



**GOLDGROUP MINING INC.**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2011**

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## 1.1 Date

This Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Goldgroup Mining Inc. ("Goldgroup" or the "Company") together with its subsidiaries as of March 30, 2012, and is intended to supplement and complement the Company's audited consolidated financial statements for the year ended December 31, 2011. Readers are cautioned that this MD&A contains forward-looking statements and that actual events may vary from management's expectations. Goldgroup's public disclosure documents are available on SEDAR at [www.sedar.com](http://www.sedar.com). The consolidated financial statements and MD&A are presented in United States ("US") dollars, except where noted, and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of and for the year ended December 31, 2011.

For all periods up to and including the year ended December 31, 2010, Goldgroup prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The consolidated financial statements for the year ending December 31, 2011 are the first annual financial statements Goldgroup prepared using IFRS. An explanation of the impact of the transition from Canadian GAAP to IFRS on Goldgroup's consolidated financial statements is provided in Note 27 to the accompanying consolidated financial statements.

The MD&A contains forward-looking statements and should be read in conjunction with the risks discussed herein and those set out under the heading "Risk Factors" in Goldgroup's annual information form dated March 30, 2012 (the "AIF"). Please also refer to the "Cautionary Statement on Forward-Looking Information" at the end of this MD&A.

Additional information about Goldgroup is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 1.2 Overall Performance

### 2011 Highlights

- During the first quarter of 2011, the Company met the required aggregate property related expenditures of \$12 million to complete its 70% earn-in interest on the Caballo Blanco gold project in Mexico.
- On October 14, 2011 the Company acquired the remaining 30% interest in the Caballo Blanco project held previously by Almaden Minerals Ltd. ("Almaden"). Goldgroup now owns 100% of the Caballo Blanco project.
- On March 14, 2011 the Company completed its earn-in/option agreement with DynaResource de Mexico SA de CV ("DynaMexico") for its 50% equity interest on the San José de Gracia project by reaching the expenditure funding requirement of \$18,000,000.
- 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 \$35,966,000 (C\$35,000,000). 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 \$5,394,900 (C\$5,250,000). Share issue costs on this financing were \$3,413,250 (C\$3,365,453), which were paid to arm's lengths parties. The net proceeds received were \$37,947,650 (C\$36,884,547).

- The Company released an updated technical report dated effective September 5, 2011, which significantly increased the Company's mineral resource estimate at San José de Gracia, establishing indicated mineral resources at the Tres Amigos vein of 147,000 ounces of gold, and growing inferred mineral resources at all four veins from 618,000 to 963,000 ounces of gold, representing an increase of 56%.
- The Company incurred mineral expenditures of \$32,121,245 at Caballo Blanco, which includes acquisition costs of \$19,049,197, drilling costs of \$6,467,394 and other exploration costs of \$6,604,654.
- The Company completed 32,345 metres of diamond drilling on the La Paila zone at Caballo Blanco.
- On December 31, 2011, the company recorded an impairment charge of \$8,600,000 on the Cerro Colorado mine. The impairment resulted from an internal report which estimated that at the current production levels, the remaining life of the mine would be approximately 18 months, as of January 1, 2012.

### **2012 Developments to Date**

- Goldgroup produced an updated technical report on the Caballo Blanco gold project dated February 17, 2012 based on drilling completed in 2010 and 2011. Based on a 0.2 g/t Au cut-off grade, the Company's indicated mineral resource estimate at the La Paila Zone at Caballo Blanco grew by 314% compared to the prior technical report (dated March 22, 2010), from 139,000 to 575,000 ounces of gold (28.9 million tonnes grading 0.62 g/t Au). The inferred mineral resource estimate summed to 419,000 ounces of gold (24.0 million tonnes grading 0.54 g/t Au).
- The Company expects to release its preliminary economic assessment study on the Caballo Blanco project in Q2 of 2012.

#### **1.2.1 Company Overview**

Goldgroup is focused on the acquisition, exploration, development and production of advanced-stage gold-bearing mineral properties in the Americas. The Company's current gold exploration, development, and production activities are conducted exclusively in Mexico. Goldgroup owns a property portfolio that includes a 100% interest in the Caballo Blanco project in Veracruz and a 50% interest in the San José de Gracia gold project in Sinaloa. Goldgroup also owns and operates the Cerro Colorado gold mine in Sonora.

Effective after the close of trading on September 16, 2011, the Standard and Poor's Canadian Index Operations added Goldgroup to the S&P/TSX SmallCap Index. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "GGA".

The business combination between Sierra Minerals Inc. ("Sierra") and Goldgroup Holdings Corp. ("Holdings") has been defined as a reverse take-over ("RTO") of Sierra by Holdings effective April 30, 2010. The effect is that the continuing Company's consolidated financial statements and comparative financial statement information is that of Holdings. The purchase price allocation was prepared by management utilizing management's best estimates after taking into account all relevant information available at the time of the RTO.

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

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

The Company expects that any revenues from production will finance the current operations of the Company. The Company will have to raise additional funds over and above amounts raised to date to construct and commission the Caballo Blanco mine (scheduled to start production in early 2013) as well as to complete the acquisition, exploration and development of its other property interests. While the Company has been successful in doing so in the past, there can be no assurance that it will be able to do in the future.

### **1.2.2 Caballo Blanco Project**

Goldgroup owns 100% of the Caballo Blanco gold project which consists of a series of fully oxidized gold zones located in the State of Veracruz in eastern Mexico. The property consists of 14 mineral claims covering an area of 54,732 hectares. Two large areas of epithermal gold mineralization have been discovered within the current Caballo Blanco property, referred to as the Northern Zone and the Highway Zone. Both are prominent high-sulphidation epithermal gold prospects that occur within extensive areas of clay and silica alteration. The gold is fine and occurs within a vuggy silica, massive silica and brecciated silica alteration of an original andesite host rock.

The principal known gold zone at Caballo Blanco is the La Paila Zone located within the Northern Zone, a cluster of high-sulphidation epithermal alteration zones. The La Paila Zone is located on the northern portion of a large 'magnetic high' ring structure that measures approximately three kilometres in diameter. At least four other large Induced Polarization ("IP") resistivity high anomalies, with similar silica alteration to La Paila, have been identified along the inner flanks of this magnetic feature.

On October 14, 2011 the Company completed the acquisition of the remaining 30% interest in the Caballo Blanco project held by Almaden. Goldgroup now owns 100% of the Caballo Blanco gold project. The total net smelter return ("NSR") royalty payable on this project upon production will be 2.95%.

Goldgroup continues to advance the Caballo Blanco project, in areas such as construction, land acquisitions, permitting, engineering, exploration drilling and geological studies and the consolidation of the operations team as the Company prepares for the expected commencement of production in 2013.

The Company has had ongoing land negotiations to purchase surface rights of the land. To date, the Company currently owns approximately 80% of the surface rights of land that it intends to purchase to operate the mine.

The Company has contracted an independent research metallurgical laboratory to complete the quality assurance/quality control ("QA/QC") of 20 column leach tests at its on-site column leach testing facility

at Arroyo Agrio. To date, 40 column leach tests have been performed by Company's metallurgists at this facility, showing gold recoveries ranging from 76% to 94% based on atomic absorption analysis of the recovered solution and a final fire assay of the column residue.

