GOLDGROUP MINING INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2011 and 2010

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

GOLDGROUP MINING INC.
Condensed Interim Consolidated Statements of Financial Position
March 31, 2011 and December 31, 2010
(Expressed in Thousands of United States Dollars, except per share amounts)

	Note 25	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current assets				
Cash and cash equivalents	5	$ 44,611	$ 12,654	$ 515
Investment held for trading		-	-	2,313
Receivables	6	3,218	2,557	219
Inventories	7	5,301	4,165	-
Prepaids and deposits		259	274	99
Total current assets		53,389	19,650	3,146
Non-current assets				
Plant and equipment	8	6,322	5,423	458
Investment in DynaResource de Mexico SA de CV	9	18,351	14,390	10,031
Exploration and evaluation properties	10	21,859	19,795	18,568
Mine Properties	11	9,240	9,577	-
Total non-current assets		55,772	49,185	29,057
Total assets		$ 109,161	$ 68,835	$ 32,203
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other accounts payable	12	$ 3,525	$ 2,345	$ 402
Warrant liability	14	37	962	-
Agreement payable		-	-	4,758
Total current liabilities		3,562	3,307	5,160
Non-current liabilities				
Decommissioning and restoration provision	13	595	583	-
Warrant liability	14	3,149	2,741	-
Deferred tax liability		4,902	4,572	692
Total liabilities		12,208	11,203	5,852
Equity				
Share capital	15	113,243	72,421	30,947
Share option reserve	15	4,926	4,372	2,326
Translation reserve		(355)	(355)	(1,334)
Deficit		(20,861)	(18,806)	(5,588)
Total equity		96,953	57,632	26,351
Total equity and liabilities		$ 109,161	$ 68,835	$ 32,203
Commitments	23			

Approved by the Board of Directors:

/s/ Keith Piggott Director   */s/ Gregg J. Sedun* Director

The accompanying notes are an integral part of these financial statements

GOLDGROUP MINING INC.
Condensed Interim Consolidated Statements of Loss and Comprehensive Income (Loss)
March 31, 2011 and 2010
(Unaudited - Expressed in Thousands of United States Dollars expect per share amounts)

	Note	Three Months Ended March 31, 2011	2010
	4,25		
Revenue			
Gold sales		$ 6,434	$ -
Silver sales		38	
		6,472	-
Costs and expenses of mining operations			
Cost of sales	17	5,283	-
Depreciation, depletion and amortization		563	-
		5,846	-
Mine operating income		$ 626	$ -
Other expenses (income)			
Administrative expenses	18	$ 1,698	$ 870
Other income		(37)	(280)
Share of equity loss in DynaMexico		39	9
Other expenses	19	762	112
		2,462	711
Loss before income taxes		(1,836)	(711)
Provision for income taxes:			
Current		20	-
Deferred		199	81
Net loss for the period		$ (2,055)	$ (792)
Attributable to:			
Shareholders of the Company		(2,055)	(792)
Non-controlling interest		-	-
		$ (2,055)	$ (792)
Other comprehensive income		-	979
Comprehensive (loss) income for the period		$ (2,055)	$ 187
Attributable to:			
Shareholders of the Company		(2,055)	187
Non-controlling interests		-	-
		$ (2,055)	$ 187
Basic and diluted loss per share		$ (0.02)	$ (0.02)
Weighted average number of shares oustanding (000's)		95,709	47,701

The accompanying notes are an integral part of these financial statements

GOLDGROUP MINING INC.
Condensed Interim Consolidated Statements of Cash Flows
March 31, 2011 and 2010
(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

	Note	Three Months Ended March 31 2011	2010
CASH AND CASH EQUIVALENTS DERIVED FROM (USED IN)			
OPERATING ACTIVITIES			
Loss for the period		$ (2,055)	$ (792)
Items not involving cash:			
Deferred tax		199	81
Depletion, depreciation and amortization		573	11
Unrealized foreign exchange gain		129	-
Change in fair value of investment		-	19
Gain on sale of investment		-	(284)
Share-based payments	15	621	18
Financing costs		12	-
Loss on warrants	14	466	-
Share of loss of DynaMexico	9	39	9
		(16)	(938)
Changes in non-cash working capital items	24	(754)	236
		(770)	(702)
FINANCING ACTIVITIES			
Issuance of shares, net of issue costs		39,772	5,785
Repayment of loans		-	(1,751)
		39,772	4,034
INVESTING ACTIVITIES			
Sale of investments		-	2,160
Purchase of investments		-	(563)
Purchase of plant and equipment	8	(1,167)	-
Investment in DynaMexico	9	(4,000)	(897)
Exploration and evaluation properties	10	(1,878)	(872)
		(7,045)	(172)
Effect of exchange rate changes on cash and cash equivalents		-	(134)
Increase in cash and cash equivalents		31,957	3,027
Cash and cash equivalents, beginning of period		12,654	515
Cash and cash equivalents, end of period		$ 44,611	$ 3,541
Cash and cash equivalents is comprised of:			
Cash		$ 11,271	$ 3,541
Short-term deposits		33,340	-
		$ 44,611	$ 3,541
Supplemental Cash Flow Information	24		

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GOLDGROUP MINING INC.
Condensed Interim Consolidated Statements of Changes in Equity
March 31, 2011 and 2010
(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

	Common Shares		Share			
	Number (000's)	Amount	Option Reserve	Transalation Reserve	Deficit	Total Equity
January 1, 2010	45,882	30,947	2,326	(1,334)	(5,588)	26,351
Private placement	6,060	5,785	-	-	-	5,785
Share-based payments	-	-	18	-	-	18
Loss for the period	-	-	-	-	(792)	(792)
Other comprehensive income	-	-	-	979	-	979
March 31, 2010	51,942	$ 36,732	$ 2,344	$ (355)	$ (6,380)	$ 32,341
January 1, 2011	88,633	72,421	4,372	(355)	(18,806)	57,632
Public offering	28,750	41,361	-	-	-	41,361
Share issue costs	-	(3,413)	-	-	-	(3,413)
Options exercised	199	147	-	-	-	147
Transfer value on option exercise	-	67	(67)	-	-	-
Warrants exercised	1,934	1,677	-	-	-	1,677
Transfer value on warrant exercise	-	983	-	-	-	983
Share-based payments	-	-	621	-	-	621
Loss for the period	-	-	-	-	(2,055)	(2,055)
March 31, 2011	119,516	$ 113,243	$ 4,926	$ (355)	$ (20,861)	$ 96,953

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

Goldgroup Mining Inc. is the ultimate parent company of its consolidated group ("Goldgroup Mining'' or the "Company''). Goldgroup Mining is incorporated in Quebec, and its head office is at Suite 2184 – 1055 Dunsmuir Street, Vancouver BC, V7X 2X8. Goldgroup Mining, 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 operates the Cerro Colorado Mine in Sonora along with a property portfolio that includes an interest in the Caballo Blanco Project in Veracruz and the San José de Gracia Project in Sinaloa. The Company is listed on the Toronto Stock Exchange ("TSX").

2. BASIS OF PRESENTATION

The preparation of these condensed interim consolidated financial statements resulted in changes to the accounting policies as compared to the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("Canadian GAAP"). The accounting policies set out below have been applied to all periods presented in these financial statements; and are based on IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") that the Company expects to be applicable for its annual consolidated financial statements for the year ending December 31, 2011.

The interim results are not necessarily indicative of results for a full year.

2.1. Adoption of International Financial Reporting Standards

The Company was required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on January 1, 2011. The Company's transition date to IFRS was January 1, 2010 (the "Transition Date") and the comparative consolidated statements of financial position as at December 31, 2010 and comparative consolidated statements of loss and comprehensive income (loss), changes in equity and cash flows for the three months ended March 31, 2010, have been restated in IFRS.

The guidance for adoption of IFRS is set out in IFRS 1, First-Time Adoption of International Financial Reporting Standards. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company elected to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date.

