

Consolidated Financial Statements

**Sienna Gold Inc.**

(An Exploration Stage Company)

September 30, 2010 and 2009

## **Auditors' Report**

### **To the Shareholders of Sienna Gold Inc.:**

We have audited the consolidated balance sheets of Sienna Gold Inc. as at September 30, 2010 and 2009 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, 2010. 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, 2010 and 2009 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, 2010 in accordance with Canadian generally accepted accounting principles.

(Signed) "MacKay LLP"

**Calgary, Canada  
January 24, 2011**

**Chartered Accountants**

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

| As at  | September 30,<br>2010<br>\$ | September 30,<br>2009<br>\$ |
|--|-----------------------------|-----------------------------|
| <b>ASSETS</b>  |                             |                             |
| <b>Current</b>   |                             |                             |
| Cash and cash equivalents                                    | 50,030                      | 533,334                     |
| GST and foreign sales tax recoverable                        | <u>52,033</u>               | <u>32,830</u>               |
|  | <b>102,063</b>              | 566,164                     |
| <b>Mineral properties</b> (Note 4)                           | <b>9,990,133</b>            | 9,380,534                   |
| <b>Property and equipment</b> (Note 5)                       | <u>7,450</u>                | <u>10,941</u>               |
|  | <u><b>10,099,646</b></u>    | <u>9,957,639</u>            |
| <b>LIABILITIES</b>   |                             |                             |
| <b>Current</b>   |                             |                             |
| Accounts payable and accrued liabilities (Note 6)            | 252,933                     | 694,931                     |
| <b>Asset retirement obligations</b> (Note 7)                 | <u>14,997</u>               | <u>12,221</u>               |
|  | <u><b>267,930</b></u>       | <u>707,152</u>              |
| <b>Nature of business and continuing operations</b> (Note 1) |                             |                             |
| <b>Subsequent Events</b> (Note 15)                           |                             |                             |
| <b>Shareholders' Equity</b>                                  |                             |                             |
| <b>Share capital</b> (Note 8)                                |                             |                             |
| Common shares  | 17,283,545                  | 16,678,092                  |
| Common share purchase warrants                               | 932,094                     | 448,639                     |
| <b>Contributed surplus</b> (Note 9)                          | 2,875,075                   | 2,517,046                   |
| <b>Deficit</b>   | <u>(11,258,998)</u>         | <u>(10,393,290)</u>         |
|  | <u><b>9,831,716</b></u>     | <u>9,250,487</u>            |
|  | <u><b>10,099,646</b></u>    | <u>9,957,639</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<br>ended<br>September 30,<br>2010<br>\$ | For the year<br>ended<br>September 30,<br>2009<br>\$ | Cumulative<br>from the<br>initiation of<br>exploration for<br>precious and<br>base metals on<br>July 1, 2004<br>to September 30,<br>2010<br>\$ |
|---|--|--|--|
| <b>Expenses</b>   |  |  |  |
| General and administration (Note 6)   | 435,925  | 406,852  | 3,244,795  |
| Interest on notes and advances  | -  | (36,992)   | 30,791   |
| Premises  | 12,620   | 126,585  | 437,917  |
| Transfer, listing fees and shareholder communications                             | 128,080  | 41,730   | 650,878  |
| Mineral and exploration costs (Note 4)  | -  | -  | 244,254  |
| Stock-based compensation (Note 8(c))  | 341,846  | 82,258   | 1,551,726  |
| Accretion expense (Note 7)  | 2,776  | 2,776  | 13,884   |
| Depreciation  | 3,491  | 6,568  | 55,927   |
| Foreign exchange  | <u>(58,650)</u>                                      | <u>(28,108)</u>                                      | <u>(131,510)</u>   |
| <b>Loss before the following:</b>   | <b>866,088</b>                                       | <b>601,669</b>                                       | <b>6,098,662</b>   |
| Interest income   | (380)  | (61)   | (109,653)  |
| Write-down of mineral properties (Note 4)   | <u>-</u>   | <u>50,215</u>  | <u>2,100,908</u>   |
| <b>Net loss and comprehensive loss</b>  | <b>865,708</b>                                       | <b>651,823</b>                                       | <b>8,089,917</b>   |
