



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE YEAR ENDED APRIL 30, 2010

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## **SULLIDEN GOLD CORPORATION LTD.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED APRIL 30, 2010**

Date: July 16, 2010

#### **GENERAL**

The following discussion of financial condition, results of operations and future prospects should be read in conjunction with the Consolidated Financial Statements of Sulliden Gold Corporation Ltd. ("Sulliden" or the "Company") for the years ended April 30, 2010 and 2009 and the Revised Audited Consolidated Financial Statements of Sulliden for the fiscal year ended April 30, 2009 (the "Financial Statements"), which have been prepared in accordance with Canadian generally accepted accounting principles. This discussion covers the most recently completed financial year of the Company and the subsequent period up to the date of the filing of this Management's Discussion and Analysis ("MD&A"). The MD&A was prepared in accordance with the requirements set out in Multilateral Instrument 51-102 of the Canadian Securities Administrators Continuous Disclosure Obligations. All dollar amounts are stated in Canadian dollars, unless otherwise noted.

The 2010 Financial Statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, and do not reflect the adjustments to the carrying value of assets and liabilities, reported revenue and expenses and the balance sheet classifications that would be necessary where the going concern assumption is inappropriate. These adjustments could be material.

For purposes of this document, Sulliden Gold Corporation Ltd., and its wholly owned subsidiaries Minera Sulliden Peru S.A., Minera Sulliden Shahuindo S.A.C. and Sulliden Capital S.A. are collectively referred to as the "Company" or "Sulliden".

References to the first, second, third and fourth quarter of 2010 or Q1-2010, Q2-2010, Q3-2010 and Q4-2010 and the first, second, third and fourth quarter of 2009 or Q1-2009, Q2-2009, Q3-2009 and Q4-2009 mean the three months ended July 31, October 31, 2009, January 31 and April 30, 2010 and July 31, October 31, 2008, January 31 and April 30, 2009 respectively.

The exploration and development of mineral deposits involves significant risks. The success of the Company will be influenced by a number of factors, including risks associated with exploration and extraction, regulatory issues, environmental regulations, political stability and support, social and community stability and support, economics and metal prices as well as other factors as more fully discussed in the Risk Factors section of this report.

Stephane Amireault, P.Eng (B.Eng; MscA), Vice-President of Exploration, is the Company's in-house Qualified Person for geology for the purposes of NI 43-101.

Joseph C. Milbourne, FAusIMM, Vice-President Technical Services, is the Company's in-house Qualified Person for all technical materials (except geology) for the purposes of NI 43-101.

#### **DESCRIPTION OF BUSINESS AND CONTINUATION OF THE BUSINESS**

Sulliden Gold Corporation Ltd., incorporated under the *Companies Act* (Québec), and its wholly-owned subsidiaries, Minera Sulliden Peru, S.A., Minera Sulliden Shahuindo S.A.C. and Sulliden Capital S.A. are engaged in the acquisition, exploration and development of mineral properties.

The Company's primary focus is on the Shahuindo Gold Project, located in one of the world's most prolific gold and silver producing districts in northern Peru. World-class gold mines in the region include Barrick Gold's Lagunas Norte Mine, 30 km to the south (1.0 million ounces of gold produced in 2009), and the Yanacocha Mine operated by Newmont Mining Company, 80 km to the north (2.1 million ounces of gold



produced in 2009), The company also holds a 100% interest in the East Sullivan Property in Quebec, Canada.

In February 2009, a five-year legal dispute that disrupted the Shahuindo Gold Project development was resolved, and the Company now holds 100 percent ownership of the Shahuindo property and has secured exploration options on 13 adjoining mining concessions.

In April 2009, following the settlement of all outstanding legal issues, the Board of Directors appointed a new management team with the experience and proven ability to develop, finance and operate mining projects. A strong strategic plan was implemented to accelerate the development of the Shahuindo Gold Project and highlight the excellent potential for mineral resource expansion.

The Shahuindo Gold Project has a NI 43-101 compliant Mineral Resource Estimation completed by AMEC Americas Limited ("AMEC") in January 2010 that estimates 51.8 million tonnes grading 0.63 grams per tonne gold with 17.9 grams per tonne silver and Inferred Mineral Resources totalling 18.0 million tonnes grading 0.50 grams per tonne gold and 6.1 grams per tonne silver. Indicated and Inferred Mineral Resources consider oxide, transition and sulphide materials. The technical report is filed under the profile of the Company on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company completed a positive Preliminary Assessment ("PA") and an updated NI 43-101 Mineral Resource Statement for its Shahuindo Gold Project in January 2010. The PA was prepared by AMEC Americas Limited through their Vancouver and Lima offices. The results indicate a mining project with estimated cash operating costs of US\$403 per gold equivalent ounce, capital expenditures of \$89.4 million and annual gold production of approximately 105,000 equivalent ounces. At US\$875/oz gold, the study estimates an internal rate of return ("IRR") on the pre-production capital investment of US\$90 million to be 43.3%, with a pre-tax Net Present Value (NPV) of US\$119 million (at an 8% discount rate). Please see press release dated February 16, 2010 on the Company's website [www.sulliden.com](http://www.sulliden.com). The PA includes inferred mineral resources that are considered too speculative geologically to have economic consideration applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the PA will be realized.

The PA supports an open pit, heap leach mining process for the oxide portion of the Shahuindo deposit. The study omits the transition and sulphide mineralization that exists at Shahuindo, which represents an additional opportunity that will be the subject of future evaluation. Please refer to the press release dated December 8<sup>th</sup>, 2009 on the Company's website [www.sulliden.com](http://www.sulliden.com).

On March 23<sup>rd</sup> 2010, the Company announced that Kappes, Cassiday & Associates ("KCA") had been selected to conduct a Feasibility Study to advance the development of the Shahuindo Gold Project. KCA will also prepare an updated mineral resource estimate in conjunction with the Feasibility Study.

During the fiscal year ended April 30, 2010, the Company completed two drilling programs as part of a Category I Permit. Please refer to the press releases dated October 27<sup>th</sup>, 2009 and March 8<sup>th</sup> 2010 on the Company's website [www.sulliden.com](http://www.sulliden.com).

In July 2010, the Peruvian Ministry of Energy and Mines granted the Company a Category II drilling permit for the Shahuindo property in Peru, and drilling re-commenced immediately.

As announced in the July 20<sup>th</sup>, 2010 press release, the Company has been actively conducting geophysical surveys (mag and IP/resistivity) on prospective new targets along the Main Mineralized Corridor and North Mineralized Corridor which will be used by the geology team to identify new mineral extensions and exploration targets. The Company also announced that the Feasibility Study and all the necessary accompanying studies for the Shahuindo Gold Project were progressing well. A contract was awarded to Ausenco Vector Peru, who will conduct the site geotechnical evaluation and hydrology studies to be included in the Feasibility Study currently underway by Kappes Cassiday & Associate (KCA) of Reno, Nevada.

