



GOLDGROUP MINING INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(Unaudited)

(Expressed in Thousands of United States Dollars)

GOLDGROUP MINING INC.
Condensed Interim Consolidated Statements of Financial Position
September 30, 2011 and December 31, 2010
(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

	Note	September 30, 2011	December 31, 2010	January 1, 2010
	28			
ASSETS				
Current assets				
Cash and cash equivalents	5	\$ 35,802	\$ 12,654	\$ 515
Investment held for trading		-	-	2,313
Receivables	6	2,545	2,557	219
Inventories	7	5,283	4,165	-
Prepays and deposits		579	274	99
Asset held-for-sale	10	200	-	-
Total current assets		44,409	19,650	3,146
Non-current assets				
Plant and equipment	8	7,666	5,423	458
Investment in DynaResource de Mexico SA de CV	9	18,334	14,390	10,031
Exploration and evaluation properties	10	29,491	19,795	18,568
Mine Properties	11	8,442	9,577	-
Total non-current assets		63,933	49,185	29,057
Total assets		\$ 108,342	\$ 68,835	\$ 32,203
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other accounts payable	12	\$ 2,693	\$ 2,345	\$ 402
Taxes payable		322	-	-
Warrant liability	14	-	962	-
Agreement payable		-	-	4,758
Total current liabilities		3,015	3,307	5,160
Non-current liabilities				
Decommissioning and restoration provision	13	619	583	-
Warrant liability	14	1,841	2,741	-
Deferred tax liability	17	5,344	4,572	692
Total liabilities		10,819	11,203	5,852
Equity				
Share capital	15	117,148	72,421	30,947
Share option reserve	15	6,041	4,372	2,326
Translation reserve		(355)	(355)	(1,334)
Deficit		(25,311)	(18,806)	(5,588)
Total equity		97,523	57,632	26,351
Total equity and liabilities		\$ 108,342	\$ 68,835	\$ 32,203
Commitments	24			
Subsequent event	27			

Approved by the Board of Directors:

/s/ Keith Piggott

Director

/s/ Gregg J. Sedun

Director

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

GOLDGROUP MINING INC.
Condensed Interim Consolidated Statements of Loss and Comprehensive Income (Loss)
September 30, 2011 and 2010
(Unaudited - Expressed in Thousands of United States Dollars except per share amounts)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2011	2010	2011	2010
Revenue	4,28				
Gold sales		\$ 7,955	\$ 5,297	\$ 24,139	\$ 10,620
Silver sales		97	20	209	69
		<u>8,052</u>	<u>5,317</u>	<u>24,348</u>	<u>10,689</u>
Costs and expenses of mining operations					
Cost of sales	18	5,379	5,374	17,742	9,831
Depreciation, depletion and amortization		595	36	1,848	1,295
		<u>5,974</u>	<u>5,410</u>	<u>19,590</u>	<u>11,126</u>
Mine operating income (loss)		<u>2,078</u>	<u>(93)</u>	<u>4,758</u>	<u>(437)</u>
Other expenses (income)					
Administrative expenses	19	1,841	1,680	5,530	4,034
Other income	20	(43)	(17,158)	(233)	(17,158)
Share of equity loss in DynaMexico	9	95	11	56	71
Other expenses	21	2,931	22,275	2,804	22,060
		<u>4,824</u>	<u>6,808</u>	<u>8,157</u>	<u>9,007</u>
Loss before income taxes		<u>(2,746)</u>	<u>(6,901)</u>	<u>(3,399)</u>	<u>(9,444)</u>
Provision for income taxes:					
Current	17	1,749	2,574	2,334	2,574
Deferred	17	(26)	(2,722)	772	(1,924)
Net loss for the period		<u>\$ (4,469)</u>	<u>\$ (6,753)</u>	<u>\$ (6,505)</u>	<u>\$ (10,094)</u>
Other comprehensive income		-	-	-	979
Comprehensive loss for the period		<u>\$ (4,469)</u>	<u>\$ (6,753)</u>	<u>\$ (6,505)</u>	<u>\$ (9,115)</u>
Basic and diluted loss per share		<u>\$ (0.04)</u>	<u>\$ (0.08)</u>	<u>\$ (0.06)</u>	<u>\$ (0.13)</u>
Weighted average number of shares outstanding (000's)		<u>120,187</u>	<u>84,709</u>	<u>111,975</u>	<u>78,282</u>

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

GOLDGROUP MINING INC.
Condensed Interim Consolidated Statements of Cash Flows
September 30, 2011 and 2010
(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

	Note	Three Months Ended		Nine Months Ended	
		September 30 2011	2010	September 30 2011	2010
CASH AND CASH EQUIVALENTS DERIVED FROM (USED IN) OPERATING ACTIVITIES					
Loss for the period		\$ (4,469)	\$ (6,753)	\$ (6,505)	\$ (10,094)
Items not involving cash:					
Deferred tax		(26)	(2,722)	772	(1,924)
Depletion, depreciation and amortization		602	48	1,872	1,329
Unrealized foreign exchange loss (gain)		(35)	809	(2)	458
Loss on sale of investment		-	-	-	130
Share-based compensation expense	15	733	346	2,243	834
Impairment of goodwill and inventory		-	22,149	-	22,149
Gain on sale of El Porvenir property		-	(17,158)	-	(17,158)
Financing costs	21	13	11	37	42
Loss (gain) on warrants	14	516	8	354	(397)
Share of loss of DynaMexico	9	95	11	56	71
		(2,571)	(3,251)	(1,173)	(4,560)
Changes in non-cash working capital items	26	161	(770)	(1,809)	32
		(2,410)	(4,021)	(2,982)	(4,528)
FINANCING ACTIVITIES					
Issuance of shares, net of issue costs	15	1,614	125	41,937	5,924
Treasury shares	15	-	-	-	(441)
Repayment of loans		-	(3,379)	-	(4,896)
		1,614	(3,254)	41,937	587
INVESTING ACTIVITIES					
Acquisition of Sierra Minerals Inc.	4	-	-	-	516
Net proceeds from sale of El Porvenir property	10	-	23,300	-	23,300
Sale of investments		-	-	-	3,902
Purchase of investments		-	-	-	(1,658)
Purchase of plant and equipment	8	(216)	(449)	(3,090)	(720)
Investment in DynaMexico	9	-	(1,000)	(4,000)	(2,700)
Exploration and evaluation properties	10	(4,032)	(1,396)	(8,717)	(4,482)
		(4,248)	20,455	(15,807)	18,158
Effect of functional exchange rate changes on cash and cash equivalents		-	-	-	58
(Decrease) increase in cash and cash equivalents		(5,044)	13,180	23,148	14,275
Cash and cash equivalents, beginning of period		40,846	1,610	12,654	515
Cash and cash equivalents, end of period		\$ 35,802	\$ 14,790	\$ 35,802	\$ 14,790
Cash and cash equivalents is comprised of:					
Cash		\$ 17,706	\$ 14,790	\$ 17,706	\$ 14,790
Short-term deposits		18,096	-	18,096	-
		\$ 35,802	\$ 14,790	\$ 35,802	\$ 14,790

Supplemental Cash Flow Information

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

GOLDGROUP MINING INC.

