

Exploration Sulliden Inc.

Statement concerning the interim financial statements

The interim financial statements for the period ended July 31, 2004 have not been reviewed by the auditors of the company.

Capital Structure as at September 10, 2004

Shares	59 477 231
Options	2 637 950
Warrants	<u>9 684 850</u>
	<u>71 800 031</u>

(See Note 3 of the Consolidated Financial Statements for more details).

Management's Discussion and Analysis of Operating Results and Financial Position

Caution regarding forward-looking information

Statements contained in this document which are not historical facts are forward-looking statements that involve risk, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause such differences, without limiting the generality of the following, include: volatility and sensitivity to market metal prices; impact of change in foreign currency exchange rates and interest rates; imprecision in reserves estimates; environmental risks including increased regulatory burdens; unexpected geological conditions; adverse mining conditions; political risks arising from operating in certain developing countries; legal title to properties, outcome of arbitration, changes in government regulations and policies, including laws and policies; and failure to obtain necessary permits and approvals from government authorities; and other development and operating risks.

Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this document. The Company disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Description of business and continuation of the business

The Company, incorporated under Part 1A of the *Companies Act* (Québec), 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 Québec and Peru. The exploration and development of mineral deposits involve significant financial risk. The success of the Company will be influenced by a number of factors, including risks associated with exploration and extraction, regulatory issues, environmental and other regulations.

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption.

The Company has incurred significant operating losses over the past years (\$2,608,828 for the year ended April 30, 2004). The Company's continued existence is dependent upon its ability to obtain additional financing.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities and the reported net loss.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of recoverable value of its mining properties and related deferred exploration costs as well as the value of stock-based compensation.

Both of these estimates involve considerable judgement and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's share and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model, however the future volatility is uncertain and the model has its limitations.

The Company's recoverability of its recorded value of its mining properties and associated deferred exploration costs is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale.

The Company is in an industry that is dependent on a number of factors including environmental, legal and political risk, the existence of economically recoverable reserves, the abilities of the Company to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

New accounting policy

On May 1, 2003, the Company adopted retroactively with a restatement for 2004 the new recommendation of Section 3870 of the CICA Handbook entitled "Stock-Based Compensation and Other Stock-Based Payments" under which the costs of options granted to key employees, officers and directors is accounted for as compensation cost under operations. The effect of these new amendments is the increase of the deficit as at April 30, 2003 by \$342,254 and the increase of the compensation cost-options as at July 31, 2003 by \$109,488. In addition, during the year ended April 30, 2004, the Company granted other options to directors and officers for compensation costs of \$ 115,325.

Operating results

During the three-month period ended July 31, 2004, the Company incurred a net loss of \$611,823 (\$0.01 per share) compared to a restated net loss of \$244,064 (\$0.01 per share) for the three-month period ended July 31, 2003. In 2004, the management fees and other income includes mainly the interest income from the guaranteed investment certificate. In 2003, the amount is comprised of management fees of \$105,266 (as per the agreement with the Socrate Capital Inc. for the financing of the Shahuindo property), and gain on exchange for an amount of \$11,714 (favorable exchange rate fluctuation), compared to a loss on exchange of \$ 58,206 in 2003. The agreement with Socrate Capital Inc. has been terminated at the end of July 2003.

The professional fees are comprised of fees paid to related parties for services rendered such as investor relations, accounting, consulting and general administration expenses for an amount \$58,249 (\$ 24,000 in 2003). The increase is due that the vice-president investor relations started in September 2003 and that no directors fees were paid in 2003 compared \$7,750 for the period ended July 31, 2004. In addition, during the period ended July 31, 2004, the Company hired a consultant for a research report for which options have been granted for compensation costs of \$ 54,812 (none in 2003). The professional fees also included the legal fees paid in Peru for the corporate nature and fees paid in Canada to finalize the acquisition of the 30 % interest in the Shahuindo property held by Socrate Capital Inc

Under the new accounting policy, the costs for the options granted during the period ended July 31, 2004 is \$164,430 compared to \$109,488 in 2003. The shareholders' information increased mainly due to the listing fees of \$50,920 paid to the regulatory authorities concerning the acquisition of the 30 % interest in the Shahuindo property held by Socrate Capital Inc.