The underground tunnelling on the La Paila zone commenced on September 21, 2011. To date, the tunnel has advanced 225 metres of which 205 metres is in mineralized vuggy, massive and brecciated silica rock. The main tunnel and west crosscut tunnel at the La Paila Zone are being driven to collect bulk-sample material for ongoing metallurgical test work. The tunnelling also provides direct access to the mineralized zone allowing the Company to enhance its understanding of the geological and geotechnical characteristics of the mineralization at the La Paila Zone.

The Company continued to explore Caballo Blanco with five diamond drills in 2011 to define better and to expand the current La Paila Zone resource. Goldgroup also explored utilizing geological mapping and surface sampling in a number of areas, mainly in the Northern Zone.

On January 12, 2012 the Company hired Mr. Patrick Glynn as the Company's Vice President, Technical and Projects. Mr. Glynn commenced employment on February 1, 2012 and has taken over the engineering and construction of the Caballo Blanco project. Francisco Escandon-Valle was promoted to Technical Director of Goldgroup (corporate). The former General Manager of Caballo Blanco resigned from Goldgroup on February 23, 2012.

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

Goldgroup released an updated technical report on the Caballo Blanco gold project on February 15, 2012 based on drilling completed in 2010 and 2011. Based on a 0.2 g/t Au cut-off grade, the Company's indicated mineral resource estimate at the La Paila Zone grew by 314% compared to the prior technical report (dated March 22, 2010), from 139,000 to 575,000 ounces of gold (28.9 million tonnes grading 0.62 g/t Au). The inferred mineral resource estimate summed to 419,000 ounces of gold (24.0 million tonnes grading 0.54 g/t Au). The updated technical report also added silver mineral resources to the mineral resource estimate at Caballo Blanco, including 2,150,000 ounces of silver indicated mineral resources (28.9 million tonnes grading 2.32 g/t Ag) and 1,930,000 ounces of silver inferred mineral resources (24.0 million tonnes grading 2.5 g/t Ag). These mineral resources were estimated using the initial 33 diamond drill holes completed by the previous owners of the project and an additional 112 diamond drill holes completed by Goldgroup during its 2010 and 2011 drill campaign for a total of 145 holes used to estimate the updated resource. All resources are hosted within fully oxidized material.

To date, 142 holes have been drilled at the Caballo Blanco project by Goldgroup. Of these holes, 19 were reverse circulation holes not used for mineral resource estimations, seven were holes drilled outside the La Paila zone but within the Northern Zone, and four were unassayed as of the date of the current technical report, all of which were not used for mineral resource estimations, resulting in a total of 112 additional holes being incorporated into the updated mineral resource estimate.

Goldgroup has now received assays for the remaining four drill holes from its 2011 drill program, which are expected to be included with 2012 drilling results in a potential future mineral resource estimate.

In 2011, Goldgroup completed 32,345 meters of diamond drilling. The Company intends to complete another 30,000 metre drill program in 2012, targeting (1) expansion of the La Paila Zone to the south, southwest and northeast, (2) at least four other large IP resistivity high anomalies in the Northern Zone, and (3) prospective targets at the Highway zone. The 2012 drill program will utilize up to five HQ

diamond drills and reverse circulation drills, designed to expand and to upgrade the current mineral resource.

Initial results of a commissioned preliminary economic assessment study are expected to be released in mid-April 2012, with the final document to be completed and released in Q2 of 2012.

The Environmental Impact and Risk Studies (“EIS”) were presented to the governing environmental authority in Mexico, SEMARNAT, on December 15, 2011. On March 13, 2012 the first set of comments on the Company’s EIS application were received from SEMARNAT. The comments requested more information on risk mitigation, along with environmental protection and rehabilitation, of several aspects of the proposed mining operations. Goldgroup expects to provide a detailed written response to SEMARNAT to satisfy sufficiently their queries within the required 60-day response time. Following the receipt of the written response from Goldgroup, SEMARNAT will review the application a second time to determine the status of permitting, including if further clarification is required. This form of federal regulatory response is standard procedure in the environmental permitting process in the majority of established mining jurisdictions, including Mexico.

The Company currently plans to commence production in 2013 and its current mineral resource estimate is expected to be sufficient to sustain 100,000 ounces of annual gold production. The following are part of the exploration/development program at Caballo Blanco to achieve this objective:

- Conduct a 30,000 metre drill program in 2012 to further define the resources within the La Paila zone and to test other zones of high sulphidation mineralization located within the Company’s mineral concessions.
- Conduct a geochemical analysis of surface chip samples to better define an extension of the La Paila mineralization to the north east. Similar geochemical studies are progressing in other areas.
- Conduct metallurgical column-leach testing at the Company’s on-site laboratory using 16 six inch diameter by three and six metre high and four 16 inch diameter by six metre high columns. To date, these leach tests have indicated high and fast leaching recoveries. The Company has constructed four one metre diameter by six metre high columns to test and verify that, as indicated by the smaller column tests, open pit run-of-mine heap leaching is applicable. Initial test work indicates high recovery in line with the smaller column test results. The underground tunnel will give sufficient run-of-mine sized material for these one metre diameter test columns. To date 40 column tests have been completed showing gold recoveries from 76% to 94%.
- Provide a detailed written response to SEMARANT relating to the March 13, 2012 comments received by SEMARNAT on the Environmental Impact and Risk Studies.
- Expand its review of targets using satellite Aster imaging over 50,000 hectares and explore a number of identified anomalies which will be investigated in 2012.
- Continue underground tunneling on La Paila in order to complete further drilling and bulk sampling for metallurgical testing, in addition to testing high-grade structures.
- Perform soil testing at the leach pad site. This has recently been performed by outside consultants indicating positive conditions for leach-pad construction.

### 1.2.3 San José de Gracia Project

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

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

Management has had numerous discussions with DynaResource, Inc. ("DynaUSA") to determine how to proceed with this project. The Company continues to assess available alternatives for the future development of the San José de Gracia project. Until such time as a development strategy and financial plan for the San José de Gracia project can be agreed to with the other 50% shareholder of DynaMexico, being DynaUSA, Goldgroup's financial support to fund further exploration and development activities is currently on hold. Development activities will be limited and the costs of maintaining the project are expected to be nominal. This decision supports the Company's strategy to focus its resources on the development of the Caballo Blanco project.

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

The latest diamond drilling program was completed during the second quarter of 2011 with results very much in line with the previous grades and widths. The San Pablo shoot showed positive results and has been delineated to a configuration approximately 550 metres down plunge, 170 metres along strike and a true width averaging approximately five metres. The Tres Amigos shoot is approximately 800 metres along strike on the same structure to the northeast and is currently open down plunge and showing larger dimensions than San Pablo. Two other shoots at Purisima and La Union show positive results and are open in several directions.

The Company released an updated technical report dated effective September 5, 2011, which was prepared by Jim Cuttle, P.Geo. and Gary Giroux, P.Eng of Giroux Consultants Ltd., each an independent qualified person under NI 43-101. The technical report significantly increased the Company's mineral resource estimate at San José de Gracia, establishing indicated mineral resources at the Tres Amigos vein of 147,000 ounces of gold, and growing inferred mineral resources at all four veins from 618,000 to 963,000 ounces of gold, representing an increase of 56%. The previous technical report dated February 28, 2011, estimated solely inferred mineral resources.

