

Sulliden Exploration Inc.

Consolidated Financial Statements

October 31, 2008 and 2007

*Second Quarter
Interim Report
October 31, 2008*

Not reviewed by Auditor

220 Bay Street, Suite 700
Toronto (Ontario) M5J 2W4
Telephone: (416) 703-8287, Fax: (416) 703-7827
E-mail: contact@sulliden.com, Web page: <http://www.sulliden.com>

Sulliden Exploration Inc.

Consolidated Balance Sheets

Assets	Oct, 31 2008 (unaudited)	April, 30 2008 (audited)
Current assets		
Cash	\$ 19,927	\$ 147,470
Guaranteed investment certificates (Note 10)	3,555,515	1,889,000
Accounts receivable and other	174,444	124,135
	3,749,886	2,160,605
Mining properties (Note 3)	23,391,470	23,391,470
Deferred exploration costs (Note 4)	24,972,314	23,416,851
	\$ 52,113,670	\$ 48,968,926
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 149,670	\$ 508,574
Shareholders' equity		
Share capital (Note 5)	79,592,314	75,118,472
Warrants (Note 5)	-	2,115,492
Options (Note 5)	2,201,433	2,201,433
Contributed Surplus	3,566,109	2,097,941
Deficit	(33,395,856)	(33,072,986)
	51,964,000	48,460,352
	\$ 52,113,670	\$ 48,968,926

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 October 31, 2008

	Three month period ended Oct 31,		Six month period ended Oct 31,	
	2008	2007	2008	2007
Interest income, net	\$ 14,069	\$ 32,425	\$ 28,077	\$ 62,845
Comprehensive Income (Loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Interest & Comprehensive Income	\$ 14,069	\$ 32,425	\$ 28,077	\$ 62,845
Administrative expenses				
Professional fees	77,772	156,490	149,799	341,048
Salaries and fringe benefits	80,300	64,143	160,400	88,143
Travel and accommodation	-	11,156	1,090	24,009
Shareholders' information	18,731	28,493	38,297	35,978
Exchange loss (gain)	(86,497)	45,356	(93,007)	47,603
General administrative expenses	55,517	21,742	94,368	45,696
Stock-based compensation cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,118</u>
	<u>145,823</u>	<u>327,381</u>	<u>350,947</u>	<u>609,595</u>
Net loss	131,754	294,956	322,870	546,750
Deficit at beginning	33,264,102	29,983,160	(33,072,986)	29,731,366
Share issue expenses	<u>-</u>	<u>29,859</u>	<u>-</u>	<u>29,859</u>
Deficit at end	<u>\$ 33,395,856</u>	<u>\$ 30,307,975</u>	<u>\$ 33,395,856</u>	<u>\$ 30,307,975</u>
Basic and diluted net loss per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>

Sulliden Exploration Inc.

Consolidated Statements of Cash Flows

For the quarter ended October 31, 2008

	Three month period ended Oct 31,		Six month period ended Oct 31,	
	2008	2007	2008	2007
Operating activities				
Net Loss & Comprehensive Loss	\$ (131,754)	\$ (294,956)	\$ (322,870)	\$(546,750)
Adjustment for:				
Property Write-Offs	-	-	-	-
Stock-based compensation cost	-	-	-	32,934
	<u>(131,754)</u>	<u>(294,956)</u>	<u>(322,870)</u>	<u>(513,816)</u>
Net change in non-cash working capital items				
Accounts receivable	(23,042)	8,502	(50,310)	21,017
Accounts payable and accrued liabilities	<u>(268,837)</u>	<u>535,251</u>	<u>(358,904)</u>	<u>572,837</u>
	<u>(291,878)</u>	<u>543,753</u>	<u>(409,214)</u>	<u>593,854</u>
Cash flow used in operating activities	<u>(423,632)</u>	<u>248,799</u>	<u>(732,084)</u>	<u>80,038</u>
Investing activities				
Deferred exploration costs	(812,484)	(1,740,490)	(1,555,463)	(2,470,521)
Redeemable guaranteed investment certificates	<u>(2,131,560)</u>	<u>1,486,244</u>	<u>(1,666,515)</u>	<u>2,423,244</u>
Cash flows used in investing activities	<u>(2,944,044)</u>	<u>(254,246)</u>	<u>(3,221,978)</u>	<u>(47,277)</u>
Financing activities				
Exercise of Warrants & Options	<u>2,720,429</u>	<u>-</u>	<u>3,826,518</u>	<u>-</u>
Cash flows generated by financing activities	<u>2,720,429</u>	<u>24,650</u>	<u>3,826,518</u>	<u>24,650</u>
Net change in cash	(647,247)	19,201	(127,543)	57,411
Cash at beginning	<u>667,174</u>	<u>253,164</u>	<u>147,470</u>	<u>214,954</u>
Cash at end	<u><u>\$ 19,927</u></u>	<u><u>\$ 272,365</u></u>	<u><u>\$ 19,927</u></u>	<u><u>\$ 272,365</u></u>