## OVERVIEW - Fiscal Year Ending April 30, 2010

- In April 2009, following the successful resolution of all outstanding litigation over ownership of the Shahuindo property, Sulliden appointed a new senior management team. This included Peter Tagliamonte as President and CEO, Joe Milbourne as Vice-President of Technical Services, and Scott Moore as Vice-President of Corporate Development. The new team has extensive experience building and operating mines and bring a wealth of expertise that will be instrumental in developing the Shahuindo Gold Project to production.
- In 2009, the Company raised a total of \$25.4 million. This included a \$7.4 million private placement financing in May 2009, and an \$18 million bought deal financing in September 2009. The proceeds of these financings enabled the Company to reinitiate exploration on the Shahuindo property, begin a Preliminary Assessment study on the project, complete the required property payments and fund the working capital of the Company.
- In July 2009, Sulliden re-initiated exploration on the Shahuindo property with a Category I drilling permit. This exploration campaign included 26 drill holes totaling approximately 4,100 meters of drilling. 25 of the 26 holes returned mineralized ore. This was the first significant exploration program since 2004.
- In August 2009, the Company appointed Mr. Gaston Araya as General Manager of the Shahuindo Gold Project.
- The Company began trading as Sulliden Gold Corporation Ltd. In November 2009.
- In December 2009, Sulliden announced the appointment of Anna Ladd as Chief Financial Officer and the addition of Pierre Pettigrew as an Advisor to Sulliden's Board of Directors.
- A positive Preliminary Assessment Report completed by AMEC Americas Ltd. on the Shahuindo Gold Project was filed in January 2010 estimating an average annual gold production of 105,000 ounces per year at a cash operating cost of US\$403 per ounce. At US\$875/oz gold, the study estimates an internal rate of return ("IRR") on the pre-production capital investment of US\$90 million to be 43.3%, with a pre-tax Net Present Value (NPV) of US\$119 million (at an 8% discount rate). The report also included an updated National Instrument (NI) 43-101 compliant Mineral Resource estimate. Please see Cautionary Statements at the end of this MD&A.
- Sulliden completed a second phase of exploration with another Category I drilling permit in March 2010, which focused on the eastern portion of the 4 kilometers strike length of the Shahuindo deposit. The 27 drill holes of this 4,650 meter exploration campaign were designed to grow the mineral resource.
- In March 2010, the Company engaged Kappes, Cassidy & Associates to conduct a Feasibility Study on the Shahuindo Gold Project. The report is expected for completion in Q1 2011 and will include an updated National Instrument (NI) 43-101 compliant Mineral Resource estimate that will incorporate both results from the drill campaign completed in March 2010, and drilling planned to begin in Q3 of 2010.
- Since the resolution of all outstanding issues surrounding the title and ownership of the Shahuindo property in February 2009, the Company has completed payments for US\$11 million of the US\$13.5 million settlement. This includes a US\$7.5 million payment made in April 2010, which released a mortgage that was held on the property.
- In April 2010, the Company completed a \$15 million bought deal financing for which the proceeds are intended for exploration, surface right acquisitions, property payments and general corporate purposes.

## Settlement of Shahuindo Litigation

On February 27, 2009, the Company reached agreements to settle all outstanding issues in the disputes and litigation surrounding the Shahuindo gold/silver property in Peru. The agreements secure the Company's ownership of the Shahuindo property.

(A) The Company entered into a Settlement Agreement with Compañía Minera Algamarca S.A. and its subsidiary, Compañía de Exploraciones Algamarca S.A. (collectively "Algamarca") under which Algamarca has agreed to ratify and confirm the 2002 Transfer Contract and to acknowledge the transfer of the Shahuindo mining concessions, surface lands and mining assets to the Company effective as of the original date of the Transfer Contract.

Algamarca agreed to withdraw and abandon all process and appeals and to abandon all legal proceedings that have been brought against Sulliden, its employees, officers and directors, and to surrender and transfer to the Company the ownership and possession of the surface lands, mining concessions and mining assets.

The Company agreed to abandon all legal proceedings and appeals that have been brought against the Algamarca Group and to refrain from being a party to any other legal proceedings.

(B) The Company also entered into a separate Settlement Agreement with Compañía Minera Andina S.A. and various other Panamanian companies, including Inversiones Mineras Sudamericana SA, Andean Mining Gold SA and Import Export A.C.D.S.A, and their shareholders, whereby these companies have agreed to withdraw and abandon all claims and legal actions that these companies have made against the Company or the Shahuindo property, including the purported transfer of five concessions to Inversiones Mineras Sudamericana SA and eight concessions to Andean Mining Gold SA, the mortgage of US\$50 million in favour of Import Export and the mortgage of US\$80 million in favour of Inversiones Mineras Sudamericana.

In consideration of these companies withdrawing all claims and discontinuing all legal actions against the Company, its employees, officers and directors, or relating to the Shahuindo Property, the Company agreed to:

- (1) make payments, in installments, to a total US\$13.5 million, such installments to be payable as follows:
  - US\$1,250,000 - February 29, 2009 (paid)
  - US\$250,000 - May 27, 2009; (paid)
  - US\$1,000,000 - August 27, 2009;(paid)
  - US\$7,500,000 - April 27, 2010;(paid)
  - US\$1,000,000 - May 27, 2010; (paid subsequent to the year-end)
  - US\$1,000,000 - August 27, 2010;
  - US\$1,000,000 - November 27, 2010;
  - US\$500,000 - February 27, 2011.

The payment of US\$7,500,000 due fourteen months after signing the Agreement was secured by a charge on the Shahuindo property. Further, if the Company misses any of the payments under the Settlement Agreement due on any of the 15, 18, 21 or 24 month, a penalty of 10% becomes payable and if not paid within a further 30 days any remaining payments up to a total of US\$3,500,000 are accelerated and become immediately due and payable in full, together with interest on arrears at LIBOR plus 5%.

- (2) Issue 9,575,000 common shares of the Company at a deemed issue price of \$0.50 per share. (Issued during 2009)
- (3) Grant a royalty equal to 1.5 percent of Net Smelter Returns (1.5% NSR), payable upon production from the Shahuindo property, provided that the Company has the right for a period of three years

to buy-back the 1.5% NSR at a price of US\$10 million if exercised within one year, and at a price of US\$10 million plus interest at Libor plus 5 percent, if such buy-back right is exercised between the thirteenth and thirty-sixth months; and further provided that if, during the first three years from date of Agreement, the Company sells the Shahuindo project, or the Board of Sulliden approves the transfer or issue of more than 52% of its shares, to a third party, the Company must buy back the NSR.

The NSR Agreement provides that if the Shahuindo property does not start operations within a period of three years from the date of the Agreement an advance NSR royalty in the amount of US\$500,000 per year becomes payable in quarterly installments of US\$125,000 per quarter until the start of operations, with any such advance payments credited as advance payments on account of the NSR, subject to force majeure including material drop in the price of gold or silver, social commotion, strikes, or any other event that could be qualified as an act of God.