On February 15, 2012, DynaUSA announced that it had received the results of a different mineral resource estimate for the San José de Gracia project (the "DynaUSA Estimate"). The DynaUSA Estimate included aggregate indicated mineral resources at Tres Amigos of 892,534 tonnes, with an average grade of 4.46 g/t, totalling 127,921 oz/Au, and at San Pablo of 1,307,509 tonnes, with an average grade of 6.52 g/t, totalling 274,171 oz/Au, and aggregate inferred mineral resources of 3,953,143 tonnes, with an average grade of 5.83 g/t, totalling 740,911 oz/Au. The DynaUSA Estimate includes a higher volume of indicated mineral resources as compared to the mineral resources estimate contained in the technical report released by Goldgroup. Mr. Cuttle and Mr. Giroux, the independent qualified persons who prepared the technical report released by Goldgroup, do not agree with the differing results contained in the DynaUSA Estimate.

Upon reaching an agreement with DynaUSA, the current mineral resource estimate is expected to be used to support a future preliminary economic assessment for mining. The Company is targeting a mineral resource estimate sufficient to sustain and initial production level of 50,000 ounces in its first year of production growing in its second year and onwards to 100,000 ounces of annual gold production.

#### **1.2.4 Cerro Colorado (Operating Mine)**

The Company owns a 100% interest in the Cerro Colorado mine, located in northern Sonora, Mexico. The property consists of six mineral concessions covering the area of the mine and 44 concessions in the immediate vicinity of the mine totalling 33,767 hectares. Gold is produced in doré in Mexico and then shipped to a refiner in the United States for final processing prior to sale. The project is subject to a NSR royalty of 3%. The remaining life of the in-pit resource at Cerro Colorado mine is currently estimated by Goldgroup to be approximately 18 months, as of January 1, 2012. Goldgroup expects that the heap leach operation will continue to produce gold for an extended period of time.

There have been challenges at the mine resulting from uncertainty around the mine plan and the complex ore body. The number of mineable ounces of gold has decreased significantly according to our latest internal report. In the prior year, the grade dropped, the stripping ratio has increased and the recoveries fluctuated dramatically. Management continues exploration to extend the life of the mine. Future operations are expected to require no additional funding and nominal capital expenditures and exploration.

An impairment charge totalling \$8,600,000 was recorded on the Cerro Colorado mine. The impairment was proportionately charged to the carrying value of the mine for \$4,650,000 and plant and equipment for \$3,950,000. The trigger for the impairment test was the result of changes to the mine plan resulting from an internal report. At the current production levels, the remaining life of the mine is estimated to be approximately 18 months, as of January 1, 2012.

There is currently no compliant economic analysis for the Cerro Colorado mine and no mineral reserves have been estimated. An updated technical report is currently being prepared and will be filed in the second quarter of 2012.

#### ***Status of Operations and Outlook***

At the Cerro Colorado gold mine, the Company produced 20,361 ounces of gold during the year ended December 31, 2011.

Upon review of the updated economic analysis, a moderate level of exploration will be conducted at the mine and surrounding areas with the assistance of Goldgroup's consulting geologist, Dr. Roger Newell.

During 2011, the Company focused its efforts at the mining operations on:

- Conducting exploration drilling outside the current pit limits.
- Completing construction of a new leach pad.
- Purchasing two 773C haul trucks, a 992 loader and a used 988F loader to improve production reliability.
- Improving the secondary crusher to optimize the aggregate flow to the main crusher. These improvements made it possible for considerably higher tonnes per day average of crushed material onto the main leach pad.



- Purchasing a new larger diameter water pipe line to supply more water to the leach pad to improve recoveries of gold.
- Hiring a new maintenance manager to help with improving the efficiency of the truck fleet and to make operations more efficient.
- Repairing several items in the plant-refinery to allow the mine to continue producing gold efficiently with the potential for more ounces at lower grades.
- Hiring a consulting geologist, Dr. Roger Newell, who has considerable expertise in Sonora Mexico, to work with our geologists at the mine and surrounding area.

### 1.3 Selected Annual Information

#### Three and Twelve Months Ended December 31, 2011 versus December 31, 2010

<i>(Expressed in 000's)</i>	Three months ended December 31,		Twelve months ended December 31,		
	2011	2010	2011	2010 <sup>(b)</sup>	2009
Metal sales	\$6,871	\$6,188	\$31,219	\$16,877	\$ -
Cost of sales <sup>(a)</sup>	5,881	4,653	23,623	14,484	-
Depreciation and depletion	586	618	2,434	1,913	-
Gross margin	404	917	5,162	480	-
Other expenses (income):					
Administrative expenses	1,935	2,629	6,777	6,297	1,666
Gain on sale of property	-	371	-	(16,787)	-
Share of equity loss in DynaMexico	238	57	294	128	7
Impairments and write-offs	9,691	-	9,691	22,152	-
Other expenses (income)	73	953	3,250	1,227	(515)
	11,937	4,010	20,012	13,017	1,158
Loss before income taxes	(11,451)	(3,093)	(14,850)	(12,537)	(1,158)
Provision for income taxes (recovery):					
Current	(366)	(227)	1,968	2,347	-
Deferred	(712)	258	142	(1,666)	364
Net loss for the period	\$(10,455)	\$(3,124)	\$(16,960)	\$(13,218)	\$(1,522)
Loss per share – basic and diluted	\$(0.09)	\$(0.03)	\$(0.15)	\$(0.16)	\$(0.04)

(a) Cost of sales excludes depreciation and depletion

(b) Only the results from May 1, 2010 to December 31, 2010 are included in the financial results (See section 1.2.1)

<i>(Expressed in 000's)</i>	As at December 31,		
	2011	2010	2009
Cash and cash equivalents	\$23,313	\$12,654	\$515
Total assets	\$109,254	\$68,835	\$32,203
Non-current financial liabilities	\$1,472	\$2,741	-
Cash dividends declared	\$0.00	\$0.00	\$0.00

#### Fourth Quarter 2011 vs. Fourth Quarter 2010

- Overall, the Company recorded a net loss of \$10,455,436 or \$0.09 loss per share for the quarter ended December 31, 2011 compared to a loss of \$3,123,892 or \$0.03 loss per share for the same period in 2010.
- During the fourth quarter of 2011, the Cerro Colorado gold mine produced 4,375 ounces of gold compared to 4,367 during the comparative period of 2010. Gold sales during the fourth quarter of 2011 were 4,060 ounces at an average gold price of \$1,679 per ounce compared to 4,482 ounces at an average gold price of \$1,375 per ounce during the comparative period of 2010.
- Cost of sales of \$5,880,672 represented cash operating costs at the Cerro Colorado gold mine for the fourth quarter of 2011 or \$1,435 per ounce of gold sold, compared to \$4,653,175 of cash operating costs for the same period in December 31, 2010 or \$1,033 per ounce of gold sold. The cash cost per ounce increased dramatically during the fourth quarter of 2011 as a result of the grade being lower with an average of 0.41 g/t and the strip ratio increasing by 42% compared to the same period in 2010.
- The mine's gross margin was \$403,665 for the quarter ended December 31, 2011 compared to \$917,241 during the same period of 2010.
- Depreciation and depletion of \$586,145 during the three months ended December 31, 2011 resulted primarily from the depreciation and depletion on the Cerro Colorado mine and plant and equipment compared to \$618,010 during the same period of 2010. The depletion expense is calculated on a unit-of-production basis.
- Administrative expenses were \$1,934,501 for the fourth quarter ended December 31, 2011 compared to \$2,628,980 during the fourth quarter ended December 31, 2010. The administrative costs are primarily comprised of accounting and legal costs, investor relations expenses, salaries and consulting fees, exploration and share-based compensation for the recognition of part of the fair value of options granted during 2009, 2010 and 2011.
- Gain on sale of property was \$nil for the fourth quarter ended December 31, 2011 compared to \$(371,424) for the same period in 2010. The 2010 credit amount relates to a recovery of value-added tax in Mexico from the sale of El Porvenir.
- Impairment and write-offs for the quarter ended December 31, 2011 was \$9,691,467 compared to \$nil for the same period in 2010. The 2011 balance includes an \$8,600,000 impairment to the Cerro Colorado mine, \$932,198 write-off of the Kenya property and \$159,269 write-off of one drill and one loader at Cerro Colorado. The \$8,600,000 impairment was proportionately charged against the carrying value of the mine for \$4,650,000 and plant and equipment for \$3,950,000.
- Other expenses were \$72,539 for the fourth quarter ended December 31, 2011 compared to \$953,014 during the same period in 2010. The 2011 balance relates to exploration at Cerro Colorado offset by a foreign exchange gain during the quarter and gain on warrants. The 2010 balance primarily relates to a derivative loss on warrants offset by a foreign exchange gain.

