



Goldgroup Mining Inc: Going for Gold in Mexico

A Monday Morning Musing from Mickey the Mercenary Geologist

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Regular readers of my Mercenary Musings know my opinion about gold mining in Mexico. It is simply the best place on the Earth to develop a gold mine, puro chuqui in Sonoran slang. Mexico has the requisite geological setting and gold deposits, capitalistic and entrepreneurial economy, pro-mining federal and state governments, straight forward permitting requirements, excellent infrastructure, a well-trained and experienced mining force, low labor costs, and a largely rural and low-density population outside of the major cities.

As witness to my opinion, I currently cover two gold exploration companies operating in Mexico. In today's musing, I introduce you to a newly created Mexican gold miner and review its plans to become a much larger exploration and mining company in the mid-term: **[Goldgroup Mining Inc \(GGA.T\)](#)**.

I have a long association with this company thru its predecessor, Sierra Minerals, Inc. I am an original shareholder of Sierra, founded in early 2004 on the Toronto Venture Exchange with reverse takeover of a shell. The qualifying transaction for its RTO was a gold-silver project in northern Sinaloa, Mexico. I became exploration manager for Sierra Minerals on the San Martin project and a fellow consultant and I mapped, sampled, and developed drill targets in the winter and spring of 2004. I moved on to other mercenary jobs prior to four drill holes in early 2005 completing the company's earn-in.

Meanwhile, another reverse takeover was in progress with a private Mexican mining company. Upon completion in September 2006, Sierra Minerals became a small-tier Mexican gold miner at **Cerro Colorado, Sonora** and was listed on the Toronto Stock Exchange. Now the mine is one of the flagship projects of Goldgroup Mining.

In late February 2010, Sierra Minerals announced a merger with a private explorer in Mexico, Goldgroup Resources Inc. The merger was facilitated by common core management of the two companies including CEO Keith Piggott and Vice-President of Exploration Kevin Sullivan. The transaction was finalized in early May and the stock began trading under the symbol **GGA.T**.

With its lengthy history out of the way, let's get into the guts of Goldgroup Mining Inc:

Share Structure:

Here's the two year chart for Goldgroup Mining with its adjusted previous incarnation as Sierra Minerals Inc, merged into GGA.T on a 2.85 for 1 basis on May 6:



The world financial crisis from June thru December 2008 caused the stock price to crater along with all junior gold miners. It reached lows in mid-late December with the sector wide sell-off and then rebounded smartly in the early 2009 as gold demand increased and gold stocks reacted. SIM mirrored the general market malaise of Q2 2009 then went on a strong six month run with higher gold prices, rumors on the street of a pending business consolidation, and increased trading volumes.

There were several large crosses after the merger announcement with blocks of stock moving to strategic investors. The stock traded as high as \$1.15 in mid-May before the 30 minute market meltdown and European financial woes wrecked havoc on speculative markets. The 30 day high is 82 cents and the low is 58 cents. GGA is currently trading in the mid-60 cent range on light volumes. Current market capitalization is about \$55 million.

Goldgroup Mining has 84.9 million shares outstanding and 95.6 million fully diluted including 8.7 million options and 2.0 million warrants mostly in-the-money. Options range in price from 28 cents to \$1.00 with expiries from May 2013 to October 2014; warrants are set at 30 cents and expire in March 2011.

GGA is very tightly held: Insiders, family, and friends control 27 % including CEO Keith Piggott at 17.1 %. Other major shareholders include NGEx Resources, part of the Lundin Group at 10.6 %, Warman Properties, an Australian family at 6.5 %, and Treasury Metals (TML.T) at 2.6%.

Institutional holders comprise 28 % with none over 10% and include Salida Capital, Libra Investments, Sprott Asset Management, Baker Steel Capital, Pinetree Capital, and Front Street. Retail public float is only 25% and contributes to its relatively low liquidity.

The company has short term debt of \$3.25 million on a bridge loan to complete the recent deal with the Lundin Mining Group.

Goldgroup paid off all long term debt with cash flow from its operating gold mine in Q1 2010. At the end of the quarter, cash and cash equivalents were \$1.62 million.

