

Consolidated Financial Statements

Sienna Gold Inc.

(An Exploration Stage Company)

September 30, 2008 and 2007

**CHARTERED
ACCOUNTANTS**

MacKay LLP

Elveden House
Suite 1700, 717 – 7th Avenue S.W.
Calgary, Alberta T2P 0Z3

Tel: (403) 294-9292
Fax: (403) 294-9262

www.MacKay.ca

mackay.ca

Auditors' Report

To the Shareholders of Sienna Gold Inc.:

We have audited the consolidated balance sheets of Sienna Gold Inc. as at September 30, 2008 and 2007 the consolidated statements of operations, comprehensive loss and deficit and cash flows for 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, 2008. 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 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, 2008 and 2007 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Calgary, Canada
January 22, 2009**

(Signed) **MacKay LLP
Chartered Accountants**

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

As at	September 30, 2008 \$	September 30, 2007 \$
ASSETS		
Current		
Cash and cash equivalents	97,528	2,360,476
GST and foreign sales tax recoverable	141,907	118,828
Prepaid expenses	<u>29,831</u>	<u>29,786</u>
	269,266	2,509,090
Rental deposits	15,634	15,634
Property and equipment (Note 4)	17,509	31,653
Mineral properties (Note 5)	<u>8,886,109</u>	<u>6,820,616</u>
	<u>9,188,518</u>	<u>9,376,993</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	423,729	190,974
Asset retirement obligations (Note 8)	<u>9,445</u>	<u>23,328</u>
	<u>433,174</u>	<u>214,302</u>
Nature of business and continuing operations (Note 1)		
Commitments (Notes 5 and 16)		
Subsequent events (Note 17)		
Shareholders' Equity		
Share capital (Note 9)		
Common shares	16,090,852	16,022,565
Common share purchase warrants	1,203,196	603,240
Contributed surplus (Note 10)	1,202,763	916,656
Deficit	<u>(9,741,467)</u>	<u>(8,379,770)</u>
	<u>8,755,344</u>	<u>9,162,691</u>
	<u>9,188,518</u>	<u>9,376,993</u>

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, COMPREHENSIVE LOSS, AND DEFICIT

	For the year ended September 30, 2008 \$	For the year ended September 30, 2007 \$	Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2008 \$
Expenses			
General and administration	708,021	817,100	2,402,018
Interest on notes and advances	-	16,986	67,783
Premises	112,476	70,008	298,712
Transfer, listing fees and shareholder communications	94,160	142,422	481,068
Mineral and exploration costs (Note 5)	-	-	244,254
Stock-based compensation (Note 9)	353,476	461,400	1,127,622
Accretion expense (Note 8)	2,776	2,778	8,332
Depreciation	18,709	12,704	45,868
Foreign exchange loss (gain)	<u>7,770</u>	<u>(26,388)</u>	<u>(44,752)</u>
Loss and comprehensive loss before the following:	1,297,388	1,497,010	4,630,905
Interest income	(29,123)	(69,349)	(109,212)
Write-down of mineral properties (Note 5)	<u>93,432</u>	<u>1,379,809</u>	<u>2,050,693</u>
Net loss and comprehensive loss	1,361,697	2,807,470	6,572,386
Deficit, beginning of period	<u>8,379,770</u>	<u>5,572,300</u>	<u>3,169,081</u>
Deficit, end of period	<u>9,741,467</u>	<u>8,379,770</u>	<u>9,741,467</u>
Loss per common share, basic and diluted	<u>0.03</u>	<u>0.07</u>	
Basic and Diluted Weighted average number of common shares outstanding	<u>43,857,599</u>	<u>39,187,199</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, 2008 \$	For the year ended September 30, 2007 \$	Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2008 \$
Cash provided by (used for):			
Operating activities:			
Net loss and comprehensive loss	(1,361,697)	(2,807,470)	(6,572,386)
Adjustments for:			
Write-down of mineral properties (Note 5)	93,432	1,379,809	2,050,693
Depreciation	18,709	12,704	45,868
Stock-based compensation	353,476	461,400	1,127,622
Accretion expense	2,776	2,778	8,332
Foreign exchange loss (gain)	6,783	(26,388)	(19,605)
Shares for interest expense	-	16,986	34,361
	<u>(886,521)</u>	<u>(960,181)</u>	<u>(3,325,115)</u>
Asset retirement obligations settled	(16,659)	(16,948)	(33,607)
Changes in non-cash working capital items			
GST and foreign sales tax recoverable	103,866	36,504	118,994
Prepaid expenses	(45)	(29,786)	(45,465)
Accounts payable and accrued liabilities	<u>(59,966)</u>	<u>(93,146)</u>	<u>(200,396)</u>
	<u>(859,325)</u>	<u>(1,063,557)</u>	<u>(3,485,589)</u>
Investing activities:			
Mineral property expenditures	(2,165,672)	(2,026,427)	(8,290,305)
Property and equipment expenditures	(4,564)	(20,628)	(63,376)
GST and foreign sales tax recoverable	(126,945)	(39,494)	(260,901)
Accounts payable and accrued liabilities	<u>292,721</u>	<u>(253,767)</u>	<u>450,336</u>
	<u>(2,004,460)</u>	<u>(2,340,316)</u>	<u>(8,164,246)</u>
Cash provided by financing activities:			
Common shares and warrants issued	-	3,923,080	7,523,080
Share issue expenses	(35,000)	(376,109)	(779,924)
Deferred financing costs	-	-	(98,145)
Accounts payable and accrued liabilities	-	(43,275)	-
Agents' units exercised	100,524	63,605	464,129
Warrants exercised (Note 9)	-	2,277,100	2,694,000
Options exercised	34,500	21,000	55,500
Private placement	500,850	-	1,496,512
Related party advances (repayments)	-	(70,000)	54,997
Notes payable (Note 6)	<u>-</u>	<u>(100,000)</u>	<u>340,000</u>
	<u>600,874</u>	<u>5,695,401</u>	<u>11,750,149</u>
Effect of exchange rate change on cash	<u>(37)</u>	<u>(2,890)</u>	<u>(2,927)</u>
Increase (decrease) in cash and cash equivalents	(2,262,948)	2,288,638	97,387
Cash and cash equivalents			
Beginning of period	<u>2,360,476</u>	<u>71,838</u>	<u>141</u>
End of period	<u><u>97,528</u></u>	<u><u>2,360,476</u></u>	<u><u>97,528</u></u>

