

Consolidated Financial Statements

Sienna Gold Inc.

(An Exploration Stage Company)

September 30, 2009 and 2008

**CHARTERED
ACCOUNTANTS**

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Auditors' Report

To the Shareholders of Sienna Gold Inc.:

We have audited the consolidated balance sheets of Sienna Gold Inc. as at September 30, 2009 and 2008 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, 2009. 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, 2009 and 2008 and the results of its operations 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, 2009 in accordance with Canadian generally accepted accounting principles.

**Calgary, Canada
January 27, 2010**

MacKay LLP

Chartered Accountants

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

As at	September 30, 2009 \$	September 30, 2008 \$
ASSETS		
Current		
Cash and cash equivalents	533,334	97,528
GST and foreign sales tax recoverable	32,830	141,907
Prepaid expenses	<u>-</u>	<u>29,831</u>
	566,164	269,266
Mineral properties (Note 4)	9,380,534	8,886,109
Property and equipment (Note 5)	10,941	17,509
Rental deposits	<u>-</u>	<u>15,634</u>
	<u>9,957,639</u>	<u>9,188,518</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 6)	694,931	423,729
Asset retirement obligation (Note 7)	<u>12,221</u>	<u>9,445</u>
	<u>707,152</u>	<u>433,174</u>
Nature of business and continuing operations (Note 1)		
Subsequent Events (Note 15)		
Contingencies (Note 16)		
Shareholders' Equity		
Share capital (Note 8)		
Common shares	16,678,092	16,090,852
Common share purchase warrants	448,639	1,203,196
Contributed surplus (Note 9)	2,517,046	1,202,763
Deficit	<u>(10,393,290)</u>	<u>(9,741,467)</u>
	<u>9,250,487</u>	<u>8,755,344</u>
	<u>9,957,639</u>	<u>9,188,518</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

 Andrew Burgess
 Signed

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

	For the year ended September 30, 2009 \$	For the year ended September 30, 2008 \$	Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2009 \$
Expenses			
General and administration (Note 6)	406,852	708,021	2,808,870
Interest on notes and advances	(36,992)	-	30,791
Premises	126,585	112,476	425,297
Transfer, listing fees and shareholder communications	41,730	94,160	522,798
Mineral and exploration costs (Note 4)	-	-	244,254
Stock-based compensation (Note 9)	82,258	353,476	1,209,880
Accretion expense (Note 7)	2,776	2,776	11,108
Depreciation	6,568	18,709	52,436
Foreign exchange (gain) Loss	<u>(28,108)</u>	<u>7,770</u>	<u>(72,860)</u>
Loss and comprehensive loss before the following:	601,669	1,297,388	5,232,574
Interest income	(61)	(29,123)	(109,273)
Write-down of mineral properties (Note 4)	<u>50,215</u>	<u>93,432</u>	<u>2,100,908</u>
Net loss and comprehensive loss	651,823	1,361,697	7,224,209
Deficit, beginning of period	<u>9,741,467</u>	<u>8,379,770</u>	<u>3,169,081</u>
Deficit, end of period	<u><u>10,393,290</u></u>	<u><u>9,741,467</u></u>	<u><u>10,393,290</u></u>
Loss per common share, basic and diluted	<u><u>0.01</u></u>	<u><u>0.03</u></u>	
Basic and diluted weighted average number of common shares outstanding	<u><u>45,925,895</u></u>	<u><u>43,857,599</u></u>	