Condensed Interim Consolidated Statements of Changes in Equity

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

	<u>Common Shares</u>		<u>Share Option Reserve</u>	<u>Translation Reserve</u>	<u>Deficit</u>	<u>Total Equity</u>
	<u>Number (000's)</u>	<u>Amount</u>				
January 1, 2011	88,633	72,421	4,372	(355)	(18,806)	57,632
Public offering	28,750	41,361	-	-	-	41,361
Share issue costs	-	(3,413)	-	-	-	(3,413)
Options exercised	1,090	918	-	-	-	918
Transfer value on option exercise	-	574	(574)	-	-	-
Warrants exercised	3,034	3,071	-	-	-	3,071
Transfer value on warrant exercise	-	2,216	-	-	-	2,216
Share-based compensation	-	-	2,243	-	-	2,243
Loss for the period	-	-	-	-	(6,505)	(6,505)
September 30, 2011	<u>121,507</u>	<u>\$ 117,148</u>	<u>\$ 6,041</u>	<u>\$ (355)</u>	<u>\$ (25,311)</u>	<u>\$ 97,523</u>

	<u>Common Shares</u>		<u>Share Option Reserve</u>	<u>Translation Reserve</u>	<u>Deficit</u>	<u>Total Equity</u>
	<u>Number (000's)</u>	<u>Amount</u>				
January 1, 2010	45,883	30,947	2,326	(1,334)	(5,588)	26,351
Private placement	6,060	5,785	-	-	-	5,785
Business combination (Note 4)	33,010	34,120	1,630	-	-	35,750
Options exercised	351	139	-	-	-	139
Transfer value on option exercise	-	253	(253)	-	-	-
Share-based compensation	-	-	834	-	-	834
Loss for the period	-	-	-	-	(10,094)	(10,094)
Treasury shares	(439)	(441)	-	-	-	(441)
Other comprehensive income	-	-	-	979	-	979
September 30, 2010	<u>84,865</u>	<u>\$ 70,803</u>	<u>\$ 4,537</u>	<u>\$ (355)</u>	<u>\$ (15,682)</u>	<u>\$ 59,303</u>

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

1. NATURE OF OPERATIONS

Goldgroup Mining Inc. is the parent company of its consolidated group ("Goldgroup Mining" or the "Company"). Goldgroup Mining was incorporated in Quebec under the *Business Corporations Act* (Québec) and on July 28, 2011 it was continued under the *Business Corporations Act* (British Columbia). Its head office is located at Suite 2184 – 1055 Dunsmuir Street, Vancouver BC, V7X 2X8. Goldgroup Mining, formerly Sierra Minerals Inc. ("Sierra"), together with its subsidiaries, is a Canadian-based gold producer and is focused on the acquisition, exploration and development of advanced stage gold-bearing mineral properties in the Americas. The Company's current gold production and exploration and development related activities are conducted exclusively in Mexico. Goldgroup owns and operates the Cerro Colorado Mine in Sonora along with a property portfolio that includes an interest in the Caballo Blanco Project in Veracruz and the San José de Gracia Project in Sinaloa. The Company is listed on the Toronto Stock Exchange ("TSX").

2. BASIS OF PRESENTATION

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

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

2.1. Adoption of International Financial Reporting Standards

The Company was required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on January 1, 2011. The Company's transition date to IFRS was January 1, 2010 (the "Transition Date") and the comparative consolidated statement of financial position as at December 31, 2010 and comparative consolidated statements of loss and comprehensive income (loss), changes in equity and cash flows for the three and nine months ended September 30, 2010, have been restated in IFRS.

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

Reconciliations between the Company's previously reported consolidated statements of financial position and consolidated statements of loss and comprehensive income (loss) are presented in note 28.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

2.2. Statement of compliance

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

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

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 14, 2011.

2.3. Basis of measurement

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

2.4. Significant judgments, estimates and assumptions

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

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

(i) Mineral Reserves

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

(ii) Purchase Price Allocation

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

(iii) Depreciation, depletion and amortization

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

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

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

(iv) Impairment of goodwill and other assets

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

(v) Inventories

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

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

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

(vi) Decommissioning and restoration provision

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

(vii) Deferred taxes

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

(viii) Share-based payments

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

3. SIGNIFICANT ACCOUNTING POLICIES

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

Refer to the condensed interim consolidated financial statements for the three months ended March 31, 2011 and 2010 (unaudited) for a summary of significant accounting policies.

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

On April 30, 2010, Holdings effected a share exchange agreement ("the Agreement") with Goldgroup Mining to effect a business combination of the two companies. The acquisition was accounted for under IFRS 3, Business Combinations. The fair value of the consideration transferred is based on the number of Holdings' common shares that would have had to be issued in order to provide the same percentage of ownership in the combined entity to the shareholders of Goldgroup Mining.

The total purchase price has been calculated and allocated as follows:

Consideration paid

Common shares (33,009,795)	\$	34,120
Exchange options and warrants (2,594,711 options and 1,956,129 warrants)		2,280
Total purchase price	\$	<u>36,400</u>

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

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

In accordance with the acquisition method of accounting, the purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values on the closing date. The purchase price allocation is a result of management's best estimates and assumptions after taking into account all relevant information available. Management consulted with an independent valuator prior to finalizing the purchase price allocation.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***4. REVERSE TAKEOVER OF GOLDGROUP MINING (FORMERLY SIERRA) BY HOLDINGS (CONTINUED)**

The purchase price allocation resulted in \$16,719 being attributed to goodwill. The Company had allocated its goodwill to the Cerro Colorado mine as it was the only reporting unit. The net asset value of the Cerro Colorado mine consists of plant and equipment and mine properties. The plant and equipment were valued by management and it was determined that carrying value was equal to fair value. The mine properties were valued using the discounted cash flow of proven and probable reserves, measured, indicated and inferred resources.

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

A component of the reverse take-over consideration was the exchange of share options and warrants in Sierra on April 30, 2010. The fair values allocated to these share options and warrants, included in the cost of the acquisition, using the Black-Scholes Option Pricing Model, was \$1,630 and \$650, respectively. The fair value of the exchange options and warrants was determined using the following weighted average assumptions:

	<u>Options</u>	<u>Warrants</u>
Strike Price	\$0.55	\$0.86
Risk free interest rate	1.81%	1.81%
Expected option life (years)	2	0.5
Expected stock price volatility	90%	90%
Dividend payments during life of option	nil	nil

Outstanding share options of Holdings were also exchanged pro rata for an equivalent number of share options of the Company. These exchange options have been accounted for as modified options and there was no appreciable increase in value.