Supplemental Cash Flows information (Note 14)

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
Years ended September 30, 2008 and 2007

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. All inter-company transactions and balances have been eliminated. 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.

Effective October 1, 2007 the Company adopted the following:

1. *Financial Instruments – Disclosure and Presentation*: the CICA issued Section 3862, "Financial Instruments Disclosures" and Section 3863, "Financial Instruments, Presentation." These standards provide additional guidance on disclosing risks related to recognized and unrecognized financial instruments and how those risks are managed. This section applies to interim and annual financial instruments relating to fiscal years beginning on or after October 1, 2007. The adoption of these Handbook Sections has no material impact on the financial statements.

2. *Capital Disclosures*: CICA issued handbook Section 1535, Capital Disclosure, which provides standards for disclosures regarding a company's capital and how it is managed. Enhanced disclosures with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a company regards as capital is required. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and, therefore, the Company has adopted these standards on October 1, 2007. The adoption of this Handbook section has no material impact on the financial statements.

(a) Cash and cash equivalents

Cash is represented by cash and short-term investments with initial maturity dates of less than three months. The Company places its cash and cash equivalents with institutions of high credit worthiness. As of September 30, 2008, the Company's cash equivalents are invested in short-term investments with the annual interest rate of 1.5%.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies – Continued

(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.

(c) Comprehensive Income

CICA Handbook Section 1530, "Comprehensive Income", establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires be recognized in a period but excluded from net income for that period.

The Company has no items of other comprehensive income in any period presented. Therefore, net loss as presented in the Company's statement of operations equals comprehensive loss.

(d) Financial Instrument – Recognition and Measurement

Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. Under this standard, all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. The Company has implemented the following classification for its financial instruments:

- a) Cash and cash equivalents has been classified as held-for-trading,
- b) Accounts receivables have been classified as loans and receivables,
- c) Advances from and to related parties are classified as loans and receivables,
- d) Accounts payable and accrued liabilities have been classified as other financial liabilities and measured at amortized cost. In management's opinion the amortized costs approximate their carrying values.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies – Continued

(e) **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. Significant areas requiring the use of management estimates include the determination of environmental obligations, the recoverability of mineral properties, and the assumptions used in determination of the fair value of stock-based compensation. Actual results could differ significantly from those estimates.

(f) **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.

