

# SULLIDEN EXPLORATION INC

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTER ENDED JANUARY 31, 2009

Date: March 16, 2009

### GENERAL

The following discussion of financial condition, results of operations and future prospects should be read in conjunction with the Unaudited Consolidated Financial Statements for the three and nine months ended January 31, 2009 and 2008 and the Audited Consolidated Financial Statements of Sulliden Exploration Inc. ("Sulliden" or the "Company") for the fiscal year ended April 30, 2008 (the "Financial Statements"), which have been prepared in accordance with Canadian generally accepted accounting principles. This discussion covers the most recently completed financial quarter 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.

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

This discussion contains forward-looking statements that involve risks and uncertainties.

### DESCRIPTION OF BUSINESS AND CONTINUATION OF THE BUSINESS

Sulliden Exploration Inc., incorporated under the *Companies Act* (Québec), and its wholly-owned subsidiaries, Minera Sulliden Peru, S.A. and Minera Sulliden Shahuindo S.A.C., are in the business of exploring mineral properties in Peru.

Sulliden is focused on the development of its **Shahuindo gold-silver project** located in northern Peru, in one of the world's most prospective gold and silver regions, sitting approximately 25 km north of Barrick Gold's Lagunas Norte-Alto Chicama 1,200,000 oz/gold per year mine; 70 km south of Newmont's 1,900,000 oz/gold per year Yanacocha mine and 200 km north of Barrick Gold's Pierina 450,000 oz/gold per year mine.

The Shahuindo resource currently stands at 38 million tonnes grading 0.95 g/t Au and 22.99 g/t Ag, containing 1.2 million oz of gold and 28 million oz of silver (equivalent to 1.6 million oz of gold at a gold to silver ratio of 1:60) in the Indicated Category; and 17.2 million tonnes grading 0.62 g/t Au and 12.83 g/t Ag, containing 342,000 oz of gold and 7 million oz of silver (equivalent to 460,000 oz of gold at a gold to silver ratio of 1:60) in the Inferred Category - (Resource Estimation – Guy Saucier, Eng., General Manager, Corporate Development, Met-Chem Canada Inc., Qualified Person for the purposes of NI 43-101 - April 2005 filed on [www.sedar.com](http://www.sedar.com)).

The 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 were the going concern assumption inappropriate. These adjustments could be material.

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 and other regulations and the ability to attract new capital in particular for the exploration and development of the Shahuindo property and the payments due under the litigation settlement agreements.

Jacques Trottier, Ph. D., Geol, a director of the Company and Stéphane Amireault, Eng (B.Eng; MscA), Vice-President of Exploration, are the Company's in-house Qualified Persons for the purposes of NI 43-101.

## **SHAHUINDO DISPUTE SETTLED**

On November 13, 2008 the Supreme Court of Peru heard Sulliden's appeals in three separate proceedings in the legal dispute relating to Sulliden's ownership of the Shahuindo gold/silver property in Peru. The hearing took place in Lima, before a panel of five Supreme Court Judges and was completed in one day.

The most significant part of the hearing before the Supreme Court was the appeal taken by Sulliden against the decision of the Commercial Chamber of the Superior Court of Lima dated August 9, 2007, granting Algamarca's Nullity Petition against the Arbitration Decision of July 2006, which had declared that Sulliden had fully met the terms and obligations of the Shahuindo Transfer Contract dated November 6, 2002 and had properly acquired the property, and declaring null and void the Arbitration on the technicality that Algamarca had not properly agreed to arbitration.

On December 31, 2008, the Supreme Court of Peru announced that it has ruled in Sulliden's favour and accepted and allowed the appeal taken by Sulliden against the Decision of the Commercial Chamber of the Superior Court of Lima dated August 9, 2007. The effect of the Supreme Court Decision was to restore the Arbitration Award in Sulliden's favour and send the file back to the Commercial Chamber to re-hear Algamarca's Nullity Petition.

Notwithstanding the hearing of the appeal by the Supreme Court, Sulliden continued in negotiations with Algamarca on a possible settlement of the Shahuindo litigation and dispute. On February 27, 2009 Sulliden reached agreements to settle all outstanding issues in the disputes and litigation surrounding the Shahuindo property. In summary, all parties agreed to withdraw and abandon all legal processes and Sulliden agreed to make payments, in installments, of US\$13,500,000, (of which US\$1,250,000 was paid on signing), grant a 1.5% NSR (redeemable for US\$10 million) and issue 9,575,000 common shares. The agreements secure Sulliden's 100 percent registered and undisputed ownership of the Shahuindo property. In addition, Sulliden obtained a three year option on 14 minerals concessions which adjoin the Shahuindo Property.

