GOLDGROUP MINING INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Thousands of United States Dollars)

Independent auditor's report

Grant Thornton LLP
Suite 1600, Grant Thornton Place
333 Seymour Street
Vancouver, BC
V6B 0A4

T +1 604 687 2711
F +1 604 685 6569
www.GrantThornton.ca

To the Shareholders of Goldgroup Mining Inc.:

We have audited the accompanying consolidated financial statements of Goldgroup Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Goldgroup Mining Inc. as at December 31, 2011, December 31, 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Vancouver, Canada
March 29, 2012

Chartered accountants

GOLDGROUP MINING INC.
Consolidated Statements of Financial Position
December 31, 2011 and 2010
(Expressed in thousands of United States dollars, except per share amounts)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
	28			
ASSETS				
Current assets				
Cash and cash equivalents	5	$ 23,313	$ 12,654	$ 515
Investment held for trading		-	-	2,313
Receivables	6	4,051	2,557	219
Inventories	7	5,265	4,165	-
Prepaids and deposits		422	274	99
Total current assets		33,051	19,650	3,146
Non-current assets				
Plant and equipment	8	3,456	5,423	458
Investment in DynaResource de Mexico SA de CV	9	18,099	14,390	10,031
Exploration and evaluation properties	10	51,048	19,795	18,568
Mine properties	11	3,600	9,577	-
Total non-current assets		76,203	49,185	29,057
Total assets		$ 109,254	$ 68,835	$ 32,203
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other accounts payable	12	$ 2,270	$ 2,345	$ 402
Taxes payable		318	-	-
Warrant liability	14	-	962	-
Agreement payable		-	-	4,758
Total current liabilities		2,588	3,307	5,160
Non-current liabilities				
Decommissioning and restoration provision	13	770	583	-
Warrant liability	14	1,472	2,741	-
Deferred tax liability	17	4,526	4,572	692
Total liabilities		9,356	11,203	5,852
Equity				
Share capital	15	125,998	72,421	30,947
Share option reserve	15	6,716	4,372	2,326
Contingent share consideration	15	3,305	-	-
Translation reserve		(355)	(355)	(1,334)
Deficit		(35,766)	(18,806)	(5,588)
Total equity		99,898	57,632	26,351
Total equity and liabilities		$ 109,254	$ 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 consolidated financial statements

GOLDGROUP MINING INC.
Consolidated Statements of Loss and Comprehensive Loss
December 31, 2011 and 2010
(Expressed in thousands of United States dollars except per share amounts)

	Note	Year Ended December 31, 2011	2010
	4,27		
Revenue			
Gold sales		$ 30,956	$ 16,784
Silver sales		263	93
		31,219	16,877
Costs and expenses of mining operations			
Cost of sales	18	23,623	14,484
Depreciation and depletion		2,434	1,913
		26,057	16,397
Gross margin		5,162	480
Other expenses (income)			
Administrative expenses	19	6,777	6,297
Gain on sale of property	10.2	-	(16,787)
Share of equity loss in DynaMexico	9	294	128
Impairment and write-offs	4,7,8,10,11	9,691	22,152
Other expenses	20	3,250	1,227
		20,012	13,017
Loss before income taxes		(14,850)	(12,537)
Provision for (recovery of) income taxes:			
Current	17	1,968	2,347
Deferred	17	142	(1,666)
Net loss for the year		$ (16,960)	$ (13,218)
Other comprehensive income		-	979
Comprehensive loss for the year		$ (16,960)	$ (12,239)
Basic and diluted loss per share		$ (0.15)	$ (0.16)
Weighted average number of shares oustanding (000's)		115,945	82,097

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

GOLDGROUP MINING INC.
Consolidated Statements of Cash Flows
December 31, 2011 and 2010
(Expressed in thousands of United States dollars, except per share amounts)

	Note	Year Ended December 31, 2011	2010
CASH AND CASH EQUIVALENTS DERIVED FROM (USED IN)			
OPERATING ACTIVITIES			
Loss for the year		$ (16,960)	$ (13,218)
Items not involving cash:			
Deferred tax provision		142	(1,666)
Depreciation and depletion		2,466	1,958
Unrealized foreign exchange (gain) loss		(189)	87
Loss on sale of investment		-	131
Share-based compensation expense	15	2,916	1,179
Impairment and write-offs		9,691	22,152
Gain on sale of El Porvenir property		-	(16,787)
Financing costs	21	49	54
(Gain) loss on warrants	14	(27)	852
Share of loss of DynaMexico	9	294	128
		(1,618)	(5,130)
Changes in non-cash working capital items	26	(3,222)	(1,074)
		(4,840)	(6,204)
FINANCING ACTIVITIES			
Issuance of shares, net of issue costs	15	41,902	9,213
Treasury shares	15	-	(441)
Repayment of loans		-	(4,896)
		41,902	3,876
INVESTING ACTIVITIES			
Acquisition of Sierra Minerals Inc.	4	-	516
Net proceeds from sale of El Porvenir property	10	-	23,300
Sale of investments		-	3,902
Purchase of investments		-	(1,658)
Purchase of plant and equipment	8	(3,297)	(851)
Investment in DynaMexico	9	(4,003)	(4,128)
Exploration and evaluation properties	10	(19,103)	(6,672)
		(26,403)	14,409
Effect of exchange rate changes on cash and cash equivalents		-	58
Increase in cash and cash equivalents		10,659	12,139
Cash and cash equivalents, beginning of year		12,654	515
Cash and cash equivalents, end of year		$ 23,313	$ 12,654
Cash and cash equivalents is comprised of:			
Cash		$ 10,235	$ 12,654
Short-term deposits		13,078	-
		$ 23,313	$ 12,654
Supplemental Cash Flow Information	26		

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

GOLDGROUP MINING INC.
Consolidated Statements of Changes in Equity
December 31, 2011 and 2010
(Expressed in thousands of United States dollars, except per share amounts)