The general administrative expenses increased is due to the publicity costs of \$25,805 (\$1,257 in 2003) and the conference costs of \$16,682 (none in 2003), During the period ended July 31, 2004, the Company hired a consultant, as discussed before, at a cost of \$18,900 (none in 2003) and has redesigned its website. In addition, during the same period, the Company participated to two mining conferences (none in 2003). The rent costs for the offices of \$6,000 didn't change from 2003.

The change in salaries and fringe benefits, which refer to the remuneration paid to the president, is due to the remuneration increase effective as of January 1st, 2004. The travel and entertainment expenses increased mainly due to the high level of activities (participation to mining conferences) during the period ended July 31, 2004 and the activities developed by the vice president investor relations.

Liquidity and capital resources

During the three-month period ended July 31, 2004, the Company issued 2,934,400 (2003 – 855,667) common shares following the exercise of warrants for a consideration of \$ 2,532,110 (2003-\$271,134) and none (2003 -100,000) common shares following the acquisition of a mining property for a consideration of nil (2003 - \$143,000). In addition, during the period ended July 31, 2003, the Company issued 1,000,000 (none in 2004) common shares for an amount of \$540,000 (none in 2004) from private placements and 625,00 (none in 2004) common shares following the exercise of options for a consideration of \$254,819 (none in 2004).

During the period ended July 31, 2003, Socrate Capital Inc. acquired a 30% interest in the Shahuindo Property and 100% of the interest that the Company may acquire in the Mario property. On June 16, 2004, the Company closed the acquisition, previously announced in March 2004, of the 30 % interest in the Shahuindo property held by Socrate Capital Inc. (through its wholly-owned subsidiary 9129-8398 Québec Inc.).

Pursuant to the Agreement, the Company issued 12,000,000 common shares, which will be released under terms and conditions and issued 4,000,000 warrants at \$3.00 for an eighteen-month period and paid an amount of \$4,000,000. The only asset of 9129-8398 Québec Inc. is deferred costs amounting \$1,792,792. Subsequently, 9129-8398 Québec Inc. was merged with the Company. See Note 2 to the Consolidated financial statements and press release dated June 16, 2004 for more details. During the three-month period ended July 31, 2004, the Company incurred mainly \$ 2,240,113 (2003 - \$716,504) in exploration expenses such as geophysical, geochemistry, drilling, analysis and others, on the Shahuindo property in Peru.

Related party transactions

See Note 4 to the financial statements for more details for related parties transactions realized in the normal course of operations.

Risk Factors

An investment in the Common Shares of Sulliden should be considered highly speculative for a variety of reasons. The following is a general description of certain significant risk factors which should be considered:

Uncertainty with respect to title to properties may result in loss of mining rights

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. Algamarca and its new shareholders have since claimed that the Agreement was invalid and has commenced legal action in Peru disputing its own act of entering into the Agreement. Although it is the opinion of management and its legal advisors that these claims are without legal merit, Sulliden cannot predict with certainty the outcome of the Algamarca legal actions or the impact of these actions on its rights under the Agreement.

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to mineral claims may be disputed. Transfers under foreign laws are often complex. Sulliden could potentially lose its rights to a property as a result of successful claims by a third party.

Sulliden faces significant risks, inherent in the nature of mineral exploration, in the exploration and development of its mining properties

Mineral exploration and development involve several risks which experience, knowledge and careful evaluation may not be sufficient to overcome. Large capital expenditures are required in advance of anticipated revenues from operations. Many exploration programs do not result in the discovery of mineralization; moreover, mineralization discovered may not be of sufficient quantity or quality to be profitably mined. Unusual or unexpected formations, formation pressures, fires, power outages, labor disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labor are some of the risks involved in the conduct of exploration programs and the operation of mines. The commercial viability of exploiting any precious metal deposit is dependent on a number of factors including infrastructure and governmental regulations, in particular those respecting the environment, price, taxes, and royalties. No assurance can be given that minerals will be discovered of sufficient quantity, quality, size and grade on any of the Corporation's properties to justify commercial operation.

Sulliden does not maintain liability insurance with respect to its exploration activities in Peru.

Uncertainty of ore reserve and resource estimates could lead Sulliden to allocate its capital to deposits which may ultimately prove uneconomic

The mining business relies upon the accuracy of determinations as to whether a given deposit has significant mineable reserves. This reliance is important in that reported mineral reserves and resources are only estimates and do not represent with certainty that estimated mineral reserves and resources will be recovered or that they will be recovered at the rates estimated.

