



**GOLDGROUP MINING INC.**  
**(formerly Sierra Minerals Inc.)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**

**(Unaudited)**  
**(Expressed in Thousands of United States Dollars)**

**PREPARED BY MANAGEMENT**

## **MANAGEMENT'S COMMENTS ON UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTICE OF NO AUDIT OR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**GOLDGROUP MINING INC.**  
**(formerly Sierra Minerals Inc.)**  
**Consolidated Balance Sheets**  
**September 30, 2010 and December 31, 2009**  
*(Unaudited - Expressed in Thousands of United States Dollars)*

	<u>September 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u> <b>Note 2b</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 14,790	\$ 515
Investment held for trading	-	2,313
Receivables, prepaids and deposits	2,795	318
Inventories (Note 5)	<u>3,938</u>	<u>-</u>
	21,523	3,146
<b>Plant and equipment</b> (Note 6)	5,525	458
<b>Investment in DynaResource de Mexico SA de CV</b> (Note 7)	13,219	10,031
<b>Mineral properties</b> (Notes 8 and 18)	<u>35,309</u>	<u>21,513</u>
	<u>\$ 75,576</u>	<u>\$ 35,148</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 3,195	\$ 402
Agreement payable (Note 4)	<u>-</u>	<u>4,758</u>
	3,195	5,160
<b>Asset retirement obligation</b> (Note 10)	525	-
<b>Future income tax liability</b> (Note 14)	<u>8,731</u>	<u>3,637</u>
	<u>12,451</u>	<u>8,797</u>
<b>Shareholders' equity</b>		
Share capital (Note 11)	70,803	30,947
Contributed surplus (Note 11)	4,537	2,326
Warrant equity (Note 11)	670	-
Accumulated other comprehensive loss (Note 2b)	(355)	(1,334)
Deficit	<u>(12,530)</u>	<u>(5,588)</u>
	<u>63,125</u>	<u>26,351</u>
	<u>\$ 75,576</u>	<u>\$ 35,148</u>

Nature of operations and going concern (Note 1)  
Change in functional currency and impact (Note 2b)  
Commitments (Note 16)

Approved by the Board of Directors:

*/s/ Keith Piggott*

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Director

*/s/ Gregg J. Sedun*

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Director

**GOLDGROUP MINING INC.**  
**(formerly Sierra Minerals Inc.)**

**Interim Consolidated Statements of Operations, Comprehensive Loss**  
**September 30, 2010 and 2009**

*(Unaudited - Expressed in Thousands of United States Dollars)*

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009 (Note 2b)	2010	2009 (Note 2b)
<b>Revenue</b>				
Gold sales	\$ 5,297	\$ -	\$ 10,620	\$ -
Silver sales	20	-	69	-
	<u>5,317</u>	<u>-</u>	<u>10,689</u>	<u>-</u>
<b>Costs and expenses of mining operations</b>				
Cost of sales	5,217	-	9,674	-
Depreciation, depletion and amortization	36	-	1,295	-
Accretion of asset retirement obligation	11	-	22	-
	<u>5,265</u>	<u>-</u>	<u>10,991</u>	<u>-</u>
<b>Mine operating income (loss)</b>	<u>\$ 53</u>	<u>\$ -</u>	<u>\$ (301)</u>	<u>\$ -</u>
<b>Expenses and other income</b>				
General and administrative	\$ 1,446	\$ 377	\$ 2,886	\$ 1,170
Transaction costs (Note 3)	-	-	395	-
Exploration	28	-	40	-
Amortization	12	10	34	29
Stock-based compensation (Note 11(c))	347	4	834	4
Foreign exchange loss (gain)	187	113	(43)	294
Write-off of inventory and equipment	530	-	530	-
Gain on sale of El Porvenir (Note 8)	(17,158)	-	(17,158)	-
Impairment of goodwill (Note 3)	16,673	-	16,673	-
Equity in loss (gain) of DynaMexico (Note 7)	11	(15)	71	45
Interest and other	20	(3)	94	(32)
Loss on sale of investment	-	-	130	-
Financing fees	-	-	119	-
	<u>2,097</u>	<u>486</u>	<u>4,605</u>	<u>1,510</u>
<b>Loss before income taxes</b>	(2,044)	(486)	(4,908)	(1,510)
<b>Provision (recovery) for income taxes:</b>				
Current	2,574	-	2,574	-
Future	(1,336)	37	(540)	115
	<u>(1,336)</u>	<u>37</u>	<u>(540)</u>	<u>115</u>
<b>Loss for the period</b>	<u>\$ (3,282)</u>	<u>\$ (523)</u>	<u>\$ (6,942)</u>	<u>\$ (1,625)</u>
Other comprehensive income related to change in reporting currency (Note 2b)	<u>-</u>	<u>878</u>	<u>979</u>	<u>2,727</u>
<b>Comprehensive income (loss) for the period</b>	<u>\$ (3,282)</u>	<u>\$ 355</u>	<u>\$ (5,963)</u>	<u>\$ 1,102</u>
<b>Basic and fully diluted loss per share</b>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>	<u>\$ (0.03)</u>
<b>Weighted average number of shares (000's)</b>	<u>84,709</u>	<u>51,943</u>	<u>78,282</u>	<u>51,943</u>

**GOLDGROUP MINING INC.**  
**(formerly Sierra Minerals Inc.)**  
**Interim Consolidated Statements of Cash Flows**  
**September 30, 2010 and 2009**

*(Unaudited - Expressed in Thousands of United States Dollars)*

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
		(Note 2b)		(Note 2b)
<b>CASH DERIVED FROM (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Loss for the period	\$ (3,282)	\$ (523)	\$ (6,942)	\$ (1,625)
Items not involving cash:				
Future income taxes	(1,149)	37	(351)	115
Depletion, depreciation and amortization	48	10	1,329	29
Accretion of asset retirement obligation	11	-	22	-
Unrealized foreign exchange gain	714	-	281	-
Loss on sale of investment	-	-	130	-
Stock-based compensation	347	4	834	4
Financing fees	-	-	20	-
Impairment of goodwill and write-offs	17,203	-	17,203	-
Gain on sale of El Porvenir	(17,158)	-	(17,158)	-
Equity in loss (gain) of DynaMexico	11	(15)	71	45
	<u>(3,255)</u>	<u>(488)</u>	<u>(4,561)</u>	<u>(1,432)</u>
Changes in non-cash operating working capital items (Note 19):	<u>(767)</u>	<u>(102)</u>	<u>33</u>	<u>(271)</u>
	<u>(4,022)</u>	<u>(590)</u>	<u>(4,528)</u>	<u>(1,703)</u>
<b>FINANCING ACTIVITIES</b>				
Issuance of shares	125	-	5,924	-
Treasury shares	-	-	(441)	-
Repayment of loans	(3,379)	-	(4,896)	-
	<u>(3,254)</u>	<u>-</u>	<u>587</u>	<u>-</u>
<b>INVESTING ACTIVITIES</b>				
Acquisition of Sierra, net cash	-	-	516	-
Purchase of plant and equipment	(449)	(1)	(720)	(39)
Decrease (increase) in investments	-	-	2,245	(1,322)
Investment in DynaMexico	(999)	(419)	(2,700)	(1,350)
Net proceeds from sale of El Porvenir (Note 8)	23,300	-	23,300	-
Mineral properties	(1,396)	(195)	(4,483)	(644)
	<u>20,456</u>	<u>(615)</u>	<u>18,158</u>	<u>(3,354)</u>
Effect of exchange rate changes on cash	-	263	58	613
<b>Increase (decrease) in cash and cash equivalents</b>	<u>13,180</u>	<u>(942)</u>	<u>14,275</u>	<u>(4,444)</u>
<b>Beginnng of period</b>	<u>1,610</u>	<u>3,672</u>	<u>515</u>	<u>7,174</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 14,790</u>	<u>\$ 2,730</u>	<u>\$ 14,790</u>	<u>\$ 2,730</u>
<b>Cash and cash equivalents is comprised of:</b>				
Cash	\$ 14,790	\$ 2,262	\$ 14,790	\$ 2,262
Short-term deposits	-	468	-	468
	<u>\$ 14,790</u>	<u>\$ 2,730</u>	<u>\$ 14,790</u>	<u>\$ 2,730</u>

**GOLDGROUP MINING INC.**  
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**Interim Consolidated Statement of Shareholders' Equity**  
**September 30, 2010 and 2009**