| <b>Deficit, beginning of period</b>   | <u><b>10,393,290</b></u>                             | <u>9,741,467</u>                                     | <u><b>3,169,081</b></u>  |
| <b>Deficit, end of period</b>   | <u><b>11,258,998</b></u>                             | <u>10,393,290</u>                                    | <u><b>11,258,998</b></u>   |
| <b>Loss per common share, basic and diluted</b>                                   | <u><b>0.02</b></u>                                   | <u>0.01</u>  |  |
| <b>Basic and diluted weighted average number<br/>of common shares outstanding</b> | <u><b>55,814,946</b></u>                             | <u>45,925,895</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<br>ended<br>September 30,<br>2010<br>\$ | For the year<br>ended<br>September 30,<br>2009<br>\$ | Cumulative<br>from the<br>initiation of<br>exploration for<br>precious and<br>base metals on<br>July 1, 2004<br>to September 30,<br>2010<br>\$ |
|---|--|--|--|
| <b>Cash provided by (used for):</b>                     |  |  |  |
| <b>Operating activities:</b>                            |  |  |  |
| Net loss  | (865,708)  | (651,823)  | (8,089,917)  |
| Adjustments for:  |  |  |  |
| Write-down of mineral properties (Note 4)               | -  | 50,215   | 2,100,908  |
| Depreciation  | 3,491  | 6,568  | 55,927   |
| Stock-based compensation                                | 341,846  | 82,258   | 1,551,726  |
| Accretion expense                                       | 2,776  | 2,776  | 13,884   |
| Foreign exchange gain (loss)                            | (38,966)   | 2,161  | (56,410)   |
| Shares for interest expense                             | -  | -  | 34,361   |
| Shares for service                                      | 10,000   | -  | 10,000   |
| Interest reversal                                       | -  | (36,992)   | (36,992)   |
|   | <u>(546,561)</u>                                     | <u>(544,837)</u>                                     | <u>(4,416,513)</u>   |
| Asset retirement obligations settled                    | -  | -  | (33,607)   |
| Changes in non-cash working capital items               |  |  |  |
| Rental deposit  | -  | 15,634   | 15,634   |
| GST and foreign sales tax recoverable                   | (55,129)   | 87,346   | 151,211  |
| Prepaid expenses  | -  | 29,831   | (15,634)   |
| Accounts payable and accrued liabilities                | (198,041)  | 37,221   | (605,425)  |
|   | <u>(799,731)</u>                                     | <u>(374,805)</u>                                     | <u>(4,904,334)</u>   |
| <b>Investing activities:</b>                            |  |  |  |
| Mineral property expenditures                           | (664,266)  | (834,949)  | (9,789,521)  |
| Property and equipment expenditures                     | -  | -  | (63,376)   |
| GST and foreign sales tax recoverable                   | 35,926   | 21,731   | (203,244)  |
| Accounts payable and accrued liabilities                | 89,883   | 544,700  | 1,329,130  |
|   | <u>(538,457)</u>                                     | <u>(268,518)</u>                                     | <u>(8,727,011)</u>   |
| <b>Cash provided by financing activities:</b>           |  |  |  |
| Common shares and warrants issued                       | 983,449  | 1,120,000  | 14,336,670   |
| Share issue expenses                                    | (123,358)  | (55,292)   | (958,575)  |
| Deferred financing costs                                | -  | -  | (98,145)   |
| Advances from related parties                           | -  | -  | 54,997   |
| Notes payable   | -  | -  | 340,000  |
|   | <u>860,091</u>                                       | <u>1,064,708</u>                                     | <u>13,674,947</u>  |
| <b>Effect of exchange rate change on cash</b>           | <u>(5,207)</u>                                       | <u>14,421</u>  | <u>6,287</u>   |
| <b>Increase (decrease) in cash and cash equivalents</b> | <u>(483,304)</u>                                     | <u>435,806</u>                                       | <u>49,889</u>  |
| <b>Cash and cash equivalents</b>                        |  |  |  |
| Beginning of period                                     | <u>533,334</u>                                       | <u>97,528</u>  | <u>141</u>   |
| End of period   | <u><u>50,030</u></u>                                 | <u><u>533,334</u></u>                                | <u><u>50,030</u></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, 2010 and 2009**

