Consolidated Financial Statements

Sienna Gold Inc.

(An Exploration Stage Company)

September 30, 2006

AUDITORS' REPORT

To the Shareholders of Sienna Gold Inc.:

We have audited the consolidated balance sheets of Sienna Gold Inc. as at September 30, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years then ended and for the cumulative period from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for each of the years then ended and for the cumulative period from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2006 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Alberta
January 11, 2007

Chartered Accountants

SIENNA GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
(See going concern uncertainty – Note 1)

As at

	September 30, 2006	September 30, 2005
	$	$
ASSETS		
Current		
Cash and cash equivalents	**71,838**	856,292
GST and IGV recoverable (Note 3)	**115,838**	24,848
	187,676	881,140
Rental deposits	**15,634**	15,634
Deferred financing costs (Note 15)	**98,145**	-
Property and equipment (Note 4)	**23,729**	20,484
Mineral properties (Note 5)	**6,144,720**	2,586,143
	6,469,904	3,503,401
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**581,162**	161,263
Notes payable (Note 6)	**100,000**	-
Due to related parties (Note 7)	**70,000**	5,132
	751,162	166,395
Asset retirement obligation (Note 8)	**37,498**	34,720
	788,660	201,115
Commitments (Notes 5 and 14)		
Stockholders' Equity		
Share capital (Note 9)		
Common shares	**10,672,108**	6,680,821
Common share purchase warrants	**238,009**	260,766
Contributed surplus (Note 10)	**343,427**	249,808
Deficit	**(5,572,300)**	(3,889,109)
	5,681,244	3,302,286
	6,469,904	3,503,401

The accompanying notes to the consolidated financial statements are an integral part of this statement.

On Behalf of the Board of Directors

John Rucci
Signed

Raymond Antony
Signed

SIENNA GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	For the year ended September 30, 2006	For the year ended September 30, 2005	Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2006
	$	$	$
Expenses			
General and administration	**676,565**	178,227	876,897
Interest on notes and advances	**-**	44,685	50,797
Premises	**66,214**	49,616	116,228
Transfer, listing fees and shareholder communications	**193,043**	49,743	244,486
Mineral and exploration costs (Note 5)	**-**	166,352	244,254
Stock-based compensation (Note 9)	**188,287**	124,459	312,746
Accretion expense (Note 8)	**2,778**	-	2,778
Depreciation	**10,721**	3,734	14,455
Foreign exchange gain	**(21,129)**	(5,005)	(26,134)
Loss for the period before the following:	**(1,116,479)**	(611,811)	(1,836,507)
Interest income	**10,740**	-	10,740
Write off of mineral properties (Note 5)	**(577,452)**	-	(577,452)
Net loss for the period (Note 11)	**(1,683,191)**	(611,811)	(2,403,219)
Deficit, beginning of period	**(3,889,109)**	(3,277,298)	(3,169,081)
Deficit, end of period	**(5,572,300)**	(3,889,109)	(5,572,300)
Loss per common share, basic and diluted (Note 9)	**(0.05)**	(0.06)	-
Basic and Diluted Weighted average number of common shares outstanding	**31,445,224**	10,021,416	-

The accompanying notes to the consolidated financial statements are an integral part of this statement.