*(Unaudited - Expressed in Thousands of United States Dollars)*

	<u>Common Shares</u>		<u>Contributed Surplus</u>	<u>Warrant Equity</u>	<u>Other Comprehensive Income (loss)</u>	<u>Deficit</u>	<u>Total Equity</u>
	<u>Number (000's)</u>	<u>Amount</u>					
<b>January 1, 2008</b>	36,733	\$ 22,281	\$ -	\$ -	\$ -	\$ (662)	\$ 21,619
Stock-based compensation	-	-	2,308	-	-	-	2,308
Loss for the year	-	-	-	-	-	(3,404)	(3,404)
Change in reporting currency (Note 2b)	-	-	-	-	(3,888)	-	(3,888)
<b>December 31, 2008</b>	36,733	22,281	2,308	-	(3,888)	(4,066)	16,635
Acquisition of Minera Cardel SA de CV (Note 4)	9,150	8,666	-	-	-	-	8,666
Stock-based compensation	-	-	18	-	-	-	18
Loss for the year	-	-	-	-	-	(1,522)	(1,522)
Change in reporting currency (Note 2b)	-	-	-	-	2,554	-	2,554
<b>December 31, 2009</b>	45,883	30,947	2,326	-	(1,334)	(5,588)	26,351
Private placement	6,060	5,785	-	-	-	-	5,785
Business Combination (Note 3)	33,010	34,120	1,630	650	-	-	36,400
Options exercised	351	139	-	-	-	-	139
Contributed surplus allocation on option exercise	-	253	(253)	-	-	-	-
Stock-based compensation	-	-	834	-	-	-	834
Financing fees (Note 9)	-	-	-	20	-	-	20
Treasury shares (Note 11)	(439)	(441)	-	-	-	-	(441)
Loss for the period	-	-	-	-	-	(6,942)	(6,942)
Change in reporting currency (Note 2b)	-	-	-	-	979	-	979
<b>September 30, 2010</b>	<u>84,865</u>	<u>\$ 70,803</u>	<u>\$ 4,537</u>	<u>\$ 670</u>	<u>\$ (355)</u>	<u>\$ (12,530)</u>	<u>\$ 63,125</u>

**GOLDGROUP MINING INC.**

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**Notes to the Interim Consolidated Financial Statements**

**September 30, 2010 and 2009**

*(Unaudited - Expressed in Thousands of United States Dollars)*

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Goldgroup Mining Inc. incorporated in Quebec ("Goldgroup Mining" or the "Company") and formerly Sierra Minerals Inc. ("Sierra") together with its subsidiaries is a precious metals producer and is focused on acquiring and developing advanced stage gold deposits that have a reasonable likelihood of realizing near term production. Goldgroup Mining's primary focus is Mexico although it is actively reviewing opportunities throughout the Americas.

On April 30, 2010 Goldgroup Resources Inc. changed its name to Goldgroup Holdings Corp. ("Holdings") and signed a share exchange agreement ("the Agreement") with Goldgroup Mining to effect a business combination of the two companies. On April 30, 2010 Holdings became the wholly owned subsidiary. On April 30, 2010 the shares of Goldgroup Mining were consolidated on a 2.85:1 basis and the shareholders of Holdings received one post-consolidated common share of Goldgroup Mining for each common share that they owned in the Company. The combined company shares began trading on May 7, 2010 as Goldgroup Mining.

A total of 51,942,637 post-consolidated shares of Goldgroup Mining (formerly Sierra) were issued as part of the business combination. On May 7, 2010, on a post-transaction basis, the existing shareholders of Holdings and Sierra owned approximately 61% and 39% of the combined company, Goldgroup Mining, respectively. As a consequence of the resulting share ownership, the change in management and the composition of the combined company's board of directors after the transaction, it was accounted for as a reverse takeover that constitutes a business combination. The number of shares recorded as issued in connection with the reverse take-over in these consolidated financial statements was calculated based on the number of Holdings' common shares that would have had to be issued in order to provide the same percentage of ownership to the shareholders of Goldgroup Mining (33,009,779 shares) (Note 3).

Holdings is a development stage enterprise involved in mineral exploration and development. The principal business activity of Holdings is was the acquisition and exploration of properties in the gold industry, with a focus on Mexico.

Sierra's principal property is its 100% owned Cerro Colorado gold mine, located in Sonora Mexico. The Cerro Colorado life of mine is estimated to be approximately four to five years (note 9b).

The business of exploring for and developing mineral resources is highly risky and there can be no assurance that planned programs will ultimately result in profitable mining operations. The recoverability of amounts recorded for mineral properties depends upon completion of the acquisition of the mineral property interest, the ability of the Company to obtain necessary financing to complete the development of mineral resources and future profitable operations or sale of such property for a profit. Changes in future conditions or circumstances might result in material write-downs of the carrying value of mineral properties.

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**Notes to the Interim Consolidated Financial Statements**  
**September 30, 2010 and 2009**

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**1. NATURE OF OPERATIONS AND GOING CONCERN (CONTINUED)**

The Company expects that revenues from production and proceeds from the sale of El Porvenir (note 9c) will contribute to financing the operations of the Company. The Company will have to raise additional funds to complete the exploration and development of its mineral property interests and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

Consistent with prudent mining practices, the Company has taken steps to verify title to the mineral properties it has acquired; however, property title may be subject to unregistered prior claims or noncompliance with regulatory requirements. Therefore, steps taken to verify title do not guarantee the Company's title.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2010 the Company has working capital of \$18,328 and has adequate resources to maintain its core activities and exploration plans for the upcoming 12 months. The operating cash flow and profitability of the Company are affected by various factors, including the amount of gold produced and sold, the market price of gold, operating costs, environmental costs and the level of exploration and development activity and other discretionary costs and activities. The Company is also exposed to fluctuations in currency exchange rates, interest rates, commodity prices as these relate to input materials, political risk, property title risks and varying levels of taxation. The Company seeks to manage the risks associated with its business; however, many of the factors affecting these risks are beyond the Company's control.

Changes in future conditions could require material write-downs of the carrying amounts of mineral properties. On March 15, 2010 the Company received an updated independent resource estimate in accordance with National Instrument 43-101 – *Standard Disclosure for Mineral Projects* ("NI 43-101") for the Cerro Colorado mine in Sonora State, Mexico. This resource estimate was incorporated into the assumptions used to prepare these consolidated financial statements. While adverse changes in certain factors such as the gold price could cause these NI 43-101 compliant estimated mineral resources to be uneconomic, the estimated mine life of 4 to 5 years supports the going concern assumption. Management continues to pursue alternatives to secure ongoing capital. It is not possible to determine, with any certainty, the success or adequacy of these initiatives.



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**Notes to the Interim Consolidated Financial Statements**  
**September 30, 2010 and 2009**

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**2. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian GAAP. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented, and in the disclosure of commitments and contingencies. Changes in estimates and assumptions will occur based on the passage of time and the occurrence of certain future events. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the Company's and Holdings' audited annual consolidated financial statements for the year ended December 31, 2009, as they do not contain all disclosures required by Canadian GAAP for annual financial statements. This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements and is presented to assist the reader in interpreting the statements contained herein. The comparative figures presented are that of Holdings as a result of the accounting treatment for a reverse take-over and the consolidated statement of operations, comprehensive loss and deficit and cash flows take into account only the effects of metal sales and the results of mine operations from May 1, 2010 onwards.

In the opinion of management, all adjustments necessary to present fairly the financial position of the Company as at September 30, 2010 and results of its operations and cash flows for all periods presented have been made. The interim results are not necessarily indicative of results for a full year.

**a. Basis of Consolidation**

The consolidated financial statements of Goldgroup Mining are expressed in United States dollars, and are prepared in accordance with Canadian GAAP. All amounts are stated in United States dollars unless otherwise stated. These consolidated financial statements include the accounts of the Company and its subsidiaries:

- Granmin Malaysia Ltd. ("Granmin Malaysia") (wholly owned)
- Granmin SA de CV ("Granmin Mexico")(wholly owned) owns the interest in Cerro Colorado mine
- Minera Calipuy SA de CV ("Calipuy")(wholly owned) owns the interest in the San Martin project
- Goldgroup Holdings Corp. (wholly owned)
- GGR Candelero SA de CV ("GGR")(wholly owned) owns the interest in the El Candelero project
- Candymin SA de CV ("Candymin")(wholly owned) owns the 70% interest in the Caballo Blanco project
- Gold Opmin SA de CV ("Gold Opmin") (90% owned) owns the interest in the Kenya project
- 0788598 B.C. Ltd., 0788601 B.C. Ltd. and Minera Cardel SA de CV (all wholly owned) ("Minera Cardel") is the operating company for the Caballo Blanco project

All inter-company transactions and balances have been eliminated on consolidation.

**GOLDGROUP MINING INC.**

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**Notes to the Interim Consolidated Financial Statements**

**September 30, 2010 and 2009**

*(Unaudited - Expressed in Thousands of United States Dollars)*

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b. Change in Functional and Reporting Currency**

On April 30, 2010, as a result of Holdings reverse takeover of Sierra, (Note 3) Holdings increased its exposure to US dollar denominated transactions through Sierra's operations while continuing to pay for significant exploration activities in US dollars and incur debt denominated in US dollars. As a result of this change in circumstances, the Company undertook a review of the functional currency exposures of all of its business units according to CICA Section 1651 *Foreign Currency Translation* and concluded that the currency exposures of its Canadian and foreign operations are now predominately in US dollars. Prior to April 30, 2010, the Holdings' functional currency was the Canadian dollar and the reporting currency was the Canadian dollar. Effective April 30, 2010, Holdings' functional and reporting currency is the US dollar. This results in all foreign currency impacts of holding non-US dollar denominated financial assets and liabilities being recorded through the Consolidated Statement of Operations. Foreign exchange gains and losses are included in earnings and unrealized gains and losses due to movements in exchange rates on cash and cash equivalent balances held in foreign currencies are shown separately on the Consolidated Statements of Cash Flows.