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

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

	For the year ended September 30, 2009 \$	For the year ended September 30, 2008 \$	Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to September 30, 2009 \$
Cash provided by (used for):			
Operating activities:			
Net loss and comprehensive loss	(651,823)	(1,361,697)	(7,224,209)
Adjustments for:			
Write-down of mineral properties (Note 4)	50,215	93,432	2,100,908
Depreciation	6,568	18,709	52,436
Stock-based compensation	82,258	353,476	1,209,880
Accretion expense	2,776	2,776	11,108
Foreign exchange gain (Loss)	2,161	6,783	(17,444)
Shares for interest expense	-	-	34,361
Interest reversal	(36,992)	-	(36,992)
	<u>(544,837)</u>	<u>(886,251)</u>	<u>(3,869,852)</u>
Asset retirement obligations settled	-	(16,659)	(33,607)
Changes in non-cash working capital items			
Rental deposit	15,634	-	15,634
GST and foreign sales tax recoverable	87,346	103,866	206,340
Prepaid expenses	29,831	(45)	(15,634)
Accounts payable and accrued liabilities	37,221	(59,966)	(407,386)
	<u>(374,805)</u>	<u>(859,325)</u>	<u>(4,104,505)</u>
Investing activities:			
Mineral property expenditures	(834,949)	(2,165,672)	(9,125,254)
Property and equipment expenditures	-	(4,564)	(63,376)
GST and foreign sales tax recoverable	21,731	(126,945)	(239,170)
Accounts payable and accrued liabilities	544,700	292,721	1,239,247
	<u>(268,518)</u>	<u>(2,004,460)</u>	<u>(8,188,553)</u>
Cash provided by financing activities:			
Common shares and warrants issued	1,120,000	500,850	10,139,592
Share issue expenses	(55,292)	(35,000)	(835,216)
Deferred financing costs	-	-	(98,145)
Agents' units exercised	-	100,524	464,129
Warrants exercised	-	-	2,694,000
Options exercised	-	34,500	55,500
Advances from related parties	-	-	54,997
Notes payable	-	-	340,000
	<u>1,064,708</u>	<u>600,874</u>	<u>12,814,857</u>
Effect of exchange rate change on cash	14,421	(37)	11,394
Increase (decrease) in cash and cash equivalents	435,806	(2,262,948)	533,193
Cash and cash equivalents			
Beginning of period	97,528	360,476	141
End of period	<u>533,334</u>	<u>97,528</u>	<u>533,334</u>

Supplemental Cash Flows information (Note 13)

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, 2009 and 2008

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 - Significant Accounting Policies

Basis of presentation

These consolidated financial statements include the accounts of the Company and its subsidiary, Sienna Minerals S.A.C., a Peruvian corporation. All significant inter-company transaction and balances have been eliminated. In the opinion of management, all of the adjustments necessary to fairly present the consolidated financial statements set forth herein have been made.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumption that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

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.

SIENNA GOLD INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Note 2 - Significant Accounting Policies - Continued

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid investments with maturities of three months or less when purchased or which are readily convertible into known amount of cash. Interest earned is recognized immediately in operations. As at September 30, 2009 the Company's cash equivalents are invested in a business savings account with an annual interest rate of 0.25%.

VAT tax credits

Expenses incurred by the Company in Peru, including deferred exploration expenses, are subject to a Peruvian Value Added Tax ("VAT"). The VAT is partially refundable. The portion refundable is included in "GST and foreign sales tax refundable", the amount not refundable to the Company, can be used in future to offset amounts due to the Peruvian Revenue Service by the Company resulting from VAT charged to clients on future sales. The amount of this credit is not reflected in the financial statements as the recovery of these amounts is not certain.

Mineral property

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.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Note 2 - Significant Accounting Policies - Continued

Impairment of Long-lived Assets

The Company has adopted the recommendations of CICA Handbook Section 3063 "Impairment of Long-lived Assets" and abstract EIC 174, "Mining Exploration Costs" ("EIC 174") 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 174 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.

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.

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.

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-Scholes 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.

Valuation of equity units issued in private placements

The Company uses the fair value method to value any warrants and agent options issued in private placements. The fair value assigned to warrants is recorded as a reduction to share capital and an increase to warrants. The fair value assigned to agent options is recorded as share issue costs and an increase to contributed surplus.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Note 2 - Significant Accounting Policies – Continued

Transaction costs

The Company recognized transactions costs incurred in connection with issuance of capital as share issuance costs which are netted against gross proceeds from related transactions rather than being expensed as incurred. Transactions costs for assets and liabilities classified as held for trading are expensed as incurred.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Foreign currency translation

The Company's functional currency is the Canadian dollar. The Company's, subsidiary operations are considered integrated with and therefore the temporal method of translation has been applied. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect of the balance sheet date and non-monetary assets and liabilities are translated at the exchange rate in effect at the time of the transaction. Revenues and expenses are also translated at rates in effect at the time of the transaction. Gains and losses on translation are included in the results from operations.

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.

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, 2009 and 2008

Note 2 - Significant Accounting Policies – Continued

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings/loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common share at the average market price during the period. In the Company's case, basic and diluted loss per share are the same because the effect of outstanding stock options and warrants is anti-dilutive.

