

SIENNA GOLD INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS
AND RESULTS OF OPERATIONS (*Canadian dollars*).

This Management's Discussion and Analysis of Financial Results has been prepared as at January 15, 2008 for the year ended September 30, 2007. The following discussion includes references to United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars and United States dollars are referred to as US\$.

The following discussion of the financial condition and results of operations of Sienna Gold Inc. should be read in conjunction with our consolidated financial statements as at and for the year ended September 30, 2007 and related notes. These financial statements have been prepared in accordance with Canadian generally accepted accounting principals. This section contains forward-looking statements that involve risks and uncertainties. Sienna Gold's actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Forward-Looking Information".

All references to "dollars" or "\$" are in Canadian currency unless noted otherwise.

Forward-Looking Information

This management discussion and analysis ("MD&A") contains certain forward-looking statements and information relating to Sienna Gold Inc. ("Sienna" or the "Company") that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements relate to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and the availability of funding for the continued exploration of the Company's exploration properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

History and Corporate Structure

Sienna Gold Inc. was incorporated on July 28, 1987, as Vortex Energy & Minerals Ltd. under the Alberta Business Corporations Act. The name was changed on May 2, 2001 to Vortex Integrated Industrial Corporation and then to Sienna Gold Inc. on April 15, 2005. Sienna Gold Inc. is a holding company, and conducts its business in Peru through its wholly-owned subsidiary, Sienna Minerals S.A.C. a Peruvian company. Sienna's registered office is located at 3700 Canterra Tower 400 3rd Street S.W. Calgary, Alberta, Canada T2P 4H2 and its head office is located at Suite 820 - 840 7th Ave S. W. Calgary, Alberta, Canada, T2P 3G2. Sienna Minerals S.A.C. office is located at Jose Del Llano Zapata 332 Lima, Peru.

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Overview

Since July 1, 2004, when the Company changed its focus from oil and gas to base and precious metals exploration, the following significant transactions have been completed. All of these transactions are described in detail in the Company's annual information form filed on Sedar in January of 2007 or in this document.

June 27, 2005, the Company completed a prospectus financing for gross proceeds of \$ 3,600,000.

June 30, 2005, the Company completed the acquisition of a 60% interest in a mineral property in Peru (the Igor concession).

June 30, 2005, the Company entered into an option to acquire a five year option on eight early stage exploration properties (the EMRC concessions) and exercised the Cerro Blanco option.

February 1, 2006, the Company completed a private placement of 928,000 common shares at \$ 1.00 per share and 69,473 common shares at US\$ 0.95 for gross proceeds of \$ 1,004,626.

March 9, 2006, the Company acquired the remaining 40% of the Igor concession.

June 30, 2006, the Company terminated its option agreement with EMRC and simultaneously entered into a new option agreement regarding the Pachin Alto concessions. The Cerro Blanco option was dropped and on November 15, 2007 the Pachin Alto concessions were dropped.

During the period from June 30, 2005 to date the Company has advanced the geological knowledge of the Igor and Pachin Alto concessions through surface sampling, Induced Polarization (IP) lines and drilling on the concessions. Assay results can be found in the Company's annual information form and press releases.

In November, 2006, the Company completed a prospectus filing for net proceeds of \$ 3,448,464 through the issuance of 5,604,400 Units at a price of \$ 0.70 per Unit. Each Unit comprised one common share and one half a common share purchase warrant. Each full common share purchase warrant is exercisable at a price of \$ 0.90 per share until November 1, 2007, subject to the right of the Company to accelerate the expiry date in certain circumstances. On October 2, 2007, the expiry date was extended to November 1, 2008. The Agent was granted 392,308 options exercisable at \$0.70 per Unit, as part of its agency fee. The options expired in November 2007, 148,755 units were exercised and 243,553 expired unexercised.

On July 24, 2007, Sienna entered into an agreement with the shareholder of Sociedad Minera Pele S.A.C. ("Pele"), a Peruvian company. Pele owns 3,200 hectares of exploration land in the Department of La Libertad in the Province of Otuzco. The agreement provides a thirty-six month option for Sienna to acquire 65% of the shares of Pele for a total of US\$ 5.00 provided Sienna has incurred US\$ 400,000 of exploration expenses on the Pele concessions. Sienna also has the option to acquire the remaining 35% for US\$ 500,000 for a twenty-four month period commencing with the exercise of the option on the first 65%. In the event Sienna exercises its right to acquire 100% of the shares of Pele, Sienna will cause Pele to grant to the shareholder of Pele a 0.5% Net Smelter Return Royalty ("NSR Royalty").