The Board of Directors believes that it was in the best interests of Sulliden 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 have been ongoing since early 2003. While Sulliden has been successful in many aspects of the case to date, and was confident of the eventual legal outcome, the litigation has been extremely complex, involving over 40 separate cases, petitions, motions, appeals and administrative and constitutional challenges, all raising formidable legal issues.

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. Furthermore, the intervention of other companies with alleged title, claims or judicial mortgages and new legal actions had threatened to prolong the ultimate resolution of the Shahuindo disputes through the Courts in Peru.

Settlement of the dispute avoids the substantial costs of further litigation and will enable Sulliden to get back to exploration and development and finally move the Shahuindo property forward. In the coming months Sulliden plans to initiate a three-part exploration program to open new potential ore zones that should bring the Shahuindo project towards "world class" status and closer to production. The Company will require additional new financing to fund the payment obligations under the Settlement Agreements and its planned exploration and development programs.

### **Financial Position**

At January 31, 2009 the Company held cash and guaranteed investment certificates totaling approximately \$2.9 million. Sulliden has sufficient cash to continue funding its property maintenance and administrative costs but will need to raise further funds to undertake its planned exploration and development programs and the agreed payments under the Settlement Agreements.

Any delay or inability to raise such funds would delay the implementation of such programs and could result in a breach of the Settlement Agreements.

## RESULTS OF OPERATIONS

For the nine months ended January 31, 2009, the Company reported a net loss of \$458,441 (\$0.01 per share) compared to a net loss of \$967,587 (\$0.01 per share) for the same period in the prior year. The decrease is mainly attributable to lower professional, lower stock-based compensation charges, and an exchange gain of \$94,117 in the nine month period ended January 31, 2009 versus an exchange loss of \$60,044 for the same period in 2008. There was no cost of options granted during the nine months ended January 31, 2009 compared to a cost of \$59,493 for the nine month period ended January 31, 2008.

For the three months ended January 31, 2009, the Company reported a net loss of \$135,571 (\$0.01 per share) compared to a loss of \$420,837 (\$0.01 per share) for the same period in the prior year. There was no cost of options granted during the three months ended January 31, 2009 compared to a cost of \$32,375 for three month period ended January 31, 2008.

Interest income of \$45,925 and \$87,878 in the nine months ended January 31, 2009 and 2008 respectively comes mainly from the guaranteed investment certificates held by a Canadian bank, with the decrease being attributable to lower average cash balances available for investment over the period and lower interest rates earned on the guaranteed investment certificates. Interest income for the quarter ending January 31, 2009 was \$17,849 versus \$25,033 for the same quarter of 2008.

Administrative expenses were \$504,366 for the nine months ended January 31, 2009 compared to \$1,055,465 for the nine month period ended January 31, 2008, with the decrease primarily attributable to lower professional fees and an exchange gain of \$94,117 in the nine months ended January 31, 2009, versus an exchange loss of \$60,044 in the same period ended January 31, 2008. The overall decrease was off-set partially by higher salaries and administrative expenses of \$235,900 and \$131,745, respectively, for the nine month period ended January 31, 2009, versus \$174,635 and \$57,722, respectively, in nine months ended January 31, 2008 reflecting increased staffing, partially offset by lower consulting fees.

For the quarter ended January 31, 2009 the total administrative expenses were \$153,420, compared to \$445,870 for the same period ended January 31, 2008, largely due to lower professional fees and an exchange gain of \$1,110 in the quarter ended January 31, 2009, versus an exchange loss of \$12,441 for the same period in 2008. Excluding the foreign exchange gain (loss) and stock-based compensation costs, the overall administrative expenses were 61% lower in the quarter ended January 31, 2009 compared to the same period in 2008 reflecting lower professional fees, travel, and accommodation and shareholder expenses, partially off-set by higher general administrative expenses.

Professional fees in both the quarter and nine months ended January 31, 2009 were significantly lower than the corresponding periods in the previous year because of the inclusion in the previous year of legal and other professional fees incurred in connection with responding to a take-over offer and related litigation in Canada.