### **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.

Subsequent to year end, the Company completed another private placement and had exercises of agent options and warrants resulting in total gross proceeds of approximately \$1,523,000 as mentioned in note 15. With the additional proceeds, the Company believes that it has sufficient working capital in order to fund its exploration and operations budget for the upcoming fiscal year.

### **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 transactions 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 assumptions 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.**  
**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Years ended September 30, 2010 and 2009**

**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, 2010 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 properties**

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.

**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.

**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, 2010 and 2009**

**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.

**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.

**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 statements of operations equals comprehensive loss.

**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.

**SIENNA GOLD INC.**  
**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Years ended September 30, 2010 and 2009**

**Note 2 - Significant Accounting Policies – Continued**

**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.

**Financial Instruments**

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 initially recognized and subsequently measured based on their classification 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:

- Cash and cash equivalents has been classified as held-for-trading,
- Accounts receivables have been classified as loans and receivables,
- Advances from and to related parties are classified as loans and receivables,
- 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.

Under Sections 3862 and 3863, the Company is required to provide disclosure of quantitative and qualitative information in its financial statements that enables users to evaluate (a) the significance of financial instruments for the Company's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

**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 is the same because the effect of outstanding stock options and warrants is anti-dilutive.

**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").

**SIENNA GOLD INC.**  
**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Years ended September 30, 2010 and 2009**

**Note 3 – Adoption of new accounting standards and accounting pronouncements**

(a) Adoption of new standards:

Effective October 1, 2009 the Company adopted the following new accounting standards:

**Section 3862, Financial Instruments – Disclosures**

During June 2009, amendments were made which include enhanced disclosures relating to the fair value of financial instruments and the liquidity risk associated with financial instruments which now require that all financial instruments measured at fair value be categorized into one of three hierarchy levels. The amendments are consistent with recent amendments to financial instruments disclosure under International Financial Reporting Standards and the prospective adoption had no impact on the consolidated financial statements.

(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 is not expected to be material and will be adopted as part of the Company’s move to International Financial Reporting Standards.

**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 and the date for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will begin reporting under IFRS in the year ended September 30, 2012. 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.

While the Company has begun assessing the adoption of IFRS for fiscal 2012, the Company has not yet prepared a complete IFRS changeover plan (the “IFRS Plan”), but has completed a high-level scoping study to consider the potential impact of the implementation of IFRS on the Company’s financial reporting. The Company believes that the primary impact of IFRS will be:

- IFRS 1 – First-time adoption of IFRS
- IFRS 2 – Share Based Payments
- IFRS 6 – Exploration and evaluation of mineral resources
- IAS 16 – Property, plant and equipment
- IAS 36 – Impairment of Assets

IFRS will not only impact the presentation and disclosure of items in the financial statements but also the determination of future net income or loss and the measurement of balance sheet items.

