

**Sienna Gold Inc.**  
(An Exploration Stage Company)

**Interim Consolidated Financial Statements**

**Three months ended December 31, 2010 and 2009**

**(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, 2010 and 2009, the Interim Consolidated Balance Sheet as at December 31, 2010, and the Interim Consolidated Statements of Cash Flows for the three months ended December 31, 2010 and 2009, have neither been audited or reviewed by our auditors.

Calgary, Alberta

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

As at

	<b>December 31, 2010 (Unaudited)</b>	<b>September 30, 2010 (Audited)</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	309,713	50,030
GST and foreign sales tax recoverable	<u>96,060</u>	<u>52,033</u>
	<b>405,773</b>	102,063
<b>Mineral properties (Note 4)</b>	<b>10,218,337</b>	9,990,133
<b>Property and equipment (Note 5)</b>	<u>6,807</u>	<u>7,450</u>
	<u><b>10,630,917</b></u>	<u>10,099,646</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 6)	94,981	252,933
<b>Asset retirement obligation (Note 7)</b>	<u>15,691</u>	<u>14,997</u>
	<u><b>110,672</b></u>	<u>267,930</u>
<b>Nature of business and continuing operations (Note 1)</b>		
<b>Subsequent events (Note 14)</b>		
<b>Shareholders' Equity</b>		
<b>Share capital (Note 8)</b>		
Common shares	17,512,101	17,283,545
Common share purchase warrants	1,351,160	932,094
<b>Contributed surplus (Note 9)</b>	<b>3,130,429</b>	2,875,075
<b>Deficit</b>	<u>(11,473,441)</u>	<u>(11,258,998)</u>
	<u><b>10,520,249</b></u>	<u>9,831,716</u>
	<u><b>10,630,921</b></u>	<u>10,099,646</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**

	<b>For the Three Months Ended December 31, 2010 (Unaudited)</b>	<b>For the Three Months Ended December 31, 2009 (Unaudited)</b>	<b>Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to December 31, 2010 (Unaudited)</b>
	\$	\$	\$
<b>Expenses</b>			
General and administration	175,303	132,171	3,420,098
Interest on notes and advances		-	30,791
Premises	2,813	4,657	440,730
Transfer, listing fees and shareholder communications	13,712	21,342	664,590
Mineral and exploration costs (Note 4)		-	244,254
Stock-based compensation (Note 9)	59,243	107,644	1,610,969
Accretion expense (Note 7)	694	694	14,578
Depreciation	643	1,023	56,570
Foreign exchange gain	<u>(37,900)</u>	<u>(18,911)</u>	<u>(169,410)</u>
<b>Loss and comprehensive loss before the following:</b>	<b>214,508</b>	<b>248,620</b>	<b>6,313,170</b>
Interest income	(65)	(194)	(109,718)
Write-down of mineral properties (Note 4)	<u>-</u>	<u>-</u>	<u>2,100,908</u>
<b>Net loss and comprehensive loss</b>	<b>214,443</b>	<b>248,426</b>	<b>8,304,360</b>
<b>Deficit, beginning of period</b>	<b><u>11,258,998</u></b>	<b><u>10,393,290</u></b>	<b><u>3,169,081</u></b>
<b>Deficit, end of period</b>	<b><u>11,473,441</u></b>	<b><u>10,641,716</u></b>	<b><u>11,473,441</u></b>
<b>Loss per common share, basic and diluted</b>	<b>0.003</b>	<b>0.005</b>	
<b>Basic and Diluted Weighted average number of common shares outstanding</b>	<b><u>62,213,050</u></b>	<b><u>51,307,646</u></b>	

