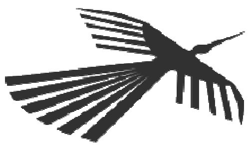


Sienna Gold Inc.

SIENNA GOLD INC.

Management's Discussion and Analysis
Of Financial Condition and Results of Operation
For the nine month period ended June 30, 2012

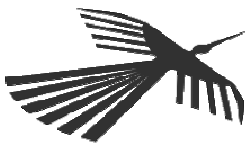
Management's discussion and analysis (MD&A) is dated August 27, 2012 and is management's assessment of the operations and the financial results together with future prospects of SIENNA GOLD INC. ("Sienna" or the "Company"). This MD&A should be read in conjunction with our unaudited interim consolidated financial statements for the nine month period ended June 30, 2012 and our unaudited consolidated financial statements and related notes for the nine months ended June 30, 2012 and 2011, prepared in accordance with international financial reporting standards . Additional information relevant to Sienna's activities, including Sienna's press releases can be found on SEDAR at www.sedar.com and on the Company's website at (www.siennagold.com) .

The Company has adopted IFRS on October 1, 2011 with a transition date of October 1, 2010.

All references to "dollars" or "$" are in United State dollars unless noted otherwise.

This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the mining industry (including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of Sienna to obtain all permits, consents or authorizations required for its operations and activities; and health safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the ability of Sienna to fund the capital and operating expenses necessary to achieve the business objectives of Sienna, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by Sienna. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of Sienna should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this document are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.



1. Overall Performance and Company Highlights

The principal business of Sienna since 2004 has been to acquire and explore mineral properties in Peru. Sienna is currently focused on exploring and developing the Mina IGOR property while continuing to investigate other properties in South America.

This quarter and year has been very exciting for Sienna. The Company has to date completed 18,767 meters of drilling at IGOR particularly, on the west side of the property known as Callanquitas As evidenced by recent news releases the results continue to be very positive and encouraging. The program planned to drill 12,000 meters in the Callanquitas area, however that amount was increased to provide more information for the expected N.I. 43-101 technical report to be available by October of this year. The drilling which was planned for the Domo and Tesoros area on the eastern side of IGOR will be included in the next drilling program, which should commence in the spring of next year. During the interim, the Company will be preparing the Domo and Tesoros area by mapping and sampling to define and plan the drill program. This program in the Domo and Tesoros areas will undertake to further define the resources reported in the 2008 NI 43-101 report.

During this quarter the Company has focused on getting its evolving story to the market in Canada, Peru and Europe.

In March 2012, the Company participated at the PDAC and presented selected IGOR core in the conference's "Core Shack". At one recent meeting in Lima, over 150 investors and potential investors attended presentations.

During this quarter the Company undertook a trip to Europe to create awareness to the European investment community of the Sienna story. The Company was well received in Europe and the Company believes that the contacts made during the trip will result in a greater following of the Company in the future. The European investment community is now being kept informed on a regular basis. With the information gathered to date through all phases of exploration, sampling, mapping and drilling, the Company feels that its goal of delineate a resource of at least 1,000,000 gold equivalent ounces on the IGOR property will be met. It is the Company's intention to complete a N.I. 43-101 resource estimate on the Callanquitas area by October 2012.

Recent Highlights

On November 8, 2010, the Company closed a $900,000 private placement through the issuance of 5,294,120 units at a price of $ 0.17 per unit. Each unit comprises one common share and one common share purchase warrant with each common share purchase warrant entitling the holder to purchase one common share at Cdn. $ 0.26 per share for a period of one year from the closing date. In connection with the private placement, the Company paid a 7% commission and issued 370,588 broker options entitling the holder to purchase that number of units at a price of $ 0.17 per unit.

On March 24, 2011, the Company closed a $ 7,000,000 private placement through the issuance of 17,500,000 units at a price of $ 0.40 per unit. Each unit comprises one common share and one common share purchase warrant with each common share purchase warrant entitling the holder to purchase one common share at Cdn. $ 0.60 per share for a period of one year from the closing date. In connection with the private placement, the Company paid a 7% commission and issued 1,135,750 broker options entitling the holder to purchase that number of units at a price of $ 0.40 per unit.

On March 8, 2012 the TSX Venture Exchange approved an extension to the expiry date of the 17,500,000 March 24, 2011 warrants to June 30, 2013, with the condition that if the shares of Sienna close at or above Cdn. $ 0.80 for a period of 20 business days, including days on which no trading occurs, Sienna has the option of issuing a press release and amending the expiry date to an earlier date no sooner than 30 days after the date of such press release.