**SIENNA GOLD INC.**  
**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Years ended September 30, 2010 and 2009**

**Note 4 - Mineral properties**

**Summary of mineral properties**

| Property and costs                  | IGOR<br>Concession<br>(Peru)<br>\$ | IGOR South<br>Concession<br>(Peru)<br>\$ | Pele<br>Concession<br>(Peru)<br>\$ | La Borrachera<br>Concession<br>(Peru)<br>\$ | Total<br>\$             |
|-------------------------------------|------------------------------------|--|------------------------------------|---|-------------------------|
| <b>Balance, September 30, 2008</b>  | <u><b>8,850,057</b></u>            | <u>-</u>                                 | <u><b>12,534</b></u>               | <u><b>23,518</b></u>                        | <u><b>8,886,109</b></u> |
| Deferred exploration costs:         |                                    |  |                                    |   |                         |
| Claims maintenance and staking      | 302,394                            | -  | 4,202                              | 9,961                                       | 334,557                 |
| Drilling                            | 178,059                            | -  | -                                  | -   | 178,059                 |
| Assaying                            | 4,658                              | -  | -                                  | -   | 4,658                   |
| Environmental                       | 5,851                              | -  | -                                  | -   | 5,851                   |
| Site visits                         | 2,932                              | -  | -                                  | -   | 2,932                   |
| Safety and protection               | 12,103                             | -  | -                                  | -   | 12,103                  |
| Social development                  | 18,299                             | -  | -                                  | -   | 18,299                  |
| Management                          | <u>6,181</u>                       | <u>-</u>                                 | <u>-</u>                           | <u>-</u>                                    | <u>6,181</u>            |
| Total deferred exploration costs    | 530,477                            | -  | 4,202                              | 9,961                                       | 544,640                 |
| Write-down of mineral properties    | <u>-</u>                           | <u>-</u>                                 | <u>(16,736)</u>                    | <u>(33,479)</u>                             | <u>(50,215)</u>         |
| <b>Balance, September 30, 2009</b>  | <u><b>9,380,534</b></u>            | <u>-</u>                                 | <u>-</u>                           | <u>-</u>                                    | <u><b>9,380,534</b></u> |
| Acquisition costs                   |                                    |  |                                    |   |                         |
| Cash                                | -                                  | 17,152                                   | -                                  | -   | 17,152                  |
| Shares                              | <u>-</u>                           | <u>55,000</u>                            | <u>-</u>                           | <u>-</u>                                    | <u>55,000</u>           |
| Total acquisition costs             | <u>-</u>                           | <u>72,152</u>                            | <u>-</u>                           | <u>-</u>                                    | <u>72,152</u>           |
| Deferred exploration costs:         |                                    |  |                                    |   |                         |
| Drilling, road and site preparation | <b>414,483</b>                     | -  | -                                  | -   | <b>414,483</b>          |
| Claims maintenance and staking      | <b>194,962</b>                     | -  | -                                  | -   | <b>194,962</b>          |
| Management                          | <b>50,449</b>                      | -  | -                                  | -   | <b>50,449</b>           |
| Assaying                            | <b>17,940</b>                      | -  | -                                  | -   | <b>17,940</b>           |
| Social development                  | <b>6,991</b>                       | -  | -                                  | -   | <b>6,991</b>            |
| Environmental                       | <b>2,424</b>                       | -  | -                                  | -   | <b>2,424</b>            |
| Geophysical Survey                  | <b>1,228</b>                       | -  | -                                  | -   | <b>1,128</b>            |
| Safety and protection               | <b>1,108</b>                       | -  | -                                  | -   | <b>1,108</b>            |
| Mapping and Sampling                | <b>1,106</b>                       | -  | -                                  | -   | <b>1,106</b>            |
| Site visits                         | <u><b>596</b></u>                  | <u>-</u>                                 | <u>-</u>                           | <u>-</u>                                    | <u><b>596</b></u>       |
| Deferred exploration costs          | <b>691,287</b>                     | -  | -                                  | -   | <b>691,287</b>          |
| Deferred cost reversed (Note 8)     | <u><b>(153,840)</b></u>            | <u>-</u>                                 | <u>-</u>                           | <u>-</u>                                    | <u><b>(153,840)</b></u> |
|                                     | <u><b>537,447</b></u>              | <u>-</u>                                 | <u>-</u>                           | <u>-</u>                                    | <u><b>537,447</b></u>   |
| <b>Balance, September 30, 2010</b>  | <u><b>9,917,981</b></u>            | <u><b>72,152</b></u>                     | <u>-</u>                           | <u>-</u>                                    | <u><b>9,990,133</b></u> |

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**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 2010 payable June 30, 2011 is US \$ 3,000 (2009 – US \$ 23,000).

**(b) IGOR South Concession**

The concession comprising approximately 400 hectares was acquired in 2010 for 355,000 common shares valued at \$ 0.155 per share. The property is contiguous to and south east of the IGOR concession.

