



GOLDGROUP MINING INC.
(formerly Sierra Minerals Inc.)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010

(Unaudited)
(Expressed in United States Dollars)

PREPARED BY MANAGEMENT

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

	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u> Note 2b
ASSETS		
Current		
Cash and cash equivalents	\$ 1,609,779	\$ 515,173
Investment held for trading	-	2,313,278
Receivables, prepaids and deposits	1,894,908	317,510
Inventories (Note 5)	<u>1,685,163</u>	<u>-</u>
	5,189,850	3,145,961
Plant and equipment (Note 6)	5,504,956	457,502
Investment in DynaResource de Mexico SA de CV (Note 7)	12,030,817	10,030,919
Mineral properties (Notes 8 and 19)	<u>62,933,882</u>	<u>21,512,738</u>
	<u>\$ 85,659,505</u>	<u>\$ 35,147,120</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 2,620,395	\$ 401,532
Agreement payable (Note 4)	-	4,757,500
Loan payable (Notes 10 and 19)	<u>3,378,851</u>	<u>-</u>
	5,999,246	5,159,032
Asset retirement obligation (Note 11)	513,756	-
Future income tax liability	<u>13,235,175</u>	<u>3,636,822</u>
	<u>19,748,177</u>	<u>8,795,854</u>
Shareholders' equity		
Share capital (Note 12)	70,450,935	30,947,400
Contributed surplus (Note 12)	4,393,669	2,325,753
Warrant equity (Note 12)	669,332	-
Accumulated other comprehensive loss (Note 2b)	(354,722)	(1,333,561)
Deficit	<u>(9,247,886)</u>	<u>(5,588,326)</u>
	<u>65,911,328</u>	<u>26,351,266</u>
	<u>\$ 85,659,505</u>	<u>\$ 35,147,120</u>
Nature of operations and going concern (Note 1)		
Change in functional currency and impact (Note 2b)		
Commitments (Note 16)		
Subsequent events (Note 19)		

Approved by the Board of Directors:

/s/ Keith Piggott

Director

/s/ Gregg J. Sedun

Director

The accompanying notes are an integral part of these interim consolidated financial statements.

PREPARED BY MANAGEMENT

GOLDGROUP MINING INC.
(formerly Sierra Minerals Inc.)

Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit

June 30, 2010 and 2009

(Unaudited - Expressed in United States Dollars)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
		(Note 2b)		(Note 2b)
Revenue				
Gold sales	\$ 5,323,121	\$ -	\$ 5,323,121	\$ -
Silver sales	49,118	-	49,118	-
	<u>5,372,239</u>	<u>-</u>	<u>5,372,239</u>	<u>-</u>
Costs and expenses of mining operations				
Cost of sales	4,456,686	-	4,456,686	-
Depreciation, depletion and amortization	1,259,371	-	1,259,371	-
Accretion of asset retirement obligation	11,183	-	11,183	-
	<u>5,727,240</u>	<u>-</u>	<u>5,727,240</u>	<u>-</u>
Mine operating loss	<u>\$ (355,001)</u>	<u>\$ -</u>	<u>\$ (355,001)</u>	<u>\$ -</u>
Expenses and other income				
General and administrative	\$ 935,017	\$ 406,756	\$ 1,436,642	\$ 792,605
Transaction costs (Note 3)	55,735	-	394,837	-
Exploration	12,498	-	12,498	-
Amortization	11,620	9,733	22,447	18,839
Stock-based compensation (Note 12(d))	468,524	-	487,518	-
Interest income and other	(14,724)	(10,701)	(30,176)	(29,253)
Foreign exchange loss (gain)	(342,399)	15,032	(229,679)	180,852
Equity in loss of DynaMexico (Note 7)	50,922	2,017	59,610	60,631
Interest expense	104,358	-	104,358	-
Loss on sale of investment	395,376	-	130,119	-
Financing fees (Note 10)	118,780	-	118,780	-
	<u>1,795,707</u>	<u>422,837</u>	<u>2,506,954</u>	<u>1,023,674</u>
Loss before income taxes	(2,150,708)	(422,837)	(2,861,955)	(1,023,674)
Provision for future income taxes	717,426	38,603	797,606	77,963
Loss for the period	\$ (2,868,134)	\$ (461,440)	\$ (3,659,561)	\$ (1,101,637)
Other comprehensive income related to change in reporting currency (Note 2q)	-	774,223	978,839	1,695,688
Comprehensive loss for the period	<u>\$ (2,868,134)</u>	<u>\$ 312,783</u>	<u>\$ (2,680,722)</u>	<u>\$ 594,051</u>
Basic and fully diluted loss per share	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.06)</u>	<u>\$ (0.02)</u>
Weighted average number of shares	<u>71,274,118</u>	<u>51,942,637</u>	<u>61,661,779</u>	<u>51,942,637</u>