	Common Shares Number (000's)	Common Shares Amount	Share Option Reserve	Contingent Share Consideration	Translation Reserve	Deficit	Total Equity
January 1, 2011	88,633	72,421	4,372	-	(355)	(18,806)	57,632
Public offering	28,750	41,361	-	-	-	-	41,361
Issued for mineral property (Note 15.4)	7,000	8,899	-	3,305			12,204
Share issue costs	-	(3,413)	-	-	-	-	(3,413)
Options exercised	1,100	915	-	-	-	-	915
Transfer value on option exercise	-	572	(572)	-	-	-	-
Warrants exercised	3,034	3,039	-	-	-	-	3,039
Transfer value on warrant exercise	-	2,204	-	-	-	-	2,204
Share-based compensation	-	-	2,916	-	-	-	2,916
Loss for the period	-	-	-	-	-	(16,960)	(16,960)
December 31, 2011	128,517	$ 125,998	$ 6,716	$ 3,305	$ (355)	$ (35,766)	$ 99,898

	Common Shares Number (000's)	Common Shares Amount	Share Option Reserve	Contingent Share Consideration	Translation Reserve	Deficit	Total Equity
January 1, 2010	45,883	30,947	2,326	-	(1,334)	(5,588)	26,351
Private placement	9,060	6,510	-	-	-	-	6,510
Business combination (Note 4)	33,010	34,120	1,630	-	-	-	35,750
Options exercised	1,097	541					541
Transfer value on option exercise	-	763	(763)	-	-	-	-
Warrants exercised	22	18					18
Transfer value on warrant exercise		7					7
Share issue costs	-	(44)					(44)
Share-based compensation	-	-	1,179	-	-	-	1,179
Loss for the year	-	-	-	-	-	(13,218)	(13,218)
Treasury shares	(439)	(441)	-	-	-	-	(441)
Other comprehensive income	-	-	-	-	979	-	979
December 31, 2010	88,633	$ 72,421	$ 4,372	$ -	$ (355)	$ (18,806)	$ 57,632

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

1. NATURE OF OPERATIONS

Goldgroup Mining Inc. is the parent company of its consolidated group ("Goldgroup Mining'' or the "Company''). Goldgroup Mining was incorporated in Quebec under the *Business Corporations Act* (Québec) and on July 28, 2011 it was continued under the *Business Corporations Act* (British Columbia). Its head office is located at Suite 2184 – 1055 Dunsmuir Street, Vancouver BC, V7X 1L3. 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 Mining owns and operates the Cerro Colorado mine in Sonora, along with a property portfolio that includes a 100% interest in the Caballo Blanco gold project in Veracruz and the 50% interest in the San José de Gracia gold project in Sinaloa. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "GGA".

The Company expects that any revenues from production will finance the operations of the Company. The Company may have to raise additional funds over and above amounts raised to date to complete the acquisition, exploration and development of its 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 in the future.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first set of annual financial statements prepared in accordance with IFRS. The preparation of these 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"). Please see note 27 for explanation of transition to IFRS. 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").

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 statement of financial position as at December 31, 2010 and comparative consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year ended December 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.

These consolidated financial statements were approved for issue by the Board of Directors on March 26, 2011.

2. BASIS OF PRESENTATION (CONTINUED)

2.2. Basis of measurement

These 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.

2.3. 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. Differences may be material.

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. Qualified persons are defined in accordance with Canadian Securities Administrators National Instrument 43-101. 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 and depletion.

The recoverability of the mineral reserve amounts is dependent on the Company's ability to secure and maintain title and beneficial interests in the properties to obtain the necessary financing, to continue the exploration and future developments of the properties, and/or to realize the carrying amount through a sale or partial disposal.

2. BASIS OF PRESENTATION (CONTINUED)

(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 exploration and evaluation properties, mine properties and 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 and depletion

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 and depletion 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.

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation and depletion 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, exploration and evaluation properties and mine properties 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.

2. BASIS OF PRESENTATION (CONTINUED)

(v) Inventories

Expenditures incurred, and depreciation and depletion 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 and depletion 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.

The allocation of costs to 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.

2. BASIS OF PRESENTATION (CONTINUED)

(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 and exploration and development property. 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 uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax values (temporary differences) and loss carryforwards. Deferred tax assets and liabilities are measured using the tax rates expected to be in effect when temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in profit or loss in the period in which the change is substantively enacted. The amount of deferred tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(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.

(Expressed in thousands of United States dollars, except per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on a historical cost basis 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 consolidated financial statements include the financial statements of the Company and its subsidiaries:

Entity	**Property**	**Location**	**As at December 31, 2011**	As at December 31, 2010
Subsidiaries:				
Granmin Malaysia Ltd. ("Granmin Malaysia")	-	Malaysia	100%	100%
Granmin SA de CV ("Granmin Mexico")	Cerro Colorado/ El Cajon	Mexico	100%	100%
Minera Calipuy SA de CV ("Calipuy")	San Martin	Mexico	100%	100%
Goldgroup Holdings Corp. ("Holdings")	-	Canada	100%	100%
GGR Candelero SA de CV ("GGR")	El Candelero	Mexico	100%	100%
Candymin SA de CV ("Candymin")	Caballo Blanco	Mexico	100%	100%
0919921 B.C. Ltd. [a]	Caballo Blanco	Mexico	100%	-
Gold Opmin SA de CV ("Gold Opmin")	Kenya	Mexico	90%	90%
0788598 B.C. Ltd.	-	Canada	100%	100%
0788601 B.C. Ltd.	-	Canada	100%	100%
Minera Cardel SA de CV ("Minera Cardel")	-	Mexico	100%	100%
Investment in associates:				
(Equity accounted)				
DynaResource de Mexico SA de CV ("DynaMexico") [b]	San José de Gracia	Mexico	50%	25%

a) *On October 14, 2011 the remaining 30% of the Caballo Blanco joint venture project was acquired by 0919921 BC Ltd. (see Note 10.1).*
b) *On March 14, 2011, Goldgroup Mining's ownership in Dyna Mexico increased to 50% (see Note 9).*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 obtains control or ceases to have significant influence.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 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 or 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.6 Inventories

Finished goods (doré inventory) 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Plant and Equipment

Plant and equipment are recorded at cost and carried net of accumulated 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.