Concurrent with the change in functional currency, effective April 30, 2010, Holdings changed its reporting currency from the Canadian dollar ("C\$") to the United States dollar ("US\$"). Prior to April 30, 2010, the Company reported in the Canadian dollar. In accordance with EIC-130, "Translation Method When the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency" the financial statements for all periods presented have been translated into the US\$ using the current rate method. Under this method, the Consolidated Statements of Operations and Cash Flows for each quarter have been translated into the reporting currency using the average exchange rates prevailing during each reporting period (2010 – 0.9618; 2009 – 0.8757) and all assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheet dates (March 31, 2010 – 0.9844; 2009 – 0.9515). Shareholders' equity transactions have been translated using the rates of exchange in effect as of the dates of the various capital transactions. The resulting translation adjustment was recorded as a currency translation adjustment ("CTA"), a separate component of Accumulated Other Comprehensive Income ("AOCI"). The CTA balance at December 31, 2009 represents the cumulative translation adjustment to December 31, 2009 and will remain in AOCI until the related foreign operation is disposed of.

The Company's foreign operations are fully integrated. As such, the Company uses the temporal method to translate its operating results. Under this method, monetary assets and liabilities denominated in currencies other than the US dollar are translated into US dollars at the exchange rates prevailing at the balance sheet date; non-monetary assets denominated in foreign currencies are translated using the exchange rate at the transaction date. Foreign exchange gains and losses are included in earnings and unrealized gains and losses due to movements in exchange rates on cash and cash equivalent balances held in foreign currencies are shown separately on the Consolidated Statements of Cash Flows.

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**Notes to the Interim Consolidated Financial Statements**  
**September 30, 2010 and 2009**

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**c. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes. Actual results could differ from those estimates by a material amount.

The significant areas requiring the use of management estimates and assumptions include, but are not limited to, the recoverability of accounts receivable, the quantities of product inventory, the amount of ore reserves and resources and related amortization and depletion, the expected recovery rate of those mineral resources, the assessment of impairment to the carrying value of mineral properties, the recoverability of investments, the expected economic lives and future cash flows from plant and equipment and related amortization and depreciation, current and future income taxes, site closure and reclamation obligations and assumptions used to calculate fair value of stock-based compensation, options and warrants, and amounts and likelihood of contingent liabilities. Actual results could vary by a material amount.

**d. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, demand deposits and short term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase. Earnings on excess cash including short term gains on cash equivalents are included in interest income and other.

**e. Revenue Recognition**

Revenue from the sale of metals is recognized when the significant risks and rewards of ownership have passed. This is when persuasive evidence of an arrangement exists, title and insurance risk passes to the buyer, collection is reasonably assured and the quantity of metal sold and the sales price is reasonably determinable.

**f. Inventories**

Finished goods (Doré inventory), work-in-process inventories and heap leach ore are valued at the lower of average production cost or net realizable value. Doré represents a bar containing predominantly gold by value which must be refined offsite to return saleable metals. Net realizable value is the amount estimated to be obtained from sale of the inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. The production cost of inventories is determined on a weighted average basis and includes cost of raw materials, direct labour, mine-site overhead and depreciation and depletion of mining interests.

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**September 30, 2010 and 2009**

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f. Inventories (Continued)**

The recovery of gold and by-products from oxide ores is achieved through the heap leaching process at the Cerro Colorado mine. Under this method, ore is placed on leach pads where it is treated with a chemical solution which separates the gold contained in the ore. The time required for the majority of the gold to be recovered utilizing heap leaching is over a period of up to 120 days. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. Operating costs at each stage of the process are capitalized and included in work-in-process inventory based on current mining and leaching costs, including applicable depreciation and depletion relating to the mineral property, plant and equipment, and are removed from heap leach inventory as ounces of gold are recovered at the average cost per ounce per recoverable ounce of gold on the leach pads. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured tonnes added to leach pads), the grade of ore placed on the leach pads (based on assays analysis), and a recovery percentage (based on testing and ongoing monitoring of the rate of gold recoveries).

Consumable supplies and spare parts expected to be used in production are valued at the lower of weighted average cost or replacement cost, which includes the cost of purchase as well as transportation and charges to bring them to their existing location and condition.

**g. Investment Held For Trading**

Investments are designated as held-for-trading and recorded at fair value, with changes in fair value recorded in the Consolidated Statement of Operations. The fair value of investments in publicly traded common shares is obtained by reference to the current quoted closing price as at the balance sheet date. The fair value of investments in warrants, where quoted market prices are not available, are calculated using the Black-Scholes Option Pricing Model.

**h. Amortization of Plant and Equipment**

Plant and equipment are carried at net book value and are recorded at acquisition cost less accumulated amortization and depreciation. Costs of additions and improvements are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in earnings. The carrying values of plant and equipment are periodically assessed by management and if management determines that the carrying values cannot be recovered, the asset is written down to fair value and charged against earnings.

Assets used in commercial production are subject to depreciation, amortization and depletion over their estimated economic lives. For buildings and machinery, the unit-of-production method is applied where the mine operating plan calls for production from well-defined mineral deposits. Where total mineral deposits are not determinable because ore bearing structures are open at depth or are open laterally, the straight-line method is applied over the estimated life of the mine.

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**Notes to the Interim Consolidated Financial Statements**

**September 30, 2010 and 2009**

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**h. Amortization of Plant and Equipment (Continued)**

For transportation, computer and other equipment, the straight-line method is also applied over the estimated useful lives of the assets:

	<b>Years</b>
Transportation	4
Office and equipment	5
Computer	3
Computer software	2
Leasehold Improvements	lesser of 5 years straight line or term of lease

Major overhaul expenditures on mobile equipment, including replacement spares and labour costs, are capitalized and amortized over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of the mobile equipment are charged to operating costs if it is not probable that future economic benefits embodied within the item overhauled will flow to the Company.

**i. Mineral Properties**

The Company capitalizes costs, on a property by property basis, of acquiring, maintaining its interest in, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Administrative costs and general exploration costs are expensed as incurred. Costs of producing properties are amortized on a unit of production basis on estimated proven and probable reserves over the estimated economic life of the mine. No depreciation or depletion is charged against the property until commercial production commences.

Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property. Proceeds received on the sale of an interest in a mineral property is credited to the carrying value of the mineral property, with any excess included in operations. Write-downs due to an impairment in value are charged to operations.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i. Mineral Properties (Continued)**

After a mineral property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining life of the related assets. Stripping costs incurred in the production phase of a mining operation are accounted for as production costs and are included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs are capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional reserves. Capitalized stripping costs are amortized on a unit-of-production basis over the economically recoverable proven and probable ounces of gold to which they relate. Exploration expenditures are expensed as incurred, unless the nature of the expenditures are to convert mineral resources into mineral reserves or in the absence of a NI 43-101 mineral resource estimate, are to define areas to be included in the mine plan. Any amounts deferred in this regard are depreciated on a units-of-production basis.

Mineral properties are recorded at cost, net of amortization and recoveries and are not intended to represent present or future values.

In order for production to occur on mining properties under development, the Company must first obtain exploitation and other permits on such properties. Such permits are subject to the approval of the local government and government controlled entities. There can be no assurance that such permits will be obtained.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

**j. Asset Retirement Obligations**

The Company is subject to various governmental laws and regulations relating to the protection of the environment. The environmental regulations are continually changing and are generally becoming more restrictive.

Asset retirement obligations ("ARO") encompass legal obligations associated with the retirement of a long-lived tangible asset (for example, mine reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is reflected by an other than temporary removal from service, including sale of the asset, abandonment or disposal in some other manner.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**j. Asset Retirement Obligations (Continued)**

The fair value of a liability for an ARO is recorded in the period in which the legal obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement of fair value. The capitalized cost is amortized on a unit-of-production basis. The Company's estimates of its provision for site closure and restoration obligations could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

**k. Impairment of Long-Lived Assets**

Annually, or more frequently as circumstances require (such as a decrease in metal prices, an increase in operating costs, a decrease in mineable reserves or a change in foreign exchange rates), reviews are undertaken to evaluate the carrying value of the operating mine, mineral properties, plant and equipment, considering, among other factors, the following: (1) net value of each type of asset, (2) the Company's ability to keep them operating considering associated costs, (3) use, value and condition of assets when not in operation to calculate amortization, and (4) price of metals that affect the decision to reinstall or dispose of the assets.

Impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows when the carrying value exceeds management's estimate of fair value. Future cash flows used to assess recoverability are estimated based on expected future production, recoverability of reserves, commodity prices, operating costs, reclamation costs and capital costs. Management estimates of future cash flows are subject to risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the expected recoverability of the investments in mineral properties.

Fair value is determined with reference to discounted estimated future cash flow analysis or on recent transactions involving dispositions of similar properties. The Company believes that the estimates applied in the impairment assessment are reasonable; however such estimates are subject to significant uncertainties and judgments. Although management has made its best estimate of these factors based on current conditions, it is possible that the underlying assumptions can change significantly and impairment charges may be required in future periods. Such charges could be material.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**l. Income Taxes**

Income taxes are accounted for under the liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences) and operating loss and tax credit carry forwards. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are likely to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future tax assets are reduced by a valuation allowance to the extent that the recoverability of the asset is not considered to be more likely than not that the future income tax assets will be realized.

