

Consolidated Financial Statements

Sienna Gold Inc.

(An Exploration Stage Company)

September 30, 2007

**CHARTERED
ACCOUNTANTS**

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Auditors' Report

To the Shareholders of Sienna Gold Inc.:

We have audited the consolidated balance sheet of Sienna Gold Inc. as at September 30, 2007 and the consolidated statements of operations and deficit and cash flows for the year then ended and for the cumulative period from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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, 2007 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles

The consolidated financial statements as at September 30, 2006 and for the year 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 were audited by a predecessor auditor who expressed an opinion without reservation on these consolidated financial statements in their report dated January 11, 2007.

(Signed) "MacKay LLP"

**Calgary, Canada
December 21, 2007**

Chartered Accountants

SIENNA GOLD INC.
 (An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

As at

	September 30, 2007	September 30, 2006
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	2,360,476	71,838
GST and foreign sales tax recoverable	118,828	115,838
Prepaid expenses	<u>29,786</u>	<u>-</u>
	2,509,090	187,676
Rental deposits	15,634	15,634
Deferred financing costs	-	98,145
Property and equipment (Note 4)	31,653	23,729
Mineral properties (Note 5)	<u>6,820,616</u>	<u>6,144,720</u>
	<u>9,376,993</u>	<u>6,469,904</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	190,974	581,162
Notes payable (Note 6)	-	100,000
Due to related parties (Note 7)	<u>-</u>	<u>70,000</u>
	190,974	751,162
Asset retirement obligation (Note 8)	<u>23,328</u>	<u>37,498</u>
	<u>214,302</u>	<u>788,660</u>
Nature of business and continuing operations (Note 1)		
Commitments (Notes 5 and 14)		
Subsequent events (Note 15)		
Shareholders' Equity		
Share capital (Note 9)		
Common shares	16,022,565	10,672,108
Common share purchase warrants	603,240	238,009
Contributed surplus (Note 10)	916,656	343,427
Deficit	<u>(8,379,770)</u>	<u>(5,572,300)</u>
	<u>9,162,691</u>	<u>5,681,244</u>
	<u>9,376,993</u>	<u>6,469,904</u>

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

On Behalf of the Board of Directors

(Signed) "John Rucci" _____

(Signed) "Raymond Antony" _____

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

	For the year Ended September 30, 2007	For the year ended September 30, 2006	Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2007
	\$	\$	\$
Expenses			
General and administration	817,100	676,565	1,693,997
Interest on notes and advances	16,986	-	67,783
Premises	70,008	66,214	186,236
Transfer, listing fees and shareholder communications	142,422	193,043	386,908
Mineral and exploration costs (Note 5)	-	-	244,254
Stock-based compensation (Note 9)	461,400	188,287	774,146
Accretion expense (Note 8)	2,778	2,778	5,556
Depreciation	12,704	10,721	27,159
Foreign exchange gain	<u>(26,388)</u>	<u>(21,129)</u>	<u>(52,522)</u>
Loss and comprehensive loss before the following:	1,497,010	1,116,479	3,333,517
Interest income	(69,349)	(10,740)	(80,089)
Write-down of mineral properties (Note 5)	<u>1,379,809</u>	<u>577,452</u>	<u>1,957,261</u>
Net loss and comprehensive loss	2,807,470	1,683,191	5,210,689
Deficit, beginning of period	<u>5,572,300</u>	<u>3,889,109</u>	<u>3,169,081</u>
Deficit, end of period	<u><u>8,379,770</u></u>	<u><u>5,572,300</u></u>	<u><u>8,379,770</u></u>
Loss per common share, basic and diluted	0.07	0.05	
Basic and Diluted Weighted average number of common shares outstanding	<u><u>39,187,199</u></u>	<u><u>31,445,224</u></u>	