- Income tax recovery of \$366,423 was recorded in the fourth quarter of 2011 compared to \$226,575 during the same period of 2010. The recovery is a result of certain deductions being available to reduce Mexican tax. A deferred income tax recovery of \$711,542 was recorded during the three months ended December 31, 2011 compared to \$258,074 during the same period of 2010. The deferred income recovery 2011 is a result of the impairment on Cerro Colorado offset by exploration in the Company's Mexican subsidiaries.

**Year Ended December 31, 2011 vs. 2010 (Refer to section 1.2.1) and 2009**

- Overall, the Company recorded a net loss of \$16,960,389 or \$(0.15) per share for the year ended December 31, 2011 compared to \$12,238,558 or \$(0.16) per share for 2010 and \$1,522,352 or \$(0.04) per share for 2009.
- During 2011, the Cerro Colorado gold mine produced 20,361 ounces of gold compared to 20,187 during 2010, representing an increase of 1%. There was no gold production in 2009. The 2010 figure is for the full 12month period.
- Gold sales during 2011 amounted to 19,864 ounces at an average gold price of \$1,558 per ounce compared to 20,702 ounces at an average gold price of \$1,274 per ounce during 2010. There were no gold sales during 2009. The 2010 figure is for the full 12month period.
- Metal sales revenue for 2011 was \$31,218,517 compared to \$16,876,780 for 2010. The 2010 metals sales only include metal sales from May 1, 2010 to December 31, 2010. For the full 12 month period, the metal sales for 2010 were \$25,435,796. There was no metals sales revenue in 2009.
- The mine's gross margin was \$5,161,249 for 2011 compared to \$480,006 for 2010. Operating profit increased as a result of the increased price of gold offset slightly by increased operating costs.
- Cost of sales of \$23,623,231 represented cash operating costs at the Cerro Colorado gold mine for 2011 or \$1,176 per ounce of gold sold including silver by-product credits of \$13 per ounce, compared to \$14,484,323 of cash operating costs for the period May 1, 2010 to December 31, 2010 or \$1,274 per ounce of gold sold including a silver by-product credits of \$7 per ounce. There was no gold production in 2009.
- Depreciation and depletion of \$2,434,036 for 2011 resulted primarily from the depletion and depreciation on the Cerro Colorado mine and its plant and equipment compared with \$1,913,298 during the period May 1, 2010 to December 31, 2010 and \$nil for 2009. The majority of the depreciation and depletion expense is calculated on a unit-of-production basis.
- Administrative expenses were \$6,776,499 for 2011 compared to \$6,297,247 for 2010 and \$1,666,446 for 2009. The increase is principally due to the recognition of increased share-based payment expense relating to options granted during 2009, 2010 and 2011, an increase in size of the Company compared to 2010 and 2009 which includes higher administrative costs, increased investor relations and increased administrative costs, offset by less professional fees which were related to the reverse take-over of Sierra.
- Gain on sale of property was \$nil for 2011 compared to \$16,787,491 for 2010 and \$nil for 2009. The 2010 gain on sale of property relates to the gain realized on the sale of El Porvenir.

- Impairment and write-offs for 2011 was \$9,691,467 compared to \$22,152,211 for 2010 and \$nil for 2009. The 2011 balance includes an \$8,600,000 impairment to the Cerro Colorado mine, \$932,198 write-off of the Kenya property and \$159,269 write-off of one drill and one loader at Cerro Colorado. The \$8,600,000 impairment was proportionately charged against the carrying value of the mine for \$4,650,000 and plant and equipment for \$3,950,000. The 2010 balance relates to a goodwill impairment of \$16,719,029 on Cerro Colorado, a \$4,900,000 impairment on Cerro Colorado, the write-off of inventory totalling \$292,311 and a \$240,871 write-off of equipment at Cerro Colorado.
- Other expenses (income) were \$3,249,684 for 2011 compared to \$1,226,613 for 2010 and \$(514,743) for 2009. Other expense in 2011 is primarily a result of exploration at Cerro Colorado and a foreign exchange loss from funds held on deposit in Canadian dollars, which resulted primarily from the high volatility during the year between the US dollar and Canadian dollar which had range from a low of \$0.9406 to a high of \$1.0657 Canadian. The expense balance in 2010 relates exploration at Cerro Colorado and a derivative loss on warrants, offset by a foreign exchange gain. The balance in 2009 relates to an unrealized gain on the change in fair value of an investment offset by a foreign exchange loss.
- Current income tax expense was \$1,967,963 for 2011 which relates to profits earned at the Cerro Colorado mine and a revision of inventory tax value in the December 31, 2010 tax return which resulted in additional taxes of \$1,405,127, compared to \$2,347,293 for 2010 and \$nil in 2009. A deferred income tax expense of \$142,442 was recorded during the year ended December 31, 2011 compared to a deferred income tax recovery of \$1,665,897 during 2010 and \$363,941 during 2009. The deferred income tax expense recognized in 2011 relates to the Company's exploration in its Mexican subsidiaries offset by the impairment on Cerro Colorado. The 2010 recovery resulted from the Mexican losses being realized during the year that were utilized to reduce income taxes otherwise payable on the gain on sale of the El Porvenir property.

#### 1.4 Planned Exploration and Development Expenditures

As of March 30, 2012, Goldgroup has cash and cash equivalents of approximately \$20,500,000, is debt-free and unhedged. The Company currently intends to spend the majority of these funds on our Caballo Blanco project in 2012 as follows:

<b>Caballo Blanco Project</b>	<b>(000's)</b>
• Administration and legal	\$ 2,000
• Exploration and drilling	6,500
• Underground exploration and sampling	500
• Technical reports, Environmental Impact Statement, permitting	800
• Metallurgical work	500
• Production site preparation and land acquisitions	7,000

The Company expects to release a preliminary economic assessment on the Caballo Blanco gold project in the second quarter of 2012 that will define more clearly where funds will be spent.

## 1.5 Developments during the Year Ended December 31, 2011

### **Acquisition of Almaden's 30% Interest in Caballo Blanco**

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

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

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

In addition, the Company paid \$650,000 to the original royalty holder of the property for his 0.4% NSR royalty.

### **50% Earn-in of Dyna Mexico**

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 \$18,000,000. The Company continues to account for its investment in DynaMexico using the equity method.