On March 23, 2012, 1,135,750 Agents options were exercised for gross proceeds of $ 454,300.

On June 22, 2012 the Company closed a private placement for the issuance of 5,746,571 units at $ 0.35 per unit for gross proceeds of $ 2,011,300. 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 Cdn $ 0.55 for a period of one year from closing. The Company has assigned $ 272,505 to the warrants based on the estimated fair value using a Black-Scholes option value model with the balance of $ 2,191,453, assigned to the shares Agents assisting in the private placement were paid $ 144,427 and granted options to acquire 402,260 units. The units entitle the holder to acquire one common share of the corporation for $ 0.35 and receive one common share purchase warrant, each common share purchase warrant entitles the holder to acquire a common share for Cdn $ 0.55 per share for a period of one year from closing. The Company has assigned $ 59,663 to the agents units based on the estimate FMV using Black-Scholes option value model. These costs have been recorded as share issue costs.

2. Results of Operations

Nine months Ended June 30, 2012

In November 2011 Sienna began the 2011-2012 15,000 meter drill program designed to enhance the geological knowledge of the Callanquitas structure identified in the 2010-2011 exploration program and upgrade the Domo and Tesoros NI 43-101 indicated and inferred resources previously reported. In addition the Company completed the acquisition of 200 hectares of surface rights during the period ended June 30, 2012. A further 128 hectares is expected to be acquired prior to December 31, 2012.

Sienna incurred a net loss of $ 2,025,819 or $ 0.019 per share for the nine month period ended June 30, 2012 compared to a loss of $ 422,506 or $ 0.09 per share for the nine month period ended June 30, 2011. The major items causing the increase/decrease are as follow:

Finance income was $ 488,676 for the period compared to $ 802,014 for the same period 2011. Please see below for an explanation of why this number fluctuates. The finance income for the current period results from the reduction of the market value of the Company's shares and the reduction of the time remaining to the expiry date of the warrants.

Finance income/loss includes the fair market value adjustment ("FMVA") with respect to the Company's issued and outstanding warrants which are denominated in Canadian dollars, interest and other income, foreign exchange and accretion expense. The FMVA with respect to the Company's issued and outstanding Canadian dollar denominated warrants represents the change in valuation of these warrants from the previous reporting period to June 30, 2012 based on the Black-Scholes model. The change in valuation is reported as financial income or loss. The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. An obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of profit and loss and comprehensive profit and loss as they arise.

Premises increased by $ 56,226 to $ 65,281 compared to $ 9,055 in the same period 2011. The increase in premises is attributable to the Company's move and an increase of office space.

Transfer listing fees and shareholder communications increased by $ 49,404 to $ 183,472 compared to $ 134,068 in the same period 2011. The major items causing the increase/decrease are as follows:

Consulting fees decreased by $ 30,730 to $ 19,026 compared to $ 49,756 in the same period 2011. The decrease in consulting fees is attributable to the Company engaging a consultant in the fall of 2011 to arrange investor presentations for large qualified investors, stock brokers and investment bankers.

Communications increased by $ 128,995 to $ 141,028 compared to $ 12,033 in the same period in 2011. There were three reasons for this increase;

- The Company is now required to issue press releases in Spanish when it became listed on the Lima Stock Exchange in the spring of 2011.
- The Company engaged Fundamental Research Corp. to publish a research report on the IGOR concession.
- The Company engaged Stockhouse Publishing Ltd to increase the distribution of the Company's press releases.

Share-based compensation increased by $ 548,514 to $ 753,900 compared to $ 205,386 in the same period 2011 resulting from the issuance of stock options to directors, officers, employees and consultants on November 24, 2011 and the issuance of options to a new director in April 2012. The Company uses the Black-Scholes valuation model to value share-based compensation.

General and administrative expenses increased by $ 628,734 to $ 1,500,313 compared to $ 871,579 in the same period in 2011. The major items causing the increase/decrease are as follows:

Management fees decreased by $ 36,683 to $ 205,577 compared to $ 242,260 as a result of bonuses paid to the President and Chief Financial Officer in 2011.

Office and general expenses increased by $ 13,760 to $ 54,191 compared to $ 40,431 in the same period in 2011. The increase in office and general expenses is attributable to the Company's increase in long distance telephone usage during the current drill program and other costs associated with the office move.