(C) The Company also entered into an exploration option agreement with a related private Peruvian company which holds 13 mining concessions partly adjoining the Shahuindo property. During the option period the Company may carry out exploration on the 13 mining concessions and has the option, for a period of three years, to purchase the properties for a purchase price of US\$5,000,000, subject to a 3% NSR royalty.

(D) The Company also agreed to issue to an arm's-length third party 1,250,000 common shares of the Company at a deemed issue price of \$0.50 per share in payment of a success fee for assistance in facilitating and negotiating the settlements. (Issued)

The Board of Directors believes that it was in the best interests of the Company to resolve the Shahuindo litigation and dispute and that, in all the circumstances, the terms of settlement are reasonable. The legal disputes concerning the Shahuindo property had been ongoing since early 2003. While the Company had been successful in many aspects of the case, and was confident of the eventual legal outcome, the litigation was extremely complex, involving over 40 separate cases, petitions, motions, appeals and administrative and constitutional challenges, all raising formidable legal issues. Settlement of the dispute avoided the substantial costs of further litigation and enabled the Company to get back to exploration and development and finally move the Shahuindo property forward.

In May 2009, the Company issued 750,000 common shares at an issue price of \$0.65 per share in payment of certain outstanding obligations including contingent legal fees arising out of the settlement which had been accrued at April 30, 2009. In November 2009, the Company also issued 1,200,000 shares, at an issue price of \$0.65 per share, to certain insiders of the Company in settlement of certain outstanding obligations including legal fees and accrued compensation arising out of the Shahuindo litigation and settlement.

**SELECTED ANNUAL FINANCIAL INFORMATION**

(Financial year ended April 30)	<u>2010</u>	<u>2009</u> <u>(restated)</u>	<u>2008</u> <u>(restated)</u>
<b>Consolidated statements of operations</b>			
Interest income	\$ 31,481	\$ 56,827	\$ 91,715
Net loss and comprehensive loss	\$ 4,430,515	\$ 2,566,606	\$ 4,249,830
Basic and diluted net loss per share	\$ 0.04	\$ 0.03	\$ 0.06
Dividends	\$ Nil	\$ Nil	\$ Nil

**Consolidated balance sheets**

Cash and guaranteed investment certificates	\$ 17,835,389	\$ 3,750,161	\$ 2,036,470
Total assets	\$ 117,231,577	\$ 95,371,130	\$ 44,144,707
Long-term debt	\$ -	\$ 3,514,494	\$ -
Short-term debt	\$ 3,394,322	\$ 9,403,017	\$ -
Shareholders' equity	\$ 88,695,319	\$ 57,697,135	\$ 43,636,133

**RESTATEMENT**

The Company has restated its financial statements to record the effect of future income tax liabilities related to past acquisition and related exploration costs of the Shahuindo mineral property. As a result, the balance of mineral properties and deferred exploration costs, total assets, future income tax liabilities and total liabilities each increased as follows:

**Mineral Properties & Deferred Exploration**

As at	Balance	Increase	Restated Balance
30-Apr-08	41,984,102	\$ 11,703,000	\$ 53,687,102
30-Jul-08	42,485,624	\$ 11,711,000	\$ 54,196,624
31-Oct-08	43,112,347	\$ 11,728,000	\$ 54,840,347
31-Jan-09	43,732,517	\$ 11,768,000	\$ 55,500,517
30-Apr-09	66,563,108	\$ 21,467,000	\$ 88,030,108
30-Jul-09	67,339,718	\$ 21,613,000	\$ 88,952,718
31-Oct-09	70,517,681	\$ 22,001,000	\$ 92,518,681
31-Jan-10	72,689,145	\$ 22,302,000	\$ 94,991,145
30-Apr-10	75,411,166	\$ 23,632,000	\$ 99,043,166

**Total Assets**

As at	Balance	Increase	Restated Balance
30-Apr-08	44,144,707	\$ 11,703,000	\$ 55,847,707
30-Jul-08	44,729,349	\$ 11,711,000	\$ 56,440,349
31-Oct-08	46,862,233	\$ 11,728,000	\$ 58,590,233
31-Jan-09	46,566,305	\$ 11,768,000	\$ 58,334,305
30-Apr-09	72,799,130	\$ 21,467,000	\$ 94,266,130
30-Jul-09	72,574,886	\$ 21,613,000	\$ 94,187,886
31-Oct-09	88,919,971	\$ 22,001,000	\$ 110,920,971
31-Jan-10	87,459,949	\$ 22,302,000	\$ 109,761,949
30-Apr-10	93,599,577	\$ 23,632,000	\$ 117,231,577

**RESTATEMENT (Continued)**
**Future Income Tax Liabilities**

As at	Balance	Increase	Restated Balance
30-Apr-08	0	\$ 11,703,000	\$ 11,703,000
30-Jul-08	0	\$ 11,711,000	\$ 11,711,000
31-Oct-08	0	\$ 11,728,000	\$ 11,728,000
31-Jan-09	0	\$ 11,768,000	\$ 11,768,000
30-Apr-09	0	\$ 21,467,000	\$ 21,467,000
30-Jul-09	0	\$ 21,613,000	\$ 21,613,000
31-Oct-09	0	\$ 22,001,000	\$ 22,001,000
31-Jan-10	0	\$ 22,302,000	\$ 22,302,000
30-Apr-10	0	\$ 23,632,000	\$ 23,632,000

**Total Liabilities**

As at	Balance	Increase	Restated Balance
30-Apr-08	508,574	\$ 11,703,000	\$ 12,211,574
30-Jul-08	419,699	\$ 11,711,000	\$ 12,130,699
31-Oct-08	149,670	\$ 11,728,000	\$ 11,877,670
31-Jan-09	184,421	\$ 11,768,000	\$ 11,952,421
30-Apr-09	15,101,995	\$ 21,467,000	\$ 36,568,995
30-Jul-09	13,516,670	\$ 21,613,000	\$ 35,129,670
31-Oct-09	12,919,037	\$ 22,001,000	\$ 34,920,037
31-Jan-10	12,279,187	\$ 22,302,000	\$ 34,581,187
30-Apr-10	4,904,258	\$ 23,632,000	\$ 28,536,258

**RESULTS OF OPERATIONS**

For the year ended April 30, 2010, the Company reported net loss of \$ 4,430,515 or \$0.05 per share compared to a net loss of \$2,566,606 or 0.03 per share for the year ended April 30, 2009. The significant increase was mainly due to higher salaries and consulting, non-cash stock-based compensation costs and administrative expenses, offset by lower legal and professional fees incurred compared to the prior year, along with a higher foreign exchange gain recognized in the current year compared to the prior year.

Interest and dividend income of \$31,481 in 2010 and \$56,827 in 2009 was derived from the Company's investments related to its excess cash. The Company invests its excess cash primarily in guaranteed investment certificates and savings accounts in schedule one Canadian chartered banks.

Administrative expenses (excluding stock-based compensation, foreign exchange gain, recovery from written-off mineral properties and amortization) was \$4,013,551 in 2010 compared to a \$1,939,039 in 2009. The increase was largely impacted by the change in management, termination payments for previous management, and increases in all levels of corporate, marketing and exploration activities as the Company moves forward on its Shahuindo project.