SIENNA GOLD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended September 30, 2006	For the year ended September 30, 2005	Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2006
	$	$	$
Cash provided by (used for):			
Operating activities:			
Net loss	**(1,683,191)**	(611,811)	(2,403,219)
Adjustments for:			
Write-off of mineral properties (Note 5)	**577,452**	-	577,452
Depreciation	**10,721**	3,734	14,455
Stock-based compensation	**188,287**	124,459	312,746
Accretion expense	**2,778**	-	2,778
Shares for interest expense	-	17,375	17,375
	(903,953)	(466,243)	(1,478,413)
Changes in non-cash working capital items			
Taxes recoverable	**3,472**	(24,848)	(21,376)
Accounts payable and accrued liabilities	**9,665**	(77,010)	(47,284)
	(890,816)	(568,101)	(1,547,073)
Investing activities:			
Mineral property expenditures	**(1,968,529)**	(2,129,677)	(4,098,206)
Purchase of furniture and fixtures	**(13,966)**	(24,218)	(38,184)
Payment of rental deposits	**-**	(4,114)	(15,634)
Taxes recoverable relating to investing activities	**(94,462)**	**-**	(94,462)
Accounts payable relating to investing activities	**366,959**	44,423	411,382
	(1,709,998)	(2,113,586)	(3,835,104)
Cash provided by financing activities:			
Common shares issued	-	3,600,000	3,600,000
Share issue expenses	**-**	(368,815)	(368,815)
Deferred financing costs	**(98,145)**	-	(98,145)
Accounts payable related to financing activities	**43,275**	-	43,275
Agent units exercised	**300,000**	-	300,000
Warrants exercised (Note 9)	**410,700**	6,200	416,900
Private placement	**995,662**	-	995,662
Advances from related parties	**64,868**	63,071	124,997
Notes payable (Note 6)	**100,000**	5,000	440,000
	1,816,360	3,305,456	5,453,874
Increase (decrease) in cash and cash equivalents	**(784,454)**	623,769	71,697
Cash and cash equivalents			
Beginning of period	**856,292**	232,523	141
End of period	**71,838**	856,292	71,838

Supplemental Cash Flows information (Note 12)

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Note 1a - Business of the Company

Sienna Gold Inc. ("Sienna" or the "Company") was incorporated on July 28, 1987, as Vortex Energy & Minerals Ltd., under the Alberta Business Corporations Act. The Company's name was changed on May 2, 2001 to Vortex Integrated Industrial Corporation and then to Sienna Gold Inc. on April 15, 2005. The Company is in the business of acquiring, exploring and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed.

The Company is exploring mineral properties in Peru and has not yet determined whether the properties contain economically recoverable ore reserves. The recovery of the amounts shown as acquisition costs of mineral properties and the related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development, and upon future profitable operations or proceeds from the disposition thereof.

Note 1b – Going concern uncertainty

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business for the foreseeable future.

The Company's ability to continue as a going concern is dependent on the Company being able to satisfy its liabilities as they become due, being able to obtain the necessary financing to complete the exploration and development of its mineral interests, the attainment of profitable mining operations, and/or the receipt of proceeds from the disposition of its mineral property interests. These financial statements do not include any adjustments to the carrying value and classification of assets and liabilities that would be necessary, if the Company were unable to realize its assets or discharge its liabilities in anything other than the ordinary course of business.

Note 2 - Summary of Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiary, Sienna Minerals S.A.C., a Peruvian corporation. The financial statements have, in management's opinion, been prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) **Cash and cash equivalents**

Cash is represented by cash and short-term investments with initial maturity dates of less than three months.

(b) **Foreign currency**

The Company's functional currency is the Canadian dollar. The accounts of the foreign subsidiary are integrated operations and are translated into Canadian dollars using the temporal method. Under this method:

i. monetary items are translated at the rate of exchange in effect at the balance sheet date;

ii. non-monetary items are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the rate of exchange in effect at the balance sheet date;

iii. revenue and expense items are translated at the rate of exchange in effect on the dates they occur; and

iv. depreciation or amortization of assets translated historical exchange rates are translated at the same exchange rates as the assets to which they relate.

v. exchange gains or losses are charged to operations.

Note 2 - Summary of Significant Accounting Policies – Continued

(c) **Deferred financing costs**

The Company capitalizes costs related to the issuance of share capital until the financing is completed, at which time the costs are charged to share capital as share issue costs or charged to operations in the event the financing is unsuccessful.

(d) **Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Actual results could differ significantly from those estimates.

(e) **Measurement uncertainty**

Certain amounts recognized in the financial statements are subject to measurement uncertainty.

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties which are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The recognized amounts of such items are based on the Company's best information and judgment. Such amounts may change materially in the future as management continues to gather information.

(f) **Financial instruments**

(i) Fair value

The fair value of the Company's cash and cash equivalents, GST and IGV recoverable, rental deposits, accounts payable and accrued liabilities, notes payable and due to related parties at September 30, 2006 and 2005 is estimated to approximate their carrying values due to their short-term nature.

