

# **Sulliden Exploration Inc.**

## **Consolidated Financial Statements**

**July 31, 2008 and 2007**

*First Quarter  
Interim Report  
July 31, 2008*

*Not reviewed by Auditor*

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# Sulliden Exploration Inc.

## Consolidated Balance Sheets

<b>Assets</b>	<b>July, 31 2008 (unaudited)</b>	<b>April, 30 2008 (audited)</b>
<b>Current assets</b>		
Cash	\$ 668,359	\$ 147,470
Guaranteed investment certificates (Note 10)	1,423,956	1,889,000
Accounts receivable and other	151,410	124,135
	<u>2,243,725</u>	<u>2,160,605</u>
Mining properties (Note 3)	23,391,470	23,391,470
Deferred exploration costs (Note 4)	24,159,830	23,416,851
	<u>\$ 49,795,025</u>	<u>\$ 48,968,926</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 419,699	\$ 508,574
<b>Shareholders' equity</b>		
Share capital (Note 5)	76,493,099	75,118,472
Warrants (Note 5)	1,846,954	2,115,492
Options (Note 5)	2,201,433	2,201,433
Contributed Surplus	2,097,941	2,097,941
Deficit	(33,264,101)	(33,072,986)
	<u>49,375,326</u>	<u>48,460,352</u>
	<u>\$ 49,795,025</u>	<u>\$ 48,968,926</u>

Commitments and contingencies (Notes 8 and 9)  
See accompanying notes

**On behalf of the Board**

Signed  
« John F. Kearney »  
Director

Signed  
« James H. Coleman »  
Director

## Sulliden Exploration Inc.

### Consolidated Statements of Operations, Comprehensive Income and Deficit

For the quarter ended July 31, 2008

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	July 31, 2008	July 31, 2007
Interest income	\$ 14,008	\$ 30,420
Comprehensive Income (Loss)	<u>-</u>	<u>-</u>
<b>Interest and Comprehensive Income</b>	<b>14,008</b>	<b>30,420</b>
<b>Administrative expenses</b>		
Professional fees	123,927	184,558
Salaries and consulting fees	28,200	24,000
General administrative expenses	38,850	23,954
Shareholders' information	19,566	7,484
Travel and accommodation	1,090	12,853
Exchange loss	(6,510)	2,247
Stock-based compensation cost (Note 5 )	-	27,118
	<u>205,123</u>	<u>282,214</u>
<b>Net loss and comprehensive loss</b>	<b>191,115</b>	<b>251,794</b>
<b>Deficit at beginning</b>	<u>33,072,986</u>	<u>29,731,366</u>
<b>Deficit at end</b>	<u>\$ 33,264,101</u>	<u>\$ 29,983,160</u>
<b>Basic 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

For the quarter ended July 31, 2008

	July 31, 2008	July 31, 2007
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net loss and comprehensive loss	\$ (191,115)	\$ (251,794)
Adjustment for:		
Stock-based compensation cost	-	32,934
	<u>(191,115)</u>	<u>(218,860)</u>
Net change in non-cash working capital items		
Accounts receivable and other	(27,274)	12,514
Accounts payable and accrued liabilities	(88,875)	37,587
	<u>(116,149)</u>	<u>50,101</u>
Cash flows used in operating activities	(307,264)	(168,759)
<b>Investing activities</b>		
Net change in Guaranteed investment certificates	465,044	937,000
Deferred exploration costs, net	(742,979)	(730,031)
	<u>(277,934)</u>	<u>206,969</u>
Cash flows used in investing activities	\$ (277,934)	\$ 206,969
<b>Financing activities</b>		
Exercise of Warrants	1,106,089	-
	<u>1,106,089</u>	<u>-</u>
Cash flows generated from financing activities	\$ 1,106,089	\$ -
<b>Net increase in cash</b>	<b>520,890</b>	<b>38,210</b>
<b>Cash at beginning</b>	<b>147,470</b>	<b>214,954</b>
<b>Cash at end</b>	<b>\$ 668,360</b>	<b>\$ 253,164</b>

See accompanying notes

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**1. Continuation of Operations - Going Concern**

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that Sulliden Exploration Inc. (the "Company") will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company's title rights to the Shahuindo property have been challenged in various legal proceedings in Peru - See Note 9. Sulliden cannot predict the outcome of the various legal proceedings and this is a material uncertainty on the Company's ability to continue as a going concern.