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

SIENNA GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended September 30, 2007	For the year ended September 30, 2006	Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2007
	\$	\$	\$
Cash provided by (used for):			
Operating activities:			
Net loss and comprehensive loss	(2,807,470)	(1,683,191)	(5,210,689)
Adjustments for:			
Write-down of mineral properties (Note 5)	1,379,809	577,452	1,957,261
Depreciation	12,704	10,721	27,159
Stock-based compensation	461,400	188,287	774,146
Accretion expense	2,778	2,778	5,556
Foreign exchange gain	(26,388)	-	(26,388)
Shares for interest expense	16,986	-	34,361
	<u>(960,181)</u>	<u>(903,953)</u>	<u>(2,438,594)</u>
Asset retirement obligations settled	(16,948)	-	(16,948)
Changes in non-cash working capital items			
GST and foreign sales tax recoverable	36,504	3,472	15,128
Prepaid expenses	(29,786)	-	(45,420)
Accounts payable and accrued liabilities	(93,146)	9,665	(140,430)
	<u>(1,063,557)</u>	<u>(890,816)</u>	<u>(2,626,264)</u>
Investing activities:			
Mineral property expenditures	(2,026,427)	(1,968,529)	(6,124,633)
Property and equipment expenditures	(20,628)	(13,966)	(58,812)
GST and foreign sales tax recoverable	(39,494)	(94,462)	(133,956)
Accounts payable and accrued liabilities	(253,767)	366,959	157,615
	<u>(2,340,316)</u>	<u>(1,709,998)</u>	<u>(6,159,786)</u>
Cash provided by financing activities:			
Common shares and warrants issued	3,923,080	-	7,523,080
Share issue expenses	(376,109)	-	(744,924)
Deferred financing costs	-	(98,145)	(98,145)
Accounts payable and accrued liabilities	(43,275)	43,275	-
Agents' units exercised	63,605	300,000	363,605
Warrants exercised (Note 9)	2,277,100	410,700	2,694,000
Options exercised	21,000	-	21,000
Private placement	-	995,662	995,662
Advances from related parties	(70,000)	64,868	54,997
Notes payable (Note 6)	(100,000)	100,000	340,000
	<u>5,695,401</u>	<u>1,816,360</u>	<u>11,149,275</u>
Effect of exchange rate change on cash Increase (decrease) in cash and cash equivalents	(2,890)	-	(2,890)
Cash and cash equivalents Beginning of period	71,838	856,292	141
End of period	<u>2,360,476</u>	<u>71,838</u>	<u>2,360,476</u>

Supplemental Cash Flows information (Note 12)

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

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2007 and 2006

Note 1 - Nature of Business and Continuing Operations

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.

These consolidated 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 consolidated 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 consolidated 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 translation

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;
- iv. depreciation or amortization of assets translated historical exchange rates are translated at the same exchange rates as the assets to which they relate; and
- v. exchange gains or losses are charged to operations.

SIENNA GOLD INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2007 and 2006

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 consolidated financial statements are subject to measurement uncertainty.

The investment in and expenditures on mineral 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.

Mineral 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 on the mineral properties.

(f) **Financial instruments**

(i) Fair value

The fair value of the Company's cash and cash equivalents, GST and foreign sales tax recoverable, rental deposits, accounts payable and accrued liabilities, notes payable and amounts due to related parties at September 30, 2007 and 2006 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.

SIENNA GOLD INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2007 and 2006

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 amortized and depleted on a unit-of-production basis using estimated proven reserves of the mineral property as a depletion basis.

Periodic reviews are 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, the carrying amount is then written down accordingly and the write-down amount charged to operations.

Factors considered where a write-down would be indicated include:

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.

(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.

SIENNA GOLD INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2007 and 2006

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 over the vesting period. 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.

Note 3 – Change in accounting policy

Effective October 1, 2006, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income: Section 3251, Equity: Section 3855, Financial Instrument – Recognition and Measurement: and Section 3865, Hedges, retroactively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes 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 income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

Under Section 3855, financial instruments must be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair market value and changes in fair market value are recognized in net income: available-for-sale financial instruments are measured at fair market value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amount would be recorded in net income.

SIENNA GOLD INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2007 and 2006

Note 3 – Change in accounting policy (continued)

Upon adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivable, which are measured at amortized cost. Accounts payable and accrued liabilities, notes payable and due to related parties are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the year ended September 30, 2007.

