



GOLDGROUP MINING INC.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011**

**(Unaudited)
(Expressed in Thousands of United States Dollars)**

GOLDGROUP MINING INC.
Interim Consolidated Statements of Financial Position
June 30, 2012 and December 31, 2011

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

	Note	June 30, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 14,271	\$ 23,313
Receivables	5	5,545	4,051
Inventories	6	5,856	5,265
Prepays and deposits		599	422
Total current assets		26,271	33,051
Non-current assets			
Plant and equipment	7	3,433	3,456
Investment in DynaResource de Mexico SA de CV	8	18,018	18,099
Exploration and evaluation properties	9	62,216	51,048
Mine properties	10	2,810	3,600
Total non-current assets		86,477	76,203
Total assets		\$ 112,748	\$ 109,254
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other accounts payable	11	\$ 3,650	\$ 2,270
Taxes payable		106	318
Total current liabilities		3,756	2,588
Non-current liabilities			
Decommissioning and restoration provision	12	811	770
Warrant liability	13	261	1,472
Deferred tax liability		6,078	4,526
Total liabilities		10,906	9,356
Equity			
Share capital	14	128,011	125,998
Share option reserve	14	7,090	6,716
Contingent share consideration	14	3,305	3,305
Translation reserve		(355)	(355)
Deficit		(36,209)	(35,766)
Total equity		101,842	99,898
Total equity and liabilities		\$ 112,748	\$ 109,254

Commitments 20

Approved by the Board of Directors:

/s/ Keith Piggott

Director

/s/ Gregg J. Sedun

Director

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

GOLDGROUP MINING INC.**Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)****June 30, 2012 and 2011***(Unaudited - Expressed in thousands of United States dollars except per share amounts)*

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	2012	2011	2012	2011
Revenue					
Gold sales		\$ 10,014	\$ 9,750	\$ 19,554	\$ 16,184
Silver sales		158	74	221	112
		<u>10,172</u>	<u>9,824</u>	<u>19,775</u>	<u>16,296</u>
Costs and expenses of mining operations					
Cost of sales	16	7,146	7,080	14,121	12,363
Depreciation and depletion		619	690	1,191	1,253
		<u>7,765</u>	<u>7,770</u>	<u>15,312</u>	<u>13,616</u>
Gross profit		<u>2,407</u>	<u>2,054</u>	<u>4,463</u>	<u>2,680</u>
Other expenses (income)					
Administrative expenses	17	1,534	1,680	3,191	3,288
Share of equity loss (gain) in DynaMexico	8	57	(78)	100	(39)
Other (income) expenses	18	(88)	(731)	(945)	84
		<u>1,503</u>	<u>871</u>	<u>2,346</u>	<u>3,333</u>
Income (loss) before income taxes		904	1,183	2,117	(653)
Provision for income taxes:					
Current		524	565	990	585
Deferred		1,166	599	1,570	798
		<u>1,690</u>	<u>1,164</u>	<u>2,560</u>	<u>1,383</u>
Income (loss) and comprehensive income (loss) for the period		<u>\$ (786)</u>	<u>\$ 19</u>	<u>\$ (443)</u>	<u>\$ (2,036)</u>
Basic and diluted earnings (loss) per share		<u>\$ (0.01)</u>	<u>\$ 0.00</u>	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>
Basic weighted average shares outstanding		<u>130,472</u>	<u>119,608</u>	<u>129,498</u>	<u>107,824</u>

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

GOLDGROUP MINING INC.

Interim Consolidated Statements of Cash Flows

June 30, 2012 and 2011

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

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2012	2011	2012	2011
CASH AND CASH EQUIVALENTS DERIVED FROM (USED IN)					
OPERATING ACTIVITIES					
Income (loss) for the period		\$ (786)	\$ 19	\$ (443)	\$ (2,036)
Items not involving cash:					
Deferred tax provision		1,166	599	1,570	798
Depreciation and depletion		634	697	1,215	1,270
Unrealized foreign exchange (gain) loss		10	(96)	(17)	33
Share-based compensation expense	14	215	889	547	1,510
Financing costs	18	21	12	42	24
Gain on warrants	13	(901)	(628)	(1,211)	(162)
Share of loss (gain) of DynaMexico	8	57	(78)	100	(39)
		416	1,414	1,803	1,398
Changes in non-cash working capital items	22	(629)	(1,216)	(927)	(1,970)
		(213)	198	876	(572)
FINANCING ACTIVITIES					
Issuance of shares, net of issue costs	14	59	551	65	40,323
		59	551	65	40,323
INVESTING ACTIVITIES					
Purchase of plant and equipment	7	(204)	(1,707)	(493)	(2,874)
Investment in DynaMexico	8	(19)	-	(19)	(4,000)
Exploration and evaluation properties	9	(4,767)	(2,807)	(9,471)	(4,685)
		(4,990)	(4,514)	(9,983)	(11,559)
(Decrease) increase in cash and cash equivalents		(5,144)	(3,765)	(9,042)	28,192
Cash and cash equivalents, beginning of period		19,415	44,611	23,313	12,654
Cash and cash equivalents, end of period		\$ 14,271	\$ 40,846	\$ 14,271	\$ 40,846
Cash and cash equivalents is comprised of:					
Cash		\$ 12,780	\$ 7,765	\$ 12,780	\$ 7,765
Short-term deposits		1,491	33,081	1,491	33,081
		\$ 14,271	\$ 40,846	\$ 14,271	\$ 40,846