The stock-based compensation expense in 2010 of \$2,143,261 (2009 - \$1,623,301) was related to options vested from grants made in the prior year and the current year. In March 2009 4,950,000 options were granted to new directors and new management as well as to existing management and directors as compensation in recognition for resolving the outstanding litigation that was prohibiting the development of the Shahuindo property and severely impinging the value of the Company. During 2010, 3,790,000 options were granted to certain directors, officers and consultants of the Company.

The Canadian dollar in relation to the US dollar resulted in a non-cash currency exchange gain of \$1,672,585 for the year ended April 30, 2010 compared to an exchange gain of \$938,907 in 2009. The liability related to the Shahuindo property settlement agreement is denominated in US dollars



(US\$3,500,000 as at April 30, 2010). Fluctuations in the exchange rate between the US and Canadian dollars have a major impact on exchange gains and losses recorded upon translation of the liability into in Canadian dollars. Of the total exchange gain reported during the year ended April 30, 2010, \$1,761,333 resulted from the stronger Canadian dollar against US dollar which favourably reduced the carrying amount of the US\$3.5 million commitment.

Professional fees include amounts paid for services rendered, including legal, accounting, audit, and director's fees which totalled \$781,728 during the year ended April 30, 2010 (2009 - \$1,325,670). During 2010, there were increases related to accounting and audit expenses due to restatement of prior year's financial statements as well as increased financial review for financing purposes. This was offset by lower legal fees. The Company expensed legal fees related to the Shahuindo property totalling \$222,388 in 2010 compared to \$1,073,544 in 2009.

General and administrative expenses for 2010 were \$368,343 compared to \$173,568 in 2009. The change was due to increases in corporate activities and termination fees paid to former management.

Salaries and consulting fees for 2010 were \$2,315,256 (2009 - \$323,400). The increase was mainly due to a total of \$1,231,167 in incentive payments in 2010 along with increased management compensations and severance payouts for the former management.

## SUMMARY OF QUARTERLY RESULTS

	For the quarter ended			
	April 30-10	January 31-10	October 31-09	July 31-09
				<i>Restated</i>
Interest income	\$ 6,763	\$ 17,659	\$ 5,716	\$ 1,343
Net (income) loss *	\$ 195,574	\$ 3,582,328	\$ 1,222,493	\$ (569,880)
Basic and diluted net (income) loss per share	\$ -	\$ 0.03	\$ 0.01	\$ (0.01)
	April 30-09	January 31-09	October 31-08	July 31-08
	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
Interest income	\$ 10,901	\$ 17,849	\$ 14,069	\$ 14,008
Net loss	\$ 1,485,840	\$ 330,679	\$ 317,515	\$ 432,572
Basic and diluted net loss per share	\$ 0.02	\$ -	\$ -	\$ 0.01

*The Net (income) loss amounts in the quarterly results table have been adjusted to reflect the transitional adjustment on adoption of new accounting standards as described under the Changes in Accounting Policies Including Initial Adoption section of this report.*

\* The gain in the Q1- 2010 in contrast to loss in the previous three quarters mainly due to the foreign exchange gain of \$1,275,047.

## RESULTS OF THE FOURTH QUARTER

The major financial transaction during the fourth quarter of the year ended April 30, 2010 was the completion of a public offering for net proceeds of \$13,482,409.

## LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2010, the Company held cash and cash equivalents of \$17,835,389, compared to \$132,861 at



April 30, 2009. The cash equivalent amount at April 30, 2010 related to funds invested in various Royal Bank of Canada High Interest Savings accounts. The increase in cash and cash equivalents resulted from the receipt \$1,235,194 in private placement funds completed on May 8, 2009 subscription's receivable of \$2,376,621 collected during the first quarter, \$30,488,872 net proceeds from the public offering completed in October 2009 and April 2010, and \$91,000 from exercise of share purchase options.

Amounts receivable and prepaid amounts totalling \$275,872 are comprised principally of recoverable federal and provincial sales taxes (\$40,460), prepaid insurance and expenses (\$202,378) and other receivable related to Peruvian operations (\$33,034). Long term receivable of \$74,235 is related to recovery of written-off properties.

Accounts payable and accrued liabilities totalling \$1,509,936 are comprised of amounts normal trade payables for Peruvian operations, legal, severance and share issue costs.

The Company has sufficient cash to continue funding its property maintenance and administrative costs; complete the Feasibility Study and the 30,000 m drilling program planned for completion by the end of 2010; as well as complete the remaining Settlement Agreement payments, as noted above. The Company will need to raise further funds to undertake future exploration programs and to move the Shahuindo project into the construction phase.

Management periodically seeks additional forms of financing through the issuance of new equity instruments, the exercise of existing warrants for the purchase of common shares and the exercise of stock options to continue its activities as a going concern. While the Company has been successful in raising capital in the past, there can be no assurance it will be able to do so in the future. Without new funding being available, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in the restated financial statements.

## **CASH FLOWS**

### **Operating**

Operating activities, including net change in non-cash working capital items, resulted in negative cash flows of \$4,730,100 compared to \$191,830 in 2009.

### **Financing**

In April 2009, the Company completed the first tranche of a non-brokered private placement and issued 9,386,533 units, at a price of \$0.65 per unit, comprising one share and one share purchase warrant exercisable at \$0.80 per share for a two year period. Gross proceeds from the private placement were \$6,101,246. The Agents for the private placement included Wellington West Capital Markets Inc. ("Wellington") who was paid a cash commission of \$160,030 and issued 246,200 Broker Warrants and Delano Capital Corp. ("Delano", a limited market dealer in Ontario) who was paid cash commission of \$120,032 and issued 184,665 Broker Warrants. Each Broker Warrant entitles the holder to acquire that number of Units of the Company at \$0.65 until April 23, 2011.

On May 8, 2009, the Company completed the second tranche of its previously announced \$7.4 million private placement financing of units for gross proceeds of \$1,298,753. In closing the second tranche, the Company issued 1,998,082 units at a price of \$0.65 per unit, with each unit consisting of one common share and one share purchase warrant with each Warrant exercisable at \$0.80 per share at any time prior to May 8th, 2011. The agent for the private placement was paid cash commissions totaling \$58,695 and was issued 99,904 broker warrants. Each Broker Warrant entitles the holder to acquire each Unit of the Company at an exercise price of \$0.65 until May 8, 2011. In addition to the agent commission, the Company also incurred \$4,864 miscellaneous share issued costs. The grant day fair value of the warrants of \$480,759 was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, a risk-free interest rate of 1.12%, a volatility of 127% and an expected life of two years. The fair value of the Broker Warrants of \$52,920 was estimated using the Black-Scholes option pricing model under the same assumptions.