1. Continuanace 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.

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.

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 October 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	Balance as at Oct 31,2008
Peru Shahuindo (Note 9)	\$ 23,391,470	\$ -	\$ -	\$ 23,391,470	\$ 23,391,470
	\$ 23,391,470	\$ -	\$ -	\$ 23,391,470	\$ 23,391,470

4. Deferred Exploration Costs

	Balance as at April 30, 2008	1 st Quarter ended July 31, 2008			2 nd Quarter ended October 31, 2008		
		Exploration Costs	Write- down	Balance as at July 31,2008	Exploration Costs	Write- down	Balance as at Oct 31,2008
Peru Shahuindo (Note 9)	\$ 23,416,851	\$ 742,979	\$ -	\$ 24,159,830	\$ 812,484	\$ -	\$ 24,972,314

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 six months ended October 31, 2008 and 2007 were as follows:

	2008		2007	
	Number of Shares	Amount	Number of Shares	Amount
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 at \$1.00 in Q1	1,106,089	\$ 1,106,089	-	-
Issued upon warrants exercised at \$1.00 in Q2	65,000	\$ 65,000	-	-
Issued upon options exercised at \$0.84 in Q2	100,000	\$ 84,000	-	-
Issued upon warrants exercised at \$0.45 in Q2	5,714,286	\$ 2,571,429	-	-
Issued upon options exercised at \$0.29 in 2007			85,000	\$24,650
Balance at end	86,021,805	\$ 78,944,990	72,607,144	\$ 73,694,487

During the quarter ended October 31, 2008, an aggregate of 65,000 common shares were issued upon the exercise of warrants at a price of \$1.00 per warrant and an aggregate of 5,714,286 common shares were issued upon the exercise of warrants at a price of \$0.45 per warrant. In addition, an aggregate of 100,000 common shares were issued upon the exercise of options at a price of \$0.84 per option.

(iii) Share Purchase Options

Under the Company's Share Option Plan adopted in 2004, the Company could 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. Options issued under the plan are exercisable at any time, unless otherwise specified.

At the Annual & Special Meeting held on September 18, 2008 shareholders approved the adoption of a new Rolling 10% Stock Option Plan replacing the 2004 Plan. The new Rolling 10% Stock Option Plan complies with new policies of the TSX stipulating that security based compensation arrangements should contain detailed amendment provisions. All 4,765,000 previously outstanding options granted under the 2004 Plan were incorporated under the new Rolling Stock Option Plan and deemed outstanding under the Rolling Stock Option Plan effectively replacing the 2004 Plan.

No options were granted in the quarter ended October 31, 2008.

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

	<u>October 31, 2008</u>		<u>October 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	4,700,000	\$ 0.82
Exercised	(100,000)	0.84	(85,000)	0.29
Granted	-	-	-	-
Cancelled or expired	-	-	(200,000)	0.68
Outstanding at Oct 31	4,765,000	\$ 0.79	4,415,000	\$ 0.82
Exercisable at Oct 31	4,765,000	\$ 0.79	4,390,000	\$ 0.82

During the quarter ended October 31, 2008, an aggregate of 100,000 common shares were issued upon the exercise of options at a price of \$0.84 per option.