The Company is in the development stage with no history of profitability. There is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its properties.

These consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

The Company's continued operation is dependent upon its ability to obtain the financing necessary to provide adequate working capital for the foreseeable future. Management continues to actively pursue additional financing to support the validity of the "going concern" assumption.

In addition to ongoing working capital requirements, the Company must secure sufficient funding in order to meet its existing requirements for exploration and development programs; legal fees, general and administration expenses and any settlement payments that may be associated with a settlement of the litigation affecting the Shahuindo property.

The Company and its wholly-owned subsidiaries, Minera Sulliden Peru, S.A. and Minera Sulliden Shahuindo S.A.C., are in the process of exploring mineral properties in Peru. The exploration and development of mineral deposits involves significant financial risk. The ability of the Company to continue as a going concern will be influenced by a number of factors, including risks associated with exploration and extraction, ongoing litigation, regulatory issues and environmental and other regulations.

**2 A. Summary of Significant Accounting Policies**

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Minera Sulliden Peru, S.A. and Minera Sulliden Shahuindo S.A.C., companies incorporated under the laws of Peru.

**Mining Properties and Deferred Exploration Costs**

The mining properties are recorded at cost. Exploration and development costs, net of related mining duties reimbursed, are deferred. When a decision is made to go into production, the costs related to the deposit recorded in mining properties and deferred exploration costs are transferred to capital assets. These costs will then be amortized based on the units of production of the year and the probable and proven ore reserves. When a project is abandoned, the related costs are charged to operations. The recoverability of amounts recorded under mining properties and deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the financing needed to complete development and future profitable production or proceeds from the disposal of these assets. The amounts shown for mining properties and deferred exploration costs are not necessarily indicative of present or future values.

### **Foreign Currency Translation**

The Company's consolidated operations are integrated and balances denominated in foreign currencies are translated using the temporal method. Under this method, foreign currency monetary assets and liabilities are translated into Canadian dollars at the rate of exchange at the balance sheet date, nonmonetary balances at historical exchange rates and revenue and expense items at the exchange rate at the transaction dates. The resulting gains or losses are included in the consolidated statement of operations.

### **Comprehensive Income**

Section 1530 of the CICA Handbook establishes standards for reporting and presenting comprehensive income. Comprehensive income, composed of net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income for the Company includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income are disclosed in the statement of operations and comprehensive income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a separate category in shareholders' equity.

### **Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. During the fiscal periods presented, management has made a number of significant estimates and valuation assumptions, including the recoverability of mining properties, deferred exploration costs, and the common share purchase options and warrants. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results could differ from these estimates.

### **Impairment of Long-lived Assets**

The Company follows the recommendations of the Canadian Institute of Chartered Accountants ("CICA") relating to the impairment of long-lived assets. Pursuant to these standards, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss should be recognized when the carrying amount of a long lived asset is not recovered and exceeds its fair value.

### **Asset retirement obligations**

The Company follows the recommendations of the CICA in accounting for asset retirement obligations. Under this standard, the Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its mineral property interests. This amount will be initially recorded in the period in which it is identified at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount will be recorded as an increase to mineral property interests and will be amortized over the useful life of the property. The Company is currently at the exploration stage and management is not currently aware of any significant asset retirement obligation of the Company.

### **Stock-based Compensation and Other Stock-based Payments**

The Company maintains a share option plan, which is described in Note 5. Under GAAP, compensation expense is recognized when options are granted to plan participants. Any consideration received from plan participants upon the exercise of options is credited to share capital and the amount previously credited to the options account is transferred to share capital.

