

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

This Management's Discussion and Analysis of Financial Conditions has been prepared as at January 24, 2011 for the year ended September 30, 2010. The following discussion includes references to United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars and United States dollars are referred to as US \$.

The following discussion of the financial condition and results of operations of Sienna Gold Inc. should be read in conjunction with our consolidated financial statements as at and for the year ended September 30, 2010 and related notes. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. This section contains forward-looking statements that involve risks and uncertainties. Sienna Gold's actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Forward-looking Information".

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

Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements for Sienna Gold Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the September 30, 2010 audited consolidated financial statements. Only changes in accounting information have been disclosed in these consolidated financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

Forward-looking Information

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

History and Corporate Structure

Sienna Gold Inc. was incorporated on July 28, 1987, as Vortex Energy & Minerals Ltd. under the Alberta Business Corporations Act. The name was changed on May 2, 2001 to Vortex Integrated Industrial Corporation and then to Sienna Gold Inc. on April 15, 2005. Sienna Gold Inc. is a holding company, and conducts its business in Peru through its wholly owned subsidiary, Sienna Minerals S.A.C. a Peruvian company. Sienna's registered office is located at 3700 Canterra Tower 400 3rd Street S.W. Calgary, Alberta, Canada T2P 4H2 and its head office is located at Suite 117, 339 – 50th Avenue S. W. Calgary, Alberta, Canada, T2G 2B3. Sienna Minerals S.A.C. office is located at Paz Soldan Street 170 office 401 San Isidro, Lima, Peru.

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Overview

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

Property Acquisitions:

June 30, 2005, the Company completed the acquisition of a 60% interest in a mineral property in Peru (the Igor concession) and on March 9, 2006 acquired the remaining 40%

June 30, 2005, the Company entered into an option to acquire a five year option on eight early stage exploration properties (the EMRC concessions) and exercised the Cerro Blanco option. This option was dropped in November of 2007

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 write-off of \$ 16,736.

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 write-off of \$ 33,479.

On August 23, 2010 the Company's subsidiary Sienna Minerals completed the acquisition of 400 hectares from Vena Resources Inc. The concession ("IGOR South") is contiguous to and south east of the IGOR concession.

Financings:

June 27, 2005, 12,000,000 units at \$ 0.30 per unit for gross proceeds of \$ 3,600,000

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

November, 2006, 5,604,400 units at a price of \$ 0.70 per unit for gross proceeds of \$ 3,923,080.

December 19, 2008, 1,200,000 units at \$ 0.25 per unit for gross proceeds of \$ 300,000.

August 28, 2009, 1,358,499 units at \$ 0.15 per unit for gross proceeds of \$ 203,775.

September 16, 2009, 4,108,167 units at \$ 0.15 per unit for gross proceeds of \$ 616,225.

April 30, 2010, 7,801,250 units at \$ 0.12 per unit for gross proceeds of \$ 936,150.

November 5, 2010, 5,294,120 units at US \$ 0.17 per unit for gross proceeds of \$ 900,000.

Other Share Capital 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 an issuance of common shares valued at \$ 180,000 and a reversal of \$ 153,840 of drilling costs previously capitalized as deferred exploration 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.

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IGOR Property:

Igor continues to be an exciting property with drill indicated resources and the indication of a porphyry system. The Company has completed a widespread exploration drill program and is currently completing the follow-up drilling program to define the size and nature of the porphyry which was identified in the 2008 drilling program. In addition the Company has initiated the investigation into the feasibility of bringing the Domo and Tesoros zones into production.

Mineral Property Expenditures

During the three and twelve month periods ended September 30, 2010, the Company incurred expenditures on its mineral properties of \$ 241,531 and \$ 691,287 respectively. During the year ended September 30, 2009 accrued salaries of \$ 62,000 were waived in consideration of stock options.