Travel expenses increased by $ 34,524 to $ 71,184 compared to $ 36,660 in the same period in 2011. The increase is attributable to a higher volume of travel during the current period due to the President and Chief Financial Officer traveling to Peru during the current drill program and a trip to Europe to visit with investment dealers in Europe.

Professional fees decreased by $ 4,323 to $ 66,573 compared to $ 70,896 in the same period in 2011. The increase in professional fees was attributable to the inactivity of the Company in acquisitions and equity issues.

Lima office expenses increased by $ 625,746 to $ 1,103,243 compared to $ 477,497 in the same period in 2011. The increase in Lima office expenses is attributable to the Company increasing its Lima office staff due to the increase drilling activity during the nine month period ended June 30, 2012.

Three months ended June 30, 2012

Sienna incurred a net profit of $ 1,384,325 or $ 0.013 per share for the three month period ended June 30, 2012 compared to a net profit of $ 6,501,265 or $ 0.09 per share for the nine month period ended June 30, 2011. The major items causing the increase/decrease are as follow:

Finance income was $ 2,051,311 for the period compared to $ 6,911,236 for the same period 2011. Please see below for an explanation of why this number fluctuates. The finance income for the current period results from the reduction of the market value of the Company's shares and the reduction of the time remaining to the expiry date of the warrants.

Finance income/loss includes the fair market value adjustment ("FMVA") with respect to the Company's issued and outstanding warrants which are denominated in Canadian dollars, interest and other income, foreign exchange and accretion expense. The FMVA with respect to the Company's issued and outstanding Canadian dollar denominated warrants represents the change in valuation of these warrants from the previous reporting period to June 30, 2012 based on the Black-Scholes model. The change in valuation is reported as financial income or loss. The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per

share. An obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of profit and loss and comprehensive profit and loss as they arise.

Premises increased by $ 16,922 to $ 19,828 compared to $ 2,906 in the same period 2011. The increase in premises is attributable to the Company's move and an increase of office space.

Transfer, listing fees and shareholder communications increased by $ 27,988 to $ 58,064, compared to $ 30,076 in the same period 2011.

Consulting fees decreased by $ 12,292 to $ 5,053 compared to $ 17,345 in the same period 2011. The increase in consulting fees is attributable to the Company engaging a consultant in the fall of 2011 to arrange investor presentations for large qualified investors, stock brokers and investment bankers.

Communications increased by $ 42,784 to $ 46,149 compared to $ 3,365 in the same period in 2011. There were three reasons for this increase;

- The Company is now required to issue press releases in Spanish when it became listed on the Lima Stock Exchange in the spring of 2011.
- The Company engaged Fundamental Research Corp to publish a research report on the IGOR concession.
- The Company engaged Stockhouse Publishing Ltd to increase the distribution of the Company's press releases.

Share-based compensation increased by $ 167,652 to $ 232,231 compared to $ 64,579 in the same period 2011 resulting from the issuance of stock options to directors, officers, employees and consultants on November 24, 2011 and the issuance of options to a new director in April 2012. The Company uses the Black-Scholes valuation model to value share-based compensation.

General and administrative expenses increased by $ 39,702 to $ 350,444 compared to $ 310,742 in the same period in 2011. The major items causing the increase/decrease are as follows:

Management fees increased by $ 11,405 to $ 71,502 compared to $ 60,097 as a result of increased staff in the Calgary office.

Office and general expenses increased by $ 4,654 to $ 16,625 compared to $ 11,971 in the same period in 2011. The increase in office and general expenses is attributable to the Company's increase in long distance telephone usage during the current drill program.

Travel expenses increased by $ 26,371 to $ 36,881 compared to $ 10,510 in the same period in 2011. The increase is attributable to a higher volume of travel during the current period due to the President and Chief Financial Officer traveling to Peru during the current drill program and a trip to Europe to introduce the Company to investment managers in Europe.

Professional fees decreased by $ 6,690 to $ 16,497 compared to $ 23,187 in the same period in 2011. The decrease in professional fees was attributable to the inactivity of the Company in acquisitions and equity issues.

Lima office expenses increased by $ 8,363 to $ 208,192 compared to $ 199,829 in the same period in 2011. The increase in Lima office expenses is attributable to the Company increasing its Lima office staff due to the increase drilling activity during the quarter.