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GOLDGROUP MINING INC.
(formerly Sierra Minerals Inc.)
Interim Consolidated Statements of Cash Flows
June 30, 2010 and 2009
(Unaudited - Expressed in United States Dollars)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
		(Note 2b)		(Note 2b)
CASH DERIVED FROM (USED IN)				
OPERATING ACTIVITIES				
Net loss for the period	\$ (2,868,134)	\$ (461,440)	\$ (3,659,561)	\$ (1,101,637)
Items not involving cash:				
Future income taxes	717,426	38,603	797,606	77,963
Depletion, depreciation and amortization	1,270,991	40,462	1,281,818	53,333
Accretion of asset retirement obligation	11,183	-	11,183	-
Unrealized foreign exchange gain	(436,281)	-	(436,281)	-
Loss on sale of investment	395,376	-	130,119	-
Stock-based compensation	468,524	-	487,518	-
Financing fees	19,628	-	19,628	-
Equity in loss of DynaMexico	50,922	2,017	59,610	60,631
	<u>(370,365)</u>	<u>(380,358)</u>	<u>(1,308,360)</u>	<u>(909,710)</u>
Changes in non-cash operating working capital items (Note 18):	<u>565,167</u>	<u>(294,184)</u>	<u>801,795</u>	<u>(168,621)</u>
	<u>194,802</u>	<u>(674,542)</u>	<u>(506,565)</u>	<u>(1,078,331)</u>
FINANCING ACTIVITY				
Issuance of shares	13,777	-	5,798,807	-
Treasury shares	(441,149)	-	(441,149)	-
Advance (repayment) of loans	234,420	-	(1,516,980)	-
	<u>(192,952)</u>	<u>-</u>	<u>3,840,678</u>	<u>-</u>
INVESTING ACTIVITIES				
Acquisition of Sierra, net of cash	516,052	-	516,052	-
Purchase of property and equipment	(270,619)	(14,214)	(270,714)	(37,651)
Sale of investments	1,743,214	-	3,902,833	-
Investments	(1,094,700)	(1,322,007)	(1,657,843)	(1,322,007)
Investment in DynaMexico	(804,057)	(48,145)	(1,700,561)	(930,745)
Mineral properties	(2,215,535)	(251,385)	(3,087,174)	(484,943)
	<u>(2,125,645)</u>	<u>(1,635,751)</u>	<u>(2,297,407)</u>	<u>(2,775,346)</u>
Effect of exchange rate changes on cash	<u>192,165</u>	<u>485,154</u>	<u>57,900</u>	<u>351,856</u>
Increase (decrease) in cash and cash equivalents	<u>(1,931,630)</u>	<u>(1,825,139)</u>	<u>1,094,606</u>	<u>(3,501,821)</u>
Beginning of period	<u>3,541,409</u>	<u>5,497,340</u>	<u>515,173</u>	<u>7,174,022</u>
Cash and cash equivalents, end of period	<u>\$ 1,609,779</u>	<u>\$ 3,672,201</u>	<u>\$ 1,609,779</u>	<u>\$ 3,672,201</u>
Cash and cash equivalents is comprised of:				
Cash	\$ 1,609,779	\$ 1,347,935	\$ 1,609,779	\$ 1,347,935
Short-term deposits	-	2,324,266	-	2,324,266
	<u>\$ 1,609,779</u>	<u>\$ 3,672,201</u>	<u>\$ 1,609,779</u>	<u>\$ 3,672,201</u>

PREPARED BY MANAGEMENT

GOLDGROUP MINING INC.
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Interim Consolidated Statement of Shareholders' Equity
June 30, 2010 and 2009
(Unaudited - Expressed in United States Dollars)

	<u>Common Shares</u>		<u>Contributed Surplus</u>	<u>Warrant Equity</u>	<u>Other Comprehensive Income (loss)</u>	<u>Deficit</u>	<u>Total Equity</u>
	<u>Number</u>	<u>Amount</u>					
January 1, 2008	36,732,637	\$ 22,281,435	\$ -	\$ -	\$ -	\$ (662,351)	\$ 21,619,084
Stock-based compensation	-	-	2,307,537	-	-	-	2,307,537
Loss for the year	-	-	-	-	-	(3,403,622)	(3,403,622)
Change in reporting currency (Note 2q)	-	-	-	-	(3,887,826)	-	(3,887,826)
December 31, 2008	36,732,637	22,281,435	2,307,537	-	(3,887,826)	(4,065,973)	16,635,173
Acquisition of Minera Cardel SA de CV	9,150,000	8,665,965	-	-	-	-	8,665,965
Stock-based compensation	-	-	18,215	-	-	-	18,215
Loss for the year	-	-	-	-	-	(1,522,352)	(1,522,352)
Change in reporting currency (Note 2q)	-	-	-	-	2,554,265	-	2,554,265
December 31, 2009	45,882,637	30,947,400	2,325,752	-	(1,333,561)	(5,588,325)	26,351,266
Private placement	6,060,000	5,785,030	-	-	-	-	5,785,030
Business Combination (Note 3)	33,009,795	34,119,735	-	-	-	-	34,119,735
Share options and warrants	-	-	1,606,541	649,704	-	-	2,256,245
Options exercised	40,000	13,777	-	-	-	-	13,777
Contributed surplus allocation on exercise of options	-	26,142	(26,142)	-	-	-	-
Stock-based compensation	-	-	487,518	-	-	-	487,518
Financing fees (Note 10)	-	-	-	19,628	-	-	19,628
Treasury shares (Note 12)	(438,596)	(441,149)	-	-	-	-	(441,149)
Loss for the period	-	-	-	-	-	(3,659,561)	(3,659,561)
Change in reporting currency (Note 2q)	-	-	-	-	978,839	-	978,839
June 30, 2010	<u>84,553,836</u>	<u>\$ 70,450,935</u>	<u>\$4,393,669</u>	<u>\$ 669,332</u>	<u>\$ (354,722)</u>	<u>\$ (9,247,886)</u>	<u>\$ 65,911,328</u>