(ii) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

(iii) Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents. However, the risk is minimized as cash is held at a major financial institution.

(iv) Translation risk

The Company is exposed to translation risk to the extent of unspent funds, receivables, and payables denominated in foreign currencies.

Note 2 - Summary of Significant Accounting Policies – Continued

(g) **Environmental issues and asset retirement obligations**

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they incur and/or in the period in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flow.

The operations of the Company may in the future be affected by changes in the environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

(h) **Mineral property interests**

Mineral exploration and evaluation costs are charged to operations in the period incurred until such time as the property has been acquired or is under option, in which case subsequent exploration costs and costs incurred to develop a property are capitalized.

Direct costs related to the acquisition of mineral property interests are capitalized on a property by property basis. Property acquisition costs include cash expenses and the fair market value of common shares, based on the trading price of the shares, issued for mineral properties interests, pursuant to the related property agreements. Payments relating to a property acquired under an option or joint venture agreement, where payments are made at the sole discretion of the Company, are recorded as mineral property costs upon payment.

Upon commencement of commercial production of a mineral property, the related capitalized costs are depreciated and depleted on a unit-of-production basis using estimated proven reserves of the mineral property as a depletion basis.

Based on periodic reviews made by management and where the long-term expectation is that the net carrying amount of these capitalized exploration and development costs will not be recovered such as would be indicated where:

Producing properties:

- the carrying amounts of the capitalized costs exceed the related undiscounted net cash flows of reserves;

Exploration properties:

- exploration activities have ceased;
- exploration results are not promising such that exploration will not be planned for the foreseeable future;
- lease ownership rights expire; or
- insufficient funding is available to complete the exploration program.

The carrying amount is then written down accordingly and the write-down amount charged to operations.

(i) **Property and equipment**

Furniture and fixtures are recorded at cost and are depreciated over the estimated useful life of three years on a straight-line basis.

Note 2 - Summary of Significant Accounting Policies – Continued

(j) **Income taxes**

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized in the current period based on the temporary differences between the tax and accounting basis of assets and liabilities using substantively enacted tax rates and laws expected to apply in the periods in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized, to the extent it is more likely than not, that those future income tax assets will not be realized.

(k) **Loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the weighted average number of common and common equivalent shares outstanding during the period using the "treasury stock" method. Common equivalent shares consist of incremental common shares issued upon the exercise of in the money stock options and warrants unless their effect is anti-dilutive. The Company has had a net loss for all years presented herein, therefore, none of the options or warrants outstanding during each of the periods presented was included in the computation of diluted loss per share as they were anti-dilutive.

(l) **Stock based compensation**

The Company follows the fair value method of accounting for stock-based compensation arrangements, whereby the fair value of stock options at the date of grant is recorded as compensation cost. The fair value is determined using the Black-Sholes valuation model that takes into account the exercise price and expected volatility of the Company's stock price, the expected dividends on the stock, the expected forfeiture rate of the options granted, and the current risk-free interest rate for the expected life of the option. As this model is based on numerous assumptions, the reader is cautioned not to rely upon the valuation number.

Note 3 – GST and IGV recoverable

The Company has Canadian GST and the Peruvian equivalent (IGV) recoverable.

Note 4 – Property and equipment

Capital assets consist of the following:

	2006			2005
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	$	**$**	**$**	$
Furniture and fixtures	**38,184**	**14,455**	**23,729**	20,484