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 expenditures are 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, the mineral properties 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 depreciated and depleted on the unit-of-production basis using estimated proven and probable reserves. Depreciation or depletion is recorded against the mine property only upon the commencement of commercial production.

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 based on the unit-of-production method.

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

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

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine or site 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 depleted or depreciated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 basis 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. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is certain that a reimbursement will be received and the amount receivable can measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Deferred tax assets and liabilities are measured, without discounting, using enacted or 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 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The fair value of share-based payments is charged either to profit or loss, 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.

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.

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 Contingent share consideration

When purchase consideration that is contingent on the future event is granted in an acquisition that does not constitute a business combination, the initial cost of the acquisition includes an estimate of the fair value of the contingent amounts expected to be payable in the future. Subsequent changes to the estimated fair value of contingent consideration are recorded as part of the cost of the assets acquired.

The fair value of the contingent amounts are based the number of contingent shares, the share price of the Company's on the date of acquisition and management's expectations of probability.

3.16 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). When diluted earnings per share is calculated, only those outstanding share options and warrants and other convertible instruments with exercise prices below the average trading price of the Company's common shares for the period will be dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 is the same.

3.17 Related Party Transactions

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

3.18 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.

3.19 Financial Instruments - Recognition and Measurements

(i) Non-derivative financial assets

Financial assets, other than derivatives, are classified as available-for-sale, held-to-maturity investments, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as available-for-sale are measured at fair value on initial recognition plus transaction costs and subsequently at fair value with unrealized gains and losses recognized in other comprehensive income (loss), except for financial assets that are considered to be impaired in which case the loss is recognized in profit or loss. The Company has not classified any assets as available for sale for any period presented.

Financial assets classified as held-to-maturity investments and loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortized cost using the effective interest method. The Company's cash and cash equivalents and accounts receivables are classified as loans and receivables.

Financial assets classified as FVTPL are measured on initial recognition and subsequently at fair value with unrealized gains and losses recognized in profit or loss. Transaction costs are expensed for assets classified as FVTPL. The Company has not classified any assets as FVTPL for any period presented.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Non-derivative financial liabilities

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other accounts payable and agreement payable are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in profit or loss. The Company has not designated any financial liabilities as FVTPL.

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

3.20 Share Issuance Costs

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

3.21 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 warrant 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Comprehensive Income (loss)

Total comprehensive income (loss) comprises all components of profit or loss and other comprehensive income (loss). Other comprehensive income (loss) 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.

3.23 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, 2015

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.

Accounting Standards Issued and Effective January 1, 2013

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

(Expressed in thousands of United States dollars, except per share amounts)

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

On April 30, 2010, Holdings effected a share exchange agreement ("the Agreement") with Goldgroup Mining to effect a business combination of the two companies. The 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, is 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.

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.

(Expressed in thousands of United States dollars, except per share amounts)

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.

The Company incurred transaction costs of $395 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 loss and cash flows for the year ended December 31, 2010.

5. CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010	January 1, 2010
Cash at the bank and on hand			
US dollar	$ 5,775	$ 11,514	$ 25
Canadian ("Cdn") dollar	425	932	344
Mexican pesos	4,035	208	146
Short term deposits - Cdn dollar	13,078	-	-
	$ 23,313	$ 12,654	$ 515

(Expressed in thousands of United States dollars, except per share amounts)

6. RECEIVABLES

	December 31, 2011	December 31, 2010	January 1, 2010
Financial assets			
Receivables	$ 331	$ 443	$ 117
Employee receivables	35	37	20
	366	480	137
Non-financial assets			
Value-added and corporate tax	3,685	2,077	82
	$ 4,051	$ 2,557	$ 219

7. INVENTORIES

Inventories consist of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Doré	$ 1,232	$ 440	-
Gold-in-process	2,425	2,640	-
Consumable supplies	1,608	1,085	-
	$ 5,265	$ 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	2,702	200	71	324	-	3,297
Write-off of equipment	(211)	-	-	-	-	(211)
Balance, December 31, 2011	7,849	1,246	344	840	61	10,340
Accumulated depreciation						
Balance, January 1, 2011	1,032	342	157	278	22	1,831
Depreciation for the period	786	142	62	153	12	1,155
Impairment charge (Note 11)	3,456	370	12	112	-	3,950
Write-off of equipment	(52)	-	-	-	-	(52)
Balance, December 31, 2011	5,222	854	231	543	34	6,884
Net book value	$ 2,627	$ 392	$ 113	$ 297	$ 27	$ 3,456

(Expressed in thousands of United States dollars, except per share amounts)

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
Write-off of equipment	(665)	-	-	-	-	(665)
Functional currency adjustment	-	18	2	1	2	23
Balance, December 31, 2010	5,358	1,046	273	516	61	7,254
Accumulated depreciation						
Balance, January 1, 2010	-	145	70	32	9	256
Depreciation for the period	1,456	191	87	245	12	1,991
Write-off of equipment	(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 million.

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 69,000 hectares with no outstanding royalty or other interest.

(Expressed in thousands of United States dollars, except per share amounts)

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 directors of DynaMexico is to be comprised of 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. Management considers its ownership interest and its representation on the board of DynaMexico to provide the Company with significant influence over DynaMexico, and as such, the investment is accounted for using the equity method.

The investment in DynaMexico is comprised of:

	Year Ended December 31, 2011	Year ended December 31, 2010
Investment, beginning of period	$ 14,390	$ 10,031
Funds invested	4,003	4,128
Share of loss	(294)	(128)
Translation adjustment	-	359
Investment, end of period	$ 18,099	$ 14,390

(Expressed in thousands of United States dollars, except per share amounts)

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				
Depreciation	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
Functional currency 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	19,049	-	-	19,049
Exploration Costs				
Depreciation	145	-	10	155
Drilling	6,468	-	-	6,468
Exploration	5,077	-	18	5,095
Development costs	873	-	-	873
Fees and taxes	509	-	236	745
	50,232	-	1,948	52,180
Write-off of Kenya property	-	-	(932)	(932)
Disposal of El Cobre	-	-	(200)	(200)
December 31, 2011	$ 50,232	$ -	$ 816	$ 51,048

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 over the life of the concession.