The estimated license fees for calendar 2010 payable June 30, 2011 is US \$ 1,200.

**(c) 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, 2009.

**(d) 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, 2009.

**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 norms 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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**Note 5 – Property and equipment**

Property and equipment consists of the following:

|                        | <u>2010</u>   |                                   |                         |
|------------------------|---------------|-----------------------------------|-------------------------|
|                        | Cost<br>\$    | Accumulated<br>Depreciation<br>\$ | Net Book Value<br>\$    |
| Furniture and fixtures | <u>63,377</u> | <u>55,927</u>                     | <u>7,450</u>            |
|                        | <u>2009</u>   |                                   |                         |
|                        | Cost<br>\$    | Accumulated<br>Depreciation<br>\$ | Net Book<br>Value<br>\$ |
| Furniture and fixtures | <u>63,377</u> | <u>52,436</u>                     | <u>10,941</u>           |

**Note 6 - Related Party Transactions**

During the year ended September 30, 2010:

Directors or companies controlled by directors were paid \$ 135,313 (2009 – \$ 26,697) for management, engineering and other services of which \$ 3,675 is in the year end accounts payable and accrued liabilities (2009 – Nil), \$ 5,000 of advances to a director is included in accounts payable and accrued liabilities and a law firm of which a director is a partner was paid \$ 70,557, \$ 29,000 of this amount was allocated to share issue expense (2009 - \$ 53,242, \$ 7,500 of this amount was allocated to share issue expense) of which \$ 61,434 is in the year end accounts payable and accrued liabilities (2009 - \$ 25,038).

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 2009 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.

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.

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**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, 2010, the estimated present value of the Company's asset retirement obligation was \$ 14,997 based on an estimated fair value of \$ 14,997, determined using a credit adjusted risk free interest rate of 8.0%, and inflation rate of 2%. These obligations will be settled at the end of the useful lives of the underlying assets, which currently extend less than a year into the future.

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

|   |                      |
|---|----------------------|
|   | \$                   |
| Asset retirement obligation at September 30, 2008 | 9,445                |
| Accretion expense                                 | <u>2,776</u>         |
| Asset retirement obligation at September 30, 2009 | 12,221               |
| Accretion expense                                 | <u>2,776</u>         |
| Asset retirement obligation at September 30, 2010 | <u><u>14,997</u></u> |

**Note 8 – Share Capital**

**(a) Authorized**

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

**(b) Issued and outstanding**

| <b>Common Shares</b>                    | Number                   | Amount<br>\$             |
|---|--------------------------|--------------------------|
| 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             | 51,307,646               | 16,678,092               |
| Shares issued in settlement of debt     | 1,500,000                | 180,000                  |
| Shares issued for consulting fees       | 83,333                   | 10,000                   |
| Shares issued for property acquisition  | 355,000                  | 55,000                   |
| Private placement, April 30, 2010       | 7,801,250                | 475,723                  |
| Agents options exercised                | 392,159                  | 47,059                   |
| Agents warrants exercised               | 1,334                    | 240                      |
| Fair value of agents options exercised  | -                        | 27,263                   |
| Fair value of agents warrants exercised | -                        | 79                       |
| Share issue costs                       | <u>-</u>                 | <u>(189,911)</u>         |
| <b>Balance, September 30, 2010</b>      | <u><u>61,440,722</u></u> | <u><u>17,283,545</u></u> |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 8 – Share Capital - Continued**

| <b>Common Share Purchase Warrants</b>     | <b>Number</b>            | <b>Amount<br/>\$</b>  | <b>Expiry Date</b> | <b>Exercise<br/>Price</b> |
|---|--------------------------|-----------------------|--------------------|---------------------------|
| 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                | February 28, 2011  | \$ 0.25                   |
| September 10, 2009                        | 4,108,167                | 255,379               | February 28, 2011  | \$ 0.25                   |
| Warrants expired                          | <u>(3,293,952)</u>       | <u>(1,203,196)</u>    |                    |                           |
| Balance, September 30, 2009               | 6,666,666                | 448,639               |                    |                           |
| Private placement                         |                          |                       |                    |                           |
| April 30, 2010                            | 7,801,250                | 460,427               | May 01, 2012       | \$0.18                    |
| Issued on exercise of Agents units/option | 392,159                  | 23,107                | May 01, 2012       | \$0.18                    |
| Warrants exercised                        | <u>(1,334)</u>           | <u>(79)</u>           |                    |                           |
| <b>Balance, September 30, 2010</b>        | <b><u>14,858,741</u></b> | <b><u>932,094</u></b> |                    |                           |