People:

The company has strong and experienced management. The team is led by CEO Keith Piggott, a veteran mine engineer and entrepreneur who has mined successfully on three continents. Others include Chairman Gregg Sedun, a successful financier and lawyer and involved with three juniors (including Diamondfields) that were acquired by mid-tier and major mining companies; President Mike Farrant, ex-VP and Treasurer of Kinross; CFO John Sutherland, part of the Arequipa Resources team; the aforementioned VP of Exploration Kevin Sullivan, partnered with Piggott for 27 years; VP of Mine Operations Phil Davies, ex- mine manager for Ashanti Gold in west Africa; and David Fry, Corporate Communications Director.

The Board of Directors consists of Piggott, Sedun, and Farrant, metallurgist Hans Von Michaelis, financier and engineer Cory Silbernel, and accountant Julian Kemp. Goldgroup has equally impressive advisors including Harry Burgess, engineer and founder of Micon International, and Allen Born, ex-CEO and Chairman of Cyprus Amax and Placer Dome.

Projects: Goldgroup Mining Inc has an operating gold mine, three advanced projects with resources, and two reconnaissance projects in Mexico.



Gold Group Mining Inc Projects

Goldgroup's operating mine is **Cerro Colorado**, located 270 km north-northwest of Hermosillo, Sonora, Mexico. It controls over 330 sq km at the mine site and surrounding area. The mine is easily accessed by secondary dirt roads 37 km from a paved highway, power is supplied by diesel generators, and ample water is pumped from a ranch 12 km south.

I visited Cerro Colorado for one day in 1994, mapped, sampled, and reported to a junior client. In spring 2008 I spent three field days and wrote a technical evaluation report for Sierra Minerals.

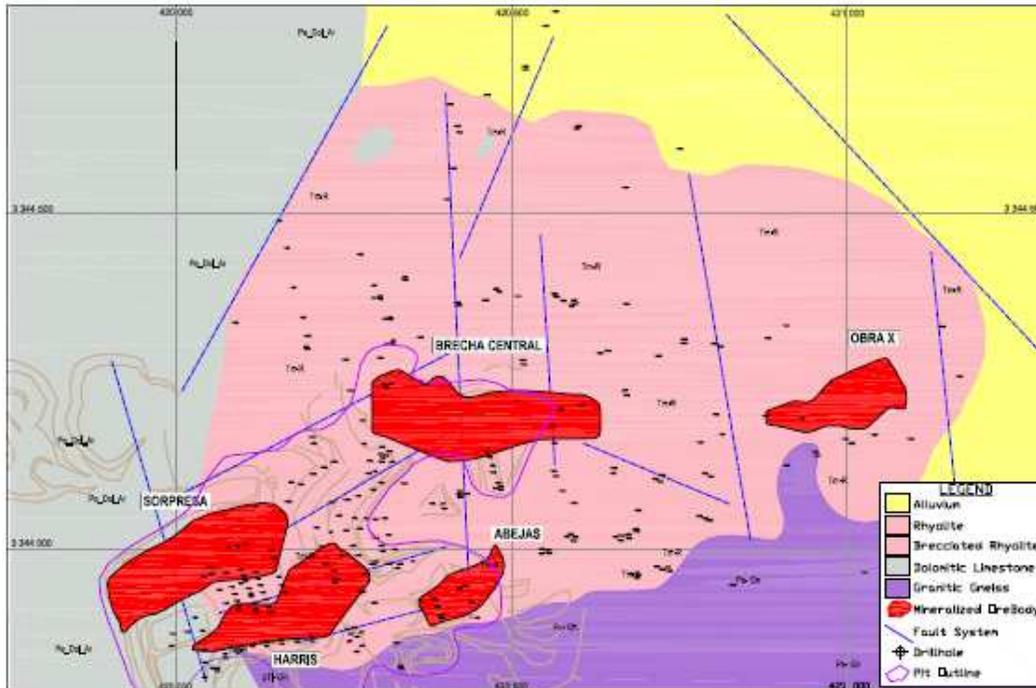
Open pit, heap leach mining operations began in early 2004 following a successful leach test in 2003. Gold mining is by conventional open pit blasting, excavating, and ore hauling methods. Life-of-mine has averaged 0.72 g/t Au, 1.7:1 strip ratio, 0.2 g/t cutoff grade, and 60% recovery. Gold to silver ratio is approximately 1:1 and production has increased incrementally year over year with 2009 production at 20,500 oz. Total production thru Q1 2009 is slightly over 100,000 oz.



