



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

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**

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

# Auditors' report

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## **To the shareholders of Goldgroup Mining Inc. (formerly Sierra Minerals Inc.):**

We have audited the accompanying consolidated financial statements of Goldgroup Mining Inc. (formerly Sierra Minerals Inc.), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Goldgroup Mining Inc. (formerly Sierra Minerals Inc.) as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

#### Emphasis of matters

We draw attention to Note 2 to the consolidated financial statements which describes Goldgroup Mining Inc.'s early adoption of The Canadian Institute of Chartered Accountants Handbook Sections 1582 *Business Combinations*, 1601 *Consolidated Financial Statements*, and 1602 *Non-controlling Interests*, effective January 1, 2010. Our opinion is not qualified in respect of this matter.



Vancouver, Canada

March 25, 2011

Chartered accountants

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

	<u>December 31,</u> <u>2010</u> <u>Note 3</u>	<u>December 31,</u> <u>2009</u> <u>Note 2b</u>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 12,654	\$ 515
Investment held for trading	-	2,313
Receivables	2,557	219
Inventories (Note 5)	4,165	-
Prepays and deposits	274	99
	<u>19,650</u>	<u>3,146</u>
<b>Plant and equipment</b> (Note 6)	5,423	458
<b>Investment in DynaResource de Mexico SA de CV</b> (Note 7)	14,390	10,031
<b>Mineral properties</b> (Notes 8 and 17)	<u>37,182</u>	<u>21,513</u>
	<u>\$ 76,645</u>	<u>\$ 35,148</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,345	\$ 402
Agreement payable (Note 4)	-	4,758
	<u>2,345</u>	<u>5,160</u>
<b>Asset retirement obligation</b> (Note 10)	537	-
<b>Future income tax liability</b> (Note 13)	<u>9,047</u>	<u>3,637</u>
	<u>11,929</u>	<u>8,797</u>
<b>Shareholders' equity</b>		
Share capital (Note 11)	72,421	30,947
Contributed surplus (Note 11)	4,372	2,326
Warrant equity (Note 11)	2,719	-
Accumulated other comprehensive loss (Note 2b)	(355)	(1,334)
Deficit	<u>(14,441)</u>	<u>(5,588)</u>
	<u>64,716</u>	<u>26,351</u>
	<u>\$ 76,645</u>	<u>\$ 35,148</u>

Nature of operations (Note 1)  
Change in functional and reporting currency and impact (Note 2b)  
Commitments (Note 16)  
Subsequent events (Note 19)

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.)**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**December 31, 2010 and 2009**  
*(Expressed in Thousands of United States Dollars)*

	Year Ended December 31,	
	2010	2009 (Note 2b)
<b>Revenue</b>		
Gold sales	\$ 16,784	\$ -
Silver sales	93	-
	<u>16,877</u>	<u>-</u>
<b>Costs and expenses of mining operations</b>		
Cost of sales	14,484	-
Depreciation, depletion and amortization	2,063	-
Accretion of asset retirement obligation	34	-
	<u>16,581</u>	<u>-</u>
<b>Mine operating income</b>	<u>\$ 296</u>	<u>\$ -</u>
<b>Expenses and other income</b>		
General and administrative	\$ 4,679	\$ 1,648
Transaction costs (Note 3)	395	-
Exploration	404	-
Amortization	45	40
Stock-based compensation (Note 11(c))	1,179	18
Foreign exchange (gain) loss	(466)	292
Write-off of inventory and equipment (Notes 5 and 6)	533	-
Gain on sale of El Porvenir (Note 8c)	(16,787)	-
Impairment of goodwill (Note 3)	16,673	-
Equity loss in DynaMexico (Note 7)	128	7
Interest and other	93	(40)
Unrealized gain on change in fair value of investment	-	(807)
Loss on sale of investment	131	-
Financing fees	119	-
	<u>7,126</u>	<u>1,158</u>
<b>Loss before income taxes</b>	(6,830)	(1,158)
<b>Provision for (recovery of) for income taxes:</b>		
Current	2,347	-
Future	(324)	364
	<u>2,023</u>	<u>364</u>
<b>Loss for the year</b>	\$ (8,853)	\$ (1,522)
Other comprehensive income (Note 2b)	979	2,554
<b>Comprehensive (loss) income for the year</b>	<u>\$ (7,874)</u>	<u>\$ 1,032</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.11)</u>	<u>\$ (0.04)</u>
<b>Weighted average number of shares (000's)</b>	<u>82,097</u>	<u>37,495</u>