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

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

	For the Three Months Ended December 31, 2010 (Unaudited)	For the Three Months Ended December 31, 2009 (Unaudited)	Cumulative from the initiation of exploration for precious and base metals on July 1, 2004 to December 31, 2010 (Unaudited)
	\$	\$	\$
<b>Cash provided by (used for):</b>			
<b>Operating activities:</b>			
Net loss and comprehensive loss	(214,443)	(248,426)	(8,304,360)
Adjustments for:			
Write-down of mineral properties (Note 4)	-	-	2,100,908
Depreciation	643	1,023	56,570
Stock-based compensation	59,243	107,644	1,610,969
Accretion expense	694	694	14,578
Foreign exchange gain	(43,590)	(14,767)	(100,000)
Shares for interest expense	-	-	34,361
Shares for Service	-	-	10,000
Interest reversal	-	-	(36,992)
	<u>(197,453)</u>	<u>(153,832)</u>	<u>(4,613,966)</u>
Asset retirement obligations settled	-	-	(33,607)
Changes in non-cash working capital items			
Rental deposit	-	-	15,634
GST and foreign sales tax recoverable	(85,763)	(2,200)	65,448
Prepaid expenses	-	-	(15,634)
Accounts payable and accrued liabilities	(204,904)	(115,776)	(810,329)
	<u>(488,120)</u>	<u>(271,808)</u>	<u>(5,392,454)</u>
<b>Investing activities:</b>			
Mineral property expenditures	(186,205)	(111,800)	(9,975,726)
Property and equipment expenditures	-	-	(63,376)
GST and foreign sales tax recoverable	41,735	519	(161,509)
Accounts payable and accrued liabilities	46,951	73,009	1,376,081
	<u>(97,519)</u>	<u>(38,272)</u>	<u>(8,824,530)</u>
<b>Financing activities:</b>			
Common shares and warrants issued	915,120	-	15,251,790
Share issue expenses	(73,967)	-	(1,032,542)
Deferred financing costs	-	-	(98,145)
Warrants exercised	2,580	-	2,580
Advances from related parties	-	-	54,997
Notes payable	-	-	340,000
	<u>843,733</u>	<u>-</u>	<u>14,518,680</u>
<b>Effect of exchange rate change on cash</b>	<u>1,589</u>	<u>16,344</u>	<u>7,876</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>259,683</b>	<b>(293,736)</b>	<b>309,572</b>
<b>Cash and cash equivalents</b>			
<b>Beginning of period</b>	<u>50,030</u>	<u>533,334</u>	<u>141</u>
<b>End of period</b>	<u>309,713</u>	<u>293,598</u>	<u>309,713</u>

**Supplemental Cash Flows information (Note 12)**

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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three month ended December 31, 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 December 31, 2010, the Company has received gross proceeds of approximately \$ 1,034,196 as detailed in note 14. 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 transaction and balances have been eliminated. In the opinion of management, all of the adjustments necessary to fairly present the consolidated financial statements set forth herein have been made.

**Use of estimates**

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

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three month ended December 31, 2010 and 2009**

**Note 3 – Future accounting 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.

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three month ended December 31, 2010 and 2009

**Note 4 - Mineral properties**

**Summary of mineral properties**

Property and costs	IGOR Concession (Peru) \$	IGOR South Concession (Peru) \$	Total \$
Balance, September 30, 2009	<u>9,380,534</u>	<u>-</u>	<u>9,380,534</u>
Acquisition costs			
Cash	-	17,152	17,152
Shares	-	55,000	55,000
Total acquisition costs	<u>-</u>	<u>72,152</u>	<u>72,152</u>
Deferred exploration costs:			
Drilling, road and site preparation	414,483	-	414,483
Claims maintenance and staking	194,962	-	194,962
Management	50,449	-	50,449
Assaying	17,940	-	17,940
Social development	6,991	-	6,991
Environmental	2,424	-	2,424
Geophysical Survey	1,228	-	1,128
Safety and protection	1,108	-	1,108
Mapping and Sampling	1,106	-	1,106
Site visits	596	-	596
Deferred exploration costs	691,287	-	691,287
Deferred cost reversed (Note 8)	<u>(153,840)</u>	<u>-</u>	<u>(153,840)</u>
	<u>537,447</u>	<u>-</u>	<u>537,447</u>
<b>Balance, September 30, 2010</b>	<b><u>9,917,981</u></b>	<b><u>72,152</u></b>	<b><u>9,990,133</u></b>
Deferred exploration costs:			
Drilling, road and site preparation	190,766	-	190,766
Claims maintenance and staking	37,438	-	37,438
Deferred exploration costs	<u>228,204</u>	<u>-</u>	<u>228,204</u>
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance, December 31, 2010</b>	<b><u>10,146,185</u></b>	<b><u>72,152</u></b>	<b><u>10,218,337</u></b>

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).