Note 5 - Mineral properties
Summary of mineral properties

Property and costs	**Balance September 30, 2006**	Expenditures For year	Written Off	Balance September 30, 2005
	$	$	$	$
(a) IGOR Concession (Peru)				
Acquisition costs:				
Cash	**1,820,633**	346,486	**-**	1,474,147
Shares	**2,377,500**	2,167,500	**-**	210,000
Options	**11,746**	-	**-**	11,746
Asset retirement obligations	**34,720**	-	**-**	34,720
Total acquisition costs	**4,244,599**	2, 513,986	**-**	1,730,613
Deferred exploration costs:				
Claims maintenance and staking	**8,224**	8,224	-	-
Mapping and sampling	**401,100**	238,286	**-**	162,814
Geophysical survey	**52,646**	52,646	**-**	-
Drilling	**455,724**	450,118	**-**	5,606
Assaying	**94,337**	93,300	**-**	1,037
Environmental	**16,686**	16,686	**-**	-
Surface rights	**19,454**	19,454	**-**	-
Engineering	**90,687**	83,375	**-**	7,312
Metallurgy	**7,995**	7,995	**-**	-
Site visits	**4,611**	2,796	**-**	1,815
Legal and accounting	**12,747**	86	**-**	12,661
Safety and protection	**7,453**	1,199	**-**	6,254
Social development	**83,825**	66,450	**-**	17,375
Management	**207,127**	148,340	**-**	58,787
Total deferred exploration costs	**1,462,616**	1,188,955	-	273,661
Total IGOR	**5,707,215**	3,702,941	-	2,004,274
(b) Pachin Alto Concessions (Peru)				
Acquisition costs:				
Cash	**162,034**	169,425	372,199	364,808
Shares	**79,012**	-	120,988	200,000
Vigencia (License Fee and Penalty)	**88,835**	88,835	-	-
Total acquisition costs	**329,881**	258,260	493,187	564,808
Deferred exploration costs:				
Claims maintenance and staking	**47,029**	91,475	61,507	17,061
Mapping and sampling	**3,327**	25,669	22,342	-
Geophysical survey	**25,089**	25,505	416	-
Assaying	**5,161**	5,161	-	-
Environmental	**66**	66	-	-
Total deferred exploration costs	**80,672**	147,876	84,265	17,061
Total Pachin Alto	**410,553**	406,136	577,452	581,869

Note 5 - Mineral Properties - Continued

c) Buena Fortuna Concession (Peru)				
Acquisition Costs	**10,993**	10,993	-	-
Deferred Exploration				
Claims maintenance and staking	**143**	143	-	-
Mapping and sampling	**14,752**	14,752	-	-
Assaying	**1,064**	1,064	-	-
Total deferred exploration costs	**15,959**	15,959	-	-
Total Buena Fortuna	**26,952**	26,952	-	-
Total	**6,144,720**	**4,136,029**	577,452	2,586,143

Mineral exploration costs incurred prior to the acquisition of the mineral properties and expensed for the year ended September 30, 2006 and 2005 consist of:

	2006 $	**2005** $	**Total Since Inception** $
Engineering	-	68,837	103,837
Evaluation and other	-	67,039	96,622
Travel	-	30,476	43,795
	-	166,352	244,254

(a) IGOR Concession

On June 30, 2005, the Company, through it's subsidiary Sienna Minerals S.A.C., closed the agreement to acquire a 60% interest in the IGOR concession comprising some 1,000 hectares in Peru for US$ 1,193,565 (Cdn$ 1,474,147), 2,100,000 common shares of the Company valued at $ 0.10 per share being the deemed price of the shares at the date of closing and 100,000 stock options exercisable at $ 0.30 until June 30, 2010.

On March 9, 2006 the Company acquired the remaining 40% of the property for US$ 300,000 (Cdn$ 346,485) and 2,550,000 common shares of the Company valued at $ 0.85 per share being the trading value of the shares at the date of the transaction. After the completion of this transaction, the Company owns 100% of the property without any encumbrances.

(b) Pachin Alto (EMRC) Concessions

On June 30, 2005 the Company, through it's subsidiary Sienna Minerals S.A.C., entered into an arms-length thirteen month option agreement to acquire a five year option on eight (8) concessions in Peru with Elmer Moises Rosales Castillo ("EMRC") and a group controlled by EMRC. On signing, the Company exercised the Cerro Blanco option for US$ 100,000 (Cdn $ 124,083). The consideration for the thirteen month option on all eight properties was US$ 194,000 (Cdn $ 186,125) and 2,000,000 common shares of the Company valued at $ 0.10 per share being the deemed price of the shares at the date of closing.