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

Holdings is a development stage enterprise involved in mineral exploration and development. Holdings' principal business activity was the acquisition and exploration of properties in the gold industry, with a focus on Mexico. As at June 30, 2010, Holdings had not generated any revenues from operations.

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

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

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

GOLDGROUP MINING INC.
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Notes to the Interim Consolidated Financial Statements
June 30, 2010 and 2009
(Unaudited - Expressed in United States Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN (CONTINUED)

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at June 30, 2010 the Company has negative working capital of \$809,396 however the Company does have adequate resources to maintain its core activities and exploration plans for the upcoming 12 months as a result of the sale of its El Porvenir gold project subsequent to period end (see Note 19). The operating cash flow and profitability of the Company are affected by various factors, including the amount of gold produced and sold, the market price of gold, operating costs, environmental costs and the level of exploration activity and other discretionary costs and activities. The Company is also exposed to fluctuations in currency exchange rates, interest rates, commodity prices as these relate to input materials, political risk and varying levels of taxation. The Company seeks to manage the risks associated with its business; however, many of the factors affecting these risks are beyond the Company's control.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

GOLDGROUP MINING INC.
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Notes to the Interim Consolidated Financial Statements
June 30, 2010 and 2009
(Unaudited - Expressed in United States Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

a. Basis of Consolidation

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

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

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

b. Change in Functional and Reporting Currency

On May 7, 2010, as a result of Goldgroup Holdings reverse takeover of Sierra, (Note 3) Goldgroup Holdings increased its exposure to US dollar denominated transactions through Sierra's operations while continuing to pay for significant exploration activities in US dollars and incur debt denominated in US dollars. As a result of this change in circumstances, the Company undertook a review of the functional currency exposures of all of its business units according to CICA Section 1651 *Foreign Currency Translation* and concluded that the currency exposures of its Canadian and foreign operations are now predominately in US dollars. Prior to May 7, 2010, the Holdings' functional currency was the Canadian dollar and the reporting currency was the Canadian dollar. Effective April 30, 2010, the Holdings' functional and reporting currency is the US dollar. This results in all foreign currency impacts of holding non-US dollar denominated financial assets and liabilities being recorded through the statement of operations. Foreign exchange gains and losses are included in earnings and unrealized gains and losses due to movements in exchange rates on cash and cash equivalent balances held in foreign currencies are shown separately on the Consolidated Statements of Cash Flows.

GOLDGROUP MINING INC.
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Notes to the Interim Consolidated Financial Statements
June 30, 2010 and 2009
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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Change in Functional and Reporting Currency (Continued)

Concurrent with the change in functional currency, effective May 7, 2010, Holdings changed its reporting currency from the Canadian dollar ("C\$") to the United States dollar ("US\$"). Prior to May 7, 2010, the Company reported in the Canadian dollar. In accordance with EIC-130, "Translation Method When the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency" the financial statements for all periods presented have been translated into the US\$ using the current rate method. Under this method, the statements of operations and cash flows for each quarter have been translated into the reporting currency using the average exchange rates prevailing during each reporting period (2010 – 0.9618; 2009 – 0.8757) and all assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheet dates (March 31, 2010 – 0.9844; 2009 – 0.9515). Shareholders' equity transactions have been translated using the rates of exchange in effect as of the dates of the various capital transactions. The resulting translation adjustment was recorded as a currency translation adjustment ("CTA"), a separate component of Accumulated Other Comprehensive Income ("AOCI"). The CTA balance at December 31, 2009 represents the cumulative translation adjustment to December 31, 2009 and will remain in AOCI until the related foreign operation is disposed of.

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

c. Use of Estimates

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Cash and Cash Equivalents

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

e. Revenue Recognition

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

f. Inventories

Product inventory of gold-in-circuit and gold doré are valued at the lower of average production cost or net realizable value. Net realizable value is the amount estimated to be obtained from sale of the inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. The production cost of inventories is determined on a weighted average basis and includes cost of raw materials, direct labour, mine-site overhead and depreciation and depletion of mining interests.