Note 3 – Adoption of new accounting standards and accounting pronouncements

a) Adoption of new standards:

Effective October 1, 2008 the Company adopted the following new accounting standards:

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173 entitled *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* ("EIC – 173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC- 173 is applicable to the Corporation's interim and annual financial statements for periods ending on or after January 20, 2009. The Company has evaluated the new guidance and determined that the adoption of these new requirements has not had an impact on the Company's consolidated financial statements.

General Standards of Financial Statement Presentation (CICA Section 1400)

In June 2007, the CICA amended Section 1400, "General Standards of Financial Statement Presentation" to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date.

Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Company has provided this disclosure in Note 1.

Section 3064 – Goodwill and Intangible Assets

CICA Handbook Section 3064 replaced CICA 3062, 3450, EIC 27 and part of AcG11. The portions in the new standard with respect to Goodwill remain unchanged. The provisions relating to the definition and initial recognition of intangible assets are equivalent to those found in International Reporting Financial Standards ("IFRS"). The adoption of this standard had no impact on the Company's representation of its financial position or results of operations as at September 30, 2009 and the year then ended.

b) Recent pronouncements:

Business combination, Consolidated Financial Statements and Non-Controlling interest

For interim and annual financial statements relating to its fiscal year commencing on or after January 1, 2011, the Company will be required to adopt new CICA Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Section 1582 replaces existing Section 1581 "Business Combinations", and Sections 1601 and 1602 together replace Section 1600 "Consolidated Financial Statements." The adoption of Sections 1582 and collectively, 1601 and 1602 provides the Canadian equivalent to IFRS 3 "Business Combinations and International Accounting Standard IAS 27 "Consolidated and Separate Financial Statements" respectively. The impact of adopting these new standards has not yet been assessed and cannot reasonably be estimated at this time.

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Note 3 – Adoption of new accounting standards and accounting pronouncements - continued

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company is currently engaged in the scoping phase of its conversion which involves a high level review of major differences between Canadian GAAP and IFRS, setting a timeline for resources and developing a project plan. This scoping phase is intended to provide direction to the Company’s management for the second phase of conversion project and will be disclosed in the Company’s 2010 annual financial statements and management’s discussion and analysis. The company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

SIENNA GOLD INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Note 4 - Mineral properties

Summary of mineral properties

Property and costs	IGOR Concession (Peru) \$	Pachin Alto Concessions (Peru) \$	Buena Fortuna Concession (Peru) \$	Pele Joint Venture (Peru) \$	La Borrachera Concession (Peru)	Total \$
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>
Deferred exploration costs:						
Claims maintenance and staking	3,501	-	-	4,202	9,961	17,664
Mapping and sampling	303,394	-	-	-	-	303,394
Drilling	178,059	-	-	-	-	178,059
Assaying	4,658	-	-	-	-	4,658
Environmental	3,487	-	-	-	-	3,487
Site visits	2,932	-	-	-	-	2,932
Safety and protection	12,103	-	-	-	-	12,103
Social development	16,162	-	-	-	-	16,162
Management	6,181	-	-	-	-	6,181
Total deferred exploration costs	530,477	-	-	4,202	9,961	544,640
Write-down of mineral properties	-	-	-	(16,736)	(33,479)	(50,215)
Balance, September 30, 2009	<u>9,380,534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,380,534</u>

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Note 4 - 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

The Company has acquired mineral claims in the District of Huaranchal, Province of Otuzco, in the department of La libertad, Peru (the "IGOR concession") comprising some 1,000 hectares. In order to maintain its interest in its current portfolio of its mineral properties the Company must pay to the Government of Peru an annual license fee (Derecho de Vigencia) of US \$ 3.00 per hectare plus a penalty of US \$20.00 per hectare for failure to reach "minimum production levels". The title holder can be exonerated from penalty payments in case the title holder evidences having incurred in direct investments on the mining concession an amount equivalent to ten times the penalty applicable.

The estimated license fee for calendar 2009 payable June 30, 2010 is US \$ 23,000 (2008 – US \$ 3,000).

(b) Pachin Alto (EMRC) Concessions

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 during the year ended September 30, 2008 (September 30, 2007 - \$1,379,809), representing accumulated costs capitalized to date.

(c) Buena Fortuna Concessions

On April 24, 2006, the Company filed a total of three mining claims which covered an area of 2,500 hectares, located in the Department of Ancash, near the area of the Pachin Alto project. By resolutions dated July 6, 2006, concession title over these claims was granted in favor of the Company. On June 30, 2008 the concessions were surrendered to the government of Peru resulting in a charge to operations of \$ 26,952 during the year ended September 30, 2008.