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Results of Operations

Selected Annual Information

The following table sets out selected annual financial information of Sienna Gold and is derived from the Company's audited consolidated financial statements for the periods ended September 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$
Revenue	Nil	Nil	Nil
Interest Income	69,349	10,740	Nil
Loss for the Period	2,807,470	1,683,191	611,811
Loss per Share - Basic and Diluted	0.07	0.05	0.06
Total Assets	9,376,993	6,469,906	3,503,401
Total Long-term Liabilities	23,328	37,498	34,720
Dividends Declared	Nil	Nil	Nil

For the Year Ended September 30, 2007

The loss for the year ended September 30, 2007, increased by \$ 1,124,279 over the loss for 2006. The major items causing this increase are as follows:

- write off of mineral properties in the amount of \$ 1,379,809 (2006 - \$ 577,452) resulting from the abandonment of the Pachin Alto concessions,
- Stock-based compensation increased by \$ 273,113 as a result of stock options granted in January of 2007,
- Transfer, listing agent fees and shareholder communications decreased by \$ 50,621. The major items causing this decrease are as follows:
 - attendance at conferences decreased by \$ 26,000 as a result of the Company attending fewer investment conferences during the year,
 - consulting fees increased by \$ 45,000 resulting from the contracting of an investor relations consultant,
 - press releases and stock exchange fees decreased by \$ 13,000, and
 - printing decreased by \$ 50,000 as the Company's letterhead and website were designed during 2006,
- interest expense increased by \$ 16,986 resulting from advances made by a director and a shareholder,
- interest income increased by \$ 59,000 as a result of the financing completed in November of 2007,
- administrative expenses increased by \$ 141,000. The major items causing this increase are as follows:
 - a onetime bonus of \$ 75,000 paid to the president and director fees increased by \$ 9,000,
 - salaries and benefits increased by \$ 44,000 due to increased staff and general market conditions,
 - travel and entertainment decreased by \$ 35,000 resulting from fewer investor conferences during 2007,
 - professional fees have decreased \$ 23,000 resulting from reduced audit and legal fees,
 - insurance costs increased by \$ 18,000 as a result of obtaining a policy for out of country operations, and
 - Lima office costs increased by \$ 68,000 resulting from the Company incurring greater employer benefit costs, insurance and travel.

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For the Year Ended September 30, 2006

The loss for the year ended September 30, 2006, increased by \$ 1,071,380 over the loss for 2005 as a result of the following:

- write off of Mineral Properties in the amount of \$ 577,452 resulting from the termination of the EMRC option and the Cerro Blanco option.
- stock-based compensation increased by \$ 63,828 as a result of stock options granted in July and December of 2005.
- transfer, listing agent fees and shareholder communications increased by \$ 143,300 as follows:
 - attendance at conferences increased by \$ 68,000 as a result of the Company attending investment conferences during the year. The Company did not attend any conferences during 2005.
 - press releases increased by \$ 18,000
 - printing increased by \$ 48,000.
- the cost of the Company's premises has increased by \$ 16,598 as the Company's Peruvian subsidiary began operation in the fourth quarter of 2005.
- interest payable has been eliminated in 2006 as notes payable were settled in June 2005 for the issuance of the common shares of the capital of the Company.
- depreciation increased by \$ 6,987 as the office furniture and fixtures for the Lima, Peru office were acquired during the fourth quarter of 2005.
- administrative expenses have increased by \$ 498,338 as a result of the following:
 - president's remuneration increased by \$ 90,000
 - travel and entertainment increased by \$ 55,900 resulting from travel to Lima, Peru, and attendance at investment conferences in Toronto, New York and Calgary.
 - professional fees have increased \$ 51,900 resulting from the fact that in 2005 the Company was suspended from trading and prior to June 2005 was substantially inactive.
 - Lima office costs increased by \$ 202,700 mostly through greater activity and the fact that the Company only became active in Peru in the fourth quarter of 2005.