Mina Cerro Colorado, Looking East Toward Ore Bodies (Red Zones)

Cerro Colorado is located on the Mojave/Sonora Megashear, a regional northwest structure hosting many economic gold deposits in northern Sonora, southwest Arizona, and southeast California. The deposit is underlain by Precambrian basement granitic gneiss unconformably overlain by Precambrian carbonate and minor clastic rocks that have been intruded by a Tertiary rhyolite flow dome complex that hosts the gold ores.

Gold mineralization is mined from five brecciated and/or stockworks ore bodies including Sorpresa, Breccia Central, Harris, Abejas and Obra X. They are gently east-plunging shoots contained within east-northeast alteration envelopes and located along south dipping, high angle reverse faults. Higher grade zones are controlled by north to northwest, nearly vertical normal faults and joint sets.



Geology, Ore Bodies, Open Pits, and Recent Drill Holes at Mina Cerro Colorado

In 1996 prior owner and royalty holder Laramide Resources, now Treasury Metals (TML.T), calculated a historic resource estimate of 4.22 mm tonnes grading 1.33 g/t Au for 181,000 oz gold. Goldgroup's overall mined grade of 0.72 g/t Au reflects the economics of mining lower grade ore with lower cut-off and dilution by bulk mining methods.

305 exploration holes were drilled from 1996-2008 at Cerro Colorado and were combined with blast hole production drilling to produce the following 43-101 qualified resource estimate at a 0.25 g/t Au cutoff:

Classification	Tonnes (t)	Au (g/t)	Ounces Au
Measured	107,000	0.63	2,157
Indicated	9,599,000	0.54	167,987
Measured + Indicated	9,706,000	0.55	170,144
Inferred	5,599,000	0.41	74,177

The historic resource when mining commenced in late 2003 was 181,000 ounces gold. Despite no ounces ever placed into a reserve category, there has been over six years of profitable mining by the two predecessor companies led by Keith Piggott and Kevin Sullivan.

Using the 60% life of mine recovery rate, approximately 166,000 ounces have been mined and over 100,000 ounces gold produced at the mine. Current resources in all categories are 244,000 ounces. If these ounces can be profitably mined at 60% recovery, an additional 146,000 ounces are recoverable at Cerro Colorado. Recently a new secondary crusher was installed and mine personnel expect recoveries to increase substantially over previous run-of-mine material.

With record Q1 production of 6382 ounces gold, GGA is on pace to produce about 25,000 ounces of gold in 2010, a 20% increase over 2009. At this rate, mine life is five to six years. However, resource potential is good and exploration programs are on-going: Ore bodies are partially open along strike and between presently drilled ore zones; untested gold-in-soil geochemical anomalies exist on the west and northwest of the present open pits; and there is potential for satellite deposits within trucking distance of the Cerro Colorado mine operation.

Sierra Minerals was a successful small miner in northern Mexico from 2006 to 2009, increasing its yearly production from 13,500 to 20,500 ounces of gold. Cerro Colorado operating costs per ounce of gold produced were \$548, \$597, and \$701 from 2007-2009.

Goldgroup recently reported Q1 financials and summarized them in a press release. It was a record quarter in several ways. Cerro Colorado had record gold production of 6382 ounces, and record earnings of \$708,000 but also record cash costs of \$782 per ounce amid record gold sales at \$1112 per ounce.

Cash costs were higher for the quarter because of rental of a secondary crusher, higher cyanide use as a second leach pad was commissioned, and higher maintenance and labor costs with more mining equipment. Operating costs are expected to fall in the second quarter as cost reducing programs are implemented and efficiency is achieved with the ramping up of gold production.

Most importantly, the company paid off all its long term debt and purchased additional mining equipment including a secondary crusher from cash flow operations in the first quarter. GGA seems well-positioned for the future at Cerro Colorado but the mine will remain a relatively high cost producer.