**m. Stock-Based Compensation**

The Company accounts for stock-based compensation using a fair value based method (Black-Scholes Option Pricing Model) with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable.

The fair value of the options is accrued and charged either to operations or mineral properties, with the offsetting credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to share capital.

In the event stock options are forfeited prior to vesting, the associated fair value recorded to date is reversed from the Consolidated Statement of Operations or Balance Sheet item to which the fair value was originally charged in the period in which the stock options are forfeited. The fair value of any vested stock options that expire remain in contributed surplus.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes 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 and/or warrants granted and/or vested during the period.



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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**n. Earnings (Loss) per Share**

Basic earnings (loss) per share is computed by dividing net earnings (the numerator) by the weighted average number of outstanding common shares for the period (denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding stock options and other convertible instruments.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under options and other convertible instruments are anti-dilutive. Therefore basic and diluted loss per share are the same. When diluted earnings per share is calculated, only those options and other convertible instruments with average exercise prices, that are "in-the-money" are included.

The Company incurred a loss for the period ended September 30, 2010 therefore the basic and fully diluted loss per share was the same.

**o. Financial Instruments - Recognition and Measurements**

The Company classifies financial assets as held-for-trading, available-for-sale, held-to-maturity or loans and receivables and classifies financial liabilities as held-for-trading or other financial liabilities. Financial assets and liabilities are recognized at fair value on their initial recognition and loans and receivables which are accounted for at amortized cost using the effective interest method.

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and the loan payable.

Cash and cash equivalents are classified as held-for-trading and measured at fair value. Receivables are classified as loans and receivables and measured at amortized cost. Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities and measured at amortized cost.

Transaction costs, other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset and financial liability on initial recognition and amortized using the effective interest rate method. The Company does not employ any foreign currency hedging to manage exposure to fluctuations in foreign currency exchange rates. As of September 30, 2010, both the carrying and fair value amounts of the Company's financial instruments are the same.

**p. Share Issuance Costs**

Share issue costs, which include commissions, facilitation payments, professional and regulatory fees are charged directly to share capital.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**q. Comprehensive Income**

Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income includes holding gains on assets available-for-sale and foreign currency gains and losses relating to self-sustaining foreign operations or as a result of a change in reporting currency all of which are not included in the calculation of earnings until realized.

**r. Significantly Influenced Investments**

Investments in a company over which the Company exerts significant influence are accounted for using the equity method. Under this method the Company's share of the investees earnings or losses is included in expenses and other income and its investment therein is adjusted by a like amount. Dividends received are credited to the investment.

**s. Valuation of Equity Units Issued in a Private Placement**

The Company has adopted the pro-rata basis method for the measurement of shares and warrants issued as private placement units. The pro-rata basis method requires that gross proceeds and related share issuance costs be allocated to the common shares and the warrants based on the relative fair value of the component.

The fair value of the common share is based on the closing price on the closing date of the transaction and the fair value of the warrant is determined using the Black-Scholes Option Pricing Model.

The fair value attributed to the warrant is recorded as contributed surplus. If the warrant is exercised, the value attributed to the warrant is transferred to share capital. If the warrant expires unexercised, the value is reclassified to contributed surplus.

**t. Related Party Transactions**

Related party transactions are measured at the exchange amount, which is the consideration established and agreed to by the parties.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**t. New Accounting Policies**

In January 2009, the CICA issued Handbook Sections 1582 – *Business Combinations* (“Section 1582”), 1601 – *Consolidated Financial Statements* (“Section 1601”) and 1602 – *Non-controlling Interests* (“Section 1602”) which replace CICA Handbook Sections 1581 – *Business Combinations* and 1600 – *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standards under International Financial Reporting Standards (“IFRS”). Sections 1601 and 1602 establish standards for preparation of consolidated financial statements and the accounting for non-controlling interests in financial statements that are equivalent to the standards under IFRS. Section 1582 is required for the Company’s business combinations with acquisition dates on or after January 1, 2011. Sections 1601 and 1602 are required for the Company’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Earlier adoption of these sections is permitted, which requires that all three sections be adopted at the same time. The Company has early adopted these sections effective January 1, 2010.

As a result of the Section 1582 definition of a business being an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return to its investors and owners, acquisitions of exploration properties, including the Sierra RTO (Note 3) completed on April 30, 2010, will be accounted for as a business combination. The adoption of Section 1582 will also have an impact on the treatment of transaction costs relating to this business combination. Transaction costs accounted for under Section 1582 are no longer capitalized but rather, expensed as incurred. There was no impact on the financial statements for the adoption of Sections 1601 and 1602.

**u. Future Accounting Pronouncements**

*Financial Instruments – Recognition and Measurement:*

In June 2009, the CICA amended Handbook Section 3855 – *Financial Instruments – Recognition and Measurement* (“Section 3855”) to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument at initial recognition for accounting purposes. The amendments are applicable for the Company’s interim and annual financial statements for its fiscal year beginning January 1, 2011. Earlier adoption is permitted. At September 30, 2010, the Company had no debt instruments to which the Section 3855 amendments would be applicable.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**u. Future Accounting Pronouncements (Continued)**

*Multiple Deliverable Revenue Arrangements:*

On December 24, 2009, the CICA issued EIC Abstract 175 – *Multiple Deliverable Revenue Arrangements* (“EIC-175”). EIC-175 addresses the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EIC-175 is applicable to revenue arrangements with multiple deliverables entered into or materially modified on or after January 1, 2011. Earlier adoption is permitted. The Company does not anticipate early adopting EIC-175. The Company plans to adopt revenue recognition principles in accordance with IFRS effective January 1, 2011 and does not anticipate that this adoption will have a material impact on the Company’s consolidated financial statements.

*International Financial Reporting Standards (IFRS):*

In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2009 and 2010. 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.

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**3. REVERSE TAKEOVER OF GOLDGROUP MINING (FORMERLY SIERRA) BY HOLDINGS**

On April 30, 2010 Holdings effected a share exchange agreement (“the Agreement”) with Goldgroup Mining to effect a business combination of the two companies. The acquisition was accounted for under CICA Handbook Section 1582 – Business Combinations. The fair value of the consideration transferred is based on the number of Holdings’ common shares that would have had to be issued in order to provide the same percentage of ownership in the combined entity to the shareholders of Goldgroup Mining.

The total purchase price has been calculated and allocated as follows:

Consideration paid

Common shares (33,009,795)	\$	34,120
Exchange options and warrants (2,594,711 options and 1,956,129 warrants)		2,280
Total purchase price	\$	<u>36,400</u>

The preliminary purchase price allocation of the fair value of Goldgroup Mining's net identifiable assets, which is subject to final valuation as follows:

Cash and cash equivalents	\$	516
Receivables, prepaids and deposits		1,306
Inventories		4,508
Plant and equipment		4,958
Mineral properties		16,126
Goodwill		16,673
Accounts payable and accrued liabilities		(1,850)
Asset retirement obligation		(503)
Future income tax liability		(5,335)
	\$	<u>36,400</u>

In accordance with the purchase price method of accounting, the purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values on the closing date. The purchase price allocation was done on a preliminary basis and is a result of management’s best estimates and assumptions after taking into account all relevant information available at the time these consolidated financial statements were prepared. Management is performing further analysis with respect to these assets and liabilities, including an independent valuation prior to finalizing the purchase price allocation. The Company will finalize the purchase price allocation in 2010 and its finalization may result in adjustments to the preliminary estimate of purchase date fair values and the identification of other intangibles and these differences may be material.

**GOLDGROUP MINING INC.****(formerly Sierra Minerals Inc.)****Notes to the Interim Consolidated Financial Statements****September 30, 2010 and 2009***(Unaudited - Expressed in Thousands of United States Dollars)*

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**3. REVERSE TAKEOVER OF GOLDGROUP MINING BY HOLDINGS (CONTINUED)**

The preliminary purchase price allocation resulted in \$16,673 being attributed to goodwill. The Company had allocated its goodwill to the Cerro Colorado mine as it was the only reporting unit. The net asset value of the Cerro Colorado mine consists of plant and equipment and mining properties. The plant and equipment were valued by management. The mining properties were valued using the discounted cash flow of proven and probable reserves, measured, indicated and inferred resources. The Company has determined that it cannot support the carrying value of this goodwill as at September 30, 2010 and has recorded a goodwill impairment charge of \$16,673.

A component of the RTO consideration was the exchange of options and warrants in Goldgroup Mining on April 30, 2010. The fair values allocated to these options and warrants, included in the cost of the acquisition, using the Black-Scholes Valuation Model was \$1,656 and \$660, respectively. The fair value of the exchange options and warrants was determined using the following weighted average assumptions:

	<u>Options</u>	<u>Warrants</u>
Risk free interest rate	1.81%	1.81%
Expected option life (years)	2	0.5
Expected stock price volatility	90%	90%
Dividend payments during life of option	nil	nil

Outstanding stock options of Holdings' were also exchanged pro rata for an equivalent number of options of the Company. These exchange options have been accounted for as a modified option in accordance with Section 3870 of CICA Handbook and there was no appreciable increase in value.

The Company incurred transaction costs of \$395.

