



## Management's Discussion and Analysis

### Year ended December 31, 2018

(Expressed in U.S. dollars, unless otherwise noted)

March 28, 2019

*This Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Goldgroup Mining Inc. ("Goldgroup" or the "Company") together with its subsidiaries as of March 28, 2019, and is intended to supplement and complement the Company's audited consolidated financial statements for the year ended December 31, 2018. Readers are cautioned that this MD&A contains forward-looking statements and that actual events may vary from management's expectations. Goldgroup's public disclosure documents are available on SEDAR at [www.sedar.com](http://www.sedar.com). The consolidated financial statements and MD&A are presented in United States ("US") dollars, except where noted, and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of and for the year ended December 31, 2018.*

*The MD&A contains forward-looking statements and should be read in conjunction with the risks discussed herein and those set out under the heading "Risk Factors" in Goldgroup's annual information form dated March 28, 2019 (the "AIF"). Please also refer to the "Cautionary Statement on Forward-Looking Information" at the end of this MD&A.*

## OVERVIEW

Goldgroup is a Canadian-based gold production, development, and exploration company with a portfolio of projects in Mexico and Ecuador, including its 100% owned Cerro Prieto project in the state of Sonora and a 50% interest in DynaResource de Mexico, SA de C.V., which owns 100% of the high grade gold exploration project San José de Gracia located in the state of Sinaloa. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "GGA" and on the Over-The-Counter ("OTC") market under the symbol "GGAZF".

As of June 20, 2012 the Company is listed on the Bolsa Mexicana de Valores S.A.B de C.V., also known as "SIC", under the symbol GGAN.MX.

The profitability and operating cash flow of the Company are affected by various factors, including the amount of gold produced and sold, the market price of gold, operating costs, interest rates, regulatory and environmental compliance, general and administrative costs, the level of exploration and development expenditures, decommissioning and restoration provisions and other discretionary costs. Goldgroup is also exposed to fluctuations in foreign currency exchange rates that can materially impact profitability and cash flow. To date, all of the Company's projects are located in Mexico and Ecuador and are subject to foreign investment risk, including increases in various levels of taxation and royalties, renegotiation of contracts, fuel cost changes, profit sharing law changes, property title risk and political uncertainty. While Goldgroup seeks to manage the level of risk associated with its business, many of the factors affecting these risks are beyond the Company's control.

The Company may need to raise additional funds over and above amounts raised to date to continue the development of Cerro Prieto, as well as to complete the exploration and development of its other property interests. There can be no assurance that additional capital or other types of financing will be available to the Company if needed or that, if available, the terms of such financing will be on terms favourable to the Company.

On November 2, 2018, the Company was made aware that Republic Metals Corporation, the Company's refiner, filed for Chapter 11 bankruptcy protection. For the period ending December 31, 2018, the Company provided for \$928 in receivables and is currently proceeding through the bankruptcy court.

## HIGHLIGHTS AND DEVELOPMENTS – 2018

### *Cerro Prieto Highlights*

- During the year ended December 31, 2018, the Company produced 15,430 ounces of gold (December 31, 2017 – 14,740 ounces of gold).
- During the year ended December 31, 2018, the company's all-in sustaining cost of production per ounce was \$1,088<sup>(1)</sup> and all-in cost per ounce was \$1,261.<sup>(1)</sup> During the year ended December 31, 2017, the company's all-in sustaining cost of production per ounce was \$1,017<sup>(1)</sup> and all-in cost per ounce was \$1,218<sup>(1)</sup>

(1) Cash cost is a non IFRS measure. See "Non IFRS Measures"

## OUTLOOK

The Company's main objective is to maintain sustainable cash flows from operations on its projects. Prior to the second quarter in 2018, the Company primarily focussed on its 100% owned Cerro Prieto project. However, in April 2018, the Company also commenced extraction and operations on its new Batamote project. The capital earned on these projects will allow the company to have sufficient resources and time to favourably resolve the San Jose de Gracia project and advance El Mozo into production.

Main areas of focus for 2019 include:

- Batamote – during the second quarter of 2018, the Company commenced extraction and operations from the Batamote project which is currently under option. Management will be concentrating production from this project for the first part of 2019.
- Cerro Prieto – management reduced production during the latter part of Q2 and will perform exploration work and a pushback of the central pit during production from Batamote to prepare Cerro Prieto for operation when production resumes at the project.
  - Management is pursuing exploration of nearby areas within our concessions to extend mine life beyond the current four years and potentially increase production.
- San José de Gracia – continue to work with the Government of the State of Sinaloa and through legal proceedings bring serious pressure on the Dyna USA chairman, with the goal of bringing a resolution to the conflict with DynaUSA and moving the project into production.
- El Mozo, Ecuador – continue the environmental assessment and permitting processes to advance this property to production.

### *Going concern*

The Company has experienced recurring operating losses and has an accumulated deficit of \$140.2 million at December 31, 2018 (December 31, 2017 – \$136.9 million). In addition, as at December 31, 2018, the Company has working capital deficiency of \$3.1 million (December 31, 2017 – working capital deficiency \$0.4 million). Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year. The continuing operations of the Company are dependent upon its ability to arrange additional financing and resolving the legal disputes with DynaResource, Inc. ("DynaUSA"). These matters result in material uncertainties which may cast significant doubt about the Company's on its ability to continue as a going concern. These financial statements do not include any adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for the financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the classifications used in the statement of financial statement.

**FINANCIAL AND OPERATIONAL HIGHLIGHTS**

<b>Operating Statistics</b>	<b>Twelve months ended December 31, 2018</b>	<b>Twelve months ended December 31, 2017</b>
Ore mined (tonnes)	933,964	821,200
Waste mined (tonnes)	5,225,478	7,423,083
Total mined (tonnes)	6,159,442	8,244,283
Waste-to-ore-ratio	5.59	9.04
Ore to pad (tonnes)	815,383	752,067
Recovery	63%	56%
Grade of ore mined (g/t Au)	0.93	1.11
Grade of ore placed on pad (g/t Au)	0.93	1.09
Gold ounces – produced	15,430	14,740
Gold ounces – sold	15,973	14,293
All-in sustaining cash cost per ounce <sup>(1)</sup>	1,088	1,017
All-in cash cost per ounce <sup>(1)</sup>	1,261	1,218
Average realized gold price per ounce sold	\$ 1,277	\$ 1,257

(1) Cash cost is a non IFRS measure. See “Non IFRS Measures”

***Year ended December 31, 2018 compared to year ended December 31, 2017***

Total gold produced has increased from the comparative period due to the increased recovery with the addition of the Batamote project since the second quarter of the current year. In addition, there has been a significant decrease in the strip ratio. All-in sustaining and all-in cash costs are higher due to the use of contractors for Batamote which increased overall costs.

<b>Year ended December 31, 2018</b>	<b>Cerro Prieto</b>	<b>Batamote</b>
Ore mined (tonnes)	305,569	628,395
Waste mined (tonnes)	2,615,369	2,610,109
Total mined (tonnes)	2,920,938	3,238,504
Waste-to-ore-ratio	8.56	4.15
Gold ounces – produced	5,039	10,391
All-in sustaining cash cost per ounce <sup>(1)</sup>	\$ 1,011	\$ 1,126
All-in cash cost per ounce <sup>(1)</sup>	\$ 1,212	\$ 1,285

(1) Cash cost is a non IFRS measure. See “Non IFRS Measures”

Cerro Prieto – Cash costs are lower than historical quarters as the Company ceased operating from the Cerro Prieto concessions and continued to leach and recover gold from the Cerro Prieto leach pads. Therefore, the recovered gold has a disproportionate less amount of cost associated with it for the period which lead to the decrease in cash costs.

Batamote – Cash costs for Batamote are higher due to the use of contractors for Batamote which increased overall costs.

	Year ended December 31,		
	2018	2017	2016
<i>(tabled amounts are expressed in thousands of U.S. dollars)</i>			
Metal sales	\$ 21,093	\$ 18,750	\$ 15,595
Cost of sales	(17,139)	(14,792)	(12,912)
Depreciation and depletion	(3,265)	(2,008)	(1,199)
Gross profit	689	1,950	1,484
General and administration <sup>(a)</sup>	(2,746)	(3,276)	(4,725)
Finance cost, net	(399)	(210)	(1,797)
Bad debt expense	(928)	-	-
Gain on sale of contingent receivable	-	-	1,900
Gain on settlement of decommissioning liability	-	950	-
Write-off of obsolete property and equipment	(3)	(143)	-
Foreign exchange (loss) gain	(47)	160	176
Warrant liability – unrealized gain	59	264	(36)
Loss on settlement of debt	-	-	(69)
Gain on disposition of subsidiaries	-	-	90
Impairment - mineral property	-	-	-
Impairment of Monarch Loan Receivable	-	-	(614)
Impairment - available for sale investments	-	-	-
Gain (loss) on disposal of available for sale investments	228	18	3,025
Other expense	25	347	132
Loss before income taxes	(3,122)	60	(434)
Provision for income taxes:			
Current	(428)	(195)	(190)
Future	326	198	(524)
Net Income (loss)	(3,224)	63	(1,148)
Other comprehensive income (loss)	-	99	(136)
Total Comprehensive loss for the period	\$ (3,224)	\$ 162	\$ (1,284)
Basic & diluted loss per share	(0.02)	(0.00)	(0.01)

(a) General and administration expense include amortization expense, non-cash stock based compensation expense, salary and consulting expense, professional fees and exploration expense.