On June 30, 2006 the Company terminated its agreement with EMRC and the companies controlled by EMRC and simultaneously entered into new agreements regarding the Pachin Alto project. The Cerro Blanco option was dropped. To June 30, 2006, the Company had incurred a total of $ 873,530 in acquisition and deferred exploration expenses on the eight EMRC concessions. On June 30, 2006, the Company wrote off $ 577,452 being an allocation of these costs related to the concessions dropped.

Note 5 - Mineral properties - Continued

By agreements dated June 30, 2006, EMRC assigned its rights and obligations under the underlying agreements in favor of Sociedad Minera de Responsabilidad Limitada NorteAmerica XXI ("SMRL NorteAmerica"), a Peruvian private company controlled by EMRC. On the same date, the Company entered into an agreement with SMRL NorteAmerica pursuant to which SMRL NorteAmerica assigned its rights and obligations under the Underlying Agreements in favor of the Company.

As compensation for the assignment the Company made an initial payment of US$ 150,000 (Cdn$ 169,425) in favor of SMRL NorteAmérica and is obligated to make the monthly payments listed below for a five year period with respect to the Pachin Alto concessions. The Company has the option to abandon the concessions which would eliminate the requirement for further payments.

	Monthly Cash Payments (US$), beginning August 15, 2007			
	Year 1	**Year 2**	**Year 3**	**Year 4**
Pachin Alto	50,833.33	45,750.00	66,083.33	91,500.00

In the event the Company initiates commercial production within the Pachin Alto Properties, the Company will also be obligated to pay SMRL NorteAmerica a 1.5% net smelter return royalty.

The Company is also responsible for making license fee and penalty payments (*Derecho de Vigencia*) applicable to the Pachin Alto concessions. These license fees and penalties approximate US$ 18,000 (Cdn$ 20,160) and US$ 87,000 (Cdn$ 97,440) for 2006, of which $88,835 has been accrued to September 30, 2006. The penalty portion is reduced by US$ 1.00, for every US$ 10.00 expended in exploration expenses incurred on the property in the preceding year.

In addition to the monthly payments to SMRL NorteAmerica detailed above and the 1.5% net smelter return royalty, the Company must also assume the obligations to the titleholders, including monthly payments and an additional net smelter return royalty ranging from 1.0% to 2.0%. The total net smelter return royalty payable to SMRL NorteAmerica and the titleholders ranges from 2.7% to 3.5% and is detailed below.

Concession Name	Monthly Payment (US $)	NSR (In favor of the Titleholder)	NSR (In favor of the SMRL NorteAmerica)	Total NSR
Jose Luis	333.33	1,0%	1.5%	2.5%
Jose Luis 2	333.33	1.0%	1.5%	2.5%
Jose Luis 3	333.33	2.0%	1.5%	3.5%
Acumulacion Juana	400.00	1.2%	1.5%	2.7%
Julia MP	400.00	1.2%	1.5%	2.7%
La Natalia	400.00	1.2%	1.5%	2.7%
Urpi	400.00	1.2%	1.5%	2.7%
La Noemia	400.00	1.2%	1.5%	2.7%
Edelmira	400.00	1.2%	1.5%	2.7%
Total	$3,399.99			

(c) Buena Fortuna

On April 24, 2006, the Company filed a total of three mining claims which covered an area of 2,500 hectares, located in the Department of Ancash, near the area of the Pachin Alto project. By resolutions dated July 6, 2006, concession title over these claims was granted in favor of the Company.

Title to Mineral Property Interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Note 6 - Notes Payable

During July and August 2006, a shareholder advanced the Company $ 100,000 repayable on demand. The advance was non-interest bearing and was repaid subsequent to the year end out of the proceeds of the public offering, described in note 15. The Company issued 14,265 common shares of the Company valued at $ 0.70 per share as compensation for the advances.

During 2005, the principal amount of the 10% notes payable was settled for the issuance of 3,675,000 common shares valued at $ 367,500. Accrued interest of $ 36,992 (included in accounts payable and accrued liabilities) remained payable at September 30, 2006 and 2005.