Supplemental Cash Flow Information

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GOLDGROUP MINING INC.

Interim Consolidated Statements of Changes in Equity

June 30, 2012 and 2011

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

	<u>Common Shares</u>		<u>Share Option Reserve</u>	<u>Contingent Share Consideration</u>	<u>Translation Reserve</u>	<u>Deficit</u>	<u>Total Equity</u>
	<u>Number (000's)</u>	<u>Amount</u>					
January 1, 2012	128,517	125,998	6,716	3,305	(355)	(35,766)	99,898
Issued to NGE (note 9.1)	2,200	1,775	-	-	-	-	1,775
Options exercised	220	65	-	-	-	-	65
Transfer value on option exercise	-	173	(173)	-	-	-	-
Share-based compensation	-	-	547	-	-	-	547
Income for the period	-	-	-	-	-	(443)	(443)
June 30, 2012	<u>130,937</u>	<u>\$ 128,011</u>	<u>\$ 7,090</u>	<u>\$ 3,305</u>	<u>\$ (355)</u>	<u>\$ (36,209)</u>	<u>\$ 101,842</u>

	<u>Common Shares</u>		<u>Share Option Reserve</u>	<u>Contingent Share Consideration</u>	<u>Translation Reserve</u>	<u>Deficit</u>	<u>Total Equity</u>
	<u>Number (000's)</u>	<u>Amount</u>					
January 1, 2011	88,633	72,421	4,372	-	(355)	(18,806)	57,632
Public offering	28,750	41,361	-	-	-	-	41,361
Share issue costs	-	(3,413)	-	-	-	-	(3,413)
Options exercised	642	474	-	-	-	-	474
Transfer value on option exercise	-	352	(352)	-	-	-	-
Warrants exercised	2,118	1,902	-	-	-	-	1,902
Transfer value on warrant exercise	-	1,084	-	-	-	-	1,084
Share-based compensation	-	-	1,510	-	-	-	1,510
Loss for the period	-	-	-	-	-	(2,036)	(2,036)
June 30, 2011	<u>120,143</u>	<u>\$ 114,181</u>	<u>\$ 5,530</u>	<u>\$ -</u>	<u>\$ (355)</u>	<u>\$ (20,842)</u>	<u>\$ 98,514</u>

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2012 and 2011

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

1. NATURE OF OPERATIONS

Goldgroup Mining Inc. is the parent company of its consolidated group ("Goldgroup" or the "Company"). Goldgroup was incorporated in Quebec under the *Business Corporations Act* (Québec) and on July 28, 2011 it was continued under the *Business Corporations Act* (British Columbia). Its head office is located at Suite 2184 – 1055 Dunsmuir Street, Vancouver BC, V7X 1L3. Goldgroup, formerly Sierra Minerals Inc. ("Sierra"), together with its subsidiaries, is a Canadian-based gold producer and is focused on the acquisition, exploration and development of advanced stage gold-bearing mineral properties in the Americas. The Company's current gold production and exploration and development related activities are conducted exclusively in Mexico. Goldgroup owns and operates the Cerro Colorado mine in Sonora, along with a property portfolio that includes a 100% interest in the Caballo Blanco gold project in Veracruz and the 50% interest in the San José de Gracia gold project in Sinaloa. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "GGA".

The Company expects that any revenues from production will contribute to financing the operations of the Company. The Company may have to raise additional funds over and above amounts raised to date to complete the acquisition, exploration and development of its property interests and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do in the future.

2. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted and these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

The accounting policies applied in preparation of these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2011, with the exception of certain amendments to accounting standards issued by the IASB, which were applicable from January 1, 2012. These amendments did not have a significant impact on the Company's unaudited condensed interim consolidated financial statements.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2012 and 2011

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

2. BASIS OF PRESENTATION (CONTINUED)

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its unaudited condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of the effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of the Company's unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in note 2 to the Company's consolidated financial statements for the year ended December 31, 2011.