As a result of the Company earning its 50% equity interest on March 14, 2011, the Board of Directors of DynaMexico is to be comprised of five members with DynaUSA and Goldgroup 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. The Company is currently assessing strategic financial alternatives. 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.

To advance this project additional financing will be required.

### **Revised Tax Value of Previously Reported Inventory Balances for Tax Purposes**

During the third quarter of 2011, management finalized and filed the 2010 income tax returns for Granmin SA de CV ("Granmin") with the Mexican taxation authorities as required. In computing the taxes for Granmin for the year ended December 31, 2010 management revised the estimates of previously reported inventory balances for tax purposes. The revision of these estimates resulted in an additional tax liability of \$1,405,127.

## 1.6 Gold Market

The price of gold is the largest single factor in determining profitability and cash flow from operations, therefore, the financial performance of the Company is expected to be closely linked to the price of gold. The average market price of gold during the three and twelve month periods ended December 31, 2011 was \$1,685 and \$1,572 per ounce, respectively. London P.M. fixings of the gold price during the three month period ranged from a low of \$1,531 per ounce on December 29, 2011 to a high of \$1,795 per ounce on November 8, 2011. These prices compare with averages of \$1,368 and \$1,226 per ounce, respectively, during the three and twelve months ended December 31, 2010. Prices for the three months ended December 31, 2010 ranged from a low of \$1,313 per ounce to a high of \$1,421 per ounce.

The Company realized an average price of \$1,679 per ounce on its sales of gold during the fourth quarter of 2011 compared to an average realized price of \$1,375 for the same period in 2010 and compared to the average London P.M. fix for the fourth quarter of 2011 of \$1,685 per ounce. The Company realized an average price of \$1,558 per ounce on its sales of gold during 2011 compared to an average realized price of \$1,218 for the same period in 2010 and compared to the average London P.M. fix for 2011 of \$1,572 per ounce.

Gold prices continue to be supported by positive market fundamentals. Additionally, gold's appeal as a hedge against inflation and the United States dollar has continued to underpin historically high prices. Due to these factors, the Company expects gold prices to remain well supported in the near term in the midst of a high degree of market volatility.

## 1.7 Results of Mining Operations

### Three and Twelve Months Ended December 31, 2011 versus December 31, 2010 Cerro Colorado Gold Mine (100% ownership)

Operating Statistics <sup>(a&amp;b)</sup>	Three months ended December 31,		Twelve months ended December 31,		Select information for full twelve month period
	2011	2010	2011	2010 <sup>(b)</sup>	2010 <sup>(a)</sup>
Ore mined – placed on leach pad (tonnes)	<b>448,391</b>	449,948	<b>2,238,825</b>	1,120,761	1,694,540
Waste mined (tonnes)	<b>1,563,667<sup>(d)</sup></b>	1,106,517	<b>4,806,842</b>	2,936,036	4,091,375
Total mined (tonnes)	<b>2,012,058</b>	1,556,465	<b>7,045,667</b>	4,056,797	5,785,915
Waste-to-ore-ratio	<b>3.49</b>	2.46	<b>2.15</b>	2.62	2.41
Recovery	<b>82%</b>	65%	<b>60%</b>	71%	72%
Grade (g/t Au)	<b>0.41</b>	0.50	<b>0.53</b>	0.50	0.55
Gold ounces mined	<b>5,954</b>	7,455	<b>32,427</b>	19,026	30,436
Gold ounces – produced	<b>4,375</b>	4,367	<b>20,361</b>	12,693	20,187
Gold ounces – sold	<b>4,060</b>	4,482	<b>19,864</b>	13,169	20,702
<b>Operating Financial Data <sup>(a)</sup> (Expressed in 000's)</b>					
Metal Sales	<b>\$6,871</b>	\$6,188	<b>\$31,219</b>	\$16,877	-
Cost of sales <sup>(c)</sup>	<b>\$5,881</b>	\$4,653	<b>\$23,623</b>	\$14,484	-
Depreciation and depletion	<b>\$586</b>	\$618	<b>\$2,434</b>	\$1,913	-
Gross margin	<b>\$404</b>	\$917	<b>\$5,162</b>	\$480	-
Net loss	<b>\$(10,455)</b>	\$(3,124)	<b>\$(16,960)</b>	\$(13,218)	-
Basic and diluted loss per share	<b>\$(0.09)</b>	\$(0.03)	<b>\$(0.15)</b>	\$(0.16)	-
Average realized gold price per ounce sold <sup>(b)</sup>	<b>\$1,679</b>	\$1,376	<b>\$1,558</b>	1,274	-
Cash cost per ounce sold	<b>\$1,435</b>	\$1,033	<b>\$1,176</b>	\$1,055	-
Exploration – Cerro Colorado	<b>\$619</b>	\$38	<b>\$1,074</b>	\$404	-
Plant and equipment expenditures at Cerro Colorado	<b>\$109</b>	\$158	<b>\$3,013</b>	\$459	-

(a) Operating statistics are for the full periods referenced.

(b) Only the results from May 1, 2010 to December 31, 2010 are included in the financial results (see section 1.2.1)

(c) Cost of sales excludes depreciation and depletion.

(d) The tonnes of waste mined in the fourth quarter of 2011 includes of 274,796 tonnes of waste that was mined in an area no related to the current resource of Cerro Colorado. The expense associated with this waste is recorded in exploration expense.

### Three Months Ended December 31, 2011 versus December 31, 2010

- Tonnes mined for the quarter ended December 31, 2011 increased 29% over the same 2010 period, primarily due to higher stripping ratio requiring an increase in haulage capacity compared to the same period last year.
- Production for the quarter ended December 31, 2011 was similar to that of the production during the same period in 2010.

- Gold sales for the quarter ended December 31, 2011 were 4,060 ounces at an average realized price of \$1,679 per ounce compared to 4,482 ounces sold at an average realized price of \$1,376 for the same period in 2010.
- Operating cash costs for the quarter ended December 31, 2011 were \$5,881,672 or \$1,435 per ounce of gold sold including silver by-product credits of \$13 per ounce, compared to \$4,653,175 or \$1,033 per ounce of gold sold for same period in 2010, before silver by-product credits of \$5 per ounce. This represents an increase of \$402 per ounce over the fourth quarter of 2010. The cost per ounce increased due to lower grade of ore placed on the pad and the higher stripping ratio during the fourth quarter of 2011.
- Exploration costs at Cerro Colorado for the quarter ended December 31, 2011 were \$618,558 compared to \$37,531 during the same period in 2010. The increase in the 2011 period is a result of increased exploration work at Cerro Colorado, which includes the use of two exploration drills and also the incurrence of stripping expense that relates to the mining of waste in an area not related to the current resource of Cerro Colorado.

#### **Year Ended December 31, 2011 versus December 31, 2010**

**(Based on select information for the full twelve month period – see section 1.2.1)**

##### ***12 Months Ended December 31, 2010 and 2011***

- Tonnes mined for the year ended December 31, 2011 increased 22% over the prior year, primarily due to higher stripping ratio requiring an increase in haulage capacity compared to the last year.
- Production for 2011 was 20,361 ounces compared to 20,187 ounces in 2010.
- Gold sales for 2011 were 19,864 ounces at an average realized price of \$1,558 per ounce compared to 20,702 ounces sold at an average realized price of \$1,274 for 2010.
- The average recovery of gold for the year 2011 was 60% compared to 72% for 2010.