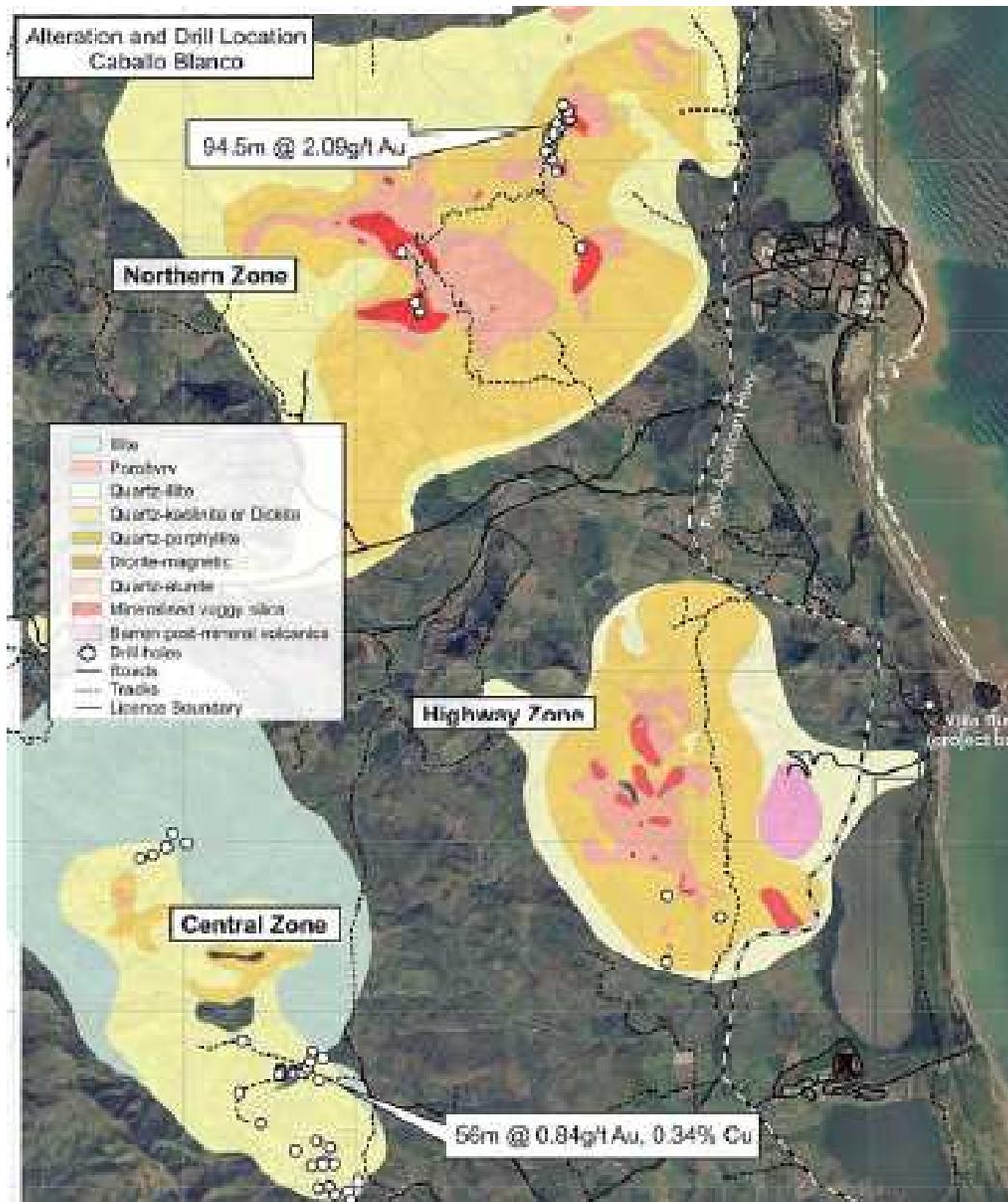
That said, since the company went public in the third quarter of 2006 it has been cash flow positive 14 of 15 quarters. In my opinion, that speaks highly of Piggott and Company's operational expertise.

Goldgroup Mining is far from a one-trick pony. It has three advanced exploration projects in Mexico that are key to its future plans.

Caballo Blanco is the flagship exploration property and is located adjacent to the Gulf of Mexico 65 km north of Veracruz, southeastern Mexico. GGA acquired NGEx Resources' (NGQ.T) right to earn 70% interest in the property for \$6 million and 9 million shares subject to a 1.5% NSR. Underlying owner is Almaden Minerals Ltd. (AMM.T), which is one of my favorite prospect generators and will be the subject of a musing in the near future. Infrastructure is excellent with the Pan American highway traversing the claim block.

The 197 sq km property lies at the eastern end of the Trans-Mexican Volcanic Belt at its intersection with the Eastern Alkaline Province. It is underlain by Miocene mafic volcanics and a younger sequence of felsic to intermediate volcanics, domes, and plugs. Pliocene basalt flows cap these rocks.

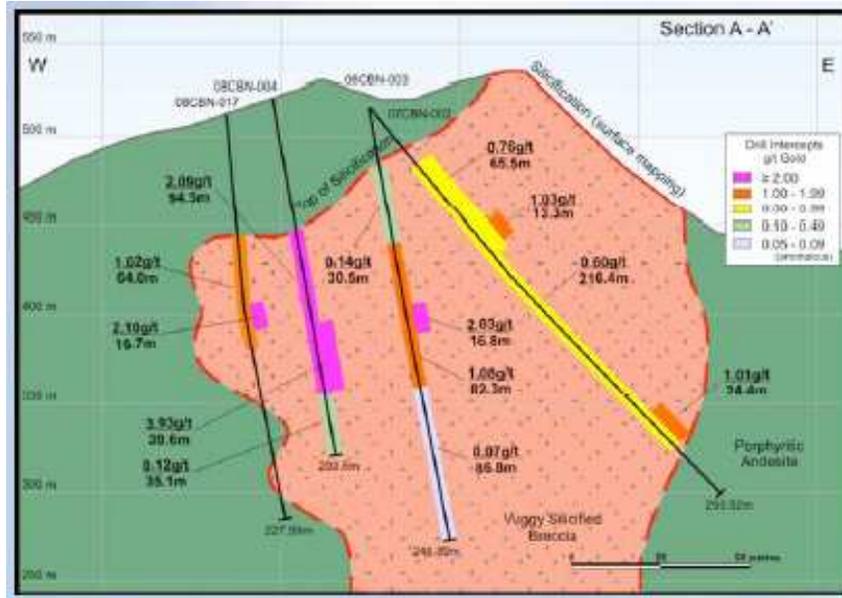
Caballo Blanco is a large high sulfidation epithermal system with at least 12 geological, geochemical, and/or geophysical targets. The prospects are typified by vuggy silica with gold and iron oxides, surrounded by quartz-alunite clay alteration haloes within propylitized andesite, and overlain by barren silica caps.



Caballo Blanco Project with Gold Targets Shown in Red

The most advance target is the La Paila zone, which been tested by 33 drill holes on 50 to 100 meter sections and has the following 43-101 qualified resource using a 0.20 g/t Au cut-off grade:

Indicated	6.71 million tonnes	0.645 g/t Au	139,000 ounces gold
Inferred	27.6 million tonnes	0.583 g/t Au	517,000 ounces Au



Typical Cross Section at La Paila

La Paila is partially open to the east, west, and south and generally has not been tested deeper than 250 meters. All mineralization encountered to date is oxidized and preliminary metallurgy gives high bulk leach recoveries. At least five holes ended in mineralization.

There is strong potential for increasing the gold resource at La Paila and discovering more deposits among the 11 targets within the altered and mineralized package of rocks.

Goldgroup Mining's second significant exploration project is located in northeastern Sinaloa: **San Jose de Gracia**. Goldgroup can earn 50% of the project from Dyna Resources, Inc. by spending \$18 million in exploration and development over 4.5 years. It has spent \$12 million to date. The joint venture controls 991 sq km.

In spring 2007 I spent seven field days evaluating the San Jose de Gracia geology and exploration program for privately held Goldgroup Resources Inc and wrote a comprehensive report.

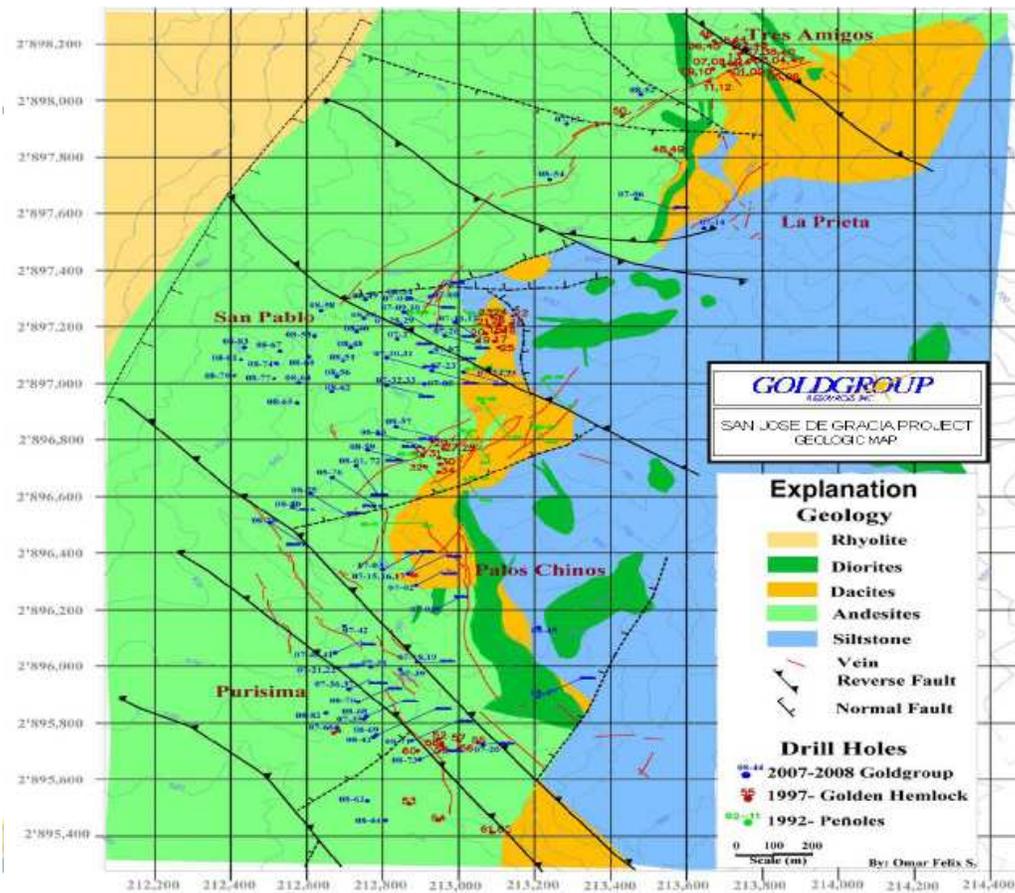
San Jose de Gracia was discovered in 1828 and produced over 1,000,000 ounces of gold, mainly from 1892-1910 by a British mining syndicate. Production ceased with the Mexican revolution and mines were nationalized in 1914. Several attempts have been made to exploit them since by government and private companies but have been largely unsuccessful. Dyna Resource Inc. sold over 18,000 ounces of gold in the early 2000's but production was compromised severely by inefficient milling.

The San Jose de Gracia district is a low sulfidation, epithermal gold-silver system. Bonanza grade ore bodies occur over four km strike as quartz-pyrite vein/stockwork/breccias within complexly faulted structural zones. Host rocks are andesite volcanic rocks of the Lower Volcanic Series of the Sierra Madre Occidental and lesser Paleozoic sedimentary rocks.

Production occurred from numerous mines but mostly from Minas La Purisima at the southwest end (471,000 oz Au) and Mina La Prieta on the northeast (215,000 Au). Other important mines include Mina San Pablo, which sold the 18,000 oz, Palos Chinos, La Union, and Tres Amigos.



San Jose de Gracia District Looking East



San Jose de Gracia Geology and Major Mines

A loosely constrained, 43-101 qualified inferred resource was estimated on four vein breccia zones in late 2009. Based on 200 drill holes and a 2.0 g/t Au cut-off grade for bulk underground mining, the resource is 3.4 million tonnes grading 5.6 g/t Au and 10.0 g/t Ag for a total of 641,000 ounces of gold and 1.1 million ounces of silver. However, the qualified person noted quality control problems with some assay jobs. Therefore, the estimate is considered preliminary and check assays and more drilling are required to confirm and upgrade the resource.

Exploration potential at San Jose de Gracia is high with additional drilling warranted to improve and upgrade resource estimates on the main vein systems, numerous untested or partially tested targets within the four kilometer district, and stream sediment and alteration anomalies within the large land package to the north, south, and southeast.

Goldgroup's fourth resource project is **El Porvenir**, located in the central Mexico province of Aguascalientes. It covers 9.6 sq km, is located 44 km from the city of Aguascalientes, and has excellent infrastructure with a highway and power line thru the property, local water supply, and experienced mining force.

The Real de Asientos District was discovered in 1548 and was mined intermittently until 1990 with main production from the late 1800s to 1923 for copper, lead, zinc, and silver. The district hosts intrusive-related base and precious metal fissure and replacement veins in Mesozoic carbonate and clastic hosts of the Mesa Central Province.