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**Earning (loss) per share**

The calculation of earnings (loss) per share is based on the weighted average number of shares outstanding for each period. The basic earnings (loss) per share is calculated by dividing the net earnings (loss) for the period by the weighted average number of common shares outstanding during the period. The computation of diluted earnings (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share. The treasury stock method is used to determine the dilutive effect of the warrants and stock options. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants and stock options.

**Capital Management**

The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition, development and exploration of mineral properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. All equity financings require the approval of the Board of Directors.

**2. B. Changes in Accounting Policy**

On May 1, 2007, the Company adopted new accounting standards related to accounting changes, financial instruments, comprehensive income and hedges that were issued by the CICA. These new standards have been applied retroactively on May 1, 2007 and the Company concluded that they had no impact on its prior periods consolidated financial statements. The new CICA standards are as follows.

Section 1506, *Accounting Changes*

This Section establishes criteria for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this Section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this Section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below.

Section 3855, *Financial Instruments – Recognition and Measurement*

This Section establishes standards for recognizing and measuring financial assets and financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities classified as held for trading are required to be measured at fair value, with gains and losses recognized in net earnings.

Financial assets classified as held to maturity, loans and receivables and financial liabilities (other than those held for trading) are required to be measured at amortized cost using the effective interest method of amortization.

Available for sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in *Other comprehensive income*. Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market should be measured at cost.

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The Company has implemented the following classification:

- Cash is classified as held for trading.
- The Company's Guaranteed investment certificates are classified as held-for-trading
- Accounts receivable and other are classified as loans and receivables.
- Accounts payable and accrued liabilities are classified as other liabilities.

*Section 1530, Comprehensive Income*

This Section established standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings.

The classification of the Company's financial instruments as at May 1, 2007 and their subsequent changes up to July 31, 2008 have resulted in no gains or losses that require separate presentation in *Other comprehensive income*. There was no effect on opening equity as of May 1, 2007 or on subsequent measurements as a result of applying this new standard.

*Section 3865, Hedges*

This Section establishes the standard how hedge accounting may be applied. The Company currently does not have any hedges in place, and therefore this standard has no impact on its consolidated financial statements.

*Section 1400, General Standards of Financial Statement Presentation*

In May 2008, the Company adopted the CICA amended Section 1400 which includes requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern.

*Section 1535, Capital Disclosures*

On December 1, 2006, the CICA issued this new accounting standard which was adopted by the Company effective May 1, 2008. Section 1535 specifies the disclosure of information that enables users of an entity's financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences of non-compliance.

*Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentation*

These sections replace Section 3861, *Financial Instruments Disclosure and Presentation*, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The Company adopted these sections effective May 1, 2008.

**2.C. New accounting standards**

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for public companies in Canada (IFRS will replace Canadian GAAP for public companies). The official changeover date will apply for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of the implementation of IFRS.

**3. Mining Properties**

	Balance as at April 30, 2008	Acquisition	Write-down	Balance as at July 31, 2008
Peru				
Shahuindo (Note 9)	\$ 23,391,470	\$ -	\$ -	\$ 23,391,470
Vikingo (option)	-	-	-	-
Torrine (option)	-	-	-	-
	<u>\$ 23,391,470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,391,470</u>

The Company was not able to renegotiate the options of the Vikingo and Torrine properties on satisfactory terms, and accordingly investments in these mining properties were written off in the year ended April 30, 2008.

**4. Deferred Exploration Costs**

	Balance as at April 30, 2008	Exploration Costs	Write-down	Balance as at July 31, 2008
Peru				
Shahuindo (Note 9)	\$ 23,416,851	\$ 742,979	\$ -	\$ 24,159,830
Vikingo (option)	-	-	-	-
Torrine (option)	-	-	-	-
	<u>\$ 23,416,851</u>	<u>\$ 742,979</u>	<u>\$ -</u>	<u>\$ 24,159,830</u>

The Company was not able to renegotiate the options of the Vikingo and Torrine properties on satisfactory terms and accordingly the deferred exploration costs were written off in the year ended April 30, 2008.