On October 6, 2009, the Company announced the closing of its previously announced public offering of 22,500,000 units at a price of \$0.80 per Unit (“Units”) for aggregate gross proceeds of \$18,000,000. On September 30, 2009, the Company filed a short form prospectus (the “Prospectus”) qualified the distribution (the “Offering”) of an aggregate of 22,500,000 units of the Company at a price of \$0.80 per Unit (the “Offering Price”). Each Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant will entitle the holder to purchase one common share of the Company at a price of \$1.00 at any time before 5:00 p.m. (Toronto time) on October 6, 2012. After the date which is six months following the closing of the Offering, in the event that the common shares of the Corporation trade on the Toronto Stock Exchange at a volume weighted average price of \$1.50 or more for a period of at least twenty (20) consecutive trading days, the Company shall be entitled to accelerate the exercise period to a period ending at least thirty (30) days from the date notice of such acceleration is provided to the holders of Warrants.

The Units were sold pursuant to an amended and restated underwriting agreement between the Corporation and Cormark Securities Inc. as lead underwriter and including Macquarie Capital Markets Canada Ltd., Canaccord Capital Corporation, Fraser Mackenzie Limited and Wellington West Capital Markets Inc. (collectively, the “Underwriters”). The Underwriting Agreement amends the terms of a previous underwriting agreement between the Corporation and the Underwriters dated September 17, 2009 (the “Previous Agreement”), pursuant to which, the Underwriters had agreed to purchase as principals 25,000,000 units at a price of \$0.80 per unit for aggregate gross proceeds to the Corporation of \$20,000,000. Each unit under the Previous Agreement consisted of one common share in the capital of the Corporation and one-quarter of one common share purchase warrant, with each whole warrant being exercisable for one common share of the Corporation at a price of \$1.00 per share at any time before 5:00 p.m. (Toronto time) on the date that is two years following the closing of the offering contemplated by the Previous Agreement. All other terms of the securities offered pursuant to the Offering remain unchanged from the terms set out in the Previous Agreement.

The Company paid the Underwriters \$840,000 representing 5% of the gross proceeds of the Offering. In addition, the Underwriters received 1,050,000 warrants representing 5% of the aggregate number of Units issued pursuant to the Offering (the “Broker Warrants”). Each Broker Warrant shall entitle the holder to acquire one Unit at a price of \$0.80 until October 6, 2010. Upon exercise of the Units, the holder of the Broker Warrants shall also receive one-half of one common share purchase warrant (“Broker Unit Warrants”). Each whole Broker Unit Warrant shall entitle the holder to acquire an additional common share in the capital of the Company at \$1.00 until October 6, 2012. The grant day fair value of the warrants of \$3,837,008 was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, risk-free interest rate of 1.89%, expected volatility of 109.09%, and expected life of three years. The fair value of the Broker Warrants of \$301,875 was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, risk-free interest rate of 1.3%, expected volatility of 116.81% and an expected life of one year.

Of the total units sold, 1,377,500 units were sold to certain directors and officers of the Company. At January 31, 2010, proceeds in the amount of \$875,000 of these units remained outstanding, were held in a trust account of a lawyer to the Company, and was recorded as subscription receivable. This amount was received in full by the Company in February 2010.

On April 30, 2010, the Company announced the closing of its previously announced public offering of 23,100,000 units (“Units”) at a price of \$0.65 per Unit for aggregate gross proceeds of \$15,015,000. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole warrant entitling the holder thereof to acquire one common share of the Corporation at a price of \$1.00 until 5:00 p.m. (Toronto time) on October 6, 2012. In the event that the common shares of the Corporation trade on the Toronto Stock Exchange (at a volume weighted average price of \$1.50 or more for a period of at least twenty (20) consecutive trading days, the Corporation shall be entitled to accelerate the exercise period to a period ending at least thirty (30) days from the date notice of such acceleration is provided to the holders of Warrants. The Company paid the Underwriters \$871,200 representing 5.8% of the gross proceeds of the Offering. The grant day fair value of the warrants of \$2,611,588 was estimated using the Black-Scholes option pricing model under the following



assumptions: expected dividend yield of 0%, risk-free interest rate of 1.97%, expected volatility of 109.75%, and expected life of twenty-nine months.

During the year ended April 30, 2010, 200,000 share purchase options were exercised for total proceeds of \$91,000.

During the year ended April 30, 2009, a total of 6,885,375 warrants were exercised at a weighted average cost of \$0.54 for total gross proceeds of \$3,742,518 and common shares totaling 100,000 were issued upon the exercise of employee stock options for an amount of \$84,000.

At April 30, 2009, the Company held cash and guaranteed investment certificates of \$3,750,161. The guaranteed investment certificates are held in Canada and bear interest at a weighted average rate of approximately 2.765%. The increase in cash and guaranteed investment certificates is a result of the addition of total proceeds of \$9,927,764 in net new private placement funding and exercise of warrants and stock options, off-set partially by the net cash invested in deferred exploration costs and mining properties during the year of \$5,309,664.

### **Investing**

During the 2010, the Company invested a total of \$5,996,894 (2009 - \$5,309,664) in mining properties and exploration and development, including costs incurred and paid from Canada and all the costs incurred in Peru including exploration work, payroll and corporate expenses. The Company also experienced a change in exploration accounts payable and accruals during the quarter of \$233,388 resulting from the payment of certain accounts payable relating to investing activities during the year.

### **CAPITAL STRUCTURE**

At April 30, 2010 and July 16, 2010 the Company had an authorized capital of an unlimited number of common shares of which the following were outstanding:

	<u>April 30, 2010</u>	<u>July 16, 2010</u>
Common Shares	155,981,420	155,981,420
Options	11,455,000	11,455,000
Warrants*	36,821,153	36,821,153

\* an aggregate total of 1,055,769 additional warrants will be issued upon exercising of the broker unit warrants

### **OFF-BALANCE SHEET TRANSACTIONS**

The Company has no off-balance sheet transactions except an NSR buy-back option and ATIMMSA property purchase option detailed in Settlement of Litigation section above.

### **RELATED PARTY TRANSACTIONS**

During the year April 30, 2010, the Company paid or accrued \$789,436 (2009 - \$355,140) in professional fees and general administrative expenses to companies related to the Company's officers and directors. Additionally, \$50,252 (2009 - \$483,418) were paid to legal firms in Canada and Peru in which an officer or director of the Company were partners. The accounts payable and accrued liabilities include amounts due to these companies in an amount of \$28,768 (2009 - \$65,974), and advanced to these companies in the amount of \$31,976 (2009 - Nil).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In connection with the October 6, 2009 public offering, 1,377,500 units were sold to certain directors and officers of the Company.

In connection with the April 30, 2010 public offering, 758,462 units were sold to certain directors and officers of the Company; and 1,473,892 units were sold to a company that has a director and an officer in common.

The Company has issued a total of 1,200,000 shares, at an issue price of \$0.65 per share on November 4, 2009, to certain insiders of the Company in settlement of certain outstanding obligations including legal fees and accrued compensation arising out of the Shahuindo litigation and settlement.