The Company had no “other comprehensive income” during the year ended September 30, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

Note 4 – Property and equipment

Property and equipment consist of the following:

	2007		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Furniture and fixtures	58,813	27,160	31,653

	2006		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Furniture and fixtures	38,184	14,455	23,729

SIENNA GOLD INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2007 and 2006

Note 5 - Mineral properties

Summary of mineral properties

Property and costs	IGOR Concession (Peru)	Pachin Alto Concessions (Peru)	Buena Fortuna Concession (Peru)	Pele Joint Venture	Total
	\$				\$
Balance, September 30, 2005	<u>2,004,274</u>	<u>581,869</u>	-	-	<u>2,586,143</u>
Acquisition costs:					
Cash	346,486	169,425	10,993	-	526,904
Shares	2,167,500	-	-	-	2,167,500
Vigencia (license fee and penalty)	-	88,835	-	-	88,835
Total acquisition costs	<u>2,513,986</u>	<u>258,260</u>	<u>10,993</u>	<u>-</u>	<u>2,783,239</u>
Deferred exploration costs:					
Claims maintenance and staking	8,224	91,475	143	-	99,842
Mapping and sampling	238,286	25,669	14,752	-	278,707
Geophysical survey	52,646	25,505	-	-	78,151
Drilling	450,118	-	-	-	450,118
Assaying	93,300	5,161	1,064	-	99,525
Environmental	16,686	66	-	-	16,752
Surface rights	19,454	-	-	-	19,454
Engineering	83,375	-	-	-	83,375
Metallurgy	7,995	-	-	-	7,995
Site visits	2,796	-	-	-	2,796
Legal and accounting	86	-	-	-	86
Safety and protection	1,199	-	-	-	1,199
Social development	66,450	-	-	-	66,450
Management	148,340	-	-	-	148,340
Total deferred exploration costs	<u>1,188,955</u>	<u>147,876</u>	<u>15,959</u>	<u>-</u>	<u>1,352,790</u>
Write-down of mineral properties	-	(577,452)	-	-	<u>(577,452)</u>
Balance, September 30, 2006	<u>5,707,215</u>	<u>410,553</u>	<u>26,952</u>	-	<u>6,144,720</u>
Acquisition costs:					
Cash	-	-	-	2,433	2,433
Vigencia (license fee and penalty)	-	49,580	-	-	49,580
Total acquisition costs	<u>-</u>	<u>49,580</u>	<u>-</u>	<u>-</u>	<u>52,013</u>
Deferred exploration costs:					
Claims maintenance and staking	3,410	93,561	-	-	96,971
Mapping and sampling	374,052	29,425	-	-	403,477
Geophysical survey	-	42,744	-	-	42,744
Drilling	226,297	588,975	-	-	815,272
Assaying	15,911	61,941	-	-	77,852
Environmental	45,575	623	-	-	46,198
Engineering	90,846	20,158	-	-	111,004
Metallurgy	8,267	947	-	-	9,214
Site visits	-	335	-	-	335
Safety and protection	19,283	1,326	-	-	20,609
Social development	193,613	43,567	-	-	237,180
Management	106,762	36,074	-	-	142,836
Total deferred exploration costs	<u>1,084,016</u>	<u>919,676</u>	<u>-</u>	<u>-</u>	<u>2,003,692</u>
Write-down of mineral properties	-	(1,379,809)	-	-	<u>(1,379,809)</u>
Balance, September 30, 2007	<u>6,791,231</u>	<u>-</u>	<u>26,952</u>	<u>2,433</u>	<u>6,820,616</u>

SIENNA GOLD INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2007 and 2006

Note 5 - Mineral Properties - Continued

Mineral exploration costs incurred prior to the acquisition of the mineral properties and expensed for the year ended September 30, 2007 and 2006 consist of:

	2007	2006	Total Since Inception
	\$	\$	\$
Engineering	-	-	103,837
Evaluation and other	-	-	96,622
Travel	-	-	43,795
	<u>-</u>	<u>-</u>	<u>244,254</u>

(a) IGOR Concession

On June 30, 2005, the Company, through its 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 fair value 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 fair 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 its 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\$ 241,000) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2007 and 2006

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 was 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.