The Company incurred transaction costs of \$395 which were expensed.

As a result of the accounting treatment for the reverse take-over of Sierra, only operating results from May 1, 2010 to December 31, 2010 of Sierra are included in the statements of loss and comprehensive income (loss) and cash flows for the year ended December 31, 2010.

5. CASH AND CASH EQUIVALENTS

	<u>September 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Cash at the bank and on hand			
US dollar	\$ 11,540	\$ 11,514	\$ 25
Canadian dollar	5,630	932	344
Mexican pesos	536	208	146
Short term deposits - Cdn dollar	18,096	-	-
	<u>\$ 35,802</u>	<u>\$ 12,654</u>	<u>\$ 515</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***6. RECEIVABLES**

	September 30, 2011	December 31, 2010	January 1, 2010
Financial assets			
Receivables	\$ 454	\$ 443	\$ 117
Employee receivables	72	37	20
	<u>526</u>	<u>480</u>	<u>137</u>
Non-financial assets			
Value-added and corporate tax	2,019	2,077	82
	<u>\$ 2,545</u>	<u>\$ 2,557</u>	<u>\$ 219</u>

7. INVENTORIES

Inventories consist of the following:

	September 30, 2011	December 31, 2010	January 1, 2010
Doré	\$ 617	\$ 440	-
Gold-in-process	3,177	2,640	-
Consumable supplies	1,489	1,085	-
	<u>\$ 5,283</u>	<u>\$ 4,165</u>	<u>-</u>

Cost of sales represents the amount of product inventory recognized as an expense. All of the Company's inventories on hand are located at the Cerro Colorado mine in Mexico.

8. PLANT AND EQUIPMENT

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
Cost						
Balance, January 1, 2011	\$ 5,358	\$ 1,046	\$ 273	\$ 516	\$ 61	\$ 7,254
Additions	2,702	184	57	147	-	3,090
Balance, September 30, 2011	<u>8,060</u>	<u>1,230</u>	<u>330</u>	<u>663</u>	<u>61</u>	<u>10,344</u>
Accumulated depreciation and amortization						
Balance, January 1, 2011	1,032	342	157	278	22	1,831
Depreciation for the period	612	84	47	95	9	847
Balance, September 30, 2011	<u>1,644</u>	<u>426</u>	<u>204</u>	<u>373</u>	<u>31</u>	<u>2,678</u>
Net book value	<u>\$ 6,416</u>	<u>\$ 804</u>	<u>\$ 126</u>	<u>\$ 290</u>	<u>\$ 30</u>	<u>\$ 7,666</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***8. PLANT AND EQUIPMENT (CONTINUED)**

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

9. INVESTMENT IN DYNARESOURCE de MEXICO SA de CV (“DynaMexico”)

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

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

On March 14, 2011, the Company completed its Earn in/Option Agreement with DynaMexico for its 50% equity interest by reaching the expenditure funding requirement of \$18 million.

SJG is located in the northeast portion of Sinaloa State, Mexico, approximately 120 kilometres northeast of the coastal city of Los Mochis, straddling the Chihuahua border. The property consists of 34 mineral concessions covering approximately 69,000 hectares with no outstanding royalty or other interest.

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

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

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

The investment in DynaMexico is comprised of:

	Nine Months Ended September 30, 2011	Year ended December 31, 2010
Investment, beginning of period	\$ 14,390	\$ 10,031
Funds invested	4,000	4,128
Share of loss	(56)	(128)
Translation adjustment	-	359
Investment, end of period	<u>\$ 18,334</u>	<u>\$ 14,390</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***10. EXPLORATION AND EVALUATION PROPERTIES**

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

	Caballo Blanco	El Porvenir	Other	Total
January 1, 2010	\$ 14,312	\$ 3,334	\$ 922	\$ 18,568
Acquisition Costs	60	1,404	599	2,063
Exploration Costs				
Amortization of plant and equipment	84	36	10	130
Drilling	1,215	83	-	1,298
Exploration	1,898	1,254	23	3,175
Fees and taxes	77	277	98	452
Translation adjustment	465	125	32	622
	<u>18,111</u>	<u>6,513</u>	<u>1,684</u>	<u>26,308</u>
Sale of property	-	(6,513)	-	(6,513)
December 31, 2010	18,111	-	1,684	19,795
Acquisition Costs	1,337	-	-	1,337
Exploration Costs				
Amortization of plant and equipment	102	-	8	110
Drilling	4,024	-	-	4,024
Exploration	3,538	-	-	3,538
Development costs	425	-	-	425
Fees and taxes	241	-	221	462
	<u>27,778</u>	<u>-</u>	<u>1,913</u>	<u>29,691</u>
Asset held-for-sale	-	-	(200)	(200)
September 30, 2011	<u>\$ 27,778</u>	<u>\$ -</u>	<u>\$ 1,713</u>	<u>\$ 29,491</u>

The Company is required to pay taxes to maintain all Mexican concessions and to incur a minimum amount of expenditures. The minimum expenditure amount is based on land area and the age of concession. Expenditures in excess of the required minimum may be carried forward over the life of the concession.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)**10.1 Caballo Blanco**

The Company's 100% owned subsidiary, Candymin, owns a 70% interest on the Caballo Blanco project which consists of 15 mineral concessions covering 55,000 hectares, 65 kilometres north northwest of Veracruz, Mexico.

To earn its 70% interest, the Caballo Blanco option agreement requires property expenditures of \$12 million to be spent as follows:

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

The Company met the required aggregate property related expenditures of \$12 million, which included \$8.2 million of expenditures incurred by the previous Caballo Blanco option holder, NGEx Resources Inc. ("NGEx"). The 70/30 joint venture was to be formed once Goldgroup Mining completed a bankable feasibility study. At that time, the 30% equity holder had the option of participating in the joint venture with Goldgroup or converting their 30% equity interest to a 2% Net Smelter Royalty ("NSR") on 100% of net smelter revenues.

Goldgroup Mining's 70% interest will be subject to a 1.5% NSR payable on 70% of net smelter revenues to NGEx and Goldgroup Mining will also make a \$5,185 (C\$5,000) advance royalty payment to NGEx within 30 days following the commencement of commercial production of the project.

On October 14, 2011 the Company acquired the remaining 30% interest in the Caballo Blanco project held previously by Almaden Minerals Ltd. ("Almaden"). With effect at October 14, 2011 Goldgroup owns 100% of the Caballo Blanco project. The total NSR payable on this project will be 2.95%. See Subsequent Event (Note 27) for details.

10.2 El Porvenir

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

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

10.3 Other Properties

i) Kenya

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

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

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

ii) El Candelero

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

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

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

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

To September 30, 2011, the Company has expended aggregate property related work costs of \$417. Exploration work on the property has been deferred due to local unrest in the area of the property since early 2009 and by June 2, 2009, the Company was in default of funding the work costs.