(Expressed in thousands of United States dollars, except per share amounts)

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

10.1 Caballo Blanco

The Company's owns 100% of the Caballo Blanco project which consists of 14 mineral concessions covering 55,000 hectares, 65 kilometres north northwest of Veracruz, Mexico.

The Company earned a 70% interest in the Caballo Blanco property by paying $5.7 million in cash, issuing 9 million common shares, granting a 1.5% net smelter return ("NSR") royalty on the 70% interest (1.05% of the project as whole) and completing $12 million of exploration expenditures on the property, of which $8.2 million were incurred by the previous option holder, NGEx Resources Inc. ("NGEx").

On October 14, 2011 the Company acquired the remaining 30% joint venture interest in the Caballo Blanco project held previously by Almaden Minerals Ltd. ("Almaden"). The total consideration paid, including contingent share consideration that will be paid, by the Company to Almaden in connection with the transaction consisted of:

- $2.5 million in cash
- 7 million Goldgroup Mining common shares
- A requirement to issue up to an additional 7 million Goldgroup Mining's common shares upon the achievement of certain project milestones:
    - 1 million common shares upon commencement of commercial production
    - 2 million common shares upon measured and indicated resources, including cumulative production, reaching 2 million ounces of gold
    - 2 million common shares upon measured, indicated and inferred resources, including cumulative production, reaching 5 million ounces of gold
    - 2 million common shares upon measured, indicated and inferred resources, including cumulative production, reaching 10 million ounces of gold
- A 1.5% NSR royalty
- Transfer of the Company's 40% interest in the El Cobre property

Acquisition costs that the Company recorded for the 30% acquisition from Almaden was $15,022, which is comprised of the following:

	Amount (in 000's)
Cash	$ 2,500
Shares issued	8,899
Contingent share consideration	3,305
El Cobre project	200
Legal costs	118
	$ 15,022

In addition, included in acquisition costs is $650 that the Company paid to the original royalty holder of the property for his 0.4% NSR royalty. This original royalty holder still holds a 0.4% NSR royalty.

There were additional acquisition costs during the year totaling $3,377 that related to land surface right purchases.

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

The additional 7 million Goldgroup common shares, that are to be issued if certain project milestones are reached, were valued using the price of the Company's common shares on the date of transaction with probabilities assigned to each threshold based on management's best estimates. The total value was $3,305, which was recorded as an increase in the contingent share consideration equity account. Each period these shares will be reviewed by management and adjusted for changes in value.

The total NSR royalty payable on this project is 2.95%. The Company was also required to make a $4,916 (C$5 million) 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 SA de CV ("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 royalty 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 property for $25 million and paid $1.7 million to discharge the royalty interest on the property.

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.

During the fourth quarter of 2011 management decided that it was not going to continue exploration on this property. Accordingly, exploration costs of $932 were written off during the period.

(Expressed in thousands of United States dollars, except per share amounts)

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

ii) El Candelero

The Company is earning up to a 70% interest 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 the GGR Candelero SA de CV's ("GGR") 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 December 31, 2011, the Company has expended aggregate property related work costs of $433. Exploration work on the property has been deferred due to local unrest in the area of the property since early 2009, causing the Company to be unable to fund the required work costs.

As a result of the local unrest, in June 2010, the Company declared force majeure which currently is in effect to June 2012, as allowed under the option agreement. The required funding of work costs will resume once force majeure no longer exists.

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.

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

iii) San Martin

The San Martin property is located in Sinaloa, Mexico. No work has been performed on this property since 2003 and has a carrying value of $nil.

During the fourth quarter management decided that it was not going to continue exploration on this property.

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 owned 60% and the Company owned 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.

On October 14, 2011 the Company transferred its 40% share of this project to Almaden as part of the acquisition of Almaden's 30% interest of Caballo Blanco. The property was transferred at its carrying value.

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 1st 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.

(Expressed in thousands of United States dollars, except per share amounts)

11. 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 totalling 197 hectares, 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 18 months.

An impairment charge totalling $8,600 was recorded against the Cerro Colorado mine. The impairment was proportionately charged against the carrying value of the mine for $4,650 and plant and equipment for $3,950. The trigger for the impairment test was the result of changes to the mine plan resulting from an internal report which estimated that at the current production levels, the remaining life of the mine would be approximately 18 months.

In assessing whether an impairment is required for the carrying value of cash generating unit ("CGU") for which Cerro Colorado is a part of, the carrying value of the CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU's fair value less cost to sell and value in use. Given the nature of the Company's activities, it is difficult to determine fair value less cost to sell. As a result the Company has estimated the value in use using a discounted cash flow model. The discounted cash flow model is adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 11%.

The project became subject to a NSR royalty of 3% when cumulative production exceeded 100,000 ounces, which occurred on May 25, 2010. The following table summarizes the capitalized costs associated with the Cerro Colorado mine:

	Year ended December 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		
Balance, beginning of period	(6,234)	-
Depletion for period	(1,465)	(1,334)
Adjustment to decommissioning and restoration provision	138	-
Impairment	(4,650)	(4,900)
Balance, end of period	(12,211)	(6,234)
	$ 3,600	$ 9,577

(Expressed in thousands of United States dollars, except per share amounts)

12. TRADE AND OTHER ACCOUNTS PAYABLE

	December 31, 2011	December 31, 2010	January 1, 2010
Financial liabilities			
Trade payables	$ 2,224	$ 1,958	$ 338
Employee payables	14	41	-
Payroll accruals	32	281	64
	2,270	2,280	402
Non-financial liabilities			
Value added tax	-	65	-
	$ 2,270	$ 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 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.

During the year ended December 31, 2011, the Company reassessed its decommissioning and reclamation costs to reflect additional liabilities expected upon closure of the Cerro Colorado mine. The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs is $950. 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.