(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.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies – Continued

(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) **Impairment of long-lived assets**

The Company has adopted the recommendations of CICA Handbook Section 3063 "Impairment of Long-lived Assets" and abstract EIC 126, "Accounting by Mining Enterprises for Exploration Costs" ("EIC 126") of the Emerging Issues Committee on a prospective basis. Section 3063 requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstance indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated.

EIC 126 provides that an enterprise that is in the development stage with initially capitalized exploration costs but has not established mineral reserves objectively and therefore does not have a basis for preparing a projection of the estimated future net cash flow from the property, is not obliged to conclude that the capitalized costs have been impaired. However, such an enterprise should consider whether a subsequent write-down of capitalized exploration costs related to mining properties is required.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies – Continued

(j) **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.

(k) **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.

(l) **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 average market price of the Company's shares during the year was \$0.56. Information regarding securities that could potentially dilute basic earnings per share in the future is presented in Note 9.

(m) **Share issue costs**

Commissions paid to underwriters, and other related share issue costs, such as legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

(n) **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. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 3 – Accounting policies not yet adopted

The following pronouncements recently issued by the Canadian Institute of Chartered Accountants (“CICA”) may impact the Company’s future accounting policies:

Future Accounting Changes

Convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Section 1400 – Going Concern

Effective for fiscal years beginning on or after January 1, 2008, CICA Section 1400 – “General Standards of Financial Presentation” requires management to assess and disclose the ability of the Corporation to continue as a going concern.

Section 3031 – Inventories

Effective for fiscal years beginning on or after January 1, 2008, CICA Section 3031 – Inventories replaces Section 3030 and provides revised guidance on the measurement of cost and cost formulas for inventories, and increased disclosures. This standard is expected to have minimal impact on the Company upon adoption as the Company does not maintain significant levels of inventories on an ongoing basis.

Section 3064 – Goodwill and Intangible Assets

Effective for fiscal years beginning on or after January 1, 2009, the Company will be required to adopt this standard which replaces GAAP section 3062 and 3450 and provides guidance relating to the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is current assessing the impact of this standard.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 4 – Property and equipment

Property and equipment consist of the following:

	2008		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Furniture and fixtures	63,377	45,868	17,509

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

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 5 - Mineral properties

Summary of mineral properties

Property and costs	IGOR Concession (Peru) \$	Pachin Alto Concession (Peru) \$	Buena Fortuna Concession (Peru) \$	Pele Concession (Peru) \$	La Borrachera Concession (Peru)	Total \$
Balance, September 30, 2006	<u>5,707,215</u>	<u>410,553</u>	<u>26,952</u>	<u>-</u>	<u>-</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	-	49,580	-	-	-	52,013
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	1,084,016	919,676	-	-	-	2,003,692
Write-down of mineral properties	-	(1,379,809)	-	-	-	(1,379,809)
Balance, September 30, 2007	<u>6,791,231</u>	<u>-</u>	<u>26,952</u>	<u>2,433</u>	<u>-</u>	<u>6,820,616</u>
Acquisition costs						
Cash	-	-	-	-	23,518	23,518
Total acquisition costs	-	-	-	-	23,518	23,518
Deferred exploration costs:						
Claims maintenance and staking	12,342	41,527	-	-	-	53,869
Mapping and sampling	269,219	209	-	10,101	-	279,529
Drilling	1,288,362	877	-	-	-	1,289,239
Assaying	41,083	-	-	-	-	41,083
Environmental	25,961	106	-	-	-	26,067
Engineering	67,635	-	-	-	-	67,635
Metallurgy	115	-	-	-	-	115
Site visits	758	-	-	-	-	758
Safety and protection	78,019	-	-	-	-	78,019
Social development	137,240	-	-	-	-	137,240
Management	138,092	23,761	-	-	-	161,853
Total deferred exploration costs	2,058,826	66,480	-	10,101	-	2,135,407
Write-down of mineral properties	-	(66,480)	(26,952)	-	-	(93,432)
Balance, September 30, 2008	<u>8,850,057</u>	<u>-</u>	<u>-</u>	<u>12,534</u>	<u>23,518</u>	<u>8,886,109</u>

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 5 - Mineral properties - Continued

Mineral exploration costs incurred prior to the acquisition of the mineral properties and expensed for the period from inception to September 30, 2005 was \$ 244,254. No such costs were incurred and/or expensed for the period since September 30, 2005.