**Fiscal 2010 transactions**

On March 25, 2010 the Company entered into a debt settlement agreement whereby US \$ 377,432 of drilling costs were settled with the payment of US \$ 50,000 and the issuance of 1,500,000 common shares of the Corporation at a fair value of \$ 0.12 per share, being the trading value of the Company's shares on that date. The transaction was accounted for as a \$ 180,000 issuance of common shares and a reversal of \$ 153,840 of drilling costs previously capitalized as deferred exploration costs.

On April 30, 2010 the Company closed a private placement for the issuance of 7,801,250 units at \$ 0.12 per unit for gross proceeds of \$ 936,150, each unit consist of one common share and one common share purchase warrant. Each warrant entitles the holder to subscribe for one additional share for \$ 0.18 for a period of two years from closing. If during the two year period the closing price of the Common Shares on the TSX Venture Exchange is \$ 0.30 or higher for 20 consecutive trading days, the expire date of the Warrants may be accelerated by the Corporation issuing a press release notifying Warrant holders of an accelerated expiry date no less than 30 calendar days subsequent to the date of the such press release. The Company has assigned \$ 460,427 to the warrants based on the estimated fair value using a Black-Scholes option value model with the balance of \$ 475,723, assigned to the shares. Agents assisting in the private placement were paid \$ 62,178 and were granted 518,150 units at \$ 0.12 per unit which expire two years after closing. The Units entitle the holder to acquire one common share of the Corporation at \$ 0.12 and receive one common share purchase warrant, the common share purchase warrants entitle the holder to acquire one common share at \$ 0.18 per share for a period of two years from closing. The Company has assigned \$ 66,553 to the units based on the estimate FMV using Black-Scholes option value model. These costs have been recorded as share issue costs.

On June 17, 2010 the Company issued 83,333 common shares in settlement of \$ 10,000 in consulting fees with the fair value of the share, being the trading value of the Company's shares on that date.

On August 19, 2010 the Company's subsidiary, Sienna Minerals S.A.C., completed the acquisition of the Vena concession comprising approximately 300 hectares of land contiguous to the IGOR concession. The consideration of US \$ 55,000 was settled with the issuance of 355,000 common shares of Sienna Gold valued at \$ 0.155 per share and US \$ 5,000 cash with the fair value of the share, being the trading value of the Company's share on that date.

On August 26, 2010 the Company received approval to extend the expiry date on the warrants expiring on August 28, and September 10, 2010 to February 28, 2011.

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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 a private placement 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<br>September 30, 2010 | Year ended<br>September 30, 2009 |
|--------------------------|----------------------------------|----------------------------------|
| Dividend yield           | Nil                              | Nil                              |
| Expected volatility      | 112%                             | 86% - 144%                       |
| Risk free rate of return | 1.51%                            | 1.09% - 2.51%                    |
| Expected life of options | 2 years                          | 1 - 2 years                      |

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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**Note 8 – Share Capital – Continued**