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

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

<u>On or before</u>	<u>Amount (in 000's)</u>
June 2, 2011	\$ 250
June 2, 2012	\$ 250

DMSL can then earn back a 30% interest by spending \$3 million over three years which would result in GGR owning a 40% project ownership interest.

As a result of the force majeure, on August 27, 2010, the option agreement deadline to earn the first option was extended to June 24, 2012.

iii) San Martin

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

iv) El Cobre

On February 5, 2010, the Company entered into a joint venture with Almaden Minerals Ltd. ("Almaden") on its El Cobre copper project, of which Almaden owned 60% and the Company owned 40%. This project is operated by Almaden. On July 29, 2010, the Company contributed \$200 to the project. The El Cobre property covers 5,700 hectares, 65 kilometres northwest of Veracruz, Mexico.

On October 14, 2011 the Company transferred its 40% share of this project to Almaden as part of the acquisition of Almaden's 30% interest of Caballo Blanco. As a result, the property has been reclassified as an asset held-for-sale. See Subsequent Event (Note 27) for details.

v) El Cajon

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)**

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

11. MINE PROPERTIES

The Company owns a 100% interest in the Cerro Colorado mine, located in northern Sonora, Mexico. The property consists of six mineral concessions covering the area of the mine and 44 concessions in the immediate vicinity of the mine totalling 33,767 hectares. Gold is produced in doré in Mexico and then shipped to a refiner in the United States for final processing prior to sale. The remaining life of the Cerro Colorado mine is estimated to be approximately four to five years. The project became subject to a NSR of 3% when cumulative production exceeded 100,000 ounces, which occurred on May 25, 2010. The following table summarizes the capitalized costs associated with the Cerro Colorado mine:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Costs		
Balance, beginning of period	\$ 15,811	\$ -
Acquisition	-	15,742
Additions	-	69
Balance, end of period	<u>15,811</u>	<u>15,811</u>
Accumulated depletion and impairment		
Balance, beginning of period	(6,234)	-
Depletion for period	(1,135)	(1,334)
Write-down	-	(4,900)
Balance, end of period	<u>(7,369)</u>	<u>(6,234)</u>
	<u>\$ 8,442</u>	<u>\$ 9,577</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***12. TRADE AND OTHER ACCOUNTS PAYABLE**

	September 30, 2011	December 31, 2010	January 1, 2010
Financial liabilities			
Trade payables	\$ 2,671	\$ 1,958	\$ 338
Employee payables	13	41	-
Payroll accruals	6	281	64
	<u>2,690</u>	<u>2,280</u>	<u>402</u>
Non-financial liabilities			
Value added tax	3	65	-
	<u>\$ 2,693</u>	<u>\$ 2,345</u>	<u>\$ 402</u>

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

13. DECOMMISSIONING AND RESTORATION PROVISION

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

The Company estimates the undiscounted future decommissioning and reclamation costs to be \$675. The key assumptions on which this estimate is based on are:

- (i) Expected timing of the cash flows is based on the estimated useful life of the Cerro Colorado mine to the extent of currently known proven and probable mineral reserves. The majority of the expenditures are expected to occur in 2014 to 2015.
- (ii) The discount rate used is 9% and the inflation rate is 3%.

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

	September 30, 2011	December 31, 2010
Opening	\$ 583	\$ -
Acquisition of Sierra (Note 4)	-	548
Accretion expense	36	35
	<u>\$ 619</u>	<u>\$ 583</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***14. WARRANT LIABILITY**

The following warrants were outstanding:

	<u>Warrants</u>	<u>Exercise Price (C\$)</u>	<u>Warrant liability (US\$)</u>
Balance, January 1, 2010	-	\$ -	\$ -
Granted	3,100,000	1.25	2,206
Exercised	(21,929)	0.86	(5)
Exchange warrants on reverse take-over (Note 4)	1,956,129	0.86	650
Change in fair value	-	-	852
Balance, December 31, 2010	5,034,200	\$ 1.10	\$ 3,703
Exercised	(3,034,200)	0.99	(2,216)
Change in fair value	-	-	354
Balance, September 30, 2011	<u>2,000,000</u>	<u>\$ 1.25</u>	<u>\$ 1,841</u>

<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Weighted average exercise price (C\$/warrant)</u>
November 26, 2015	<u>2,000,000</u>	<u>\$ 1.25</u>

The fair value allocated to the warrants at September 30, 2011 was \$1,841 (December 31, 2010 - \$3,703) and is recorded as a derivative financial liability. The loss (gain) recognized in the statement of loss for the nine months ended September 30, 2011 and 2010 was \$354 and \$(397), respectively and is included in other expenses.

15. EQUITY**15.1 Authorized**

Unlimited number of common shares with no par value

15.2 Shares Issued

Shares issued and outstanding as at September 30, 2011 are 121,507,049 (December 31, 2010 – 88,633,127).

During the nine months ended September 30, 2011, the following share transactions occurred:

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

15. EQUITY (CONTINUED)

- ii. 1,089,721 share options were exercised for proceeds of \$918 and \$574 was reallocated from share option reserve to share capital.
- iii. 3,034,200 warrants were exercised for proceeds of \$3,071 and \$2,216 was reallocated from warrant liability to share capital.

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

- i. On March 4, 2010, the Company closed a non-brokered private placement financing of 6,060,000 common shares at a price of \$0.97 (C\$1.00) per share, for gross proceeds of \$5,878. Share issue costs on this financing were \$93 of which \$90 were financing fees paid to arm's length parties.
- ii. In connection with the reverse takeover on April 30, 2010, the Company recorded the issuance of 33,009,795 common shares, 2,554,711 options and 1,956,129 warrants (Note 4).
- iii. 1,097,362 share options were exercised for proceeds of \$541 and \$763 was reallocated from share option reserve to share capital.
- iv. During the period from April 16, 2010 to May 6, 2010, Holdings purchased 438,596 Sierra shares on the open market at a cost of \$441. The reverse takeover transaction was completed on April 30, 2010 and the Sierra shares held at that time have been classified as treasury shares and recorded as a reduction of share capital at their acquisition cost of \$441.

15.3 Share-based compensation expense

The Company has adopted a share option plan for which options to acquire up to 10% of the issued share capital, at the award date, may be granted to eligible optionees from time to time. Generally, share options granted have a maximum term of five years, and a vesting period and exercise price determined by the directors. The exercise price may not be less than the closing quoted price of the Company's common shares traded through the facilities of the exchange on which the Company's common shares are listed. As at September 30, 2011, share options available for issue under the plan were 12,150,704.