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

g. Investment Held For Trading

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

h. Amortization of Plant and Equipment

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Amortization of Plant and Equipment (Continued)

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

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

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

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

i. Mineral Properties

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Mineral Properties (Continued)

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

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

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

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

j. Asset Retirement Obligations

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Asset Retirement Obligations (Continued)

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

k. Impairment of Long-Lived Assets

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

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Income Taxes

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

m. Stock-Based Compensation

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

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

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

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and/or warrants granted and/or vested during the period.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Earnings (Loss) per Share

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

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

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

o. Financial Instruments - Recognition and Measurements

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

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

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

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

p. Share Issuance Costs

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Comprehensive Income

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

r. Significantly Influenced Investments

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

s. Valuation of Equity Units Issued in a Private Placement

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

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

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

t. Related Party Transactions

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u. New Accounting Policies

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

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

v. Future Accounting Pronouncements

Financial Instruments – Recognition and Measurement:

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. Future Accounting Pronouncements (Continued)

Multiple Deliverable Revenue Arrangements:

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

International Financial Reporting Standards (IFRS):

In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2009 and 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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

On April 30, 2010 the Holdings signed a share exchange agreement (“the Agreement”) with Goldgroup Mining to effect a business combination of the two companies. The acquisition was accounted for under CICA Handbook Section 1582. 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)	\$ 34,119,735
Exchange options and warrants (2,554,711 options and 1,956,129 warrants)	2,256,245
Total purchase price	<u>\$ 36,375,980</u>

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

Cash and cash equivalents	\$ 516,052
Receivables, prepaids and deposits	1,305,550
Inventories	2,403,698
Plant and equipment	4,958,240
Mineral properties	38,632,255
Accounts payable and accrued liabilities	(1,849,503)
Asset retirement obligation	(502,573)
Future income tax liability	(9,087,739)
	<u>\$ 36,375,980</u>

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

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

A component of the RTO consideration was the exchange of options and warrants in Goldgroup Mining on May 7, 2010. The fair values allocated to these options and warrants, included in the cost of the acquisition, using the Black-Scholes Valuation Model was \$1,606,541 and \$649,704 respectively. The fair value was determined using the following weighted average assumptions:

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

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

The Company incurred transaction costs of \$394,837 related to this transaction.

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

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

The Company acquired its interest for \$14,439,106, comprised of \$5,682,600 in cash and 9 million common shares having a fair value of \$0.95 (C\$1.00). A facilitation fee was paid with 150,000 shares issued at a fair value of \$0.95 per share. The Company also granted NGEx a 1.5% net smelter return royalty payable from production and will make a C\$5 million advance royalty payment to NGEx within 30 days following the commencement of commercial production of the project.

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

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

The purchase price has been calculated and allocated as follows:

Consideration paid:	
Cash and cash equivalents	\$ 947,100
Agreement payable *	4,735,500
Common shares	8,523,900
Capitalized acquisition costs	90,541
Facilitation fee	<u>142,065</u>
	<u>\$ 14,439,106</u>
Net identifiable assets acquired:	
Cash	\$ 42,408
Receivables	156,600
Plant and equipment	114,735
Mineral properties	17,084,493
Accounts payable and accrued liabilities	(14,602)
Future income tax liability	<u>(2,944,528)</u>
	<u>\$ 14,439,106</u>

* Agreement payable interest at 1% per month and secured by the Caballo Blanco property.

5. INVENTORIES

Inventories consist of the following:

	<u>June 30, 2010</u>
Product	\$ 576,709
Consumable supplies	<u>1,108,454</u>
	<u>\$ 1,685,163</u>

The cost of sales represents the amount of product inventory recognized as an expense. All of the Company's inventories on hand are located at the Cerro Colorado mine in Mexico. Included in cost of sales and depreciation, depletion and amortization expense on the statement of operations are total inventory related costs of \$400,889 and \$8,182, respectively. As at June 30, 2010, there is no realizable value adjustment.

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6. PLANT AND EQUIPMENT

	June 30, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Plant and mining equipment	\$ 5,346,533	\$ 859,856	\$ 4,486,677	\$ -	\$ -	\$ -
Machinery and equipment	851,625	284,763	566,862	347,690	145,140	202,550
Office equipment	249,979	124,110	125,869	190,674	70,092	120,582
Vehicles	513,259	232,625	280,634	117,375	32,270	85,105
Lab equipment	60,562	15,648	44,914	58,535	9,270	49,265
	<u>\$ 7,021,958</u>	<u>\$ 1,517,002</u>	<u>\$ 5,504,956</u>	<u>\$ 714,274</u>	<u>\$ 256,772</u>	<u>\$ 457,502</u>

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

On September 1, 2006, the Company entered into an Earn in/Option Agreement ("the Agreement") with DynaMexico and the parent company, DynaResource, Inc. ("DynaUSA"). Under the Agreement, the Company has the right to earn up to a 50% equity interest in DynaMexico by funding up to \$18,000,000 in exploration and development expenditures on the San Jose de Gracia property ("SJG") as follows:

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

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

SJG is located in the northeast portion of Sinaloa State, Mexico, approximately 120 kilometres east northeast of the coastal city Los Mochis, straddling the Chihuahua border. The property consists of 34 mineral concessions covering approximately 99,141 hectares.

At June 30, 2010, the Company had earned a 25% equity interest in DynaMexico. The Company has funded \$11,568,009 (December 31, 2009 \$9,868,009) in expenditures on SJG toward the \$18 million required for a 50% equity interest. Since September 1, 2006 and pursuant to the terms of the Agreement, the Company has the ability to appoint one of DynaMexico's three directors, and also the ability to appoint two of three members of the DynaMexico management committee. As management considers this representation to provide the Company with significant influence over the strategic operating, investing and financing policies of DynaMexico and the investment is accounted for using the equity method.