(ii) The discount rate used is 8.6% and the country rate risk is 2.4%.

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

	December 31, 2011	December 31, 2010
Opening	$ 583	$ -
Revision in estimates	138	-
Acquisition of Sierra (Note 4)	-	548
Accretion expense	49	35
	$ 770	$ 583

(Expressed in thousands of United States dollars, except per share amounts)

14. WARRANT LIABILITY

The following warrants were outstanding:

	Warrants	Exercise price (C$)	Warrant liability (US$)
Balance, January 1, 2010	-	$ -	$ -
Granted	3,100,000	1.25	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	(3,034,200)	0.99	(2,204)
Change in fair value	-	-	(27)
Balance, December 31, 2011	2,000,000	$ 1.25	$ 1,472

Expiry Date	Number of Warants	Weighted average exercise price (C$/warrant)
November 26, 2015	2,000,000	$ 1.25

The fair value allocated to the warrants at December 31, 2011 was $1,472 (December 31, 2010 - $3,703) and is recorded as a derivative financial liability. The loss (gain) recognized in the statement of loss for the year ended December 31, 2011 and 2010 was $(27) and $852, respectively and is included in other expenses.

The fair value of the warrants is calculated using the Black-Scholes Option Pricing Model. 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 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 December 31, 2011 are 128,517,049 (December 31, 2010 – 88,633,127).

15. EQUITY (CONTINUED)

During the year ended December 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.

ii. 1,099,721 share options were exercised for proceeds of $915 and $572 was reallocated from share option reserve to share capital.

iii. 3,034,200 warrants were exercised for proceeds of $3,039 and $2,204 was reallocated from warrant liability to share capital.

iv. On October 14, 2011, the Company issued 7,000,000 shares to Almaden as part of the acquisition of its 30% interest in Caballo Blanco (see note 10.1).

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, 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 compensation expense

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 December 31, 2011, share options available for issue under the plan were 12,851,704.

(Expressed in thousands of United States dollars, except per share amounts)

15. EQUITY (CONTINUED)

Total share options granted during the year ended December 31, 2011 were 5,635,000 (December 31, 2010 – 3,964,486). Total share-based compensation expense recognized for the fair value of share options granted and vested during the year ended December 31, 2011 was $2,916 (December 31, 2010 - $1,179).

The weighted average share price at the date of exercise for all share options exercised during the year was C$1.33. The weighted average fair value of options granted during the year at the date of measurement was C$0.65.

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

	Year ended December 31,	
	2011	2010
Strike Price	$1.36	$0.96
Risk free interest rate	1.60%	1.63%
Expected option life	2.35 years	2 years
Expected stock price volatility	94%	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 year ended December 31, 2011 was $1.36 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	5,635,000	$	1.36
Exercised	(1,099,721)	$	0.82
Expired	(63,815)	$	0.99
Forfeited	(209,914)	$	0.89
December 31, 2011	11,486,848	$	1.04

(Expressed in thousands of United States dollars, except per share amounts)

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)
May 5, 2013	$ 0.65	2,320,000	$ 0.65	1.4	2,320,000	$ 0.65	1.4
May 18, 2013	$ 1.00	200,000	$ 1.60	1.4	200,000	$ 1.00	1.4
Dec. 22, 2013	$ 0.29	210,526	$ 0.29	2.0	210,526	$ 0.29	2.0
Feb. 5, 2014	$ 0.49	315,789	$ 0.49	2.1	315,789	$ 0.49	2.1
May 1, 2014	$ 0.57	61,403	$ 0.57	2.3	61,403	$ 0.57	2.3
May 18, 2014	$ 1.00	1,939,657	$ 1.00	2.4	1,939,657	$ 1.00	2.4
Jun. 23, 2014	$ 0.65	39,000	$ 0.65	2.5	39,000	$ 0.65	2.5
Jul. 29, 2014	$ 0.65	150,000	$ 0.65	2.6	112,500	$ 0.65	2.6
Oct. 1, 2014	$ 0.63	692,973	$ 0.63	2.8	692,973	$ 0.63	2.8
Nov. 12, 2014	$ 0.65	30,000	$ 0.65	2.9	30,000	$ 0.65	2.9
Jan. 10, 2015	$ 1.16	140,000	$ 1.16	3.0	70,000	$ 1.16	3.0
Jan. 31, 2015	$ 1.25	1,462,500	$ 1.25	3.1	735,000	$ 1.25	3.1
Jun. 15, 2016	$ 1.40	3,380,000	$ 1.40	4.5	1,702,500	$ 1.40	4.5
Nov. 15, 2016	$ 1.45	545,000	$ 1.45	4.9	98,750	$ 1.45	4.9
		11,486,848	$ 1.04	3.0	8,528,098	$ 0.94	2.6

15.4 Contingent share consideration

The Company has committed to issue up to 7 million of its common shares to Almaden upon the achievement certain project milestones on the Caballo Blanco project. This contingent share consideration was valued at $3,305 (see note 10.1).

(Expressed in thousands of United States dollars, except per share amounts)

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, Executive Chairman, Chief Financial Officer, Vice-President, Exploration, General Manager of Cerro Colorado, General Manager of Caballo Blanco, the Technical Director and non-executive directors of the Company. Subsequent to December 31, 2011, the General Manager of Caballo Blanco resigned and was replaced with Vice President, Technical and Projects.

Key management compensation includes:

	Year ended December 31, 2011	Year ended December 31, 2010
Salaries [1]	$ 1,214	$ 796
Non-executive director fees	102	61
Benefits [1]	46	23
Bonuses [2]	68	-
Options [3]	2,121	574
	$ 3,551	$ 1,454

1. The salaries and benefits are included in costs of sales, administrative expenses and exploration and evaluation properties.
2. The bonus is included in cost of sales.
3. The options are included in administrative expenses as share-based compensation expense.