3. Properties and Projects

IGOR Project

The Company's IGOR project continues to produce significant results from this drilling program as reported in the recent news releases, which can found on the Company's web site www.siennagold.com.

The current drill program is concentrated on the Callanquitas Structure on the west side of the project. Based on the consistency of the results, the Company feels that it has an excellent understanding of the high grade zone structure, with the mineralization open to the south, and at depth. and as evidenced the most current news release issued August 1, 2012 continues to prove the geological model defined by the Company's geologists.

Dr. Warren Pratt, Director of Sienna Gold Inc. Comments, "the ongoing drilling is designed to test the Callanquitas Structure at 50 m intervals, in all directions. These new results continue to demonstrate the lateral and vertical continuity of the high grade mineralization. The area of high grade keeps expanding and large parts of the Callanquitas Structure remain completely un-tested by drilling. We are also demonstrating the presence of additional, parallel, high grade structures. We are very much looking forward to the initial resource calculation in October 2012". For addition information please go to Sienna's website at. www.siennagold.com.

4. Capital Resources, Capital Expenditures and Liquidity

The Company's working capital was $ 605,577 as at June 30, 2012. The Company will need to raise additional equity to complete its current drill program and for general and administrative expenses.

For the nine month period ended June 30, 2012, the Company incurred additions of $ 5,671,071 in deferred exploration costs on its mineral properties.

5. Selected Financial Information

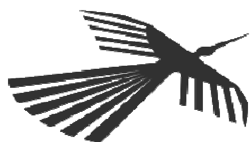
The information below should be read in conjunction with the management's discussion and analysis, the consolidated financial statements and related notes and other financial information. The following is for the periods ended:

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the unaudited interim consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred exploration costs.

These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

If the going concern assumption was not appropriate for the period ended June 30, 2012 unaudited interim consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities and the reported profit or loss.



Results for the eight most recent three month periods ended:

	June 30, 2012	March 31, 2012	December 31, 2011	September 30,2011
	$	$	$	$
Total revenue	Nil	Nil	Nil	Nil
Loss (income)	(1,384,325)	3,238,582	172,968	659,182
Loss (profit) per share	(0.013)	0.04	0.002	0.003

	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010 (GAAP)
Total revenue	Nil	Nil	Nil	Nil
Loss (income)	(6,501,265)	7,605,655	244,768	395,973
Loss (profit) per share	(0.067)	0.005	0.004	0.006

Related Party Transactions

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details between the Company and other related parties are disclosed below.

(a) Trading transaction

Certain of the Company's officers and directors render services to the Company as sole proprietors or through companies in which they are an officer, director or partner.

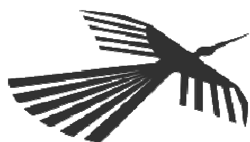
	Nature of transactions
Norton Rose LLP	Legal fees
Specialized Geological Mapping	Consulting fees
Fios Consulting Corporation	Consulting fees

The Company incurred the following fees and expenses in the normal course of the operations in connection with related parties. Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Nine Months Ended June 30, 2012	Nine Months Ended June30, 2011
	$	$	$	$
Legal fees	12,900	13,441	45,308	47,680
Consulting fees	8,430	-	35,021	-
	21,330	13,441	80,329	47,680

i. The Company paid $ 45,308 (June 30, 2011 - $ 47,680) in fees to one of its directors for consulting services performed outside of their capacity as a director.

ii. Amounts due to related parties are unsecured, non-interest bearing and due on demand in Cdn dollars. Accounts payable at June 30, 2012 included $ 5,575 (September 30, 2011 $ 34,359), (October 1, 2010 - $ 27,935) which were due to individuals or companies whose officers, directors or partners were also officers or directors of the Company



Compensation of key management personnel

The remuneration of the directors, chief executive officer, president and chief operating officer, chief financial officer and vice president of operations (collectively, the key management personnel) during the six months period ended June 30, 2012 and 2011 were as follows:

	Note	Three Months Ended June 30, 2012 $	Three Months Ended June 30, 2011 $	Nine Months Ended June 30, 2012 $	Nine Months Ended June 30, 2011 $
Salaries	i	120,594	114,690	378,122	339,691
Share-based compensation	ii	97,308	84,489	521,669	140,807

i. Salaries and directors' fees include consulting fees disclosed in Note 14 (a).
ii. Share-based compensation represents the expense for the period ended June 30, 2012, translated at the grant date foreign exchange rate.
iii. Key management personnel were not paid post-employment benefits, termination benefits, or other long term benefits during the period ended June 30, 2012 and 2011.