	Year ended December 31,		
	2018	2017	2016
<i>(tabled amounts are expressed in thousands of U.S. dollars)</i>			
Cash and cash equivalents	\$ 329	\$ 1,376	\$ 897
Total assets	14,519	16,419	15,605
Non-current financial liabilities	741	869	182
Cash dividends declared	\$ 0.00	\$ 0.00	\$ 0.00

Gross profit was \$689 in the current period which is lower than the comparative periods. The decrease is due higher costs related to the use of contract miners for Batamote and the amortization of the Batamote option payments.

General and administration expense were lower in the current period when compared to prior year's comparative period due to lower salary and consulting. Finance cost was lower than 2016 but higher than 2017. The increase from prior year is the new Accendo Banco loan taken out during the period and related increase in interest expense. The decrease from 2016 is due to no non-cash accretion expense in the current year. Foreign exchange and warrant liability unrealized gain fluctuated dependent on volatility of the market conditions.

Income tax expense and recovery fluctuated dependent on level of mining activity. Non-cash deferred income tax expense for accounting purpose depends on the difference between carrying value for accounting purpose and tax basis.

The other comprehensive loss in the current quarter was \$nil as changes in investment value are now going through profit and loss.

Cash and cash equivalents decreased in the current period when compared to prior years due to decreased cash from operating expenses with the increased sales but higher cost of sales. Total assets were lower than comparative periods due to depletion recorded on Cerro Prieto after reaching commercial production in 2016 and lower property plant and equipment. Non-current financial liabilities is similar to comparative periods.

## QUARTERLY RESULTS

<i>(tabled amounts are expressed in thousands of U.S. dollars)</i>	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue	4,755	4,400	6,190	5,748	5,511	4,407	4,127	4,705
Income (loss) income from mine operations	268	(587)	(184)	1,192	1,418	579	(308)	261
Net income (loss)	(1,248)	(1,393)	(359)	(224)	1,647	(224)	(1,106)	(254)
Other comprehensive income (loss)	-	-	-	-	10	79	(8)	18
Total comprehensive income (loss) for the period	(1,248)	(1,393)	(359)	(224)	1,657	(145)	(1,114)	(236)
Basic and diluted earnings (loss) per share	(0.01)	(0.01)	0.00	(0.00)	0.01	(0.00)	(0.01)	(0.00)
Diluted earnings (loss) per share	(0.01)	(0.01)	0.00	(0.00)	0.01	(0.00)	(0.01)	(0.00)
Cash and cash equivalents	329	357	1,147	991	1,376	479	500	550
Total assets	14,519	14,998	15,647	16,484	16,419	15,752	15,328	15,437
Non-current financial liabilities	741	701	350	672	869	1,144	92	151
Cash dividend declared	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total ounces produced	4,054	3,595	4,516	3,265	4,682	3,456	3,086	3,516
Total ounces sold	3,773	3,587	4,528	4,086	4,195	3,285	3,142	3,671
All-in sustaining cash cost per ounce <sup>(1)</sup>	1,039	1,203	1,010	1,207	769	947	1,419	1,065
All-in cash cost per ounce <sup>(1)</sup>	1,143	1,405	1,201	1,410	918	1,210	1,623	1,270

(1) Cash cost is a non IFRS measure. See "Non IFRS Measures"

***Three months ended December 31, 2018 statement of losses compared with previous quarters in 2018 and 2017***

Revenue in the current quarter was \$4.75 million which is similar to Q3 2018 and higher than Q2 2017, similar to Q1, Q3 2017 and lower than remainder of comparative quarters due to lower sales in the current quarter. Income from operations was \$0.3 million in the current quarter which was higher than the losses in Q3 2018, Q2 2018, and Q2 2017 and income in Q1 2017 due to lower cash costs in the current period. Income from operations was lower than the remaining periods because of lower revenue due to less ounces produced and sold.

Net loss was \$1.2 million in the current quarter which is similar to Q3 2018 and higher than all remaining historical quarters due to \$928 in bad debts expense incurred in the quarter and higher interest costs.

Total comprehensive income was \$1.2 million in the current quarter which is similar to Q32018 and higher than all remaining historical quarters due to \$928 in bad debts expense incurred in the quarter and higher interest costs.

Other comprehensive income (mark to market income) was nominal in the current quarter due to the increase in value of the investments classified as available for sale investments.

Total gold produced was lower than Q2 2018 and Q4 2017 due to increased stripping in the current quarter and less tonnes crushed. Production was higher than the remainder of quarters due to increased recovery due to producing from the new Batamote project.

All-in sustaining cash cost and all-in cash cost per ounce is a function of cost and ounces produced and fluctuates every period.

***Total assets and non-current liabilities as at December 31, 2018 compared with previous quarters in 2018 and 2017***

Total assets are fairly similar and fluctuate due to fluctuations in cash and cash equivalents, inventory and property and equipment.

Non-current liabilities fluctuate from quarter to quarter because of the repayment of the Credipresto Facility and portion of the loan payable.

## **CERRO PRIETO PROJECT, MEXICO**

### ***Overview***

The Cerro Prieto project, located in the Cucurpe Mining District, Sonora, Mexico, is comprised of the San Felix (205 ha), San Francisco (10 ha), Elba (5.82 ha), Huerta de Oro (20 ha), Reyna de Plata (9.79 ha), Cerro Prieto “North” (2,508 ha) and Argonauta 6 (4,120 ha) mineral concessions. Cerro Prieto is 52 road kilometers from the regional center of Magdalena de Kino (population 40,000) and 150 kilometers northeast of the city of Hermosillo.

Gold is produced in doré in Mexico and then shipped to a refiner in the United States for final refining prior to sale. Cerro Prieto is subject to a 2% NSR royalty payable upon production in addition to a production royalty payable to Oroco Resource Corp. calculated as 20% of the difference between the market price of gold and \$1,250 per ounce up to a maximum of US\$90 per ounce of gold produced from the project, for the greater of:

- (i) The first 90,000 ounces of gold produced from the Cerro Prieto Project; and
- (ii) All ounces of gold produced from the Project until the completion of five full years of commercial production.

In March 2016, the Company commissioned an independent review of the Mineral Resource estimate for Cerro Prieto. This study was undertaken to ensure that management has appropriate information regarding efficient extraction of mineralized material identified at its Cerro Prieto mineral deposit.

By incorporating exploration drilling results acquired subsequent to the last Mineral Resource update of 2013 and assessing production information accumulated by the Company since commencement of test mining operations in December 2013, an update to the previously defined Mineral Resources has been completed. Highlights of this update are as follows:

- Virtually all resource blocks potentially amenable to open-pit surface mining have been reclassified to the Measured or Indicated Mineral Resource classification;
- Un-mined mineralized material within the oxide portion of the Cerro Prieto mine plan (through 2019) have been estimated to aggregate 2,478,000 tonnes grading 1.35 g/t gold, for 108,000 gross ounces (as at December 31, 2015);
- Within the reclassified Mineral Resource blocks above the 1,000 meter elevation to the Q1 2016 topographic surface (the surface after mining from Q4 2013 to Q1 2016) certain portions are candidates for upgrade to Proven or Probable Mineral Reserves; and
- Depending on the outcome of certain economic viability tests, which are currently under way, 2,341,000 tonnes grading 1.35 g/t gold are candidates for classification to the Proven plus Probable Mineral Reserve classification. An additional 137,000 tonnes grading 1.51 g/t gold are classified as Measured plus Indicated Mineral Resources.

Estimates of Mineral Reserves necessarily depend upon a number of variable factors and assumptions, all of which may vary from the actual results, such as: changes in commodity prices, international exchange rates, taxation of environmental regulations, or unforeseen changes in geological or mining conditions.

A determination of Mineral Resources and Mineral Reserves prepared by a QP are estimates based on technical assumptions that comply with applicable mining standards. Though preparation of the estimates are conducted in accordance with relevant mining standards, the estimates are subject to a number of uncertainties inherent in estimating quantities and classification of Mineral Resources and Mineral Reserves, including the QP's assessment of available financial, technical, geological, and contractual information. Therefore, such statements should not be interpreted as assurances of mine life or a measure of the profitability of future operations, particularly in these times of global economic uncertainty.

Scientific and technical information relating to Cerro Prieto presented above has been approved by Rodney A. Blakestad, J.D., C.P.G., who by reason of education, affiliation with a professional association (as defined in NI 43-101) and past relevant work experience, fulfills the requirements of a Qualified Person as defined in NI 43-101, and he is Independent of the issuer applying all of the tests in Section 1.5 of NI 43-101CP.

On August 8, 2013 the Company released an updated National Instrument 43-101 Measured and Indicated and Inferred mineral resource estimate (the "NI 43-101") for Cerro Prieto. Giroux Consultants Ltd. and Duncan Bain Consulting Ltd. prepared and authorized the release of this NI 43-101 resource estimate entitled "Report on the 2011-2012 Exploration Program including an Updated Resource Estimation on the Cerro Prieto Project - Magdalena de Kino Area, Sonora State Mexico dated June 10, 2013". Highlights of this estimate can be found in the MD&A for the year ended December 31, 2013 on SEDAR.