On August 1, 2007, the agreement was amended to reduce the monthly payments to US\$ 25,000 effective August 15, 2007 with a lump sum payment of US\$ 1,850,000 on August 15, 2011. The agreement was further amended on October 12, 2007 reducing the monthly payments to US\$ 12,500 and a lump sum payment of US\$ 2,412,500 on August 15, 2011.

Management of the Company evaluated the property with respect to future exploration plans and commitments and determined that the property results to date did not support future exploration commitments and as such actions were commenced to abandon the property at September 30, 2007 resulting in a charge to operations of \$1,379,809, representing accumulated costs capitalized to date.

(c) Buena Fortuna Concessions

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.

(d) Pele Joint Venture

On July 28, 2007, the Company entered into an agreement with the shareholder of Sociedad Minera Pele S.A.C. ("Pele"), a Peruvian company, to acquire shares of Pele from the shareholder. Pele owns 3,200 hectares of land in the Otuzco Province of Peru. Sienna has the right to purchase a 65% interest in the capital stock of Pele for a total of US\$ 5.00 within thirty-six months provided Sienna has incurred US\$ 400,000 of exploration expenses on the property owned by Pele. Sienna has the option to acquire the remaining 35% of the capital stock of Pele for US\$ 500,000 within twenty-four months of exercising its options on the first 65%. If Sienna acquires 100% of Pele, Sienna must cause Pele to grant to the shareholder of Pele, a 0.5% Net Smelter Return Royalty.

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 in November 2006 out of the proceeds of the public offering completed in November 2006. The Company issued 14,265 common shares of the Company valued at \$ 0.70 per share in lieu of interest as compensation for the advances.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 7 - Related Party Transactions

During 2007:

The President and CEO was paid \$ 30,000 (2006 - \$ 120,000) for management services provided, on January 1, 2007, the President and CEO became an employee of the Company. Directors or companies controlled by directors were paid \$ 23,400 (2006 - \$ 34,500) for engineering and other services, and a law firm of which a director is a partner was paid \$ 96,417 (2006 - \$ 39,500). The balance owing to directors at September 30, 2007 was \$ 9,035 (2006 - \$ 70,000).

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 in 2007 out of the proceeds of the public offering, described in Note 15. The Company issued 10,000 common shares of the Company in 2007 valued at \$ 0.70 per share in lieu of interest as compensation for the advances.

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, 2007, the estimated present value of the Company's asset retirement obligation was \$ 23,328 based on an estimated fair value of \$ 23,549, 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 less than a year into the future.

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		<u>2,778</u>
Asset retirement obligation at September 30, 2006		37,498
Liabilities incurred		-
Liabilities settled		(16,948)
Accretion expense		<u>2,778</u>
Asset retirement obligation at September 30, 2007		<u><u>23,328</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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:

Shares	Number	Amount
		\$
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	<u>1,026,750</u>	<u>454,678</u>
Balance, September 30, 2006	31,991,060	10,672,108
Public offering	5,604,400	3,320,313
Shares issued for interest	24,265	16,986
Agent options exercised	205,150	63,605
Warrants exercised	5,692,750	2,277,100
Stock options exercised	30,000	21,000
Fair value assigned to warrants exercised	-	242,253
Fair value assigned to stock options exercised	-	15,205
Fair value on agent's options exercised	-	16,076
Share issue costs	<u>-</u>	<u>(622,081)</u>
Balance September 30, 2007	<u><u>43,547,625</u></u>	<u><u>16,022,565</u></u>

Pursuant to a prospectus offering dated October 15, 2006, the Company issued 5,604,400 units comprising one common share and one-half a common share purchase warrant for gross proceeds of \$ 3,923,080. The warrant was initially scheduled to expire on November 1, 2007. On October 2, 2007 the expiry date was extended to November 1, 2008. The Company has assigned \$ 602,767 to the warrants based on the estimated fair value using a Black-Scholes option valuation model with the balance of \$3,320,313 assigned to shares. The agent also received an option to purchase an additional 392,308 units at \$ 0.70, which expire on November 1, 2007(see Note 15). The fair value of this option was estimated to be \$ 147,827 using Black-Scholes. These costs have been recorded as share issue costs.