Disclosure of Outstanding Share Data as of August 27 and June 30, 2012

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited Common Shares	107,247,214 Common Shares
Securities convertible or exercisable into voting or equity shares		a) Options to acquire up to 9,487,000 common shares b) 17,500,000 Warrants exercisable to acquire common shares of the Company expiring March 24, 2013 c) 5,746,571 Warrants exercisable to acquire common shares of the Company expiring June 23, 2013, d) 1,135,750 agents warrants outstanding expiring March 24, 2013 e) 402,260 agents units outstanding entitling the holder to acquire 402,260 common shares at $ 0.35 per share and receive 402,260 common share purchase warrants exercisable at $ 0.55 per share

See notes 7, 9 and 10 to the unaudited interim consolidated financial statements for the nine month period ended June 30, 2012 for more detailed disclosure of outstanding shares data.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair values of these financial instruments approximate their carrying values.

Dividends

The Company has neither declared nor paid any dividends on its Common Shares. The Company intends to retain its earnings, if any, to finance growth and expand its operation and does not anticipate paying any dividends on its Common Shares in the foreseeable future.

Assessment of Recoverability of Deferred Income Tax Assets

In preparing the consolidated financial statements, the Company is required to estimate its income tax obligations. This process involves estimating the actual tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. The Company assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and, to the extent that recovery cannot be considered "more likely than not," a valuation allowance is established. If the valuation allowance is changed in a period, an expense or benefit must be included within the tax provision on the consolidated income statement.

Estimate of Share Based Compensation and Associated Assumptions

The Company recorded share-based compensation based on an estimate of the fair value on the grant date of stock options issued. This valuation required estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model. See note 10 of the June 30, 2012 unaudited interim consolidated financial statements for a full disclosure.

Assessment of Recoverability of Receivables Including VAT

The carrying amount of accounts receivables, and Value Added Tax are considered representative of their respective values. The Company assesses the likelihood that these receivables will be recovered and, to the extent that recovery is considered doubtful a provision for doubtful accounts is recorded. The Company signed an agreement with the Peruvian Minister of Energy and Mines by which the Company will get reimbursed for any VAT incurred in exploration activities.

6. Critical Accounting Policies

Consolidation

The condensed interim consolidated financial statements include the accounts of the Company's 100% - owned subsidiary, Sienna Minerals S.A.C. a Peruvian company. All significant intercompany transactions and balances have been eliminated.

Functional and Presentation Currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the Company and of all of its subsidiaries is the United States ("US") Dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in The Effects of Changes in Foreign Exchange Rates ("IAS 21").

The condensed interim consolidated financial statements have been prepared in US dollars and in accordance with IAS 21. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Condensed Interim Consolidated Statement of Financial Position date are translated at the period end date exchange rates. Non-monetary items which are measured using historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

The Company's presentation currency is the US dollar.

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.

Periodic reviews are made by management and where the long-term expectation is that the net carrying amount of these capitalized exploration and development costs will not be recovered, the carrying amount is then written down accordingly and the write-down amount charged to operations.

Factors considered where a write-down would be indicated include:

Producing properties:

The carrying amounts of the capitalized costs exceed the related undiscounted net cash flows of reserves;

Exploration properties:
Exploration activities have ceased;
Exploration results are not promising such that exploration will not be planned for the foreseeable future;
Lease ownership rights expire; or
Insufficient funding is available to complete the exploration program.

The amounts shown for mineral properties represent acquisition and deferred exploration costs incurred to date, on a property by property basis, and are not intended to reflect present or future values. It is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amount.

Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange at the time an agreement to issue shares has been reached, which is determined by the Board of Directors of the Company. Share issue costs incurred on the issue of the Company's shares are charged directly to share capital.

Derivative financial instruments

The Company has issued warrants that are treated as derivative liabilities. Derivatives which are liabilities in the condensed Interim consolidated statement of financial position classified as current or non-current based on the contractual terms specific to the instruments.

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. An obligation to issue shares for a price that is not denominated in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivate liability and measured at fair value with changes recognized in the statement of profit and loss and

comprehensive profit and loss as they arise. The company has recorded these changes as financing income and expenses.

