287,790	708,929
<b>Deficit at beginning</b>	29,239,438	26,547,260	27,161,440	26,014,731
Share issue expenses	4,804	-	1,031,580	-
	<u>\$ 29,480,810</u>	<u>\$ 26,723,660</u>	<u>\$ 29,480,810</u>	<u>\$ 26,723,660</u>
<b>Deficit at end</b>				
	<u>\$ 29,480,810</u>	<u>\$ 26,723,660</u>	<u>\$ 29,480,810</u>	<u>\$ 26,723,660</u>
<b>Basic and diluted net loss per share</b>	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01

See accompanying notes

# Sulliden Exploration Inc.

## Consolidated Statements of Cash Flows

(unaudited)

	Three-month period ended January 31		Nine-month period ended January 31	
	2007	2006	2007	2006
<b>Operating activities</b>				
Net loss	\$ (236,568)	\$ (176,400)	\$ (1,287,790)	\$ (708,929)
Adjustment for:				
Stock-based compensation cost	70,995	-	811,674	100,246
	<u>(165,573)</u>	<u>(176,400)</u>	<u>(476,116)</u>	<u>(608,683)</u>
Net change in non-cash working capital items				
Accounts receivable	(36,982)	19,717	(50,730)	54,676
Accounts payable and accrued liabilities	59,705	12,829	203,317	75,835
	<u>22,723</u>	<u>32,546</u>	<u>152,587</u>	<u>130,511</u>
	<u>(142,850)</u>	<u>(143,854)</u>	<u>(323,529)</u>	<u>(478,172)</u>
<b>Investing activities</b>				
Deferred exploration costs	(575,122)	(575,754)	(2,520,720)	(2,444,668)
Redeemable guaranteed investment certificates	540,000	653,000	(3,988,424)	2,757,073
Mining properties	-	-	(83,850)	(34,155)
	<u>(35,122)</u>	<u>77,246</u>	<u>(6,592,994)</u>	<u>278,250</u>
<b>Financing activity</b>				
Share capital	89,900	6,000	7,589,900	6,000
Share issue expenses	(4,804)	-	(765,549)	-
	<u>85,096</u>	<u>6,000</u>	<u>6,824,351</u>	<u>6,000</u>
<b>Net change in cash</b>	<u>(92,876)</u>	<u>(60,608)</u>	<u>(92,172)</u>	<u>(193,922)</u>
<b>Cash at beginning</b>	<u>241,386</u>	<u>214,432</u>	<u>240,682</u>	<u>347,746</u>
<b>Cash at end (1)</b>	<u>\$ 148,510</u>	<u>\$ 153,824</u>	<u>\$ 148,510</u>	<u>\$ 153,824</u>

See accompanying notes

### Additional information

Item not affecting cash related to financing and investing activities

Shares issued – accounts payable	\$ 378,339	\$ -	\$ 378,339	\$ -
Shares issued - acquisition of mining properties	\$ -	\$ -	\$ 810,000	\$ 165,000
Option granted – deferred exploration costs	\$ 2,986	\$ 2,545	\$ 189,433	\$ 2,545
Share issue expenses – brokers' warrants	\$ -	\$ -	\$ 266,031	\$ -

(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, 2007 and 2006

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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, 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:

	2007		2006	
	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 private placements	9,375,000	6,476,804 *	-	-
Issued upon exercise of options	310,000	89,900	15,000	8,545
Issued for debts settlement – accounts payable	478,622	378,339	-	-
Issued for the acquisition of mining properties	900,000	810,000	300,000	165,000
Balance at end (January 31)	<u>72,522,144</u>	<u>\$ 73,669,837</u>	<u>61,107,231</u>	<u>\$ 65,695,942</u>

\* The private placements are presented net of the fair value of warrants amounting \$1,023,196.

#### Options

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

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 2

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

The status of the Company's fixed-price share option plan as at January 31, 2007 and 2006, and changes during the period then ended are summarized as follows:

	2007		2006	
	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	2,215,000	\$ 0.75	350,000	\$ 0.68
Exercised	(310,000)	\$ 0.29	(15,000)	\$ 0.40
Cancelled or expired	(300,000)	\$ 1.10	(380,000)	\$ 1.30
	4,700,000	\$ 0.80	3,797,950	\$ 0.83
Options outstanding and exercisable	4,700,000		3,797,950	

The following table summarizes information on fixed-price share options outstanding as at January 31, 2007:

Options Outstanding and Exercisable		
Exercise Price	Number Outstanding as at 01/31/07	Weighted- Average Remaining Contractual Life
\$ 0.29	85,000	0.58 year
\$ 0.39	350,000	3.88 years
\$ 0.84	250,000	1.54 years
\$ 1.00	1,600,000	2.82 years
\$ 0.68	200,000	0.33 year
\$ 0.80	1,815,000	4.75 years
\$ 0.50	400,000 *	4.88 years
	4,700,000	3.34 years

\* 175,000 options vested on December 15, 2006, 200,000 options vest on June 15, 2007 and 25,000 options vest on December 15, 2007.