(d) Pele Joint Venture

On July 28, 2007, the Company entered into an option 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. In December 2008, the option agreement was cancelled resulting in a charge to operations of \$ 16,736 during the year ended September 30, 2008.

(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. On July 1, 2009 the concession was surrendered to the government of Peru resulting in a charge to operations of \$33,479 during the year ended September 30, 2008.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 5 – Property and equipment

Property and equipment consist of the following:

	2009		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Furniture and fixtures	<u>63,377</u>	<u>52,436</u>	<u>10,941</u>
	2008		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Furniture and fixtures	<u>63,377</u>	<u>45,868</u>	<u>17,509</u>

Note 6 - Related Party Transactions

During the year ended September 30, 2009:

Directors or companies controlled by directors were paid \$ 26,697 (2008 – \$ 18,985) of which \$6,514 is in the year end accounts payable and accrued liabilities, for engineering and other services, and a law firm of which a director is a partner was paid \$ 53,242 (2008 - \$ 16,588) of which \$25,038 is in the year end accounts payable and accrued liabilities (2008 - \$5,194). During the year related parties waived compensation accrued to August 31, 2009 of \$ 126,468, representing \$62,000 in salaries originally capitalized to mineral properties and \$64,468 in salaries originally charged to operations. The amounts have been reversed by the Company and removed from accounts payable and accrued liabilities. In consideration for this waiver of accrued compensation in 2009 the Company granted stock options to the related directors and officers (Note 8(b)). Directors, officers and consultants participated in private placements in August and September 2009 acquiring \$ 128,617 of Units.

During the year ended September 30, 2008:

Directors or companies controlled by directors were paid \$ 18,985 (2007 - \$ 23,400) for engineering and other services, and a law firm of which a director is a partner was paid \$ 16,588 (2007 - \$ 96,417).

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 7 - 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, 2009, the estimated present value of the Company's asset retirement obligation was \$ 12,221 based on an estimated fair value of \$ 12,221, 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.

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Note 7 - Asset Retirement Obligations – Continued

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

	\$
Asset retirement obligation at September 30, 2007	23,328
Liabilities incurred	-
Liabilities settled	(16,659)
Accretion expense	<u>2,776</u>
Asset retirement obligation at September 30, 2008	9,445
Accretion expense	<u>2,776</u>
Asset retirement obligation at September 30, 2009	<u><u>12,221</u></u>

Note 8 – Share Capital

(a) Authorized:

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

Shares	Number	Amount \$
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>-</u>	<u>(35,000)</u>
Balance, September 30, 2008	44,640,980	16,090,852
Private placements		
December 19, 2008	1,200,000	187,420
August 28, 2009	1,358,499	123,095
September 10, 2009	4,108,167	360,846
Share issue costs	<u>-</u>	<u>(84,121)</u>
Balance, September 30, 2009	<u><u>51,307,646</u></u>	<u><u>16,678,092</u></u>

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Note 8 – Share Capital - Continued

Common Share Purchase Warrants	Number	Amount	Expiry Date	Exercise Price
		\$		
Balance, September 30, 2007	2,804,775	603,240		
Private placement Issued on exercise of Agents' units/options	417,375	201,729	August 1, 2009	\$ 0.72
Extension of warrants	71,802	14,891	November 1, 2008	\$ 0.90
	<u>-</u>	<u>383,336</u>		
Balance, September 30, 2008	3,293,952	1,203,196		
Private placements				
December 19, 2008	1,200,000	112,580	December 20, 2010	\$ 0.35
August 28, 2009	1,358,499	80,680	August 29, 2010	\$ 0.25
September 10, 2009	4,108,167	255,379	September 11, 2010	\$ 0.25
Warrants expired	<u>(3,293,952)</u>	<u>(1,203,196)</u>		
Balance, September 30, 2009	<u>6,666,666</u>	<u>448,639</u>		

Issued and outstanding common shares and warrants to purchase common shares:

Fiscal 2008 transactions

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. 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.

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Note 8 – Share Capital – Continued

Fiscal 2009 transactions

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. The Company has assigned \$ 112,580 to the warrants based on the estimated fair value using a Black-Scholes option value model with the balance of \$ 187,420 assigned to the shares. No value has been assigned to the NSR. 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 0.0000083333% 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.