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

The investment in DynaMexico is comprised of:

	Period Ended June 30, 2010	Year ended December 31, 2009
Investment, beginning of period	\$ 10,030,919	\$ 6,930,412
Funds invested	1,700,561	1,846,271
Equity in loss	(59,610)	(6,609)
Translation adjustment	358,947	1,260,845
Investment, end of period	<u>\$ 12,030,817</u>	<u>\$ 10,030,919</u>

8. MINERAL PROPERTIES

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

	El Porvenir	Cerro Colorado (Notes 8b and 8f)	Kenya	El Candelero	Caballo Blanco	Total
December 31, 2008	\$ 1,848,284	\$ -	\$ 426,000	\$ 192,388	\$ -	\$ 2,466,672
Acquisition Costs	61,035	-	-	26,264	17,084,493	17,171,792
Exploration Costs						-
Amortization	66,385	-	5,076	3,392	7,728	82,581
Drilling	137,458	-	-	-	-	137,458
Other exploration	819,792	-	7,352	62,213	77,654	967,011
Fees and taxes	12,156	-	84,905	-	-	97,061
Foreign exchange	388,730	-	76,139	38,533	86,762	590,164
December 31, 2009	3,333,840	-	599,472	322,790	17,256,637	21,512,739
Acquisition Costs	1,568,318	38,632,255	-	15,367	-	40,215,940
Exploration Costs						
Depletion and amortization	35,641	(1,118,459)	3,253	3,814	17,692	(1,058,059)
Drilling	54,920	-	-	-	-	54,920
Other exploration	522,400	-	-	22,783	657,560	1,202,743
Fees and taxes	219,007	-	49,453	-	-	268,460
Foreign exchange	124,962	-	20,729	11,160	580,288	737,139
June 30, 2010	<u>\$ 5,859,088</u>	<u>\$ 37,513,796</u>	<u>\$ 672,907</u>	<u>\$ 375,914</u>	<u>\$ 18,512,177</u>	<u>\$ 62,933,882</u>

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8. MINERAL PROPERTIES (CONTINUED)

a. El Porvenir

By way of an agreement made February 27, 2007, (and amended by agreements of December 18, 2008 and December 18, 2009) between the Company's wholly-owned subsidiary Candymin, with the Company as guarantor, and Desarrollos Mineros San Luis SA de CV (DMSL). Candymin was granted an option to acquire DMSL's El Porvenir mine located in Aguascalientes, Mexico for a total of \$3,130,000. The property is subject to a net smelter return royalty ("NSR") of 3% once commercial production is achieved. The option was exercised in June 2010.

On July 12, 2010 the Company sold the El Porvenir Gold project for \$25,000,000 and paid \$1,700,000 to discharge a royalty interest on the property (See Note 19).

b. Cerro Colorado (Operating Mine)

The Company owns a 100% interest in the Cerro Colorado mine, located in northern Sonora, Mexico. The property consists of six mineral concessions covering the area of the mine and 44 concessions in the immediate vicinity of the mine totalling 33,767 hectares. The Cerro Colorado life of mine is estimated to be approximately four to five years. The property is subject to a NSR of 3%.

c. Kenya

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

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

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

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8. MINERAL PROPERTIES (CONTINUED)

d. El Candelero (Continued)

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

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

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

<u>On or before</u>	<u>Amount</u>
June 2, 2008	\$ 150,000
June 2, 2009	\$ 300,000
June 2, 2010	\$ 550,000

To June 30, 2010, GGR has expended aggregate property related work costs of \$375,914. Exploration work on the property has been deferred due to local unrest in the area of the property since early 2009 and by June 2, 2009 GGR was in default of funding the work costs. As a result, in June, 2010 GGR declared force majeure, as allowed under the option agreement. The funding of work costs will resume once force majeure no longer exists.

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

<u>On or before</u>	<u>Amount</u>
June 2, 2011	\$ 250,000
June 2, 2012	\$ 250,000

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.

e. Caballo Blanco

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

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8. MINERAL PROPERTIES (CONTINUED)

f. Other Properties

The properties below were acquired as part of the RTO of Sierra. No value has been allocated to these properties in the purchase price allocation in Note 3. The Company will be performing a final valuation in which they will determine what value, if any, should be allocated to these properties.

i) San Martin Property

This property was which it optioned from Minera Kennecott S.A. de C.V. in 2003 and acquired in 2006. Since that time, Sierra has not performed any work on the property and is currently evaluating its options. This property is located in Sinaloa, Mexico.

ii) El Cajon Gold Project

The Company retains a 100% interest in three concession groups with Minera MasOro S.A. de C.V. ("MasOro") located within the Cerro Colorado Gold Mine district. MasOro has retained a 2.5% NSR royalty on the entire claim group of which the Company can purchase back up to 1.5% for \$500,000 per 0.5% NSR. In order to maintain these concessions in good standing, the Company must make an annual payment of \$25,000 on November 1st of each year (2009 – paid).