Mineral Property Expenditures

During the year ended September 30, 2007 the Company incurred cash expenditures on its mineral properties of \$ 2,026,427 (2006 - \$ 1,968,529). In 2007 no non-cash consideration was issued in exchange for mineral property interests. In 2006 the Company issued 2,550,000 common shares valued at \$0.85 per share for non-cash consideration of \$2,167,500 to acquire the remaining 40% interest in the IGOR concessions. At September 30, 2007 the Company commenced actions to abandon the Pachin Alto (EMRC) concessions resulting in a write-off of \$ 1,379,809.

IGOR Concessions (Peru)

The Company spent \$ 1,084,016 (2006 - \$ 1,188,955) in deferred exploration costs furthering the Company's knowledge of the geology of the concessions.

During the past year, the Company completed 500 meters of channel sampling, 500 hectares of geological mapping, and 16 kilometers of ground-based, induced polarization geophysical surveying and 1,750 meters of diamond drilling. Given the very rugged terrain of the Igor concessions, the Company maintained a crew of 20 local employees to develop the road access and assist with the sampling and mapping.

Detailed mapping and sampling throughout the Igor concessions showed the existence of a widespread porphyry intrusive body at the Igor concessions. The intrusive material is ubiquitous with fracturing and faulting and every sample analyzed contained anomalous mineralization primarily of lead and zinc with lesser amounts of copper. Based on the geological mapping of the property a mineralized intrusive porphyry model was proposed together with an exploration program to confirm the model. This model is consistent with porphyry models of other deposits in northern Peru such as Cerro Corona.

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Geophysics and alteration mapping confirm strong phyllic alteration coinciding with the mapped porphyry rock occurrences on the property. The work undertaken on the property in the past year suggests that the center of the porphyry system is down dip to the south of the Domo structure and a drill program has been permitted to test this model. A total of 8,500 meters of diamond drill holes will be drilled at the base of the Domo in 3 locations extending northwest from the Tesoros zone to the Callanquitas zone. A ninth, wildcat hole has also been drilled to a depth of 322 meters from the top of the Domo to understand the rock types within the Domo itself. Core samples are in the process of being sent for assay the results of which will be reported when available.

The Company also tested the Domo manto zone in the past year drilling 9 short holes. Five of the holes intersected mineable widths of gold bearing mantos which correlated to the sampling of the underground workings in the area. The first two holes drilled had very low core recovery so no analytical determination of gold assay could be made. The rock that was recovered was consistent with the mineralized manto rock in the nearby tunnels and it is speculated that with better core recovery the area may prove to be mineralized. A resource estimation to NI43-101 standards is currently being prepared for the Domo manto zone and the Tesoros breccia zone.

Dr. Warren Pratt, a director and geological consultant, visited the Igor concession on three occasions during the year and was instrumental in overseeing the exploration procedures to identify with greater precision the location, angle and depth of drill holes to test the porphyry zone.

This program has narrowed the exploration search to the following targets:

(i) El Domo Manto Zone, a gold/silver prospect.

The exploration program demonstrated that gold and silver mineralization are often present in mineable grades when a feeder system (vein, pebble dyke, etc.) intersects the axial area of a significant anticlinal fold. Preliminary mapping shows that the manto zone extends over an area of 700 meters by 100 meters. A total of 9 holes (each less than 50 meters deep) were drilled in the past year to test the thickness and grade of this manto deposit. A resource estimate resulting from this program is currently being calculated.

(ii) Callanquitas Zone, a porphyry prospect.

In the Callanquitas area of the concession a large porphyry intrusion has been mapped on outcrop coincident with a significant IP anomaly and phyllic alteration mapping. However, there is also evidence of the Chimu–Santa transition zone associated with anticlinal folding. Artesanal workings occur at the junction of a breccia within the transition zone which is associated with a large fault system. Samples collected over the mineralized breccia zone (3 to 5 meters wide) had average gold and silver values of 2.8 gpt and 41.6 gpt respectively.

The Company is currently drilling in the Callanquitas area to test both the breccia zone mineralization and the underlying and down dip porphyry intrusion.

(iii) Tesoros Fault and Breccia Zone, a gold/silver prospect.

The Tesoros fault zone was drilled in the previous fiscal year and the results of this program are currently being used to calculate a resource estimate. The Tesoros and Domo resource estimates will be the subject of an up-dated NI 43-101 report to be published in the Company's second reporting quarter.

The current drill program includes a total of three holes at the base of the Tesoros fault zone to

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follow up on the porphyry zone identified in the first drill program.