(a) IGOR Concession

On June 30, 2005 and March 9, 2006, the Company acquired a 100% interest in the IGOR concession comprising some 1,000 hectares in Peru.

(b) Pachin Alto (EMRC) Concession

Management of the Company evaluated the Pachin Alto concessions with respect to future exploration plans and commitments and determined that the results to date did not support future exploration commitments. The Company abandoned the property in November of 2007 resulting in a charge to operations of \$ 66,480 (September 30, 2007 - \$1,379,809), representing accumulated costs capitalized to date.

(c) Buena Fortuna Concession

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. On June 30, 2008 the concessions were surrendered to the Government of Peru resulting in a write-off of \$ 26,952.

(d) Pele Concession

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%. Sienna must cause Pele to grant to the shareholder of Pele a 0.5% Net Smelter Return Royalty, if Sienna acquires 100% of Pele.

(e) La Borrachera Concession

In September 2008, the Company filed mining claims on 900 hectares in the Lomas Province of the Department of Piura Peru. The project will be explored as a high sulfidation gold prospect.

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.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

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.

Note 7 - Related Party Transactions

During 2008:

The President and CEO was paid \$ 120,000 (2007 - \$ 195,000) for management services provided. Directors or companies controlled by directors were paid \$ 12,000 (2007 - \$ 23,400) for engineering and other services, and a law firm of which a director is a partner was paid \$ 16,558 (2007 - \$ 96,417). The balance owing to directors at September 30, 2008 was \$ 5,193 (2007 - \$ 9,035) which is included in accounts payable and accrued liabilities.

During 2007:

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).

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, 2008, the estimated present value of the Company's asset retirement obligation was \$ 9,445 based on an estimated fair value of \$ 9,445, 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:

	\$	
Balance, September 30, 2006		37,498
Liabilities incurred		-
Liabilities settled		(16,948)
Accretion expense		2,778
		<hr/>
Balance, September 30, 2007		23,328
Liabilities incurred		-
Liabilities settled		(16,659)
Accretion expense		2,776
		<hr/>
Balance, September 30, 2008		<u>9,445</u>

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 9 – Share Capital

(a) Authorized:

Unlimited number of common shares and unlimited number of preference shares:

Shares	Number	Amount \$
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>(622,081)</u>
Balance, September 30, 2007	43,547,625	16,022,565
Private placement	834,750	299,121
Agent options exercised	143,605	100,524
Warrants extension adjustment	-	(383,336)
Stock options exercised	115,000	34,500
Fair value assigned to stock options exercised	-	13,811
Fair value on agent's options exercised	-	38,667
Share issue costs	-	<u>(35,000)</u>
Balance, September 30, 2008	<u>44,640,980</u>	<u>16,090,852</u>

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

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 expired on November 1, 2007 of which a total of 143,605 agent options for gross proceeds of \$100,524 were exercised prior to expiry. The fair value of this option was estimated to be \$ 147,827 using Black-Scholes. These costs have been recorded as share issue costs.

Effective November 1, 2007 the TSX Venture Exchange granted the Company's application for a one year extension to the expiration of the 2,876,577 warrants associated with the October 16, 2006 public placement of units. The Company calculated the fair value of the warrant extension using the Black-Scholes option pricing model to be \$ 383,336, assuming no dividends were paid on the common shares, a risk free interest rate of 4.15%, an average expected life of one year and a volatility of 77%. The effect of this was to reduce share capital and to increase common share purchase warrants in the amount of \$ 383,336.

Pursuant to a private placement memorandum dated July 2, 2008 the Company issued 834,750 units comprising one common share and one-half a common share purchase warrant for gross proceeds of \$ 500,850. The warrant entitles the holder to acquire one common share for \$ 0.72 per share on or before August 1, 2009. The Company has assigned \$ 201,729 to the warrants based on the estimated fair value using a Black-Scholes option valuation model with the balance of \$ 299,121 assigned to the shares.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 9 – Share Capital - Continued

Warrants	Number	Amount \$
Balance, September 30, 2006	5,607,750	238,009
Public offering	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	2,804,775	603,240
Private Placement	417,375	201,729
Issued on exercise of Agents units/options	71,802	14,891
Extension of Warrants	<u>-</u>	<u>383,336</u>
Balance, September 30, 2008	<u><u>3,293,952</u></u>	<u><u>1,203,196</u></u>