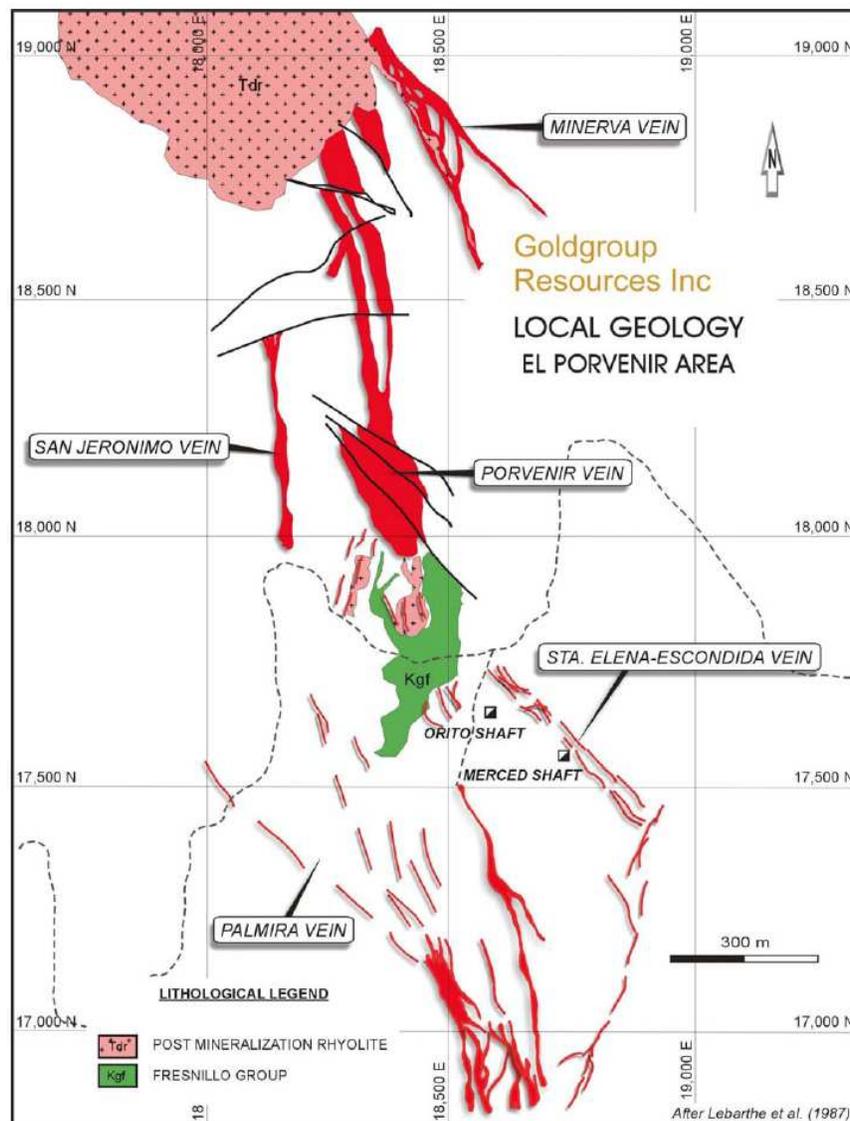
El Porvenir Mine and Mill

Exploration for an oxide gold-silver deposit was carried out from 1992-1997 by Luismin and Hecla on El Porvenir vein, which at surface horsetails into a broad, silicified stockwork zone about 30 meters wide.

Goldgroup acquired the project from major miner Goldcorp (ex-Luismin) in early 2007 and in late 2009 tabled a 43-101 resource estimate based on 210 historic and recent drill holes:

Oxide 0.2 gpt Au Cut-Off	Tonnes (000's)	Gold (gpt)	Silver (gpt)	Gold (000's oz)	Silver (000's oz)
Indicated	11,211	0.629	19.40	227	6,993
Inferred	262	0.384	11.80	3	99

Preliminary metallurgical testing by previous operators indicated that fine crushing is required to liberate gold and silver. There is exploration potential adjacent to and beneath a rhyolite dome on the north:



El Porvenir Geology and Veins

In addition to its mine and three advanced exploration properties, Goldgroup Mining controls two large reconnaissance projects in the Sierra Madre. **El Candelero** is seven km from Tayoltita and GGA can earn 70% subject by spending \$1.5 million subject to a Goldcorp 60% claw back for \$3 million expenditures. **Kenya** is 90% owned and on-trend between Tayoltita and Batopilas. Both projects have known precious metal occurrences.

Discussion and Analysis:

Goldgroup Mining Inc has the share structure, people, and projects that meet my criteria for coverage. Now let's see if it is undervalued.