# Sulliden Exploration Inc.

## Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 3

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

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

#### Period ending January 31

	2007	2006
Weighted risk-free interest rate	4.07%	2.86%
Expected volatility	75%	75%
Dividend yield	Nil	Nil
Weighted average expected life	5 years	2 years
Weighted average cost of option granted	\$0.51	\$0.29

The cost recorded for 1,450,000 options granted to directors and officers during the nine-month period ended January 31, 2007 is \$740,679 (\$100,246 in 2006) as Stock-based compensation cost and the counterpart \$740,679 (\$100,246 in 2006) has been credited to the Options account. In addition, for the period ended January 31, 2007, \$186,447 (none in 2006) has been recorded as deferred exploration costs for 365,000 options granted to employees of the Peruvian subsidiary and the counterpart of \$186,447 has been credited to the Options account.

For the 350,000 options granted on December 15, 2006 to an officer, the cost recorded as Stock-based compensation cost is \$70,995 (none in 2005) and \$70,995 has been credited to the Options account. In addition, \$2,986 has been recorded as deferred exploration costs for the 50,000 options granted to an employee of the Peruvian subsidiary and the counterpart of \$2,986 has been credited to the Options account. These options vest over a one-year period.

The assumptions used for the 400,000 options granted on December 15, 2006, are 3.94% as the weighted risk-free interest rate, 75% as the expected volatility, nil for the dividend yield, 5 years for the weighted average expected life and a weighted average cost of \$0.32 for the option granted.

As at January 31, 2007, the cost of the cancelled or expired options is \$181,915 and has been transferred to Contributed Surplus.

## Sulliden Exploration Inc.

### Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 4

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

##### Warrants

The status of the warrants as at January 31, 2007 and 2006 and changes during the periods then ended are summarized as follows:

	2007		2006	
	Numbers of warrants	Weighted- Average Exercise Price	Numbers of warrants	Weighted- Average Exercise Price
Outstanding at beginning	-	-	8,176,000	\$ 2.92
Issued	5,906,250	\$ 1.00	-	-
Exercised	-	-	-	-
Cancelled or expired	-	-	(7,875,000)	3.00
Outstanding at end	5,906,250	\$ 1.00	301,000	\$ 0.75

The value of warrants granted to brokers following private placements which amounts to \$266,031 has been classified as « Share issue expenses ».

Warrants are recorded at their fair value, which was determined using the Black Scholes model.

The following table summarizes information on warrants outstanding as at January 31, 2007 :

Warrants Outstanding		
Exercise Price	Number Outstanding as at 01/31/07	Weighted- Average Remaining Contractual Life
\$1.00	5,906,250	0.58 year

#### 3. Related party transactions

During the period ended January 31, 2007, the Company agreed to pay \$267,090 (\$274,188 in 2006) in professional fees and general administration expenses to related parties and for which \$40,357 (none in 2006) was paid for the legal fees related to share issue expenses. 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. As at January 31, 2007, an amount of \$119,075 was due to the related parties.

# Sulliden Exploration Inc.

## Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 5

### 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. (collectively "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 Transfer Contract an amount of US\$320,000 was paid by Sulliden according to the instructions of Algamarca. On November 11, 2002, Sulliden entered into possession of the property.

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

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
	<u>US\$3,800,000</u>	

Under the terms of the Transfer Contract the Company was entitled to accelerate any of the further instalments, at its own discretion. If the Company did not comply with the terms of the Transfer Contract, the property would revert to Algamarca with the Company retaining a 0.5 per-cent net smelter royalty for each US\$1 million paid, such royalty to be capped at the total amount paid by the Company. The mining concessions remained mortgaged in favour of Algamarca as security for payment of the balance of the purchase price.

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

# Sulliden Exploration Inc.

## Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 6

### 4. Contingency (cont'd)

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

Since that time, Algamarca, under the direction of Atimmsa and its new shareholders, has sought to rescind the Transfer Contract or to frustrate its terms. Algamarca 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 concessions 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 payments of US\$3,300,000 plus interest due, with the Courts in Lima. Under the terms of the Transfer Agreement, Sulliden has paid the full amount for the Shahuindo property of US\$4,130,000 plus interest (including payments made under judicial consignment to the Civil Court at Lima).