**4. ACQUISITION OF MINERA CARDEL S.A. de C.V.**

Pursuant to an agreement (the "Minera Cardel Agreement") dated November 23, 2009 with NGEx Resources Inc. ("NGEx"), an unrelated TSX Exchange listed company, a predecessor to the Company acquired all of the issued and outstanding shares of 0788598 BC Ltd., thereby indirectly acquiring Minera Cardel. Minera Cardel is earning a 70% interest in the Caballo Blanco gold property located near Veracruz Mexico, and is engaged in the exploration and development of that mineral property interest.

The Minera Cardel interest was acquired for \$14,439, comprised of \$5,683 in cash, 9,000,000 common shares and a facilitation fees of 150,000 common shares issued at a fair value of \$0.95 (C\$1.00). NGEx was granted a 1.5% net smelter return royalty ("NSR") payable from production and will receive a C\$5 million advance royalty payment within 30 days following the commencement of commercial production of the project.

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**4. ACQUISITION OF MINERA CARDEL S.A. de C.V. (CONTINUED)**

The Company has accounted for the transaction as an asset acquisition, rather than a business combination, as the companies acquired do not constitute a business as defined by EIC-124, *Definition of a Business*.

The purchase price has been calculated and allocated as follows:

Consideration paid:	
Cash and cash equivalents	\$ 947
Agreement payable	4,736
Common shares	8,524
Capitalized acquisition costs	91
Facilitation fee	142
	<u>\$ 14,439</u>
Net identifiable assets acquired:	
Cash	\$ 42
Receivables	157
Plant and equipment	115
Mineral properties	17,084
Accounts payable and accrued liabilities	(15)
Future income tax liability	(2,945)
	<u>\$ 14,439</u>

**5. INVENTORIES**

Inventories consist of the following:

	<u>September 30, 2010</u>
Doré	\$ 625
Gold-in-process	2,165
Consumable supplies	1,148
	<u>\$ 3,938</u>

During the period the Company wrote off obsolete consumable supplies with a carrying value of \$291.

The cost of sales represents the amount of product inventory recognized as an expense. All of the Company's inventories on hand are located at the Cerro Colorado mine in Mexico. Included in cost of sales and depreciation, depletion and amortization expense on the statement of operations are total inventory related costs of \$463 and \$11, respectively.

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**6. PLANT AND EQUIPMENT**

	September 30, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Plant and mining equipment	\$ 5,282	\$ 850	\$ 4,432	\$ -	\$ -	\$ -
Machinery and equipment	971	312	659	348	145	203
Office equipment	261	139	122	191	70	121
Vehicles	515	245	270	117	32	85
Lab equipment	61	19	42	59	9	49
	<u>\$ 7,089</u>	<u>\$ 1,564</u>	<u>\$ 5,525</u>	<u>\$ 714</u>	<u>\$ 256</u>	<u>\$ 458</u>

**7. INVESTMENT IN DYNARESOURCE de MEXICO SA de CV ("DynaMexico")**

On September 1, 2006, the Company entered into an Earn in/Option Agreement ("the Agreement") with DynaMexico and the parent company, DynaResource, Inc. ("DynaUSA"). Under the Agreement, the Company has the right to earn up to a 50% equity interest in DynaMexico by funding up to \$18 million in exploration and development expenditures on the San Jose de Gracia property ("SJG") as follows:

	Funds advanced for expenditures	Equity interest earned	Cumulative equity interest
Due on or before			
June 15, 2007	\$ 1,000	0%	0%
March 15, 2008	\$ 2,000	15%	15%
September 15, 2009	\$ 3,000	10%	25%
March 15, 2011	\$12,000	25%	50%

In the event the Company does not fund any phase of its funding commitment, its cumulative earned equity interest in DynaMexico will automatically be converted into an equivalent interest in DynaUSA and the Company will have no right to earn any further interest in DynaMexico.

SJG is located in the northeast portion of Sinaloa State, Mexico, approximately 120 kilometres east northeast of the coastal city Los Mochis, straddling the Chihuahua border. The property consists of 34 mineral concessions covering approximately 99,141 hectares with no outstanding royalty or other interest.



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**7. INVESTMENT IN DYNARESOURCE de MEXICO SA de CV (CONTINUED)**

At September 30, 2010, the Company had earned a 25% equity interest in DynaMexico. The Company has funded \$12,568 (December 31, 2009 \$9,868) in expenditures on SJG toward the \$18 million required for a 50% equity interest. DynaUSA provides management and accounting services based on 2.5% of expenditures.

Since September 1, 2006 and pursuant to the terms of the Agreement, the Company has the ability to appoint one of DynaMexico's three directors, and also the ability to appoint two of three members of the DynaMexico Management Committee, which oversees the expenditures and approves the budget prior to such expenditures. As management considers this representation to provide the Company with significant influence over the strategic operating, investing and financing policies of DynaMexico and the investment is accounted for using the equity method. If the Company completes the funding and earns the 50% common share interest the board of DynaMexico will be comprised of five members with DynaUSA and Goldgroup each appointing two members and mutually agreeing on one additional member.

The investment in DynaMexico is comprised of:

	Period Ended <u>September 30, 2010</u>	Year ended <u>December 31, 2009</u>
Investment, beginning of period	\$ 10,031	\$ 6,930
Funds invested	2,700	1,846
Equity in loss	(71)	(7)
Translation adjustment	<u>359</u>	<u>1,262</u>
Investment, end of period	<u>\$ 13,019</u>	<u>\$ 10,031</u>

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**8. MINERAL PROPERTIES**

The following table summarizes the capitalized costs associated with the Company's mineral properties:

	Caballo Blanco	Cerro Colorado	El Porvenir	Other	Total
<b>December 31, 2008</b>	\$ -	\$ -	\$ 1,848	\$ 620	\$ 2,468
<b>Acquisition Costs</b>	17,084	-	61	26	17,171
<b>Exploration Costs</b>					-
Amortization	8	-	66	8	82
Drilling	-	-	137	-	137
Exploration	78	-	821	71	970
Fees and taxes	-	-	12	82	94
Foreign exchange	87	-	389	115	591
<b>December 31, 2009</b>	17,257	-	3,334	922	21,513
<b>Acquisition Costs</b>	-	15,767	1,404	599	17,770
<b>Exploration Costs</b>					
Depletion and amortization	52	(932)	36	8	(836)
Drilling	213	-	83	-	296
Exploration	842	-	1,254	24	2,120
Fees and taxes	48	-	277	98	423
Foreign exchange	580	-	125	31	736
	18,992	14,835	6,513	1,682	42,022
Sale of property	-	-	(6,513)	-	(6,513)
<b>September 30, 2010</b>	\$ 18,992	\$ 14,835	\$ -	\$ 1,682	\$ 35,509

The Company is required to pay taxes to maintain all Mexican concessions and to incur a minimum amount of expenditures. The minimum expenditure amount is based on land area and the age of concession. Expenditures in excess of the required minimum may be carried over the life of the concession.

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**8. MINERAL PROPERTIES (CONTINUED)**

**a. Caballo Blanco**

The Company's 100% owned subsidiary, Minera Cardel, is earning a 70% interest on the Caballo Blanco project which consists of 15 mineral concessions covering 19,650 hectares next to the Gulf of Mexico, 65 kilometres north northwest of Veracruz, Mexico.

To earn a 70% interest, the Caballo Blanco option agreement requires property expenditures of \$12 million to be spent as follows:

<u>On or before May 31,</u>	<u>Amount</u>
2008	\$ 1,500
2009	1,500
2010	2,000
2011	2,000
2012	2,500
2013	2,500
	<u>\$ 12,000</u>

To September 30, 2010, the Company has expended aggregate property related costs of approximately \$9 million, which includes \$8.2 million of expenditures incurred by the previous Caballo Blanco option holder, NGEx. The 70/30 joint venture will form once Goldgroup reaches the expenditure limit of \$12 million and has completed a feasibility study. At that time the 30% equity holder has the option of participating in the joint venture with Goldgroup or converting their 30% equity interest to a 2% NSR.

Goldgroup's 70% interest will be subject to a 1.5% NSR payable to NGEx and Goldgroup will also make a C\$5 million advance royalty payment to NGEx within 30 days following the commencement of commercial production of the project.

**b. Cerro Colorado (Operating Mine)**

The Company owns a 100% interest in the Cerro Colorado mine, located in northern Sonora, Mexico. The property consists of six mineral concessions covering the area of the mine and 44 concessions in the immediate vicinity of the mine totalling 33,767 hectares. Gold is produced in Doré in Mexico and then shipped to a refiner in the United States for final processing prior to sale. The Cerro Colorado life of mine is estimated to be approximately four to five years. The project became subject to a NSR of 3% when cumulative production exceeded 100,000 ounces.

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**8. MINERAL PROPERTIES (CONTINUED)**

**c. El Porvenir**

By way of an agreement made February 27, 2007, (and amended by agreements of December 18, 2008 and December 18, 2009) between the Company's wholly-owned subsidiary Candymin, with the Company as guarantor, and Desarrollos Mineros San Luis SA de CV (DMSL), Candymin was granted an option to acquire DMSL's El Porvenir mine located in Aguascalientes, Mexico for a total of \$3,130. The property was subject to a NSR of 3% once commercial production is achieved. The option was exercised in June 2010.