Share-based Compensation

The Company grants stock options to directors, officers, employees and consultants. Option terms and vesting conditions are at the discretion of the Board of Directors. In general, options are granted for a term of five years with vesting of 50% on the date of grant, and 50% one year from the date of grant. The option exercise price is equal to the closing market price on TSX Venture Exchange on the day preceding the date of grant.

Fair value method of accounting is used for share-based compensation. Under this method, the cost of stock options and other equity-settled share-based payment arrangements is recorded based on the date of grant estimated fair value of each tranche using the Black-Scholes option pricing model, and charged to earnings over the vesting period. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognized is reversed in the period of forfeiture occurs.

Loss per Share

Basic loss per share is computed by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of outstanding options and their equivalents are reflected in diluted earnings per share by application of the treasury stock method. Since the Company has losses the assumed exercise of outstanding stock options has not been included in this calculation as it would be anti-dilutive except for the third quarter of 2012 where the profit for the third quarter required the calculation of the diluted effect on earnings per share.

7. Future Accounting Changes

As of January, 2013 the following standards and amendments issued by the IASB become effective:

- IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements. The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

- IFRS 11, "Joint Arrangements", which is the result of IASB's project to replace IAS 31, "Interests in Joint Ventures". The new standard redefines joint operations and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated

- IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risk and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

- IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

- AIS 19, "Employee Benefits", which amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employees, benefit plans.

- IFRS 7, "Financial Instruments: Disclosures:, which requires disclosure of both gross and net information about financial instruments eligible for offset in the balance sheet and financial instruments subject to master netting arrangements. Concurrent with the amendments to IFRS 7, the IASB also amended IAS 32, "Financial Instruments: Presentation" to clarify requirements for offsetting financial instruments in the balance sheet. The amendments to IAS 32 are effective as of January 1, 2014.

  As of January 1, 2015, IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The impairment and hedge accounting principles to be includes in IFRS 9 have not yet been issued by the IASB.

8. Financial Risk Factors

Financial Instruments

(a) Fair value of financial instruments:
The Company's financial instruments as at June 30, 2012 and September 30, 2011 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:

	June 30, 2012	September 30, 2011
	$	$
Cash and cash equivalents	1,484,206	6,563,203
GST and Foreign Sales Tax Recoverable	392,353	17,062
	1,876,559	6,580,265

(c) 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 June 30, 2012, the Company's receivables consisted of $ 392,353 (September 30, 2011- $ 17,062) (October 1, 2011 - $ 50,527) from the governments of Canada and Peru.

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

(d) 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 June 30, 2012, all of the Company's accounts payable and accrued liabilities mature within one year.

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.

Interest Rate Risk

The Company invest cash surplus to its operational needs in investment-grade short term deposits certificates issued by the bank where it keeps its Canadian Bank accounts. The Company periodically assesses the quality of its investments with this bank and is satisfied with the credit rating of the bank and the investment grade of its short term deposits certificates. A change in the interest rate of 1% would cause interest income to change by less than $ 10,000.

Foreign Currency Risk

The Company's functional and presentation currency is the United States dollar. Major purchases are transacted in Canadian dollars, Peruvian New Soles and US dollars. The Corporation funds major operations and exploration expenses in Peru, therefore the Company maintains Peruvian New Soles bank accounts and US dollar accounts in Peru. Management believes that foreign currency risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. During the period ended June 30, 2012, the Company recorded a foreign exchange gain of $ 28,144 (2011 – $ 116,279) which reflects the volatility in the current foreign exchange market against the United States dollars and is due to the variances in the statement of financial position from year to year.

Commodity Price Risk

The price of the common shares in the capital the Company, its financial results, exploration and development activities have been, or may in the future be, adversely affected by declines in the price of gold and/or other metals. Gold prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of commodities by various central banks, financial institutions, expectations of inflation or deflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, international supply and demand, speculative activities and increased production due to new mine developments, improved mining and production methods and international economic and political trends. The Company's revenues, if any, are expected to be in large part derived from mining and sale of precious and base metals or interests related thereto. The effect of these factors on the price of precious and base metals, and therefore the economic viability of any of the Company's exploration projects, cannot accurately be predicted.

Proposed Transactions

In the normal course of business, as an ongoing part of the exploration process, the Company investigates mineral properties which are submitted to the Board of Directors for consideration. As well there are transactions listed in the "Subsequent events" section of the unaudited condensed interim consolidated financial statements for the nine month period ended June 30, 2012. However, the Company continues to evaluate, review and negotiate a number of other prospective projects in Peru.