During August and September 2009, pursuant to private placement memorandum the Company issued 5,466,666 units, comprising one common share and one common share purchase warrant, at \$0.15 per unit for gross proceeds of \$820,000. The warrants entitle the holder to acquire a common share for \$0.25 per share for one year after closing. The Company has assigned \$336,059 to the warrants based on the estimated fair value using a Black-Scholes option valuation model with the balance of \$483,941 assigned to its shares. Agents assisting in the private placement were paid \$42,698 and were granted 89,150 units and 266,667 common share purchase warrants. The units entitle the holder to acquire one common share of the corporation for \$0.15 and receive one common share purchase warrant, the common share purchase warrants entitle the holder to acquire a common share for \$0.25 per share. The Company has assigned \$28,829 to the units and warrants based on the estimated fair value using Black-Scholes option value model. These costs have been recorded as share issue costs.

The fair value of warrants issued is estimated on the date of issue using the Black-Scholes valuation model with the following weighted average assumptions:

	Year ended September 30, 2009	Year ended September 30, 2008
Dividend yield	Nil	Nil
Expected volatility	86% - 144%	77% - 86.5%
Risk free rate of return	1.09% - 2.51%	3.27% - 4.15%
Expected life of options	1-2 years	1 year

Warrant 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 warrants.

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Years ended September 30, 2009 and 2008

Note 8 – Share Capital – Continued

(b) Stock Options

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

Details of the stock options are as follows:

	Shares Number	Weighted Average Exercise Price \$
Options outstanding, September 30, 2007	3,075,000	0.50
Granted	620,000	0.70
Expired	(165,000)	0.70
Exercised	<u>(115,000)</u>	<u>0.30</u>
Options outstanding, September 30, 2008	3,415,000	0.55
Granted	1,300,000	0.25
Expired	<u>(625,000)</u>	<u>0.67</u>
Options outstanding, September 30, 2009	<u>4,090,000</u>	<u>0.34</u>

Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
100,000	100,000	\$0.30	June 30, 2010
1,170,000	1,170,000	\$0.30	July 11, 2010
175,000	175,000	\$1.15	December 21, 2010
725,000	725,000	\$0.70	January 22, 2012
620,000	620,000	\$0.70	November 16, 2012
<u>1,300,000</u>	<u>650,000</u>	\$0.25	September 1, 2014
<u>4,090,000</u>	<u>3,440,000</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:

	Year ended September 30, 2009	Year ended September 30, 2008
Dividend yield	Nil	Nil
Expected volatility	96%	77%-86.5%
Risk free rate of return	2.51%	3.27%-4.15%
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, \$ 82,258 (September 30, 2008 - \$ 353,476) was recorded as an expense in the year with an offsetting credit to contributed surplus. An unamortized balance of \$ 59,138 (September 30, 2008 - \$ 18,258) remains, which will be expensed over the remaining vesting period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Note 8 – Share Capital – Continued

(c) Earnings Per Share

All of the warrants, agents' options and stock options outstanding at September 30, 2009 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.

(d) Shares Reserved – Common Shares

Shares are reserved for the following potential issuances:

	<u>2009</u>	<u>2008</u>
Public offering, October 16, 2006	-	2,876,577
Private Placement		
December 19, 2008	1,200,000	-
August 28, 2009	1,358,499	-
September 10, 2009	4,108,167	-
Agent units/warrants	444,967	-
Stock options	3,990,000	3,415,000
Property acquisition options	<u>100,000</u>	<u>100,000</u>
	<u>11,201,633</u>	<u>6,391,577</u>

Note 9 – Contributed Surplus

	\$
Balance, September 30, 2007	916,656
Stock option compensation	353,476
Agent options exercised	
Common shares issued	(38,667)
Common share purchase warrant issued	(14,891)
Stock options exercised	<u>(13,811)</u>
Balance, September 30, 2008	1,202,763
Stock option compensation	182,258
Agent option issued	28,829
Warrants expired	<u>1,203,196</u>
Balance, September 30, 2009	<u>2,517,046</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 10 - 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 29.13% (2008 – 30.16%) to the loss before income taxes. This difference results from the following items:

	2009 \$	2008 \$
Expected income tax (recovery)	(190,000)	(411,000)
Stock-based compensation	24,000	107,000
Changes in tax rates and other	(54,000)	311,000
Valuation allowance	<u>220,000</u>	<u>(7,000)</u>
Income tax recovery	<u> -</u>	<u> -</u>