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Pachin Alto Concession (EMRC) (Peru)

During the year, the Company incurred cash expenditures of \$ 969,256 on the Pachin Alto concessions. In November 2007, the Company abandoned the concessions.

The property, comprising 6,000 hectares of land in the Alto Chicama high sulfidation corridor, has been mapped, surface sampled and tested with induced polarization and magnetometry geophysics. During the past year a total of 9 holes were drilled into the three target zones identified by previous work. Two of the zones were associated with a suspected high sulfidation zone on the Natalia concession. The results of the drilling were disappointing and no additional work was done in the area. The third target was in the El Pollo zone which was mapped as a large porphyry stockwork with significant surface geochemical anomalies. A total of 5 holes were drilled into this area and the presence of a porphyry system was confirmed although the core did not yield mineable grades of copper. The highest 2 meter sample grade reported was 0.3% copper.

During the year the Company entered into two subsequent agreements with EMRC to reduce the monthly payments while maintaining the total option price payable at the end of four years. However, the monthly payments to maintain the agreement with EMRC and the penalties payable to the government to maintain the concessions remained too high to warrant further work and actions were commenced by the Company to abandon the property at September 30, 2007 resulting in a charge to operations of \$1,379,809, representing the accumulated costs capitalized to date.

Buena Fortuna Concessions (Peru)

The Buena Fortuna concessions, comprising 2,500 hectares, was staked by the Company in April 2006. The prospective nature of the land was identified during a trip to evaluate one of the properties included in the EMRC concessions and is located well outside the area of influence.

A decision on additional work to be undertaken on this property will be made after the evaluation of the existing data has been received. The estimate of expenditures to be incurred on this property during 2008 is US\$ 50,000.

Pele Joint Venture (Peru)

The Pele joint venture agreement was entered into on July 24, 2007. The agreement provides Sienna with the option to acquire up to 100% of a Peruvian company, Sociedad Minera S.A.C. ("Pele"), which company owns 3,200 hectares of exploration land in the Department of La Libertad in the Province of Otuzco, Peru. The terms of the agreement grant to Sienna the right to acquire 65% of the shares of Pele within 36 months of signing the agreement provided Sienna has incurred US\$ 400,000 of exploration expenditures on the properties owned by Pele. Sienna has the further option for a period of 24 months from the exercising of the first option to acquire the remaining 35% of Pele for US\$ 500,000.

If Sienna exercises its option to acquire 100% of Pele, Sienna must cause Pele to grant a 0.5% NSR Royalty to the shareholder of Pele.

The Company anticipates commencing a US\$ 50,000 surface mapping and geochemistry program in the second quarter of 2008. The region has a previous history of vein mining for lead, zinc and silver which is the exploration target of interest to the Company.

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Mineral Exploration Risks and Factors

Exploration Risks

Exploration for minerals is speculative in nature, involves many risks and is frequently unsuccessful. All of the properties in which the Company has an interest or right are in the exploration stage only and are without established mineral resources or reserves. There can be no assurance that current, proposed or future exploration and development programs on properties in which the Company has an interest will result in the discovery of minerals mineralization or a profitable commercial mining operation. The commercial viability of a mineral deposit is dependent on a number of factors including the price of the related minerals, exchange rates, the particular attributes of the deposit, such as its size, grade and proximity to infrastructure, as well as other factors including financing costs, taxation, royalties, land tenure, land use, water use, power use, importing and exporting gold and environmental protection.

Calculation of Resources, Conversion to Reserves and Metal Recovery

The Company currently has no mineral reserves. Work is currently underway to quantify resources on the Igor property based on the first two drill campaigns. There is a degree of uncertainty attributable to the calculation of mineral resources and the degree to which mineral resources may ultimately prove to be convertible to mineral reserves, if at all. Until mineral resources are converted to mineral reserves and actually mined and processed, the quantity of mineral reserves and grades must be considered as estimates only. In addition, the quantity of mineral reserves and resources usually varies depending on metal prices. In addition, there can be no assurance that mineral recoveries in small-scale laboratory tests will be duplicated in large tests under on-site conditions or during production.