##### ***8 Months Ended (see section 1.2.1)***

- Operating cash costs for 2011 were \$23,623,231 or \$1,176 per ounce of gold sold including silver by-product credits of \$13 per ounce, compared to \$14,484,323 or \$1,055 per ounce of gold sold for 2010, before silver by-product credits of \$7 per ounce. The 2010 costs only relate to period results from May 1, 2010 to December 31, 2010 (see section 1.2.1). This represents an increase of \$121 per ounce over the 2010 period. Costs increased due to higher stripping ratio, lower mine grade, lower gold recovery, increased diesel consumption, increased usage of explosives, maintenance on equipment for the larger fleet of equipment and higher processing costs, which is mainly increased cyanide consumption as the mine continued leaching the old leach pad in addition to the new leach pad.
- Exploration costs at Cerro Colorado for 2011 were \$1,073,627 compared to \$403,986 during the eight month period ended December 31, 2010. The increase in 2011 is a result of increased exploration work at Cerro Colorado, which includes the use of two exploration drills, and stripping costs that relate to the mining of waste in an area not related to the current resource.



## 1.8 Summary of Quarterly Results

The following selected financial information is derived from financial statements of the Company. The information has been prepared by management in accordance with IFRS and in US dollars. Prior period amounts previously reported in Canadian GAAP are now being reported under IFRS.

<i>(Expressed in 000's)</i>	<b>Q4 Dec 2011</b>	<b>Q3 Sep 2011</b>	<b>Q2 Jun 2011</b>	<b>Q1 Mar 2011</b>
Revenue	\$6,871	\$8,052	\$9,824	\$6,472
Earnings from mining operations	\$404	\$2,078	\$2,054	\$626
Net earnings (loss)	\$(10,455)	\$(4,469)	\$19	\$(2,055)
Total Assets	\$109,254	\$108,342	\$108,744	\$109,161
Total Long-Term Financial Liabilities	\$1,472	\$1,841	\$2,456	\$3,149
Earnings (loss) per share – basic and diluted	\$(0.09)	\$(0.04)	\$0.00	\$(0.02)

<i>(Expressed in 000's)</i>	<b>Q4 Dec 2010</b>	<b>Q3 Sept 2010</b>	<b>Q2 June 2010</b>	<b>Q1 Mar 2010</b>
Revenue	\$6,188	\$5,317	\$5,372	nil
Earnings (loss) from mining operations	\$917	\$(93)	\$(344)	nil
Net loss	\$(3,124)	\$(6,753)	\$(2,549)	\$(792)
Total Assets	\$68,835	\$67,616	\$82,600	\$36,799
Total Long-Term Financial Liabilities	\$2,741	\$nil	\$nil	nil
Loss per share – basic and diluted	\$(0.03)	\$(0.07)	\$(0.04)	\$(0.02)

## 1.9 Liquidity

Goldgroup's cash and cash equivalents decreased by \$12,489,726 during the three months ended December 31, 2011 as compared to a decrease of \$2,135,958 in the same period of 2010. As at December 31, 2011, the ending cash and cash equivalents balance was \$23,312,588 (December 31, 2010 - \$12,653,609).

## Working Capital

As at December 31, 2011, the Company had working capital of \$30,463,120 compared to working capital of \$16,343,195 as at December 31, 2010.

A summary of the Company's cash position and changes in cash and cash equivalents for three and twelve month periods ended December 31, 2011 and 2010 are provided below:

<i>(Expressed in 000's)</i>	Three months ended		Year ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Cash consumed by operating activities – gross	\$ (445)	\$ (570)	\$ (1,618)	\$ (5,130)
Changes in non-cash operating working capital	(1,412)	(1,106)	(3,222)	(1,074)
Cash consumed by operating activities - net	(1,857)	(1,676)	(4,840)	(6,204)
Cash generated (used) in investing activities	(10,597)	(3,749)	(26,403)	14,409
Cash provided by (used in) financing activities	(35)	3,289	41,902	3,876
Effect of exchange rate changes on cash	-	-	-	58
Increase (decrease) in cash and cash equivalents	(12,489)	(2,136)	10,659	12,139
Cash and cash equivalents, beginning of period	35,802	14,790	12,654	515
Cash and cash equivalents, end of period	\$ 23,313	\$ 12,654	\$ 23,313	\$ 12,654

## Three Months Ended December 31, 2011 versus December 31, 2010

### Operating Activities

Cash used by operating activities before changes in non-cash operating working capital during the three months ended December 31, 2011 was \$444,994 compared to \$570,000 during the same period of 2010. The operating cash flow in the quarter ended December 31, 2011 increased compared to the same period of 2010 as a result of the Company incurring less administrative costs.

### Investing Activities

During the three months ended December 31, 2011, the Company consumed cash of \$10,596,520 compared to \$3,749,000 in the same period of 2010. During the three months ended December 31, 2011, the Company spent \$207,967 on plant and equipment, \$3,034 on expenditures related to DynaMexico and \$10,385,723 on exploration and evaluation properties. As noted in the "Results of Mining Operations" section, the majority of expenditures on plant and equipment relate to the new pick-up trucks at the Cerro Colorado mine. Exploration and evaluation property expenditures were mainly incurred on the Caballo Blanco gold project where the Company made land acquisition costs of \$5,307,528, incurred expenditures of \$4,597,894 on the current drill program, environmental impact study, column leach testing and ground geophysics and \$447,778 on development-type costs. Other exploration expenditures of \$32,319 were incurred on the Kenya property and the El Candelero property for concession payments.

### Financing Activities

During the three months ended December 31, 2011, cash flow consumed by financing activities was \$34,934 compared to cash generated of \$3,289,000 in the same period in 2010. During the three months ended December 31, 2011, the Company received \$6,576 on the exercise of options and \$nil on the exercise of warrants. During the three months ended December 31, 2010 the Company received \$2,869,105 from private placements, net of share issue costs of \$174,668, received \$401,895 on the exercise of options and \$18,000 on the exercise of warrants.

## **Year Ended December 31, 2011 versus December 31, 2010 (See section 1.2.1)**

### **Operating Activities**

Cash flow used by operating activities before changes in non-cash working capital during the year ended December 31, 2011 was \$1,617,327 compared to \$5,130,000 during the same 2010 period. The operating cash flow during the year ended December 31, 2011 increased compared to the same period of 2010 as a result of the Cerro Colorado mine generating profit which was offset by increased labour costs, marketing and administrative costs. The main cause for the negative operating cash flow in 2010 was a result of the Company having no revenues until the RTO on April 30, 2010. In addition, the Cerro Colorado mine required increased waste stripping in 2010 to gain access to a new higher grade zone. The Company had increased costs associated with being publicly listed and also incurred severance costs relating to the departure of former Vice President of Mining Operations and the former President of the Company.