Total share options granted during the nine months ended September 30, 2011 were 5,090,000 (nine months ended September 30, 2010 – 3,814,486). Total share-based compensation expense recognized for the fair value of share options granted, vested and approved by the shareholders during the nine months ended September 30, 2011 was \$2,243 (nine months ended September 30, 2010 - \$834).

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***15. EQUITY (CONTINUED)**

The fair value of the share options granted during the nine months ended September 30, 2011 and the year ended December 31, 2010 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Nine months ended	Year ended
	September 30, 2011	December 31, 2010
Strike Price	\$1.35	\$0.96
Risk free interest rate	1.61%	1.63%
Expected option life	2.34 years	2 years
Expected stock price volatility	95%	90%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil

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

The average share price during the nine months ended September 30, 2011 was \$1.40 per share.

The following stock options were outstanding:

	Options	Weighted average	exercise price (C\$)
January 1, 2010	2,720,000	\$	0.65
Granted	3,964,486	\$	0.96
Exercised	(1,097,362)	\$	0.76
Exchange options (Note 4)	2,594,711	\$	0.53
Expired	(212,588)	\$	0.93
Forfeited	(743,949)	\$	0.94
December 31, 2010	7,225,298	\$	0.76
Granted	5,090,000	\$	1.35
Exercised	(1,089,721)	\$	0.82
Expired	(63,815)	\$	0.99
Forfeited	(177,414)	\$	0.81
September 30, 2011	10,984,348	\$	1.02

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***15. EQUITY (CONTINUED)**

Expiry Date	Outstanding					Vested		
	Exercise price (C\$)	Number of options	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)		Number of options	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)
May 5, 2013	\$ 0.65	2,320,000	\$ 0.65	1.6		2,320,000	\$ 0.65	1.6
May 18, 2013	\$ 1.00	200,000	\$ 1.60	1.6		200,000	\$ 1.00	1.6
Dec. 22, 2013	\$ 0.29	210,526	\$ 0.29	2.2		210,526	\$ 0.29	2.2
Feb. 5, 2014	\$ 0.49	315,789	\$ 0.49	2.4		315,789	\$ 0.49	2.4
May 1, 2014	\$ 0.57	61,403	\$ 0.57	2.6		61,403	\$ 0.57	2.6
May 18, 2014	\$ 1.00	1,939,657	\$ 1.00	2.6		1,454,735	\$ 1.00	2.6
Jun. 23, 2014	\$ 0.65	49,000	\$ 0.65	2.7		49,000	\$ 0.65	2.7
Jul. 29, 2014	\$ 0.65	150,000	\$ 0.65	2.8		112,500	\$ 0.65	2.8
Oct. 1, 2014	\$ 0.63	692,973	\$ 0.63	3.0		692,973	\$ 0.63	3.0
Nov. 12, 2014	\$ 0.65	30,000	\$ 0.65	3.1		22,500	\$ 0.65	3.1
Jan. 10, 2015	\$ 1.00	140,000	\$ 1.00	3.3		70,000	\$ 1.00	3.3
Jan. 31, 2015	\$ 1.25	1,470,000	\$ 1.25	3.3		735,000	\$ 1.25	3.3
Jun. 15, 2016	\$ 1.40	3,405,000	\$ 1.40	4.7		851,250	\$ 1.40	4.7
		<u>10,984,348</u>	<u>\$ 1.02</u>	<u>3.1</u>		<u>7,095,676</u>	<u>\$ 0.87</u>	<u>2.6</u>

16. RELATED PARTY TRANSACTIONS AND BALANCES**Relationships**

Uracan Resources Ltd. ("Uracan")

Nature of the relationship

Uracan is a public company and shares certain directors and key management. The Company shares office premises with Uracan.

Key management

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President and Chief Executive Officer, Chairman, Chief Financial Officer, Vice-President of Exploration, General Manager of Cerro Colorado, General Manager of Caballo Blanco, and the Technical Director.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

16. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key Management compensation includes:

	Nine months ended September 30,	
	2011	2010
Salaries ¹	\$ 876	\$ 559
Benefits ¹	27	15
Bonuses ²	52	-
Options ³	843	328
	<u>\$ 1,798</u>	<u>\$ 902</u>

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

At September 30, 2011, receivables include \$14 (December 31, 2010 - \$39; January 1, 2010 - \$31) owing from Uracon and \$nil (December 31, 2010 - \$5; January 1, 2010 - \$2) owing from an officer of the Company. The amount owing from Uracon is for its unpaid share of rent, administration staff salary and general office expenses. The companies share common office premises and have entered into a cost sharing arrangement, effective February 1, 2007.

At September 30, 2011, trade and other accounts payable includes \$9 (December 31, 2010 - \$11; January 1, 2010 - \$66) owing to a director and/or officer and/or companies controlled by the directors.

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***17. INCOME TAXES****a) Statutory Rate Reconciliation**

Income tax expense or recovery recognized in net loss for the period differs from the amount, which would result from applying the statutory Canadian federal and provincial income tax rates to the loss before income taxes. These differences result from the following items:

	Nine Months Ended September 30, 2011
Loss and comprehensive loss before income taxes	\$ (3,399)
Canadian statutory tax rates	26.50%
Expected income tax expense (recovery)	(901)
Increase (reduction) in income taxes due to:	
Non-deductible expenses	108
Share-based compensation	594
Tax rate differences in foreign jurisdictions	238
Change in estimate of inventory for income purposes	1,405
Unrealized foreign exchange	583
Derivative loss on warrants	94
Other	392
Increase in valuation allowance	593
Income tax expense	3,106
Current income tax expense	\$ 2,334
Future income tax expense	772
	\$ 3,106

b) Mexico flat tax

The Company is cash taxable in Mexico. Mexico introduced a flat tax effective January 1, 2008 as alternative minimum tax that does not replace corporate income tax. The flat tax is calculated on a cash flow basis, with the tax base determined by reducing taxable revenue with specific deductions. In general, if deductions exceed revenues, a credit is granted which may be offset against the flat tax in the following ten years. Taxpayers first compute their income tax liability and then they calculate their flat tax liability for a fiscal year. The Company will pay the higher of the income tax liability or the flat tax liability. As the income tax liability may be credited against the flat tax liability, the flat tax is payable only to the extent it exceeds the income tax payable by a Mexican entity. In certain circumstances flat tax credits can be used to reduce income taxes in the year they are generated.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***17. INCOME TAXES (CONTINUED)****c) Future Income Tax Liability**

Future income tax assets result primarily from temporary differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. Significant components of the Company's future income tax assets (liabilities), after applying substantively enacted tax rates, are as follows:

	September 30, 2011	December 31, 2010
Future income tax assets		
Non-capital losses available for future years	\$ 4,384	\$ 2,632
Share issuance costs	822	109
Other	700	476
	<u>5,906</u>	<u>3,217</u>
Less valuation allowance	(5,258)	(2,829)
Net future income tax assets	<u>648</u>	<u>388</u>
Future income tax liabilities		
Mineral properties	(4,400)	(3,740)
Plant and equipment	(1,398)	(1,106)
Other	(194)	(114)
	<u>(5,992)</u>	<u>(4,960)</u>
Deferred tax liability	<u>\$ (5,344)</u>	<u>\$ (4,572)</u>

Future income tax assets and liabilities, that are more likely than not to be utilized, offset if they relate to the same taxable entity and the same taxation authority. Future potential tax deductions that are not able to offset future tax liabilities are considered to be future income assets.