(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 \$
Balance, September 30, 2006	2,060,000	0.41
Granted	1,045,000	0.70
Expired	-	-
Exercised	<u>(30,000)</u>	<u>0.70</u>
Balance, September 30, 2007	3,075,000	0.50
Granted	620,000	0.70
Expired	(165,000)	0.46
Exercised	<u>(115,000)</u>	<u>0.30</u>
Balance, September 30, 2008	<u><u>3,415,000</u></u>	<u><u>0.55</u></u>

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 9 – Share Capital – Continued

Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
100,000	100,000	\$0.30	June 30, 2010
1,485,000	1,485,000	\$0.30	July 11, 2010
260,000	260,000	\$1.15	December 21, 2010
950,000	950,000	\$0.70	January 22, 2012
<u>620,000</u>	<u>310,000</u>	\$0.70	November 15, 2012
<u>3,415,000</u>	<u>3,105,500</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:

	<u>2008</u>	<u>2007</u>
Dividend yield	Nil	Nil
Expected volatility	92%	88%
Risk free rate of return	4.04%	3.95%
Expected life of options	5 years	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, \$ 353,476 (September 30, 2007 - \$ 461,400) was recorded as an expense in the year with an offsetting credit to contributed surplus. An unamortized balance of \$ 18,258 (September 30, 2007 - \$ 81,986) 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, 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 17)	2,802,200	November 1, 2008	\$0.90
Agents' Options (Note 17)	<u>2,575</u>	November 1, 2007	\$0.90
Balance, September 30, 2007	2,804,775		
Issued on exercise of Agents' Options (Note 17)	71,802	November 1, 2008	\$ 0.90
Private Placement	<u>417,375</u>	July 15, 2009	\$ 0.72
Balance September 30, 2008	<u>3,293,952</u>		

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 9 – Share Capital – Continued

(e) Earnings Per Share

Of the stock options outstanding at September 30, 2008 and 2007 794,118 options have been excluded from the calculation of loss per share as the Company is in a loss position, and to do so would be anti-dilutive to the calculation of loss per share.

(f) Shares Reserved – Common Shares

Shares are reserved for the following potential issuances:

	2008	2007
Public offering, October 15, 2006		
Share purchase warrants	2,876,577	2,804,775
Agents' warrants	<u>-</u>	<u>198,729</u>
Total warrants	2,876,577	3,003,504
Stock options	3,415,000	2,975,000
Agents' options (October 15, 2006)	-	387,158
Property acquisition options	<u>100,000</u>	<u>100,000</u>
	<u><u>6,391,577</u></u>	<u><u>6,465,662</u></u>

Note 10 – Contributed Surplus

	\$
Balance, September 30, 2006	343,427
Stock option compensation	461,400
Agent options issued	147,827
Expired warrants	635
Agent options exercised	
Common shares issued	(16,076)
Common share purchase warrants issued	(5,352)
Stock options exercised	<u>(15,205)</u>
Balance, September 30, 2007	916,656
Stock option compensation	353,476
Agent options exercised	
Common shares issued	(38,667)
Common share purchase warrants issued	(14,891)
Stock options exercised	<u>(13,811)</u>
Balance, September 30, 2008	<u><u>1,202,763</u></u>

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

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 30.16% (2007 – 32.12%) to the loss before income taxes. This difference results from the following items:

	2008 \$	2007
Expected income tax (recovery)	(411,000)	(902,000)
Stock-based compensation	107,000	148,000
Non-recognition of temporary differences	59,000	-
Effect of change in substantively enacted future tax rates	<u>252,000</u>	<u>182,000</u>
Valuation allowance	<u>(7,000)</u>	<u>572,000</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:

	2008 \$	2007 \$
Future income tax asset		
Mineral properties and property equipment	1,088,000	1,185,000
Combined non-capital losses available for future periods	1,024,000	912,000
Share issue costs	<u>279,000</u>	<u>301,000</u>
Total gross future tax assets	2,391,000	2,398,000
Valuation allowance	<u>(2,391,000)</u>	<u>(2,398,000)</u>
Net future income asset	<u><u>-</u></u>	<u><u>-</u></u>

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 11 - Income Taxes – Continued

(c) Loss carry-forwards

The Company has accumulated non-capital losses for income tax purposes in Canada of approximately \$ 2,675,000 which can be used to reduce taxable income in future years. These losses, if not fully utilized, will expire as follows:

Canada:	\$
2009	20,000
2010	145,000
2015	44,000
2016	182,000
2027	424,000
2028	676,000
2029	601,000
2030	<u>533,000</u>
	<u>2,675,000</u>
Peru: Losses limited to 50% of taxable income	<u>1,264,000</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.