## CONTRACTUAL COMMITMENTS

During the prior year the Company entered into certain commitments in connection with the settlement of litigation. The Company is contractually obligated to make future payments as part of the overall settlement of the outstanding litigation matters regarding the Company's Shahuindo property in Peru. The Company agreed to make payments, in installments, to a total US\$13.5 million of which US\$1,250,000 was paid on signing of the Settlement Agreement on February 27, 2009. The balance of the installments are payable as follows:

- US\$250,000 (paid May 27, 2009); (paid)
- US\$1,000,000 (August 27, 2009); (paid)
- US\$7,500,000 (April 27, 2010);(paid)
- US\$1,000,000 (May 27, 2010);(paid subsequent to the year-end)
- US\$1,000,000 (August 27, 2010);
- US\$1,000,000 (November 27, 2010);
- US\$500,000 (February 27, 2011).

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Short-Term Debt	US\$3,500,000	US\$3,500,000	Nil	Nil	Nil
Total	US\$3,500,000	US\$3,500,000	Nil	Nil	Nil

The payment of US\$7,500,000, which was secured by a charge on the Shahuindo Property, was completed by the due date of April 27, 2010. If the Company misses any of the remaining payments due on any of May 27, 2010, August 27, 2010, November 27, 2010 and February 27, 2011, a penalty of 10% becomes payable and if not paid within a further 30 days any remaining payments (up to a total of US\$3,500,000) are accelerated and become immediately due and payable in full, together with interest on arrears at LIBOR plus 5%.

The payments totaling US\$3,500,000 (CDN \$3,555,300) due on or before February 27, 2011 have been classified as short term liabilities. US\$3.5 million has been discounted to reflect the time value of money based on an imputed interest cost of 12.5% resulting in classified short term debt of US\$3,341,525 (CDN\$3,394,321). The balance of the imputed interest cost that will be recognized as capitalized interest expense as incurred over the term of the short and long term debt is calculated at US\$1,474,164 (CDN\$1,497,455) as of April 30, 2010.

Under a NSR Royalty Agreement on the Shahuindo Property, if the Shahuindo property does not start operations within a period of three years from February 27, 2009 an advance NSR royalty in the amount of US\$500,000 per year becomes payable in quarterly installments of US\$125,000 per quarter until the start of operations, with any such advance payments credited as advance payments on account of the NSR, subject to force majeure including material drop in the price of gold or silver, social commotion, strikes, or any other event that could be qualified as an act of God.



The Company has the right for a period of three years from February 27, 2009 to buy-back the 1.5% NSR at a price of US\$10 million if exercised within one year, and at a price of US\$10 million plus interest at Libor plus 5%, if such buy-back right is exercised between the thirteenth and thirty-sixth months; and further provided that if, during the three years from February 27, 2009 the Company sells the Shahuindo Project, or the Board of Sulliden approves the transfer or issue of more than 52% of its shares, to a third party, the Company must buy back the NSR.

The Company is party to certain management contracts. These contracts contain minimum commitments of approximately \$880,000 and additional contingent payments of approximately \$2,630,000 upon the occurrence of a change of control. As the likelihood of a change of control is not determinable, the contingent payments have not been reflected in these financial statements.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION AND CRITICAL ACCOUNTING ESTIMATES**

Sulliden's financial statements are the responsibility of the Company's management. The restated consolidated financial statements were prepared by the Company's management in accordance with Canadian generally accepted accounting principles. A description of the Company's significant accounting policies can be found in Note 2 of the Company's annual audited consolidated financial statements for the year ended April 30, 2010.

The consolidated financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the restated consolidated financial statements are presented fairly in all material respects. Significant estimates include the carrying amount of mining properties and deferred exploration costs and the valuation of stock-based compensation cost. Actual results may differ from those estimates.

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

On May 1, 2009, the Company adopted the following accounting standard that was issued by the Canadian Institute of Chartered Accountants ("CICA"):

### **Section 3064, "Goodwill and Intangible Assets"**

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section was applicable for financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning May 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

As a result of the adoption of 3064 in the first quarter of fiscal 2010, the Company revised its financial statements for the year ended April 30, 2009 and 2008, and to reflect the retrospective application of this standard. The revised financial statements have an increased deficit at May 1, 2008 and 2007 of \$4.8 million and \$3.9 million respectively, and a \$1.1 million and \$0.9 million increased net loss for the years ended April 30, 2009 and 2008 respectively, for an accumulated increased deficit of \$5.9 million. The deferred development costs as at April 30, 2009 and 2008 decreased by \$5.9 million and \$4.8 million respectively. The professional fee expenses for the years ended April 30, 2009 and 2008 increased \$1.1 million and \$0.9 million respectively. The cash flow used in deferred exploration costs for the years ended April 30, 2009 and 2008 decreased \$1.1 million and \$0.9 million respectively.

## **Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks and taking this into account when determining fair value. The adoption of this standard had no impact on these consolidated financial statements.

## **FUTURE ACCOUNTING PRONOUNCEMENTS**

### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

## **CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

In January 2006, the Canadian Accounting Standards Board (“AcSB”) announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that Sulliden will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The Company is creating an implementation team, which will consist of internal resources and external consultants. A changeover plan is being established to convert to the new standards within the allotted timeline and is expected to consist of the following three key project phases:

1. Raise Awareness and Assess Phase
2. Design Phase
3. Implementation Phase

### **Phase 1: Raise Awareness and Assess**

This first phase of the conversion project has two stages focusing firstly on raising awareness within the Company and providing an initial assessment of the impact of the IFRS conversion, and secondly on carrying out a detailed assessment of the impact of the conversion to IFRS. Each section will be thoroughly reviewed and analyzed for accounting or disclosure differences between Canadian GAAP and IFRS. Once differences have been identified they will be reviewed for potential impacts to existing accounting policies, information systems and business processes. An action plan will then be developed for each impact area. This phase is ongoing.

## **Phase 2: Design**

Following completion of the assessment phase, the focus of the design phase will build the tools required for the conversion based on management's decisions about accounting options and the related disclosures. During this phase, external consultants will assist the project team in designing the changes to be implemented relating to accounting and consolidation processes, information technology systems and other affected business aspects, including but not limited to, changes to contracts, key performance indicators, internal reporting.

The design phase will also involve revisiting the communication and training strategies to be carried out during the implementation of IFRS and updating the operational and milestone plans, and an issues log for finalization of actions to be taken during the implementation phase.

## **Phase 3: Implementation**

The implementation stage is about execution. The roll-out of the designed changes takes place during this phase. This phase will accomplish:

- Developing the new accounting policies, accounting manuals, guidelines, processes for reporting packages from business units, and consolidation templates;
- Preparing the IFRS financial statements and related disclosures including facilitating and supporting the dry run financial reporting process;
- Developing revised internal control processes, including updating the key controls for NI 52-109 purposes.
- All phases are expected to be completed by December 2010 in order to facilitate comparative reporting for the fourth quarter of 2010.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Use of estimates**

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Those amounts are based on management's judgement and on information available to the Company at that time. Significant areas where management judgement is applied are the valuation of mineral properties and deferred exploration costs, asset retirement obligations, income tax accounts, contingencies, warrants and stock-based compensation costs valuations. Actual results could differ from these estimates. Both of these estimates mentioned above involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The Company's recoverability of its recorded value of its mining assets and associated deferred explorations costs is based on market conditions for metals, 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, and the ability of the Company to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

The factors affecting warrant and stock-based compensation valuation include estimates of when stock options and warrants might be exercised and the stock price volatility. The timing for exercise of options and warrants 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-Sholes model, however the future volatility is uncertain and the model has its limitations.