The Company's interim results are not necessarily indicative of its results for a full year.

These consolidated financial statements were approved for issue by the Board of Directors on August 9, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

Refer to the audited consolidated financial statements for the year ended December 31, 2011 and 2010 for a summary of significant accounting policies.

Changes in Accounting Standards

Accounting standards effective in 2013 and 2015 are disclosed in the Company's consolidated financial statements for the year ended December 31, 2011.

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*.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2012 and 2011

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, effective for annual periods beginning on or after January 1, 2013, clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory; and (ii) improved access to further quantities of material that will be mined in future periods.

The Company is currently evaluating the impact, if any, that the new guidance is expected to have on its consolidated financial statements.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***4. CASH AND CASH EQUIVALENTS**

	June 30, 2012	December 31, 2011
Cash at the bank and on hand		
US dollar	\$ 10,173	\$ 5,775
Canadian dollar	250	425
Mexican pesos	2,376	4,035
Short term deposits - Canadian dollar	1,472	13,078
	<u>\$ 14,271</u>	<u>\$ 23,313</u>

5. RECEIVABLES

	June 30, 2012	December 31, 2011
Financial assets		
Receivables	\$ 189	\$ 331
Employee receivables	17	35
	<u>206</u>	<u>366</u>
Non-financial assets		
Value-added and corporate tax	5,339	3,685
	<u>\$ 5,545</u>	<u>\$ 4,051</u>

6. INVENTORIES

Inventories consist of the following:

	June 30, 2012	December 31, 2011
Doré	\$ 581	\$ 1,232
Gold-in-process	3,136	2,425
Consumable supplies	2,139	1,608
	<u>\$ 5,856</u>	<u>\$ 5,265</u>

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***7. PLANT AND EQUIPMENT**

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
Cost						
Balance , January 1, 2012	\$ 7,849	\$ 1,246	\$ 344	\$ 840	\$ 61	\$ 10,340
Additions	51	44	329	69	-	493
Write-off equipment	-	-	-	(22)	-	(22)
Balance, June 30, 2012	7,900	1,290	673	887	61	10,811
Accumulated depreciation						
Balance, January 1, 2012	5,185	854	230	581	34	6,884
Depreciation for the period	332	69	30	72	6	509
Write-off equipment	-	-	-	(15)	-	(15)
Balance, June 30, 2012	5,517	923	260	638	40	7,378
Net book value	\$ 2,383	\$ 367	\$ 413	\$ 249	\$ 21	\$ 3,433

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
Cost						
Balance , January 1, 2011	\$ 5,358	\$ 1,046	\$ 273	\$ 516	\$ 61	\$ 7,254
Additions	2,702	200	71	324	-	3,297
Write-off of equipment	(211)	-	-	-	-	(211)
Balance, December 31, 2011	7,849	1,246	344	840	61	10,340
Accumulated depreciation						
Balance, January 1, 2011	1,032	342	157	278	22	1,831
Depreciation for the period	786	142	62	153	12	1,155
Impairment charge (Note 11)	3,419	370	11	150	-	3,950
Write-off of equipment	(52)	-	-	-	-	(52)
Balance, December 31, 2011	5,185	854	230	581	34	6,884
Net book value	\$ 2,664	\$ 392	\$ 114	\$ 259	\$ 27	\$ 3,456

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***8. INVESTMENT IN DYNARESOURCE de MEXICO SA de CV (“DynaMexico”)**

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

	Funds advanced for expenditures	Equity interest earned	Cumulative equity interest
Due on or before			
June 15, 2007	\$ 1,000	0%	0%
March 15, 2008	\$ 2,000	15%	15%
September 15, 2009	\$ 3,000	10%	25%
March 14, 2011	\$12,000	25%	50%

On March 14, 2011, the Company completed its Earn in/Option Agreement with DynaMexico for its 50% equity interest by reaching the expenditure funding requirement of \$18,000.