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

Options Outstanding and Exercisable		
Exercise Price	Number Outstanding as at October 31, 2008	Weighted Average Remaining Contractual Life
\$ 0.84	150,000	0.5 years
\$ 1.00	1,600,000	1.07 years
\$ 0.39	350,000	2.14 years
\$ 0.80	1,815,000	2.99 years
\$ 0.50	400,000	3.13 years
\$ 0.50	250,000	4.12 years
\$ 0.50	200,000	4.43 years
Total	4,765,000	2.6 years

There were no options granted during the Second Quarter ended October 31, 2008.

(iv) Warrants

The changes in warrants that occurred during the quarters then ended October 31, 2008 and 2007 are summarized as follows:

	October 31, 2008		October 31, 2007	
	<u>Number of warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Number of warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding at April 30	11,620,536	\$ 0.73	5,906,250	\$ 1.00
Exercised in Q1	(1,106,089)	1.00	-	-
Exercised in Q2	(65,000)	1.00	-	-
Exercised in Q2	(5,714,286)	0.45	-	-
Expired in Q2	(4,735,161)	1.00	-	-
Outstanding Balance	-	-	5,906,250	\$ 1.00

During the quarter ended October 31, 2008, a total of 65,000 warrants were exercised at an exercise price of \$1.00 per common share, a total of 5,714,286 warrants were exercised at an exercise price of \$0.45 per common share, for total proceeds received of \$2,636,429. The 65,000 exercised warrants represent a portion of the 5,906,250 warrants issued in connection with the private placement completed August 31, 2006 ("2006 Warrants") and all of the 5,714,286 warrants issued in connection with the private placement completed April 4, 2008 ("2008 Warrants"). The balance of 2006 Warrants outstanding totaling 4,735,161 warrants expired on August 31, 2008 and currently there are no remaining warrants outstanding.

An amount of \$1,846,954 was debited from the warrant account of which \$647,325 was credited to Share Capital reflecting the proportionate value of the 2006 and 2008 Warrants previously credited to the warrant account for the warrants exercised in the period and the balance of \$1,199,629 was credited to Contributed Surplus representing the previously recorded cost of the expired warrants.

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 tax 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 October 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 \$83,482 (\$102,610 in 2007) in professional fees and general administrative expenses to companies related to the Company's officers and directors. Additionally, amounts totaling \$46,162 were paid to legal firms in Canada and Peru in which an officer or director of the Company were partners for the same period (\$127,548 in 2007). The accounts payable and accrued liabilities include amounts due to these companies and legal firms in an amount of \$16,701. 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 filed an appeal to the Supreme Court of Peru against the decision to the Superior Court of Lima. The effect of the appeal is to suspend the order of the Superior Court of Lima pending the outcome of the Appeal. On November 13, 2008 the Supreme Court of Peru heard Sulliden's appeal, and it is expected that a decision will be issued prior to end of 2008. 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.

If the nullity decision of the Commercial Chamber of the Superior Court 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 2008, Algamarca re-activated a civil action in the 64th Civil Court of Lima, originally filed in 2004, seeking a declaration of nullity of the Agreement. This action was transferred to the 10th Civil Court of Lima. On June 19, 2008 the 10th 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. Sulliden's appeal against the decision of the 10th Civil Court declaring the nullity of the Transfer Contract is pending before the Superior Court of Lima, while at the same time an official investigation was initiated on September 18, 2008 against the Judge of the 10th Civil Court who issued that decision.

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 between the parties on a possible settlement of the litigation and dispute. Notwithstanding the hearing of the appeal by the Supreme Court on November 13, 2008, Sulliden is continuing in negotiations with Algamarca on a possible settlement of the Shahuindo litigation and dispute. These negotiations have not yet resulted in a resolution and there can be no assurance that the negotiations will reach a satisfactory conclusion.

As in any litigation where there is a dispute, Sulliden cannot predict with certainty the outcome of the various legal actions or negotiations of a potential settlement or the impact of these actions on Sulliden's rights and entitlements to the Shahuindo property.

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 and held in U.S. dollars and Peruvian Nuevos Soles. Consequently, an amount of \$298,407 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 October 31, 2008, the Company held guaranteed investment certificates valued at \$3.56 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 (October 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 October 31, 2008.