The Company wishes to make clear that it is not basing its production decision on a preliminary economic assessment demonstrating the potential viability of mineral resources or a feasibility study of mineral reserves demonstrating economic and technical viability, and as a result there is increased uncertainty and these are multiple technical and economic risks of failure which are associated with this production decision. These risks, among others, include areas that are analyzed in more detail in a Preliminary Economic Assessment ("PEA") or Feasibility Study, such as applying economic analysis to resources or reserves, more detailed metallurgy, a number of various specialized studies.



## BATAMOTE, MEXICO

During the year ended December 31, 2017, the Company entered into an option agreement to purchase an additional exploration property in close proximity to the Cerro Prieto mine for \$4,000,000. During the second quarter of 2018, the Company commenced extraction and operations on the project and as management determined that operating results, which includes the grade and volume of material mined, are being achieved consistently and there are indicators that these operating results will continue the Company has determined that it reached operations on April 1, 2018 for accounting purposes.

The option payments per the agreement are as follows:

Date	Obligation (000's)
Upon signing	• Payment of \$75 (Paid)
March 9, 2017	• Payment of \$37.5 (Paid)
April 9, 2017	• Payment of \$37.5 (Paid)
February 9, 2018	• Payment of \$428 (Paid)
August 9, 2018	• Payment of \$428 (Paid)
February 9, 2019	• Payment of \$428*
August 9, 2019	• Payment of \$428
February 9, 2020	• Payment of \$428
August 9, 2020	• Payment of \$428
February 9, 2021	• Payment of \$428
August 9, 2021	• Payment of \$428
February 9, 2022	• Payment of \$428

\* Subsequent to the year ended December 31, 2018, the Company renegotiated the \$428,000 February 9, 2019 payment to be \$100,000 on February 9, 2019 (paid) and then 5 subsequent \$65,555 payments until August 9, 2019, at which point the original contracted payment schedule would be followed. The February and March 2019 payments have been made.

	Batamote (000's)
Balance December 31, 2016	\$ -
Acquisition costs	150
Capitalized costs	170
Balance December 31, 2017	320
Acquisition costs	856
Capitalized costs	53
Amortization	(1,135)
Balance December 31, 2018	\$ 94



## **SAN JOSÉ DE GRACIA PROJECT, MEXICO**

### ***Overview***

On March 14, 2011, the Company completed the requirements for its earn-in/option agreement with DynaResource de Mexico S.A. de C.V. (“DynaMexico”) for a 50% equity interest in DynaMexico by reaching the expenditure funding requirement of \$18,000,000. DynaMexico owns 100% of the San José de Gracia gold project.

San José de Gracia 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 applicable interests.

Management has had numerous discussions with DynaUSA, owners of the remaining 50% shareholding of DynaMexico, to determine how to proceed with this project. The Company continues to assess available alternatives for the future development of the San José de Gracia project. Until such time as a development strategy and financial plan for the San José de Gracia project can be agreed to with DynaUSA, Goldgroup’s financial support to fund further exploration and development activities has been placed on hold. Development activities will be limited and the costs of maintaining the project are expected to be nominal.

### ***Legal disputes***

There are several ongoing legal disputes between Goldgroup and DynaUSA which are summarized below:

On January 22, 2013 Goldgroup announced that it had moved to dismiss as totally without merit a lawsuit filed against it and others in Dallas County District Court by DynaResource, Inc. and DynaResource de Mexico, S.A. de C.V. (collectively “DynaResource”).

DynaResource alleged, among other things, that the Company has wrongfully used and disseminated confidential information and data belonging to DynaResource, and materially misrepresented Goldgroup’s ownership interest in SJG. Goldgroup owns a 50% interest in DynaMexico, which owns 100% of SJG. Goldgroup has properly disclosed its interest in SJG, has not materially misrepresented it, and has not improperly used any DynaResource confidential information. Goldgroup denies all such allegations by DynaResource, has moved to dismiss the lawsuit, and intends to vigorously defend itself and its interests.

On October 28, 2013 the Company announced that it filed a legal action before the appropriate criminal authorities in Mexico concerning recent activities undertaken by Koy Wilber Diepholz (“Diepholz”), shareholder, President and Chairman of the Board of Directors of DynaMexico and Chairman, Chief Executive Officer and Treasurer of DynaUSA. The purpose of the legal action case is to investigate whether illegal acts were committed by Diepholz, in his role as CEO of DynaMexico, for his own benefit and for the benefit of DynaUSA.

On March 11, 2014 DynaResource dropped its lawsuit against the Company.

On March 14, 2014 the Company filed for arbitration in Denver, Colorado, against DynaResource Inc. to protect its interests pursuant to the SJG earn-in option agreement dated September 1, 2006.

On June 29, 2015 a Mazatlán Judge denied DynaMex the request for an “amparo”, which is, by Mexican Law, an appeal to the injunction obtained by Goldgroup against DynaMex regarding the 300 new shares of DynaMex issued in favor of DynaUSA. The issuance of the DynaMex shares to DynaUSA diluted Goldgroup’s ownership interest (from 50% to 20%) in DynaMex with DynaUSA purporting to be an owner of 80% of DynaMex.

On October 13, 2015 the Company was made aware of a news release disseminated by DynaResource de Mexico SA de C.V. (“Dyna”). Goldgroup was never notified of the purported court case discussed, does not recognize any of the claims mentioned therein and is of the belief that such claims are without merit. The Company is reviewing its options and intends to exercise all of its legal rights in order to have the purported judgement discussed in the news release disregarded, set aside or otherwise overturned, and further will seek damages for misrepresentation against Dyna and all relevant parties.

During the year ended December 31, 2015, management concluded that due to the ongoing legal disputes the Company no longer has significant influence over DynaMexico and therefore discontinued treating the investment as an investment in associate. There was no impact on the statement of financial position or statement of loss or comprehensive loss as the investment was impaired to \$nil during fiscal 2014.

During the year ended December 31, 2016 the Company received the favorable results and award from the conclusion of the arbitration between the Company and DynaUSA. The results and award were issued by the American Arbitration Association – International Centre for Dispute Resolution (“Arbitrator” or “ICDR”) on August 24, 2016. This Award is final, binding and may be enforced in court.

### **Results and Award from Arbitration**

The Arbitrator concluded that there is no doubt that DynaUSA has failed to do what they are obligated to do under an Earn-In/Option Agreement with Goldgroup, dated September 1, 2006 (the “Agreement”).

The Award, in summary, clarifies several doubts arising from misleading news releases issued by DynaUSA:

The Award confirms that the Agreement is in full force and effect;

- The expenditures made by DynaUSA without the approval of the joint Management Committee have to be reimbursed to DynaResource Mexico S.A. de C.V. (“DynaMexico”), an entity in which Goldgroup owns 50% equity of, since Goldgroup did not participate in those decisions;
- A detailed accountability assessment by DynaUSA must be done for Goldgroup for the last 5 years when DynaUSA excluded Goldgroup from the management of DynaMexico and delivered to Goldgroup within 20 days of the issuance of the Award;
- The use of the Power of Attorney of Mr. K.D. Diepholz did not provide authorization for Mr. Diepholz to circumvent the Management Committee’s power to approve and oversee expenditures;
- DynaUSA has acted in bad faith and breached the terms of the Agreement;
- Certain amounts must be reimbursed to Goldgroup which includes and not limited to the fees paid and to be paid in the Mexico City case related to the current dispute;
- A fifth director must be jointly appointed in DynaMexico and the names of prospective candidates exchanged by the parties, no later than 10 calendar days from the date of the Award ; and
- The deliberate dilution by DynaUSA of Goldgroup’s equity interest in DynaMexico was illegal and therefore invalid.

The Company has complied with all requirements set out in the Arbitration award and has yet to receive any payment or required documentation from DynaUSA or Dyna Mexico.

On August 24, 2017, a Federal Amparo judge in the state of Veracruz, Mexico, dismissed Goldgroup Resources Inc.’s Amparo challenge. Goldgroup’s position in response to the USD\$48 million claim remains the same, that Goldgroup was never notified of the purported court case, and does not recognize any of the claims mentioned therein and is of the belief that such claims are entirely without merit. More importantly, the Company expects the claim to be voided at the Mexican Supreme Court level due to the unambiguous arbitration result in favor of Goldgroup discussed above.

In February 2018, the Company received the recommendation of the magistrate judge in Denver, who has recommended that the Company’s application to confirm the arbitration award be denied. The Company has filed an objection which will request the judge to reject the recommendation and confirm the arbitration award.

Many initiatives and legal proceedings are in progress in order to resolve the dispute.

### ***Status of Project***

The Government of the State of Sinaloa (the “Sinaloa Government”) has taken steps to attempt to bring a resolution to the dispute over the high-grade San José de Gracia gold project. Recently, the Sinaloa Government have requested that Goldgroup and DynaUSA resolve their differences through mediation with the Sinaloa Government acting as facilitator to that mediation. This process has commenced with meetings between Goldgroup, DynaUSA and the Sinaloa Government. Goldgroup expects to find a resolution to this issue in the near-term.