IGOR Concessions (Peru)

The Company spent \$ 691,287 in exploration costs on concessions in Peru for the year ended September 30, 2010 (\$ 530,477 – 2009).

IGOR South Concessions (Peru)

The Company paid US \$ 5,000 and issued 355,000 common shares valued at \$ 0.155 per share to acquire the property and incurred US \$ 2,152 in legal fees during the year.

Pele Joint Concessions (Peru)

The Company incurred cash expenditures of \$ 4,202 in 2009 exploring the property. In December 2008 the concession was returned to the owner resulting in a write-off of \$ 16,736 and the joint venture was terminated.

La Borrachera Concession (Peru)

The Company incurred cash expenditures of \$ 9,961 completing the ownership of these claims during 2009. On July 1, 2009 the concession was surrendered to the government of Peru resulting in a write-off of \$ 33,479.

Social Development (Peru)

The Company continues to follow an aggressive campaign of local involvement and communications to ensure that the social “contract” with the local community is positive and based on a correct understanding of the exploration/mine development process. This effort has involved strategic donations to local institutions (school and medical post), road development, contributions to community events, formalizing of land ownership and sponsorship of a sustainable economic development workshop.

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Results of Operations

Selected Annual Information

The following table sets out selected annual financial information of Sienna Gold and is derived from the Company's audited consolidated financial statements for the periods ended September 30, 2010 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$
Revenue	Nil	Nil	Nil
Interest Income	380	61	29,123
Loss for the Period	(865,708)	(651,823)	(1,361,697)
Loss per Share - Basic and Diluted	0.02	0.01	0.03
Total Assets	10,099,644	9,957,639	9,188,518
Total Long-term Liabilities	14,997	12,221	9,445
Dividends Declared	Nil	Nil	Nil

	September 30, 2010	September 30, 2009	September 30, 2008
	\$	\$	\$
Lima, Peru – office costs	148,786	168,110	277,210
Professional fees	133,403	109,166	137,072
Administrative fees	84,000	59,532	132,000
Travel and entertainment	19,826	11,043	34,191
Office and other costs	<u>49,910</u>	<u>59,001</u>	<u>127,548</u>
Total general and administrative costs	<u>435,925</u>	<u>406,852</u>	<u>708,121</u>

Summary of Quarterly Results

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

Quarter Ended	Revenues	Loss For The Period	Basic and Fully-Diluted
			(Loss) per Share
		\$	\$
September 30, 2010	Nil	(395,973)	(0.010)
June 30, 2010	Nil	(166,566)	(0.010)
March 31, 2010	Nil	(54,743)	(0.000)
December 31, 2009	Nil	(248,426)	(0.005)
September 30, 2009	Nil	(176,978)	(0.000)
June 30, 2009	Nil	657	(0.000)
March 31, 2009	Nil	(251,324)	(0.005)
December 31, 2008	Nil	(224,180)	(0.005)

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For the Quarter ended September 30, 2010

The loss for the three month ended September 30, 2010 increased by \$ 218,995 over the loss for the same period in 2009. The major items causing this increase are as follows:

- general administrative expenses increased by \$ 107,545. The major items causing this increase are as follows:
 - administration cost increase by \$ 14,000 due to the President waiving his salary for a period in 2009 in exchange for stock options.
 - office and other costs increased by \$ 11,968 due to directors liabilities insurance costs.
 - travel and entertainment increased by \$ 4,738,
 - professional fees increased \$ 47,721 resulting from the annual meeting being held in the quarter.
 - Lima office costs increased by \$ 38,594 due to increased activity.
- Premises cost decreased by \$ 42,358 as a result of reducing the Calgary office space and rental rate and a large settlement to pay out the previous lease.
- Transfer, listing agent fees and shareholder communications increased by \$ 58,478 as a result of a dissident shareholder proxy.
- Stock-based compensation increased by \$ 120,306 as a result of stock options granted in September of 2010 replacing options which expired during the period.
- Foreign exchange loss increased by \$ 8,442.