#### Court Proceedings:

In February 2003, Atimmsa filed for an injunction in the Court of La Esperanza Trujillo seeking to direct the regional Public Registry in Trujillo of the National Superintendente of Public Registers (SUNARP) (the official Peruvian government State Registry) to (a) register the suspension of the Transfer Agreement and (b) suspend all recording proceedings of the transfer and registration of the mining concessions and surface lands. In March 2003, 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. The injunction was registered on May 7, 2003.

On March 3, 2003 Sulliden filed for an injunction in the courts of Cajamarca to direct the SUNARP Public Register in Trujillo to record the Transfer Agreement and to prohibit the recording of any other contract. The injunction was granted on March 7, 2003 in favor of Sulliden and registered on June 10, 2003.

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 Court of Trujillo to be unlawful and revoked. The decision was appealed by Atimmsa to the Fifth Civil Chamber of the Superior Court of Lima which on September 23,

# Sulliden Exploration Inc.

## Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 7

### 4. Contingency (cont'd)

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

2004 ultimately revoked the injunction of the Court of La Esperanza Trujillo and dismissed Atimmsa's lawsuit against Sulliden.

#### **Transfer and Registration of Mining Concessions:**

Of the twenty-six mining concessions 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. In January 2003, in accordance with the Transfer Contract, Sulliden presented an application to the SUNARP District Registry in Trujillo to register the transfer of the 20 mining concessions in Sulliden's name.

Following the conflicting injunctions issued to Atimmsa and Sulliden in March 2003, the District Public Registry in Trujillo suspended all registrations and declined to register any further transfer of concessions.

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 concessions to Sulliden. Ownership of these six concessions is registered in Sulliden's name.

Sulliden made the same 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 requested the registration of the transfer of the remaining twenty concessions to Sulliden's name. This application was rejected and Sulliden appealed this decision to the Registry Tribunal without success until August 2006. This registration was not made until September 2006. (See Registration of Concession below).

#### **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 2003 and 2004, Sulliden conducted field work, surveys, soil sampling, geophysics and two drilling programs on the property. In 2003, the drilling program consisted of twenty-seven (27) diamond drill holes totaling 3,388 metres. In 2004, drilling consisted of fifty-six (56) diamond drill holes totaling 8,504 metres.

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.

# Sulliden Exploration Inc.

## Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 8

### 4. Contingency (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, a second proposed by the Institute of Mining, Petroleum and Energy Law, with these two nominating 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.

In the arbitration proceedings Sulliden sought a declaration that Algamarca are 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 argued that in executing the Transfer 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 sought various injunctions in an effort to prevent the Arbitration Tribunal from issuing a Decision. By May 2005 the Arbitration had concluded the evidentiary stage, but Algamarca obtained a number of court injunctions which caused the Tribunal hearings to be intermittently and temporarily suspended until June 2006.

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.

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 the 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.

# Sulliden Exploration Inc.

## Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 9

### 4. Contingency (cont'd)

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

As a consequence of the Resolutions issued by the Constitutional Court, the Arbitration Tribunal resumed the Arbitration process in June 2006.

#### Arbitration Award:

In July 2006 the Arbitration Tribunal issued its Decision and Award and 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
- 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.

#### Court Injunction:

In order to ensure that the Arbitration Award is recognized and enforced and can be executed, in July 2006 Sulliden obtained an Injunction from the 55<sup>th</sup> Civil Court in Lima to order Compañía Minera Algamarca S.A. and Compañía Exploraciones Algamarca S.A. to comply with the decisions rendered by the Arbitration Tribunal. In its injunction, the Court:

- Orders Compañía Minera Algamarcas S.A. and Compañía Exploraciones Algamarca S.A., or any third party that could have acquired any rights from them, to restore to Sulliden the possession of the mining concessions, the superficial lands and any other goods corresponding to the "Shahuindo Property".
- Orders Algamarca, or any third party that could have acquired any rights from them, to abstain from carrying out any act that limits, impedes or hinders the right of Sulliden to exercise any mining activity in the Shahuindo Property, acquired under the terms of the Transfer Agreement dated November 11, 2002.
- Orders the registration of the Transfer Agreement in the Trujillo Mining Registry and in the Cajamarca Property Registry of the 20 mining concessions and 19 superficial lands corresponding to the "Shahuindo Property" detailed in the Resolution.