Net Fair Value of Financial Assets and Liabilities

The Company's financial instruments comprise cash and cash equivalents, other financial assets, trade other receivables, and trade and other payables, convertible debt and the conversion component of convertible debt.

Cash and cash equivalents and other financial assets have been designated as fair value through profit and loss, which are measured at fair value. Trade and other receivables are classified as loans and receivables, which are measured at amortized cost. Trade and other payables, classified as other financial liabilities, which are measured at amortized cost.

The Company has no available for sale instruments.

Additional Capital

The exploration activities of the Company may require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration and development of any of the Company's properties. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financings will be favorable to the Company. In addition, low commodity prices may affect the Company's ability to obtain financing.

Environmental and Permitting

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations, among other things, mandate the maintenance of air and water quality standards, land reclamation, transportation, storage and disposal of hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Acquisition

The Company uses its best judgment to acquire mining properties for exploration and development in pursuit of such opportunities, the Company may fail to select appropriate acquisition candidates or negotiate acceptable agreements, including arrangements to finance the acquisitions and development, or integrate such opportunity and their personnel with the Company. The Company cannot assure that it can complete any acquisition that it pursues or is currently pursuing, on favorable terms, or that any acquisition completed will ultimately benefit the Company.

Competition

The mining industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself. Competition in the mining business could adversely affect the Company's ability to acquire suitable producing properties or prospectus for mineral exploration in the future.

Financial Instrument Risk Exposures

It is management's opinion that the Company is not exposed to significant interest or credit risks arising from its financial instruments and that their fair values approximate their carrying value unless otherwise noted. Fluctuation in currency exchange rates, principally the Canadian/US dollar exchange rate and, to a lesser extent, other exchange rates can Impact Sienna's earnings and cash flows. All of Sienna's sales are denominated in US dollar, whereas certain obligations and operating expenses are in denominated in Canadian dollar and Peruvian Nuevo Sol. If the value of the Canadian dollar increases relative to the US dollar; Sienna's results of operations, financial condition and liquidity could be materially adversely affected.

9. Status of Sienna Gold Inc. Transition to International Financial Reporting standards ("IFRS")

Transition to IFRS from GAAP

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for financial periods beginning on and after October 1, 2011.

The Company has adopted IFRS with an adoption date of October 1, 2011 and a transition date of October 1, 2010.

IFRS Conversion

The Company's IFRS conversion plan was comprehensive and addressed matters including changes in accounting policies, restatement of comparative periods, organizational and internal controls and any required changes to business processes. The accounting staff attended training courses on the adoption and implementation of IFRS. Through in-depth training and the preparation of reconciliations of historical Canadian GAAP financial statements to IFRS, the Company believes that its accounting personnel have obtained a thorough understanding of IFRS.

In conjunction with the adoption of IFRS the Company has implemented a new accounting system, which will satisfy all the information needs of the Company under IFRS. The Company has also reviewed its current internal and disclosure control processes and believes they will not need significant modification as a result of our conversion to IFRS.

Impact of IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the actual cash flows of the Company, the adoption will result in changes to the reported financial position and results of operations of the Company. In order to allow the users of the financial statements to better understand these changes, we have provided the reconciliations between Canadian GAAP and IFRS for the total assets, total liabilities, shareholders equity and net earnings and cash flow in Note 19 to the interim consolidated financial statements.

In preparing the reconciliations, the Company applied the principles and elections of IFRS 1, with a transition date of October 1, 2010. As the Company has adopted IFRS effective October 1, 2011, it will apply the provisions of IFRS 1 as described under the section entitled "Initial Adoption – IFRS 1", with an October 1, 2010 transition date. The Company will also apply IFRS standards in effect at June 30, 2012 as required by IFRS 1.

Initial Adoption of International Accounting Standards

IFRS 1 ''First Time Adoption of International Accounting Standards'' sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional date of the statement of financial position with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. The Company has chosen to take the following exemptions under IFRS 1:

- to apply the requirements of IFRS 3, *Business Combinations,* prospectively from the Transition Date;
- to apply the requirements of IFRS 2, *Share-based payments*, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and
- to transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the Transition Date including those foreign currency differences which arise on adoption of IFRS.

Comparative Information

The Company has restated all prior period figures in accordance with IFRS.