The following table is from the company website and summarizes the company's in-situ 43-101 qualified precious metals resources as of Q4 2009:

Goldgroup Mining Inc. • 2009 Mineral Resource Summary

Measured	Cut-off Grade (g/t Au)	Tonnes (000's)	Grade (g/t Au)	Gold (Au)		Silver (Ag)		
				100%	Goldgroup Share	100%	Goldgroup Share	
				Ounces (Au)	Ounces (Au)	Grade (g/t Ag)	Ounces (Ag)	Ounces (Ag)
Cerro Colorado	0.25	107	0.63	2,157	2,157	-	-	-
Indicated								
Cerro Colorado	0.25	9,599	0.54	167,987	167,987	-	-	-
Caballo Blanco	0.20	6,710	0.65	139,000	97,300	1.92	410,000	287,000
El Porvenir	0.20	14,831	0.62	297,000	297,000	18.80	8,964,000	8,964,000
Total M+I				606,144	564,444		9,374,000	9,251,000
Inferred								
Cerro Colorado	0.25	5,599	0.41	74,177	74,177	-	-	-
Caballo Blanco	0.20	27,600	0.58	517,000	361,900	1.84	1,630,000	1,141,000
El Porvenir	0.20	485	0.41	6,000	6,000	11.90	186,000	186,000
San José de Gracia	2.00	3,441	5.59	618,000	309,000	10.02	1,109,000	554,500
Total Inferred				1,215,177	751,077		2,925,000	1,881,500

Pertinent numbers are the gold ounces attributable to Goldgroup. We will ignore silver since its recovery is not demonstrated at any of the exploration projects and it is a very minor credit at Cerro Colorado. Also note that I assume the 50% earn-in at San Jose de Gracia is complete although that will not occur until 2011.

GGA has 564,000 ounces of gold in Measured and Indicated resources and 751,000 ounces of gold in Inferred resources. Treating those ounces equally, the company has in-the-ground gold resources of 1,335,000 ounces. With a current market capitalization of \$55 million, the stock market is valuing Goldgroup Mining at about \$41 per ounce of gold in-situ.

The current average peer group valuation for in-situ, *non-producing*, gold exploration companies is over \$90 per ounce of gold.

Need I say more?

Goldgroup's price was impacted by selling from previous Sierra Minerals shareholders after the merger was completed since it initially traded higher than previous levels of Sierra stock. Daily volumes are currently very low due to general market malaise and nervousness about the world's financial condition. In addition, GGA is a new company that is relatively unknown and does not yet have a recognized market presence.

We've established that Goldgroup is undervalued; now what are pending catalysts that could move the stock higher in the short to mid-term?

- The company seems likely to monetize non-core assets to raise capital for large exploration programs on flagship projects without incurring equity dilution.
- An on-going drill program at San Jose de Gracia may continue to produce significant intersections and expand and upgrade current resources.
- A major drill campaign will start at Caballo Blanco in late summer as the rainy season ends in Mexico.
- The newly installed secondary crusher should improve recoveries at Cerro Colorado. For the first time, the company carries no long term debt. Annual production is expected to increase 20% this year.
- Better recoveries and increased mining rate should lower operating costs. With a continuing robust gold price, management expects Cerro Colorado to be more profitable in the second half of 2010.
- A concerted promotional campaign is commencing and will bring market awareness to the company's assets.

Based on the above reasons, I think Goldgroup Mining, Inc has a strong chance of doubling its share price within the next 12 months.

But folks, you must realize that I've never been more involved with or more biased about a company I've written about than Goldgroup.

I was a founding shareholder of Sierra Minerals Inc on the Venture Exchange and participated in the bridge RTO financing in 2006. I still own the majority of shares from these financings and my cost basis is well below the current share price. In addition, I hold options and have been a paid consultant to both Sierra Minerals and the formerly private Goldgroup Resources. The company is a sponsor of my website.

That's at least a handful of reasons why I am heavily biased. But every time I write about a stock I put my mercenary reputation on the line. Very few junior resource companies will ever make it to coverage in a Mercenary Musing and Goldgroup qualifies for that select list.

So as always, do your own research and see if Goldgroup Mining Inc meets *your* criteria as an undervalued speculation in the junior gold mining sector.

Ciao for now,

Mickey Fulp
Mercenary Geologist



The [Mercenary Geologist Michael S. “Mickey” Fulp](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey’s professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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