In addition, on July 2, 2008, the Company through Granmin Mexico, wholly owned subsidiary, entered into an agreement with Hector Graham Soqui, ("Hector") to earn a 100% interest in 31 concessions in Sonora, Mexico. Under the terms of the agreement, Granmin Mexico was required to make certain monthly payments to Hector and Hector was required to provide certain documentation to Granmin Mexico during an evaluation phase. Following the completion of the evaluation phase, Granmin Mexico has the option of purchasing any or all of the concessions at pre-determined prices. Amounts paid during the evaluation phase by Granmin Mexico are creditable against the final purchase of any of the concessions. In 2008 and 2009 Sierra made property payments totalling \$220,000. No payments have been made since. The Company is currently awaiting Hector to fulfill its obligations under the agreement to conclude the evaluation phase. Any additional payments will be capitalized at the time of final purchase.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	June 30, 2010	December 31, 2009
Mine suppliers and other payables	\$ 1,910,411	\$ -
Amounts due to directors	76,997	65,013
Corporate payables	632,987	336,518
	<u>\$ 2,620,395</u>	<u>\$ 401,531</u>

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10. LOAN PAYABLE

On June 7, 2010 the Company obtained a loan of \$3,250,000 to fund the Caballo Blanco acquisition (Note 4). The Company pledged the shares of its wholly owned subsidiary, Granmin Malaysia Ltd., which owns the operating mine, Cerro Colorado, as security. The loan bears interest at 10% per annum, payable on a monthly basis commencing July 1, 2010. The Company paid a 3% financing fee of \$97,500 and issued 100,000 warrants exercisable at C\$1.00, expiring June 6, 2011. The fair value of the warrants was \$19,628 using the Black-Scholes Option Pricing Model using a risk free interest rate of 1.55%, expected option life of 1.5 years, expected stock price volatility of 90% and a dividend payment of nil. In the event that the warrants are not exercised, a \$25,000 payment is due. The loan was repaid on July 15, 2010 (see Note 19).

11. ASSET RETIREMENT OBLIGATION

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

The Company estimates its total undiscounted future decommissioning and reclamation costs to be \$675,000. The key assumptions on which the retirement obligations are based on are:

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

The discounted liability for asset retirement obligations is as follows:

	June 30, 2010
Acquisition of Goldgroup Mining (Note 3)	\$ 502,573
Accretion expense	11,183
	\$ 513,756

12. SHAREHOLDERS' EQUITY

a. Authorized

Unlimited number of common shares with no par value

b. Shares Issued

- i. On March 4, 2010 the Company closed a non-brokered private placement financing of 6,060,000 common shares at a price of C\$1.00 per share, for gross proceeds of \$5,878,200. Share issue costs on this financing were \$93,170 of which \$89,737 were facilitation fees paid to arm's length parties.

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12. SHAREHOLDERS' EQUITY (CONTINUED)

b. Shares Issued (Continued)

- ii. In connection with the reverse take-over on May 7, 2010, the Company recorded the issuance of 33,009,795 common shares, 2,554,711 options and \$1,956,129 options (Note 3).
- iii. 40,000 stock options were exercised for proceeds of \$13,777 and \$26,142 was allocated from contributed surplus to share capital.
- iv. During the period April 16, 2010 to May 6, 2010 Holdings purchased 438,596 (1,250,000 pre-consolidated) Sierra shares on the open market at a cost of \$441,149. The reverse take-over transaction was completed on May 7, 2010 and the Sierra shares held at that time have been classified as treasury shares and recorded as a reduction of share capital at their cost.

c. Stock-based Compensation

The Company has adopted a stock option plan for which options to acquire up to 10% of the issued share capital, at the award date, may be granted to eligible optionees from time to time. Generally, options granted have a maximum term of five years, and a vesting period and exercise price determined by the directors. The exercise price may not be less than the closing quoted price of the Company's shares traded through the facilities of the exchange in which the Company's securities are listed. At June 30, 2010, 8,449,243 stock options were available for issue under the plan.

- i. On May 17, 2010, options to purchase up to 3,219,486 shares at an exercise price of C\$1.00, expiring May 15, 2014, were granted to directors, officers, employees and consultants. The options vest 25% beginning on the date of the grant and every six months thereafter.
- ii. During fiscal 2009, the Company granted options to employees and a contractor to purchase up to 210,000 shares of the Company at C\$0.65 per share exercisable to June 23, 2014. The options vest at a rate of 25%, commencing December 23, 2009 and every six months thereafter.

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

	2010	2009
Risk free interest rate	1.66%	2.25%
Expected option life	2 years	5 years
Expected stock price volatility	90%	85%
Dividend payments during life of option	\$Nil	\$Nil

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

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12. SHAREHOLDERS' EQUITY (CONTINUED)

c. Stock-based Compensation

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

	<u>Options</u>	<u>Exercise price (C\$)</u>
January 1, 2009	2,510,000	\$ 0.65
Granted	210,000	\$ 0.65
December 31, 2009	2,720,000	\$ 0.65
Granted	3,219,486	\$ 1.00
Exercised	(40,000)	\$ 0.36
Exchange options on reverse take-over (Note 3)	2,554,711	\$ 0.52
Expired or forfeited	(398,904)	\$ 0.91
June 30, 2010	<u>8,055,293</u>	<u>\$ 0.75</u>