Shareholders' information expense principally comprise filing costs, press releases, publicity costs, trustee fees and fees paid to regulatory authorities. General administrative expenses include rent, telephone, insurance and general office expenses.

## SUMMARY OF QUARTERLY RESULTS

	For the Three-month Period Ended			
	April 30	January 31	October 31	July 31
<b>Fiscal 2009</b>				
Interest income		17,849	\$ 14,069	\$ 14,008
Net loss and comprehensive loss		135,571	\$ 131,754	\$ 191,115
Basic and diluted net loss per share		0.01	\$ 0.01	\$ 0.01

	<b>For the Three-month Period Ended</b>			
	<b>April 30</b>	<b>January 31</b>	<b>October 31</b>	<b>July 31</b>
<b>Fiscal 2008</b>				
Interest income	\$ 9,266	\$ 25,033	\$ 32,425	\$ 30,420
Net loss and comprehensive loss*	\$ 2,465,720	\$ 420,837	\$ 294,956	\$ 251,794
Basic and diluted net loss per share	\$ 0.03	\$ 0.01	\$ 0.01	\$ 0.01

	<b>For the Three-month Period Ended</b>	
	<b>April 30</b>	<b>January 31</b>
<b>Fiscal 2007</b>		
Interest income	\$ 51,865	\$ 59,951
Net loss	\$ 250,556	\$ 236,568
Basic and diluted net loss per share	\$ 0.01	\$ 0.01

\* The loss in the quarter ended April 30, 2008 includes a write down of minerals properties and deferred exploration costs of \$1,777,522.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Operating**

Operating activities, including net change in non-cash working capital items, resulted in negative cash flows of \$771,889 in the nine months ended January 31, 2009 compared to negative cash flows of \$540,281 in the nine month period ended January 31, 2008.

Changes in working capital items utilized \$313,448 in the nine months ended January 31, 2009 compared to \$361,997 generated in the same period ended January 31, 2008.

### **Investing**

During the quarter and nine months ended January 31, 2009, the Company invested a total of \$815,278 and \$2,370,741, respectively, in exploration and development which includes all the costs incurred in Peru including exploration, payroll, corporate expenses and litigation costs, compared to \$791,341 and \$3,261,862, respectively in the same periods ended January 31, 2008. The higher investment in fiscal 2008 was primarily a result of completing the drilling program on the Shahuindo property. There was no drilling in the quarter or nine month period ended January 31, 2009.

### **Financing**

In April, 2008, the Company completed a non-brokered private placement with third party investors and issued 5,714,286 units, at a price of \$0.35 per unit, comprising one share and one share purchase warrant exercisable at \$0.45 per share for eighteen months subject to an accelerated maturity right (the "2008 Warrants"). Gross proceeds from the private placement were \$2,000,000. As part of the private placement the third party investors were issued 5,714,286 2008 Warrants to purchase shares of the Company at an exercise price of \$0.45 per share, which warrants were exercised in September, 2008 for proceeds of \$2,571,428.

During the nine months ended January 31, 2009, an aggregate of 1,171,089 common shares were issued upon the exercise of warrants at a price of \$1.00 per warrant, an aggregate of 5,714,286 common shares were issued upon the exercise of warrants at a price of \$0.45 per warrant and an aggregate of 100,000 common shares were issued upon the exercise of stock options at a price of \$0.84 per option, for total proceeds of \$3,826,518.

The remaining balance of warrants outstanding (4,735,161) that were issued in connection with a private placement in August of 2006 with an exercise price of \$1.00 per share and maturity date of August 31, 2008 expired and currently there are no warrants outstanding.

At January 31, 2009, the Company held \$53,766 in cash and \$2,666,592 in guaranteed investment certificates, compared to \$147,470 and \$1,889,000 respectively held as of the fiscal year ended April 30, 2008. The guaranteed investment certificates are held in Canada and bear interest at a weighted average rate of approximately 2.25% subject to the penalty of lower rates for early withdrawals. The increase in amounts held in investment certificates is a result of the addition of \$2,720,429 in new funding from the exercise of warrants and options, off-set by the net funds used and invested during the period.

Accounts receivable of \$113,430 is comprised principally of recoverable federal and provincial sales taxes and accrued interest on the guaranteed investment certificates. Accounts payable and accrued liabilities are comprised of amounts due on the Peruvian operations and costs related to work-in-progress legal and professional bills and directors fees.