On July 12, 2010 the Company sold the El Porvenir Gold project for \$25,000 and paid \$1,700 to discharge a royalty interest on the property.

**d. Other Properties**

**i) Kenya**

The Company owns a 90% interest in seventeen mineral concessions covering approximately 80,000 hectares in the state of Chihuahua, Mexico.

Pursuant to an agreement executed December 18, 2007 and registered in the Mexican Public Register of Mines on June 30, 2008, the Company maintains an interest in five additional mineral concessions in the area covering approximately 1,000 hectares. The agreement has a four-year term ending on December 17, 2011. Under this agreement, the Company has agreed to spend \$1,000 over four years to develop the concessions. The Company may abort and terminate this agreement at any time upon 30 days notice without further financial obligation.

The Company may acquire an additional five concessions, located within the Kenya area, at any time during the term of the agreement for an aggregate payment of \$2,000.

**ii) El Candelero**

The Company's 100% owned subsidiary, GGR, is earning up to 70% on the El Candelero project which consists of 8 mineral concession claims covering 26,676 hectares and is located on the border of the States of Sinaloa and Durango, approximately 130 kilometres northeast of Mazatlan in central west Mexico.

On May 31, 2007 GGR entered into an option agreement with DMSL and Luismin, SA de CV ("Luismin"). The Company is also a party to the agreement as guarantor of GGR's obligations. Under the option agreement, DMSL granted GGR the right to acquire an initial 50% interest (the "First Option") and then up to a 70% interest (the "Second Option") in the El Candelero project.

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**8. MINERAL PROPERTIES (CONTINUED)****iii) El Candelero (Continued)**

To maintain the First Option, GGR must fund work costs on the property in the amount of \$1,000 as follows:

<u>On or before</u>	<u>Amount</u>
June 2, 2008	\$ 150
June 2, 2009	\$ 300
June 2, 2010	\$ 550

To September 30, 2010, GGR has expended aggregate property related work costs of \$375. Exploration work on the property has been deferred due to local unrest in the area of the property since early 2009 and by June 2, 2009 GGR was in default of funding the work costs. As a result, in June, 2010 GGR declared force majeure, as allowed under the option agreement. The funding of work costs will resume once force majeure no longer exists.

Once GGR has reached 50% ownership under the First Option, it may exercise the Second Option to acquire an additional 20% interest, by funding work costs on the property in the amount of \$500,000 as follows:

<u>On or before</u>	<u>Amount</u>
June 2, 2011	\$ 250
June 2, 2012	\$ 250

DMSL can then earn back a 30% interest by spending \$3 million over three years which would result in GGR owning a 40% project ownership interest.

As a result of the force majeure, on August 27, 2010 the option agreement deadline for expenditures was extended to June 24, 2012.

**iv) San Martin**

The San Martin property, located in Sinaloa, Mexico, was acquired as part of the Sierra RTO. No value has been allocated to this property and no work has been performed on this property since 2003.

**v) Investment in El Cobre ("El Cobre")**

On February 5, 2010, the Company entered into a joint venture with Almaden Minerals Ltd. ("Almaden") on its El Cobre copper project, of which Almaden owns 60% and Goldgroup owns 40%. This project is operated by Almaden. On July 29, 2010 the Company contributed \$200 to the project. The El Cobre property covers 5,700 hectares and is next to the Gulf of Mexico, 65 kilometres north northwest of Veracruz, Mexico.

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**8. MINERAL PROPERTIES (CONTINUED)**

**vi) El Cajon Gold**

The El Cajon project was acquired as part of the Sierra RTO. The carrying cost in Sierra was \$384 which is the value that has been allocated in the purchase price allocation in Note 3.

The Company retains a 100% interest in three concession groups with Minera MasOro S.A. de C.V. ("MasOro") located within the Cerro Colorado Gold Mine district. MasOro has retained a 2.5% NSR royalty on the entire concession group of which the Company can purchase back up to 1.5% for \$500 per 0.5% NSR. In order to maintain these concessions in good standing, the Company must make an annual payment of \$25 on November 1<sup>st</sup> of each year (2009 – paid).

On July 2, 2008, the Company through Granmin Mexico entered into an agreement with Hector Graham Soqui, ("Hector") to earn a 100% interest in 31 concessions in Sonora, Mexico. Under the terms of the agreement, Granmin Mexico was required to make certain monthly payments to Hector and Hector was required to provide certain documentation to Granmin Mexico during an evaluation phase. Following the completion of the evaluation phase, Granmin Mexico has the option of purchasing any or all of the concessions at pre-determined prices. Amounts paid during the evaluation phase by Granmin Mexico are creditable against the final purchase of any of the concessions. Property payments totalling \$220 were made in 2008 and 2009. No payments have been made since. The Company is currently awaiting Hector to fulfill its obligations under the agreement to conclude the evaluation phase. Any additional payments will be capitalized at the time of final purchase.

**9. LOAN PAYABLE**

On June 7, 2010 the Company obtained a loan of \$3,250 to fund the Caballo Blanco acquisition. The Company pledged the shares of its wholly owned subsidiary, Granmin Malaysia, which owns the operating mine, Cerro Colorado, as security. The loan bear interest at 10% per annum, payable on a monthly basis commencing July 1, 2010. The Company paid a 3% financing fee of \$97.5 and issued 100,000 warrants exercisable at C\$1.00, expiring June 6, 2011. The fair value of the warrants was \$20 using the Black-Scholes Option Pricing Model using a risk free interest rate of 1.55%, expected option life of 1.5 years, expected stock price volatility of 90% and a dividend payment of nil. In the event that the warrants are not exercised, a \$25 payment is due. The loan was repaid on July 15, 2010.

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**10. ASSET RETIREMENT OBLIGATION**

The Company's estimates of future asset retirement obligations for reclamation and closure costs for mines are based on reclamation standards that meet regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, reclamation plans and cost estimates, discount rates and timing of expected expenditures.

The Company estimates its total undiscounted future decommissioning and reclamation costs to be \$675. The key assumptions on which the retirement obligations are based on are:

- (i) Expected timing of the cash flows is based on the Cerro Colorado life of mine to the extent of current known mineralization. The majority of the expenditures are expected to occur in 2014 to 2015.
- (ii) Credit-adjusted risk-free rate of 9.4% and an inflation rate of 3%.

The discounted liability for asset retirement obligations is as follows:

	<b>September 30, 2010</b>
Acquisition of Goldgroup Mining (Note 3)	\$ 503
Accretion expense	22
	<b>\$ 525</b>

**11. SHAREHOLDERS' EQUITY****a. Authorized**

Unlimited number of common shares with no par value

**b. Shares Issued**

- i. On March 4, 2010 the Company closed a non-brokered private placement financing of 6,060,000 common shares at a price of \$0.97 (C\$1.00) per share, for gross proceeds of \$5,878. Share issue costs on this financing were \$93 of which \$90 were financing fees paid to arm's length parties.
- ii. In connection with the RTO on April 30, 2010, the Company recorded the issuance of 33,009,795 common shares, 2,554,711 options and 1,956,129 warrants (Note 3).
- iii. 350,875 stock options were exercised for proceeds of \$139 and \$253 was allocated from contributed surplus to share capital.
- iv. During the period April 16, 2010 to May 6, 2010 Holdings purchased 438,596 Sierra shares on the open market at a cost of \$441. The RTO transaction was completed on April 30, 2010 and the Sierra shares held at that time have been classified as treasury shares and recorded as a reduction of share capital at their cost.

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**11. SHAREHOLDERS' EQUITY (CONTINUED)****c. Stock-based Compensation**

The Company has adopted a stock option plan for which options to acquire up to 10% of the issued share capital, at the award date, may be granted to eligible optionees from time to time. Generally, options granted have a maximum term of five years, and a vesting period and exercise price determined by the directors. The exercise price may not be less than the closing quoted price of the Company's shares traded through the facilities of the exchange in which the Company's securities are listed. At September 30, 2010, 8,495,243 stock options were available for issue under the plan.

Total stock options granted during the three months ended September 30, 2010 were 595,000 (three months ended September 30, 2009 - nil). Total stock-based compensation recognized for the fair value of stock options granted, vested and approved by the shareholders during the three months ended September 30, 2010 was \$347 (three months ended September 30, 2009 - \$4).

Total stock options granted during the nine months ended September 30, 2010 were 3,814,486 (nine months ended September 30, 2009 - 180,000). Total stock-based compensation recognized for the fair value of stock options granted, vested and approved by the shareholders during the nine months ended September 30, 2010 was \$834 (three months ended September 30, 2009 - \$4).

The fair value of the options granted in 2010 and 2009 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	<u>2010</u>	<u>2009</u>
Risk free interest rate	1.63%	2.25%
Expected option life	2 years	5 years
Expected stock price volatility	90%	85%
Dividend payments during life of option	Nil	Nil

Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of a company's shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.