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

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

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

The investment in DynaMexico is comprised of:

	Six months ended June 30, 2012	Year ended December 31, 2011
Investment, beginning of period	\$ 18,099	\$ 14,390
Funds invested	19	4,003
Share of loss	(100)	(294)
Investment, end of period	<u>\$ 18,018</u>	<u>\$ 18,099</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***9. EXPLORATION AND EVALUATION PROPERTIES**

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

	<u>Caballo Blanco</u>	<u>Other</u>	<u>Total</u>
January 1, 2012	50,232	816	51,048
Acquisition Costs	4,167	-	4,167
Exploration Costs			
Depreciation	89	2	91
Drilling	3,475	-	3,475
Exploration	2,234	1	2,235
Development costs	886	-	886
Fees and taxes	244	70	314
June 30, 2012	<u>61,327</u>	<u>889</u>	<u>62,216</u>
January 1, 2011	\$ 18,111	\$ 1,684	\$ 19,795
Acquisition Costs	19,049	-	19,049
Exploration Costs			
Depreciation	145	10	155
Drilling	6,468	-	6,468
Exploration	5,077	18	5,095
Fees and taxes	509	236	745
Development costs	873	-	873
	<u>50,232</u>	<u>1,948</u>	<u>52,180</u>
Write-off Kenya	-	(932)	(932)
Disposal of El Cobre	-	(200)	(200)
December 31, 2011	<u>50,232</u>	<u>816</u>	<u>51,048</u>

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

9.1 Caballo Blanco

The Company owns 100% of the Caballo Blanco project which consists of 14 mineral concessions covering 54,732 hectares, 65 kilometres north northwest of Veracruz, Mexico.

The Company earned a 70% interest in the Caballo Blanco property by paying \$5,700 in cash, issuing 9 million common shares, granting a 1.5% net smelter return ("NSR") royalty on the 70% interest (1.05% of the project as whole) and completing \$12,000 of exploration expenditures on the property, of which \$8,200 were incurred by the previous option holder, NGEx Resources Inc. ("NGEx").

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2012 and 2011

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

9. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

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

- \$2,500 in cash (paid)
- 7 million Goldgroup Mining common shares (issued)
- A requirement to issue up to an additional 7 million Goldgroup Mining's common shares upon the achievement of certain project milestones:
 - 1 million common shares upon commencement of commercial production
 - 2 million common shares upon measured and indicated resources, including cumulative production, reaching 2 million ounces of gold
 - 2 million common shares upon measured, indicated and inferred resources, including cumulative production, reaching 5 million ounces of gold
 - 2 million common shares upon measured, indicated and inferred resources, including cumulative production, reaching 10 million ounces of gold
- A 1.5% NSR royalty
- Transfer of the Company's 40% interest in the El Cobre property (Note 9.2(iv))

Effective April 11, 2012, the Company and NGEx terminated the 1.5% Net Smelter Return ("NSR") royalty that NGEx held with respect to 70% of gold production, representing a 1.05% NSR on total gold production, from the Caballo Blanco Project for consideration of Cdn\$1,000 cash and 2.2 million common shares of Goldgroup. In addition, withholding taxes of \$277 was paid by the Company in the second quarter of 2012. There is no longer a Cdn\$5,000 advance royalty payment due to NGEx within 30 days following the commencement of commercial production of the project. The total NSR on the Caballo Blanco project is now 1.9%.

As part of ongoing surface rights land negotiations with local property owners, the Company has entered into surface land purchase agreements whereby it has agreed to pay \$465 (5,961,000 pesos) by October 25, 2013 and \$1,912 (24,500,000 pesos) by October 25, 2016 for specific surface rights.

9.2 Other Properties

i) Kenya

The Company owned a 90% interest in 17 mineral concessions covering approximately 80,000 hectares in the state of Chihuahua, Mexico.

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)*

9. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

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

ii) El Candelero

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

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

To maintain the First Option, the Company must fund work costs on the property in the amount of \$1,000 as follows:

<u>On or before</u>	<u>Amount</u>
June 2, 2008	\$ 150
June 2, 2009	\$ 300
June 2, 2010	\$ 550

To June 30, 2011, the Company has expended aggregate property related work costs of \$454. Exploration work on the property has been deferred due to local unrest in the area of the property since early 2009, causing the Company to be unable to fund the required work costs.

As a result of the local unrest, in June 2010, the Company declared force majeure which currently is in effect to June 2014, as allowed under the option agreement. The required funding of work costs will resume once force majeure no longer exists.

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

<u>On or before</u>	<u>Amount</u>
June 2, 2011	\$ 250
June 2, 2012	\$ 250

DMSL can then earn back a 30% interest by spending \$3,000 over three years which would result in GGR owning a 40% project ownership interest.