Expiry Date	Exercise price (C\$)	Number of options	Outstanding		Vested		
			Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)
May 5, 2013	\$ 0.65	2,470,000	\$ 0.65	2.9	2,470,000	\$ 0.65	3.1
May 18, 2013	\$ 1.00	400,000	\$ 1.00	2.9	-	\$ -	-
Dec. 22, 2013	\$ 0.29	280,701	\$ 0.29	3.5	280,701	\$ 0.29	3.5
Feb. 5, 2014	\$ 0.48	333,332	\$ 0.48	3.6	333,332	\$ 0.48	3.6
May 1, 2014	\$ 0.57	293,331	\$ 0.57	3.8	293,331	\$ 0.57	3.8
May 1, 2014	\$ 0.36	61,403	\$ 0.36	3.8	61,403	\$ 0.36	3.8
Jun. 23, 2014	\$ 0.65	180,000	\$ 0.65	4.0	77,500	\$ 0.65	4.2
Sep. 23, 2014	\$ 0.57	328,945	\$ 0.57	4.2	328,945	\$ 0.57	4.2
Oct. 1, 2014	\$ 0.63	1,158,753	\$ 0.63	4.3	926,296	\$ 0.63	4.3
Nov. 12, 2014	\$ 0.65	30,000	\$ 0.65	4.4	7,500	\$ 0.65	4.4
May 18, 2014	\$ 1.00	2,518,828	\$ 1.00	3.9	704,881	\$ 1.00	3.9
		<u>8,055,293</u>	<u>\$ 0.75</u>	<u>3.2</u>	<u>5,483,889</u>	<u>\$ 0.65</u>	<u>3.1</u>

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12. SHAREHOLDERS' EQUITY (CONTINUED)

d. Warrants

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

	<u>Warrants</u>	<u>Exercise price (C\$)</u>	<u>Warrant equity (\$US)</u>
December 31, 2009	-	\$ -	\$ -
Granted (Note 10)	100,000	1.00	19,628
Exchange warrants on reverse take-over (Note 3)	<u>1,956,129</u>	<u>0.86</u>	<u>649,704</u>
June 30, 2010	<u>2,056,129</u>	<u>\$ 0.86</u>	<u>\$ 669,332</u>

<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Weighted average exercise price (C\$/warrant)</u>
February 27, 2011	201,746	\$ 0.86
March 25, 2011	1,754,383	\$ 0.86
June 6, 2011	<u>100,000</u>	<u>\$ 1.00</u>
	<u>2,056,129</u>	<u>\$ 0.87</u>

13. RELATED PARTY TRANSACTIONS AND BALANCES

During the periods ended June 30, 2010 and 2009 the Company incurred the following expenses with companies or individuals related by way of directors and/or officers in common:

	For the Six Months Ended June 30,	
	<u>2010</u>	<u>2009</u>
Management and consulting fees paid to directors, officers or their companies.	<u>\$ 373,547</u>	<u>\$ 186,129</u>
Services and material supplies charged by Minera Secotec SA de CV ("Secotec") (a private company controlled by director of the Company)	<u>\$ 4,204</u>	<u>\$ -</u>

At June 30, 2010, receivables includes \$1,032 (2009 - \$29,961) owing from Uracon and \$3,392 (2009 - Nil) owing from an officer of the Company. The amount owing from Uracon is for its unpaid share of rent, administration staff salary and general office expenses. The companies share common office premises and have entered into a cost sharing arrangement, effective February 1, 2007.

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13. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

At June 30, 2010, accounts payable and accrued liabilities includes \$76,997 (2009 - \$31,599) owing to directors and or their companies.

At June 30, 2010 accounts payable and accrued liabilities includes \$3,924 owing to Minop S.A. de C.V. (2009 - \$12,778 included in receivables), a Mexican company significantly influenced by an officer and director of the Company. The Company utilizes the services of Minop for paying certain employees and consultants that work in Mexico. The fees paid to Minop on are on a cost recovery basis.

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.

14. MANAGEMENT OF CAPITAL

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

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

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

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

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14. MANAGEMENT OF CAPITAL (CONTINUED)

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

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

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

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

15. RISK MANAGEMENT

Financial Risk Management

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

a. Credit Risk

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

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

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15. RISK MANAGEMENT (CONTINUED)

a. Credit Risk (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 counter-party with whom it entered into a trading agreement.

b. Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company is dependent on cash flow from mining operations, capital raised from issuances of common shares and sale of assets to fund its business activities. The Company uses cash forecasts to ensure as far as possible that there is sufficient cash on hand to meet short-term business requirements. The Company's cash is invested in highly liquid investments which are available to discharge obligations when they come due. Most of the Company's financial liabilities have contractual maturities of less than 30 days and substantially all the Company's financial obligations, other than the provision for site closure and restoration obligations, are due within one year. In the normal course of business the Company enters into contracts that give rise to commitments for future payments (Note 18). The Company does not maintain a line of credit.

c. Market Risk

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

i. Interest rate risk

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

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

Goldgroup is not exposed to interest rate risk on the loan payable, as the interest rate is fixed.