**(c) Stock Options**

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

Details of the stock options are as follows:

|   | Number           | Weighted<br>Average Exercise Price<br>\$ |
|---|------------------|--|
| 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 | 4,090,000        | 0.34                                     |
| Granted                                 | 2,905,000        | 0.26                                     |
| Expired                                 | (1,310,000)      | 0.31                                     |
| Expired                                 | <u>(175,000)</u> | <u>0.30</u>                              |
| Options outstanding, September 30, 2010 | <u>5,510,000</u> | <u>0.35</u>                              |

| Options<br>Outstanding | Number of Options<br>Exercisable | Exercise<br>Price | Expiry Date        |
|------------------------|----------------------------------|-------------------|--------------------|
| 175,000                | 175,000                          | \$1.15            | December 21, 2010  |
| 705,000                | 705,000                          | \$0.70            | January 22, 2012   |
| 600,000                | 600,000                          | \$0.70            | November 16, 2012  |
| 1,300,000              | 650,000                          | \$0.25            | September 1, 2014  |
| 175,000                | 175,000                          | \$0.30            | October 6, 2014    |
| <u>2,555,000</u>       | <u>1,277,500</u>                 | \$0.25            | September 14, 2015 |
| <u>5,510,000</u>       | <u>4,232,500</u>                 |                   |                    |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 8 – Share Capital – Continued**

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<br>September 30, 2010 | Year ended<br>September 30, 2009 |
|--------------------------|----------------------------------|----------------------------------|
| Dividend yield           | Nil                              | Nil                              |
| Expected volatility      | 105% - 109%                      | 96%                              |
| Risk free rate of return | 1.97 – 2.51%                     | 2.51%                            |
| Expected life of options | 5 years                          | 5 years                          |
| Fair value of option \$  | 0.19                             | 0.09                             |

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, \$ 341,846 (September 30, 2009 - \$ 82,258) was recorded as an expense in the year with an offsetting credit to contributed surplus. An unamortized balance of \$ 224,094 remains (September 30, 2009 - \$ 59,138), which will be expensed over the remaining vesting period.

**(d) Earnings Per Share**

All of the warrants, agents' options and stock options outstanding at September 30, 2010 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.

**(e) Shares Reserved – Common Shares**

Shares are reserved for the following potential issuances:

|                              | 2010              | 2009              |
|------------------------------|-------------------|-------------------|
| Private Placement            |                   |                   |
| December 19, 2008            | 1,200,000         | 1,200,000         |
| August 28, 2009              | 1,358,499         | 1,358,499         |
| September 10, 2009           | 4,108,167         | 4,108,167         |
| April 30, 2010               | 7,801,250         | -                 |
| Agent units/warrants         | 642,807           | 444,967           |
| Stock options                | 5,510,000         | 3,990,000         |
| Property acquisition options | -                 | 100,000           |
|                              | <u>20,620,723</u> | <u>11,201,633</u> |

**Note 9 – Contributed Surplus**

|                                    | \$                      |
|------------------------------------|-------------------------|
| Balance, September 30, 2008        | 1,202,763               |
| Stock option compensation          | 82,258                  |
| Agent options exercised            |                         |
| Agent option issued                | 28,829                  |
| Warrants expired                   | 1,203,196               |
| Balance, September 30, 2009        | 2,517,046               |
| Stock option compensation          | 341,846                 |
| Agent options issued               | 66,553                  |
| Agents options exercised           | (50,370)                |
| <b>Balance, September 30, 2010</b> | <b><u>2,875,075</u></b> |

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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 28.25% (2009 – 29.13%) to the loss before income taxes. This difference results from the following items:

|                                | 2010<br>\$      | 2009<br>\$      |
|--------------------------------|-----------------|-----------------|
| Expected income tax (recovery) | (244,000)       | (190,000)       |
| Stock-based compensation       | 96,000          | 24,000          |
| Changes in tax rates and other | 17,000          | (54,000)        |
| Valuation allowance            | <u>131,000</u>  | <u>220,000</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:

|  | 2010<br>\$         | 2009<br>\$         |
|--|--------------------|--------------------|
| Future income tax asset                                  |                    |                    |
| Mineral properties and property equipment                | 1,181,000          | 1,179,000          |
| Combined non-capital losses available for future periods | 1,236,000          | 1,139,000          |
| Share issue costs  | <u>325,000</u>     | <u>293,000</u>     |
| Total gross future tax asset                             | 2,742,000          | 2,611,000          |
| Valuation allowance                                      | <u>(2,742,000)</u> | <u>(2,611,000)</u> |
| Net future income asset                                  | <u><u>-</u></u>    | <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:                                       | \$                      |
|---|-------------------------|
| 2015  | 44,000                  |
| 2016  | 182,000                 |
| 2027  | 424,000                 |
| 2028  | 676,000                 |
| 2029  | 601,000                 |
| 2030  | 533,000                 |
| 2031  | 323,000                 |
| 2032  | <u>326,000</u>          |
|   | <u><u>3,109,000</u></u> |
| Peru: Losses limited to 50% of taxable income | <u><u>1,646,000</u></u> |