		2008	2007
		\$	\$
Canada			
Resource properties	10% - 100%	2,059,000	2,059,000
Capital cost allowance	20% - 30%	52,000	48,000
Peru			
Mineral properties	100%	10,925,000	8,766,000
Furniture and fixtures	10% - 25%	39,000	39,000

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

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 12 – Capital Risk Management

The Company's objectives when managing capital are:

- i. Maintain a flexible capital structure which optimizes the cost of capital at acceptable risk;
- ii. To manage capital in a manner that balances the interests of equity and debt holders.

In the management of capital, the Company includes share capital and total debt (defined as the aggregate of current assets and current liabilities).

The Company manages the capital structure and makes adjustments depending upon economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares and/or debt or sell assets.

The Company's share capital is not subject to external restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

The Company prepares annual and updated budgets which are approved by the Board of Directors.

The Company is in an exploration phase and does not have any cash flow, and consequently relies on equity financing. At the present time, the Company must pursue financing by equity or such other measures as the Board of Directors may identify in the best interests of the shareholders.

Note 13 – Financial Instruments

- a) Fair value of financial instruments:

The Company's financial instruments as at September 30, 2008 and 2007 include cash and cash equivalents, GST and foreign sales taxes recoverable, accounts payable and accrued liabilities. Their fair values approximate their carrying amounts due to their short terms to maturity.

- b) Credit risk:

The best representation of the Company's maximum exposure (excluding tax effects) to credit risk, which is a worst-case scenario and does not reflect results expected by the Company, is as set out in the following table:

	September 30, 2008	September 30, 2007
	\$	\$
Cash and cash equivalents	97,528	2,360,476
GST and Foreign Sales Tax Recoverable	<u>141,907</u>	<u>118,828</u>
	<u>239,435</u>	<u>2,479,304</u>

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. As at September 30, 2008, the Company's receivables consisted of \$ 141,907 (2007 - \$ 118,828) from the governments of Canada and Peru. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

The Company avoids complex investment vehicles with higher risk such as asset-backed commercial paper.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 13 – Financial Instruments - Continued

c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual budgets, which are regularly monitored and updated as considered necessary. To facilitate the capital expenditure program, the Company relies on equity financing. The Company anticipates raising funds from the issuance of equity prior to the commencement of the next exploration phase.

At September 30, 2008, all of the Company's accounts payable and accrued liabilities mature within one year.

d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's value. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Note 14 - Supplemental Cash Flow Information

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

	2008	2007
	\$	\$
Shares for interest	-	16,986

Supplemental information regarding other cash transactions is as follows:

	2008	2007
	\$	\$
Cash taxes paid	-	-
Cash interest paid	-	-

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2008 and 2007

Note 15 – Segmented Information

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

	September 30, 2008		
	<u>Canada</u>	<u>Peru</u>	<u>Total</u>
	\$	\$	\$
Loss for the year	1,023,916	337,781	1,361,697
Identifiable assets	133,569	9,054,949	9,188,518
	September 30, 2007		
	<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

Note 16 – Commitments

The Company has entered into lease agreements for its office space in Calgary and Lima, Peru. The leases expire on December 31, 2012 and December 15, 2008 respectively. The minimum annual payments are as follows:

	Canada \$	Peru \$
2009	93,432	12,600
2010	93,432	-
2011	93,432	-
2012	93,432	-
2013	<u>23,358</u>	<u>-</u>
Total	<u>397,086</u>	<u>12,600</u>

Note 17 – Subsequent events

On November 1, 2008, the expiry date for the warrants issued pursuant to the October 15, 2006 prospectus offering expired. All 2,876,577 warrants expired unexercised.

Pursuant to a private placement the Company issued 1,200,000 units at \$ 0.25 per unit on December 19, 2008 for proceeds of \$300,000. Each unit consists of one (1) common share, one (1) common share purchase warrant and one (1) net smelter royalty ("NSR"). Each common share purchase warrant entitles the holder to purchase one common share at \$ 0.35 per share for a period of 24 months from closing.

Each NSR Interest is an undivided interest in a two and a half percent (2.5%) Net Smelter Royalty of the Company's Igor property (the "NSR") equal to 0.000083333% of the NSR. The Company retains the right to repurchase the NSR for \$ 0.25 per NSR unit (\$ 300,000 in total) at any time in the future.