Note 7 - Related Party Transactions

During 2006:

The President and CEO of the Company provided financial assistance to the Company in the amount of $ 70,000 in the period it was completing its recent financing. The advance was non-interest bearing and was repaid subsequent to the year end out of the proceeds of the public offering, described in Note 15. The Company issued 10,000 common shares of the Company valued at $ 0.70 per share as compensation for the advances.

The President and CEO was paid $ 120,000 (2005 - $ 30,000) for management services provided, a director was paid $ 34,200 (2005 – Nil) for engineering and other services, and a law firm of which a director is a partner was paid $ 39,590 (2005 - $ 90,342). The balance owing to directors at September 30, 2006 was $70,000 (2005 - $ 5,132).

During 2005:

The President and CEO of the Company was owed $ 174,900 resulting from advances and unpaid remuneration which was settled during the year through the issuance of 1,746,000 common shares.

The President and CEO of the Company provided a portion of the financing required by the Company to maintain its option to acquire the Peruvian properties and was compensated for providing this bridge financing through the issuance of 16,447 common shares of the Company valued at $ 0.57 per share.

The above transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Note 8 – Asset Retirement Obligations

The Company recognizes, as a liability, an asset retirement obligation (ARO) associated with the retirement of its long-lived asset in the period in which it is incurred and becomes determinable, with a corresponding increase in the carrying amount of the associated asset. The cost of the long lived asset, including the initially recognized ARO, is depleted such that the cost of the ARO is recognized over the useful life of the asset. The ARO is recorded at fair value, and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. The fair value of the ARO is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate.

As at September 30, 2006, the estimated present value of the Company's asset retirement obligation was $ 37,498 based on an estimated fair value of $ 40,497, determined using a credit adjusted risk free interest rate of 8.0%, and inflation rate of 2%. These obligations will be settled at the end of the useful lives of the underlying assets, which currently extend up to 2 years into the future.

Note 8 – Asset Retirement Obligations - Continued

The following table describes the changes to the Company's asset retirement obligations liability:

Asset retirement obligation at September 30, 2005	$ 34,720
Liabilities incurred	-
Liabilities settled	-
Accretion expense	2,778
Asset retirement obligation at September 30, 2006	$ 37,498

Note 9 – Share Capital

(a) Authorized:

Unlimited number of common shares and unlimited number of preference shares

(b) Issued and outstanding common shares and warrants to purchase common shares:

	Number	Amount
Shares		
Balance, September 30, 2004	4,349,853	$ 2,828,330
Shares issued for debt (Notes 5 and 6)	5,621,000	562,100
Shares issued for property acquisition (Note 5a)	2,100,000	210,000
Shares issued for property acquisition (Note 5b)	2,000,000	200,000
Shares issued for interest	30,484	17,375
Prospectus	12,000,000	3,345,342
Agent's fees	300,000	83,634
Warrants exercised	15,500	6,458
Share issue costs	-	(572,418)
Balance, September 30, 2005	26,416,837	6,680,821
Private placement	997,473	1,004,626
Share issue costs	-	(8,964)
Shares issued for property acquisition (Note 5)	2,550,000	2,167,500
Agent options exercised	1,000,000	373,447
Warrants exercised	1,026,750	454,678
Balance, September 30, 2006	31,991,060	$ 10,672,108

Pursuant to a prospectus offering dated June 15, 2005, the Company issued 12,000,000 units comprising one common share and one-half a common share purchase warrant for gross proceeds of $ 3,600,000. During 2006, 1,026,750 (2005 – 15,500) warrants were exercised resulting in proceeds of $ 410,700 (2005 - $ 6,200). The Company has assigned $ 254,658 to the warrants based on the estimated fair value using a Black-Sholes option valuation model. The agent was given 300,000 units which have been assigned a value of $90,000. The agent also received an option to purchase an additional 1,200,000 units at $ 0.30, which expire on June 27, 2007. During the year, 1,000,000 options were exercised resulting in proceeds of $ 300,000, a transfer from contributed surplus of 73,447 and the issuance of 500,000 warrants which were valued at $ 21,221 using Black-Sholes which amount has been transferred from contributed surplus to share capital-warrants. The fair value of this option was estimated to be $ 113,603 using Black-Sholes. These costs have been recorded as share issue costs.