At December 31, 2011, receivables include $nil (December 31, 2010 - $39; January 1, 2010 - $31) owing from Uracan and $2 (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 December 31, 2011, trade and other accounts payable includes $46 (December 31, 2010 - $11; January 1, 2010 - $66) owing to a director and/or officer and/or companies controlled by the directors.

(Expressed in thousands of United States dollars, except per share amounts)

16. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Due to the particulars of Mexican law, it is common for operating companies to employ their workers through a management company. The employees of Granmin Mexico are employed by Pabelini, S.A. de C.V. ("Pabelini"), a company owned by the former spouse of the CEO. Under a renewed agreement, dated June 1 ,2011 and expiring May 31, 2014, between Granmin Mexico and Pabelini, Pabelini pays all of the Cerro Colorado mine employees and Granmin Mexico administrative personnel and is reimbursed by Granmin Mexico. Pabelini charges a fee equal to 5% of the base salaries of the employees, before additions for statutory remittances. This fee in the amount of $154 (May 1, 2010 to December 31, 2010 - $87) is meant to reimburse Pabelini for its office costs and administrative overhead costs incurred in managing the payroll and making all required remittances to the Mexican government in association with salaries of such employees. The excess of this fee over these administrative costs provides for a profit margin. As at December 31, 2011, amounts owing from (to) Pabelini totalled $18 (2010 - $(217)).

In addition to Pabelini, a number of expatriate workers and Caballo Blanco employees, including the Company's CEO, are employed by MINOP, S.A. de C.V. ("Minop"). Minop is a private company controlled by the former step-son of the CEO. Under a renewed agreement, dated October 1, 2011 and expiring September 30, 2014, Minop charges a service fee equal to 1.5% of base salary for employees earning greater than $100 per year and 3% for employees earning less than $100 base salary per year. The fee in the amount of $79 (May 1, 2010 to December 31, 2010 - $38) is meant to reimburse Minop for administrative costs incurred by the company in providing these services. As at December 31, 2011, amounts owing from Minop totalled $27 (2010 - $18).

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

17. INCOME TAXES

a) Income tax expense

	Year ended December 31, 2011	2010
Current income tax expense	$ 1,968	$ 2,347
Deferred income tax expense (recovery)	142	(1,666)
Income tax expense	$ 2,110	$ 681

(Expressed in thousands of United States dollars, except per share amounts)

17. INCOME TAXES (CONTINUED)

b) Deferred tax liability

The tax effects of temporary differences between amounts recorded in the Company's financial statements and the corresponding amounts as computed for income tax purposes give rise to deferred tax assets (liabilities) as follows:

December 31, 2011	Canada	Mexico	Total
Plant and equipment	$ -	$ (117)	$ (117)
Exploration and evaluation properties and mine property	-	(4,645)	(4,645)
Other	-	236	236
Deferred tax liability	$ -	$ (4,526)	$ (4,526)

December 31, 2010	Canada	Mexico	Total
Plant and equipment	$ -	$ (1,117)	$ (1,117)
Exploration and evaluation properties and mine property	-	(3,780)	(3,780)
Other	-	325	325
Deferred tax liability	$ -	$ (4,572)	$ (4,572)

January 1, 2010	Canada	Mexico	Total
Plant and equipment	$ -	$ (20)	$ (20)
Exploration and evaluation properties and mine property	-	(563)	(563)
Other	-	(109)	(109)
Deferred tax liability	$ -	$ (692)	$ (692)

(Expressed in thousands of United States dollars, except per share amounts)

17. INCOME TAXES (CONTINUED)

No deferred tax assets are recognized on the following temporary differences relating to Canadian or Mexican non-operating subsidiaries as it is not probable that sufficient future taxable profit will be available to realize such assets:

December 31, 2011	**Canada**	**Mexico**	**Total**
Tax loss carryforwards and tax credits	$ 2,846	$ 3,605	$ 6,451
Share issue costs	723	-	723
Other	65	230	295
Unrecognized deferred tax assets	$ 3,634	$ 3,835	$ 7,469

December 31, 2010	**Canada**	**Mexico**	**Total**
Tax loss carryforwards and tax credits	$ 2,293	$ 279	$ 2,572
Other	197	60	257
Unrecognized deferred tax assets	$ 2,490	$ 339	$ 2,829

January 1, 2010	**Canada**	**Mexico**	**Total**
Tax loss carryforwards and tax credits	$ 602	$ 753	$ 1,355
Other	-	72	72
Unrecognized deferred tax assets	$ 602	$ 825	$ 1,427

Deferred tax assets and liabilities, that are probable to be utilized, are offset if they relate to the same taxable entity and the same taxation authority. Future potential tax deductions that do not offset deferred tax liabilities are considered to be deferred tax income assets.

The Company has non-capital losses of approximately $12,100 (2010 – $9,200) to reduce future income tax payable in Canada which expire between the years 2012 and 2031.

In Mexico, the Company has $3,400 of Mexican tax credits that are available to be offset against any future taxable income under the Mexican Flat Tax System, which expire between 2018 and 2021.

(Expressed in thousands of United States dollars, except per share amounts)

17. INCOME TAXES (CONTINUED)

The provision for income tax differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 26.5% (2010 – 28.5%) as follows:

	Year ended December 31, 2011	2010
Expected income tax expense (recovery)	$ (3,935)	$ (3,573)
Non-deductible items	148	5,792
Share-based compensation	773	336
Tax rate differences	71	294
Change in inventory tax value	1,405	-
Foreign exchange	940	(133)
Other	(1,072)	(2,371)
Deferred tax assets not recognized	3,780	336
	$ 2,110	$ 681

All deferred income tax expense recognized during the year relates to the Company's subsidiaries in Mexico.