**GOLDGROUP MINING INC.**  
**(formerly Sierra Minerals Inc.)**  
**Consolidated Statements of Cash Flows**  
**December 31, 2010 and 2009**  
*(Expressed in Thousands of United States Dollars)*

	Year Ended December 31,	
	2010	2009
		(Note 2b)
<b>CASH DERIVED FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (8,853)	\$ (1,522)
Items not involving cash:		
Future income taxes	(324)	364
Depletion, depreciation and amortization	2,108	40
Unrealized gain on change in fair value of investment	-	(807)
Accretion of asset retirement obligation	34	-
Unrealized foreign exchange gain	159	-
Loss on sale of investment	131	-
Stock-based compensation	1,179	18
Financing fees	20	-
Impairment of goodwill and write-off of inventory and equipment	17,206	-
Gain on sale of El Porvenir	(16,787)	-
Equity loss in DynaMexico	128	7
	<u>(4,999)</u>	<u>(1,900)</u>
Changes in non-cash operating working capital items (Note 18):	<u>(1,073)</u>	<u>(129)</u>
	<u>(6,072)</u>	<u>(2,029)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of shares	9,081	-
Treasury shares	(441)	-
Repayment of loans	<u>(4,896)</u>	<u>-</u>
	<u>3,744</u>	<u>-</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of Sierra, net cash	516	-
Acquisition of Minera Cardel SA de CV, net cash	-	(996)
Purchase of plant and equipment	(851)	(51)
Proceeds on sale of investments	3,902	-
Purchase of investments	(1,658)	(1,322)
Investment in DynaMexico	(4,128)	(1,846)
Net proceeds from sale of El Porvenir (Note 8c)	23,300	-
Mineral properties	<u>(6,672)</u>	<u>(1,010)</u>
	<u>14,409</u>	<u>(5,225)</u>
Effect of exchange rate changes on cash	58	595
<b>Increase (decrease) in cash and cash equivalents</b>	<u>12,139</u>	<u>(6,659)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>515</u>	<u>7,174</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 12,654</u>	<u>\$ 515</u>
<b>Cash and cash equivalents is comprised of:</b>		
Cash	\$ 12,643	\$ 504
Short-term deposits	11	11
	<u>\$ 12,654</u>	<u>\$ 515</u>

**GOLDGROUP MINING INC.**  
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**Consolidated Statement of Shareholders' Equity**  
**December 31, 2010 and 2009**  
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	<u>Common Shares</u>		<u>Contributed Surplus</u>	<u>Warrant Equity</u>	<u>Accumulated Other Comprehensive Income (loss)</u>		<u>Total Equity</u>
	<u>Number (000's)</u>	<u>Amount</u>			<u>Deficit</u>		
<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 placements	9,060	6,510	-	2,187	-	-	8,697
Holdings shares issued	(51,943)	-	-	-	-	-	-
Goldgroup Mining shares issued (formelry Sierra)	51,943	-	-	-	-	-	-
Shares of Goldgroup Mining acquired in reverse take-over (Note 3)	33,010	34,120	1,630	650	-	-	36,400
Options exercised	1,097	541	-	-	-	-	541
Contributed surplus allocation on option exercise	-	763	(763)	-	-	-	-
Warrants exercised	22	18	-	-	-	-	18
Warrant equity allocation on warrant exercise	-	7	-	(7)	-	-	-
Stock-based compensation	-	-	1,179	-	-	-	1,179
Share issue costs	-	(44)	-	-	-	-	(44)
Warrant issue costs	-	-	-	(131)	-	-	(131)
Financing fees (Note 9)	-	-	-	20	-	-	20
Treasury shares (Note 11)	(439)	(441)	-	-	-	-	(441)
Loss for the year	-	-	-	-	-	(8,853)	(8,853)
Change in reporting currency (Note 2b)	-	-	-	-	979	-	979
<b>December 31, 2010</b>	<u>88,633</u>	<u>\$ 72,421</u>	<u>\$ 4,372</u>	<u>\$ 2,719</u>	<u>\$ (355)</u>	<u>\$ (14,441)</u>	<u>\$ 64,716</u>