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15. 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 in US dollars. The head office is located in Canada and costs are primarily incurred in Canadian dollars. Other costs and expenditures that affect the Company's results of operations, financial positions or cash flows are incurred in US dollars, Canadian dollars and Mexican pesos.

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

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

As at June 30, 2010	Canadian Dollar (C\$)	United States Dollar (US\$)	Mexican Peso (Peso)
Financial Assets			
Cash and cash equivalents	\$ 102,642	\$ 1,334,637	2,303,226
Receivables	90,722	475	20,507,471
	\$ 193,364	\$ 1,335,112	22,810,697
Financial Liabilities			
Accounts payable and accrued liabilities	\$ 612,986	\$ 24,469	26,032,835
Loan payable	-	3,378,851	-
	\$ 612,986	\$ 3,403,320	26,032,835

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

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15. RISK MANAGEMENT (CONTINUED)

ii. Foreign currency risk (Continued)

	Canadian Dollars \$	Mexican Pesos \$
Financial Assets	193,365	22,810,697
Financial Liabilities	(612,986)	(26,032,835)
Total foreign currency net working capital	(419,621)	(3,222,138)
US\$ exchange rate	0.9393	0.0776
Total foreign currency net working capital in US\$	(394,150)	(250,038)
Impact of a 10% strengthening of the US\$ on net earnings	(39,415)	(25,004)

iii. Commodity price risk

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

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

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

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15. RISK MANAGEMENT (CONTINUED)

Fair Values

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

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

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

	Level 1
Assets	
Cash and cash equivalents	\$ 1,609,779
Receivables	\$ 1,894,908
Liabilities	
Accounts payable and accrued liabilities	\$ (2,620,395)
Loan payable	\$ (3,378,851)

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).

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16. COMMITMENTS

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

2010	\$	50,784
2011		103,040
2012		103,776
2013		105,984
2014		106,720
2015		81,696
		<u>81,696</u>
	\$	<u>552,000</u>

The Company is also responsible for its proportionate share of the operating costs and property taxes estimated at \$55,000 per year. The Company is jointly and severally liable for the lease costs.

Mineral properties commitments are disclosed in Note 8.

17. SEGMENTED INFORMATION

The Company operates in the mining, exploration and development business and has operations in Mexico and Canada. All operating revenues are earned in Mexico. Geographical information is as follows:

	<u>Canada</u>	<u>Mexico</u>	<u>Consolidated</u>
As at June 30, 2010			
Current assets	\$ 697,909	\$ 4,491,941	\$ 5,189,850
Plant and equipment	92,488	5,412,468	5,504,956
Investment In DynaMexico	-	12,030,817	12,030,817
Mineral properties	-	62,933,882	62,933,882
Total assets	<u>\$ 790,397</u>	<u>\$ 84,869,108</u>	<u>\$ 85,659,505</u>
As at December 31, 2009			
Current assets	\$ 491,985	\$ 340,698	\$ 832,683
Plant and equipment	106,020	351,482	457,502
Investment	2,313,278	10,030,919	12,344,197
Mineral properties	-	21,512,738	21,512,738
Total assets	<u>\$ 2,911,283</u>	<u>\$ 32,235,837</u>	<u>\$ 35,147,120</u>

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17. SEGMENTED INFORMATION (CONTINUED)

Loss for the period:	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Canada	\$ 2,635,177	\$ 175,991	\$ 3,103,155	\$ 429,638
Mexico	232,957	285,449	556,406	671,999
	<u>\$ 2,868,134</u>	<u>\$ 461,440</u>	<u>\$ 3,659,561</u>	<u>\$ 1,101,637</u>

18. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Receivables, prepaids and deposits	\$ (200,547)	\$ (120,797)	\$ (260,058)	\$ (194,307)
Inventories	710,354	-	710,354	-
Accounts payable and accrued liabilities	55,360	87,549	351,499	74,040
Due to related parties	-	(260,936)	-	(48,354)
	<u>\$ 565,167</u>	<u>\$ (294,184)</u>	<u>\$ 801,795</u>	<u>\$ (168,621)</u>

Non-cash investing transactions not included in cash flows:

Amortization capitalized to mineral properties	<u>\$ 29,980</u>	<u>\$ 30,482</u>	<u>\$ 60,401</u>	<u>\$ 34,247</u>
Acquisition of Goldgroup Mining through issuance of common shares (Note 3)	<u>\$ 34,119,735</u>	<u>\$ -</u>	<u>\$ 34,119,735</u>	<u>\$ -</u>

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19. SUBSEQUENT EVENTS

Sale of El Porvenir Gold Property

On July 9, 2010 the Company sold its 100% owned interest in the El Porvenir gold property in Aguascalientes, Mexico for \$25,000,000 and paid \$1,700,000 to discharge a royalty interest on the property. The estimated taxes payable on the sale of El Porvenir are approximately \$5,300,000.

Loan payable

On July 15, 2010 the \$3,378,851 loan payable (Note 10) was repaid in full.

Stock option grant

On July 29, 2010 the Company granted 470,000 stock options to employees and a director. The Company also extended the expiration date of July 29, 2010 for 287,718 stock options held by former directors to December 15, 2010.