The Company released an updated technical report on the San José de Gracia project dated effective September 5, 2011, which was prepared by Jim Cuttle, P.Geo. and Gary Giroux, P.Eng of Giroux Consultants Ltd., each an independent qualified person under NI 43-101 standards. The technical report significantly increased the Company’s mineral resource estimate at San José de Gracia, establishing indicated mineral resources at the Tres Amigos vein of 147,000 ounces of gold (913,000 tonnes @ 5.00g/t Au, 10.72g/t Ag, 0.21% Cu, 0.54% Zn), and growing inferred mineral resources at all four veins from 618,000 to 963,000 ounces of gold (5.813 million tonnes @ 5.16g/t gold, 10.26g/t silver, 0.21% copper and 0.16% zinc) and 1.917 million ounces of silver, representing an increase of 56%. The previous technical report dated February 28, 2011, estimated solely inferred mineral resources.

On February 15, 2012, DynaUSA announced that it had received the results of a different mineral resource estimate for the San José de Gracia project (the “DynaUSA Estimate”). The DynaUSA Estimate included aggregate indicated mineral resources at Tres Amigos of 892,534 tonnes, with an average grade of 4.46 g/t, totaling 127,921 oz/Au, and at San Pablo of 1,307,509 tonnes, with an average grade of 6.52 g/t, totaling 274,171 oz/Au, and aggregate inferred mineral resources of 3,953,143 tonnes, with an average grade of 5.83 g/t, totaling 740,911 oz/Au. The DynaUSA Estimate includes a higher volume of indicated mineral resources as compared to the mineral resources estimate contained in the technical report released by Goldgroup due to the use of different qualified persons and their corresponding assumptions and parameters. The February 15, 2012 news release issued by DynaUSA and the NI 43-101 Technical Report filed on March 28, 2012 by DynaUSA can be found on SEDAR.

## **EL MOZO PROJECT, ECUADOR**

The 1,776 hectare El Mozo Project is located approximately 60km south of the city of Cuenca in southern Ecuador. A total of 120 core holes (18,722 metres) have been drilled on the property by previous workers, focused primarily on three zones with near surface oxide gold mineralization. Preliminary metallurgical test work indicates these oxide zones are amenable to low cost heap leaching.

### ***Acquisition of 0990718 B.C. Ltd.***

On July 17, 2015 the Company signed the Definitive Agreement to acquire all of the issued and outstanding shares of 0990718 B.C. Ltd. (the “vendors”) in exchange for the issuance of an aggregate of 5,500,000 common shares of the Company to the shareholders of 0990718 pursuant to a share exchange agreement with the Vendors (the “Share Exchange Agreement”). In addition to the common shares, the Company granted to the Vendors an aggregate 1% net smelter returns royalty (“NSR”) on Goldgroup’s ownership portion in the El Mozo Project pursuant to a net smelter returns royalty agreement (the “Royalty Agreement”). Under the Royalty Agreement Goldgroup has the right to repurchase the Vendors’ NSR for consideration of:

- \$1,000,000 paid on or before the date (the “Repurchase Date”) which is the later of January 17, 2017 and the date permits for commercial production on the El Mozo Project are granted; or
- \$1,500,000 paid on or before the date which is 30 months following the Repurchase Date; or
- \$2,500,000 paid on or before the date which is 42 months following the Repurchase Date.

The consideration for the NSR royalty repurchase can be paid in cash or in common shares, at the Company’s option.

**Option agreement terms**

Under the Option Agreement, 0990718 BC Ltd. may earn an 80% interest in the El Mozo Project by fulfilling the following requirements:

<b>Earn in % of El Mozo Project</b>	<b>Obligation</b>
15%	<ul style="list-style-type: none"> <li>• Paying the Optionor \$50,000 on or before June 13, 2016 (paid)</li> </ul>
35%	<ul style="list-style-type: none"> <li>• Fulfilled obligation to earn in 15%</li> <li>• Paying the Optionor \$60,000 on or before June 13, 2017 (paid)</li> </ul>
55%	<ul style="list-style-type: none"> <li>• Fulfilled obligation to earn in 35%</li> <li>• Paying the Optionor \$100,000 on or before June 13, 2018 (paid)</li> <li>• Incurred at least \$1,000,000 in exploration expenditures on or before June 6, 2018 (incurred)</li> </ul>
80%	<ul style="list-style-type: none"> <li>• Fulfilled obligation to earn in 55%</li> <li>• Paying the Optionor \$150,000 on or before June 13, 2019</li> <li>• Incurred at least \$1,000,000 (total \$2,000 accumulated) in exploration expenditures on or before June 12, 2019</li> <li>• Issuing \$500,000 of common shares of Goldgroup to Optionor on or before June 13, 2019.</li> </ul>

These earn-in obligations must be fulfilled on or before June 13, 2019. Upon successful earn-in on the El Mozo Project by 0990718, the Optionor has the right to convert its 20% interest in the El Mozo Project into a 2% net smelter returns royalty (“NSR”). If the Optionor converts its interest into a 2% NSR, 0990718 will have the right to purchase 50% of this NSR royalty by paying:

- \$1,000,000 (if estimated mineral resources are less than 500,000 gold equivalent ounces), or
- \$1,500,000 (if estimated mineral resources are equal to or greater than 500,000 but less than 1,000,000 gold equivalent ounces), or
- \$2,000,000 (if estimated mineral resources are equal to or greater than 1,000,000 gold equivalent ounces).

	<b>El Mozo Expenditures (‘000)</b>
Balance December 31, 2016	\$ 1,399
Capitalized costs	491
Acquisition costs	60
Balance December 31, 2017	\$ 1,950
Capitalized costs	176
Acquisition costs	100
Balance December 31, 2018	\$ 2,226

## LIQUIDITY AND CAPITAL RESOURCES

A summary of the Company's cash position and changes in cash and cash equivalents for:

	Year ended December 31,		
	2018	2017	2016
<i>(table amounts are expressed in thousands of U.S. dollars)</i>			
Cash used by operating activities - net	867	2,746	(424)
Cash (used) generated in investing activities	(2,099)	(2,752)	3,317
Cash (used) generated by financing activities	185	485	(2,218)
(Decrease) increase in cash and cash equivalents	(1,047)	479	675
Cash and cash equivalents, beginning of period	1,376	897	222
Cash and cash equivalents, end of period	329	1,376	897

Cash inflow from operating activities were lower in the current period due to cash flow from mining operations and the change working capital items (e.g. decrease in accounts receivables), net of corporate expenses.

Cash used in investing activities were similar to prior year and significantly higher than 2016 due to the Company's investment in its exploration projects.

Cash inflow in financing activities were nominal in the current period do to the limited financing activities.

## SHAREHOLDER'S EQUITY

Goldgroup's authorized capital stock consists of an unlimited number of common shares without par value. As at December 31, 2018, the Company had 185,136,689 common shares, 15,455,000 stock options and 6,500,000 share purchase warrants outstanding.

As at the date of this report there are 185,136,689 common shares, 15,455,000 stock options and 3,500,000 share purchase warrants outstanding.

Table below provides a summary of the stock options outstanding:

Balance as at December 31, 2018:

Expiry date	Number of stock options	Number of stock options (vested)	Exercise price (CDN\$)
February 12, 2020	3,300,000	3,300,000	0.145
December 8, 2020	3,615,000	3,615,000	0.06
October 26, 2021	5,820,000	5,820,000	0.27
January 23, 2023	2,720,000	1,360,000	0.07
Balance as at December 31, 2018	15,455,000	14,095,000	

Balance as at the date of this report:

<b>Expiry date</b>	<b>Number of stock options</b>	<b>Number of stock options (vested)</b>	<b>Exercise price (CDN\$)</b>
February 12, 2020	3,300,000	3,300,000	0.145
December 8, 2020	3,615,000	3,615,000	0.06
October 26, 2021	5,820,000	5,820,000	0.27
January 23, 2023	2,720,000	2,040,000	0.07
Balance as at December 31, 2018	15,455,000	14,775,000	

Table below provides a summary of the share purchase warrants outstanding as at December 31, 2018:

<b>Expiry date</b>	<b>Number of warrants</b>	<b>Exercise price (CDN\$)</b>
March 18, 2019	3,000,000	0.10
July 18, 2019	3,500,000	0.10
Balance as at December 31, 2018	6,500,000	0.10

Table below provides a summary of the share purchase warrants outstanding as at the date of this report:

<b>Expiry date</b>	<b>Number of warrants</b>	<b>Exercise price (CDN\$)</b>
July 18, 2019	3,500,000	0.10
Balance as at the date of this report	3,500,000	0.10

## **REGULATORY DISCLOSURES**

### **Off balance sheet arrangements**

The Company does not have any off-balance sheet arrangements.

### **Proposed Transactions**

The Company does not have any proposed transactions as at December 31, 2018 other than as disclosed elsewhere in this document.