Subsequent to the end of the Quarter, the Company entered into agreements to settle all outstanding issues in the disputes and litigation surrounding the Shahuindo property. Sulliden has agreed to make payment in instalments of US\$13.5 million (of which US\$1,250,000 was paid on signing), grant a 1.5% NSR (redeemable for US\$10 million) and issue 9,575,000 common shares.

Sulliden has sufficient cash to continue funding its property maintenance and administrative costs but will need to raise further funds to undertake its planned exploration and development programs and future payments related to the settlement of the dispute and litigation on the Shahuindo property. The Company must seek additional forms of financing through the issuance of new equity instruments to continue its activities as a going concern, and while it has been successful in doing so 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 will be unable to carry out its planned programs and may be in default of its payment obligations under the Settlement Agreements, and further the Company may be unable to continue its operations, and amounts realizable from assets may be less than amounts reflected in the financial statements.

## **CAPITAL STRUCTURE**

As at March 16, 2009 the Company had an authorized capital of an unlimited number of common shares on which the following were outstanding (including 10,825,000 shares issued under the Settlement Agreements and related Advisory Agreement):

Common Shares	96,846,805
Options	4,765,000

## **OFF-BALANCE SHEET TRANSACTIONS**

The Company has no off-balance sheet transactions.

## **RELATED PARTY TRANSACTIONS**

During the quarter, the Company paid \$126,637 (\$77,500 in Q3, 2008) in professional fees and general administrative expenses to companies related to the Company's officers and directors. Additionally, amounts totaling \$25,211 were paid to legal firms in Canada and Peru in which an officer or director of the Company were partners for the same period (\$260,510 in Q3, 2008). The accounts payable and accrued liabilities include amounts due to these companies and legal firms in an amount of \$16,329. These transactions are in the normal course of operations.

## **CONTRACTUAL COMMITMENTS**

The Company has no contractual commitments, other than rentals on offices and office equipment entered into in the ordinary course of business. All mineral property agreements contain terms which are at the option of the Company. The Company is currently at the exploration stage and management is not aware of any significant asset retirement obligation of the Company.

Subsequent to the end of the quarter Sulliden entered in to agreements to settle the disputes and litigation relating to the Shahuindo property. Sulliden agreed to make payments totaling US\$13.5 million in installments, of which US\$1.250 million was paid on signing and US\$12.25 million is due in installments over a total period of twenty four months to February 28, 2011.

## **SIGNIFICANT ACCOUNTING POLICIES**

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 Company's recoverability of the recorded value of its mining properties and associated deferred exploration costs is based on the successful settlement of the Shahuindo litigation, 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 subject to a number of risks including the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the exploration and development and future profitable production or the proceeds of disposal thereof and environmental, legal and political risk.

Factors affecting the value of stock-based compensation include estimates as to the timing of the exercise of stock options and compensation warrants as well as 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 shares and financial objectives of the option holders. The Company has used historical data and market liquidity to determine volatility in accordance with the Black-Scholes model; however, the future volatility is uncertain. The Black-Scholes model has its limitations.

## **CHANGES IN ACCOUNTING POLICIES**

On May 1, 2007, the Company adopted four new accounting standards related to accounting changes, financial instruments, comprehensive income and hedges that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The new CICA standards are as follows.

### *Section 1506, Accounting Changes*

This Section establishes criteria for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this Section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this Section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below. The adoption of this Section had no further effects on the financial statements for the year ended April 30, 2008 and second quarter ended October 31, 2008.

### *Section 3855, Financial Instruments – Recognition and Measurement*

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

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

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

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

The Company has implemented the following classification:

- *Cash* is classified as held for trading.

- The Company's *Guaranteed investment certificates* and *Accounts receivable* are classified as loans and receivables. *Short-term investments* and *Cash collateral investments* are currently invested in guaranteed investment certificates.
- *Accounts payable and accrued liabilities* are classified as other liabilities.

#### Section 1530, *Comprehensive Income*

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

The classification of the Company's financial instruments as at May 1, 2007 and their subsequent changes to April 30, 2008 have resulted in no gains or losses that require separate presentation in *Other comprehensive income*. There was no effect on opening equity as of May 1, 2007 or on subsequent measurements in the second quarter ended October 31, 2008 as a result of applying this standard.

#### Section 3865, *Hedges*

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

### **New Accounting Standards**

On May 1, 2008 the Company adopted new accounting standards relating to financial statement presentation, capital disclosures and financial instruments disclosure and presentation.