Note 9 – Share Capital – Continued

Warrants

Balance, September 30, 2004	-	-
Issued pursuant to:		
Prospectus	6,000,000	$ 254,658
Agent's fees	150,000	6,366
Exercised	(15,500)	(258)
Balance, September 30, 2005	6,134,500	$ 260,766
Exercised	(1,026,750)	(43,978)
Issued on exercise of Agents units/options	500,000	21,221
Balance, September 30, 2006	5,607,750	$ 238,009

(c) Stock Options

The Company, in accordance with a stock option plan approved by shareholders and accepted by the TSX Venture Exchange, is authorized to grant options to directors, officers and consultants to acquire up to 10% of the Company's issued and outstanding common stock at any given time. The exercise price of each option equals the market price of the Company's stock on the date of grant. The options granted to employees, directors, officers and consultants vest 50% at date of grant with the balance vesting on the first anniversary of the date of grant. The options have a five year life. In the event of termination of employment the optionee has 90 days to exercise the options vested otherwise they expire.

	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	1,800,000	$ 0.30	-	$ -
Granted	260,000	1.15	1,800,000	0.30
Exercised	-	-	-	-
Expired	-	-	-	-
Options outstanding, end of period	2,060,000	$ 0.41	1,800,000	$ 0.30

At September 30, 2006, the Company had outstanding stock options to acquire 2,060,000 shares as follows:

Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
100,000	100,000	$0.30	June 30,2010
1,700,000	1,700,000	$0.30	July 11, 2010
260,000	130,000	$1.15	December 21, 2010
2,060,000	1,930,000		

Note 9 – Share Capital – Continued

The fair value of the options granted during the period is estimated on the dates of grant using the Black-Sholes option valuation model with the following weighted average assumptions:

Dividend yield	Nil
Expected volatility	40%
Risk free rate of return	2.81%
Expected life of options	5 years

Option valuing models require the input of highly subjective assumptions, including the expected price volatility. Change in the subjective input assumptions can materially affect the fair-value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

In accordance with the vesting periods for all options issued to directors, officers, employees and consultants, $ 188,287 (September 30, 2005 - $ 124,459) was recorded as an expense in the year with an offsetting credit to contributed surplus. An unamortized balance of $ 21,423 (Sept 30, 2005 - $ 79,709) remains, which will be expensed over the remaining vesting period.

(d) Share Purchase Warrants – Common Shares

Share purchase warrant transactions and the number of share purchase warrants outstanding are summarized as follows:

	Warrants	Expiry Date	Exercise Price
Balance outstanding, September 30, 2004	Nil		
Issued			
Prospectus offering	6,000,000	June 27, 2007	$0.40
Agents fees	150,000	June 27, 2007	$0.40
Exercised	(15,500)	June 27, 2007	$0.40
Balance outstanding, September 30, 2005	6,134,500		
Exercise of Agents Options	500,000	June 27, 2007	$0.40
Exercised	(1,026,750)		
Balance outstanding, September 30, 2006	5,607,750		

(see Note 9b)

(e) Earnings Per Share

All of the warrants, agents units and stock options outstanding at September 30, 2006 have been excluded from the calculation of earnings per share as the Company is in a loss position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2006 and 2005

Note 9 – Share Capital – Continued

(f) Shares Reserved – Common Shares

Shares are reserved for the following potential issuances:

	2006	2005
Share purchase warrants	5,607,750	5,984,500
Agents fees and warrants	100,000	750,000
	5,707,750	6,734,500
Stock options	2,060,000	1,700,000
Agents options	200,000	1,200,000
Property acquisition options	100,000	100,000
	8,067,750	9,734,500

As at September 30, 2006 there were 6,161,299 Common Shares held in escrow to be released over the period January 15, 2007 through July 15, 2008.