## Financial instruments

### *Fair values of financial instruments*

The fair values of financial instruments are summarized as follows:

### *Fair value measurements*

The accounting classification and of each category of financial instruments, and the level within the fair value hierarchy in which they have been classified are set out below:

Denominated in '000 USD	Fair Value Hierarchy Level	December 31, 2018	December 31, 2017
<b>Financial assets</b>			
<i>Loans and Receivables</i>			
Cash and cash equivalents <sup>(1)</sup>	N/A	329	1,376
Receivables <sup>(1)</sup>	N/A	47	43
Investments	Level 1	367	159
<b>Financial liabilities</b>			
<i>Other financial liabilities</i>			
Accounts payable & accrued liabilities <sup>(1)</sup>	N/A	5,514	4,620
Loan payable <sup>(3)</sup>	N/A	1,633	1,070
<i>Derivative</i>			
Warrant liability <sup>(2)</sup>	Level 3	8	67

(1) The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximates fair value due to the short-term nature of these items.

(2) The Company applies a standard Black-Scholes model to value the warrant liability.

(3) Loans payable is presented on an amortized cost basis and will be accreted to its face amount over the term to maturity of the loan at an effective interest rate.

## Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and loans receivable. The majority of the Company's cash and cash equivalents and restricted cash are held through large Canadian financial institutions.

## Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as described in the capital management section below. The accounts payable and income taxes payable are due within the current operating period. The Company is exposed to liquidity risk.

## Market Risk

The Company's financial instruments include investments which are publicly traded and therefore subject to the risks related to the fluctuation in market prices of publicly traded securities. Some of these investments have been acquired



as a result of property transactions and, to a large extent, represent strategic investments in related mining companies and their properties. The Company closely monitors market values to determine the most appropriate course of action.

### 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 value of the warrant liability.

### Commodity Price Risk

The Company is exposed to commodity price risk given that its revenues are derived from the sale of metals, the price of which have been historically volatile.

### Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The Company is exposed from time to time to interest rate risk as a result of holding fixed income cash equivalents and investments, of varying maturities and loans payable. A 1% change in market interest rates would result in no significant change in value of cash and cash equivalents or fixed income securities. The risk that the Company will realize a loss as a result of a decline in the fair value of these assets is limited as they are generally held to maturity.

### Foreign Exchange Risk

The Company operates in Canada, Mexico and Ecuador and is exposed to foreign exchange risk arising from transactions denominated in foreign currencies.

The operating results and the financial position of the Company are reported in United States dollars. Fluctuations of the operating currencies in relation to the United States dollar will have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities.

The Company's financial assets and liabilities as at December 31, 2018 are denominated in United States Dollars, Canadian Dollars, and Mexican Pesos, and are set out in the following table:

Denominated in '000 USD	Canadian Dollars	US Dollars	Mexico Pesos	Total
<b>Financial assets</b>				
Cash and cash equivalents	\$ 30	\$ 294	\$ 5	\$ 329
Receivables - other	45	-	29	74
Investments	367	-	-	367
	442	294	34	770
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	(232)	(2,525)	(2,761)	(5,518)
Loan payable	-	(1,633)	-	(1,633)
Net financial (liabilities) assets	\$ 210	\$ (3,864)	\$ (2,727)	\$ (6,381)

The Company's financial assets and liabilities as at December 31, 2017 are denominated in United States Dollars, Canadian Dollars, and Mexican Pesos, and are set out in the following table:

Denominated in '000 USD	Canadian Dollars	US Dollars	Mexico Pesos	Total
<b>Financial assets</b>				
Cash and cash equivalents	\$ 39	\$ 1,278	\$ 59	\$ 1,376
Receivables - other	34	4	5	43
Investments	159	-	-	159
	232	1,282	64	1,578
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	(241)	(2,417)	(1,962)	(4,620)
Loan payable	-	(1,070)	-	(1,070)
Net financial (liabilities) assets	\$ (9)	\$ (2,205)	\$ (1,898)	\$ (4,112)

The Company's reported results will be affected by changes in the US dollar to Canadian dollar and US dollar to Mexican Pesos exchange rate. As of December 31, 2018, a 10% appreciation of the Canadian dollar relative to the US dollar would have decreased net financial assets by approximately \$21,000 (December 31, 2017 - \$nil). A 10% depreciation of the US Dollar relative to the Canadian dollar would have had the equal but opposite effect. A 10% appreciation of the Mexican Pesos relative to the US dollar would have decreased net financial asset by approximately \$272,000 (December 31, 2017 - \$190,000) and a 10% depreciation of the Mexican Pesos would have had an equal but opposite effect. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risk.

The table below summarizes the maturity profile of the Company's non-derivative financial liabilities:

December 31, 2018 (Denominated in '000 USD)	Current – within 1 year	Non- current – 1 to 3 years
Accounts payables and accrued liabilities	\$ 5,514	\$ -
Loan payable	900	733
Tax payable	237	-
	\$ 6,651	733
December 31, 2017 (Denominated in '000 USD)	Current – within 1 year	Non- current – 1 to 3 years
Accounts payables and accrued liabilities	\$ 4,620	\$ -
Loan payable	268	802
Tax payable	302	-
	\$ 5,190	\$ 802

**Related party transactions**

The Company's related parties include its subsidiaries, associates over which it exercises significant influence, and key management personnel. Key management personnel include officers, directors or companies with common directors of the Company. The remuneration of the Company's directors and other key management personnel during the year ended December 31, are as follows:

<i>(Denominated in '000 USD)</i>	<b>2018</b>	<b>2017</b>
Short-term employee benefits included in salary and consulting	\$ 289	\$ 288
Director's fees included in professional fees	116	96
Share-based compensation	58	231
Legal fees included in professional fees	-	213
Consulting fees included in salary and consulting	108	108
	<b>\$ 571</b>	<b>\$ 936</b>

Short-term employee benefits include salaries incurred within the last twelve months of the statement of financial position date and other annual employee benefits. They are included in cost of sales, administrative expenses and exploration and evaluation properties.

At December 31, 2018, other receivables and prepaid expenses include \$21,000 (December 31, 2017 - \$36,000) owing from an officer of the Company.

At December 31, 2018, trade and other accounts payable includes \$173,000 (December 31, 2017 - \$32,000) owing to a director and/or officer and/or companies controlled by the directors.

During the year ended December 31, 2018 the Company paid legal fees totalling \$nil (2017 - \$213,000) and consulting fees totalling \$108,000 (2017 - \$108,000) to companies controlled by directors of the Company, respectively.

Amounts owing to or from related parties are non-interest bearing, unsecured and due on demand.

**Capital management**

The capital of the Company consists of items included in shareholder's equity. The Company's objectives for capital management are to safeguard its ability to support the Company's normal operating requirement on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital requirements, the Company has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at December 31, 2018, the Company expects its capital resources will require additional support for its normal operating requirements, planned development and exploration of its mineral properties for the next twelve months. There are no externally imposed capital requirements to which the Company has not complied.

**Critical accounting estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of the effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

*Significant judgments in applying accounting policies*

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

- a) **Impairment assets**  
The carrying value of property, plant and equipment, exploration and evaluation properties and mine development 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, 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 assets could impact the impairment analysis.
- b) **Economic recoverability and probability of future economic benefits of exploration and evaluation assets**  
Management has determined that exploratory drilling and evaluation, related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.
- c) **Functional currency**  
The functional currency for each of the Company's subsidiaries, joint ventures and investments in associates, is the currency of the primary economic environment in which the entity operates. The Company has determined the functional currency of each entity is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.
- d) **Commencement of commercial production**  
Costs associated with the commissioning of new assets, in the pre-commercial period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues. Commercial production is deemed to have occurred when management determines that, amongst other items, the completion of operational commissioning of major mine components has been reached, operating results, which includes the grade and volume of material mined, are being achieved consistently for a period of time, and there are indicators that these operating results will continue, all of which involve management judgments. The Company has determined that it reached commercial production on April 1, 2016 for accounting purposes.

*Key sources of Estimation Uncertainty*

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

- a) **Mineral Reserves Estimation**  
The carrying value and recoverability of mineral properties requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project. The determination of mineral resources also requires the use of estimates. The Company estimates its mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101, Standards for Disclosure of Mineral Projects. There

are numerous uncertainties inherent in estimating mineral resources and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of resources and may result in changes to resource estimates.

b) 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 estimated resources. 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 estimated recoverable resources.

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.

c) 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, 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. Such inventories are included in development cost until commercial production is achieved.

d) 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.

e) 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 profit or 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.

For asset acquisitions, contingent share consideration is an estimate of the fair value of the contingent amounts expected to be payable in the future. The fair value is based on number of contingent shares, the share price of the Company on the date of acquisition and management's expectations of probability.

f) Contingencies

Due to the size, complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date such changes occur.

In the fourth quarter of 2012, the Mexican government amended the Federal labour law regarding subcontracting arrangements to prevent the use of service companies to reduce labour and tax obligations. The Company currently operates in Mexico using these subcontracting arrangements as is the common practice. The amendments also provided clarification on certain regulatory requirements associated with an employer's obligation to compensate employees with appropriate statutory profit sharing within Mexico. The Company has assessed the implications of these amendments and has determined that it is probable that no additional obligation for statutory profit sharing payments is required to be recorded by the Company.

g) Deferred taxes

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

h) Impairment

Non-current assets are tested for impairment if there is an indicator of impairment, and in the case of goodwill, at least annually. The impairment analysis requires the use of estimates and assumptions, including amongst others, long-term commodity prices, discount rates, length of mine life, future production levels, future operating costs, future capital expenditures and tax estimates. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these



projections, which may impact the recoverable amount of the assets. In such circumstances the carrying value of the assets may be impaired or a prior period's impairment charge reversed with the impact recorded in the statements of loss and comprehensive loss.