**GOLDGROUP MINING INC.**  
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**Notes to the Consolidated Financial Statements**  
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**1. NATURE OF OPERATIONS**

Goldgroup Mining Inc. is incorporated in Quebec ("Goldgroup Mining" or the "Company"), formerly Sierra Minerals Inc. ("Sierra"), together with its subsidiaries, is a Canadian-based gold producer and is focused on the acquisition, exploration and development of advanced stage gold-bearing mineral properties in the Americas. The Company's current gold production and exploration and development related activities are conducted exclusively in Mexico. Goldgroup owns and owns and operates the Cerro Colorado Mine in Sonora along with a property portfolio that includes its interests in the Caballo Blanco Project in Veracruz and the San José de Gracia Project in Sinaloa.

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 a wholly owned subsidiary of Goldgroup Mining when the shares of Goldgroup Mining (formerly Sierra) 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 Holdings. 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, being 33,009,795 shares (Note 3).

**2. SIGNIFICANT ACCOUNTING POLICIES**

These audited consolidated financial statements have been prepared by the Company in accordance with Canadian GAAP. 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.



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

**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.

**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, 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.

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

**b. Change in Functional and Reporting Currency (Continued)**

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 (April 30, 2010 – \$0.9844; December 31, 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 April 30, 2010 and at December 31, 2009 represent the cumulative translation adjustment to these respective dates and will remain in AOCI unless there is a realized reduction in the net investment of the related foreign operation.

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.

**c. Use of Estimates**

The preparation of financial statements in conformity with Canadian 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. 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. Actual results could differ from those estimates by a material amount.

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

**c. Use of Estimates (Continued)**

The significant areas requiring the use of management estimates and assumptions include, but are not limited to, the recoverability of accounts receivables, the quantities of product inventory, the amount of ore resources and related amortization and depletion, the expected recovery rate of those mineral resources, foreign exchange rates, 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 differ 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 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 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, depletion and amortization of mineral properties.

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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, depletion and amortization relating to the mineral property, plant and equipment. Costs are removed from heap leach inventory as ounces of gold doré are produced 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 net realizable value.

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

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

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

	<b>Years</b>
Transportation	3-4
Office and equipment	3-5
Computer	2-3
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 resources 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 on producing properties 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 occurs when it is considered an other than temporary change, such as its removal from service, the 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 resources 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 resources, commodity prices, foreign exchange rates, 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 management's estimates and the expected recoverability of the investments in long-lived assets.

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 loss 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 operations 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 earliest 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 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 (loss) 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 years ended December 31, 2010 and 2009 therefore the basic and diluted loss per share were 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.

The Company's financial instruments consist of cash and cash equivalents, receivables and 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 using the effective interest rate method. Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities and measured at amortized cost using the effective interest rate method.

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.

**p. Share Issue 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 proportionate share of the investee's earnings or losses is included in the period's results of operations and its investment therein is adjusted by a like amount. Dividends received are credited to the investment.

When there is a loss in value of a significantly influenced investment that is considered other than a temporary decline, the investment is written down to recognize the loss and the write-down is charged to earnings.

**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 warrant equity. 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)**

**u. New Accounting Pronouncements**

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 on 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 reverse take-over of Sierra (Note 3) completed on April 30, 2010, is 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.

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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. Holdings completed the business combination with Sierra to acquire a producing mine, to become publicly listed and to expand its current portfolio of Mexican exploration mineral properties. The acquisition was accounted for under CICA Handbook Section 1582. 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 purchase price allocation of the fair value of Goldgroup Mining's net identifiable assets, 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	(1,849)
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 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 consulted with an independent valuator prior to finalizing the purchase price allocation.

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

The 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 mineral properties. The plant and equipment were valued by management and it was determined that carrying value was equal to fair value. The mineral properties were valued using the discounted cash flow of proven and probable reserves, measured, indicated and inferred resources. Management has decided it cannot support the carrying value of goodwill and has recorded a goodwill impairment charge of \$16,673.

A component of the reverse take-over 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 Option Pricing Model was \$1,630 and \$650, 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.

As a result of the accounting treatment for the reverse take-over of Sierra, only operating results from May 1, 2010 to December 31, 2010 are included in the statement of operations and cash flows for the year ended December 31, 2010.

**4. ACQUISITION OF MINERA CARDEL S.A. de C.V. (“Minera”)**

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 financing fee 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	4,735
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	(2,944)
	<u>\$ 14,439</u>

**5. INVENTORIES**

Inventories consist of the following:

	<u>December 31, 2010</u>
Doré	\$ 439
Gold-in-process	2,640
Consumable supplies	1,086
	<u>\$ 4,165</u>

During the year the Company wrote off obsolete consumable supplies with a carrying value of \$292.

The Cost of sales represents the amount of product inventory recognized as an expense. All of the Company's inventories are located at the Cerro Colorado mine in Mexico. Included in cost of sales and in depreciation, depletion and amortization expense on the statement of operations are total inventory related costs of \$207 (recovery) and \$6, respectively.

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**6. PLANT AND EQUIPMENT**

	December 31, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Plant and mining equipment	\$ 5,358	\$ 1,032	\$ 4,326	\$ -	\$ -	\$ -
Machinery and equipment	1,046	342	704	348	145	203
Office equipment	273	157	116	190	70	120
Vehicles	516	278	238	117	32	85
Lab equipment	61	22	39	59	9	50
	<u>\$ 7,254</u>	<u>\$ 1,831</u>	<u>\$ 5,423</u>	<u>\$ 714</u>	<u>\$ 256</u>	<u>\$ 458</u>

During the year, the Company wrote off equipment with a carrying value of \$241.

**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 \$18,000 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 December 31, 2010, the Company had earned a 25% equity interest in DynaMexico. The Company funded \$14,000 (December 31, 2009 \$9,868) in expenditures on SJG toward the \$18,000 required for a 50% equity interest. DynaUSA earns a fee for management and accounting services based on 2.5% of expenditures.

On March 14, 2011 the Company completed its Earn in/Option agreement with DynaMexico for its 50% equity interest by reaching the expenditure funding requirement of \$18,000 (note 19(iv)).

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, the investment is accounted for using the equity method. When 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:

	Year Ended December 31,	
	2010	2009
	<u>                    </u>	<u>                    </u>
Investment, beginning of year	\$ 10,031	\$ 6,930
Funds invested	4,128	1,846
Equity loss	(128)	(7)
Translation adjustment	359	1,262
	<u>                    </u>	<u>                    </u>
Investment, end of year	<u>\$ 14,390</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>	60	15,811	1,404	599	17,874
<b>Exploration Costs</b>					
Depletion and amortization	84	(1,484)	36	10	(1,354)
Drilling	1,215	-	83	-	1,298
Exploration	1,898	-	1,254	23	3,175
Fees and taxes	77	-	277	98	452
Foreign exchange	580	-	125	32	737
	21,171	14,327	6,513	1,684	43,695
Sale of property	-	-	(6,513)	-	(6,513)
<b>December 31, 2010</b>	\$ 21,171	\$ 14,327	\$ -	\$ 1,684	\$ 37,182

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 and offset against future taxes.

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**8. MINERAL PROPERTIES (CONTINUED)**

**a. Caballo Blanco**

The Company is earning a 70% interest on the Caballo Blanco project which consists of 15 mineral concessions covering 19,650 hectares, 65 kilometres north northwest of Veracruz , Mexico.

To earn a 70% interest, the Caballo Blanco option agreement requires property expenditures of \$12,000 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 December 31, 2010, the Company has expended aggregate property related costs of approximately \$11,584, which includes \$8,200 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 \$12,000 and has completed a bankable 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\$5,000 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% in June 2010 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)**

**ii) 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 December 31, 2010, GGR has expended aggregate property related work costs of \$376. 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 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 \$3,000 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.

**iii) San Martin**

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

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**8. MINERAL PROPERTIES (CONTINUED)**

**iv) 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.

**v) El Cajon Gold**

The El Cajon project was acquired as part of the reverse take-over of Sierra. 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 (2010 – 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 then. 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 discount rate of 9.4% and an inflation rate of 3%.

The discounted liability for asset retirement obligations is as follows:

	<b>December 31, 2010</b>
Acquisition of Goldgroup Mining (Note 3)	<b>\$ 503</b>
Accretion expense	<b>34</b>
	<b>\$ 537</b>

**11. SHAREHOLDERS' EQUITY**

**a. Authorized**

Unlimited number of common shares with no par value

**b. Shares Issued**

Shares issued and outstanding as at December 31, 2010 are 88,633,127 (2009 – 45,882,637).

- 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 reverse take-over on April 30, 2010, the Company recorded the issuance of 33,009,795 common shares, 2,594,711 options and 1,956,129 warrants (Note 3).
- iii. 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. These shares 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)**

**b. Shares Issued (continued)**

- iv. On November 29, 2010 the Company closed a non-brokered private placement financing of 3,000,000 units at a price of \$0.97 (\$1.00) per share for gross proceeds of \$2,912. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share at a price of C\$1.25, expiring November 26, 2015. Unit issue costs on this financing were \$175 paid to arm's lengths parties.
- v. 1,097,362 stock options were exercised for proceeds of \$541 and \$763 was allocated from contributed surplus to share capital.
- vi. 21,929 warrants were exercised for proceeds of \$18 and \$7 was allocated from warrant equity to share capital.

**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.

Total stock options granted during the year ended December 31, 2010 were 3,964,486 (December 31, 2009 – 210,000). Total stock-based compensation recognized for the fair value of stock options granted, vested and approved by the shareholders during the year ended December 31, 2010 was \$1,179 (December 31, 2009 - \$18).

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	1.62%	2.25%
Expected option life	1.9 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 December 31, 2010, the following stock options were outstanding:

	<u>Options</u>	<u>Exercise price (C\$)</u>
Balance January 1, 2009	2,510,000	\$ 0.65
Granted	210,000	\$ 0.65
Balance December 31, 2009	2,720,000	\$ 0.65
Granted	3,964,486	\$ 0.96
Exercised	(1,097,362)	\$ 0.76
Exchange options on reverse take-over (Note 3)	2,594,711	\$ 0.53
Expired or forfeited	(956,537)	\$ 0.93
Balance December 31, 2010	<u>7,225,298</u>	<u>\$ 0.76</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	0.7	62,500	\$ 1.00	0.7
Nov. 9, 2011	\$ 1.00	150,000	\$ 1.00	0.9	-	\$ -	-
May 5, 2013	\$ 0.65	2,395,000	\$ 0.65	2.3	2,395,000	\$ 0.65	2.3
May 18, 2013	\$ 1.00	400,000	\$ 1.00	2.4	400,000	\$ 1.00	2.4
Dec. 22, 2013	\$ 0.29	210,526	\$ 0.29	3.0	210,526	\$ 0.29	3.0
Feb. 5, 2014	\$ 0.49	315,789	\$ 0.49	3.1	315,789	\$ 0.49	3.1
May 5, 2014	\$ 0.57	61,403	\$ 0.57	3.3	61,403	\$ 0.57	3.3
May 18, 2014	\$ 1.00	2,044,922	\$ 1.00	3.4	1,045,262	\$ 1.00	3.4
Jun. 23, 2014	\$ 0.65	105,000	\$ 0.65	3.5	60,000	\$ 0.65	3.5
Jul. 29, 2014	\$ 0.65	417,500	\$ 0.65	3.6	117,500	\$ 0.65	3.6
Sep. 23, 2014	\$ 0.57	40,350	\$ 0.57	3.7	40,350	\$ 0.57	3.7
Oct. 1, 2014	\$ 0.63	929,808	\$ 0.63	3.8	929,808	\$ 0.63	3.8
Nov. 12, 2014	\$ 0.65	30,000	\$ 0.65	3.9	15,000	\$ 0.65	3.9
		<u>7,225,298</u>	<u>\$ 0.76</u>	<u>3.7</u>	<u>5,653,138</u>	<u>\$ 0.71</u>	<u>2.9</u>



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

**d. Warrants**

As at December 31, 2010, the following warrants were outstanding:

	<u>Warrants</u>	<u>Exercise Price (C\$)</u>	<u>Warrant equity (US\$)</u>
Balance January 1, 2010 and 2009	\$ -	\$ -	\$ -
Granted	3,100,000	1.24	2,206
Exercised	(21,929)	0.86	(7)
Warrant issue costs	-	-	(131)
Exchange warrants on reverse take-over (Note 3)	1,956,129	0.86	650
Balance December 31, 2010	<u>\$ 5,034,200</u>	<u>\$ 1.10</u>	<u>\$ 2,718</u>

There were no warrants outstanding in 2009.

<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Weighted average exercise price (C\$/warrant)</u>
February 27, 2011	179,817	\$ 0.86
March 25, 2011	1,754,383	0.86
June 18, 2011	100,000	1.00
November 26, 2015	3,000,000	1.25
	<u>5,034,200</u>	<u>\$ 1.10</u>

**12. RELATED PARTY TRANSACTIONS AND BALANCES**

At December 31, 2010, receivables include \$39 (2009 - \$29) owing from Uracon Resources Ltd. ("Uracon") and \$5 (2009 - \$2) 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 December 31, 2010, accounts payable and accrued liabilities includes \$11 (2009 - \$61) owing to an officer.

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.

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**13. INCOME TAXES**

**a) Income Tax Balances**

The Company has non-capital losses of \$9,200 to reduce future taxable income in Canada which expire between the years 2012 and 2030. The Company also has \$556 in share issue costs, subject to five year amortization, that are available to reduce future Canadian taxable income.

In addition, in Mexico, the Company has Business Flat Tax ("IETU") credits totalling \$279.

**b) Statutory Rate Reconciliation**

The current and future reported income tax expense recognized in the comprehensive loss for the year differs from the amount, which would result from applying the statutory Canadian federal and provincial income tax rates to earnings (loss) before taxes. These differences result from the following items:

	<b>Year ended</b> <b>December 31, 2010</b>	<b>Year ended</b> <b>December 31, 2009</b>
Loss before income taxes	\$ (6,830)	\$ (1,158)
Canadian statutory tax rates	<u>28.50%</u>	<u>30.00%</u>
Expected tax recovery	(1,946)	(347)
Increase (reduction) in income taxes due to:		
Non-deductible expenses	5,885	15
Tax rate differences in foreign jurisdictions	(695)	170
Utilization of IETU credits	(1,005)	-
Other	(565)	(184)
Change in valuation allowance	349	710
Income tax expense	<u>2,023</u>	<u>364</u>
Current income tax expense	\$ 2,347	\$ -
Future income tax expense (recovery)	<u>(324)</u>	<u>364</u>
	<u>\$ 2,023</u>	<u>\$ 364</u>