Note 10 – Contributed Surplus

Balance, September 30, 2004	$	-
Property acquisition cost		11,746
Stock option compensation		124,459
Agents options		113,603
Balance, September 30, 2005		249,808
Stock option compensation		188,287
Agent options exercised		
Common shares issued		(73,447)
Common share purchase warrants issued		(21,221)
Balance, September 30, 2006	$	343,427

Note 11 - Income Taxes

(a) Expected Income Tax Expense

The provision for income taxes differs from the results which would be obtained by applying the combined Federal and Provincial tax rate of approximately 34% (2004 - 35%) to the loss before income taxes. This difference results from the following items:

	2006	2005
	$	$
Expected income tax (recovery)	**(572,285)**	(208,016)
Stock option compensation	**64,018**	43,316
Valuation allowance	**508,267**	164,700
Total Income tax recovery	-	-

Note 11 - Income Taxes - Continued

(b) Future Income Taxes

The components of the net future income tax asset are as follows:

Future income tax asset (liability)	2006	2005
	$	$
Property, plant and equipment	**654,157**	710,817
Foreign exploration expenses	**2,290,451**	871,709
Non-capital losses available for future periods	**523,711**	285,756
Foreign non-capital losses available for future periods	**184,794**	79,890
Share issue costs	**224,147**	-
Total gross future tax asset	**3,877,260**	1,949,442
Valuation allowance	**3,877,260**	1,949,442
Net future income asset	**-**	-

(c) Loss carry-forwards

The Company has accumulated non-capital losses for income tax purposes of approximately $2,083,000 which can be used to reduce taxable income in future years. These losses, if not fully utilized, will expire as follows:

		$
Canada:		
2007		78,000
2008		70,000
2009		145,000
2010		44,000
2014		182,000
2015		424,000
2016		597,000
		1,540,000
Peru:	Losses limited to 50% of taxable income	543,000

(d) Tax pools

The Company has available the following approximate amounts which may be deducted, at annual rates indicated, in determining taxable income of future years.

		2006	2005
		$	$
Canada			
Resource properties	10% - 100%	**1,878,000**	1,878,000
Capital cost allowance	20% - 30%	**46,000**	36,000
Peru			
Mineral properties		**6,710,000**	2,574,000
Furniture and fixtures	10%-25%	**26,000**	17,000

The above amounts are subject to review by relevant tax authorities and are subject to revision.

Note 12 - Supplemental Cash Flow Information

Supplemental information regarding other non-cash transactions is as follows:

	2006	2005
	$	$
Shares for debt		
Current liabilities	-	20,000
Related party debt (Note 7)	-	174,600
Notes payable (Note 6)	-	367,500
	-	562,100
Shares for services (Note 5a)	-	210,000
Shares for interest expense	**-**	17,375
Shares for property acquisition (Note 5a & 5b)	**2,167,500**	200,000
Shares for offering costs (Note 9)	-	90,000

Note 13 – Segmented Information

The Company operated in one reportable operating segment, being mineral exploration and in the following geographical areas:

	September 30, 2006		
	Canada	**Peru**	**Total**
	$	**$**	**$**
Loss for the year	**789,221**	**893,970**	**1,683,191**
Identifiable assets	**88,710**	**6,381,194**	**6,469,904**

	September 30, 2005		
	Canada	Peru	Total
	$	$	$
Loss for the year	376,840	234,971	611,811
Identifiable assets	820,058	2,683,343	3,503,401

Note 14 – Commitments

The Company has entered into lease agreements for its office space in Calgary and Lima, Peru. The leases expire on December 31, 2007 and September 15, 2007 respectively. The minimum annual payments are as follows:

	$
2006	43,000
2007	23,000
Total	66,000

Note 15 – Subsequent Events

Subsequent to the year end, the Company closed a public offering issuing 5,604,400 units at a price of $0.70 per unit, for net proceeds of $ 3,648,464. Each unit comprises one common share of the capital of the Company and one-half a common share purchase warrant. Each whole warrant entitles the holder to subscribe for one common share at a price of $ 0.90 per share until on November 1, 2007, subject to the right of the Company to accelerate the expiry date if the 20 day weighted average closing price of the common shares on the TSX-V has been equal to or greater than $ 1.25. The Agent was granted 392,308 options exercisable at $0.70 per Unit, as part of its agency fee, which expire November 1, 2007. Prior to the year end the Company incurred $ 98,145 of legal, audit and other costs related to the financing which costs have been classified as deferred financing costs.