No change in the critical accounting estimates occurred in the quarter ending April 30, 2010.

## **PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting using the framework designed as described above and based on this evaluation, the CEO and CFO have concluded that internal control over financial reporting was effective as of April 30, 2010.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness in internal control over financial reporting existed prior to April 30, 2010 as management did not have sufficient accounting personnel to appropriately review and approve complex income tax related accounting transactions. As a result, historical future income tax liabilities were not properly accounted for. The material weakness resulted in the restatement of the Company's previously issued annual financial statements as at April 30, 2009 to correct the accounting for future income tax liabilities. A summary of the changes to the interim financial statements of the Company for the previous eight interim periods is provided under the heading "Restatement".

Management has taken steps to resolve this weakness by implementing procedures to ensure that proper assessment of future income taxes are taken and will include engaging external tax consultants.

Other than as disclosed above, there have been no changes in the Company's internal controls over financial reporting that occurred during the period beginning on February 1, 2010 and ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Audit and Governance Committee's of the Company have reviewed this MD&A, and the consolidated financial statements for the year ended April 30, 2010, and Sulliden's board of directors approved these documents prior to their release.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer by others within those entities, particularly during the period in which the annual filings are being prepared.

Stephane Amireault, P.Eng (B.Eng; MscA) and Joseph C. Milbourne, FAusIMM, Vice-President Technical Services, Qualified Persons under National Instrument 43-101, have reviewed the scientific and technical information in this document

## NON-GAAP MEASURES

This MD&A refers to cash cost per gold equivalent ounce, which is not a recognized measure under Canadian GAAP. These non-GAAP performance measures do not have any standardized meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to a similar measures presented by other issuers. Management uses these measures internally. The use of these measures enables management to better assess performance trends. Management understands that a number of investors and others who follow the Company's performance assess performance in this way. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP.

## RISK FACTORS

**Investing in the Company involves risks that should be carefully considered. The operations of the Company are speculative due to the high-risk nature of its business. Investors should be aware that there are various risks, including those discussed below, that could have a material adverse effect on, among other things, the exploration and development of the Shahuindo Property, and the operating results, earnings, business and condition (financial or otherwise) of the Company. See “Cautionary Statement Regarding Forward-Looking Information” in the Annual Information Form for the year ended April 30, 2010.**

### *Title to Properties*

The ownership of title to resource properties is a very detailed and time-consuming process. The interest of the Company in the Shahuindo Property has been the subject of repeated legal challenge. Title to, and the area of, the mining claims may be disputed. There is no guarantee that such title will not be challenged or impaired again. There may be challenges to the title of the properties in which the Company may have an interest, which, if successful, could result in the loss or reduction of the Company's interest in the properties. The Peruvian legal, judicial and court systems are significantly different from the Canadian legal system and legal actions in Peru can be prolonged for a protracted period. Peru is also a location that has had and continues to have issues with informal miners working outside the law on surface and underground excavation within mineral concessions that are owned by mining companies. The Shahuindo Property has informal miners operating of its mining concessions. There is always a risk that issues and difficulties that could arise from informal miners that could delay or impede the development of the Project.

### *Liquidity Concerns and Future Financings*

The Company may require capital and operating expenditures in connection with the operation and development of its properties and for working capital purposes. There can be no assurance that the Company will be successful in obtaining required financing as and when needed. Volatile markets may make it difficult or impossible for the Company to obtain debt financing or equity financing on favourable terms, if at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone or slow down its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its activities.

### *Mineral Resource and Mineral Reserve Estimates May be Inaccurate*

There are numerous uncertainties inherent in estimating mineral resources and mineral reserves. Such estimates are a subjective process, and the accuracy of any mineral resources and mineral reserves estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of recovery of minerals from such deposits may be different. Differences between management's assumptions, including economic assumptions such as mineral prices, market conditions and actual events could have a material adverse effect on the Company's mineral reserve and mineral resource estimates, financial position and results of operations.

*The Company faces potential risks and uncertainties resulting from the location of its properties in Peru*

Political and related legal and economic uncertainties exist in Peru where the Company operates. Risks to foreign operations may include political unrest, corruption, war, civil disturbances and terrorist actions, arbitrary changes in law or policies, changes to government regulation, unreliable or unpredictable legal or judicial systems, foreign taxation, price and currency controls, delays in obtaining, or the inability to obtain, necessary governmental permits, opposition to mining from local or indigenous communities or from environmental or other non-governmental organizations, illegal miners operating on the periphery of the property, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on gold exports and increased financing costs and other risks not specified here. The Company's title to its mineral properties in Peru has been challenged in the past and resulted in extensive litigation and significant delays. There is no assurance that similar challenges will not arise in the future. The Peruvian legal, judicial and court systems are significantly different from the Canadian legal system and legal actions in Peru can be prolonged for a protracted period.

#### *No Revenues*

To date, the Company has not recorded any revenues from operations nor has the Company commenced commercial production on any property. There can be no assurance that the Company has sufficient capital resources to continue as a going concern, that significant losses will not occur in the near future or that the Company will be profitable in the future. The Company's expenses and capital expenditures have increased as consultants, personnel and equipment associated with the exploration, and possible development, of the Shahuindo Property has re-commenced. The Company expects to continue to incur losses unless and until such time as it enters into commercial production and generates sufficient revenues to fund its continuing operations. The development of the Company's properties will continue to require the commitment of substantial resources. There can be no assurance that the Company will continue as a going concern, generate any revenues or achieve profitability.

#### *Nature of Mining, Mineral Exploration and Development Projects*

Mineral exploration is highly speculative in nature. There is no assurance that exploration efforts will be successful. Even when mineralization is discovered, it may take several years until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable mineral reserves through exploration and drilling. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of mineral resources or mineral reserves. There is no certainty that the expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of ore.

Mining operations generally involve a high degree of risk. The Company's operations are subject to the hazards and risks normally encountered in mineral exploration and development, including environmental hazards, explosions, and unusual or unexpected geological formations or pressures. Such risks could result in damage to, or destruction of, mineral properties, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability.

#### *Mineral Prices*

The ability of the Company to fund its activities and, if it becomes a producing mineral company, the profitability of the Company's operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and result of operations.

