

Sienna Gold Inc.
(An Exploration Stage Company)

Interim Consolidated Financial Statements

Three months ended December 31, 2008 and 2007

(Unaudited)

SIENNA GOLD INC.

To the Shareholders of Sienna Gold Inc.:

The attached Interim Consolidated Statements of Operations, for the three months ended December 31, 2008 and 2007, the Interim Consolidated Balance Sheet as at December 31, 2008, and the Interim Consolidated Statements of Cash Flows for the three months ended December 31, 2008 and 2007, have neither been audited or reviewed by our auditing Firm, MacKay LLP.

Calgary, Alberta

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

As at

| | December 31, 2008 (Unaudited) \$ | September 30, 2008 (Audited) \$ |
|--|---|--|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 198,282 | 97,528 |
| GST and foreign sales tax recoverable | 37,630 | 141,907 |
| Prepaid expenses | <u>16,879</u> | <u>29,831</u> |
| | 252,791 | 269,266 |
| Rental deposits | 11,512 | 15,634 |
| Property and equipment (Note 4) | 15,491 | 17,509 |
| Mineral properties (Note 5) | <u>9,069,273</u> | <u>8,886,109</u> |
| | <u><u>9,349,067</u></u> | <u><u>9,188,518</u></u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | 489,504 | 423,729 |
| Asset retirement obligation (Note 7) | <u>10,139</u> | <u>9,445</u> |
| | <u>499,643</u> | <u>433,174</u> |
| Nature of business and continuing operations (Note 1) | | |
| Commitments (Notes 5 and 13) | | |
| Shareholders' Equity | | |
| Share capital (Note 8) | | |
| Common shares | 17,279,739 | 16,090,852 |
| Common share purchase warrants | 314,309 | 1,203,196 |
| Contributed surplus (Note 9) | 1,221,021 | 1,202,763 |
| Deficit | <u>(9,965,645)</u> | <u>(9,741,467)</u> |
| | <u>8,849,424</u> | <u>8,755,344</u> |
| | <u><u>9,349,067</u></u> | <u><u>9,188,518</u></u> |

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

On Behalf of the Board of Directors

John Rucci
Signed

Raymond Antony
Signed

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

| | For the three months ended December 31, 2008 (Unaudited) \$ | For the three months ended December 31, 2007 (Unaudited) \$ | Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to December 31, 2008 (Unaudited) \$ |
|---|--|--|---|
| Expenses | | | |
| General and administration | 190,776 | 196,044 | 2,592,794 |
| Interest on notes and advances | - | - | 67,783 |
| Premises | 28,049 | 16,789 | 326,761 |
| Transfer, listing fees and shareholder Communications | 5,708 | 19,107 | 486,776 |
| Mineral and exploration costs (Note 5) | - | - | 244,254 |
| Stock-based compensation (Note 9) | 18,258 | 229,882 | 1,145,880 |
| Accretion expense (Note 7) | 694 | 694 | 9,026 |
| Depreciation | 2,018 | 3,825 | 47,886 |
| Foreign exchange (gain) loss | <u>(33,859)</u> | <u>874</u> | <u>(78,611)</u> |
| Loss and comprehensive loss before the following: | 211,644 | 467,215 | 4,842,549 |
| Interest income | - | (17,177) | (109,212) |
| Write-down of mineral properties (Note 5) | <u>12,534</u> | <u>45,886</u> | <u>2,063,227</u> |
| Loss and comprehensive loss | 224,178 | 495,924 | 6,796,564 |
| Deficit, beginning of period | <u>9,741,467</u> | <u>8,379,770</u> | <u>3,169,081</u> |
| Deficit, end of period | <u><u>9,965,645</u></u> | <u><u>8,875,694</u></u> | <u><u>9,965,645</u></u> |
| Loss per common share, basic and diluted | 0.005 | 0.01 | |
| Basic and Diluted Weighted average number of common shares outstanding | <u><u>44,680,432</u></u> | <u><u>43,569,591</u></u> | |