Warrants	Number	Amount
		\$
Balance, September 30, 2005	6,134,500	260,766
Exercised	(1,026,750)	(43,978)
Issued on exercise of Agents' units/options	<u>500,000</u>	<u>21,221</u>
Balance, September 30, 2006	5,607,750	238,009
Prospectus	2,802,200	602,767
Exercised	(5,692,750)	(242,253)
Expired	(15,000)	(635)
Issued on exercise of Agents units/options	<u>102,575</u>	<u>5,352</u>
Balance, September 30, 2007	<u><u>2,804,775</u></u>	<u><u>603,240</u></u>

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Note 9 – Share Capital - continued

(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.

Details of the stock options are as follows:

	Shares Number	Weighted Average Exercise Price \$
Options outstanding, September 30, 2005	1,800,000	0.30
Granted	260,000	1.15
Exercised	-	-
Expired	-	-
Options outstanding, September 30, 2006	<u>2,060,000</u>	<u>0.41</u>
Granted	1,045,000	0.70
Expired	-	-
Exercised	<u>(30,000)</u>	<u>0.70</u>
Options outstanding, September 30, 2007	<u><u>3,075,000</u></u>	<u><u>0.50</u></u>

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	260,000	\$1.15	December 21, 2010
<u>1,015,000</u>	<u>492,500</u>	\$0.70	January 22, 2012
<u><u>3,075,000</u></u>	<u><u>2,552,500</u></u>		

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

Dividend yield	Nil
Expected volatility	92%
Risk free rate of return	4.04%
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, \$ 461,400 (September 30, 2006 - \$ 188,287) was recorded as an expense in the year with an offsetting credit to contributed surplus. An unamortized balance of \$ 81,986 (September 30, 2006 - \$ 21,423) remains, which will be expensed over the remaining vesting period.

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Year ended September 30, 2007 and 2006

Note 9 – Share Capital - continued

(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, 2005	6,134,500		
Issued on exercise of Agents' Options	500,000	June 27, 2007	\$0.40
Exercised	<u>(1,026,750)</u>		
Balance outstanding, September 30, 2006	5,607,750		
Issued on exercise of Agents' Options	100,000	June 27, 2007	\$0.40
Exercised	(5,692,750)		
Expired	(15,000)		
Public offering (Note 15)	2,802,200	November 1, 2007	\$0.90
Agents' Options (Note 15)	<u>2,575</u>	November 1, 2007	\$0.90
Balance outstanding, September 30, 2007	<u><u>2,804,775</u></u>		

(e) Earnings Per Share

All of the warrants, agents' options and stock options outstanding at September 30, 2007 have been excluded from the calculation of loss per share as the Company is in a loss position, and to do so would be antidilutive to the calculation of loss per share.

(f) Shares Reserved – Common Shares

Shares are reserved for the following potential issuances:

	2007	2006
Public offering, June 15, 2005		
Share purchase warrants	-	5,607,750
Agents' warrants	-	<u>100,000</u>
	-	<u>5,707,750</u>
Public offering, October 15, 2006		
Share purchase warrants	2,804,775	-
Agents' warrants	198,729	-
	<u>3,003,504</u>	-
Total warrants	2,998,354	5,707,750
Stock options	2,975,000	1,960,000
Agents' options (June 15, 2005)	-	200,000
Agents' options (October 15, 2006)	387,158	-
Property acquisition options	<u>100,000</u>	<u>100,000</u>
	<u><u>6,465,662</u></u>	<u><u>7,967,750</u></u>

As at September 30, 2007, there were 3,080,649 Common Shares held in escrow to be released over the period January 15, 2008 through July 15, 2008.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 10 – Contributed Surplus