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**11. SHAREHOLDERS' EQUITY (CONTINUED)**

**c. Stock-based Compensation (Continued)**

As at September 30, 2010, the following stock options were outstanding:

	<u>Options</u>	<u>Exercise price (C\$)</u>
January 1, 2009	2,510,000	\$ 0.65
Granted	210,000	\$ 0.65
December 31, 2009	2,720,000	\$ 0.65
Granted	3,814,486	\$ 0.96
Exercised	(350,875)	\$ 0.41
Exchange options on RTO (Note 3)	2,594,711	\$ 0.52
Expired or forfeited	(707,984)	\$ 0.93
September 30, 2010	<u>8,070,338</u>	<u>\$ 0.73</u>

Expiry Date	Exercise price (C\$)	Number of options	Outstanding		Vested		
			Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)
Sep. 30, 2011	\$ 1.00	125,000	\$ 1.00	1.0	-	\$ 1.00	-
May 5, 2013	\$ 0.65	2,470,000	\$ 0.65	2.6	2,470,000	\$ 0.65	2.6
May 18, 2013	\$ 1.00	400,000	\$ 1.00	2.6	200,000	\$ 1.00	2.6
Dec. 22, 2013	\$ 0.29	280,701	\$ 0.29	3.3	280,701	\$ 0.29	3.3
Feb. 5, 2014	\$ 0.48	333,332	\$ 0.48	3.4	333,332	\$ 0.48	3.4
May 1, 2014	\$ 0.36	70,175	\$ 0.36	3.6	70,175	\$ 0.36	3.6
May 1, 2014	\$ 0.57	61,403	\$ 0.57	3.6	61,403	\$ 0.57	3.6
May 18, 2014	\$ 1.00	2,240,975	\$ 1.00	3.6	604,661	\$ 1.00	3.6
Jun. 23, 2014	\$ 0.65	180,000	\$ 0.65	3.7	90,000	\$ 0.65	3.7
Jul. 29, 2014	\$ 0.65	470,000	\$ 0.65	3.8	117,500	\$ 0.65	3.8
Sep. 23, 2014	\$ 0.57	263,156	\$ 0.57	4.0	263,156	\$ 0.57	4.0
Oct. 1, 2014	\$ 0.63	1,145,596	\$ 0.63	4.0	1,145,596	\$ 0.63	4.0
Nov. 12, 2014	\$ 0.65	30,000	\$ 0.65	4.1	7,500	\$ 0.65	4.1
		<u>8,070,338</u>	<u>\$ 0.73</u>	<u>3.2</u>	<u>5,644,024</u>	<u>\$ 0.66</u>	<u>2.2</u>

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**11. SHAREHOLDERS' EQUITY (CONTINUED)**

**d. Warrants**

As at September 30, 2010, the following warrants were outstanding:

	<u>Warrants</u>	<u>Exercise price (C\$)</u>	<u>Warrant equity (\$US)</u>
December 31, 2009	-	\$ -	\$ -
Granted (Note 10)	100,000	1.00	20
Exchange warrants on RTO (Note 3)	1,956,129	0.86	650
September 30, 2010	<u>2,056,129</u>	<u>\$ 0.86</u>	<u>\$ 670</u>

<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Weighted average exercise price (C\$/warrant)</u>
February 27, 2011	201,746	\$ 0.86
March 25, 2011	1,754,383	\$ 0.86
June 18, 2011	100,000	\$ 1.00
	<u>2,056,129</u>	<u>\$ 0.87</u>

**12. RELATED PARTY TRANSACTIONS AND BALANCES**

At September 30, 2010, receivables include \$38 (2009 - \$15) owing from Uracon Resources Ltd. ("Uracon") and \$5 (2009 - Nil) owing from an officer of the Company. The amount owing from Uracon is for its unpaid share of rent, administration staff salary and general office expenses. The companies share common office premises and have entered into a cost sharing arrangement, effective February 1, 2007.

At September 30, 2010, accounts payable and accrued liabilities include \$399 (2009 - \$34) owing to a former officer for severance of \$363 and directors for \$36.

Amounts owing to or from related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations.

**GOLDGROUP MINING INC.****(formerly Sierra Minerals Inc.)****Notes to the Interim Consolidated Financial Statements****September 30, 2010 and 2009***(Unaudited - Expressed in Thousands of United States Dollars)***13. INCOME TAXES**

Income tax expense recognized in the comprehensive loss for the period differs from the amount, which would result from applying the statutory Canadian federal and provincial income tax rate to earnings (loss) before taxes. These differences result from the following items:

	<b>Nine months ended September 30, 2010</b>	<b>Year ended December 31, 2009</b>
Loss before income taxes	\$ (4,908)	\$ (1,323)
Canadian statutory tax rate	28.50%	30.00%
Expected tax recovery	(1,398)	(397)
Increase (reduction) in income taxes due to:		
Non-deductible expenses	5,355	15
Tax rate differences in foreign jurisdictions	(1,278)	170
Other	(822)	(83)
Change in valuation allowance	177	710
Income tax expense	<u>2,034</u>	<u>416</u>
Current income tax expense	\$ 2,574	\$ -
Future income tax expense (recovery)	(540)	416
	<u>\$ 2,034</u>	<u>\$ 416</u>

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**13. INCOME TAXES (CONTINUED)**

The tax effects of temporary differences in the recognition of certain revenue and expense items for are for income tax purposes that give rise to significant portions of the future income tax assets and liabilities are summarized as follows:

	September 30, 2010	December 31, 2009
Future income tax assets		
Mineral properties	\$ 421	\$ -
Non-capital losses available for future years	2,396	1,355
Other	407	72
	<u>3,224</u>	<u>1,427</u>
Less valuation allowance	<u>(3,064)</u>	<u>(1,427)</u>
Net future income tax assets	<u>160</u>	<u>-</u>
Future income tax liabilities		
Mineral properties	(7,714)	(3,508)
Plant and equipment	(1,122)	(20)
Other	(55)	(109)
	<u>(8,891)</u>	<u>(3,637)</u>
Net future income tax liability	<u>\$ (8,731)</u>	<u>\$ (3,637)</u>

A valuation allowance has been provided against future income tax assets where the more likely than not criteria to realize those benefits has not been met.

The Company has non-capital losses of approximately \$8.3 million to reduce future taxable income in Canada which expire between the years 2010 and 2030.

**14. MANAGEMENT OF CAPITAL**

The Company defines capital that it manages as its shareholders' equity.

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders. The Company intends to pursue the acquisition, exploration and development of resource property interests, support continued production and maintenance at the Cerro Colorado mine and maintain a flexible capital structure which optimizes cost of capital at an acceptable risk.

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**14. MANAGEMENT OF CAPITAL (CONTINUED)**

The Company manages and reviews its capital structure based on the funds available for its operations and makes adjustments for changes in economic conditions, capital markets and the risk characteristics of the underlying assets. The Company expects it will be able to obtain equity financing and generate positive cash flow to maintain and grow operations. However, to maintain or adjust the capital structure, the Company may attempt to issue new shares, seek debt financing, acquire or dispose of assets or change the timing of its planned exploration and development projects. There are no assurances these initiatives will be successful.

To assess liquidity and facilitate management of its capital requirements management will prepare annual budgets and update them, as necessary, depending on various factors many of which are beyond the Company's control and include successful capital deployment and general industry conditions. The Company also takes into account its expected cash flows from mining operations, including capital expenditures, and its cash and cash equivalent holdings. The Board of Directors will approve the annual and updated budgets.

The Company places deposits only with major established banks in the currencies in which it operates. The Company's investment policy is to invest its excess cash in highly liquid, low risk, short-term interest-bearing investments. Investments are selected after taking into consideration to the expected timing of operating and capital expenditures. The Company limits its exposure to credit risks on investments by primarily investing only in securities rated AAA by credit rated agencies such as S&P and Moody's. Excess cash is invested in R1/R1 rated investments including bankers acceptances, commercial paper or other highly rated short term investment instruments. The investments are redeemable in portion or in full at the Company's option without penalty and are recorded as cash and cash equivalents.

The Company's future mine closure obligations may require funds to be set aside from time to time. Estimated future costs of reclamation and closure are accrued as an asset retirement obligation. Security deposits and cash amounts, if required, will be held in trust and recorded as restricted cash.

The Company does not pay dividends and has no long-term debt or a bank credit facility. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Changes to the Company's approach to capital management have been made during the period and will continue to be made in future periods.

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**15. RISK MANAGEMENT**

**Financial Risk Management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to credit, liquidity and market risks from the use of financial instruments. Financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities and loan payable.

**a. Credit Risk**

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's exposure to credit risk includes cash and cash equivalents and receivables. The maximum exposure to credit risk is equal to the fair value of the financial assets.

The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions and by investing in high credit quality financial instruments. The Company manages its credit exposure with respect to operational matters by transacting with reputable, highly rated counterparties. The Company monitors the financial condition of its counterparties to contracts. A significant portion of the Company's receivables are refundable consumption taxes owing from Mexican and Canadian government agencies which are expected to be recovered within a twelve month period. The Company does not have derivative financial instruments or significant trade receivables. Any credit risk exposure on cash and cash equivalents and receivables is considered negligible.

Gold doré produced in Mexico at the Cerro Colorado mine and gold in doré form recovered from used carbon at the refiner in Idaho, is shipped to a reputable metal refiner located in Massachusetts, USA. Once the doré arrives at the metal refiner, it can be sold, title transferred and US dollars received. Currently, the Company sells its gold through these means to a trading company in New Jersey, USA. Upon final outturn of the gold bullion, any unsold quantity is purchased by the refiner. The Company does not have any exclusive agreements to sell its gold and gold could be readily sold to any counter-party with whom it entered into a trading agreement.