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

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

| | For the three months ended December 31, 2008 (Unaudited) \$ | For the three months ended December 31, 2007 (Unaudited) \$ | Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to December 31, 2008 (Unaudited) \$ |
|---|--|--|--|
| Cash provided by (used for): | | | |
| Operating activities: | | | |
| Loss and comprehensive loss | (224,178) | (495,924) | (6,796,564) |
| Adjustments for: | | | |
| Write-down of mineral properties (Note 5) | 12,534 | 45,886 | 2,063,227 |
| Depreciation | 2,018 | 3,825 | 47,886 |
| Stock-based compensation | 18,258 | 229,882 | 1,145,880 |
| Accretion expense | 694 | 694 | 9,026 |
| Foreign exchange gain | (33,227) | 729 | (52,832) |
| Shares for interest expense | - | - | 34,361 |
| Rental deposit | 4,122 | - | 4,122 |
| | <u>(219,779)</u> | <u>(214,908)</u> | <u>(3,544,894)</u> |
| Asset retirement obligations settled | - | - | (33,607) |
| Changes in non-cash working capital items | | | |
| GST and foreign sales tax recoverable | 129,096 | (26,499) | 248,090 |
| Prepaid expenses | 12,952 | 11,925 | (32,513) |
| Accounts payable and accrued liabilities | <u>(224,334)</u> | <u>(127,911)</u> | <u>(424,730)</u> |
| | <u>(302,065)</u> | <u>(357,393)</u> | <u>(3,787,654)</u> |
| Investing activities: | | | |
| Mineral property expenditures | (195,951) | (467,092) | (8,486,256) |
| Property and equipment expenditures | - | - | (63,376) |
| GST and foreign sales tax recoverable | (24,820) | 34,886 | (285,721) |
| Accounts payable and accrued liabilities | <u>290,109</u> | <u>136,425</u> | <u>740,445</u> |
| | <u>69,338</u> | <u>(295,781)</u> | <u>(8,094,908)</u> |
| Cash provided by financing activities: | | | |
| Common shares and warrants issued | - | - | 7,523,080 |
| Share issue expenses | - | - | (779,924) |
| Deferred financing costs | - | - | (98,145) |
| Agents' units exercised | - | 100,524 | 464,129 |
| Warrants exercised (Note 8) | - | - | 2,694,000 |
| Options exercised | - | 13,500 | 55,500 |
| Private placement | 300,000 | - | 1,796,512 |
| Advances from related parties | - | - | 54,997 |
| Notes payable | <u>-</u> | <u>-</u> | <u>340,000</u> |
| | <u>300,000</u> | <u>114,024</u> | <u>12,050,149</u> |
| Effect of exchange rate change on cash | <u>33,481</u> | <u>(35)</u> | <u>30,555</u> |
| Increase (decrease) in cash and cash equivalents | <u>100,754</u> | <u>(539,185)</u> | <u>198,141</u> |
| Cash and cash equivalents | | | |
| Beginning of period | <u>97,528</u> | <u>2,360,476</u> | <u>141</u> |
| End of period | <u><u>198,282</u></u> | <u><u>1,821,291</u></u> | <u><u>198,282</u></u> |

The accompanying notes to the consolidated financial statements are an integral part of these financial statements

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three month period ended December 31, 2008 and 2007

Note 1 - Nature of Business and Continuing Operations

Sienna Gold Inc. ("Sienna" or the "Company") was incorporated on July 28, 1987, as Vortex Energy & Minerals Ltd., under the Alberta Business Corporations Act. The Company's name was changed on May 2, 2001 to Vortex Integrated Industrial Corporation and then to Sienna Gold Inc. on April 15, 2005. The Company is in the business of acquiring, exploring and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed.

The Company is exploring mineral properties in Peru and has not yet determined whether the properties contain economically recoverable ore reserves. The recovery of the amounts shown as acquisition costs of mineral properties and the related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development, and upon future profitable operations or proceeds from the disposition thereof.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business for the foreseeable future.