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9. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

As a result of the force majeure, on August 27, 2010, the option agreement deadline to earn the first option was extended to June 24, 2014.

iii) San Martin

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

During the fourth quarter of 2011 management decided that it was not going to continue exploration on this property.

iv) El Cobre

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

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

v) El Cajon

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

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***10. MINE PROPERTIES**

The Company owns a 100% interest in the Cerro Colorado mine, located in northern Sonora, Mexico. The property consists of six mineral concessions totalling 197 hectares, covering the area of the mine and 44 concessions in the immediate vicinity of the mine totalling 33,767 hectares. Gold is produced in doré in Mexico and then shipped to a refiner in the United States for final processing prior to sale. As of June 30, 2012, the remaining life of the Cerro Colorado mine is estimated to be approximately 12 months.

For the year ended December 31, 2011, an impairment charge totalling \$8,600 was recorded against the Cerro Colorado mine. The impairment was proportionately charged against the carrying value of the mine for \$4,650 and plant and equipment for \$3,950.

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

	Six months ended June 30, 2012	Year ended December 31, 2011
Costs		
Balance, beginning of period	\$ 15,811	\$ 15,811
Balance, end of period	15,811	15,811
Accumulated depletion		
Balance, beginning of period	(12,211)	(6,234)
Depletion for period	(790)	(1,465)
Adjustment to decommissioning and restoration provision	-	138
Impairment	-	(4,650)
Balance, end of period	(13,001)	(12,211)
	<u>\$ 2,810</u>	<u>\$ 3,600</u>

11. TRADE AND OTHER ACCOUNTS PAYABLE

	June 30, 2012	December 31, 2011
Financial liabilities		
Trade payables	\$ 3,509	\$ 2,224
Employee payables	30	14
Payroll accruals	111	32
	<u>\$ 3,650</u>	<u>\$ 2,270</u>

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)*

12. DECOMMISSIONING AND RESTORATION PROVISION

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

During the year ended December 31, 2011, the Company reassessed its decommissioning and reclamation costs to reflect additional liabilities expected upon closure of the Cerro Colorado mine. The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs is \$950. The key assumptions on which this estimate is based on are:

- (i) Expected timing of the cash flows is based on the estimated useful life of the Cerro Colorado mine to the extent of currently known proven and probable mineral reserves. The majority of the expenditures are expected to occur in 2014.
- (ii) The discount rate used is 8.6% and the country rate risk is 2.4%.

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

	June 30, 2012	December 31, 2011
Opening	\$ 770	\$ 583
Revision in estimates	-	138
Accretion expense	41	49
	\$ 811	\$ 770

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***13. WARRANT LIABILITY**

The following warrants were outstanding:

	<u>Warrants</u>	<u>Weighted average exercise price (C\$)</u>	<u>Warrant liability (US\$)</u>
Balance, January 1, 2012	2,000,000	\$ 1.25	\$ 1,472
Change in fair value	-	-	(1,211)
Balance, June 30, 2012	<u>2,000,000</u>	<u>\$ 1.25</u>	<u>\$ 261</u>
Balance, January 1, 2011	5,034,200	\$ 1.10	\$ 3,703
Exercised	(3,034,200)	0.99	(2,204)
Change in fair value	-	-	(27)
Balance, December 31, 2011	<u>2,000,000</u>	<u>\$ 1.25</u>	<u>\$ 1,472</u>

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

The fair value allocated to the warrants at June 30, 2012 was \$261 (December 31, 2011 - \$1,472) and is recorded as a derivative financial liability. The gain recognized in the statement of loss for the six months ended June 30, 2012 and 2011 was \$1,211 and \$162, respectively and is included in other (income) expenses.

The fair value of the warrants is calculated using the Black-Scholes Option Pricing Model. Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of a company's shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

14. EQUITY**14.1 Authorized**

Unlimited number of common shares with no par value

14.2 Shares Issued

Shares issued and outstanding as at June 30, 2012 are 130,936,575 (December 31, 2011 - 128,517,049).

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

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14. EQUITY (CONTINUED)

During the quarter ended June 30, 2012, the following share transactions occurred:

- i. 219,526 share options were exercised for proceeds of \$65 and \$173 was reallocated from share option reserve to share capital.
- ii. 2,200,000 common shares were issued to NGEx as part of the termination of its 1.5% Net Smelter Return ("NSR") royalty that NGEx held with respect to 70% of gold production, representing a 1.05% NSR on total gold production, from the Caballo Blanco Project (see note 9.1).