**5. Share Capital**

(i) **Authorized** - Unlimited number of voting common shares, without par value.

(ii) **Issued** - Changes in the Company's share capital during the quarters ended July 31, 2008 and 2007 were as follows:

	2008		2007	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Balance at beginning	79,036,430	\$ 75,118,472	72,522,144	\$ 73,669,837
Issued in private placements	-	-	-	-
Issued upon exercise of options	-	-	-	-
Issued for debt settlement- accounts payable	-	-	-	-
Issued for acquisition of mining properties	-	-	-	-
Issued upon warrants exercised	1,106,089	\$ 1,106,089	-	-
Balance at end	<u>80,142,519</u>	<u>\$ 76,224,561</u>	<u>72,522,144</u>	<u>\$ 73,669,837</u>

During the quarter ended July 31, 2008, an aggregate of 1,106,089 common shares were issued upon the exercise of warrants at a price of \$1.00 per warrant.

**(iii) Share Purchase Options**

Under the Company's Share Option Plan, the Company may grant options to its employees, directors and consultants for up to 10,000,000 common shares. 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. No options were granted in the quarter ended July 31, 2008.

The Company's Stock Option Plan was adopted in 2004. Shareholders are being asked at the Annual & Special Meeting to be held on September 18, 2008 to consider and adopt a new Rolling 10% Stock Option Plan to replace the 2004 Plan and which will comply with new policies of the TSX that security based compensation arrangements should contain detailed amendment provisions. All 4,865,000 outstanding options granted under the existing 2004 plan will be incorporated under the new Rolling Stock Option Plan and will be deemed outstanding under the Rolling Stock Option Plan effectively replacing the current plan.

The status of the Company's share option plan as at July 31, 2008 and 2007, and changes during the periods then ended, are summarized as follows:

	<u>July 31, 2008</u>		<u>July 31, 2007</u>	
	<u>Number of Share Purchase Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Share Purchase Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at April 30	4,865,000	\$ 0.79	3,095,000	\$ 0.82
Exercised	-	-	(310,000)	0.29
Granted	-	-	2,215,000	0.75
Cancelled or expired	-	-	(310,000)	1.10
Outstanding at July 31	<b>4,865,000</b>	<b>\$ 0.79</b>	4,700,000	\$ 0.80
Exercisable at July 31	<b>4,865,000</b>	<b>\$ 0.79</b>	4,700,000	\$ 0.80

The following table summarizes information on share purchase options outstanding as at July 31, 2008:

<b>Options Outstanding and Exercisable</b>		
<b>Exercise Price</b>	<b>Number Outstanding as at July 31, 2008</b>	<b>Weighted Average Remaining Contractual Life</b>
\$ 0.84	250,000	0.05 years
\$ 1.00	1,600,000	1.32 years
\$ 0.39	350,000	2.39 years
\$ 0.80	1,815,000	3.24 years
\$ 0.50	400,000	3.38 years
\$ 0.50	250,000	4.37 years
\$ 0.50	200,000	4.68 years
<b>Total</b>	<b>4,865,000</b>	<b>2.5 years</b>

There were no options granted during the first quarter ended July 31, 2008.

**(iv) Warrants**

The status of the warrants outstanding as at July 31, 2008 and 2007 and changes that occurred during the quarter then ended are summarized as follows:

	<b>July 31, 2008</b>		<b>July 31, 2007</b>	
	<b>Number of warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Number of warrants</b>	<b>Weighted Average Exercise Price</b>
Outstanding at April 30	<b>11,620,536</b>	<b>\$ 0.73</b>	5,906,250	\$ 1.00
Exercised	<b>(1,106,089)</b>	<b>1.00</b>	-	-
Outstanding at July 31	<b>10,514,447</b>	<b>0.70</b>	5,906,250	\$ 1.00

During the quarter ended July 31, 2008, a total of 1,106,089 warrants were exercised at an exercise price of \$1.00 per common share for total proceeds received of \$1,106,089. The exercised warrants represent a portion of the 5,906,250 warrants issued in connection with the private placement completed August 31, 2006 ("2006 Warrants"). The balance of the 2006 Warrants outstanding totaling 4,800,161 warrants expired on August 31, 2008 and was not exercised. An amount of \$268,538 was deducted from the warrant account and an amount of \$258,538 was added to Share Capital reflecting the proportionate value of the 2006 Warrants previously credited to the warrant account.