The Company's ability to continue as a going concern is dependent on the Company being able to satisfy its liabilities as they become due, being able to obtain the necessary financing to complete the exploration and development of its mineral interests, the attainment of profitable mining operations, and/or the receipt of proceeds from the disposition of its mineral property interests. These consolidated financial statements do not include any adjustments to the carrying value and classification of assets and liabilities that would be necessary, if the Company were unable to realize its assets or discharge its liabilities in anything other than the ordinary course of business.

Note 2 - Summary of Significant Accounting Policies

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles which requires management to make estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the balance sheet date which are based on information available to management at each financial statement date.

By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements for current and future periods could be significant.

The interim consolidated financial statements, have in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies employed in the audited consolidated financial statements for the fiscal year ended September 30, 2008, except for the following changes in accounting policies and disclosures which were adopted October 1, 2008:

Section 1400 – Going Concern

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

Section 3031 – Inventories

Effective for fiscal years beginning on or after January 1, 2008, CICA Section 3031 – Inventories replaces Section 3030 and provides revised guidance on the measurement of cost and cost formulas for inventories, and increased disclosures. This standard had no impact upon adoption as the Company does not maintain significant levels of inventories on an ongoing basis

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three month period ended December 31, 2008 and 2007

Note 3 – Accounting policies not yet adopted

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

Future Accounting Changes

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

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

Section 3064 – Goodwill and Intangible Assets

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

Note 4 – Property and equipment

Property and equipment consist of the following:

| | December 31, 2008 | | |
|------------------------|--------------------------|-----------------------------------|-------------------------|
| | Cost \$ | Accumulated Depreciation \$ | Net Book Value \$ |
| Furniture and fixtures | 63,377 | 47,886 | 15,491 |

| | September 30, 2008 | | |
|------------------------|---------------------------|-----------------------------------|-------------------------|
| | Cost \$ | Accumulated Depreciation \$ | Net Book Value \$ |
| Furniture and fixtures | 63,377 | 45,868 | 17,509 |

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three month period ended December 31, 2008 and 2007

Note 5 - Mineral Properties

Summary of mineral properties

| Property and cost | Igor Concession (Peru) \$ | Pachin Alto Concession (Peru) \$ | Buena Fortuna Concession (Peru) \$ | Pele Concession (Peru) \$ | La Borrachera Concession (Peru) \$ | Total |
|------------------------------------|------------------------------------|--|--|------------------------------------|--|-------------------------|
| Balance, September 30, 2007 | <u>6,791,231</u> | <u>-</u> | <u>26,952</u> | <u>2,433</u> | <u>-</u> | <u>6,820,616</u> |
| Acquisition costs: | | | | | | |
| Cash | - | - | - | - | - | - |
| Vigencia (license fee and penalty) | - | - | - | - | 23,518 | 23,518 |
| Total acquisition costs | - | - | - | - | 23,518 | 23,518 |
| Deferred exploration costs: | | | | | | |
| Claims maintenance and staking | 12,342 | 41,527 | - | - | - | 53,869 |
| Mapping and sampling | 269,219 | 209 | - | 10,101 | - | 279,529 |
| Drilling | 1,288,362 | 877 | - | - | - | 1,289,239 |
| Assaying | 41,083 | - | - | - | - | 41,083 |
| Environmental | 25,961 | 106 | - | - | - | 26,067 |
| Engineering | 67,635 | - | - | - | - | 67,635 |
| Metallurgy | 115 | - | - | - | - | 115 |
| Site visits | 758 | - | - | - | - | 758 |
| Safety and protection | 78,019 | - | - | - | - | 78,019 |
| Social development | 137,240 | - | - | - | - | 137,240 |
| Management | 138,092 | 23,761 | - | - | - | 161,853 |
| Total deferred exploration costs | <u>2,058,826</u> | <u>66,480</u> | <u>-</u> | <u>10,101</u> | <u>-</u> | <u>2,135,407</u> |
| Write-down of mineral properties | - | (66,480) | (26,952) | - | - | (93,432) |
| Balance, September 30, 2008 | <u>8,850,057</u> | <u>-</u> | <u>-</u> | <u>12,534</u> | <u>23,518</u> | <u>8,886,109</u> |
| Deferred exploration costs: | | | | | | |
| Claims maintenance and staking | - | - | - | - | 9,961 | 9,961 |
| Mapping and sampling | 119,201 | - | - | - | - | 119,201 |
| Drilling | 1,890 | - | - | - | - | 1,890 |
| Assaying | 2,751 | - | - | - | - | 2,751 |
| Environmental | 3,086 | - | - | - | - | 3,086 |
| Safety and protection | 11,274 | - | - | - | - | 11,274 |
| Social development | 11,526 | - | - | - | - | 11,526 |
| Management | 36,009 | - | - | - | - | 36,009 |
| Total deferred exploration costs | <u>185,737</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>9,961</u> | <u>195,968</u> |
| Write-down of mineral properties | - | - | - | 12,534 | - | 12,534 |
| Balance, December 31, 2008 | <u>9,035,794</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>33,479</u> | <u>9,069,273</u> |