A valuation allowance has been provided against future income tax assets where the more likely than not criteria to realize those benefits has not been met.

The Company has non-capital losses of approximately \$11,100 (2010 - \$9,200) to reduce future income tax in Canada which expire between the years 2012 and 2031. The Company also has \$3,010 in share issue costs, subject to five year amortization, that are available to reduce future Canadian taxable income.

In Mexico, the Company has \$1,609 of Mexican tax credits that are available to be offset against any future taxable income under the Mexican Flat Tax system, which expire between 2018 and 2021.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***18. COST OF SALES**

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010 *	2011	2010 *
Raw materials	\$ 4,260	\$ 3,149	\$ 12,718	\$ 5,713
Salaries and employee benefits	1,131	1,091	3,436	1,851
Rental machinery	65	343	259	582
Contractors	249	21	470	116
Royalties	281	117	732	248
Change in inventories	(956)	(114)	(777)	463
Other	349	767	904	858
	<u>5,379</u>	<u>5,374</u>	<u>17,742</u>	<u>9,831</u>
Depreciation, depletion and amortization	595	36	1,848	1,295
	<u>\$ 5,974</u>	<u>\$ 5,410</u>	<u>\$ 19,590</u>	<u>\$ 11,126</u>

* Due to accounting treatment of the business combination with Holdings (Note 4), only the results from May 1, 2010 to December 31, 2010 are applicable to the financial results of Goldgroup Mining Inc. Comparability of financial results for Goldgroup Mining Inc. (formerly Sierra Minerals Inc.) for the 2010 period is limited.

19. ADMINISTRATIVE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010 *	2011	2010 *
Labour costs	\$ 336	\$ 200	\$ 967	\$ 826
Office and rent	180	254	674	497
Investor relations	86	12	328	80
Professional fees	159	427	444	1,126
Travel	50	62	219	170
Share-based compensation expense	733	346	2,243	834
Exploration at Cerro Colorado	244	354	455	366
Other	53	25	200	135
	<u>\$ 1,841</u>	<u>\$ 1,680</u>	<u>\$ 5,530</u>	<u>\$ 4,034</u>

* Due to accounting treatment of the business combination with Holdings (Note 4), only the results from May 1, 2010 to December 31, 2010 are applicable to the financial results of Goldgroup Mining Inc. Comparability of financial results for Goldgroup Mining Inc. (formerly Sierra Minerals Inc.) for the 2010 period is limited.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***20. OTHER INCOME**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Interest (expense)	\$ 43	\$ -	\$ 233	\$ -
Gain on sale of property	-	17,158	-	17,158
	<u>\$ 43</u>	<u>\$ 17,158</u>	<u>\$ 233</u>	<u>\$ 17,158</u>

21. OTHER EXPENSES

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010*	2011	2010*
Accretion for decommissioning and restoration provision	\$ 13	\$ 9	\$ 37	\$ 20
Interest and other	82	20	82	343
Impairments and write-offs	-	22,149	-	22,149
Loss (gain) on warrants	516	8	354	(397)
Foreign exchange loss (gain)	2,313	89	2,298	(55)
Financing expense	7	-	33	-
	<u>\$ 2,931</u>	<u>\$ 22,275</u>	<u>\$ 2,804</u>	<u>\$ 22,060</u>

* Due to accounting treatment of the business combination with Holdings (Note 4), only the results from May 1, 2010 to December 31, 2010 are applicable to the financial results of Goldgroup Mining Inc. Comparability of financial results for Goldgroup Mining Inc. (formerly Sierra Minerals Inc.) for the 2010 period is limited

22. MANAGEMENT OF CAPITAL

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

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

The Company manages and reviews its capital structure based on the funds available for its operations and makes adjustments for changes in economic conditions, capital markets and the risk characteristics of the underlying assets. The Company expects it will be able to obtain equity financing and generate positive cash flow to maintain and grow operations. However, to maintain or adjust the capital structure, the Company may attempt to issue new shares, seek debt financing, acquire or dispose of assets or change the timing of its planned exploration and development projects.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

22. MANAGEMENT OF CAPITAL (CONTINUED)

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

The Company places deposits only with major established banks in the currencies in which it operates. The Company's investment policy is to invest its excess cash in highly liquid, low risk, short-term interest-bearing investments. Investments are selected after taking into consideration the expected timing of operating and capital expenditures. The Company limits its exposure to credit risks on investments by primarily investing in securities rated AAA by credit rated agencies such as S&P and Moody's. Excess cash is invested in the highest rated investments including bankers acceptances, commercial paper or other highly rated short-term investment instruments with a maturity of 90 days or less when acquired. The investments are redeemable in portion or in full at the Company's option without penalty and are recorded as cash and cash equivalents. Any excess cash is held in the currency which management believes poses the least amount of volatility and risk.

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

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

23. RISK MANAGEMENT

23.1 Financial Risk Management

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

a. Credit Risk

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

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

23. RISK MANAGEMENT (CONTINUED)

Gold doré produced in Mexico at the Cerro Colorado mine and gold in doré form recovered from used carbon at the refiner in Idaho is shipped to a reputable metal refiner located in Massachusetts, USA. Once the doré arrives at the metal refiner, it can be sold, title transferred and US dollars received. Currently, the Company sells its gold through these means to a trading company in New Jersey, USA. Upon final outturn of the gold bullion, any unsold quantity is purchased by the refiner. The Company does not have any exclusive agreements to sell its gold and gold could be readily sold to any counterparty with whom the Company entered into a trading agreement.

b. Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company is dependent on cash flow from mining operations, capital raised from issuances of common shares and sale of assets to fund its business activities. The Company uses cash forecasts to ensure as far as possible that there is sufficient cash on hand to meet short-term business requirements. The Company's cash is invested in highly liquid investments which are available to discharge obligations when they come due. Most of the Company's financial liabilities have contractual maturities of less than 30 days and substantially all the Company's financial obligations, other than the provision for decommissioning and restoration obligations, are due within one year. In the normal course of business the Company enters into contracts that give rise to commitments for future payments (Note 24). The Company does not maintain a line of credit.