### **Investing Activities**

During the year ended December 31, 2011, the Company spent \$26,403,974 on plant and equipment, mineral property costs and on its equity investment of DynaMexico compared to cash generated of \$14,409,189 for 2010. As noted in the "Results of Mining Operations" section, the majority of 2011 expenditures on plant and equipment relate to the purchase of two new haul trucks, two loaders, a dozer, a crane, water pipeline and the new leach pad construction at Cerro Colorado and eight vehicles at Caballo Blanco. Exploration and evaluation properties expenditures were mainly incurred on the Caballo Blanco gold project where the Company made land acquisitions of \$6,644,765, incurred expenditures of \$11,331,253 on the current drill program, environmental impact study, column leach testing and ground geophysics and incurred \$872,699 on development related costs. Other exploration expenditures of \$253,937 were incurred on the Kenya property and the El Candelero property for concession payments. During the year ended December 31, 2010, the Company received \$23,300,000 from the sale of El Porvenir, net of a \$1,700,000 royalty settlement, acquired net cash of \$516,052 on the RTO of Sierra, spent \$11,651,351 on plant and equipment, mineral property costs, the equity investment in DynaMexico, and received net \$2,244,488 from the purchase and sale of investments.

### **Financing Activities**

During the year ended December 31, 2011, cash flows generated in financing activities was \$41,901,742 compared to \$3,876,020 in 2010. During the year ended December 31, 2011, the Company received \$37,947,650 from short-form prospectus offering, net of share issuance costs of \$3,413,250 and received \$915,206 on the exercise of options and \$3,038,886 on the exercise of warrants. During the year ended December 31, 2010, the Company received \$8,654,122 from private placements, net of share issuance costs of \$217,387, received \$540,680 on the exercise of options and \$18,198 on the exercise of warrants. In addition the Company made principal repayments of \$4,895,831. Finally, during the period April 16, 2010 to May 6, 2010 Holdings purchased 438,596 Sierra shares on the open market at a cost of \$441,149.

### **Liquidity Outlook**

Goldgroup had cash and cash equivalents of \$23,312,588 available at December 31, 2011, an increase of \$10,658,979 from the balance at December 31, 2010 of \$12,653,609, while working capital increased by \$14,120,612 to \$30,463,119 at December 31, 2011 from \$16,342,507 at December 31, 2010.

With cash and cash equivalents of \$23,312,588 available, the Company is well positioned to conduct exploration and development on the Caballo Blanco gold project and any exploration on its 50% equity

on the San José de Gracia gold project. The Company anticipates the Cerro Colorado mine to continue to generate positive cash flows over the next 12 months.

The Company will require additional financing to develop fully Caballo Blanco and take it into production. The Company expects to pursue financing once the preliminary economic assessment has been completed, which will indicate the estimated capital costs for the project.

The Company believes that between its current cash balances and cash flow from operations, it has the necessary funds available to meet its operating, investing and financing obligations and execute its current business plans.

### **1.10 Capital Resources**

On March 10, 2011 the Company completed a short-form prospectus financing of 25.0 million common shares at a price of \$1.44 (C\$1.40) per share, for gross proceeds of \$35,966,000 (C\$35,000,000). 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 \$5,394,900 (C\$5,250,000). Share issue costs on this financing were \$3,413,250 (C\$3,365,453) which were paid to arm's lengths parties. The net proceeds received were \$37,947,650 (C\$36,884,547).

### **1.11 Off-Balance Sheet Arrangements**

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

### **1.12 Transactions with Related Parties**

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

Key Management compensation includes:

	Year ended December 31,	
	2011	2010
Salaries <sup>1</sup>	\$ 1,214	\$ 796
Non-executive director fees	102	61
Benefits <sup>1</sup>	46	23
Bonuses <sup>2</sup>	68	-
Options <sup>3</sup>	2,121	574
	<u>\$ 3,551</u>	<u>\$ 1,454</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 December 31, 2011, receivables include \$nil (December 31, 2010 - \$38,712; January 1, 2010 - \$30,694) owing from Uracon and \$1,573 (December 31, 2010 - \$4,582; January 1, 2010 - \$1,666) 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 December 31, 2011, trade and other accounts payable includes \$45,503 (December 31, 2010 - \$11,212; January 1, 2010 - \$65,766) owing to a director and/or officer and/or companies controlled by the directors.

Due to the particulars of Mexican law, it is common for operating companies to employ their workers through a management company. The employees of Granmin Mexico are employed by Pabelini, S.A. de C.V. ("Pabelini"), a company owned by the former spouse of the CEO. Under a renewed agreement, dated June 1, 2011 and expiring May 31, 2014, between Granmin Mexico and Pabelini, Pabelini pays all of the Cerro Colorado mine employees and Granmin Mexico administrative personnel and is reimbursed by Granmin Mexico. Pabelini charges a fee equal to 5% of the base salaries of the employees, before additions for statutory remittances. This fee in the amount of \$153,639 (May 1, 2010 to December 31, 2010 - \$86,510) is meant to reimburse Pabelini for its office costs and administrative overhead costs incurred in managing the payroll and making all required remittances to the Mexican government in association with salaries of such employees. The excess of this fee over these administrative costs provides for a profit margin. As at December 31, 2011, amounts owing from (to) Pabelini totalled \$17,894 (2010 - \$(216,698)).

In addition to Pabelini, a number of expatriate workers and Caballo Blanco employees, including the Company's CEO, are employed by MINOP, S.A. de C.V. ("Minop"). Minop is a private company controlled by the former step-son of the CEO. Under a renewed agreement, dated October 1, 2011 and expiring September 30, 2014, Minop charges a service fee equal to 1.5% of base salary for employees earning greater than \$100,000 per year and 3% for employees earning less than \$100,000 base salary per year. The fee in the amount of \$79,333 (May 1, 2010 to December 31, 2010 - \$37,783) is meant to reimburse Minop for administrative costs incurred by the company in providing these services. As at December 31, 2011, amounts owing from Minop totalled \$27,261 (2010 - \$17,801).

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

### **1.13 Proposed Transactions**

There are no decisions by the Board of Directors of the Company with respect to any imminent or proposed transactions.

### **1.14 Critical Accounting Estimates**

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

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

#### **(i) Mineral Reserves**

Proven and probable mineral reserves are the economically mineable parts of the Company's measured and indicated mineral resources demonstrated by at least a preliminary feasibility study. The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. Qualified persons are defined in accordance with Canadian Securities Administrators National Instrument 43-101. The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret the data. The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the proven and probable reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of exploration and evaluation properties, plant and equipment, goodwill, decommissioning and restoration provision, recognition of deferred tax amounts and depreciation and depletion.

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

#### **(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 resources and mineral reserves acquired, future metal prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

**(iii) Depreciation and depletion**

Plants and other facilities used directly in mining activities are depreciated using the units-of-production (“UOP”) method over a period not to exceed the estimated life of the ore body based on recoverable ounces to be mined from proven and probable mineral 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 mineral reserves.

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

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

**(iv) Impairment of goodwill and other assets**

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

**(v) Inventories**

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

Costs are attributed to the leach pads based on current mining costs, including applicable depreciation, 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.

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, mineral resources and mineral 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 liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax values (temporary differences) and loss carryforwards. Deferred tax assets and liabilities are measured using the tax rates expected to be in effect when temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in profit or loss in the period in which the change is substantively enacted. The amount of



deferred tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

**(viii) Share-based compensation 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.

**1.15 Changes in Accounting Policies Including Initial Adoption**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

***Accounting Standards Issued and Effective January 1, 2012***

IAS 12 – *Income Taxes (Amended)* ("IAS 12"), introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

IFRS 7 – *Financial instruments: Disclosures (Amended)* require additional disclosures on transferred financial assets.