#### Section 1400, *General Standards of Financial Statement Presentation*

Section 1400 include requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern.

#### Section 1535, *Capital Disclosures*

Section 1535 specifies the disclosure of information that enables users of an entity's financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences of non-compliance.

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

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

### **Future Accounting Changes International Financial Reporting Standards**

#### *International Financial Reporting Standards ("IFRS")*

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

## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of January 31, 2009. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this Management's Discussion and Analysis the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Company's Annual and Interim Filings, were effective to provide reasonable assurance that material information required to be disclosed in reports filed or submitted by the Company is recorded, processed, summarized and reported within the appropriate time periods.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures can prevent all errors or mistakes. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company's Chief Executive Officers and Chief Financial Officer have evaluated the design and effectiveness of internal controls over financial reporting and based on this evaluation, as at January 31, 2009, the Company believes that its internal controls over financial reporting were designed and operating effectively to provide reasonable, but not absolute, assurance that the objectives of the control system are met.

## **LEGAL PROCEEDINGS – SHAHUINDO DISPUTE SETTLED**

### **Background Summary:**

On July 25, 2002 Sulliden Exploration Inc. ("Sulliden") signed a Letter of Intent with Compañía Minera Algamarca S.A. and its subsidiary, Compañía de Exploraciones Algamarca S.A. (collectively "Algamarca") to buy a 100% interest in the mining rights and surface lands known as the Shahuindo property located in the Department of Cajamarca, Peru, for an acquisition price of US\$4,130,000 to be paid in cash installments over a period of 24 months and bearing interest of 5% annually.

On July 31, 2002, the shareholders of Algamarca approved the proposed sale and authorized the General Manager of Algamarca to sign the Letter of Intent. Subsequently, Sulliden, through its wholly-owned subsidiary Minera Sulliden Shahuindo SAC ("Sulliden Shahuindo") guaranteed by Sulliden, entered into a Transfer Contract with Algamarca dated November 6, 2002, which was notarized as a public deed in Lima on November 11, 2002 (the "Transfer Contract").

During January 2003, the original shareholders of Algamarca sold their shares to a third party company Alta Tecnología e Inversión Minera y Metalúrgica S.A. ("Atimmsa"), a private Peruvian company, which was itself then immediately sold to a private Panamanian company.

Since that time, Algamarca, under the direction of Atimmsa, sought to rescind the Transfer Contract or to frustrate its terms. Algamarca commenced numerous legal actions against Sulliden in numerous courts and in different jurisdictions in Peru. Sulliden has remained in possession and occupation of the Shahuindo property, despite repeated attempts by Algamarca since 2003 to challenge such occupation.

### **Arbitration Process:**

In July 2003, Sulliden proposed to Algamarca that the dispute be referred to arbitration. Algamarca initiated several legal actions including civil actions, constitutional proceedings and criminal proceedings and sought various injunctions in an effort to prevent the Arbitration Tribunal from issuing a Decision. In July 2006 the Arbitration Tribunal issued its Decision and Award and declared that Sulliden has fully met the terms and obligations of the Transfer Contract dated November 11, 2002 including fulfillment of the payment of the full purchase price

Following receipt of the Decision of the Arbitration Tribunal in July, 2006 confirming Sulliden's full entitlement to the Shahuindo property Algamarca and its related companies refused to recognize the Arbitration Decision and Award and continue to try to ignore and frustrate the Transfer Contract. As before, Algamarca and its related companies initiated multiple legal claims and challenges in various courts, in different locations and often with different conflicting jurisdictions, in their attempts to stop the execution of the Arbitration Award. Algamarca purported to transfer some of the mining concessions to various associated companies, including Inversiones Mineras Sudamericanas SA and Minera Pilacones SA. These companies in turn attempted to transfer the concessions to another Panamanian company, Andean Mining Gold Inc., which in turn has purported to grant a mortgage to another Panamanian company, Import & Export A.C.D. SA.

In October and November 2006 Algamarca filed Nullity Petitions in the Superior Court of Lima against the Arbitration Decision of July 2006. The hearing by the Commercial Chamber of the Superior Court of Lima of Algamarca's Nullity Petition took place on June 27, 2007 before a panel of three Superior Court Judges. On August 9, 2007 the Superior Court of Lima issued its decision granting Algamarca's Petition and declaring null and void the Arbitration Decision awarded to Sulliden in July 2006 and reinstated the competence and jurisdiction of the judiciary to deal with the dispute on the Transfer Contract, unless otherwise agreed by the parties.