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**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.

|                        |            | 2010       | 2009       |
|------------------------|------------|------------|------------|
|                        |            | \$         | \$         |
| Canada                 |            |            |            |
| Resource properties    | 10% - 100% | 2,059,000  | 2,059,000  |
| Capital cost allowance | 20% - 30%  | 52,000     | 52,000     |
| Peru                   |            |            |            |
| Mineral properties     | 100%       | 12,370,000 | 11,760,000 |
| 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, 2010 and 2009 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. The only financial instruments measured using the fair value hierarchy is cash and cash equivalents which is measured at level 1.

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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, 2010 | September 30, 2009 |
|---------------------------------------|--------------------|--------------------|
|                                       | \$                 | \$                 |
| Cash and cash equivalents             | 50,030             | 533,334            |
| GST and Foreign Sales Tax Recoverable | <u>52,033</u>      | <u>32,830</u>      |
|                                       | <u>102,063</u>     | <u>566,164</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, 2010, the Company's receivables consisted of \$ 52,033 (2009 - \$ 32,830) 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, 2010, 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>2010</u> | <u>2009</u> |
|--|-------------|-------------|
| Transfer from warrants to contributed surplus                    | -           | 1,203,196   |
| Fair value assigned to warrants and charged to share issue costs | 66,553      | 28,829      |
| Shares for service   | 10,000      | -           |
| Shares for property acquisition                                  | 55,000      | -           |
| Shares for settlement of payables                                | 180,000     | -           |
| Transfer to share capital from contributed surplus               | 50,370      | -           |

Supplemental information regarding other cash transactions is as follows:

|                    | <u>2010</u> | <u>2009</u> |
|--------------------|-------------|-------------|
| Cash taxes paid    | -           | -           |
| Cash interest paid | -           | -           |

**SIENNA GOLD INC.**  
**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Years ended September 30, 2010 and 2009**

**Note 14 – Segmented Information**

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

|                            | <u>September 30, 2010</u> |                   |                   |
|----------------------------|---------------------------|-------------------|-------------------|
|                            | <u>Canada</u>             | <u>Peru</u>       | <u>Total</u>      |
|                            | \$                        | \$                | \$                |
| <b>Loss for the year</b>   | <b>716,922</b>            | <b>148,786</b>    | <b>865,708</b>    |
| <b>Identifiable assets</b> | <b>46,977</b>             | <b>10,052,669</b> | <b>10,099,646</b> |
|                            | <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         |

**Note 15 – Subsequent Events**

On November 8, 2010 the Company closed a private placement for the issuance of 5,294,120 units at US \$ 0.17 per unit for gross proceeds of US \$ 900,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to subscribe for one additional common share for \$ 0.26 for a period of one year from closing. Agents assisting in the private placement were paid US \$ 63,000 and granted 370,588 units. The units entitle the holder to acquire one common share of the corporation for US \$ 0.17 and receive one common share purchase warrant, each common share purchase warrant entitle the holder to acquire a common share for \$ 0.26 per share for a period of one year financing.

Subsequent to the year end 350,000 stock options expired, 175,000 expired at the end of the five years and 175,000 expired at the end of the 90 day employment period. On January 5, 2011, 250,000 stock options were granted.

Subsequent to the year end 21,500 agents' options, 210,825 agents' warrants and 869,120 warrants have been exercised for gross proceeds of \$ 257,808. In addition \$ 365,190 has been received for which 1,593,000 common shares will be issued.

On December 19, 2010, 1,200,000 warrants with an exercise price of \$ 0.35 expired unexercised