***Accounting Standards Issued and Effective January 1, 2015***

IFRS 9 *Financial Instruments* replaces the current standard *IAS 39 Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

***Accounting Standards Issued and Effective January 1, 2013***

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard

- a. requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements
- b. defines the principle of control, and establishes control as the basis for consolidation
- c. sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee
- d. sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

#### **1.16 Financial Instruments and Other Instruments**

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 and accounts payable and accrued liabilities.

Readers are encouraged to read and consider the financial risk factors more particularly described in Note 23, "Risk Management" and its approach to the "Management of Capital" described in note 22 to the Consolidated Financial Statements for year ended December 31, 2011.

#### **1.17 Basis of Preparation and First-Time Adoption of International Financial Reporting Standards**

The Company has prepared its first International Financial Reporting Standards ("IFRS") audited annual consolidated financial statements. IFRS represents standards and interpretations approved by the International Accounting Standards Board ("IASB"), and are comprised of IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") or the former Standing Interpretations Committee ("SICs"). The Company's significant accounting policies are described in note 3 of the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2011 and 2010.

#### **1.18 Other MD&A Requirements**

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

### **Additional Information**

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

### **Approval**

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

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

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

Marc Simpson, P. Geo., acts as Goldgroup's qualified person for the purposes of NI 43-101, and has reviewed and verified the Technical Information.

#### **1.18.1 Disclosure of Outstanding Share Data**

Goldgroup's authorized capital stock consists of an unlimited number of common shares without par value. As at March 29, 2012, there were 128,526,049 common shares issued and outstanding.

As at March 30, 2012, the Company also had the following options and warrants issued and outstanding:

- 11,627,848 common share options with a weighted average exercise price of C\$1.04 expiring at various dates to March 27, 2017.
- 2,000,000 common share warrants with an exercise price of C\$1.25 expiring on November 26, 2015.

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

Management is responsible for establishing and maintaining adequate control over its financial reporting, and has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced. Management, including the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the design effectiveness of the Company's control over financial reporting based on the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management has concluded that internal control over financial reporting was effective as of December 31, 2011 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

The financial reporting changes that resulted from the application of IFRS accounting policies were implemented during the year ended December 31, 2011 and have not materially affected, and are not reasonably likely to materially affect, the Company's internal control over financial reporting

**Limitations of Controls and Procedures:**

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

**1.18.3 Disclosure Controls and Procedures**

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

**1.18.4 Non-IFRS Financial Measures**

**Cash Costs**

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

total cash costs per ounce of gold sold. The measure, along with sales, is considered to be a key indicator of a company's ability to generate operating earnings and cash flow from its mining operations.

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

The following table provides a reconciliation of total cash costs per ounce sold for the Cerro Colorado gold mine to the cost of sales, excluding depreciation and depletion as per the consolidated statement of operations.

#### Cash Costs – January 1<sup>st</sup> to December 31<sup>st</sup>, 2011 and 2010

	Three months ended December 31,		Year ended December 31,	
	2011	2010	2011	2010 <sup>(b)</sup>
Cost of sales (excluding accretion, depreciation, depletion and amortization)	\$ 5,881,672	\$ 4,653,175	\$ 23,623,231	\$ 14,484,323
Non-cash fair value adjustment from RTO <sup>(a)</sup>	-	-	-	(490,857)
Silver by-product credit	(53,740)	(24,167)	(262,888)	(93,356)
	\$ 5,827,932	\$ 4,629,008	\$ 23,360,343	\$ 13,900,110
Gold ounces sold	4,060	4,482	19,864	13,169
Total cash costs (\$/oz. sold)	\$1,435	\$1,033	\$1,176	\$1,055
<b>Breakdown of cost per ounce sold</b>				
Direct operating costs	\$1,399	\$999	\$1,142	\$1,030
3.0% NSR Royalty	50	39	47	32
Less: silver by-product credits	(13)	(5)	(13)	(7)
Total cash costs (\$/oz. sold)	\$1,435	\$1,033	\$1,176	\$1,055

(a) Included in the purchase price allocation on the reverse takeover of Sierra is an increase of \$490,857 to inventory to recognize its fair value. During the second quarter the inventory was sold and so the fair value increase was charged to cost of sales. This is a non-cash operating cost and as a result it has been removed from cost of sales for the purpose of calculating cash cost per ounce.

(b) Only the results from May 1, 2010 to December 31, 2010 are included in the financial and operating results (see section 1.2.1).

#### 1.18.5 Investor Relations Activities

In addition to in-house investor relations programs, the Company has also seen the need to increase stock distribution and leverage its awareness building initiatives in the USA and Europe through outsourcing of US centric firms.

During 2010 the Company entered into a 12-month consulting contract with Michael Baybak & Company Inc. for investor relation services whereby the Company paid \$5,000 per month and issued 200,000 stock options at an exercise price of C\$1.00 per share. The Michael Baybak and Company agreement expired on May 31, 2011 and was not renewed. On May 7, 2010 Company entered into a 12-month contract with San Diego Torrey Hills Capital Inc. for investor relation services whereby the Company paid \$5,000 per month and issued 200,000 stock options at an exercise price of C\$1.00 per share and was renewed on a monthly basis. On September 30, 2010 the Company entered into a consulting contract with Vantage Communications Ltd. for investor relation services for 12 months whereby the Company paid a one-time payment of C\$23,000 and issued 125,000 stock options at an exercise price of C\$1.00

per share. This contract expired on September 29, 2011 and was not renewed. On November 9, 2010 the Company entered into a six-month consulting services contract with RK Equity Capital Markets, LLC for European investor relation services whereby the Company paid \$5,000 per month and issued 150,000 stock options at an exercise price of C\$1.00 per share. The RK Equity agreement expired on April 30th, 2011 and was not renewed.

#### **1.18.6 Risks and Uncertainties**

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

An investment in the securities of the Company should be considered speculative due, generally, to the nature of the business in which the Company is engaged, the limited extent of the Company's assets, the Company's state of development and the degree of its reliance upon the expertise of management. Specifically, in evaluating an investment in any of the Company's securities the following risk factors should be given special consideration:

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

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

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

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

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

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

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

- uncertainties related to actual capital costs, operating costs and expenditures, production schedules and economic returns from Goldgroup’s projects;
- uncertainties associated with development activities;
- uncertainties inherent in the estimation of mineral resources and precious metal recoveries;
- risks related to the continued operation of the Cerro Colorado mine without a current economic analysis;
- risks related to the planned expansion of the Cerro Colorado mine;
- uncertainties related to current global economic conditions;
- fluctuations in precious and base metal prices;
- uncertainties related to the availability of future financing;
- potential difficulties with joint venture partners;
- risks that Goldgroup’s title to its property could be challenged;
- political and country risk;
- risks associated with Goldgroup being subject to government regulation;
- risks associated with surface rights;
- environmental risks;
- Goldgroup’s need to attract and retain qualified personnel;
- risks associated with operating hazards at the Cerro Colorado Mine;
- risks associated with potential conflicts of interest;
- Goldgroup’s lack of experience in overseeing the construction of a mining project;
- risks related to the integration of businesses and assets acquired by Goldgroup;
- uncertainties related to the competitiveness of the mining industry;
- risk associated with theft;
- risk of water shortages and risks associated with competition for water;
- uninsured risks and inadequate insurance coverage;
- risks associated with potential legal proceedings;

- risks associated with community relations;
- outside contractor risks;
- risks related to archaeological sites;
- foreign currency risks;
- risks associated with security and human rights; and
- risks related to the need for reclamation activities on Goldgroup's properties.

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

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

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

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

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