SIENNA GOLD INC.
(An Exploration Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three month period ended December 31, 2008 and 2007

Note 5 - Mineral Properties - continued

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

(a) IGOR Concession

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

(b) Pachin Alto (EMRC) Concessions

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

(c) Buena Fortuna Concessions

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

(d) Pele Concession

On July 28, 2007, the Company entered into an agreement with the shareholder of Sociedad Mineral Pele S.A.C. ("Pele"), a Peruvian company, to acquire shares of Pele from the shareholder. Pele owns 3,200 hectares of land in the Otuzco Province of Peru. Sienna has the right to purchase a 65% interest in the capital stock of Pele for a total of US\$ 5.00 within thirty-six months provided Sienna has incurred US\$ 400,000 of exploration expenses on the property owned by Pele. Sienna has the option to acquire the remaining 35% of the capital stock of Pele for US\$ 500,000 within twenty-four months of exercising its options on the first 65%. Sienna must cause Pele to grant to the shareholder of Pele, a 0.5% Net Smelter Return Royalty, if Sienna acquires 100% of Pele. In December of 2008, the concession was returned to its owner resulting in a write-off of \$ 12,534.

(e) La Borrachera Concession

In September 2008, the Company filed mining claims on 900 hectares in the Lomas Province of the Department of Piura Peru.

Title to Mineral Property Interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 - Related Party Transactions

During the first quarter of 2009:

Directors or companies controlled by directors were paid \$ 13,183 (2007 – \$ 9,600) for engineering and other services, and a law firm of which a director is a partner was paid \$ 21,846 (2007 - \$ 3,139). The balance owing to directors at December 31, 2008 was \$ 3,000 (2007 - Nil).

The above transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Note 7 - Asset Retirement Obligations

The Company recognizes, as a liability, an asset retirement obligation (ARO) associated with the retirement of its long-lived asset in the period in which it is incurred and becomes determinable, with a corresponding increase in the carrying amount of the associated asset. The cost of the long lived asset, including the initially recognized ARO, is depleted such that the cost of the ARO is recognized over the useful life of the asset. The ARO is recorded at fair value, and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. The fair value of the ARO is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate.

As at December 31, 2008, the estimated present value of the Company's asset retirement obligation was \$ 10,139.