During the year ended December 31, 2011, the following share transactions occurred:

- i. On March 10, 2011, the Company completed a short form prospectus financing of 25 million common shares at a price of \$1.44 (Cdn\$1.40) per share, for gross proceeds of \$35,966 (Cdn\$35,000). In connection with the offering, the underwriters exercised an overallotment option, in full, to acquire an additional 3.75 million common shares at \$1.44 (Cdn\$1.40) per share, for gross proceeds of \$5,395 (Cdn\$5,250). Share issue costs on this financing were \$3,413 which were paid to arm's lengths parties. The net proceeds received were \$37,948.
- iii. 1,099,721 share options were exercised for proceeds of \$915 and \$572 was reallocated from share option reserve to share capital.
- iv. 3,034,200 warrants were exercised for proceeds of \$3,039 and \$2,204 was reallocated from warrant liability to share capital.
- v. On October 14, 2011, the Company issued 7,000,000 shares to Almaden as part of the acquisition of its 30% interest in Caballo Blanco (see note 9.1).

14.3 Share-based compensation expense

The Company has adopted a share option plan for which options to acquire up to 10% of the issued share capital, at the award date, may be granted to eligible optionees from time to time. Generally, share options granted have a maximum term of five years, and a vesting period and exercise price determined by the directors. The exercise price may not be less than the closing quoted price of the Company's common shares traded through the facilities of the exchange on which the Company's common shares are listed. As at June 30, 2012, share options available for issue under the plan were 13,093,657.

Total share options granted during the six months ended June 30, 2012 were 1,265,000 (June 30, 2011 – 5,090,000). Total share-based compensation expense recognized for the fair value of share options granted and vested during the six months ended June 30, 2012 was \$547 (June 30, 2011 - \$1,510).

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***14. EQUITY (CONTINUED)**

The fair value of the share options granted during the six months ended June 30, 2012 and 2011 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Six months ended June 30,	
	2012	2011
Expected option life	2.5 years	2.34
Expected stock price volatility	64%	94%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Risk free interest rate	1.27%	1.61%
Weighted average strike price	\$0.71	\$1.35
Weighted average fair value per option	\$0.24	\$0.63
Weighted average share price	\$0.88	\$1.37

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

The following stock options were outstanding:

	Options	Weighted average exercise price (C\$)
January 1, 2012	11,486,848	\$ 1.04
Granted	1,265,000	\$ 0.71
Exercised	(219,526)	\$ 0.30
Expired	(858,464)	\$ 0.88
Forfeited	(365,000)	\$ 1.40
June 30, 2012	<u>11,308,858</u>	<u>\$ 1.02</u>
January 1, 2011	7,225,298	\$ 0.76
Granted	5,635,000	\$ 1.36
Exercised	(1,099,721)	\$ 0.82
Expired	(63,815)	\$ 0.99
Forfeited	(209,914)	\$ 0.89
December 31, 2011	<u>11,486,848</u>	<u>\$ 1.04</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***14. EQUITY (CONTINUED)**

The following table summarizes information about the Company's stock options outstanding at June 30, 2012:

Exercise price (C\$/option)	Options Outstanding			Options Exercisable		
	Options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (C\$/option)	Options outstanding and exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (C\$/option)
\$0.26 to \$0.70	4,054,201	2.07	\$0.62	3,320,451	1.45	\$0.64
\$0.71 to \$1.15	2,139,657	1.79	1.00	2,139,657	1.79	1.00
\$1.16 to \$1.60	5,115,000	3.64	1.35	3,608,750	3.57	1.35
Total	11,308,858	2.76	\$1.02	9,068,858	2.41	\$1.01

14.4 Contingent share consideration

The Company has committed to issue up to 7 million of its common shares to Almaden upon the achievement of certain project milestones on the Caballo Blanco project. This contingent share consideration was originally valued at \$3,305 (see note 9.1). There was no change in the fair value of the contingent share consideration as of June 30, 2012.

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

Uracan Resources Ltd. ("Uracan")

Nature of the relationship

Uracan is a public company and shares certain directors and key management. Prior to June 30, 2012, the Company shared office premises with Uracan.

Key management

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President and Chief Executive Officer, Executive Chairman, Chief Financial Officer, Vice-President, Exploration, General Manager of Cerro Colorado, General Manager of Caballo Blanco, the Technical Director, Vice-President Technical and Projects and non-executive directors of the Company. In the first quarter of 2012, the General Manager of Caballo Blanco resigned.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***15. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

Key management compensation includes:	Six months ended June 30,	
	2012	2011
Salaries ¹	\$ 733	\$ 546
Non-executive director fees	51	51
Benefits ¹	34	18
Bonuses ²	59	52
Options ³	269	2,013
	<u>\$ 1,146</u>	<u>\$ 2,680</u>

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

At June 30, 2012, receivables include \$5 (December 31, 2011 - \$2) owing from officers and managers of the Company. As of June 30, 2012, the Company suspended a cost sharing arrangement of its office premises with Uracon.