#### Registration of Concessions:

The Injunction in favor of Sulliden issued by the 55 Civil Court in Lima was registered in the Regional Registry at Trujillo against all 20 Shahuindo mining concessions on September 5, 2006.

# Sulliden Exploration Inc.

## Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 10

### 4. Contingency (cont'd)

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

Following the Arbitration Award and granting of the Award Injunction, the Registry Tribunal of the National Superintendente of Public Registers (SUNARP) (the official Peruvian government state Registry) issued its decision by Resolutions No.454-2006 dated August 2, 2006 in the appeal presented to the Registry Tribunal by Minera Sulliden Shahuindo SAC (the "Administrative Order"). The effect of the Administrative Order was to direct the Regional Registrar at Trujillo (where twenty of the Shahuindo mining concessions are registered) to register the transfer into Sulliden's name of the twenty mining concessions.

In pursuit of this Administrative Order issued by the Registry Tribunal the Regional Registrar in Trujillo registered Sulliden as the owner of the 20 concessions on September 8, 2006.

#### Actions by Algamarca:

Following receipt of the Decision of the Arbitration Tribunal in July, 2006 confirming Sulliden's full entitlement to the Shahuindo property Algamarca and its related companies has refused to recognize the Arbitration Decision and Award and continue to try to ignore and frustrate the Transfer Agreement for the property. As before, Algamarca and its related companies initiated multiple legal claims and challenges in various courts, in different locations and often with different conflicting jurisdictions, in their attempts to stop the execution of the Arbitration Award. In response to the issue in Sulliden's favor of the Arbitration Award, the Award Injunction and the SUNARP Registry Tribunal Administrative Order, Algamarca and their associate companies Inversiones Mineras Sudamericanas S.A. ("Sudamericanas") and Minera Pilacones S.A. ("Pilacones") have taken a number of steps including:

- (i) Filing a petition in the Commercial Chambers of the Superior Court in Lima seeking a declaration of nullity of the Arbitration Award. In this action, Algamarca argues that the Arbitration Tribunal did not have competence to hear the dispute and that the members of the Arbitration Panel were conflicted.
- (ii) Commencing various actions against the SUNARP Registry Tribunal (not Sulliden), seeking the declaration of nullity for the registration on September 8, 2006 of the twenty concessions in Sulliden's name and obtaining various Court injunctions/orders suspending the registration of certificates in favor of Sulliden, including orders directing the District Register to record the ownership of title to five concessions in the name of Sudamericanas and eight concessions in the name of Pilacones.
- (iii) In addition continuing to press forward with other earlier and new actions including civil, criminal and constitutional claims in various courts seeking to have the Transfer Contract declared unenforceable and invalid and seeking to have the Arbitration Process (and the Arbitration Award) suspended.

The basis of these concessions is substantially the same grounds that were argued before the Arbitration Tribunal, namely abuse of constitutional rights, lack of authority to sign the contract, contract signed by a different company, contract did not include surface land, lack of competence of the Tribunal and conflicts of interest by the Tribunal Members etc. All of these arguments were previously considered in detail and rejected by the Arbitration Tribunal.

# Sulliden Exploration Inc.

## Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 11

### 4. Contingency (cont'd)

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

##### Reply of Sulliden:

In reply to previous and the recent actions taken by Algamarcas, or related third parties, Minera Sulliden has contested the various court actions, has filed appeals against the court orders and in turn has initiated its own action for breach of the Transfer Contract and of the Award Injunction.

Minera Sulliden presented a complimentary petition to the 55<sup>th</sup> Civil Court of Lima which on December 14, 2006 ordered the Registrar to restore and maintain all the 20 mining concessions (in the Registry of Trujillo) in Sulliden's name. In compliance with the Injunction of the 55<sup>th</sup> Civil Court of Lima, the twenty mining concessions have been re-registered in the name of Sulliden, effective November 2002. Minera Sulliden Shahuindo is now recorded as the registered owner of the twenty Shahuindo mining concessions in the SUNARP Registry in Trujillo and of the other six Shahuindo mining concessions in the SUNARP Registry in Lima.

In compliance with the Judicial Order of the 55<sup>th</sup> Civil Court of Lima, the Ministry of Energy and Mines on January 10, 2007 recorded Sulliden as the owner of the twenty mining concessions in the "Mining Rights System and Catastro-Sidemcat" of the National Institute of Mining Concessions and Cadastre - INACC, the official register of owners of mining concessions maintained by the Ministry of Energy and Mines and Minera Sulliden Shahuindo is now recorded in the INACC as the owner of the twenty six mining concessions.