Mineral reserve and resource estimates are based on limited sampling, and inherently carry the uncertainty that samples may not be representative. Mineral reserve and resource estimates may require revision (either upward or downward) based on actual production experience.

Market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain mineral reserves and resources uneconomic. Inaccurate estimates may result in a misallocation of resources such that an excess amount could be allocated to a less than economic deposit or, conversely, failure to develop a significant deposit.

Sulliden faces potential risks and uncertainties resulting from the location of its properties and operations in countries where political, governmental or other activities may disrupt its business

Political and related legal and economic uncertainty exists in countries where Sulliden operates. Risks of foreign operations in these countries may include political unrest, corruption, war, civil disturbances and terrorist actions, arbitrary changes in law or policies, changes to government regulation, foreign taxation, price and currency controls, delays in obtaining, or the inability to obtain, necessary governmental permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on gold exports and increased financing costs. These risks may limit or disrupt Sulliden's activities.

Sulliden requires additional funding to develop its properties

Development of the Shahuindo Property will require significant financial resources. As a result, Sulliden will need to raise significant project financing, debt and additional equity. Failure to obtain such additional funding at critical times could lead to delay or indefinite postponement in the exploration and development of the project. There is no assurance that such funding will be available or that it will be obtained on favourable terms.

Sulliden's business depends upon a limited number of properties, the loss of any of which will negatively impact its operations

Sulliden's operations at the Shahuindo Property in Peru, account for essentially all of its current operations. Any adverse development affecting its Shahuindo Property could significantly impact the Company.

Lack of Operating Profits

Sulliden has incurred operating losses on an annual basis for a number of years arising out of the costs related to continued exploration and development of mineral resource properties. As of April 30, 2004, Sulliden had an accumulated deficit of \$22,755,917. It is anticipated that it will continue to experience operating losses for the foreseeable future. There can be no assurance that Sulliden will ever achieve significant revenues or profitable operations.

Dependence on Key Personnel

The development of Sulliden's business is and will continue to be dependent on its ability to attract and retain highly qualified management and mining personnel. Sulliden faces competition for personnel from other employers.

Sulliden's operations require environmental and other permits and are subject to extensive regulations

Government regulations significantly affect Sulliden's operations. Sulliden's exploration and development activities are subject to extensive laws and regulations governing protection of the environment, health and worker safety, waste disposal and other matters. Sulliden generally requires permits from authorities that relate to virtually every aspect of Sulliden's activities. It is possible that future changes in applicable laws, regulations or changes in their enforcement or regulatory interpretation could result in changes in legal requirements or in the terms of permits applicable to Sulliden, which could significantly impact the Company's current operations or projects. Obtaining necessary permits to place a deposit into commercial production can be a complex, time-consuming and expensive process. Sulliden cannot assure whether necessary permits will be obtainable on acceptable terms and in a timely manner. The costs and delays associated with obtaining necessary permits and complying with these permits and applicable laws and regulations could stop, materially delay or restrict Sulliden from proceeding with the development of a project or the placing into commercial production of a mine. Any failure to comply with applicable laws and regulations or permits, even if inadvertent, could result in interruption or closure of operations or material fines,

penalties or other liabilities.

Precious metal price volatility may negatively impact Sulliden

The price of precious metals can fluctuate widely and is affected by numerous factors including demand, inflation, strength of the U.S. dollar and other currencies, interest rates, gold sales by central banks, forward sales by producers, global or regional political or financial events, and production and cost levels in major producing regions. In addition, the gold price is sometimes subject to rapid short-term changes because of speculative activities.

Even if Sulliden discovers commercial amounts of precious metals on the Shahuindo Property, it may not be able to place the property into commercial production if precious metal prices are not at sufficient levels.

Currency Risk

A substantial portion of Sulliden's activities is expected to be carried on outside of Canada. Such activities are subject to risks associated with fluctuations in the rate of exchange of the Canadian dollar and foreign currencies.

Outlook

During the year, the Company will focus its work in Peru (Shahuindo property) and results from exploration will determine Sulliden's financial commitment for the rest of the year. The Company will finance its exploration activities directly with its working capital and appropriate financings.

September 10, 2004

Signed Jacques Trottier

Jacques Trottier
President

Signed Michel Rathé

Michel Rathé
Vice President, Finance