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three month ended December 31, 2010 and 2009**

**Note 4 - Mineral properties - Continued**

**(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.

**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.

**Note 5 – Property and equipment**

Property and equipment consist of the following:

	<b>December 31, 2010</b>		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Furniture and fixtures	<b>63,377</b>	<b>56,570</b>	<b>6,807</b>

	<b>September 30, 2010</b>		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Furniture and fixtures	63,377	55,927	7,450

**Note 6 - Related Party Transactions**

Three months ended December 31, 2010:

Directors or companies controlled by directors were paid \$ 31,500 (2009 – \$ 23,751), for engineering and other services, and a law firm of which a director is a partner was paid \$ 13,851 (2009 - \$ 4,656) of which \$ 34,359 is in the year end accounts payable and accrued liabilities (2009 – \$ 33,297).

Three months ended December 31, 2009:

Directors or companies controlled by directors were paid \$ 23,751 (2008 – \$ 13,183) of which \$ 4,627 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 \$ 4,656 (2008 - \$ 21,846) of which \$ 33,297 is in the year end accounts payable and accrued liabilities (2008 - \$ 22,939).

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.

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three month ended December 31, 2010 and 2009**

**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, 2010, the estimated present value of the Company's asset retirement obligation was \$ 15,691 based on an estimated fair value of \$ 15,691, 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, 2009	12,221
Accretion expense	<u>2,776</u>
Asset retirement obligation at September 30, 2010	14,997
Accretion expense	<u>694</u>
Asset retirement obligation at December 31, 2010	<u>15,691</u>

**Note 8 – Share Capital**

**(a) Authorized:**

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

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

<b>Common Shares</b>	<b>Number</b>	<b>Amount</b>
		\$
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>	<b>61,440,722</b>	<b>17,283,545</b>
Private placement, November 8, 2010	5,294,120	383,474
Agents option exercised	21,500	2,580
Fair value of agents option exercised	-	1,495
Share issue costs	<u>-</u>	<u>(158,993)</u>
<b>Balance, December 31, 2010</b>	<b><u>66,756,342</u></b>	<b><u>17,513,101</u></b>

**SIENNA GOLD INC.**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three month ended December 31, 2010 and 2009**

**Note 8 – Share Capital – Continued**

<b>Common Share Purchase Warrants</b>	<b>Number</b>	<b>Amount</b>	<b>Expiry Date</b>	<b>Exercise Price</b>
		<b>\$</b>		
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>	14,858,741	932,094		
Private placement	5,294,120	531,646	November 9, 2011	\$ 0.26
Issued on exercise of Agents units/option	21,500			
Warrants expired	(1,200,000)	(112,580)	December 10, 2010	\$ 0.35
<b>Balance, December 31, 2010</b>	<u>18,974,361</u>	<u>1,351,160</u>		

**Fiscal 2011 transactions**

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 (CDN \$ 915,120). 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. The Company has assigned \$ 531,646 to the warrants based on the estimated fair value using a Black-Scholes option value model with the balance of \$ 383,474, assigned to the shares. Agents assisting in the private placement were paid US \$ 63,000 and were granted 370,588 units at US \$ 0.17 per unit which expire two years after closing. The Units entitle the holder to acquire one common share of the Corporation at US \$ 0.17 and receive one common share purchase warrant, the common share purchase warrants entitle the holder to acquire one common share at \$ 0.26 per share for a period of one year from closing. The Company has assigned \$ 85,026 to the units based on the estimate FMV using Black-Scholes option value model. These costs have been recorded as share issue costs.