Lack of Cash Flow and Requirements for New Capital

The Company's current operations do not generate any positive cash flow and it is not anticipated that any positive cash flow will be generated for some time. The Company has limited financial resources and licenses which the Company holds and agreements to which the Company is a party impose financial obligations to the Company. There can be no assurance that additional funding will be available to allow the Company to fulfill such obligations. Failure to fulfill such obligations could result in the loss of some or all of the Company's property. Further exploration and development of the various mineral properties in which the Company holds interests depends upon the Company's ability to obtain financing through the joint venturing of projects, debt financing, equity financing or other means. The location of the mineral properties in which the Company holds interests are in developing countries and may make it more difficult, or impossible, for the Company to obtain debt financing from senior lenders. Financing through the sale of equity securities or securities converted into equity securities could result in substantial dilution. Failure to obtain additional financing on a timely basis could cause the Company to forfeit all or parts of its interests in some or all of its properties or joint ventures and reduce or terminate its operations.

Title Matters

The Company has investigated its rights to explore its various resource properties in Peru and, to the best of its knowledge, those rights are in good standing. No assurance can be given that a government will not significantly alter the conditions or revoke the applicable exploration or mining authorizations or that such exploration or mining authorizations will not be challenged or impugned by third parties. In addition, there can be no assurance that the properties in which the Company has an interest are not subject to prior unregistered agreements, transfers or claims and title may be affected by undetected defects. Concessions in which the Company has an interest may be cancelled if applicable fees or penalties are not paid.

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Surface Rights

The Company will be required to enter into agreements with local land owners in order to put a property into production. The Company has had initial contact with 94 surface rights owners at its Igor concession, but no agreements have been finalized. There can be no assurances that such agreements will be obtainable on acceptable terms, in a timely manner or at all.

Properties in Peru

The Company's property interests and exploration activities are located in Peru and are subject to that jurisdiction's laws and regulations. The Company believes the present attitude of Peru to foreign investment and mining to be favourable, but investors should assess the political and economic risks associated with investing in a foreign country. Any variation from the current regulatory, economic, political and social climate including those relating to taxation, royalties, imports, exports, duties and currency, delays in obtaining or the inability to obtain necessary governmental permits, currency fluctuations, restrictions on the ability of local operating companies to sell gold offshore for U.S. dollars, and on the ability of such companies to hold U.S. dollars or other foreign currencies in offshore bank accounts, import and export regulations, including restrictions on the export of gold, and limitations on the repatriation of earnings could have an adverse effect on the affairs of the Company.

As a result of the Company's assets being located in Peru, there may be difficulties in enforcing against the Company judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities legislation for a misrepresentation contained in this disclosure or otherwise. In particular, it may be practically impossible to enforce foreign court judgments against the Company in Peru.

Operating Hazards and Risks

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Company may decide not to insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

Foreign Countries and Regulatory Requirements

Mineral exploration and mining activities may be affected in varying degrees by political instability, civil disturbance and government regulations relating to the mining industry and foreign investors therein. There is no assurance that the political and investment climate of foreign countries will be favourable. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation, environmental legislation or mine safety. The developing country status of Peru or political climate of other neighbouring countries may make it more difficult for the Company to obtain further financing for exploration and any required project financing from senior lending institutions because such lending institutions may not be willing to finance projects in these countries due to the possible investment risk. For more information on the Company's properties, see the independent technical reports and the annual information form filed on SEDAR.

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Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of Sienna Gold and is derived from unaudited quarterly consolidated financial statements prepared by management. The Company's interim consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles in Canada and expressed in Canadian dollars.

Quarter Ended	Revenues	Loss For The Period	Basic and Fully-Diluted (Loss) per Share
		\$	\$
September 30, 2007	Nil	(1,733,186)	(0.04)
June 30, 2007	Nil	(301,193)	(0.01)
March 31, 2007	Nil	(562,113)	(0.01)
December 31, 2006	Nil	(210,978)	(0.01)
September 30, 2006	Nil	(252,523)	(0.01)
June 30, 2006	Nil	(795,986)	(0.03)
March 31, 2006	Nil	(362,161)	(0.01)
December 31, 2005	Nil	(272,521)	(0.01)

During the three months ended September 30, 2007, the Company incurred US\$ 403,699 in deferred exploration costs, exploring and maintaining its properties in Peru. In addition, the Company extended its lease on the office in Peru for an additional one year term.

The loss for the three months ended September 30, 2007 increased by \$ 1,481,000 over the loss for 2006. The major items causing this increase are as follows:

- the write off of mineral properties of \$ 1,380,000,
- a onetime bonus to the President's of \$ 75,000,
- an increase in the stock-based compensation of \$ 47,000,
- an increase in interest income of \$ 24,000, and
- a decrease in professional fees of \$ 14,000.