18. COST OF SALES

	Year ended December 31, 2011	2010 (Note 4)
Raw materials	$ 17,191	$ 8,972
Salaries and employee benefits	4,755	3,338
Rental machinery	111	642
Contractors	694	511
Royalties	935	422
Change in inventories	(734)	26
Other	671	423
	23,623	14,334
Depreciation and depletion	2,434	2,063
	$ 26,057	$ 16,397

(Expressed in thousands of United States dollars, except per share amounts)

19. ADMINISTRATIVE COSTS

	Year ended December 31,	
	2011	**2010 (Note 4)**
Salaries	$ 1,403	$ 2,091
Office and rent	1,016	682
Investor relations	482	208
Professional fees	653	1,707
Travel	297	303
Share-based compensation expense	2,916	1,179
Interest income	(243)	(48)
Other	253	175
	$ 6,777	$ 6,297

20. OTHER EXPENSES

	Year ended December 31,	
	2011	**2010 (Note 4)**
Accretion for decommissioning and restoration provision	$ 49	$ 34
Interest and other	36	475
Loss (gain) on warrants	(27)	852
Foreign exchange loss (gain)	2,000	(538)
Exploration - project generation	118	-
Exploration - Cerro Colorado	1,074	404
	$ 3,250	$ 1,227

21. 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 issue new shares, seek debt financing, acquire or dispose of assets or change the timing of its planned exploration and development projects.

21. MANAGEMENT OF CAPITAL (CONTINUED)

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

22. RISK MANAGEMENT

22.1 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, investment held for trading, receivables, trade and other accounts payable, warrant liability 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.

(Expressed in thousands of United States dollars, except per share amounts)

22. 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 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 24). 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.

The table below summarizes the maturity profile of the Company's non-derivative financial liabilities based on undiscounted payments. As the amounts disclosed in the table are the contractual undiscounted cash flows, these balances may not agree with amounts disclosed in the balance sheet.

Year ended December 31, 2011	**Current**	**Non-current**	
	Within 1 year	**1 to 3 years**	**Later than 3 years**
Trade and other accounts payable	$ 2,270	$ -	$ -
Taxes payable	217	46	55
Total	$ 2,487	$ 46	$ 55

22. RISK MANAGEMENT (CONTINUED)

Year ended December 31, 2010	Current	Non-current	
	Within 1 year	1 to 3 years	Later than 3 years
Trade and other accounts payable	$ 2,345	$ -	$ -
Total	$ 2,345	$ -	$ -

c. Market Risk

The significant market risks which the Company is exposed to are interest rate risk, price 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.

ii. Price risk

Price risk is the risk that the trading price of the Company's shares will fluctuate and result in an increase or decrease in the value of the warrant liability.

iii. 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.

(Expressed in thousands of United States dollars, except per share amounts)

22. RISK MANAGEMENT (CONTINUED)

The Company is exposed to foreign currency risk on financial instruments related to cash and cash equivalents, investment held for trading, receivables, trade and other accounts payable, warrant liability 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 does 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 December 31, 2011 is shown in the table below:

	Canadian dollar (Cdn $)			Mexican Peso (Peso)		
	Dec. 31, 2011	**Dec. 31, 2010**	**Jan. 1, 2010**	**Dec. 31, 2011**	**Dec. 31, 2010**	**Jan. 1, 2010**
Financial assets						
Cash and cash equivalents	$ 13,732	$ 927	$ 362	$ 56,311	$ 2,570	$ 1,761
Receivables	347	60	19	51,534	30,390	2,503
	$ 14,079	$ 987	$ 381	$ 107,845	$ 32,960	$ 4,264
Financial liabilities						
Trade and other accounts payable	$ 186	$ 194	$ 324	$ 13,980	$ 14,008	$ 1,168

The following table indicates the impact of foreign currency risk on working capital as at December 31, 2011. The table also provides a sensitivity analysis of a ten 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	**Mexican Pesos**
Financial assets	14,079	107,845
Financial liabilities	(186)	(13,980)
Net foreign currency working capital	14,265	93,865
US$ exchange rate	0.9833	0.07166
Net foreign currency working capital in US$	14,027	6,726
Foreign exchange loss on a 10% strengthening of the US$	1,403	673
Foreign exchange gain on a 10% weakening of the US$	1,403	673

(Expressed in thousands of United States dollars, except per share amounts)

22. RISK MANAGEMENT (CONTINUED)

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

As at December 31, 2011, the Company's cash and cash equivalents, receivables and trade and other accounts payable are measured at amortized cost. Warrant liability of $1,472 is measured at fair value using Level 3 inputs.

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).

There were no transfers between level 1 and level 2 during the years ended December 31, 2011 and 2010.

23. COMMITMENTS

The Company leases office premises with Uracan (Note 16) pursuant to a lease agreement expiring September 30, 2015. During the term of this lease agreement, the Company will be responsible for 80% (2010 – 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:

2012	163
2013	167
2014	168
2015	129
	$ 627

The Company is also responsible for its proportionate share of the operating costs and property taxes estimated at $88 (2010 - $54) per year. The Company is jointly and severally liable for the lease costs.

(Expressed in thousands of United States dollars, except per share amounts)

23. COMMITMENTS (CONTINUED)

The Company has entered into a lease agreement with the owner (a related party) 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.

24. SEGMENTED INFORMATION

The Company operates in two geographical and three operating segments. The operating segments are managed separately based on the nature of operations. Mining operations consist of the Cerro Colorado mine, while exploration and development is primarily the Caballo Blanco project and the Investment in DynaMexico.

During the year ended December 31, 2011, 100% of the Company's sales were to two third parties. The balance owing from these parties at December 31, 2011 was $nil.