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

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three month ended December 31, 2010 and 2009**

**Note 8 – Share Capital – Continued**

**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 400 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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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three month ended December 31, 2010 and 2009**

**Note 8 – Share Capital – Continued**

**(b) Stock Options**

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

Details of the stock options are as follows:

	Shares Number	Weighted Average Exercise Price
		\$
Options outstanding, September 30, 2009	4,090,000	0.34
Granted	2,905,000	0.26
Expired	(1,310,000)	0.31
Expired	<u>(175,000)</u>	0.30
Options outstanding, September 30, 2010	5,510,000	0.35
Expired	175,000	1.15
Expired	<u>175,000</u>	0.30
Options outstanding December 31, 2010	<u>5,160,000</u>	0.36

During the period 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.

Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
705,000	705,000	\$ 0.70	January 23, 2012
600,000	600,000	\$ 0.70	November 16, 2012
1,300,000	1,300,000	\$ 0.25	September 1, 2014
2,555,000	1,277,500	\$ 0.25	September 24, 2015
<u>5,160,000</u>	<u>3,882,500</u>		

The fair value of the options granted during the period is estimated on the dates of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	Year ended September 30, 2010
Dividend yield	Nil
Expected volatility	96%
Risk free rate of return	2.51%
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, \$ 59,243 (December 31, 2009 - \$ 107,644) was recorded as an expense in the period with an offsetting credit to contributed surplus. An unamortized balance of \$ 164,851 (September 30, 2010 - \$ 224,094) remains, which will be expensed over the remaining vesting period.

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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, 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.

**(d) Shares Reserved – Common Shares**

Shares are reserved for the following potential issuances:

	December 31, 2010	September 30, 2010
Private Placement		
December 10, 2008	-	1,200,000
September 10, 2009	5,466,666	5,466,666
April 30, 2010	8,213,575	7,801,250
November 8, 2010	5,294,120	
Agent units/warrants	950,158	642,807
Stock options	<u>5,160,000</u>	<u>5,510,000</u>
	<u>25,084,519</u>	<u>20,620,723</u>

**Note 9 – Contributed Surplus**

	\$
Balance, September 30, 2009	2,517,046
Stock option compensation	341,846
Agents options issued	66,553
Agents options exercised	(50,370)
Balance, September 30, 2010	2,875,075
Stock option compensation	59,243
Warrants expired	112,580
Agents options issued	85,026
Agents options exercised	<u>(1,495)</u>
<b>Balance, December 31, 2010</b>	<u>3,130,429</u>

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**Note 10 – 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 may pursue financing by equity, acquiring joint venture partners 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, 2010 and September 30, 2010 include cash and cash equivalents, GST and foreign sales taxes recoverable and 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.

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, 2010	September 30, 2010
	\$	\$
Cash and cash equivalents	309,713	533,334
GST and Foreign Sales Tax Recoverable	<u>96,060</u>	<u>32,830</u>
	<u>405,773</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 December 31, 2010, the Company's receivables consisted of \$ 96,060 (September 30, 2010 - \$ 52,033) 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 anticipates raising funds from the issuance of equity prior to the commencement of the next exploration phase.

At December 31, 2010, all of the Company's accounts payable and accrued liabilities mature within one year.

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**Note 11 – Financial Instruments - continued**

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 12 - 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	531,646	28,829
Transfer to share capital from contributed surplus	1,495	-

Supplemental information regarding other cash transactions is as follows:

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

**Note 13 – Segmented Information**

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

	<u>Loss for the Period</u>		
	<u>Canada</u>	<u>Peru</u>	<u>Total</u>
	\$	\$	\$
<b>December 31, 2010</b>	<b>115,336</b>	<b>99,107</b>	<b>214,443</b>
December 31, 2009	179,273	69,153	248,426

  

	<u>Identifiable Assets</u>		
	<u>Canada</u>	<u>Peru</u>	<u>Total</u>
	\$	\$	\$
<b>December 31, 2010</b>	<b>307,700</b>	<b>10,323,220</b>	<b>10,630,920</b>
September 30, 2010	46,977	10,052,669	10,099,646

**Note 14 – Subsequent Events**

On January 5, 2011, 250,000 stock options were granted.

Subsequent to December 31, 2010, 4,625,293 warrants have been exercised for gross proceeds of \$ 1,034,196.