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Liquidity

The Company had cash and cash equivalents of \$ 2,360,476 at September 30, 2007 as compared with \$ 71,838 at September 30, 2006.

The Company had a working capital (deficit) surplus of \$ 2,318,116 and \$(563,486) as at September 30, 2007 and September 30, 2006, respectively.

In summary the Company anticipates that its working capital on September 30, 2008 will be approximately as follows:

Working capital September 30, 2007		\$	2,318,116
Exploration expenses budgeted (1.00 US\$ = 1.00 Cdn\$)			
IGOR (US\$ 1,134,000)	\$	(1,134,000)	
Pele Joint Venture (US\$ 50,000)		(50,000)	
Buena Fortuna (US\$ 50,000)		(50,000)	
General and administrative expenses		<u>(951,000)</u>	<u>2,185,000</u>
Estimated working capital September 30, 2008		\$	<u><u>133,116</u></u>

At January 15, 2008, the Company has outstanding 2,876,577 (September 30, 2007 – 2,804,775) common share purchase warrants resulting from the October 16, 2006 public placement of units.

Sienna has historically financed its operations primarily through the sale of common share equity. It is expected that the financing needs of the Company in the immediate future will continue to be from the issuance of Common share equity of the Company. Future financing requirements may be satisfied through the issuance of debt securities upon attainment of certain conditions acceptable to lenders, through the receipt of proceeds from the sale of certain of the Company's mineral properties or the attainment of profitable mining operations. Factors that could affect the availability of financing include Sienna's performance (as measured by various factors including the progress and results of its exploration work), the state of international debt and equity markets, investor perceptions and expectations of past and future performance, the state of the world precious and base metal markets, the global financial climate, and drilling and metallurgical testing results from the Sienna concessions and the status of options on concessions.

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Capital Resources

The Company had a working capital of \$ 2,318,116 as of September 30, 2007.

The Company's budget for the year ended September 30, 2008, is comprised of \$ 1,234,000 exploration and \$ 951,000 general and administrative costs. The Company has the funds necessary to complete the next phase of the exploration on the Igor and Buena Fortuna concessions.

Foreign Currency Exchange Rate Risk

All of Sienna Gold's activities are located in Peru, with the exception of a small administrative office in Canada. A large percentage of the Company's expenditures are incurred in United States dollars and therefore, costs estimated in Canadian dollars could increase or decrease accordingly. Sienna Gold's future profitability could be affected by fluctuations in foreign currencies relative to the United States dollar and Canadian dollar. Sienna Gold has not entered into any foreign currency contracts or other derivatives to establish a foreign currency protection program.

Litigation, Claims and Assessment

Except as described below, the Company is not aware of any material claims or potential claims against it. The Company is not party to any litigation and is not aware of any threatened litigation. The Company has received a letter advising that a party claiming to have received an interest in the Igor concession from a previous owner is threatening litigation unless she is compensated. The Company's Peruvian counsel advises that such an interest was never registered on the Igor concession's Public Records File. In this sense, given that Sienna acquired the Igor mining concession from its registered titleholder, Sienna's title to Igor is protected by law and should stand against any attack.

Forward Sales, Options and Other Commitments (including Off-Balance Sheet Arrangements)

The Company has no forward sales, option contracts, or other off balance sheet arrangements. In addition, the Company has no material commitments for expenditures other than office leases which do not extend beyond one year. All payments, license fees etc. payable with respect to the mineral properties expire if the property is abandoned.

Related Party Transactions

During the year, the President and CEO was paid \$ 195,000 (2006 - \$ 120,000) including a one-time bonus of \$ 75,000 (2006 - Nil) for management services provided. On January 1, 2007, the President and CEO became an employee. Directors or companies controlled by directors, were paid \$ 23,400 (2006 - 34,200) for engineering and other services, and a law firm of which a director is a partner was paid \$ 96,417 (2006 - \$ 34,500). The balance owing to directors at September 30, 2007 was \$ 9,035 (2006 - \$ 70,000).

During 2006, while the Company was completing its 2006 public offering the President and CEO of the Company together with a shareholder of the Company provided financial assistance to the Company in the amount of \$ 70,000 and \$ 100,000, respectively. Subsequent to September 30, 2006, the advances were repaid out of the proceeds of the public offering and the Company issued 10,000 and 14,265 common shares of the Company valued at \$ 0.70 per share as compensation for the advances.