Current assets include receivables which are reviewed for collectability that may be affected by default, delays and other economic indicators.

## **OTHER MD&A REQUIREMENTS**

Goldgroup's business of exploring, developing and mining mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and any investment in Goldgroup's common shares should be considered speculative.

Additional information relating to the Company, including the AIF is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.goldgroupmining.com](http://www.goldgroupmining.com).

The Board of Directors of Goldgroup has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it from the Company.

### **Compliance with NI 43-101**

As required by National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101"), Goldgroup has filed technical reports detailing the technical information related to its material mineral properties discussed herein. For the purposes of NI 43-101, the Company's material mineral properties, the San José de Gracia project, the Cerro Colorado mine and the Cerro Prieto project. Unless otherwise indicated, Goldgroup has prepared the technical information in this MD&A ("Technical Information") based on information contained in the technical reports, news releases and other public filings (collectively, the "Disclosure Documents") available under the Company's profile on SEDAR. Each Disclosure Document was prepared by or under the supervision of a qualified person as defined in NI 43-101. For readers to fully understand the information in this MD&A, they should read the Disclosure Documents in their entirety, including all qualifications, assumptions and exclusions that relate to the information set out in this MD&A which qualifies the Technical Information. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents.

Scientific and technical information relating to Cerro Prieto presented above has been approved by Rodney A. Blakestad, J.D., C.P.G., who by reason of education, affiliation with a professional association (as defined in NI 43-101) and past relevant work experience, fulfills the requirements of a Qualified Person as defined in NI 43-101, and he is Independent of the issuer applying all of the tests in Section 1.5 of NI 43-101CP.

### **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR") to provide reasonable assurance in respect to the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

#### *Limitations of Controls and Procedures:*

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further,



the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

### **Disclosure Controls and Procedures**

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the appropriate time periods and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Non-IFRS Financial Measures**

#### *Cash Costs*

The Company's MD&A often refers to cash costs per ounce, a non-IFRS performance measure in order to provide investors with information about the measure used by management to monitor performance. This information is used to assess how well the producing gold mine is performing compared to plan and prior periods, and also to assess the overall effectiveness and efficiency of gold mining operations. "Cash cost" figures are calculated in accordance with a standard developed by The Gold Institute, which was a worldwide association of suppliers of gold and gold products and included leading North American gold producers. The Gold Institute ceased operations in 2002, but the standard is still an accepted standard of reporting cash costs of gold production in North America. Adoption of the standard is voluntary and the cost measures presented herein may not be comparable to other similarly titled measures of other companies. Costs include mine site operating costs such as mining, processing, administration, royalties and production taxes, but are exclusive of amortization, reclamation, capital, exploration and development costs. These costs are then divided by ounces of gold sold to arrive at the total cash costs per ounce of gold sold. The measure, along with sales, is considered to be a key indicator of a company's ability to generate operating earnings and cash flow from its mining operations.

These gold cash costs differ from measures determined in accordance with IFRS. They are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These measures are not necessarily indicative of net earnings or cash flow from operations as determined under IFRS.

The following table provides a reconciliation between non IFRS adjusted cash costs to cost of good sold (IFRS) for the year ended December 31, 2018:

Cerro Prieto - cash cost calculation	December 31, 2018	December 31, 2017
Total cost of goods sold ('000)	\$ 17,139	\$ 14,792
Add (subtract)		
Inventory adjustment ('000)	\$ (347)	\$ 205
<b>Total cash cost of production ('000)</b>	<b>\$ 16,792</b>	<b>\$ 14,997</b>
Gold ounces – produced	15,430	14,740
<b>Total cash cost of production per ounce</b>	<b>\$ 1,088</b>	<b>\$ 1,017</b>
<b>All-in sustaining cost of production per ounce</b>	<b>\$ 1,088</b>	<b>\$ 1,017</b>
Add (subtract)		
Corporate administration ('000)*	\$ 2,661	\$ 2,962
<b>Total all-in cost ('000)</b>	<b>\$ 19,453</b>	<b>\$ 17,959</b>
Gold ounces – produced	15,430	14,740
<b>All-in cost (per ounce)</b>	<b>\$ 1,261</b>	<b>\$ 1,218</b>

\*Corporate administration excludes non cash items such as corporate depreciation and stock based compensation.

Project specific- cash cost calculation for year ended December 31, 2018	Cerro Prieto	Batamote
Total cost of goods sold ('000)	\$ 6,878	\$ 10,261
Add (subtract)		
Inventory adjustment ('000)	\$ (1,784)	\$ 1,437
<b>Total cash cost of production ('000)</b>	<b>\$ 5,094</b>	<b>\$ 11,698</b>
Gold ounces – produced	5,039	10,391
<b>Total cash cost of production per ounce</b>	<b>\$ 1,011</b>	<b>\$ 1,126</b>
<b>All-in sustaining cost of production per ounce</b>	<b>\$ 1,011</b>	<b>\$ 1,126</b>
Add (subtract)		
Corporate administration ('000)*	\$ 1,010	\$ 1,651
<b>Total all-in cost ('000)</b>	<b>\$ 6,104</b>	<b>\$ 13,349</b>
Gold ounces – produced	5,039	10,391
<b>All-in cost (per ounce)</b>	<b>\$ 1,211</b>	<b>\$ 1,285</b>

\*Corporate administration excludes non cash items such as corporate depreciation and stock based compensation.  
*Investor Relations Activities*

Goldgroup is committed to adhering to best investor relations corporate practices. The Company continues to attend prudently selected resource-focused tradeshows, conferences, and non-deal roadshows to ensure continuous communication with current and prospective investors. Currently, the Company is not utilizing any North American-based investor relations external consultants. Additionally, Goldgroup has minimized North American public relations and advertising initiatives as part of a company-wide capital optimization plan.

### **Risks and Uncertainties**

Exploration, development and mining of metals involve numerous inherent risks. As such, the Company is subject to various financial, operational and political risks that could have a significant impact on its profitability and levels of operating cash flows. Such risk factors could materially affect the value of the Company's assets and future operating results of the Company and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

An investment in the securities of the Company should be considered speculative due, generally, to the nature of the business in which the Company is engaged, the limited extent of the Company's assets, the Company's state of development and the degree of its reliance upon the expertise of management.

The list of risk factors below should not be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of its securities.

#### *Lack of Operation Profit*

There is no guarantee that the Company will enter into profitable agreements with mining companies and earn profit from operations.

The Company has not paid any dividends and it is unlikely to earn income or pay dividends in the immediate or foreseeable future. A prospective investor in the Company must be prepared to rely solely upon the ability, expertise, judgment, discretion, integrity and good faith of the Company's management in all aspects of the development and implementation of the Company's business activities.

Goldgroup's expected operating costs and expenditures, economic returns and other projections from a mining project which are contained in this document and in any technical reports or other studies prepared for or by Goldgroup are based on assumed or estimated future metals prices, cut-off grades, operating costs, capital costs, and expenditures and other factors that each may prove to be inaccurate. Therefore, such studies and reports may prove to be unreliable.

For example, significant declines in market prices for base and precious metals or extended periods of inflation would have an adverse effect on any economic projections. In addition, any material reductions in estimates of mineralization or increases in capital costs and expenditures, or in Goldgroup's ability to maintain a projected budget or renew a particular mining permit, could also have a material adverse effect on projected production schedules and economic returns, as well as on Goldgroup's overall results of operations or financial condition. There is also a risk that rising costs for labour and material could have an adverse impact on forecasted construction costs and that shortages of labour and material could have a negative impact on any mine development schedule.

Goldgroup's operating costs are affected by the cost of commodities and goods such as steel, fuel, electrical power and supplies, including tires and reagents. Management of Goldgroup prepares its cost and production guidance and other forecasts based on its review of current and estimated future costs, and management assumes that the materials and supplies required for operations will be available for purchase. An increase in any of these costs, or a lack of availability of commodities and goods, may have an adverse impact on Goldgroup's financial condition.

#### *Market Price of the Common Shares*

The Common Shares are listed and posted for trading on the TSX, OTC and SIC. There can be no assurance that an active trading market in the Company's securities will be established and maintained. Securities of companies involved in the resource industry have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. The price of the Common Shares is also likely to be

significantly affected by short-term changes in commodity prices or in the Company's financial condition or results of operations as reflected in its quarterly earnings reports.

#### *Acquisition Strategy*

As part of the Company's business strategy, it has sought and will continue to seek new exploration, mining and development opportunities in the resource industry. In pursuit of such opportunities, the Company may fail to select appropriate acquisition candidates or negotiate acceptable arrangements, including arrangements to finance acquisitions or integrate the acquired businesses and their personnel into the Company. The Company cannot assure that it can complete any acquisition or business arrangement that it pursues, or is pursuing, on favorable terms, or that any acquisitions or business arrangements completed will ultimately benefit the Company.