In addition, 5,714,286 warrants ("2008 Warrants") were issued as part of a private placement of Units completed on April 4, 2008. The warrants have an exercise price of \$0.45 per share and a 24 month term, subject to an accelerated maturity date in the event that the common shares of Sulliden trade on the Toronto Stock Exchange ("Exchange") at a volume weighted average trading price equal to or greater than \$0.75 for any period of 20 consecutive trading days. The Company gave notice on August 1<sup>st</sup>, 2008 that the condition noted above had been met and the 2008 Warrants will expire on September 30<sup>th</sup>, 2008.

## **6. Potential Tax Benefits**

The Company has cumulative non-capital losses for Canadian income tax purposes amounting to approximately \$8,357,635 which will expire as follows: \$325,000 in 2009, \$1,098,600 in 2013, \$137,700 in 2014, \$1,481,400 in 2015, \$1,429,500 in 2026, \$1,311,700 in 2027 and \$1,883,047 in 2028. The amount capitalized for mining properties and deferred exploration costs in Canada in the consolidated financial statements differs from the cost for income tax purposes because the cost benefits related to some exploration costs were attributed to subscribers and some mining assets were completely written off for accounting purposes. The amounts available for income tax purposes as mining properties and exploration costs in Canada are \$1,238,329 as at July 31, 2008. The unamortized balance for income tax purposes of share issue expenses amounts to \$648,293 and will be deductible during the next four years. The potential tax benefits of these items are not reflected in the consolidated financial statements.

## **7. Related Party Transactions**

During the quarter, the Company paid \$111,998 (\$56,500 in 2007) in professional fees and general administrative expenses to companies related to the Company's officers and directors. Additionally, amounts totalling \$53,185 were paid to legal firms in Canada and Peru in which an officer or director of the Company were partners for the same period ( \$35,458 in 2007). The accounts payable and accrued liabilities include amounts due to these companies and legal firms in an amount of \$32,884. These transactions are in the normal course of operations.

## **8. Commitments**

Other than rental payment on office space arrangements entered into in the ordinary course of business, the Company has no other commitments. None of the rental terms exceed 5 years and the rental payments are expected to be approximately \$55,000 per annum

## **9. Litigation Uncertainty With Respect to the Shahuindo Property - Legal Proceedings**

Sulliden's ownership of the Shahuindo property is in dispute and its rights have been challenged in various legal proceedings in Peru. The following is a summary only of the certain principal aspects of the litigation.

The rights of Sulliden to develop its Shahuindo Property in Peru are founded on an agreement dated November 6, 2002 (the "Agreement"), between Sulliden and Compania Minera Algamarca S.A. ("Algamarca"), pursuant to which Algamarca sold its rights in the Shahuindo Property to Sulliden. New shareholders of Algamarca have since claimed that the Agreement is invalid and commenced numerous legal actions in Peru.

In July 2006 an Arbitration Tribunal found in favour of Sulliden but Algamarca filed a Nullity Petition in the Superior Court of Lima seeking to have the Arbitration Award declared invalid. In August 2007, the Commercial Chamber of the Superior Court of Lima accepted Algamarca's Nullity Petition and declared null and void the Arbitration Decision of July 2006 and reinstated the competence and jurisdiction of the Courts and Judiciary of Peru to deal with the dispute on the Agreement.

Sulliden has filed an appeal to the Supreme Court of Peru against the decision to the Superior Court of Lima. On December 13, 2007 the Supreme Court of Peru, by unanimous resolution, agreed to hear Sulliden's appeal. The effect of the appeal is to suspend the order of the Superior Court of Lima pending the outcome of the Appeal. If the decision is not overturned and the nullity is confirmed, the effect will be to set aside the Arbitration Process and nullify the Arbitration Award. The decision did not address and does not affect the validity of the Agreement between Algamarca and Sulliden.