#### **Sulliden Appeal to Supreme Court of Peru:**

Sulliden filed an appeal in the Supreme Court of Peru against the decision of the Commercial Chamber of the Superior Court of Lima.

In July 2008, Sulliden and Algamarca agreed to temporarily suspend the appeal proceedings before the Supreme Court pending further negotiations on a possible settlement of the litigation and dispute and by resolution dated July 24, 2008, the Supreme Court ordered the suspension of the hearing of the appeal for a period of 60 days.

On November 13, 2008 the Supreme Court of Peru heard the appeal taken by Sulliden against the decision of the Commercial Chamber of the Superior Court of Lima dated August 9, 2007, granting Algamarca's Nullity Petition against the Arbitration Decision of July 2006. The hearing on November 13, 2008 took place in Lima, before a panel of five Supreme Court Judges and was completed in one day.

On December 31, 2008 the Supreme Court announced that it had ruled in Sulliden's favour and has accepted and allowed the appeal taken by Sulliden against the Decision of the Commercial Chamber of the Superior Court of Lima dated August 9, 2007, granting Algamarca's Nullity Petition against the Arbitration Decision of July 2006. The effect of the decision of the Supreme Court was to restore the Arbitration Award in Sulliden's favour and send the file back to the Commercial Chamber to rehear Algamarca's Nullity Petition.

#### **Dispute Settled:**

Against the background of the most recent court rulings, Sulliden continued in negotiations with Algamarca on a possible settlement of the litigation and dispute, and on February 27, 2009, Sulliden reached agreements to settle all outstanding issues in the disputes and litigation surrounding the Shahuindo property. In summary, all parties agreed to withdraw and abandon all legal processes and Sulliden agreed to make payments, in installments, of US\$13,500,000, (of which US\$1,250,000 was paid on signing), grant a 1.5% NSR (redeemable for US\$10 million) and issue 9,575,000 common shares. The agreements secure Sulliden's 100 percent registered and undisputed ownership of the Shahuindo property. In addition, Sulliden obtained a three year option on 14 minerals concessions which adjoin the Shahuindo Property.

1. Sulliden 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 Sulliden 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 and to surrender and transfer to Sulliden the ownership and possession of the surface lands, mining concessions and mining assets.

Sulliden 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.

2. Sulliden 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 Sulliden 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 \$50 million in favour of Import Export and the mortgage of \$80 million in favour of Inversiones Mineras Sudamericana.

In consideration of these companies withdrawing all claims and discontinuing all legal actions against Sulliden, or relating to the Shahuindo Property, Sulliden agreed to;

(a) make payments, in installments, to a total US\$13.5 million, such installments to be payable as follows:

- \$1,250,000 paid upon signing the Settlement Agreement;
- \$ 250,000 ninety days after signing the Agreement;
- \$1,000,000 six months after signing the Agreement;
- \$7,500,000 fourteen months after signing the Agreement;
- \$1,000,000 fifteen months after signing the Agreement;
- \$1,000,000 eighteen months after signing the Agreement;
- \$1,000,000 twenty-one months after signing the Agreement;
- \$500,000 twenty four months after signing the Agreement.

The payment of US\$7,500,000 due fourteen months after signing the Agreement is secured by a charge on the Shahuindo Property. Further if Sulliden misses any of the payments under the Settlement Agreements 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%.

(b) issue 9,575,000 common shares of Sulliden at a deemed issue price of \$0.50 per share. These shares were issued subject to an Escrow Agreement whereby these shares are held in escrow and cannot be sold or transferred, without the consent of Sulliden, for a period of fourteen months.

(c) grant a royalty equal to 1.5 percent of Net Smelter Returns (1.5% NSR), payable upon production from the Shahuindo property, provided that Sulliden 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, Sulliden 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, Sulliden 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.

3. In addition, Sulliden also entered into an exploration option agreement with a related private Peruvian company which holds 14 mining concessions partly adjoining the Shahuindo property. During the option period Sulliden may carry out exploration on the 14 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.

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

## **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 that should be considered:**

### ***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 revenue 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, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour 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. Sulliden does not maintain liability insurance with respect to its exploration activities in Peru.

No assurance can be given that minerals of sufficient quantity, quality, size and grade will be discovered or developed on any of the Company's properties to justify commercial operation.