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

| | \$ |
|---|----------------------|
| Asset retirement obligation at September 30, 2007 | 23,328 |
| Liabilities settled | (16,659) |
| Accretion expense | <u>2,776</u> |
| Asset retirement obligation at September 30, 2008 | 9,445 |
| Accretion expense | <u>694</u> |
| Asset retirement obligation at December 31, 2008 | <u><u>10,139</u></u> |

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 – Share Capital

(a) Authorized:

Unlimited number of common shares and unlimited number of preference shares

| Common Shares | Number | Amount \$ |
|--|--------------------------|--------------------------|
| Balance, September 30, 2007 | 43,547,625 | 16,022,565 |
| Private placement | 834,750 | 299,121 |
| Agents' options exercised | 143,605 | 100,524 |
| Stock options exercised | 115,000 | 34,500 |
| Warrant extension adjustment | - | (383,336) |
| Fair value assigned to stock options exercised | - | 13,811 |
| Fair value on agents' options exercised | - | 38,667 |
| Share issue costs | - | (35,000) |
| | <u>44,640,980</u> | <u>16,090,852</u> |
| Balance September 30, 2008 | 44,640,980 | 16,090,852 |
| Private placement | <u>1,200,000</u> | <u>187,420</u> |
| Balance December 31, 2008 | <u><u>45,840,980</u></u> | <u><u>17,279,739</u></u> |

| Common Share Purchase Warrants | Number | Amount \$ | Expiry Date | Exercise Price |
|---|-------------------------|-----------------------|---------------|----------------|
| Balance, September 30, 2007 | 2,804,775 | 603,240 | | |
| Private Placement | 417,375 | 201,729 | July 15, 2009 | \$0.72 |
| Issued on exercise of Agents' units/options | 71,802 | 14,891 | Nov 1, 2008 | \$0.90 |
| Extension of warrants | <u>-</u> | <u>383,336</u> | | |
| Balance, September 30, 2008 | 3,293,952 | 1,203,196 | | |
| Private Placement | 1,200,000 | 112,580 | Dec 10, 2010 | \$0.35 |
| Warrants expired | <u>(2,876,577)</u> | <u>(1,001,467)</u> | Nov 1, 2008 | \$0.90 |
| Balance, December 31, 2008 | <u><u>1,617,375</u></u> | <u><u>314,309</u></u> | | |

SIENNA GOLD INC.
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 – Share Capital – continued

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

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

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

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.

(b) Stock Options

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

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 – Share Capital – continued

Details of the stock options are as follows:

| | Shares Number | Weighted Average Exercise Price \$ |
|---|-------------------------|--|
| Options outstanding, September 30, 2007 | 3,075,000 | |
| Granted | 620,000 | 0.50 |
| Expired | 165,000 | 0.70 |
| Exercised | <u>(45,000)</u> | 0.46 |
| | | 0.30 |
| Options outstanding, September 30, 2008 | 3,415,000 | 0.55 |
| Expired | <u>125,000</u> | 0.87 |
| Options outstanding, December 31, 2008 | <u><u>3,290,000</u></u> | 0.54 |

Options outstanding at December 31, 2008 are as follows:

| Options Outstanding | Number of Options Exercisable | Exercise Price | Expiry Date |
|-------------------------|----------------------------------|----------------|-------------------|
| 100,000 | 100,000 | \$0.30 | June 30, 2010 |
| 1,470,000 | 1,470,000 | \$0.30 | July 11, 2010 |
| 175,000 | 175,000 | \$1.15 | December 21, 2010 |
| 925,000 | 925,000 | \$0.70 | January 22, 2012 |
| <u>630,000</u> | <u>630,000</u> | \$0.70 | November 16, 2012 |
| <u><u>3,290,000</u></u> | <u><u>3,290,000</u></u> | | |

The fair value of the options granted during the first quarter of 2008 was estimated on the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

| | |
|--------------------------|---------|
| Dividend yield | nil |
| Expected volatility | 92% |
| Risk free rate of return | 4.04% |
| Expected life of options | 5 years |

Option valuing models require the input of highly subjective assumptions, including the expected price volatility. Change in the subjective input assumptions can materially affect the fair-value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

In accordance with the vesting periods for all options issued to directors, officers, employees and consultants, \$ 18,258 (December 31, 2007 - \$ 229,882) was recorded as an expense in the period with an offsetting credit to contributed surplus. The unamortized balance of \$ Nil (December 31, 2007 - \$ 141,852), will be expensed over the remaining vesting period.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 – Share Capital – continued

(c) Earnings Per Share

All of the warrants, agents' options and stock options outstanding at December 31, 2008 have been excluded from the calculation of loss per share as the Company is in a loss position, and to do so would be anti-dilutive to the calculation of loss per share.