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Critical Accounting Estimates

Capitalization and Impairment of Mineral Properties

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.

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.

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

A write down 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.

Stock-based Compensation

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments" requires fair value accounting for all stock options issued during the year. When determining the volatility factor and length of options for its stock-based compensation assumptions, management of the Company is required to make estimates for the future volatility of its shares and the length of time stock options will remain unexercised. Management has used assumptions regarding volatility based upon historical volatility of the Company's stock for the period July, 2005 (the resumption of trading on the Toronto Venture Exchange) to the date of transaction. In addition, management has assumed that 100% of the options will be exercised and will remain unexercised until immediately prior to their expiry date. These assumptions may not necessarily be an accurate indicator of future volatility.

Asset Retirement Obligations

The CICA Handbook Section 3110, Asset Retirement Obligation requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement cost must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

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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.

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.

Outstanding Share Data

The Company's outstanding share data as at January 15, 2008 and September 30, 2007 is as follows:

	<u>January 15, 2008</u>	<u>September 30, 2007</u>
Common shares	43,736,230	43,547,625
• Common share purchase warrants (Note 1)	2,876,577	2,804,775
Other Convertible Securities		
• Agents' options (Note 2)	-	387,158
• Warrants attached to agents options (Note 2)	-	193,579
Stock Options (Note 3)	<u>3,650,000</u>	<u>3,075,000</u>
Fully Diluted Shares	<u><u>50,262,807</u></u>	<u><u>50,008,137</u></u>

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Notes:

- 1) Warrants are exercisable at \$ 0.90 per share, expire on November 1, 2008 and are subject to the Company's right to accelerate the expiry date in certain circumstances.
- 2) Agents' options entitle the holder to purchase units at \$ 0.70 per unit. Each unit consists of one common share and one-half a common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share for \$ 0.90 per share. The agents' options expired in November, 2007. Agents' options of 248,703 expired unexercised in November 2007.
- 3) Stock options outstanding are exercisable at prices ranging from \$ 0.30 to \$ 1.15 per share and expire on dates ranging from June 30, 2010 to November 15, 2012. As of December, 2007 all but 832,500 stock options granted have vested.

Multilateral Instrument 52-109 Disclosure

Evaluation of Disclosure Controls and Procedures

Disclosure control and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management.

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2007 and have concluded that they are adequate and effective to ensure accurate and complete disclosure.

Internal Controls Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Sienna Gold are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Sienna Gold management has assessed the design of internal controls over financial reporting. During this process, certain material weaknesses in internal controls over financial reporting were identified as follows:

- Due to the limited number of staff at Sienna Gold, it is not economically feasible to achieve complete segregation of incompatible duties. Sienna Gold has operations in two countries and currently has six full-time and two part-time employees.
- Sienna Gold does not have a sufficient number of finance personnel, with all of the technical accounting knowledge, to address all complex and non-routine accounting transactions that may arise.
- Many of Sienna Gold's information systems are subject to general control deficiencies including a lack of effective controls over spreadsheets, access and documentation.

These weaknesses in internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of material misstatement; however we do not have reasonable assurance that this risk can be reduced to a remote likelihood of a material misstatement. Sienna Gold currently has no plans to remediate these weaknesses.

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Additional Disclosure

General and administrative expenses	September 30, 2007	September 30, 2006
	\$	\$
Lima, Peru – office costs	325,347	274,691
Professional fees	184,929	181,136
Administration fees	204,000	120,000
Travel and entertainment	59,837	64,736
Office and other costs	<u>42,987</u>	<u>36,002</u>
Total general and administrative costs	<u><u>817,100</u></u>	<u><u>676,565</u></u>

Deferred exploration costs by property:	September 30, 2007	September 30, 2006
	\$	\$
Igor concession	1,084,016	1,188,955
Pachin Alto (EMRC) concessions	919,676	147,876
Buena Fortuna concession	-	15,959
Pele Joint Venture	<u>-</u>	<u>-</u>
	<u><u>2,003,692</u></u>	<u><u>1,352,790</u></u>

Subsequent Events

On September 27, 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 16, 2006 public offering were exercised 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).

Additional Sources of Information

Additional sources of information regarding Sienna Gold Inc. can be found in the Company's annual information form and annual proxy statement filed on SEDAR at www.sedar.com and on the Company's web site at www.siennagold.com.