### ***Uncertainty of mineral reserve and resource estimates***

The mining business relies upon the accuracy of determinations as to whether a given deposit has significant mineral reserves or resources. 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 new or reinterpreted information or 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, result in failure to develop a significant deposit. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

### ***Sulliden faces potential risks and uncertainties resulting from the location of its properties in Peru***

Political and related legal and economic uncertainty exists in Peru where Sulliden 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 environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on gold exports and increased financing costs and other risks not specified here.

### ***Sulliden requires additional funding to develop its properties***

Development of the Shahuindo or any other properties will require significant financial resources. Sulliden will also require additional financing to make the payments outstanding under the Settlement Agreements. Sulliden will need to raise significant project financing, debt and additional equity. Failure to obtain such additional funding at critical times could lead to a delay or cause an indefinite postponement in the exploration and development of the Shahuindo 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 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, including legal costs, related to continued exploration and development of its mineral resource properties. As at January 31, 2009, Sulliden had an accumulated deficit of \$33,531,427. It is anticipated that the Company will continue to experience operating losses for the foreseeable future. There can be no assurance that Sulliden will ever achieve significant revenue or profitable operations.

### ***Dependence on key personnel and Conflicts of Interest***

The management and 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 is dependent on the services of key executives, including the President and Chief Executive Officer and the President of Sulliden's subsidiary Minera Sulliden Shahuindo (Peru), and a small number of other skilled and experienced executives and personnel. Due to the relatively small size of the Company, the loss of these persons or Sulliden's inability to attract and retain additional highly skilled or experienced employees may adversely affect its business and future operations.

Certain of the directors and officers of the Company also serve as directors and/or officers of, or have significant shareholdings in, other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving Sulliden Exploration will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Corporation and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the *Business Corporations Act (Quebec)* and other applicable laws.

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 the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for the approval of such participation or such terms.

From time to time several companies may collectively participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. Under the laws of the Province of Quebec, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

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

Government regulations may 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 or 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 prices of precious metals can fluctuate widely and are affected by numerous factors, outside the Company's control, including demand, inflation, strength of the U.S. dollar and other currencies, interest rates, 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.

### ***Share price volatility may negatively impact Sulliden and Investors***

Shares of public companies, particularly mineral exploration and resource companies, have historically experienced substantial volatility, including significantly in the recent past, often based on factors unrelated to the prospects of the companies involved. These factors include macroeconomic developments in North America, Asia and globally, and market perceptions of the state of the world economy and investment markets and relative attractiveness of particular industries. Other factors unrelated to the Company's performance that may have an effect on the price of the Company's Shares include:

- the limited trading volume and general market interest in the Company's Shares which may affect an investor's ability to trade the Company's Shares;
- the relatively small size of the Company's market capitalization which may limit the ability of some institutions to invest in the Company's Shares; and
- a substantial decline in the Company's share price that persists for a significant period of time could cause its Shares to be de-listed from the stock exchange which may further reduce market liquidity.

### ***Currency risk***

A substantial portion of Sulliden's activities is carried out in Peru and is expected to be carried on outside of Canada in the future. The Company's obligations under the Settlement Agreements are denominated in United States dollars. Such activities and obligations are subject to risks associated with fluctuations in the rate of exchange of the Canadian dollar and foreign currencies.

## **OUTLOOK**

The Board of Directors believes that it was in the best interests of Sulliden to resolve the Shahuindo litigation and dispute and that, in all the circumstances, the terms of settlement are reasonable. Settlement of the dispute avoids the substantial costs of further litigation and will enable Sulliden to get back to exploration and development and finally move the Shahuindo property forward.

In the coming months Sulliden plans to initiate a three-part exploration program to open new potential ore zones that should bring the Shahuindo project towards "world class" status and closer to production. Execution of the planned drilling program at Shahuindo will require further financing.

## **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

This MD&A has been prepared as at March 16, 2009. 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).

### **Caution Regarding Forward-Looking Information**

*Statements contained in this document that 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: the outcome of litigation; political risks arising from operating in certain developing countries; changes in government regulations and policies, including laws and policies; failure to obtain necessary permits and approvals from government authorities, volatility and sensitivity to metal prices, impact of change in foreign currency exchange rates and interest rates; inaccuracy in reserve estimates; environmental risks including increased regulatory burdens; unexpected geological conditions; adverse mining conditions; 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.*