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

c. Market Risk

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

i. Interest rate risk

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

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***23. RISK MANAGEMENT (CONTINUED)****ii. Foreign currency risk**

The Company is exposed to foreign currency fluctuations and inflationary pressures on its financial assets and liabilities and on sales, purchases and costs as the majority of the Company's activities are carried out in Mexico. All of the Company's revenues from commodity sales are denominated in US dollars. The head office is located in Canada and related costs are primarily incurred in Canadian dollars. Other costs and expenditures that affect the Company's results of operations, financial positions or cash flows are incurred in US dollars, Canadian dollars and Mexican pesos.

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

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

Foreign currency exposure on the Company's financial assets and financial liabilities as of September 30, 2011 is shown in the table below:

As at September 30, 2011	Canadian Dollar (C\$)	Mexican Peso (Mex\$)
Financial assets		
Cash and cash equivalents	\$ 24,649	7,719
Receivables	186	32,498
	\$ 24,835	40,217
Financial liabilities		
Trade and other accounts payable	\$ 132	13,606

The following table indicates the impact of foreign currency exchange risk on working capital as at September 30, 2011. The table also provides a sensitivity analysis of a ten percent strengthening of the US dollar against foreign currencies as identified, which would have increased (decreased) the Company's net earnings by the amounts shown in the table below.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***23. RISK MANAGEMENT (CONTINUED)**

	Canadian Dollars	Mexican Pesos
Financial assets	24,835	40,217
Financial liabilities	(132)	(13,606)
Net foreign currency working capital	24,703	26,611
US\$ exchange rate	0.9626	0.0726
Net foreign currency working capital in US\$	23,779	1,932
Foreign exchange loss on a 10% strengthening of the US\$	2,378	193
Foreign exchange gain on a 10% weakening of the US\$	2,378	193

23.2 Fair Values

The carrying values of cash and cash equivalents, receivables and trade and other accounts payable approximate fair values due to their short-term to maturity nature or the ability to readily convert to cash.

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

As at September 30, 2011, the Company's financial asset and liabilities are level 1 except the warrant liability of \$1,841, which is classified as Level 3 and measured at fair value.

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***24. COMMITMENTS**

The Company leases office premises with Uracon (Note 16) pursuant to a lease agreement expiring September 30, 2015. During the term of this lease agreement, the Company will be responsible for 70% of the annual lease costs. The Company's share of the minimum lease payments due under the terms of the lease over the next five years are:

2011	35
2012	140
2013	143
2014	144
2015	109
	571
	\$ 571

The Company is also responsible for its proportionate share of the operating costs and property taxes estimated at \$53 (C\$55) per year. The Company is jointly and severally liable for the lease costs.

The Company has entered into a lease agreement with the owner of a nearby water well for the exclusive rights to use water from the well in the operation of the Cerro Colorado Mine. The lease has an indefinite term which runs until cessation of mining activity. No rental fees are charged under this agreement however fees are payable to the Mexican government based on water consumption.

Exploration and evaluation properties commitments are disclosed in Note 10.

25. SEGMENTED INFORMATION

The Company operates in two geographical and three operating segments. The operating segments are managed separately based on the nature of operations. Mining operations is the Cerro Colorado mine, while Exploration and Development is primarily the Caballo Blanco and the Investment in DynaMexico. During the nine months ended September 30, 2011, 100% of the Company's sales were to two third parties. The balance owing from these parties at September 30, 2011 was \$nil.

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

	September 30, 2011		
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Plant and equipment	\$ 56	\$ 7,610	\$ 7,666
Investment in DynaMexico	-	18,334	18,334
Exploration and evaluation properties	-	29,491	29,491
Mine properties	-	8,442	8,442

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(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)
25. SEGMENTED INFORMATION (CONTINUED)

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

Selected financial information by operating segments is as follows:

	Nine months ended September 30,	
	2011	2010
Revenue		
Mining operations	\$ 24,348	\$ 10,689
Income (loss) before income taxes for the period		
Mining operations	\$ 4,759	\$ (436)
Exploration and evaluation	(512)	(437)
Corporate	(7,646)	(8,134)
	<u>\$ (3,399)</u>	<u>\$ (9,007)</u>

	Mining	Exploration		September 30,
	Operations	and	Corporate	2011
		Development		Total
Plant and equipment	\$ 7,110	\$ 500	\$ 56	\$ 7,666
Investment in DynaMexico	-	18,334	-	18,334
Exploration and evaluation properties	-	29,491	-	29,491
Mine properties	8,442	-	-	8,442
	<u>\$ 15,552</u>	<u>\$ 48,325</u>	<u>\$ 56</u>	<u>\$ 63,933</u>

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***26. SUPPLEMENTAL CASH FLOW INFORMATION****Changes in non-cash operating working capital items:**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2011
Receivables	\$ 641	\$ (827)	\$ 12	\$ (1,062)
Prepays and deposits	(79)	(73)	(305)	(98)
Inventories	(825)	(442)	(1,118)	268
Trade and other accounts payable	(1,208)	572	(1,789)	924
Accounts payable for exploration and evaluation properties	1,310	-	1,069	-
Taxes payable	322	-	322	-
	<u>\$ 161</u>	<u>\$ (770)</u>	<u>\$ (1,809)</u>	<u>\$ 32</u>

Non-cash investing transactions not included in cash flows:

Amortization capitalized to exploration and evaluation properties	<u>\$ 39</u>	<u>\$ 36</u>	<u>\$ 109</u>	<u>\$ 96</u>
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27. SUBSEQUENT EVENT

On October 14, 2011 the Company acquired the remaining 30% interest in the Caballo Blanco project held by Almaden (Note 10.1). Goldgroup now owns 100% of the Caballo Blanco project.

The total consideration paid, including contingent share consideration that will be paid, by Goldgroup to Almaden in connection with the transaction consisted of:

- \$2.5-million in cash
- seven million Goldgroup common shares at closing
- a requirement to issue up to an additional seven million Goldgroup common shares upon the achievement of certain project milestones:
 - one million common shares upon commencement of commercial production
 - two million common shares upon measured and indicated resources, including cumulative production, reaching two million ounces of gold
 - two million common shares upon measured, indicated and inferred resources, including cumulative production, reaching five million ounces of gold
 - two million common shares upon measured, indicated and inferred resources, including cumulative production, reaching 10 million ounces of gold
- a 1.5% net smelter return royalty
- transfer of the Company's 40% interest in the El Cobre property.

Impact on the financial statements, as a result of this transaction, has not yet been determined.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

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28. TRANSITION TO IFRS

The Company's IFRS accounting policies presented in Note 3 have been applied in preparing the financial statements for the period ended September 30, 2011, the comparative information and the opening consolidated statement of financial position at the Transition Date.