(d) Shares Reserved – Common Shares

Shares are reserved for the following potential issuances:

| | December 31, 2008 | September 30, 2008 |
|-----------------------------------|-------------------|--------------------|
| Public offering, October 16, 2006 | - | 2,875,579 |
| Private Placement – July 2008 | 417,375 | 417,375 |
| Private Placement – Dec 2008 | 1,200,000 | - |
| Stock options | 3,190,000 | 3,415,000 |
| Property acquisition options | <u>100,000</u> | <u>100,000</u> |
| | <u>4,907,375</u> | <u>6,391,577</u> |

Note 9 – Contributed Surplus

| | \$ |
|---------------------------------------|------------------|
| Balance, September 30, 2007 | 916,656 |
| Stock option compensation | 353,476 |
| Agents' options exercised | |
| Common shares issued | (38,667) |
| Common share purchase warrants issued | (14,891) |
| Stock options exercised | <u>(13,811)</u> |
| Balance, September 30, 2008 | 1,202,763 |
| Stock option compensation | <u>18,258</u> |
| Balance, December 31, 2008 | <u>1,221,021</u> |

Note 10 – Capital Risk Management

The Company's objectives when managing capital are:

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

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

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

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

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

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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 11 – Financial Instruments

a) Fair value of financial instruments:

The Company's financial instruments as at December 31, 2008 and September 30, 2008 include cash and cash equivalents, GST and foreign sales taxes recoverable, accounts payable and accrued liabilities. Their fair values approximate their carrying amounts due to their short terms to maturity.

b) Credit risk:

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

| | December 31, 2008 | September 30, 2007 |
|---------------------------------------|-------------------|--------------------|
| | \$ | \$ |
| Cash and cash equivalents | 198,282 | 97,528 |
| GST and Foreign Sales Tax Recoverable | <u>37,630</u> | <u>141,907</u> |
| | <u>235,912</u> | <u>239,435</u> |

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. As at December 31, 2008, the Company's receivables consisted of \$ 37,630 (September 30, 2008 - \$ 141,907) from the governments of Canada and Peru. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

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

c) Liquidity risk:

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

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

At December 31, 2008, all of the Company's accounts payable and accrued liabilities mature within one year.

d) Market risk:

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

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Note 12 – Segmented Information

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

| | December 31, 2008 | | |
|----------------------------|--------------------------|------------------|------------------|
| | <u>Canada</u> | <u>Peru</u> | <u>Total</u> |
| | \$ | \$ | \$ |
| Loss for the period | 115,264 | 108,916 | 224,178 |
| Identifiable assets | 245,936 | 9,103,131 | 9,349,067 |
| | December 31, 2007 | | |
| | <u>Canada</u> | <u>Peru</u> | <u>Total</u> |
| | \$ | \$ | \$ |
| Loss for the period | 352,706 | 143,218 | 495,924 |
| Identifiable assets | 1,836,464 | 7,397,720 | 9,234,184 |

Note 13 – Commitments

The Company has entered into a lease agreement for its office space in Calgary. The lease expires on December 31, 2012. The minimum annual payments are as follows:

| | \$ |
|--------------|-----------------------|
| | Canada |
| 2009 | 70,074 |
| 2010 | 93,432 |
| 2011 | 93,432 |
| 2012 | <u>93,432</u> |
| 2013 | <u>83,358</u> |
| Total | <u><u>373,728</u></u> |