In compliance with the Judicial Order of the 55<sup>th</sup> Civil Court of Lima in January the SUNARP Registry at Cajamarca registered Sulliden as the owner of the superficial (surface) lands at Shahuindo.

Sulliden is aware that Algamarca has purported to try to transfer some of the mining concessions to various associated companies, including Inversiones Mineras Sudamericanas SA (Panamanian) and Minera Pilacones SA. These companies in turn have attempted to transfer the concessions to another Panamanian company, Andean Mining Gold Inc., which in turn has purported to grant a mortgage to yet another Panamanian company, Import & Export A.C.D. SA. All of these transfer contracts are ineffective against Sulliden as per the Arbitration Award and are subject to the Transfer Agreement and to the prior registration of the Transfer Agreement from Algamarca to Sulliden Shahuindo of November 11, 2002.

Minera Sulliden has presented several constitutional and civil petitions in Lima seeking declarations of nullity of process against Pilacones and Sudamericanas, and the judges of Cajamarca and Trujillo. The purpose of the petitions is to declare invalid all the court orders that ordered to transfer of title of the five concessions to Sudamericana and the eight concessions to Pilacones, without any consideration or grounds, against the mining rights of Sulliden and contrary to the Arbitration Decision and the Arbitration Award.

# Sulliden Exploration Inc.

## Notes to Consolidated Financial Statements

(unaudited)

January 31, 2007 and 2006

page 12

### 4. Contingency (cont'd)

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

##### Comment:

It is regrettable that Algamarca has chosen not to recognize or obey the Arbitration Award. The various attacks, actions, and court orders were not unexpected and indeed are likely to continue and even escalate. Sulliden has taken, and will take whatever legal action may be necessary or advisable in order to ensure execution of the Arbitration Award, and in the meantime is pressing forward on all fronts.

The numerous legal actions, claims, procedures, injunctions and orders in the Shahuindo litigation can be confusing. The legal and judicial system in Peru is complex, with overlapping and often conflicting court jurisdictions. The Peruvian legal, judicial and court systems are significantly different than the Canadian legal system and even certain terminology does not necessarily have the same meaning or effect in Peru as it may have in Canada.

The next important step is the hearing and determination of the Nullity Petition by the Commercial Chamber of the Superior Court, expected in March 2007. In the meantime the Courts of Peru have acted to protect Sulliden's interests by the registration of the concessions and lands pending the hearing of the Petition. However there can be no assurance that Algamarca or its associate companies will not seek to take other steps or seek other orders or injunctions in an attempt to suspend such registrations or delay execution of the Arbitration Award.

Sulliden has been advised by leading law firms in Peru that the Transfer Agreement between Sulliden and Algamarca is valid and enforceable. Sulliden has acted in accordance with the principles of good faith in the negotiation, signing and execution of the Transfer 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 the public order. Following the purchase of the shareholding of Algamarca by Atimmsa, which took place after the execution of the Transfer Agreement, and the subsequent purchase of the shareholding of Atimmsa by a Panamanian company, Algamarca and its new shareholders have acted in bad faith and have refused to recognize and sought to ignore the Transfer Agreement previously signed by Algamarca and have sought to prevent by various means the transfer to Sulliden of the mining concessions and the registration of title in Sulliden's name. Algamarca and its new shareholders objected to the Arbitration Process and sought various orders and injunctions from different courts and in different jurisdictions in an unsuccessful effort to stop the Arbitration Process. Following the Arbitration Decision in Sulliden's favour Algamarca and its related companies have chosen not to recognize or obey the Arbitration Award.

In view of the Arbitration Award and its strong legal position, Sulliden remains confident that the outcome of all legal actions in this dispute will be favourable to Sulliden. Although frustrated by the ongoing delays, Sulliden is satisfied with the outcome and results of the arbitration and legal actions to date. All issues on the merits and bona fides of the case, and most of the procedural issues, have to date been decided in Sulliden's favour.

The Company will seek by every means possible to have its ownership of the Shahuindo property confirmed and the mining concessions and surface lands registered or re-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

# **Sulliden Exploration Inc.**

## **Notes to Consolidated Financial Statements**

(unaudited)

**January 31, 2007 and 2006**

page 13

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### **4. Contingency (cont'd)**

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

that the Arbitration Award is enforced to secure full ownership of the Shahuindo property in Sulliden's name.

However, as in any litigation where there is a dispute, Sulliden 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.