For the Year Ended September 30, 2010

The loss for the year ended September 30, 2010 increased by \$ 213,885 over the loss for 2009. The major items causing this increase are as follows:

- Stock-based compensation increase by \$ 259,588 as a result of stock options granted in October of 2009 and September 2010.
- Premises costs decreased by \$ 113,965 resulting from the move of the Calgary office in 2009 to smaller and less expensive premises.
- Transfer, listing agent fees and shareholder communications increase by \$ 86,350. The major items causing this increase are as follows:
 - attendance at conferences increase by \$ 8,584 as a result of the Company attending fewer investment conferences during the preceding year,
 - consulting fees increase by \$ 73,650 resulting from the Company engaging an investor relations consultant and the cost related to the dissident share holder proxy solicitation,
 - printing and mailing increase by \$ 4,140.
- interest income increase by \$ 319.
- administrative expenses increase by \$ 28,592. The major items causing this increase are as follows:
 - administration cost increase by \$ 24,468 due to the President waiving his salary for a period during 2009 in exchange for stock options,
 - travel and entertainment increased by \$ 8,783, due to increased activity,
 - professional fees increased by \$ 24,237, legal fees increased by \$ 44,237 due to increased activity including the dissident shareholder proxy solicitation and consulting fees decreased by \$ 20,000 which were waived in exchange for stock options during 2009,
 - Lima office costs decrease by \$ 19,325 as a result of activities in Peru being suspended for the first half of 2010.

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For the Year Ended September 30, 2009

The loss for the year ended September 30, 2009 decreased by \$ 709,874 over the loss for 2008. The major items causing this increase are as follows:

- Write-off of mineral properties in the amount of \$ 50,215 (2008 - \$ 93,432) resulting from the abandonment of the Buena Fortuna concessions in 2008, and the Pele and La Borrachera concessions in 2009.
- Stock-based compensation decreased by \$ 271,218 as a result of stock options granted in January of 2007 and August 2009.
- Transfer, listing agent fees and shareholder communications decreased by \$ 52,430. The major items causing this decrease are as follows:
 - attendance at conferences decreased by \$ 19,636 as a result of the Company attending fewer investment conferences during the year,
 - consulting fees decreased by \$ 15,000 resulting from cancellation of the investor relations consultant,
 - transfer agent fees decreased by \$ 4,560 resulting from reduced activity, and
 - printing and mailing decreased by \$ 14,500..
- interest income decreased by \$ 29,062..
- administrative expenses decreased by \$ 301,169. The major items causing this decrease are as follows:
 - administration cost decrease by \$ 72,468 due to the President waiving his salary for a period during the year in exchange for stock options,
 - travel and entertainment increased by \$ 23,148, due to reduced activity,
 - professional fees decreased \$ 27,906 resulting from reduced activity and \$ 20,000 of consulting fees being waived in exchange for stock options, and
 - Lima office costs decreased by \$ 109,099 as a result of activities in Peru being suspended.

Risks Factors

Exploration Risks

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

Foreign Currency Exchange Rate Risk

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

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Calculation of Resources, Conversion to Reserves and Metal Recovery

The Company has established levels of indicated and inferred resources pursuant to a Technical Report dated February 8, 2008. There is a degree of uncertainty attributable to the calculation of mineral resources and the degree to which mineral resources may ultimately prove to be convertible to mineral reserves, if at all. Until mineral resources are converted to mineral reserves and actually mined and processed, the quantity of mineral reserves and grades must be considered as estimates only. In addition, the quantity of mineral reserves and resources usually varies depending on metal prices. In addition, there can be no assurance that mineral recoveries in small-scale laboratory tests will be duplicated in large tests under on-site conditions or during production.