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

28.1 First-time adoption and exemptions applied

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

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

Optional exemptions elected by the Company include:

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

28.2 Presentation differences

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

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

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

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

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Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)
28. TRANSITION TO IFRS (CONTINUED)

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

Reconciliation of consolidated statements of financial position

	Note	As at January 1, 2010			As of September 30, 2010			As at December 31, 2010		
		CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS
ASSETS										
Current										
Cash and cash equivalents		\$ 515	\$ -	\$ 515	\$ 14,790	\$ -	\$ 14,790	\$ 12,654	\$ -	\$ 12,654
Investment held for trading		2,313	-	2,313	-	-	-	-	-	-
Receivables		219	-	219	2,619	-	2,619	2,557	-	2,557
Inventories		-	-	-	3,938	-	3,938	4,165	-	4,165
Prepays and deposits		99	-	99	176	-	176	274	-	274
		3,146	-	3,146	21,523	-	21,523	19,650	-	19,650
Plant and equipment		458	-	458	5,525	-	5,525	5,423	-	5,423
Investment in DynaResource de Mexico SA de CV		10,031	-	10,031	13,019	-	13,019	14,390	-	14,390
Exploration and evaluation properties	c	21,513	(2,945)	18,568	20,674	(3,060)	17,614	22,855	(3,060)	19,795
Mine properties	d	-	-	-	14,835	(4,900)	9,935	14,327	(4,750)	9,577
		<u>\$ 35,148</u>	<u>\$ (2,945)</u>	<u>\$ 32,203</u>	<u>\$ 75,576</u>	<u>\$ (7,960)</u>	<u>\$ 67,616</u>	<u>\$ 76,645</u>	<u>\$ (7,810)</u>	<u>\$ 68,835</u>
LIABILITIES AND EQUITY										
Current										
Trade and other accounts payable		\$ 402	\$ -	\$ 402	\$ 3,195	\$ -	\$ 3,195	\$ 2,345	\$ -	\$ 2,345
Warrant liability	b	-	-	-	-	273	273	-	962	962
Agreement payable		4,758	-	4,758	-	-	-	-	-	-
		5,160	-	5,160	3,195	273	3,468	2,345	962	3,307
Decommissioning and restoration provision	a	-	-	-	525	44	569	537	46	583
Warrant liability	b	-	-	-	-	-	-	-	2,741	2,741
Deferred tax liability	c,d	3,637	(2,945)	692	8,731	(4,457)	4,274	9,047	(4,475)	4,572
		8,797	(2,945)	5,852	12,451	(4,140)	8,311	11,929	(726)	11,203
Shareholders' equity										
Share capital		30,947	-	30,947	70,803	-	70,803	72,421	-	72,421
Share option reserve		2,326	-	2,326	4,537	-	4,537	4,372	-	4,372
Warrant equity	b	-	-	-	670	(670)	-	2,719	(2,719)	-
Translation reserve		(1,334)	-	(1,334)	(355)	-	(355)	(355)	-	(355)
Deficit	a,b,c,d	(5,588)	-	(5,588)	(12,530)	(3,150)	(15,680)	(14,441)	(4,365)	(18,806)
		<u>26,351</u>	<u>-</u>	<u>26,351</u>	<u>63,125</u>	<u>(3,820)</u>	<u>59,305</u>	<u>64,716</u>	<u>(7,084)</u>	<u>57,632</u>
		<u>\$ 35,148</u>	<u>\$ (2,945)</u>	<u>\$ 32,203</u>	<u>\$ 75,576</u>	<u>\$ (7,960)</u>	<u>\$ 67,616</u>	<u>\$ 76,645</u>	<u>\$ (7,810)</u>	<u>\$ 68,835</u>

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

28. TRANSITION TO IFRS (CONTINUED)

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

	Note	Three months ended September 30, 2010			Nine months ended September 30, 2010		
		CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS
Revenue							
Gold sales		\$ 5,297	\$ -	\$ 5,297	\$ 10,620	\$ -	\$ 10,620
Silver sales		20	-	20	69	-	69
		<u>5,317</u>	<u>-</u>	<u>5,317</u>	<u>10,689</u>	<u>-</u>	<u>10,689</u>
Cost and expenses of mining operations							
Cost of sales		5,373	-	5,373	9,830	-	9,830
Depreciation, depletion and amortization	d	36	-	36	1,295	-	1,295
Accretion of decommissioning and restoration provision	a	11	(11)	-	22	(22)	-
		<u>5,420</u>	<u>(11)</u>	<u>5,409</u>	<u>11,147</u>	<u>(22)</u>	<u>11,125</u>
Mine operating income		<u>(103)</u>	<u>11</u>	<u>(92)</u>	<u>(458)</u>	<u>22</u>	<u>(436)</u>
Expenses and other (income)							
Administrative expenses		1,683	-	1,683	4,036	-	4,036
Other income	c,d	(16,970)	(90)	(17,060)	(17,230)	(409)	(17,639)
Share of equity loss in DynaMexico		11	-	11	71	-	71
Other expenses	a,b	17,221	4,955	22,176	17,574	4,966	22,540
		<u>1,945</u>	<u>4,865</u>	<u>6,810</u>	<u>4,451</u>	<u>4,557</u>	<u>9,008</u>
Loss before income taxes	a,b,c,d	(2,048)	(4,854)	(6,902)	(4,909)	(4,535)	(9,444)
Provision for current tax		2,574	-	2,574	2,574	-	2,574
Recovery of deferred tax		<u>(1,338)</u>	<u>(1,384)</u>	<u>(2,722)</u>	<u>(540)</u>	<u>(1,384)</u>	<u>(1,924)</u>
		<u>(3,284)</u>	<u>(3,470)</u>	<u>(6,754)</u>	<u>(6,943)</u>	<u>(3,151)</u>	<u>(10,094)</u>
Other comprehensive income		-	-	-	979	-	979
Comprehensive income (loss) for the period		<u>\$ (3,284)</u>	<u>\$ (3,470)</u>	<u>\$ (6,754)</u>	<u>\$ (5,964)</u>	<u>\$ (3,151)</u>	<u>\$ (9,115)</u>

GOLDGROUP MINING INC.

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28. TRANSITION TO IFRS (CONTINUED)

Notes to Reconciliation

a) Decommissioning and restoration provision

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

For the three and nine months ended September 30, 2010, decommissioning and restoration provision increased by \$44 with a \$2 decrease to accretion expense and \$46 increase to impairment of goodwill. In addition \$22 was reclassified from cost of sales to other expenses.

b) Warrant liability

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

During the three and nine months ended September 30, 2010, \$670 was reallocated from warrant equity to warrant liability. In addition the decrease in fair value of the warrants resulted in a \$397 increase to other income with a corresponding decrease in warrant liability.

c) Deferred tax liability

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

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

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28. TRANSITION TO IFRS (CONTINUED)

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

During the three and nine months ended September 30, 2010, \$3,036 additional deferred tax was reversed on the acquisition of Minera Cardel SA de CV with a \$3,060 decrease in exploration and evaluation properties and an \$25 increase to foreign exchange loss.

d) Impairment of mine property

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

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

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

There was no impact on the transition to IFRS.

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