Reconciliations between the Company's previously reported consolidated statements of financial position and consolidated statements of loss and comprehensive income (loss) are presented in note 25.

2.2. Statement of compliance

These are the Company's first IFRS interim consolidated financial statements for part of the period covered by the Company's first IFRS annual consolidated financial statements for the year ending December 31, 2011.

2. BASIS OF PRESENTATION (CONTINUED)

These interim consolidated financial statements have been prepared in accordance with IAS 34, "*Interim Financial Reporting"* using accounting principles consistent with IFRS as published by the IASB and IFRIC. These interim consolidated financial statements, do not include all disclosure required by IFRS for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2010 presented under Canadian GAAP.

As these interim consolidated financial statements are the Company's first set of financial statements prepared under IFRS, the disclosures contained therein exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and other additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's interim consolidated financial statements under IFRS as the reader will be able to refer to the annual consolidated financial statements for the year ending December 31, 2011 which will be prepared in accordance with IFRS.

2.3. Basis of measurement

These condensed interim consolidated financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, revenue and expense as set out in the accounting policies below. Certain items, including derivative financial instruments, are stated at fair value.

2.4. Significant judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

2. BASIS OF PRESENTATION (CONTINUED)

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

(i) Mineral Reserves

Proven and probable mineral reserves are the economically mineable parts of the Company's measured and indicated mineral resources demonstrated by at least a preliminary feasibility study. The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret the data. The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the proven and probable reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of exploration and evaluation properties, plant and equipment, goodwill, decommissioning and restoration provision, recognition of deferred tax amounts and depreciation, depletion and amortization.

(ii) Purchase Price Allocation

Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition-date fair value. The excess, if any, of the fair value of consideration over the fair value of the net assets acquired is recognized as goodwill. The determination of the acquisition-date fair values often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of plant and equipment acquired generally require a high degree of judgment, and include estimates of mineral reserves acquired, future metal prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

(iii) Depreciation, depletion and amortization

Plants and other facilities used directly in mining activities are depreciated using the units-of-production ("UOP") method over a period not to exceed the estimated life of the ore body based on recoverable ounces to be mined from proven and probable reserves. Mobile and other equipment are depreciated, net of residual value, on a straight-line basis, over the useful life of the equipment to the extent that the useful life does not exceed the related estimated life of the mine based on proven and probable reserves.

The calculation of the UOP rate, and therefore the annual depreciation, depletion and amortization expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production, expansion of mineral reserves through exploration activities, differences between estimated and actual costs of mining and differences in gold price used in the estimation of mineral reserves.

2. BASIS OF PRESENTATION (CONTINUED)

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation, depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

(iv) Impairment of goodwill and other assets

Any goodwill is tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of plant and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in profit or loss. The assessment of fair values, including those of the cash-generating units for purposes of testing goodwill, require the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of goodwill or other assets could impact the impairment analysis.

(v) Inventories

Expenditures incurred, and depreciation, depletion and amortization of assets used in mining and processing activities are deferred and accumulated as the cost of ore in stockpiles, ore on leach pads, in-process and finished metal inventories. These deferred amounts are carried at the lower of average cost or net realizable value ("NRV"). Write-downs of ore in stockpiles, ore on leach pads, in-process and finished metal inventories resulting from NRV impairments are reported as a component of current period costs. The primary factors that influence the need to record write-downs include prevailing and long-term metal prices and prevailing costs for production inputs such as labour, fuel and energy, materials and supplies, as well as realized ore grades and actual production levels.

Costs are attributed to the leach pads based on current mining costs, including applicable depreciation, depletion and amortization relating to mining operations incurred up to the point of placing the ore on the pad. Costs are removed from the leach pad based on the average cost per recoverable ounce of gold on the leach pad as the gold is recovered. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the pads, the grade of ore placed on the leach pads and an estimated percentage of recovery. Timing and ultimate recovery of gold contained on leach pads can vary significantly from the estimates. The quantities of recoverable gold placed on the leach pads are reconciled to the quantities of gold actually recovered (metallurgical balancing), by comparing the grades of ore placed on the leach pads to actual ounces recovered. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and the engineering estimates are refined based on actual results over time. The ultimate recovery of gold from a pad will not be known until the leaching process is completed.

2. BASIS OF PRESENTATION (CONTINUED)

The allocation of costs to ore in stockpiles, ore on leach pads and in-process inventories and the determination of NRV involve the use of estimates. There is a high degree of judgment in estimating future costs, future production levels, proven and probable reserves estimates, gold and silver prices, and the ultimate estimated recovery for ore on leach pads. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying value of inventories.

(vi) Decommissioning and restoration provision

The Company assesses its provision for reclamation and remediation on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management’s best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

(vii) Deferred taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

(viii) Share-based payments

Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive income (loss) over each award’s vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared at its historical cost convention except for certain financial instruments which are measured at fair value.

3.1 Basis of Consolidation

(i) Subsidiaries:

Subsidiaries are all entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. These interim consolidated financial statements include the financial statements of the Company and its subsidiaries:

Entity	Property	Location	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Subsidiaries:					
Granmin Malaysia Ltd. ("Granmin Malaysia") [b]	-	Malaysia	100%	100%	100%
Granmin SA de CV ("Granmin Mexico") [b]	Cerro Colorado/ El Cajon	Mexico	100%	100%	100%
Minera Calipuy SA de CV ("Calipuy")[b]	San Martin	Mexico	100%	100%	100%
Goldgroup Holdings Corp.	El Cobre	Canada	100%	100%	100%
GGR Candelero SA de CV ("GGR")	El Candelero	Mexico	100%	100%	100%
Candymin SA de CV ("Candymin")[c]	Caballo Blanco	Mexico	100%	100%	100%
Gold Opmin SA de CV ("Gold Opmin")	Kenya	Mexico	90%	90%	90%
0788598 B.C. Ltd.	-	Canada	100%	100%	100%
0788601 B.C. Ltd.	-	Canada	100%	100%	100%
Minera Cardel SA de CV ("Minera Cardel") [c]	-	Mexico	100%	100%	100%
Investment in associates:					
(Equity accounted)					
DynaResource de Mexico SA de CV ("DynaMexico") [a]	San Jose de Gracia	Mexico	50%	25%	25%

a) *As of March 14, 2011, Goldgroup Mining's ownership in Dyna Mexico increased to 50%. See note 9.*
b) *Granmin Malaysia, Granmin Mexico, and Calipuy were acquired as part of the Reverse take-over of Sierra on April 30, 2010 (see note 4).*
c) *On July 28, 2010 the Caballo Blanco property was transferred from Minera Cardel to Candymin.*

(ii) Investment in associates:

Associates are entities over which the Company has significant influence and that are neither subsidiaries nor interests in joint ventures. Significant influence is the ability to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies. In general, significant influence is presumed to exist when the Company has between 20% and 50% of voting power. Significant influence may also be evidenced by factors such as the Company's representation on the board of directors, participation in policy-making of the investee, material transactions with the investee, interchange of managerial personnel, or the provision of essential technical information. Associates are equity accounted for from the effective date of commencement of significant influence to the date that the Company ceases to have significant influence.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Results of associates are equity accounted for using the results of their most recent annual and interim financial statements. Losses from associates are recognized in the consolidated financial statements until the interest in the associate is written down to nil. Thereafter, losses are recognized only to the extent that the Company is committed to providing financial support to such associates.

The carrying value of the investment in an associate represents the cost of the investment, including a share of the post-acquisition earnings and losses, accumulated other comprehensive income (''AOCI'') and any impairment losses. At the end of each reporting period, the Company assesses whether there is any objective evidence that its investments in associates are impaired.