#### *The Company may not realize the benefits of its growth projects*

As part of its strategy, the Company will continue existing efforts and initiate new efforts to develop new mineral projects. A number of risks and uncertainties are associated with the development of these types of projects, including political, regulatory, design, construction, labour, operating, technical, and technological risks, and uncertainties relating to capital and other costs, and financing risks. The failure to develop one or more of these initiatives successfully could have an adverse effect on the Company's financial position and results of operations.

#### *Current Global Financial Conditions*

Events over the last number of years in global financial markets have had a profound impact on the global economy and global financial conditions have been subject to volatility. Many industries, including the mining sector, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A continuing slowdown in financial markets or other economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's business, financial condition, results of operations and ability to grow.

#### *Financing Risk*

The Company has no assurance that additional funding will be available for further exploration and development of its projects or to fulfill its obligations under any applicable agreements. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in delay or infinite postponement of further exploration and development of its projects with the possible loss of such properties.

#### *Competition*

The mineral exploration and development industry is highly competitive. The Company competes with other domestic and international mineral exploration companies that have greater financial, human and technical resources. The Company's competitors may be able to respond more quickly to new laws or regulations or emerging technologies, or devote greater resources to the expansion or efficiency of their operations than the Company can. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and gain significant market share to the Company's detriment. The Company may also encounter increasing competition from other mining companies in the Company's efforts to hire experienced mining professionals. Increased competition could adversely affect the Company's ability to attract necessary capital funding, to acquire it on acceptable terms, or to acquire suitable properties or prospects for mineral exploration in the future. As a result of this competition, the Company may not be able to compete successfully against current and future competitors, and any failure to do so could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Factors beyond the control of the Company may affect the marketability of any substances discovered. These factors include market fluctuations, the proximity and capacity of natural resource markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital or losing its investment capital.

#### *Risks related to International Activities*

The Company conducts business in Canada, Ecuador and Mexico with a material portion of the business being conducted in Mexico. The Company's international operations may be adversely affected by political or economic developments or social instability, which will not be within the Company's control, including, among other things, the risks of political unrest, labour disputes and unrest, war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions, contracts and permits, government regulation, delays in obtaining or renewing or the inability to obtain or renew necessary permits, taxation policies, economic sanctions, fluctuating exchange rates, currency controls, high rates of inflation, limitations on foreign ownership and increased financing costs. The occurrence of any such events could have a material adverse effect on the Company's business and results of operations as currently contemplated.

It may also be difficult for the Company to find and hire qualified people in the mining industry who are situated in Mexico or to obtain all of the necessary services or expertise in Mexico or to conduct operations on the Company's projects at reasonable rates. If qualified people and services or expertise cannot be obtained, the Company may need to seek and obtain those services from people located outside of these areas, which will require work permits and compliance with applicable laws and could result in delays and higher costs to conduct the Company's operations.

#### *Corruption and Bribery Risk*

The Company's operations are governed by, and involve interactions with, many levels of government. Like most companies, the Company is required to comply with anti-corruption and anti-bribery laws, including the Canadian *Corruption of Foreign Public Officials Act*. In recent years, there has been a general increase in both the frequency of enforcement and severity of penalties under such laws, resulting in greater scrutiny and punishment to companies convicted of violating anti-bribery laws. Furthermore, a company may be found liable for violations by not only its employees, but also by its third party agents. Although the Company takes steps to mitigate such risks, such measures are not always effective in ensuring that the Company, its employees or third party agents will comply strictly with such laws. If the Company finds itself subject to an enforcement action or is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions imposed on the Company resulting in a material adverse effect on the Company's reputation and results of operations.

#### *Risks Associated with Joint Venture Agreements*

Pursuant to agreements the Company may enter into in the course of its business, the Company's interest in its properties may become subject to the risks normally associated with the conduct of joint ventures. In the event that any of the Company's properties become subject to a joint venture, the existence or occurrence of one or more of the following circumstances and events could have a material adverse impact on the Company's profitability or the viability of its interests held through joint ventures, which could have a material adverse impact on the Company's business prospects, results of operations and financial condition: (i) disagreements with joint venture partners on how to conduct exploration; (ii) inability of joint venture partners to meet their obligations to the joint venture or third parties; and (iii) disputes or litigation between joint venture partners regarding budgets, development activities, reporting requirements and other joint venture matters.

#### *Reliance on Key Individuals*

The Company's success depends on its ability to attract and retain the services of key personnel who are qualified and experienced. In particular, the success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the Company's directors and senior management. It is expected that these individuals will be a significant factor in the Company's growth and success. The loss of the service of these individuals could have a material adverse effect on the Company.

The resource industry is largely driven by fluctuations in commodity prices which, when high, can lead to a large number of projects being developed which in turn increases the demand for skilled personnel, contractors, material and supplies. Accordingly, there is a risk to the Company of losing or being unable to secure enough suitable key personnel or key resources and, as a result, being exposed to increased capital and operating costs and delays, which may in turn adversely affect the development of the Company's projects, the results of operations and the Company's financial condition and prospectus.

#### *Commodity Prices*

The price of the Common Shares and the Company's financial results may be significantly adversely affected by a decline in the price of metals. The price of metal commodities fluctuates widely, especially in recent years, and is affected by numerous factors beyond the Company's control such as the sale or purchase of commodities by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major metal-producing countries throughout the world.

#### *Dividend Policy*

No dividends on the Common Shares have been paid by the Company to date. The Company anticipates that it will retain all earnings and other cash resources for the foreseeable future for the operation and development of its business. The Company does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Company's board of directors after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

#### *Conflicts of Interest*

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies involved in natural resource exploration, development and mining operations and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the *Business Corporations Act* (British Columbia) and other applicable laws.

#### *Exploration, Development and Operating Risks*

Mining operations generally involve a high degree of risk. Any potential mining operations of the Company will be subject to all the hazards and risks normally encountered in the exploration, development and production of metals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding, fire, environmental hazards and the discharge of toxic chemicals, explosions and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of mines and other producing facilities, damage to property, injury or loss of life, environmental damage, work stoppages, delays in production, increased production costs and possible legal liability. Milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability. Although the Company believes that appropriate precautions to minimize risks are taken, these risks cannot be eliminated.

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned or other mining operations in which the Company may acquire an interest will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, including among other things: the interpretation of geological data obtained from drill holes and other sampling techniques, the particular attributes of the deposit, such as size, grade and proximity to infrastructure and labour; metal prices which are highly



cyclical; government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection; and political stability. The Company's development projects are also subject to the issuance of necessary permits and other governmental approvals and receipt of adequate financing. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may adversely affect the Company's business.

#### *Costs*

The estimates of costs to conduct further exploration and development work by the Company are based on certain assumptions with respect to the method and timing of the work. By their nature, these estimates and assumptions are subject to significant uncertainties and, accordingly, the actual costs may materially differ from these estimates and assumptions. Accordingly, no assurance can be given that the cost estimates and the underlying assumptions will be realized in practice, which may materially and adversely affect the Company's viability.

#### *Environmental Regulation, Risks and Hazards*

All phases of mining operations are subject to environmental regulation in the jurisdictions in which they operate. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Compliance with changing environmental laws and regulations may require significant capital outlays, including obtaining additional permits, and may cause material changes or delays in, or the cancellation of, the Company's exploration programs or current operations. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's mining operations.

Furthermore, environmental hazards may exist on the properties on which the owners or operators of mining operations hold interests which are unknown to such owners or operators at present and which have been caused by previous or existing owners or operators of the properties.

Government approvals and permits are currently, and may in the future be, required in connection with mining operations at the Company's properties. To the extent such approvals are required and not obtained, mining operations may be curtailed or prohibited from continuing operations or from proceeding with planned exploration or development of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. The occurrence of any environmental violation or enforcement action may have an adverse impact on the Company's operations and reputation.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on mining operations and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

#### *Governmental Regulation*

Mining operations and exploration activities are subject to extensive laws and regulations governing exploration, development, production, exports, taxes, labour standards, waste disposal, protection and remediation of the environment, reclamation, historic and cultural resources preservation, mine safety and occupation health, handling, storage and transportation of hazardous substances and other matters. The costs of discovering, evaluating, planning, designing, developing, constructing, operating, and other facilities in compliance with such laws and regulations are significant. It is possible that the costs and delays associated with compliance with such laws and regulations could



become such that the owners or operators of mining operations would not proceed with the development of or continue to operate a mine. As part of their normal course operating, and development activities, such owners or operators have expended significant resources, both financial and managerial, to comply with governmental and environmental regulations and permitting requirements, and will continue to do so in the future. Moreover, it is possible that future regulatory developments, such as increasingly strict environmental protection laws, regulations and enforcement policies thereunder, and claims for damages to property and persons resulting from mining operations could result in substantial costs and liabilities in the future.