If the nullity decision of the Commercial Chamber is confirmed and not overturned by the Supreme Court, and the Arbitration Process is set aside, the legal dispute on the Agreement would have to be determined by the Courts.

During the year, Algamarca re-activated a civil action in the 64<sup>th</sup> Civil Court of Lima, originally filed in 2004, seeking a declaration of nullity of the Agreement. This action was transferred to the 10<sup>th</sup> Civil Court of Lima. On June 19, 2008 the 10<sup>th</sup> Civil Court of Lima issued its decision declaring the nullity of the Agreement. Sulliden has filed an appeal against this decision to the Superior Court of Lima.

In June 2007 Sulliden filed two law suits in the Canadian Courts against Algamarca and others seeking damages of US\$200 million for breach of contract, slander of title and other claims. The Defendants have filed a Motion in the Ontario Court seeking to stay or dismiss the action on the basis of jurisdiction and argue that the dispute to which this action relates is subject to an agreement between the parties which provides that the dispute shall be governed by the laws of Peru and should be adjudicated by a Court in Peru, that proceedings are already pending in Peru in connection with the same subject matter and that Ontario is not an appropriate or convenient forum for the hearing of the proceedings. On September 5, 2008 Sulliden announced that it had settled the legal actions commenced in Canada against Century Mining Corporation, Algamarca and others as Century had withdrawn from and abandoned all of its claims to the Shahuindo property.

In July 2008, with the approval of the Supreme Court of Peru, Sulliden and Algamarca agreed to temporarily suspend the appeal proceedings before the Supreme Court pending further negotiations on a possible settlement of the litigation and dispute between Sulliden and Algamarca.

Although it is the opinion of Sulliden management and its legal advisors that the claims of Algamarca are without legal merit, Sulliden cannot predict with certainty the outcome of the various legal actions or the impact of these actions on Sulliden's rights under the Agreement or its rights to the Shahuindo property. The Peruvian legal judicial and court system is unpredictable and is significantly different than the Canadian legal system.

## **10. Financial instruments**

### Fair value

The carrying amount of all financial assets and liabilities, as reported on the consolidated balance sheet, approximate their respective fair value due to the relatively short-term maturities of these instruments.

### Interest rate risk

The Company's Guaranteed investment certificates bear interest at fixed rates subject to change for earlier maturities. All other financial assets and liabilities are non-interest bearing.

### Foreign currency risk

The Company transfers money to its subsidiaries in Peru denominated in U.S. dollars and portions of this money is transferred to accounts in Peruvian Nuevos Soles. The Company does not use derivative instruments to reduce its exposure to foreign exchange fluctuations.

A portion of the Company's expenses are denominated in U.S. dollars and Peruvian Nuevos Soles. Consequently, an amount of \$240,385 in cash, *Accounts receivable and other*, *Accounts payable and accrued liabilities* is exposed to fluctuations in foreign exchange rates.

### Credit risk

The Company has reduced its credit risk by investing its *cash equivalents and short-term investments* in guaranteed investment certificates with a Schedule 1 Canadian chartered bank with maturities of more than three months and less than one year when purchased. As at July 31, 2008, the Company held guaranteed investment certificates valued at \$1.4 million with maturity dates out to April 8, 2009, subject to early redemption rights, and earning income at effective rates ranging from 2.25% to 3.5%, depending on date of redemption (July 31, 2007 - \$3.8 million, earning income at rates ranging from 3.0% to 4.25%).

**11. Comparative figures**

Certain comparative figures have been reclassified to conform to the presentation adopted for the quarter ended July 31, 2008.

**12. Subsequent events**

Subsequent to July 31, 2008, a total of 65,000 warrants were exercised at \$1.00 per share for gross proceeds of \$65,000, and 100,000 stock options were exercised at \$0.84 per share for gross proceeds of \$84,000.