3.2 Business Combinations

A business combination is a transaction or other event in which control over one or more businesses is obtained. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits. A business consists of inputs and processes applied to those inputs that have the ability to create outputs that provide a return to the Company and its shareholders. A business need not include all of the inputs and processes that were used by the acquiree to produce outputs if the business can be integrated with the inputs and processes of the Company to continue to produce outputs. If the integrated set of activities and assets is in the exploration and development stage, and thus, may not have outputs, the Company considers other factors to determine whether the set of activities and assets is a business. Those factors include, but are not limited to, whether the set of activities and assets:

- has begun planned principal activities;
- has employees, intellectual property and other inputs and processes that could be applied to those inputs;
- is pursuing a plan to produce outputs; and

Not all of the above factors need to be present for a particular integrated set of activities and assets in the development stage to qualify as a business.

Business acquisitions are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the purchase consideration over such fair value being recorded as goodwill and allocated to cash-generating units. Non-controlling interest in an acquisition may be measured at either fair value or at the non-controlling interest’s proportionate share of the fair value of the acquiree’s net identifiable assets.

If the fair value of the net assets acquired exceeds the purchase consideration, the difference is recognized immediately as a gain in profit or loss.

Acquisition related costs are expensed during the period in which they are incurred, except for the cost of debt or equity instruments issued in relation to the acquisition which is included in the carrying amount of the related instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

If the assets acquired are not a business, the transaction is accounted for as an asset acquisition.

3.3 Foreign Currency Translation

The interim consolidated financial statements are presented in US dollars which is also the functional currency of the Company and its subsidiaries. Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gain and losses are included in profit and loss.

On April 30, 2010, as a result of Goldgroup Holdings Corp. (“Holdings”) reverse takeover of Sierra (Note 4), 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 and concluded that the currency exposures of its Canadian and foreign operations are now predominately in US dollars. Prior to April 30, 2010, Holdings’ and its subsidiaries’ functional currency was the Canadian dollar and the reporting currency was the Canadian dollar. Effective April 30, 2010, Holdings’ and its subsidiaries’ functional and reporting currency is the US dollar.

3.4 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.

3.5 Revenue Recognition

Revenue from the sale of metals is recognized when all of the following conditions have been satisfied:

- The significant risks and rewards of ownership have been transferred;
- Neither continuing managerial management involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 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 mine properties and plant and equipment.

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 mine properties and plant and equipment. These costs 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 net realizable value, which includes the cost of purchase as well as transportation and charges to bring them to their existing location and condition.

Write-down of inventory is recognized as an expense in profit or loss in the period the write-down occurs. Reversal of any write-down of inventory, arising from an increase in net realizable value, is recognized in profit or loss as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

3.7 Plant and Equipment

Plant and equipment are recorded at cost and carried net of accumulated amortization and depreciation and accumulated impairment losses. Costs of additions and improvements are capitalized. An item of plant and equipment is derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds and the carrying amount of the asset is recognized in profit or loss.

Plant assets used in commercial production are subject to depreciation and depletion over their useful life. For buildings and machinery, the UOP 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	Years
Vehicles	3-4
Office equipment	3-5
Computer equipment	2-3
Computer software	2
Leasehold Improvements	lesser of 5 years straight line or term of lease

Major overhaul expenditures on mobile equipment and other tangible property, 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 will flow to the Company.

3.8 Exploration and Evaluation Properties

(i) Pre-license costs:
Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

(ii) Exploration and evaluation costs:
Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless future economic benefit is more likely than not to be realized. The Company capitalizes on a property by property basis, the costs of acquiring, maintaining its interest in, exploring and evaluating mineral properties until such time as the lease expires, it is, abandoned, sold or considered impaired in value. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

(iii) Mines under construction and development costs:
All costs relating to the construction, installation or completion of the mine, and are incurred subsequent to the exploration and evaluation stage are capitalized to assets under construction within mine properties.

In order for production to occur, 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. Unless and until such permits are obtained there can be no assurance that such permits will be obtained.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Mine properties:
Once 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 useful life of the related assets. Mine properties include deferred stripping costs and decommissioning and restoration costs related to the reclamation of mine properties. Mine properties are derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds received and the carrying amount of the asset is recognized in profit or loss.

Costs of producing mine properties are amortized on the unit-of-production basis using estimated proven and probable reserves. Depreciation or depletion is recorded against the mine property only upon commercial production commences.

Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property.

Exploration expenditures are expensed as incurred at mine properties, unless the nature of the expenditures are to convert mineral resources into mineral reserves or in the absence of a mineral resource estimate, are to define areas to be included in the mine plan. Any amounts deferred in this regard are depreciated on based on the unit-of-production method.

Mine properties are recorded at cost, net of accumulated depreciation and amortization and accumulated impairment losses and are not intended to represent future values.

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.

3.9 Stripping Costs
Stripping costs incurred during the development of a mine are capitalized in mine properties. Stripping costs incurred subsequent to commencement of commercial production are variable production costs that are included in the costs of inventory produced during the period in which the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalized. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body. Capitalized stripping costs are depleted based on the unit-of-production method, using proven and probable reserves as the depletion base.

3.10 Decommissioning and Restoration
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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive 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.

The fair value of a liability for decommissioning and restoration is recorded in the period in which the 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 either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of its provision for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, 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.

3.11 Impairment of Non-Financial Assets

For the purposes of assessing impairment, the recoverable amount of an asset, which is the higher of its fair value less costs to sell and its value in use, is estimated. If it is not possible to estimate the recoverable amount of an individual asset, the asset is included in the cash-generating unit to which it belongs and the recoverable amount of the cash generating unit is estimated. As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. Intangible assets with an indefinite useful life and intangible asset not yet available for use are also tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the asset is impaired such as decreases in metal prices, an increase in operating costs, a decrease in mineable reserves or a change in foreign exchange rates. The Company also considers net book value of the asset, the ongoing costs required to maintain and operate the asset, and the use, value and condition of the asset.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the value-in-use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Future cash flows used in the determination of value in use 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 recoverable amounts of assets, including the Company’s investments in mine properties.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value is determined with reference to discounted estimated future cash flow analysis or on recent transactions involving dispositions of similar properties.

An impairment loss for a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is allocated on a pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist or may have decreased. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, however only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years.

3.12 Provisions

Liabilities are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

3.13 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit. Deferred tax liabilities on temporary differences associated with shares in subsidiaries and joint ventures is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred 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 deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized for all temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

3.14 Share-based Payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received are not determinable, then the fair value of the share-based payment is used.

The Company uses a fair value based method (Black-Scholes Option Pricing Model) for all share options granted to directors, employees and certain non-employees. For directors and employees, the fair value of the share options is measured at the date of grant. For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value of share-based payments is charged either to profit or loss or exploration and evaluation properties, with the offsetting credit to share option reserve. For directors and employees, the share options are recognized over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods where vested. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in share option reserve are transferred to share capital.

In the event share options are forfeited prior to vesting, the associated fair value recorded to date is reversed. The fair value of any vested share options that expire remain in share option reserve.

3.15 Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) (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 share options, warrants and other convertible instruments.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive. Therefore basic and diluted loss per share are the same. When diluted earnings per share is calculated, only those share options and other convertible instruments with exercise prices below the average trading price of the Company's common shares for the period will be dilutive.

During the three months ended March 31, 2011 and March 31, 2010, all the outstanding share options and warrants were anti-dilutive.

3.16 Segmented Reporting

In identifying its operating segments, management generally follows the Company's activities. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The activities are undertaken by the mine operating segment and the exploration and development segment and are supported by the corporate segment. Each segment is managed separately. The operating results of the segments are reviewed regularly by the Company's Chief Executive Officer (who is considered the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Financial Instruments - Recognition and Measurements

(i) Non-derivative financial assets and financial liabilities

The Company classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Available-for-sale financial assets are those financial assets that are not classified as any of the above. Financial liabilities are either classified as financial liabilities at fair value through profit or loss or as other financial liabilities.

Financial assets and financial liabilities are recognized initially at fair value.

Financial assets and financial liabilities at fair value through profit or loss are subsequently measured at fair value with changes in fair values recognized in profit or loss.

Financial assets classified as available for sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income.

Loans and receivables, held-to-maturity investments and other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company's financial instruments consist of cash and cash equivalents, receivables, trade and other accounts payable, and the agreement payable.

Cash and cash equivalents and receivables are classified as loans and receivables. Trade and other accounts payable and the agreement payable are classified as other financial liabilities.

Transaction costs, other than those related to financial instruments classified as financial assets and financial liabilities at fair value through profit or loss, are added to the fair value of the financial asset and financial liability on initial recognition.

(ii) Derivative financial instruments

The Company issues warrants exercisable in a currency other than the Company's functional currency and as a result, the warrants are derivative financial instruments.

Derivative financial instruments are initially recognized at fair value and subsequently measured at fair value with changes in fair value recognized in profit or loss. Transaction costs are recognized in profit or loss as incurred.

As of March 31, 2011, December 31, 2010 and January 1, 2010, the carrying values of the Company's financial instruments approximate their fair values.

3.18 Share Issuance Costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Valuation of Equity Units Issued in a Private Placement

Shares and warrants issued as private placement units are measured using the residual value method whereby value is first allocated to the liability component based on its fair value with the residual value being attributed to the equity unit. The fair value of the warrant is determined using the Black-Scholes Option Pricing Model.

All of the Company's warrants are exercisable in a currency other than the functional currency of the Company. As a result, the fair value allocated to the warrant is recorded as a derivative financial liability and is marked to market at the end of each period. Upon exercise of the warrant, the fair value of the warrant at the date of exercise is transferred to share capital.

Warrant liability includes a current portion which relates to the warrants that expire within one year of the March 31, 2011.

3.20 Comprehensive Income (loss)

Total comprehensive income comprises all components of profit or loss and other comprehensive income. Other comprehensive income includes changes in revaluation surplus, actuarial gains and losses on defined benefit plans, gains and losses from translating the financial statements of a foreign operation, gains and losses on remeasuring available-for-sale financial assets and the effective portion of gains and losses on hedging instruments in a cash flow hedge.

3.21 Changes in Accounting Standards

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

Accounting Standards Issued and Effective January 1, 2012

IAS 12 – *Income Taxes (Amended)* ("IAS 12"), introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

IFRS 7 – *Financial instruments: Disclosures (Amended)* require additional disclosures on transferred financial assets.

Accounting Standards Issued and Effective January 1, 2013

IFRS 9 Financial Instruments replaces the current standard *IAS 39 Financial Instruments: Recognition and Measurement,* replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard

a. requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements
b. defines the principle of control, and establishes control as the basis for consolidation
c. sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee
d. sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities.*

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.*

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

4. REVERSE TAKEOVER OF GOLDGROUP MINING (FORMERLY SIERRA) BY GOLDGROUP HOLDINGS CORP.

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 IFRS 3, 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	$	36,400

The purchase price allocation of the fair value of Goldgroup Mining's net identifiable assets, as follows:

Cash and cash equivalents	$	516
Receivables		1,306
Inventories		4,508
Plant and equipment		4,958
Exploration and evaluation properties		384
Mine properties		15,742
Goodwill		16,719
Trade and other accounts payable		(1,850)
Decommissioning and restoration provision		(548)
Deferred tax liability		(5,335)
	$	36,400

In accordance with the acquisition 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. Management consulted with an independent valuator prior to finalizing the purchase price allocation.

The purchase price allocation resulted in $16,719 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 mine properties. The plant and equipment were valued by management and it was determined that carrying value was equal to fair value. The mine properties were valued using the discounted cash flow of proven and probable reserves, measured, indicated and inferred resources.

4. REVERSE TAKEOVER OF GOLDGROUP MINING (FORMERLY SIERRA) BY HOLDINGS (CONTINUED)

In the second quarter of 2010, management determined that goodwill and mine properties were impaired and therefore recorded a goodwill impairment charge of $16,719 and an impairment to mine properties of $4,900 at that time.

A component of the reverse take-over consideration was the exchange of share options and warrants in Sierra on April 30, 2010. The fair values allocated to these share 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:

	Options	Warrants
Strike Price	$0.55	$0.86
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 share options of Holdings were also exchanged pro rata for an equivalent number of share options of the Company. These exchange options have been accounted for as modified options and there was no appreciable increase in value.

As at March 31, 2010, the Company incurred transaction costs of $339 which were expensed.

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 of Sierra are included in the statements of loss and comprehensive income (loss) and cash flows for the year ended December 31, 2010.

5. CASH AND CASH EQUIVALENTS

	March 31, 2011	December 31, 2010	January 1, 2010
Cash at the bank and on hand			
US dollar	$ 8,131	$ 11,514	$ 25
Canadian dollar	2,206	932	344
Mexican pesos	934	208	146
Short term deposits	33,340	-	-
	$ 44,611	$ 12,654	$ 515

6. RECEIVABLES

	March 31, 2011	December 31, 2010	January 1, 2010
Financial assets			
Receivables	$ 260	$ 443	$ 117
Employee receivables	50	37	20
	310	480	137
Non-financial assets			
Value-added and corporate tax	2,908	2,077	82
	$ 3,218	$ 2,557	$ 219

7. INVENTORIES

Inventories consist of the following:

	March 31, 2011	December 31, 2010	January 1, 2010
Doré	$ 1,011	$ 440	-
Gold-in-process	3,104	2,640	-
Consumable supplies	1,186	1,085	-
	$ 5,301	$ 4,165	-

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.

8. PLANT AND EQUIPMENT

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
Cost						
Balance , January 1, 2011	$ 5,358	$ 1,046	$ 273	$ 516	$ 61	$ 7,254
Additions	1,038	120	9	-	-	1,167
Balance, March 31, 2011	6,396	1,166	282	516	61	8,421
Accumulated depreciation and amortization						
Balance, January 1, 2011	1,032	342	157	278	22	1,831
Depreciation for the period	193	32	16	24	3	268
Balance, March 31, 2011	1,225	374	173	302	25	2,099
Net book value	$ 5,171	$ 792	$ 109	$ 214	$ 36	$ 6,322

8. PLANT AND EQUIPMENT (CONTINUED)

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
Cost						
Balance , January 1, 2010	$ -	$ 348	$ 190	$ 117	$ 59	$ 714
Additions	1,778	302	47	97	-	2,224
Assets acquired as part of a business acquisition (Note 4)	4,245	378	34	301	-	4,958
Disposals	(665)	-	-	-	-	(665)
Translation adjustment	-	18	2	1	2	23
Balance, December 31, 2010	5,358	1,046	273	516	61	7,254
Accumulated depreciation, amortization and impairment						
Balance, January 1, 2010	-	145	70	32	9	256
Depreciation for the period	1,456	191	87	245	12	1,991
Disposal	(424)	-	-	-	-	(424)
Translation adjustment	-	6	-	1	1	8
Balance, December 31, 2010	1,032	342	157	278	22	1,831
Net book value	$ 4,326	$ 704	$ 116	$ 238	$ 39	$ 5,423

9. 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 its 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:

Due on or before	Funds advanced for expenditures	Equity interest earned	Cumulative equity interest
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%

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.

SJG is located in the northeast portion of Sinaloa State, Mexico, approximately 120 kilometres northeast of the coastal city of Los Mochis, straddling the Chihuahua border. The property consists of 34 mineral concessions covering approximately 67,000 hectares with no outstanding royalty or other interest.

9. INVESTMENT IN DYNARESOURCE de MEXICO SA de CV (CONTINUED)

DynaUSA provides management and accounting services based on 2.5% of the cash expenditures incurred by DynaMexico.

As a result of the Company earning its 50% equity interest on March 14, 2011, the board of DynaMexico will comprise five members with DynaUSA and Goldgroup Mining each appointing two members and mutually agreeing on one additional member. Currently there are only four members as the one additional member has yet to be added. As management considers this representation on the board of DynaMexico provides the Company with significant influence over DynaMexico, the investment is accounted for using the equity method.

In 2010 and up to March 14, 2011 the Company held a 25% equity interest in DynaMexico. As a 25% equity holder the Company had the ability to appoint one of DynaMexico's three directors, and also had the ability to appoint two of three members of the DynaMexico Management Committee, which oversaw the expenditures and approved the budget prior to such expenditures. As management considered that it had the ability to participate in the financial and operating policy decisions of DynaMexico, the investment was accounted for using the equity method.

The investment in DynaMexico is comprised of:

	Three Months Ended March 31, 2011	Year ended December 31, 2010
Investment, beginning of period	$ 14,390	$ 10,031
Funds invested	4,000	4,128
Share of loss	(39)	(128)
Translation adjustment	-	359
Investment, end of period	$ 18,351	$ 14,390

10. EXPLORATION AND EVALUATION PROPERTIES

The following table summarizes the capitalized costs associated with the Company's exploration and evaluation properties:

	Caballo Blanco	El Porvenir	Other	Total
January 1, 2010	$ 14,312	$ 3,334	$ 922	$ 18,568
Acquisition Costs	60	1,404	599	2,063
Exploration Costs				
Amortization of plant and equipment	84	36	10	130
Drilling	1,215	83	-	1,298
Exploration	1,898	1,254	23	3,175
Fees and taxes	77	277	98	452
Translation adjustment	465	125	32	622
	18,111	6,513	1,684	26,308
Sale of property	-	(6,513)	-	(6,513)
December 31, 2010	18,111	-	1,684	19,795
Acquisition Costs	738	-	-	738
Exploration Costs				
Amortization of plant and equipment	29	-	3	32
Drilling	477	-	-	477
Exploration	695	-	-	695
Fees and taxes	31	-	91	122
March 31, 2011	$ 20,081	$ -	$ 1,778	$ 21,859

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.

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

10.1 Caballo Blanco

The Company's 100% owned subsidiary, Candymin, owns 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 its 70% interest, the Caballo Blanco option agreement requires property expenditures of $12 million to be spent as follows:

On or before May 31,		Amount (000s')
2008	$	1,500
2009		1,500
2010		2,000
2011		2,000
2012		2,500
2013		2,500
	$	12,000

During the quarter ended March 31, 2011, the Company met the required aggregate property related expenditures of $12 million, which includes $8.2 million of expenditures incurred by the previous Caballo Blanco option holder, NGEx Resources Inc. ("NGEx"). The 70/30 joint venture will form once Goldgroup Mining 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% Net Smelter Royaly ("NSR") on 100% of net smelter revenues.

Goldgroup Mining's 70% interest will be subject to a 1.5% NSR payable on 70% of net smelter revenues to NGEx and Goldgroup Mining will also make a $4,859 (C$5,000) advance royalty payment to NGEx within 30 days following the commencement of commercial production of the project.

10.2 El Porvenir

By way of an agreement dated February 27, 2007, (and amended on 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 an NSR of 3% once commercial production was achieved. The option was exercised in June 2010.

On July 12, 2010 the Company sold the El Porvenir Gold project for $25 million and paid $1.7 million to discharge the royalty interest on the property.

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

10.3 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 million 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 million.

ii) El Candelero

The Company 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, the Company 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 the Company 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.

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

On or before	Amount (in 000's)
June 2, 2008	$ 150
June 2, 2009	$ 300
June 2, 2010	$ 550

To March 31, 2011, the Company has expended aggregate property related work costs of $381. 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, the Company was in default of funding the work costs.

As a result, in June 2010, the Company declared force majeure, as allowed under the option agreement. The funding of work costs will resume once force majeure no longer exists.

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

Once the Company 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:

On or before	Amount (in 000's)
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 to earn the first option was extended to June 24, 2012.

iii) San Martin

The San Martin property is located in Sinaloa, Mexico. No work has been performed on this property since 2003.

iv) 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 the Company 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, 65 kilometres northwest of Veracruz, Mexico.

v) El Cajon

The Company owns 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 of each year.

On July 2, 2008, the Company, through Granmin Mexico, entered into an agreement 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 the property owner and the property owner 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 the property owner to fulfill its obligations under the agreement to conclude the evaluation phase. Any additional payments will be capitalized at the time of final purchase.

10. MINE PROPERTIES

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 remaining life of the Cerro Colorado 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. The following table summarizes the capitalized costs associated with the Cerro Colorado mine:

	Three months ended March 31, 2011	Year ended December 31, 2010
Costs		
Balance, beginning of period	$ 15,811	$ -
Acquisition	-	15,742
Additions	-	69
Balance, end of period	15,811	15,811
Accumulated depletion and impairment		
Balance, beginning of period	(6,234)	-
Depletion for period	(337)	(1,334)
Write-down	-	(4,900)
Balance, end of period	(6,571)	(6,234)
	$ 9,240	$ 9,577

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 forward and applied against future mining expenditures during the life of the concession.

11. TRADE AND OTHER ACCOUNTS PAYABLE

	March 31, 2011	December 31, 2010	January 1, 2010
Financial liabilities			
Trade payables	$ 3,267	$ 1,958	$ 338
Employee payables	52	41	-
Payroll accruals	114	281	64
	3,433	2,280	402
Non-financial liabilities			
Value added tax	92	65	-
	$ 3,525	$ 2,345	$ 402

The financial liabilities are non-interest bearing and are normally settled within 45 days.

13. DECOMMISSIONING AND RESTORATION PROVISION

The Company's estimates of future decommissioning and restoration for reclamation and closure costs for its mines are based on reclamation standards that meet local Mexican 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 the undiscounted future decommissioning and reclamation costs to be $675. The key assumptions on which this estimate is based on are:

(i) Expected timing of the cash flows is based on the estimated useful life of the Cerro Colorado mine to the extent of currently known proven and probable mineral reserves. The majority of the expenditures are expected to occur in 2014 to 2015.

(ii) The discount rate used is 9% and the inflation rate is 3%.

The discounted liability for the decommissioning and restoration provision is as follows:

	March 31, 2011	December 31, 2010
Opening	$ 583	$ -
Acquisition of Sierra (Note 4)	-	548
Accretion expense	12	35
	$ 595	$ 583

14. WARRANT LIABILITY

The following warrants were outstanding:

	Warrants	Exercise Price (C$)	Warrant liability (US$)
Balance, January 1, 2010	-	$ -	$ -
Granted	3,100,000	1.24	2,206
Exercised	(21,929)	0.86	(5)
Exchange warrants on reverse take-over (Note 4)	1,956,129	0.86	650
Change in fair value	-	-	852
Balance, December 31, 2010	5,034,200	$ 1.10	$ 3,703
Exercised	(1,934,200)	0.86	(983)
Change in fair value	-	-	466
Balance, March 31, 2011	3,100,000	$ 1.24	$ 3,186

Expiry Date	Number of Warants	Weighted average exercise price (C$/warrant)
June 18, 2011	100,000	$ 1.00
November 26, 2015	3,000,000	$ 1.25
	3,100,000	$ 1.24

The fair value allocated to the warrants at March 31, 2011 was $3,186 (December 31, 2010 - $3,703) and is recorded as a derivative financial liability. The loss recognized in loss for the three months ended March 31, 2011 and 2010 was $466 and $nil, respectively as is included in the loss on warrants.

15. EQUITY

15.1 Authorized

Unlimited number of common shares with no par value

15.2 Shares Issued

Shares issued and outstanding as at March 31, 2011 are 119,516,442 (December 31, 2010 – 88,633,127).

During the three months ended March 31, 2011, the following share transactions occurred:

i. On March 10, 2011, the Company completed a short form prospectus financing of 25 million common shares at a price of $1.44 (C$1.40) per share, for gross proceeds of $35,966 (C$35,000). In connection with the offering, the underwriters exercised an overallotment option, in full, to acquire an additional 3.75 million common shares at $1.44 (C$1.40) per share, for gross proceeds of $5,395 (C$5,250). Share issue costs on this financing were $3,413 which were paid to arm's lengths parties. The net proceeds received were $37,948.

15. EQUITY (CONTINUED)

ii. 199,115 share options were exercised for proceeds of $147 and $67 was reallocated from share option reserve to share capital.

iii. 1,934,200 warrants were exercised for proceeds of $1,677 and $983 was reallocated from warrant liability to share capital.

During the year ended December 31, 2010, the following share transactions occurred:

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 takeover on April 30, 2010 (Note 4), the Company recorded the issuance of 33,009,795 common shares, 2,554,711 options and 1,956,129 warrants (Note 4).

iii. 1,097,362 share options were exercised for proceeds of $541 and $763 was reallocated from share option reserve to share capital.

iv. During the period from April 16, 2010 to May 6, 2010, Holdings purchased 438,596 Sierra shares on the open market at a cost of $441. The reverse takeover 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 acquisition cost of $441.

15.3 Share-based payments

The Company has adopted a share 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, share 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 common shares traded through the facilities of the exchange on which the Company's common shares are listed. As at March 31, 2011, share options available for issue under the plan were 11,951,644.

Total share options granted during the three months ended March 31, 2011 were 1,685,000 (three months ended March 31, 2010 - nil). Total share-based payments recognized for the fair value of share options granted, vested and approved by the shareholders during the three months ended March 31, 2011 was $621 (three months ended March 31, 2010 - $18).

15. EQUITY (CONTINUED)

The fair value of the share options granted in the quarter ended March 31, 2011 and the year ended December 31,2010 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Three Months Ended March 31, 2011	Year Ended December 31, 2010
Strike Price	$1.24	$0.96
Risk free interest rate	2.00%	1.63%
Expected option life	4	2 years
Expected stock price volatility	93%	90%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	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 share options.

The average share price during the three months ended March 31, 2011 was $1.41 per share.

The following stock options were outstanding:

	Options	Weighted average exercise price (C$)
January 1, 2010	2,720,000	$ 0.65
Granted	3,964,486	$ 0.96
Exercised	(1,097,362)	$ 0.76
Exchange options (Note 4)	2,594,711	$ 0.53
Expired	(212,588)	$ 0.93
Forfeited	(743,949)	$ 0.94
December 31, 2010	7,225,298	$ 0.76
Granted	1,685,000	$ 1.24
Exercised	(199,115)	$ 0.51
Forfeited	(125,000)	$ 0.93
March 31, 2011	8,586,183	$ 0.86

15. EQUITY (CONTINUED)

		Outstanding			Vested		
Expiry Date	Exercise price (C$)	Number of options	Weighted average exercise price (C$/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	0.5	125,000	$ 1.00	0.5
Nov. 9, 2011	$ 1.00	150,000	$ 1.00	0.6	75,000	$ 1.00	0.6
May 5, 2013	$ 0.65	2,395,000	$ 0.65	2.1	2,395,000	$ 0.65	2.1
May 18, 2013	$ 1.00	400,000	$ 1.00	2.1	400,000	$ 1.00	2.1
Dec. 22, 2013	$ 0.29	210,526	$ 0.29	2.7	210,526	$ 0.29	2.7
Feb. 5, 2014	$ 0.49	315,789	$ 0.49	2.9	315,789	$ 0.49	2.9
May 1, 2014	$ 0.57	61,403	$ 0.57	3.1	61,403	$ 0.57	3.1
May 18, 2014	$ 1.00	1,999,307	$ 1.00	3.1	999,648	$ 1.00	3.1
Jun. 23, 2014	$ 0.65	94,000	$ 0.65	3.2	49,000	$ 0.65	3.2
Jul. 29, 2014	$ 0.65	150,000	$ 0.65	3.3	75,000	$ 0.65	3.3
Sep. 23, 2014	$ 0.57	40,350	$ 0.57	3.5	40,350	$ 0.57	3.5
Oct. 1, 2014	$ 0.63	929,808	$ 0.63	3.5	929,808	$ 0.63	3.5
Nov. 12, 2014	$ 0.65	30,000	$ 0.65	3.6	15,000	$ 0.65	3.6
Jan. 10, 2015	$ 1.00	140,000	$ 1.00	3.8	35,000	$ 1.00	3.8
Jan. 31, 2015	$ 1.25	1,545,000	$ 1.25	3.8	386,250	$ 1.25	3.8
		8,586,183	$ 0.86	2.9	6,112,774	$ 0.76	2.7

16. RELATED PARTY TRANSACTIONS AND BALANCES

Relationships	**Nature of the relationship**
Uracan Resources Ltd. ("Uracan")	Uracan is a public company and shares certain directors and key management. The Company shares office premises with Uracan.
Key management	Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President and Chief Executive Officer, Chairman, Chief Financial Officer, Vice-President of Exploration, General Manager of Cerro Colorado, and Technical Director.

16. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key Management compensation includes:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Salaries	$ 255	$ 166
Benefits	9	3
Bonuses	13	-
Options	493	-
	$ 770	$ 169

At March 31, 2011, receivables include $25 (December 31, 2010 - $39; January 1, 2010 - $31) owing from Uracan and $nil (December 31, 2010 - $5; January 1, 2010 - $2) owing from an officer of the Company. The amount owing from Uracan 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 March 31, 2011, trade and other accounts payable includes $19 (December 31, 2010 - $11; January 1, 2010 - $66) owing to directors and/or companies controlled by the directors.

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.

17. COST OF SALES

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Raw materials	$ 4,263	$ -
Salaries and employee benefits	1,021	-
Rental machinery	161	-
Contractors	104	-
Royalties	186	-
Change in inventories	(1,014)	-
Other	562	-
	5,283	-
Depreciation, depletion and amortization	563	-
	$ 5,846	$ -

18. ADMINISTRATIVE COSTS

	Three Months Ended March 31,	
	2011	2010
Labour costs	$ 356	$ 190
Office and rent	194	120
Marketing and advertising	142	10
Professional fees	141	123
Travel	111	52
Share-based payments	621	18
Exploration	53	-
Other	80	357
	$ 1,698	$ 870

19. OTHER EXPENSES

	Three Months Ended March 31,	
	2011	2010
Accretion related to decommissioning and restoration provision	$ 12	$ -
Financing expense	10	-
Foreign exchange loss	274	112
Loss on warrants	466	-
	$ 762	$ 112

20. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as its equity excluding non-controlling interest.

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.

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.

20. MANAGEMENT OF CAPITAL (CONTINUED)

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 approves 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 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 the highest rated investments including bankers acceptances, commercial paper or other highly rated short-term investment instruments with a maturity of 90 days or less when acquired. The investments are redeemable in portion or in full at the Company's option without penalty and are recorded as cash and cash equivalents. Any excess cash is held in the currency which management believes poses the least amount of volatility and risk.

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

There have not been any changes to the Company's capital management policy during the period.

21. RISK MANAGEMENT

21.1 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, trade and other accounts payable and the agreement payable.

a. Credit Risk

Credit risk arises from the non-performance by counterparties to the Company's contractual financial assets. 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. 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 assets or significant trade receivables. Any credit risk exposure on cash and cash equivalents and receivables is considered negligible.

21. RISK MANAGEMENT (CONTINUED)

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 counterparty with whom the Company 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 decommissioning 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 23). The Company does not maintain a line of credit.

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

c. Market Risk

The significant market risks which the Company is exposed to are interest rate risk and foreign currency risk. These risks will affect the Company's financial performance 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 reinvested 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 interest rates do not have a material effect on the Company's operations.

21. RISK MANAGEMENT (CONTINUED)

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 denominated in US dollars. The head office is located in Canada and related 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, trade and other accounts payable and the agreement payable. A significant change in the currency exchange rates between the US dollar relative to other currencies could have an effect on the Company's results of operations, financial position or cash flows. 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 financial instruments to reduce its exposure to foreign currency risk.

The Company does not employ any foreign currency hedge instruments to manage exposure to fluctuations in foreign currency exchange rates.

Foreign currency exposure on the Company's financial assets and financial liabilities as of March 31, 2011 is shown in the table below:

As at March 31, 2011	Canadian Dollar (C$)	Mexican Peso (Mex$)
Financial assets		
Cash and cash equivalents	$ 34,532	11,169
Receivables	140	36,632
	$ 34,672	47,801
Financial liabilities		
Trade and other accounts payable	$ 440	18,351

21. RISK MANAGEMENT (CONTINUED)

The following table indicates the impact of foreign currency exchange risk on working capital as at March 31, 2011. 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.

	Canadian Dollars C$	**Mexican Pesos Mex$**
Financial assets	34,672	47,801
Financial liabilities	(440)	(1,168)
Net foreign currency working capital	34,232	46,633
US$ exchange rate	1.029	0.084
Net foreign currency working capital in US$	35,225	3,917
Foreign exchange loss on a 10% strengthening of the US$	3,522	392
Foreign exchange gain on a 10% weakening of the US$	3,522	392

21.2 Fair Values

The carrying values of cash and cash equivalents, receivables and trade and other accounts payable approximate fair values due to their short-term to maturity nature or the 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 March 31, 2011, the Company's financial instruments are all classified as Level 3 and measured at fair value:

Liabilities

Warrant liability	$3,186

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).

22. COMMITMENTS

The Company leases office premises with Uracan (Note 17) 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		80
2012		107
2013		109
2014		110
2015		83
	$	489

The Company is also responsible for its proportionate share of the operating costs and property taxes estimated at $53 (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.

Exploration and evaluation properties commitments are disclosed in Note 10.

23. 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 is the Cerro Colorado mine, while Exploration and Development is primarily the Caballo Blanco and the Investment in DynaMexico. During the three months ended March 31, 2011, 100% of the Company's sales were to two third parties. The balance owing from these parties at March 31, 2011 was nil.

23. SEGMENTED INFORMATION (CONTINUED)

All of the revenue is generated in Mexico. Other selected financial information by geographical segment is as follows:

			March 31, 2011
	Canada	**Mexico**	**Total**
Plant and equipment	$ 63	$ 6,259	$ 6,322
Investment in DynaMexico	-	18,351	18,351
Exploration and evaluation properties	-	21,859	21,859
Mine properties	-	9,240	9,240

			December 31, 2010
	Canada	**Mexico**	**Total**
Plant and equipment	$ 70	$ 5,353	$ 5,423
Investment in DynaMexico	-	14,390	14,390
Exploration and evaluation properties	-	19,795	19,795
Mine properties	-	9,577	9,577

Selected financial information by operating segments is as follows:

	Three Months Ended March 31,	
	2011	**2010**
Revenue		
Mining operations	$ 6,472	$ -
Exploration and development	-	-
Corporate	-	-
	$ 6,472	$ -
(Loss) before income taxes for the period		
Mining operations	$ 626	$ -
Exploration and development	(92)	(9)
Corporate	(2,370)	(702)
	$ (1,836)	$ (711)

23. SEGMENTED INFORMATION (CONTINUED)

	Mining Operations	Exploration and Development	Corporate	March 31, 2011 Total
Plant and equipment	$ 5,994	$ 265	$ 63	$ 6,322
Investment in DynaMexico	-	18,351	-	18,351
Exploration and evaluation properties	-	21,859	-	21,859
Mine properties	9,240	-	-	9,240
	$ 15,234	$ 40,475	$ 63	$ 55,772

	Mining Operations	Exploration and Development	Corporate	December 31, 2010 Total
Plant and equipment	$ 5,061	$ 292	$ 70	$ 5,423
Investment in DynaMexico	-	14,390	-	14,390
Exploration and evaluation properties		19,795	-	19,795
Mine properties	9,577	-		9,577
	$ 14,638	$ 34,477	$ 70	$ 49,185

24. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Receivables	$ (661)	$ (89)
Prepaids and deposits	15	29
Inventories	(1,136)	-
Trade and other accounts payable	1,181	296
Accounts payable for exploration and evaluation properties	(153)	-
	$ (754)	$ 236

Non-cash investing transactions not included in cash flows:

	2011	2010
Amortization capitalized to exploration and evaluation properties	$ 32	$ 31

25. TRANSITION TO IFRS

The Company's IFRS accounting policies presented in Note 3 have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information and the opening consolidated statement of financial position at the Transition Date.

The Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards in preparing these first IFRS consolidated financial statements. The effects of the transition to IFRS on equity, loss and comprehensive income (loss) and reported cash flows are presented in this section and are further explained in the notes that accompany the tables presented below. There was no significant impact on the consolidated statements of cash flows as a result of adopting IFRS.

25.1 First-time adoption and exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Company has applied the mandatory exceptions and elected certain optional exemptions. Mandatory exceptions adopted by the Company include:

a. Financial assets and liabilities that have been derecognized before 1 January 2004 under Canadian GAAP have not been recognized under IFRS.
b. The Company has used estimates under IFRS that are consistent with those applied under Canadian GAAP (with adjustments for accounting policy differences) unless there is objective evidence those estimates were in error.

Optional exemptions elected by the Company include:

a. The Company has elected to not apply IFRS 3, Business Combinations retrospectively to business combinations that occurred before the Transition Date.
b. The Company has elected to not apply IFRS 2, Share-based Payments to equity instruments that were granted prior to the Transition Date.

25.2 Presentation differences

The following presentation differences between Canadian GAAP and IFRS have no impact on reported loss and comprehensive income (loss) or equity:

- Mineral properties as reported under Canadian GAAP have been segregated into exploration and evaluation properties and mine properties under IFRS.
- Accretion expense has been reclassified from cost of sales to other expenses.

Some line items are described differently under IFRS compared to Canadian GAAP. These line items are as follows (with Canadian GAAP descriptions in brackets):

- Deferred tax liability ("Future income tax liability")
- Exploration and evaluation properties and Mine properties ("Mineral properties")
- Trade and other accounts payable ("Accounts payable and accrued liabilities")
- Decommissioning and restoration provision ("Asset retirement obligation")
- Share option reserve ("Contributed surplus")

25. TRANSITION TO IFRS (CONTINUED)

Adjustments required in transitioning from Canadian GAAP to IFRS are set out in the following statements:

Reconciliation of consolidated statements of financial position

		As at January 1, 2010			As of March 31, 2010			As at December 31, 2010		
		CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS
ASSETS	**Note**									
Current										
Cash and cash equivalents		$ 515	$ -	$ 515	$ 3,541	$ -	$ 3,541	$ 12,654	$ -	$ 12,654
Investment held for trading		2,313	-	2,313	1,031	-	1,031	-	-	-
Receivables		219	-	219	317	-	317	2,557	-	2,557
Inventories		-	-	-	-	-	-	4,165	-	4,165
Prepaids and deposits		99	-	99	72	-	72	274	-	274
		3,146	-	3,146	4,961	-	4,961	19,650	-	19,650
Plant and equipment		458	-	458	431	-	431	5,423	-	5,423
Investment in DynaResource de Mexico SA de CV		10,031	-	10,031	11,287	-	11,287	14,390	-	14,390
Exploration and evaluation properties	c	21,513	(2,945)	18,568	23,180	(3,060)	20,120	22,855	(3,060)	19,795
Mine properties	d	-	-	-	-	-	-	14,327	(4,750)	9,577
		$ 35,148	$ (2,945)	$ 32,203	$ 39,859	$ (3,060)	$ 36,799	$ 76,645	$ (7,810)	$ 68,835
LIABILITIES AND EQUITY										
Current										
Trade and other accounts payable		$ 402	$ -	$ 402	$ 714	$ -	$ 714	$ 2,345	$ -	$ 2,345
Warrant liability	b	-	-	-	-	-	-	-	962	962
Agreement payable		4,758	-	4,758	2,958	-	2,958	-	-	-
		5,160	-	5,160	3,672	-	3,672	2,345	962	3,307
Decomissioning and restoration provision	a	-	-	-	-	-	-	537	46	583
Warrant liability	b	-	-	-	-	-	-	-	2,741	2,741
Deferred tax liability	c,d	3,637	(2,945)	692	3,845	(3,060)	785	9,047	(4,475)	4,572
		8,797	(2,945)	5,852	7,517	(3,060)	4,457	11,929	(726)	11,203
Shareholders' equity				-			-			-
Share capital		30,947	-	30,947	36,732	-	36,732	72,421	-	72,421
Share option reserve		2,326	-	2,326	2,345	-	2,345	4,372	-	4,372
Warrant equity	b	-	-	-	-	-	-	2,719	(2,719)	-
Translation reserve		(1,334)	-	(1,334)	(355)	-	(355)	(355)	-	(355)
Deficit	a,b,c,d	(5,588)	-	(5,588)	(6,380)	-	(6,380)	(14,441)	(4,365)	(18,806)
		26,351	-	26,351	32,342	-	32,342	64,716	(7,084)	57,632
		$ 35,148	$ (2,945)	$ 32,203	$ 39,859	$ (3,060)	$ 36,799	$ 76,645	$ (7,810)	$ 68,835

25. TRANSITION TO IFRS (CONTINUED)

Reconciliation of consolidated statements of loss and comprehensive income (loss)

		Three months ended March 31, 2010			Year ended December 31, 2010		
	Note	CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS
Revenue							
Gold sales		$ -	$ -	$ -	$ 16,784	$ -	$ 16,784
Silver sales		-	-	-	93	-	93
		-	-	-	16,877	-	16,877
Cost and expenses of mining operations							
Cost of sales		-	-	-	14,484	-	14,484
Depreciation, depletion and amortization	d	-	-	-	2,063	(150)	1,913
Accretion of decommissioning and restoration provision	a	-	-	-	34	(34)	-
		-	-	-	16,581	(184)	16,397
Mine operating income		-	-	-	296	184	480
Expenses and other (income)							
Administrative expenses		870	-	870	6,702	-	6,702
Other income	c,d	(280)	-	(280)	(466)	(73)	(539)
Financing expense	b	-	-	-	119	132	251
Share of equity loss in DynaMexico		9	-	9	128	-	128
Gain on sale of El Porvenir		-	-	-	(16,787)	-	(16,787)
Impairment of goodwill	a	-	-	-	16,673	46	16,719
Impairment of mine properties	d	-	-	-	-	4,900	4,900
Other expenses	a,b	112	-	112	757	886	1,643
		711	-	711	7,126	5,891	13,017
Loss before income taxes	a,b,c,d	(711)	-	(711)	(6,830)	(5,707)	(12,537)
Provision for current tax		81	-	81	2,347	-	2,347
Recovery of deferred tax		-	-	-	(324)	(1,342)	(1,666)
		(792)	-	(792)	(8,853)	(4,365)	(13,218)
Other comprehensive income		979	-	979	979	-	979
Comprehensive income (loss) for the period		$ 187	$ -	$ 187	$ (7,874)	$ (4,365)	$ (12,239)

25. TRANSITION TO IFRS (CONTINUED)

Notes to Reconciliation

a) *Decommissioning and restoration provision*

Under Canadian GAAP the discount rate is established as the credit-adjusted risk-free rate (“CARF”) and is set at the time the obligation is established. Under IFRS the discount rate reflects the risk specific to the provision and is updated if conditions change that would require a change in the rate. In addition the accretion expense is classified as a financing expense under IFRS.

There was no impact on the transition to IFRS or any impact during the quarter ended March 31, 2010.

For the year ended December 31, 2010 the decommissioning and restoration provision was increased by $46 with a corresponding increase in impairment of goodwill. For the year ended December 31, 2010 $34 was reclassified from accretion expense to Other expenses.

b) *Warrant liability*

Under IFRS, warrants issued with exercise prices denominated in currencies other than the US dollar, the Company’s functional currency, are classified and presented as financial liabilities and measured at fair value. Under Canadian GAAP, all warrants are presented as equity. At December 31, 2009, the Company had no warrants and therefore there is no impact on the opening consolidated statement of financial position. As part of the consideration for the reverse takeover in April 2010, the Company acquired warrant obligations. In the third quarter of 2010, the Company issued additional warrants of which issue costs were expensed.

During the three months ended March 31, 2010, there was no impact.

During the year ended December 31, 2010, the increase in fair value of warrants, as determined under IFRS, resulted in a decrease of $852 in income included in Other expense with a corresponding increase in warrant liability. In addition, issue costs debited to warrant equity under Canadian GAAP were expensed under IFRS, which resulted in an increase of $132 in financing expense.

c) *Deferred tax liability*

Under IFRS, in the determination of temporary differences, the carrying value of non monetary assets and liabilities is translated into the functional currency at the historical rate and compared to its tax value translated into the functional currency at the current rate. The resulting temporary difference (measured in the functional currency) is then multiplied by the appropriate tax rate to determine the related deferred tax balance. Under CDN GAAP, in the determination of temporary differences related to non-monetary assets and liabilities, the temporary differences computed in local currency are multiplied by the appropriate tax rate. The resulting future income tax amount is then translated into the Company’s functional currency if it is different from the local currency.

25. TRANSITION TO IFRS (CONTINUED)

IFRS prohibits the recognition of a deferred tax asset or liability arising on initial recognition of an asset or liability if the acquisition is not a business combination and neither accounting profit nor taxable profit were affected. Under Canadian GAAP, temporary differences on initial recognition of an asset or liability are recorded. Accordingly, as at January 1, 2010 and subsequently for those periods previously reported in Canadian GAAP, the Company reversed the deferred tax liability on the November 2009 acquisition of Minera Cardel SA de CV with an associated reduction of exploration and evaluation properties (Caballo Blanco).

On transition, the temporary differences of foreign currency non-monetary assets and liabilities and the Minera Cardel SA de CV acquisition resulted in an opening balance sheet adjustment to decrease deferred tax liability and the exploration and evaluation properties by $2,945.

During the quarter ended March 31, 2010, $3,060 additional deferred tax was reversed on the acquisition of Minera Cardel SA de CV with a corresponding decrease in exploration and evaluation properties. During the year ended December 31, 2010, deferred tax liability decreased by $3,103, exploration and evaluation properties decreased by $3,060 and the foreign exchange gain increased by $43.

d) Impairment of mine property

Under Canadian GAAP, there is a two-step process to impairment analysis. Step one involves comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, step two is required and involves recognizing an impairment charge for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Under IFRS, the impairment analysis is a one-step process. An impairment charge is recognized for the amount by which the carrying value of the asset exceeds the recoverable amount of the asset.

Under Canadian GAAP, the estimated undiscounted future cash flows related to the April 30, 2010 Cerro Colorado acquisition exceeded the carrying value of the property.

There was no impact on the transition to IFRS or any impact during the quarter ended March 31, 2010.

25. TRANSITION TO IFRS (CONTINUED)

At September 30, 2010 the Company completed its annual goodwill and long-lived non-financial asset impairment tests under IFRS in accordance with the methodology described in note 2.4(iv) and it was determined that a recoverable amount was lower than the carrying value of the property. During the year ended December 31, 2010 the Company recorded a $4,900 impairment charge with a corresponding decrease to the Cerro Colorado mine properties. In addition, the deferred tax liability decreased by $1,421, deferred tax recovery increased by $1,384 and foreign exchange gain increased by $37. Also in relation to the impairment charge, during the year ended December 31, 2010 depletion expense on Cerro Colorado decreased by $150 and correspondingly deferred tax liability increased by $49, deferred tax recovery decreased by $42 and foreign exchange gain decreased by $7.