At June 30, 2012, trade and other accounts payable includes \$31 (December 31, 2011 - \$46) 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 estranged 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. During the six months ended June 30, 2012 this fee totaled \$72 (June 30, 2011 - \$75). This fee 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. As at June 30, 2012, amounts owing from (to) Pabelini totalled \$(25) (December 31, 2011 - \$18).

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 son-in-law of the CEO. Under a renewed agreement, dated October 1, 2011 and expiring September 30, 2014, Minop charges a service fee equal to 1.5% of base salary for employees earning greater than \$100 per year and 3% for employees earning less than \$100 base salary per year. During the six months ended June 30, 2012 this fee totaled \$44 (June 30, 2011 - \$24). This fee is meant to reimburse Minop for administrative costs incurred by the company in providing these services. As at June 30, 2012, amounts owing from Minop totalled \$5 (December 31, 2011 - \$24).

Amounts owing to or from related parties are non-interest bearing, unsecured and due on demand. Transactions with related parties for goods and services are made on normal commercial terms.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***16. COST OF SALES**

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Raw materials	\$ 5,011	\$ 4,017	\$ 10,296	\$ 8,458
Salaries and employee benefits	1,090	1,284	2,158	2,305
Rental machinery	97	33	155	194
Contractors	74	78	239	221
Royalties	291	265	555	451
Change in inventories	243	1,193	90	179
Other	340	210	628	555
	<u>7,146</u>	<u>7,080</u>	<u>14,121</u>	<u>12,363</u>
Depreciation and depletion	619	690	1,191	1,253
	<u>\$ 7,765</u>	<u>\$ 7,770</u>	<u>\$ 15,312</u>	<u>\$ 13,616</u>

17. ADMINISTRATIVE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Salaries and consulting	\$ 611	\$ 275	\$ 1,159	\$ 631
Office and rent	208	300	418	494
Investor relations	235	100	413	242
Professional fees	154	144	403	285
Travel	80	58	145	169
Share-based compensation expense	215	889	547	1,510
Interest income	(27)	(153)	(52)	(190)
Other	58	67	158	147
	<u>\$ 1,534</u>	<u>\$ 1,680</u>	<u>\$ 3,191</u>	<u>\$ 3,288</u>

18. OTHER (INCOME) EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Accretion for decommissioning and restoration provision	\$ 21	\$ 12	\$ 42	\$ 24
Interest and other	5	16	11	26
(Gain) on warrants	(901)	(628)	(1,211)	(162)
Foreign exchange (gain) loss	249	(289)	(687)	(15)
Exploration - project generation	165	-	246	-
Exploration - Cerro Colorado	373	158	654	211
	<u>\$ (88)</u>	<u>\$ (731)</u>	<u>\$ (945)</u>	<u>\$ 84</u>

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

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19. RISK MANAGEMENT

19.1 Financial Risk Management

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

a. Credit Risk

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

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

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

b. Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company is dependent on cash flow from mining operations, capital raised from issuances of common shares and sale of assets to fund its business activities. The Company uses cash forecasts to ensure as far as possible that there is sufficient cash on hand to meet short-term business requirements. The Company's cash is invested in highly liquid investments which are available to discharge obligations when they come due. Most of the Company's financial liabilities have contractual maturities of less than 30 days and substantially all the Company's financial obligations are due within one year. In the normal course of business the Company enters into contracts that give rise to commitments for future payments (Note 20). The Company does not maintain a line of credit.

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***19. RISK MANAGEMENT (CONTINUED)**

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

As at June 30, 2012	Current	Non-current	
	Within 1 year	1 to 3 years	Later than 3 years
Trade and other accounts payable	\$ 3,650	\$ -	\$ -
Taxes payable	-	48	58
Total	<u>\$ 3,650</u>	<u>\$ 48</u>	<u>\$ 58</u>

As at December 31, 2011	Current	Non-current	
	Within 1 year	1 to 3 years	Later than 3 years
Trade and other accounts payable	\$ 2,270	\$ -	\$ -
Taxes payable	217	46	55
Total	<u>\$ 2,487</u>	<u>\$ 46</u>	<u>\$ 55</u>

c. Market Risk

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

i. Interest rate risk

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

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***19. RISK MANAGEMENT (CONTINUED)****ii. Price risk**

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

iii. Foreign currency risk

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

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

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

Foreign currency exposure on the Company's financial assets and financial liabilities as of June 30, 2012 and December 31, 2011 is shown in the table below:

	Canadian dollar (Cdn \$)		Mexican Peso (Peso)	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Financial assets				
Cash and cash equivalents	\$ 1,755	\$ 13,732	\$ 31,869	\$ 56,311
Receivables	182	347	71,926	51,534
	\$ 1,937	\$ 14,079	\$ 103,795	\$ 107,845
Financial liabilities				
Trade and other accounts payable	\$ 128	\$ 186	\$ 23,781	\$ 13,980

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***19. RISK MANAGEMENT (CONTINUED)**

The following table indicates the impact of foreign currency risk on working capital as at June 30, 2012. The table also provides a sensitivity analysis of a ten percent strengthening of the US dollar against foreign currencies as identified, which would have increased (decreased) the Company's net earnings by the amounts shown in the table below.