Lack of Cash Flow and Requirements for New Capital

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

Title Matters

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

Surface Rights

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

Operating Hazards and Risks

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

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Properties in Peru

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

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

Foreign Countries and Regulatory Requirements

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

Liquidity

The Company had cash and cash equivalents of \$ 50,030 at September 30, 2010 (September 30, 2009 – \$ 533,334).

The Company had working capital deficiency of \$ 150,870 at September 30, 2010 (a working capital deficiency of \$ 128,767 at September 30, 2009).

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

Litigation, Claims and Assessment

The Company is not aware of any material claims or potential claims against it. The Company has been named or threatened to be named in 4 legal claims in Peru, but based on advice from local counsel there, the Company is of the view that none are either material or have any substantive basis.

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

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

Related Party Transactions

During the year 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 accounts liabilities (2009 – Nil), \$ 15,000 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.

Critical Accounting Estimates

Capitalization and Impairment of 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.

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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.

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.

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.

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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 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.

Adoption of new accounting standards

- 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 .

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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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS
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Outstanding Share Data

The Company's outstanding share data as at January 24, 2011 and September 30, 2010 is as follows:

	<u>January 24, 2011</u>	<u>September 30, 2010</u>
Common shares	67,836,287	61,440,722
Common share purchase warrants		
Expiring December 20, 2010 (Note 1)	-	1,200,000
Expiring February 28, 2011 (Note 2)	4,597,546	5,466,666
Expiring May 1, 2012 (Note 3)	7,801,250	7,801,250
Expiring November 9, 2011 (Note 4)	5,294,120	-
Agents options (Note 5)	104,491	-
Agents warrants (Note 6)	305,991	-
Agents options (Note 7)	370,588	-
Agents warrants (Note 8)	370,588	-
Stock Options (Note 9)	<u>5,410,000</u>	<u>4,440,000</u>
Fully Diluted Shares	<u>92,090,861</u>	<u>62,859,279</u>

Notes:

- 1) Warrants are exercisable at \$ 0.35 per share and expired on December 20, 2010.
- 2) Warrants are exercisable at \$ 0.25 per share and expire on February 28, 2011
- 3) Warrants are exercisable at \$ 0.18 per share and expire on May 1, 2012 subject to acceleration if shares trade above \$ 0.30 for 20 business days
- 4) Warrants are exercisable at \$ 0.26 per share and expire November 9, 2011
- 5) Agents' options are exercisable at \$ 0.12 per share and expire on May 1, 2012 subject to acceleration if shares trade above \$ 0.30 for 20 business days.
- 6) Agents' warrants are exercisable at \$ 0.18 per share and expire on May 1, 2012 subject to acceleration if shares trade above \$ 0.30 for 20 business days.
- 7) Agents' options are exercisable at US \$ 0.17 per share and expired on November 9, 2011.
- 8) Agents' warrants are exercisable at \$ 0.26 per share and expired on November 9, 2011.
- 9) Stock options outstanding are exercisable at prices ranging from \$ 0.25 to \$ 0.70 per share and expire on dates ranging from January 22, 2012 to January 6, 2016. As of January 24, 2011 all stock options granted have vested except for 1,402,500 of which 1,277,500 will vest on September 15, 2011 and 175,000 on January 6, 2012.

Capital Resources

The Company had a working capital deficiency of \$ 150,870 as of September 30, 2010.

Multilateral Instrument 52-109 Disclosure

Evaluation of Disclosure Controls and Procedures

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

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2010 and have concluded that they are adequate and effective to ensure accurate and complete disclosure.

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Additional Disclosure

	September 30, 2010 \$	September 30, 2009 \$	September 30, 2008 \$
Deferred Exploration Costs by property			
IGOR concession	691,287	530,477	2,058,826
IGOR South concession	17,152	-	-
Pachin Alto (ERMC) concession	-	-	66,480
Pele Joint concession	-	4,202	10,101
La Borrachera Concession	-	9,961	-
	<u>708,439</u>	<u>544,640</u>	<u>2,135,407</u>

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.

Additional Sources of Information

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