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**13. INCOME TAXES (CONTINUED)**

**c) Future Income Tax Liability**

Future income tax assets and liabilities offset if they relate to the same taxable entity and the same taxation authority. Future potential tax deductions that are not able to offset future tax liabilities are considered to be future income taxable. Future income tax assets result primarily from temporary differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. Significant components of the Company's future income tax assets (liabilities), after applying substantively enacted tax rates, are as follows:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Future income tax assets		
Non-capital losses available for future years	\$ 2,632	\$ 1,355
Other	572	72
	<u>3,204</u>	<u>1,427</u>
Less valuation allowance	<u>(2,815)</u>	<u>(1,427)</u>
Net future income tax assets	<u>389</u>	<u>-</u>
Future income tax liabilities		
Mineral properties	(8,221)	(3,508)
Plant and equipment	(1,106)	(20)
Other	(109)	(109)
	<u>(9,436)</u>	<u>(3,637)</u>
Net future income tax liability	<u>\$ (9,047)</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.

**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 prepares annual budgets and updates 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 has approved the annual and will approve 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 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 excess cash is denominated in the currency which management believes poses the least amount of volatility and risk.

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 Company's 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 16). 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 and foreign currency 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's 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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**15. RISK MANAGEMENT (CONTINUED)**

**ii. Foreign currency risk (Continued)**

The Company's financial assets and financial liabilities foreign currency exposure as of December 31, 2010 and 2009 is shown in the table below:

	Canadian Dollar (C\$)		Mexican Peso (Peso)	
	2010	2009	2010	2009
<b>Financial assets</b>				
Cash and cash equivalents	\$ 927	\$ 362	2,570	1,761
Receivables	60	\$ 19	30,390	2,503
	<b>\$ 987</b>	<b>\$ 381</b>	<b>32,960</b>	<b>4,264</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 194	\$ 324	14,008	1,168

The following table indicates the impact of foreign currency exchange risk on working capital as at December 31, 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	987	32,960
Financial liabilities	(194)	(14,508)
Total foreign currency net working capital	793	18,952
US\$ exchange rate	1.005	0.081
Total foreign currency net working capital in US\$	797	1,535
Impact of a 10% strengthening of the US\$ earnings(in \$US)	80	154

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**15. RISK MANAGEMENT (CONTINUED)**

**d. Fair Values of Financial Instruments**

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 Company'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.

As at December 31, 2010 and 2009 the Company's financial instruments are all classified as Level 1.

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 12,654	\$ 515

**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 12) 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 five years are:

2011	\$	100
2012		101
2013		103
2014		104
2015		79
		<hr/>
	\$	<u>487</u>



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**16. COMMITMENTS (CONTINUED)**

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.

**17. SEGMENTED INFORMATION**

The Company operates in two geographical and three operating segments. The operating segments are managed separately based on the nature of operations. Mining operations consist of the Cerro Colorado mine, and exploration is primarily the Caballo Blanco property and the Company's investment in DynaMexico. During the year ended December 31, 2010, 100% of the Company's sales were to two unrelated third parties. The balance owing from these parties on December 31, 2010 was nil.

Selected financial information by geographical segment is as follows:

	<b>December 31, 2010</b>		
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Revenue	\$ -	\$ 16,877	\$ 16,877
Depreciation, depletion and amortization	(45)	(2,063)	(2,108)
Loss for the year	(20,257)	11,404	(8,853)
Plant and equipment	70	5,353	5,423
Investment in DynaMexico	-	14,390	14,390
Mineral properties	-	37,182	37,182
Current assets	5,650	14,000	19,650

	<b>December 31, 2009</b>		
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Amortization	\$ (40)	\$ -	\$ (40)
Loss for the year	(427)	(1,095)	(1,522)
Plant and equipment	106	352	458
Investment in DynaMexico	-	10,031	10,031
Mineral properties	-	21,513	21,513
Current assets	2,805	341	3,146