	\$
Balance, September 30, 2005	249,808
Stock option compensation	188,287
Agents' options exercised	
Common shares issued	(73,447)
Common share purchase warrants issued	<u>(21,221)</u>
Balance, September 30, 2006	343,427
Stock option compensation	461,400
Agent options issued	147,827
Agent options exercised	
Expired warrants	635
Common shares issued	(16,076)
Common share purchase warrants issued	(5,352)
Stock options exercised	<u>(15,205)</u>
Balance, September 30, 2007	<u><u>916,656</u></u>

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 32% (2006 - 34%) to the loss before income taxes. This difference results from the following items:

	2007	2006
	\$	\$
Expected income tax (recovery)	(902,000)	(572,285)
Stock-based compensation	148,000	64,018
Effect of change in substantively enacted future tax rates	<u>182,000</u>	<u>-</u>
Valuation allowance	<u>572,000</u>	<u>508,267</u>
Income tax recovery	<u><u>-</u></u>	<u><u>-</u></u>

(b) Future Income Taxes

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

	2007	2006
	\$	\$
Future income tax asset		
Mineral properties and property equipment	1,184,000	920,000
Combined non-capital losses available for future periods	941,000	710,000
Share issue costs	<u>301,000</u>	<u>224,000</u>
Total gross future tax asset	2,426,000	1,854,000
Valuation allowance	<u>(2,426,000)</u>	<u>(1,854,000)</u>
Net future income asset	<u><u>-</u></u>	<u><u>-</u></u>

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Year ended September 30, 2007 and 2006

Note 11 - Income Taxes – Continued

(c) Loss carry-forwards

The Company has accumulated non-capital losses for income tax purposes in Canada of approximately \$ 2,195,000 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
2026		676,000
2027		<u>577,000</u>
		<u>2,195,000</u>
Peru: Losses limited to 50% of taxable income		<u>1,023,000</u>

(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.

		2007	2006
		\$	\$
Canada			
Resource properties	10% - 100%	2,059,000	2,059,000
Capital cost allowance	20% - 30%	48,000	46,000
Peru			
Mineral properties		8,766,000	6,710,000
Furniture and fixtures	10%-25%	39,000	26,000

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:

	2007	2006
Shares for property acquisition (Note 5a & 5b)	-	2,167,500
Shares for interest	16,986	-

Supplemental information regarding other cash transactions is as follows:

	2007	2006
Cash taxes paid	-	-
Cash interest paid	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended September 30, 2007 and 2006

Note 13 – Segmented Information

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

	<u>September 30, 2007</u>		
	<u>Canada</u>	<u>Peru</u>	<u>Total</u>
	\$	\$	\$
Loss for the year	1,051,159	1,756,311	2,807,470
Identifiable assets	2,449,584	6,927,409	9,376,993
	<u>September 30, 2006</u>		
	<u>Canada</u>	<u>Peru</u>	<u>Total</u>
	\$	\$	\$
Loss for the year	789,221	893,970	1,683,191
Identifiable assets	88,710	6,381,194	6,469,904

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, 2008 respectively. The Calgary lease was renewed for a five year period subsequent to the year end. The minimum annual payments are as follows:

	\$	\$
	Canada	Peru
2008	81,255	32,400
2009	93,432	-
2010	93,432	-
2011	93,432	-
2012	<u>93,432</u>	<u>-</u>
Total	<u>454,983</u>	<u>32,400</u>

Note 15 – Subsequent events

On October 2, 2007, the expiry date for the warrants issued pursuant to the October 15, 2006 prospectus offering were extended to November 1, 2008.

In October 2007, 143,605 agents' options issued pursuant to the October 15, 2006 public offering were exercised at \$0.70 per unit for aggregate cash proceeds of \$100,523 and in November 2007, the remaining 248,703 agents' options expired unexercised.

On November 15, 2007, the Company granted 620,000 stock options at \$0.70 in accordance with the terms and conditions of the Company's stock option plan disclosed in note 9(c).