(b) Future Income Taxes

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

	2009 \$	2008 \$
Future income tax asset		
Mineral properties and property equipment	1,179,000	1,088,000
Combined non-capital losses available for future periods	1,139,000	1,024,000
Share issue costs	<u>293,000</u>	<u>279,000</u>
Total gross future tax asset	2,611,000	2,391,000
Valuation allowance	<u>(2,611,000)</u>	<u>(2,391,000)</u>
Net future income asset	<u> -</u>	<u> -</u>

(c) Loss carry-forwards

The Company has accumulated non-capital losses for income tax purposes in Canada of approximately \$ 2,928,000 which can be used to reduce taxable income in future years. These losses, if not fully utilized, will expire as follows:

Canada:	\$
2010	145,000
2015	44,000
2016	182,000
2027	424,000
2028	676,000
2029	601,000
2030	533,000
2031	<u>323,000</u>
	<u>2,928,000</u>
Peru: Losses limited to 50% of taxable income	<u>1,454,000</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2009 and 2008

Note 10 - Income Taxes – Continued

(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.

		2009	2008
		\$	\$
Canada			
Resource properties	10% - 100%	2,059,000	2,059,000
Capital cost allowance	20% - 30%	52,000	52,000
Peru			
Mineral properties	100%	11,760,000	10,925,000
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.

Note 11 – Management of Capital Structure

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 12 – Financial Instruments

a) Fair value of financial instruments:

The Company's financial instruments as at September 30, 2009 and 2008 include cash and cash equivalents, GST and foreign sales taxes recoverable, accounts payable and accrued liabilities. The fair value of cash and cash equivalents, GST and foreign sales taxes recoverable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

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Note 12 – Financial Instruments - Continued

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, 2009	September 30, 2008
	\$	\$
Cash and cash equivalents	533,334	97,528
GST and Foreign Sales Tax Recoverable	<u>32,830</u>	<u>141,907</u>
	<u>566,164</u>	<u>239,435</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, 2009, the Company's receivables consisted of \$ 32,830 (2008 - \$ 141,907) from the Governments of Canada and Peru.

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

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 will need additional equity funding prior to the commencement of the next exploration phase.

At September 30, 2009, 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 13 - Supplemental Cash Flow Information

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

	<u>2009</u>	<u>2008</u>
Transfer from warrants to contributed surplus	1,203,196	-
Fair value assigned to warrants and charged to share issue costs	28,829	-

Supplemental information regarding other cash transactions is as follows:

	<u>2009</u>	<u>2008</u>
Cash taxes paid	-	-
Cash interest paid	-	-

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Note 14 – Segmented Information

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

	<u>September 30, 2009</u>		
	<u>Canada</u>	<u>Peru</u>	<u>Total</u>
	\$	\$	\$
Loss for the year	483,712	168,111	651,823
Identifiable assets	441,273	9,516,366	9,957,639
	<u>September 30, 2008</u>		
	<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

Note 15 – Subsequent Events

On October 6th, 2009 the Company granted 350,000 stock options to directors at \$ 0.30 per share exercisable for 5 years from the date of grant. The stock options granted to the directors vest as to 50% on October 6th, 2009 and the balance on October 6th, 2010.

The Company subsidiary, Sienna Minerals S.A.C., has entered into an agreement to acquire approximately 300 net hectares of land contiguous to the IGOR concession. The consideration will be \$ 55,000 US which amount can be settled with the issuance of 355,000 common shares of Sienna Gold valued at \$ 0.155 per share.

Note 16 – Contingency

A drilling contractor engaged by the Company during the period 2007-2008 to perform drilling activities on the IGOR concession has indicated to the company that in addition to the US\$ 534,530 that has invoiced to and paid by the Company an additional US\$ 377,000 remains outstanding. The balance outstanding is being disputed by the Company, however, the entire amount has been recorded as a liability at September 30, 2009.

The drilling contractor has recently filed a statement of claim in the amount of US\$ 58,000 and has received approval to encumber the IGOR concession with a US \$ 50,000 encumbrance.

The Company has been disputing the amount of the invoices of which it has only recently received in good faith since it was made aware of the disputed amount. The Company maintains that the work performed by the drilling contractor was deficient in skill, quality and supervision and that the drilling contractor did not complete the work contracted. The Company intends to defend itself and believes that it has meritorious defenses.