#### *Informal Mining*

Informal miners have been and continue to operate illegally on parts of the Shahuindo property. From time to time it is not uncommon that there are some clashes between the informal miners, security staff and law enforcement personnel. Given the nature of the current and future operations, the presence of the informal miners may create a safety issue for both the illegal miners and Shahuindo personnel and may cause disruptions to operations from the risk of the informal miners encroaching or attempting to encroach onto other areas of Sulliden's concessions. The Company has followed and continues to follow a strategy of containment. The Company does not directly confront currently operating small illegal miners on its concession, but in accordance with the laws of Peru, and in support of the local police, the Company does not allow encroachment onto new areas of its property. There is always a risk that from time to time confrontations from attempted encroachments may arise, resulting in violence and/or damage to the property.

#### *Foreign Exchange*

Gold and silver are typically sold in U.S. dollars. The Company's operations are in Peru and the Company transfers money to its subsidiaries denominated in U.S. dollars and portions of this money is transferred to accounts held in the local Peruvian Nuevos Soles currency. As a result, the Company is subject to foreign exchange risks relating to the relative value of the U.S. dollar as compared to the Canadian dollar and the Peruvian Nuevo Sole.

The Company also has short term debt obligations totaling US\$3.5 million that are exposed to fluctuations in foreign exchange rates that could be significant. For example, a 10% variance in the US\$ exchange rate would impact the value of the debt obligation by \$350,000. To the extent that the Company generates revenues upon commencing production at the Shahuindo property, it will be subject to foreign exchange risks as revenues will be received in U.S. dollars while operating and capital costs will be incurred primarily in Canadian dollars and Peruvian nuevo sol. A decline in the U.S. dollar would result in a decrease in the real value of the Company's revenues and adversely impact the Company's financial performance.

#### *Licences and Permits, Laws and Regulations*

The Company's exploration and development activities, including mine, mill, road, rail and port facilities, require permits and approvals from various government authorities, and are subject extensive national, regional and local laws and regulations governing prospecting, exploration, development, production, transportation, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more time consuming and costly. In addition, the Company may be required to compensate those suffering loss or damage by reason of its activities. The Company will be required to obtain additional licences and permits from various governmental authorities to continue and expand its exploration and development activities. There can be no guarantee that the Company will be able to maintain or obtain all necessary licences, permits and approvals that may be required to explore and develop its properties, or commence construction or operation of mining facilities.

#### *Environmental*

The Company's activities are subject to extensive laws and regulations governing environmental protection and employee health and safety. Environmental legislation is evolving in a manner that is creating stricter standards, while enforcement, fines and penalties for non-compliance are more stringent. The project site contains an abandoned mining complex operated from the late 1940 to the early 1990 as an underground mine and surface concentrator. The facilities were abandoned and remnants of the complex remain including mill foundations, waste dumps and tailings. There are also a number of illegal small miners operating on the periphery of the property that are generating waste that may have an environmental impact. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. Furthermore, any failure to comply fully with all applicable laws and regulations could have significant adverse effects on the Company, including the suspension or cessation of operations.

### *Uninsured Risks*

The Company maintains insurance to cover normal business risks. In the course of exploration and development of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including explosions, rock bursts, cave-ins, land movements, earth work failures, fire and earthquakes may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the Company's common shares.

### *Competition*

The Company competes with many other mining companies that have substantially greater resources. Such competition may result in the Company being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund the Company's operations and develop its properties. The Company's inability to compete with other mining companies for these resources would have a material adverse effect on the Company's results of operations and business.

### *Dependence on Outside Parties*

The Company has relied upon consultants, geologists, engineers and others and intends to rely on these parties for exploration and development expertise. Substantial expenditures are required to construct mines, to establish mineral resources and reserves through drilling, to carry out environmental and social impact assessments, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the exploration and plant infrastructure at any particular site. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on the Company.

### *Qualified Personnel*

Recruiting and retaining qualified personnel in the future is critical to the Company's success. As the Company explores and develops its Shahuindo Property, the need for skilled labour will increase. The number of persons skilled in the exploration and development of mining properties is limited and competition for this workforce is intense. The development of the Shahuindo Property and other initiatives of the Company may be significantly delayed or otherwise adversely affected if the Company cannot recruit and retain qualified personnel as and when required.

### *Share Price Fluctuations*

The market price of securities of many companies, particularly junior exploration stage companies, experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company's share price will not occur. During the financial year ended April 30, 2009, the Company's share price closed at a high of \$1.45 during June 2008 and a low of \$0.25 during December 2008. During the year ended April 30, 2010, the Company's share price traded at a high of \$1.06 during September 2009.

### *Conflicts of Interest*

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other mining companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting such participation.



## **OUTLOOK**

On July 15, 2010 the Peruvian Ministry of Energy and Mines has granted a Category 2 drilling permit for the Shahuindo property in Peru. This permit will allow for concession-wide exploration and will be the largest and most extensive drilling campaign ever undertaken on the Shahuindo property. The focus will be to expand the current mineral resource, and also explore new major targets defined on the property.

Drilling has re-commenced at Shahuindo with a target of at least 30,000 meters of exploration drilling planned for completion by the end of 2010. A drilling contract was awarded to Bradley-MDH S.A.C. Sulliden intends to ramp up exploration activities with a total of four drills turning by the end of August. The Company expects to have five drill rigs operating at Shahuindo by mid-October.

Sulliden has also been actively conducting geophysical surveys (mag and IP/resistivity) on prospective new targets along the Main Mineralized Corridor and North Mineralized Corridor which will be used by the geology team to identify new mineral extensions and exploration targets.

The Company has initiated technical surveys and evaluations as part of the condemnation process to assure that no economic material exists beneath the proposed infrastructure locations. Geological mapping, prospecting and soil geochemistry, have been completed on the proposed heap leach areas and are underway on other infrastructure sites.

The Feasibility Study and all the necessary accompanying studies for the Shahuindo Gold Project are progressing well. A contract has recently been awarded to Ausenco Vector Peru, who will conduct the site geotechnical evaluation and hydrology studies to be included in the Feasibility Study currently underway by Kappes Cassiday & Associate (KCA) of Reno, Nevada.

Preliminary discussions have been initiated with mining equipment manufacturers for the fleet to be used in the mining operation, and with a major electric power supplier regarding the design for the electric power substation for the project. Significant infrastructure upgrades have been made to the Shahuindo site. Access roads have been widened, surfaced with gravel and compacted to allow for all-weather access. The construction of a new operations camp which will include engineering and geology offices, residential buildings and dining facilities is currently underway.

## **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

This MD&A has been prepared as at April 30, 2010. Additional information on the Company is available through regular filings of press releases, annual and quarterly financial statements and the Annual Information Form on SEDAR ([www.sedar.com](http://www.sedar.com)), or by visiting the Company's website at [www.sulliden.com](http://www.sulliden.com).

## **CAUTIONARY STATEMENTS**

Except for statements of historical fact relating to Sulliden certain information contained herein constitutes forward-looking information. Forward-looking information includes, but is not limited to, statements with respect to the development potential of the Corporation's properties; the future price of gold and other minerals; the estimation of mineral reserves and mineral resources; conclusions of economic evaluation; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such statements are made, and they are subject to known and unknown risks,

uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Sulliden to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during construction, expansion and start-up; variations in mineral grade and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of gold and other minerals; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry. Although management of the Corporation has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.