**b. Liquidity Risk**

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company is dependent on cash flow from mining operations, capital raised from issuances of common shares and sale of assets to fund its business activities. The Company uses cash forecasts to ensure as far as possible that there is sufficient cash on hand to meet short-term business requirements. The Company's cash is invested in highly liquid investments which are available to discharge obligations when they come due. Most of the Companies financial liabilities have contractual maturities of less than 30 days and substantially all the Company's financial obligations, other than the provision for site closure and restoration obligations, are due within one year. In the normal course of business the Company enters into contracts that give rise to commitments for future payments (Note 17). The Company does not maintain a line of credit.

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**15. RISK MANAGEMENT (CONTINUED)**

**c. Market Risk**

The significant market risks to which the Company is exposed to are interest rate risk, foreign currency risk, and commodity price risk. These risks will affect the Company's income and the value of its financial instruments.

**i. Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short term investments mature and the proceeds are invested at lower interest rates. The converse situation will have a positive impact on interest income.

To limit interest rate risk the Company uses a restrictive investment policy. The fair value of the investments of financial instruments included in cash and cash equivalents is relatively unaffected by changes in short term interest rates. The investments are generally held to maturity and changes in short term rates do not have a material effect on the Company's operations.

**ii. Foreign currency risk**

The Company is exposed to foreign currency fluctuations and inflationary pressures on its financial assets and liabilities and on sales, purchases and costs as the majority of the Company's activities are carried out in Mexico. All of the Company's revenues from commodity sales are in US dollars. The head office is located in Canada and costs are primarily incurred in Canadian dollars. Other costs and expenditures that affect the Company's results of operations, financial positions or cash flows are incurred in US dollars, Canadian dollars and Mexican pesos.

The Company is exposed to foreign currency exchange risk on financial instruments related to cash and cash equivalents, receivables, accounts payable and accrued liabilities and loan payable. A significant change in the currency exchange rates between the US dollar relative to the other currencies could have an effect on the Company results of operations, financial position or cash flow. The Company has not undertaken to mitigate transactional volatility in either the Mexican peso, Canadian dollar or the US dollar at this time. The Company does not use derivative instruments to enter into any agreements to reduce its exposure to foreign currency risk.

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The Company's financial assets and financial liabilities foreign currency exposure as of September 30, 2010 is shown in the table below:

As at September 30, 2010	Canadian Dollar (C\$)	United States Dollar (US\$)	Mexican Peso (Peso)
<b>Financial assets</b>			
Cash and cash equivalents	\$ 877	\$ 13,534	5,086
Receivables	111	-	31,677
	\$ 988	\$ 13,354	36,763
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	\$ 502	\$ 751	24,672

The following table indicates the impact of foreign currency exchange risk on working capital as at September 30, 2010. The table also provides a sensitivity analysis of a 10 percent strengthening of the US dollar against foreign currencies as identified, which would have increased (decreased) the Company's net earnings by the amounts shown in the table below. A 10 percent weakening of the US dollar against the same foreign currencies would have had the equal but opposite effect.

	Canadian Dollars \$	Mexican Pesos \$
Financial assets	988	36,763
Financial liabilities	(502)	(24,672)
Total foreign currency net working capital	486	12,091
US\$ exchange rate	0.97	0.079
Total foreign currency net working capital in US\$	472	955
Impact of a 10% strengthening of the US\$ on net	47	96

**iii. Commodity price risk**

Commodity price risk is the risk that future cash flows of the Company and the fair value of financial instruments will fluctuate because of changes in market prices. The Company's revenues and its ability to explore its mineral resource properties are related to the price of gold and the outlook for this commodity.



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**15. RISK MANAGEMENT (CONTINUED)**

**iii. Commodity price risk (Continued)**

Gold prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending and reserves management, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand, speculative hedging activities, macro-economic variables, and certain other factors related specifically to gold. All of the Company's future gold production is unhedged and is fully exposed to future price movements.

The profitability of the Company's mining operation is highly correlated to the market price of gold. To the extent that the price of gold increases over time, asset values increase and cash flows improve; conversely, declines in the price of gold directly impact asset value and cash flows. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value. Adverse changes to the input prices of certain raw materials (e.g. diesel fuel and supplies), can impact the value of the Company's mineral resource properties and cash flows. At the balance sheet date there was no significant impact of commodity price risk on the company's financial assets or liabilities.

**Fair Values**

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate fair values due to their short terms to maturity or ability to readily convert to cash.

The following table outlines the Corporation's financial assets and financial liabilities measured at fair value by level within the fair value hierarchy described below. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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**15. RISK MANAGEMENT (CONTINUED)****iii. Commodity price risk (Continued)**

As at September 30, 2010 the Company's financial instruments are all classified as Level 1 and measured at fair value:

	<b>Level 1</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 14,790
Receivables	\$ 2,795
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ (3,195)

**Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**Level 2** – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

**Level 3** – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

**16. COMMITMENTS**

The Company leases office premises with Uracon Resources Ltd. (Note 13) pursuant to a lease agreement expiring September 30, 2015. During the term of this lease agreement, the Company will be responsible for 50% of the annual lease costs. The Company's share of the minimum lease payments due under the terms of the lease over the next six years are:

2010	\$ 25
2011	100
2012	101
2013	103
2014	104
2015	80
	<hr/>
	\$ 513
	<hr/> <hr/>

The Company is also responsible for its proportionate share of the operating costs and property taxes estimated at C\$55 per year. The Company is jointly and severally liable for the lease costs.

The Company has entered into a lease agreement with the owner of a nearby water well for the exclusive rights to use water from the well in the operation of the Cerro Colorado Mine. The lease has an indefinite term which runs until cessation of mining activity. No rental fees are charged under this agreement however fees are payable to the Mexican government based on water consumption.

Mineral properties commitments are disclosed in Note 8.

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**Notes to the Interim Consolidated Financial Statements**

**September 30, 2010 and 2009**

*(Unaudited - Expressed in Thousands of United States Dollars)*

**17. SEGMENTED INFORMATION**

During the nine months ended September 30, 2010, 100% of the Company's sales were to two third parties. The balance owing for these parties on September 30, 2010 was nil. The Company operates in two geographical and three operating segments.

Selected financial information by geographical segment is as follows:

			<b>September 30, 2010</b>
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Revenue	\$ -	\$ 10,689	\$ 10,689
Depreciation, depletion and amortization	34	1,295	1,329
Loss for the period	(4,210)	(2,132)	(6,342)
Plant and equipment	82	5,443	5,525
Investment in DynaMexico	-	13,019	13,019
Mineral properties	-	35,509	35,509
Segment assets	1,626	19,897	21,523

			<b>September 30, 2009</b>
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Amortization	\$ 43	\$ 29	\$ 72
Loss for the period	(702)	(923)	(1,625)

			<b>Decemeber 31, 2009</b>
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Plant and equipment	\$ 106	\$ 351	\$ 458
Investment held for trading	2,313	-	2,313
Investment in DynaMexico	-	10,031	10,031
Mineral properties	-	21,513	21,513
Segment assets	492	341	833

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**17. SEGMENTED INFORMATION (CONTINUED)**

Selected financial information by operating segments is as follows:

	<u>Mining Operations</u>	<u>Exploration and Development</u>	<u>Corporate</u>	<u>September 30, 2010 Total</u>
Revenue	\$ 10,689	\$ -	\$ -	\$ 10,689
Depreciation, depletion and amortization	1,189	96	34	1,319
Earning (loss) for the period	(17,452)	14,988	(3,878)	(6,342)
Plant and equipment	5,123	320	82	5,525
Investment in DynaMexico	-	13,019	-	13,019
Mineral properties	14,635	20,674	-	35,309
Segment assets	7,114	12,784	1,625	21,523

	<u>Exploration and Development</u>	<u>Corporate</u>	<u>September 30, 2009 Total</u>
Revenue	\$ -	\$ -	\$ -
Amortization	43	29	72
Loss for the period	(923)	(702)	(1,625)

	<u>December 31, 2009 Total</u>		
Plant and equipment	\$ 106	\$ 351	\$ 458
Investment held for trading	-	2,313	2,313
Investment in DynaMexico	10,031	-	10,031
Mineral properties	21,513	-	21,513
Segment assets	341	492	833

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**18. SUPPLEMENTAL CASH FLOW INFORMATION**

**Changes in non-cash operating working capital items:**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Receivables, prepaids and deposits	\$ (900)	\$ 45	\$ (1,160)	\$ (150)
Inventories	(442)	-	268	-
Accounts payable and accrued liabilities	575	(87)	925	(13)
Due to related parties	-	(60)	-	(108)
	<u>\$ (767)</u>	<u>\$ (102)</u>	<u>\$ 33</u>	<u>\$ (271)</u>

**Non-cash investing transactions not included in cash flows:**

Amortization capitalized to mineral properties	<u>\$ 66</u>	<u>\$ 8</u>	<u>\$ 96</u>	<u>\$ 43</u>
Acquisition of Goldgroup Mining through issuance of common shares (Note 3)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,120</u>	<u>\$ -</u>