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**17. SEGMENTED INFORMATION (CONTINUED)**

Selected financial information by operating segments is as follows:

	<u>Mining Operations</u>	<u>Exploration</u>	<u>Corporate</u>	<u>December 31, 2010 Total</u>
Revenue	\$ 16,877	\$ -	\$ -	\$ 16,877
Depreciation, depletion and amortization	(1,933)	(130)	(45)	(2,108)
Write-off of inventory and equipment	(533)	-	-	(533)
Gain on sale of El Porvenir	-	16,787	-	16,787
Impairment of goodwill	(16,673)	-	-	(16,673)
Equity loss in DynaMexico	-	(128)	-	(128)
Income tax provision - current	(376)	(1,971)	-	(2,347)
Earning (loss) for the year	(614)	12,018	(20,257)	(8,853)
Plant and equipment	5,061	292	70	5,423
Investment in DynaMexico	-	14,390	-	14,390
Mineral properties	14,327	22,855	-	37,182
Current assets	7,222	6,778	5,650	19,650
		<u>Exploration and Development</u>	<u>Corporate</u>	<u>December 31, 2009 Total</u>
Revenue		\$ -	\$ -	\$ -
Amortization		(83)	(40)	(123)
Unrealized gain on change in fair value of investment		-	807	807
Loss for the period		(1,095)	(427)	(1,522)
Plant and equipment		352	106	458
Investment in DynaMexico		10,031	-	10,031
Mineral properties		21,513	-	21,513
Current assets		341	2,805	3,146

**GOLDGROUP MINING INC.**  
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**18. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Receivables	\$ (1,021)	\$ (116)
Inventories	44	-
Prepays and deposits	(175)	(36)
Accounts payable and accrued liabilities	79	134
Due to related parties	-	(111)
	<u>\$ (1,073)</u>	<u>\$ (129)</u>

**b. Other supplemental cash flow information**

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

Amortization capitalized to mineral properties	<u>\$ 130</u>	<u>\$ 83</u>
Acquisition of Goldgroup Mining through issuance of common shares and exchange options and warrants (Note 3)	<u>\$ 36,400</u>	<u>\$ -</u>
Acquisition of Minera Cardel S.A. de C.V. (Note 4)	<u>\$ -</u>	<u>\$ 8,666</u>

**Cash payments**

Cash paid for income taxes	<u>\$ 2,406</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 134</u>	<u>\$ -</u>

**19. SUBSEQUENT EVENTS**

- i. On January 10, 2011 the Company granted 140,000 incentive stock options to certain directors and an employee of the Company to purchase up to a total of 140,000 common shares in the capital of the Company at a price of \$1.16 per common share for a period of four years ending January 10, 2015.
- ii. On January 31, 2011 the Company granted 1,545,000 incentive stock options to certain directors, officers, consultants and employees of the Company to purchase up to a total of 1,545,000 common shares in the capital of the Company at a price of \$1.25 per common share for a period of four years ending January 31, 2015.
- iii. On March 10, 2011 the Company completed a short form prospectus financing of 25 million common shares at a price of C\$1.40 per share, for gross proceeds of C\$35,000. In connection with the offering the underwriters exercised an over-allotment option, in full, to acquire an additional 3.75 million common shares at C\$1.40 per share, for gross proceeds of C\$5,250. Share issue costs on this financing are estimated to be \$3,250 which were paid to arm's lengths parties. The net proceeds received were C\$37,000. Proceeds will be used for exploration expenditures on the Caballo Blanco property and the San Jose de Gracia property and for general working capital.

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**19. SUBSEQUENT EVENTS (CONTINUED)**

- iv. On March 14, 2011 the Company completed its Earn in/Option agreement with DynaMexico for its 50% equity interest by advancing \$4,128 in 2011 to meet the expenditure funding requirement of \$18,000 (see note 7). The Company will continue to account for its investment in DynaMexico using the equity method.