	Canadian Dollars	Mexican Pesos
Financial assets	\$1,937	103,795
Financial liabilities	(128)	(23,781)
Net foreign currency working capital	\$1,809	80,014
US\$ exchange rate	0.9813	0.0746
Net foreign currency working capital in US\$	1,775	5,969
Foreign exchange loss on a 10% strengthening of the US\$	178	597
Foreign exchange gain on a 10% weakening of the US\$	178	597

19.2 Fair Values

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

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

As at June 30, 2012, the Company's cash and cash equivalents, receivables and trade and other accounts payable are measured at amortized cost. Warrant liability of \$261 is measured at fair value using Level 3 inputs.

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

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

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

There were no transfers between level 1 and level 2 during the six months ended June 30, 2012 and year ended December 31, 2011.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)*

20. COMMITMENTS

The Company leased office premises with Uracon (Note 15) pursuant to a lease agreement expiring September 30, 2015. Effective June 30, 2012, Uracon is no longer utilizing the office premises. The Company is responsible for 100% (2011 – 80%) of the annual lease costs. The minimum lease payments due under the terms of the lease over the next four years are:

2012	\$	102
2013		208
2014		209
2015		160
		<hr/>
	\$	679
		<hr/>

The Company is also responsible for the operating costs and property taxes estimated at \$110 (2011 - \$88) per year.

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

Effective November 1, 2011, the Company entered into rental agreements to occupy land located at Caballo Blanco for a period of ten years. The estimated annual rental payments through October 31, 2012 are \$234 (3,000,000 pesos).

Exploration and evaluation properties commitments are disclosed in Note 9.

21. SEGMENTED INFORMATION

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

During the six months ended June 30, 2012, 100% of the Company's sales were to two third parties. The balance owing from these parties at June 30, 2012 was \$nil (2011 - \$nil).

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2012 and 2011***(Expressed in thousands of United States dollars, except per share amounts)***21. SEGMENTED INFORMATION (CONTINUED)**

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

	June 30, 2012		
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Current assets	\$ 9,515	\$ 16,756	\$ 26,271
Plant and equipment	351	3,082	3,433
Investment in DynaMexico	-	18,018	18,018
Exploration and evaluation properties	-	62,216	62,216
Mine properties	-	2,810	2,810

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

Selected financial information by operating segments is as follows:

	Six months ended June 30,	
	<u>2012</u>	<u>2011</u>
Revenue		
Mining operations	\$ 19,775	\$ 16,296
Income (loss) before income taxes for the period		
Mining operations	\$ 4,464	\$ 2,680
Exploration and evaluation	(1,000)	(173)
Corporate	(1,347)	(3,160)
	<u>\$ 2,117</u>	<u>\$ (653)</u>

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2012 and 2011

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

21. SEGMENTED INFORMATION (CONTINUED)

	Mining Operations	Exploration and Development	Corporate	June 30, 2012 Total
Current assets	\$ 11,495	\$ 5,261	\$ 9,515	\$ 26,271
Plant and equipment	2,730	352	351	3,433
Investment in DynaMexico	-	18,018	-	18,018
Exploration and evaluation properties	-	62,216	-	62,216
Mine properties	2,810	-	-	2,810
	<u>\$ 17,035</u>	<u>\$ 85,847</u>	<u>\$ 9,866</u>	<u>\$ 112,748</u>

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

22. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Receivables	\$ (42)	\$ 32	\$ (1,494)	\$ (629)
Prepays and deposits	(171)	(241)	(177)	(226)
Inventories	(600)	843	(591)	(293)
Trade and other accounts payable	675	(1,762)	1,717	(581)
Accounts payable for exploration and evaluation properties	(250)	(88)	(169)	(241)
Taxes payable	(241)	-	(213)	-
	<u>\$ (629)</u>	<u>\$ (1,216)</u>	<u>\$ (927)</u>	<u>\$ (1,970)</u>

Non-cash investing transactions not included in cash flows:

Depreciation capitalized to exploration and evaluation properties	\$ 45	\$ 38	\$ 90	\$ 70
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