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

			December 31, 2011
	Canada	Mexico	Total
Current assets	$ 20,923	$ 12,128	$ 33,051
Plant and equipment	49	3,407	3,456
Investment in DynaMexico	-	18,099	18,099
Exploration and evaluation properties	-	51,048	51,048
Mine properties	-	3,600	3,600

			December 31, 2010
	Canada	Mexico	Total
Current assets	$ 5,650	$ 14,000	$ 19,650
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

(Expressed in thousands of United States dollars, except per share amounts)

24. SEGMENTED INFORMATION (CONTINUED)

			January 1, 2010
	Canada	Mexico	Total
Current assets	$ 2,805	$ 341	$ 3,146
Plant and equipment	111	347	458
Investment in DynaMexico	-	10,031	10,031
Exploration and evaluation properties	-	18,568	18,568

Selected financial information by operating segments is as follows:

	Year ended December 31, 2011	2010 (Note 4)
Revenue		
Mining operations	$ 31,219	$ 16,877
Income (loss) before income taxes for the period		
Mining operations	$ 5,161	$ 480
Exploration and evaluation	(9,791)	(532)
Corporate	(10,220)	(12,485)
	$ (14,850)	$ (12,537)

	Mining Operations	Exploration and Development	Corporate	December 31, 2011 Total
Current assets	$ 8,003	$ 4,125	$ 20,923	$ 33,051
Plant and equipment	2,997	410	49	3,456
Investment in DynaMexico	-	18,099	-	18,099
Exploration and evaluation properties	-	51,048	-	51,048
Mine properties	3,600	-	-	3,600
	$ 14,600	$ 73,682	$ 20,972	$ 109,254

	Mining Operations	Exploration and Development	Corporate	December 31, 2010 Total
Current assets	$ 7,170	$ 6,830	$ 5,650	$ 19,650
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
	$ 21,808	$ 41,307	$ 5,720	$ 68,835

(Expressed in thousands of United States dollars, except per share amounts)

25. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	Year ended December 31, 2011	2010
Receivables	$ (1,494)	$ (1,021)
Prepaids and deposits	(148)	(175)
Inventories	(1,100)	44
Trade and other accounts payable	(1,521)	78
Accounts payable for exploration and evaluation properties	723	-
Taxes payable	318	-
	$ (3,222)	$ (1,074)

Non-cash investing transactions not included in cash flows:

	2011	2010
Depreciation capitalized to exploration and evaluation properties	$ 156	$ 130
Accretion for decommissioning and restoration provision	$ 49	$ 34
Exploration and evaluation property acquired through issuance of shares	$ 8,899	$ -
Contingent share consideration for exploration and evaluation property	$ 3,305	$ -

26. SUBSEQUENT EVENT

On March 26, 2012 the Company granted 300,000 stock options to an employee of the Company at an exercise price of $1.20, expiring on March 26, 2017.

27. TRANSITION TO IFRS

The Company's IFRS accounting policies presented in Note 3 have been applied in preparing the financial statements for the year ended December 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 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.

27. TRANSITION TO IFRS (CONTINUED)

27.1 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 vested prior to the Transition Date.

27.2 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”)

(Expressed in thousands of United States dollars, except per share amounts)

27. 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 and equity

		As at January 1, 2010			As at December 31, 2010		
		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	$12,654	$ -	$12,654
Investment held for trading		2,313	-	2,313	-	-	-
Receivables		219	-	219	2,557	-	2,557
Inventories		-	-	-	4,165	-	4,165
Prepaids and deposits		99	-	99	274	-	274
		3,146	-	3,146	19,650	-	19,650
Plant and equipment		458	-	458	5,423	-	5,423
Investment in DynaResource de Mexico SA de CV		10,031	-	10,031	14,390	-	14,390
Exploration and evaluation properties	c	21,513	(2,945)	18,568	22,855	(3,060)	19,795
Mine properties	d	-	-	-	14,327	(4,750)	9,577
		$35,148	$ (2,945)	$32,203	$76,645	$ (7,810)	$68,835
LIABILITIES AND EQUITY							
Current							
Trade and other accounts payable		$ 402	$ -	$ 402	$ 2,345	$ -	$ 2,345
Warrant liability	b	-	-	-	-	962	962
Agreement payable		4,758	-	4,758	-	-	-
		5,160	-	5,160	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	9,047	(4,475)	4,572
		8,797	(2,945)	5,852	11,929	(726)	11,203
Equity				-			-
Share capital		30,947	-	30,947	72,421	-	72,421
Share option reserve		2,326	-	2,326	4,372	-	4,372
Warrant equity	b	-	-	-	2,719	(2,719)	-
Translation reserve		(1,334)	-	(1,334)	(355)	-	(355)
Deficit	a,b,c,d	(5,588)	-	(5,588)	(14,441)	(4,365)	(18,806)
		26,351	-	26,351	64,716	(7,084)	57,632
		$35,148	$ (2,945)	$32,203	$76,645	$ (7,810)	$68,835

(Expressed in thousands of United States dollars, except per share amounts)

27. TRANSITION TO IFRS (CONTINUED)

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

		Year ended December 31, 2010		
	Note	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 and depletion	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		6,701	-	6,701
Other income	b,c,d	(17,253)	466	(16,787)
Share of equity loss in DynaMexico		128	-	128
Other expenses	a,b,d	17,549	5,426	22,975
		7,125	5,892	13,017
Loss before income taxes	a,b,c,d	(6,829)	(5,708)	(12,537)
Provision for current tax		2,347	-	2,347
Recovery of deferred tax	d	(324)	(1,342)	(1,666)
		(8,852)	(4,366)	(13,218)
Other comprehensive income		979	-	979
Comprehensive income (loss) for the period		$ (7,873)	$ (4,366)	$ (12,239)

27. 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.

For the year ended December 31, 2010, decommissioning and restoration provision increased by $46 with a $46 increase to impairment of goodwill. In addition $34 was reclassified from cost of sales to other expenses. The impact to deficit was an increase of $46.

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 January 1, 2010, 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.

At December 31, 2010, $3,703 was reallocated from warrant equity with corresponding entries of $2,741 to warrant liability and $962 to current portion of warrant liability. In addition the increase in fair value of the warrants resulted in an $852 decrease to other income with a corresponding decrease in warrant liability. In addition, issue costs debited to warrant equity were expensed under IFRS, which resulted in an increase of $132 in other expenses. The impact to deficit was an increase of $983.

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 Canadian 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.

27. 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 year ended December 31, 2010, $3,103 additional deferred tax was reversed on the acquisition of Minera Cardel SA de CV with a $3,060 decrease in exploration and evaluation properties and a $43 decrease to foreign exchange loss. The impact to deficit was a decrease of $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.

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 notes 2.34(iv) and 3.11 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. The impact to deficit was an increase of $3,379.