Our operations are governed by, and involve interactions with, many levels of government in countries with a history of corruption. Like most companies, we are required to comply with anti-corruption and anti-bribery laws, including the Canadian Corruption of Foreign Public Officials Act, as well as similar laws in the countries in which we conduct our business. In recent years, there has been a general increase in both the frequency of enforcement and severity of penalties under such laws, resulting in greater scrutiny and punishment to companies convicted of violating anti-bribery laws. Furthermore, a company may be found liable for violations by not only its employees, but also by its third party agents. It is our policy to implement safeguards to discourage these practices by employees and our consultants. However, our existing safeguards and any future improvements may prove to be less than effective, and our employees and consultants may have engaged or may engage in conduct for which we might be held responsible. Violations of such laws may result in criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition.

#### *Permitting*

Mining operations are subject to receiving and maintaining permits from appropriate governmental authorities. It can be time-consuming and costly to obtain, maintain and renew permits. In addition, permit terms and conditions can impose restrictions on how the Company conducts its operations and limit the Company's flexibility in development of its mineral properties. Prior to any development on the Company's properties, permits from appropriate governmental authorities may be required. Permits required for the Company's operations may not be issued, maintained or renewed in a timely fashion or at all, may not be issued or renewed upon conditions that restrict the Company's ability to conduct the Company's operations economically, or may be subsequently revoke. Any such failure to obtain, maintain or renew permits, or other permitting delays or conditions could have a material adverse effect on the Company's business, results of operations, financial condition and prospectus.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Goldgroup is in the process of applying for or renewing permits and licences relating to its operations in Mexico. The Company cannot be certain that it will receive the necessary permits and licences at all, or on acceptable terms required to conduct further exploration and to develop its properties and bring them into production. Government approvals and approvals of members of the surrounding communities and permits and licences are currently, and will in the future be, required in connection with the operations of the Company. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from continuing its exploration, development or production activities. The failure to obtain such permits or licences, or delays in obtaining such permits or licences, could increase the Company's costs and delay its activities, and could adversely affect the properties, business or operations of the Company.

#### *Infrastructure*

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect operations at the Company's properties.

### *Exploration and Geological Report*

The reported results in the technical reports filed in respect of the Company's properties are estimates only. No assurance can be given that the estimated mineralization will be recovered. The reported results are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Estimates may require revision (either up or down) based on actual production experience. If the Company encounters mineralization or geological formations different from those predicted by past drilling, sampling and interpretations, any estimates may need to be altered in a way that could adversely affect the Company's operations or proposed operations. In addition, market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain minerals uneconomic.

### *Land Title*

No assurances can be given that there are no title defects affecting the Company's properties. The Company's properties may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects.

A mineral concession in Mexico does not confer any ownership of surface rights. The majority of Goldgroup's mineral properties are located in relatively uninhabited areas. There are currently no areas of interest to Goldgroup within its mineral concession that are overlain by significant habitation or industrial users, however there are potential overlapping surface usage issues in some areas. Some surface rights may be owned by local communities or "Ejidos" or by private ranching or residential interests. Goldgroup will require additional surface rights to exploit all resources on its properties. Accordingly, Goldgroup will need to negotiate agreements with private landowners for access and any potential development or exploitation rights. There is no assurance that surface rights agreements that may be necessary for future operations will be obtained when needed, on reasonable terms or at all, which could materially and adversely affect the business of Goldgroup.

### *Commodity Price Fluctuations*

The price of metals has fluctuated widely in recent years, and future serious price declines could cause continued development of and commercial production from the Company's properties to be impracticable. Future cash flows may not be sufficient and the Company could be forced to discontinue production and may be forced to sell the properties. Future production by the Company is dependent on metal prices that are adequate to make this property economic.

In addition to adversely affecting the commercial production estimates and financial conditions, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

### *Additional Capital*

Mining, processing, development and exploration may require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration, development or production or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on satisfactory terms.

### *Foreign Exchange Rate Fluctuations*

Operations in Mexico, Canada and Ecuador are subject to foreign currency exchange fluctuations. The Company raises its funds through equity issuances which are priced in Canadian dollars, and the majority of the exploration costs of the Company are denominated in United States dollar, and Mexico pesos. The Company may suffer losses due to adverse foreign currency fluctuations.

### *Property Exploration and Development Risk*

Some of the Company's properties are currently at the exploration stage of development. Exploration and development is subject to numerous risks, including, but not limited to, delays in obtaining equipment, material and services essential to developing the project in a timely manner; changes in environmental or other government regulations; currency exchange rates; labour shortages; and fluctuation in metal prices. There can be no assurance that the Company will have the financial, technical and operational resources to complete the exploration and development in accordance with current expectations or at all.

### *Insurance Risk*

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failure, cave-ins, mechanical failures, changes in the regulatory environment and natural phenomena such as inclement weather conditions, fires, floods and earthquakes. Such occurrences could result in damage, delays in mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers reasonable, the Company's insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as loss of title to mineral property, environmental pollution, or other hazards as a result of exploration and production is not generally available to the Company or other companies in the mining industry on acceptable terms. The Company may also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect on our financial performance and results of operations.

### *Force Majeure*

The Company's projects now or in future may be adversely affected by risks outside the control of the Company, including labour unrest, civil disorder, war, subversive activities or sabotage, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

Readers of this MD&A should carefully consider the detailed risks set out under the heading "Risk Factors" in the AIF.

### **Cautionary Statement on Forward-Looking Information**

This MD&A contains "forward-looking information" (within the meaning of applicable Canadian securities law) and "forward-looking statements" (within the meaning of the United States Private Securities Litigation Reform Act of 1995) concerning Goldgroup's plans at its mineral properties and other matters. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Actual results could differ materially from the conclusions, forecasts and projections contained in such forward-looking information.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "is expected", "anticipates", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to materially differ from those reflected in the forward-looking statements, and are developed based on assumptions about such risks, uncertainties and other factors set out herein including, without limitation:

- uncertainties related to actual capital costs, operating costs and expenditures, production schedules and economic returns from Goldgroup’s projects;
- uncertainties associated with development activities;
- uncertainties inherent in the estimation of mineral resources and precious metal recoveries;
- risks related to obtaining appropriate permits and licences to explore, develop, operate and produce at the Company’s projects;
- uncertainties related to current global economic conditions;
- fluctuations in precious and base metal prices;
- uncertainties related to the availability of future financing;
- potential difficulties with joint venture partners;
- risks that Goldgroup’s title to its property could be challenged;
- political and country risk;
- risks associated with Goldgroup being subject to government regulation;
- risks associated with having adequate surface rights for operations;
- environmental risks;
- Goldgroup’s need to attract and retain qualified personnel;
- risks associated with operating hazards at the Cerro Colorado Mine;
- risks associated with potential conflicts of interest;
- Goldgroup’s lack of experience in overseeing the construction of a mining project;
- risks related to the integration of businesses and assets acquired by Goldgroup;
- uncertainties related to the competitiveness of the mining industry;
- risk associated with theft;
- risk of water shortages and risks associated with competition for water;
- uninsured risks and inadequate insurance coverage;
- risks associated with potential legal proceedings;
- risks associated with community relations;
- outside contractor risks;
- risks related to archaeological sites;
- foreign currency risks;
- risks associated with security and human rights; and
- risks related to the need for reclamation activities on Goldgroup’s properties.

This list is not exhaustive of the factors that may affect the Company’s forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. Investors should carefully consider the risks discussed in this MD&A as well as those set out under the heading “Risk Factors” in the AIF.

### **Cautionary Note to U.S. Investors Concerning Estimates of Mineral Resources and Mineral Reserves**

The disclosure in this MD&A uses mineral resource and mineral reserve classification terms that comply with reporting standards in Canada, and, unless otherwise indicated, all mineral resource and mineral reserve estimates included in this MD&A have been prepared in accordance with NI 43-101. NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. These standards differ significantly from the disclosure requirements of the United States Securities and Exchange Commission (the “SEC”) set forth in Industry Guide 7. Consequently, mineral resource and mineral reserve information contained in this MD&A is not comparable to similar information that would generally be disclosed by U.S. companies in accordance with the rules of the SEC.

In particular, the SEC’s Industry Guide 7 applies different standards in order to classify mineralization as a reserve. As a result, the definitions of proven and probable reserves used in NI 43-101 differ from the definitions in Industry Guide 7. Under SEC standards, mineralization may not be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Accordingly, mineral reserve estimates contained in this MD&A may not qualify as “reserves” under SEC standards.

In addition, this MD&A uses the terms “measured mineral resources,” “indicated mineral resources” and “inferred mineral resources” to comply with the reporting standards in Canada. The SEC’s Industry Guide 7 does not recognize mineral resources and U.S. companies are generally not permitted to disclose resources in documents they file with the SEC. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into SEC defined mineral “reserves.” Further, “inferred mineral resources” have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Therefore, investors are also cautioned not to assume that all or any part of an inferred mineral resource exists. In accordance with Canadian rules, estimates of “inferred mineral resources” cannot form the basis of feasibility or other economic studies, except in rare cases. In addition, disclosure of “contained ounces” in a mineral resource estimate is permitted disclosure under NI 43-101 provided that the grade or quality and the quantity of each category is stated; however, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC standards as in place tonnage and grade without reference to unit measures. For the above reasons, information contained in this MD&A containing descriptions of our mineral resource and mineral reserve estimates is not comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC.