GOLDGROUP MINING INC.
Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2012

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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 August 13, 2012, and is intended to supplement and complement the Company's condensed interim consolidated financial statements for the three and six months ended June 30, 2012. 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. The condensed interim 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 three and six months ended June 30, 2012.

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.

1.2 Overall Performance

2012 Highlights and Developments

- Goldgroup produced an updated technical report on the Caballo Blanco gold project dated 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 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 totalled 419,000 ounces of gold (24.0 million tonnes grading 0.54 g/t Au).
- Goldgroup produced an updated technical report on the San José de Gracia gold project dated January 3, 2012. This Technical Report significantly increased the Company's mineral resource estimate at the project, establishing indicated resources at the Tres Amigos vein of 147,000 ounces of gold, and growing inferred resources at all four veins from 618,000 to 963,000 ounces of gold, representing an increase of 56%. The prior technical report dated February 28, 2011, estimated solely inferred mineral resources.
- On April 12, 2012, the Company announced initial results from its Preliminary Economic Assessment ("PEA") for the Caballo Blanco project, indicating robust project economics of a 66.4% pre-tax internal rate of return ("IRR") and a $283.8 million pre-tax net present value ("NPV") using a 5% discount rate, and a payback period of 1.5 years, based on a gold price of $1,500 per ounce.
- Effective April 11, 2012, the Company and NGEx Resources Inc. ("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$1,000,000 cash and 2,200,000 common shares of Goldgroup. In addition, withholding taxes of approximately $280,000 will be paid by the Company in the second quarter of 2012. There is no longer a C$5,000,000 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%.

- Changes to the Board of Directors:
  - Effective April 10, 2012, the Company announced that Mr. Robert Byford resigned from the Board of Directors of Goldgroup.
  - On April 23, 2012, Mr. Lenard F. Boggio agreed to be appointed to the Board of Directors of Goldgroup, effective May 10, 2012. Mr. Boggio has an extensive accounting, financial, auditing and governance background focused on mining, energy and financial services sectors.
  - On April 26, 2012, the Company appointed Mr. Chester F. Millar to the Board of Directors of Goldgroup. Mr. Millar is a pioneer of heap leach gold production and of large-scale bulk mining methods and techniques used for mining low-grade gold deposits worldwide.
  - Effective April 30, 2012, the Company announced that Dr. Paul L. Zweng resigned from the Board of Directors of Goldgroup and has taken an advisory role as part of Goldgroup's Board of Advisors.
- On May 16, 2012 the Company released an updated technical report on the Cerro Colorado mine. The technical report outlined the Company's mineral resource estimate, establishing measured resources of 14,000 ounces of gold, indicated resources of 30,000 ounces of gold and inferred resources of 56,000 ounces of gold using a cutoff grade of 0.20 g/t Au.
- On June 12, 2012, the Company submitted responses to the list of comments from the Secretaría de Medio Ambiente y Recurso Naturales ("SEMARNAT"), also known as the Ministry of Environmental and Natural Resources, received on March 13, 2012, regarding its previously submitted Environmental Impact Statement ("EIS").
- During the second quarter of 2012, the Company began the implementation of an Enterprise Resource Planning ("ERP") system at all of its locations.
- The Company ordered a new secondary crusher for Cerro Colorado which is expected to be installed by October 2012. The total expected cost for the new secondary crusher is $1,065,000 of which $260,000 was paid and is included in prepaid expenses. The secondary crusher is expected to improve recoveries and will be capable of being transferred to another site.
- The Company implemented a cost reduction program to bring operating expenditures in line with its positive cash flow from its mine at Cerro Colorado. Part of this program includes curtailing exploration drilling at Caballo Blanco prior to the commencement of the wet season in June.

1.2.1 Company Overview

Goldgroup is a Canadian-based gold production, development, and exploration Company with a portfolio of projects in Mexico, including its 100%-owned advanced stage gold development project Caballo Blanco in the state of Veracruz, and a 50% interest in DynaResource de Mexico, SA de C.V., which owns 100% of the high grade gold exploration project San José de Gracia located in the state of Sinaloa. The Company also operates its 100%-owned Cerro Colorado gold mine in the state of 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" and on the Over-The-Counter ("OTC") market under the symbol "GGAZF".

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

The profitability and operating cash flow of the Company are affected by various factors, including the amount of gold produced and sold, the market price of gold, operating costs, interest rates, regulatory and environmental compliance, general and administrative costs, the level of exploration and development expenditures, decommissioning and restoration provisions and other discretionary costs. Goldgroup is also exposed to fluctuations in foreign currency exchange rates that can materially impact profitability and cash flow. To date, all of the Company's projects are located in Mexico and 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 net revenues from production will contribute to financing the current expenditures of the Company. The Company will need to raise additional funds over and above amounts raised to date to construct and commission the Caballo Blanco mine, as well as to complete the acquisition, exploration and development of its other property interests. While the Company has been successful in raising capital 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 concessions covering an area of 54,732 hectares. Two large areas of epithermal gold mineralization have been discovered within the Caballo Blanco property, referred to as the Northern Zone, where the La Paila Zone is situated, and the Highway Zone. Both zones 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, massive and brecciated silica alteration of an original andesite host rock in the upper levels of the surrounding epithermal system.

The principal known gold zone at Caballo Blanco is the La Paila Zone, which 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 occuring in the Northern Zone, indicating the potential for 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 Minerals Ltd. ("Alamaden"). Goldgroup now owns 100% of the Caballo Blanco gold project. Effective April 11, 2012 the Company purchased a 1.05% NSR royalty on the Caballo Blanco project from NGEx for Cdn$1 million cash and 2.2 million common shares of Goldgroup. The total remaining NSR royalty payable upon production of the Caballo Blanco project is 1.9%.

Goldgroup continues to advance the Caballo Blanco project in areas such as necessary land and surface rights acquisitions, permitting, engineering studies and geological studies. The commencement of construction of Caballo Blanco is contingent on the foregoing.

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. The Company continues to progress the metallurgical test-work to determine the expected gold recoveries for the different ore lithologies.

Underground tunnelling on the La Paila Zone has been completed to sufficiently conclude the project's bulk sampling program. The tunnel advanced a total of 266 metres in the main drift and western crosscut, of which 224 metres is in mineralized vuggy, massive and brecciated silica rock. The main tunnel and west crosscut at the La Paila Zone were driven to collect bulk-sample material for ongoing metallurgical test work. The tunnelling also provided direct access to the mineralized zone allowing the Company to enhance its understanding of the geological and geotechnical characteristics of the mineralization within the La Paila Zone.

Exploration drilling at Caballo Blanco continued with three drills until the beginning of the wet season in June, thereafter the Company suspended drilling. Since, the current drilling results at the La Paila zone are considered sufficient for mine planning, drilling has now been halted. Drill data interpretation continues as part of the engineering mine development process. This includes comparing resource grades with lithologies and rock-quality designation ("RQD") to evaluate metallurgical recoveries against crush size selection. This will determine the process crush size and facilitate optimisation of pit planning.

The Company hired Mr. Patrick Glynn as the Company's Vice President, Technical and Projects. He commenced employment on February 1, 2012 and is in charge of engineering and construction of the Caballo Blanco project. Mr. Richard Irvine, the former General Manager of Caballo Blanco, resigned from Goldgroup on February 23, 2012. Mr. Dustin VanDoorselaere, Goldgroup's Project Manager, is now responsible for the Caballo Blanco local operations and permitting.

Status of Project

Goldgroup released an updated technical report on the Caballo Blanco gold project on February 15, 2012**.** 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.

On April 12, 2012, the Company announced initial results from its PEA for the Caballo Blanco project, indicating robust project economics of a 66.4% pre-tax IRR and a $283.8 million pre-tax NPV, using a 5% discount rate.

The highlights from the initial results from the PEA include the following:

- The Whittle optimization model shell contains 49.3 million tonnes of mineralized material above the Net Smelter Return ("NSR") cut-off containing 852,000 ounces of contained gold and 3.6 million ounces of contained silver. The NSR parameters utilized in the optimization model were

$1,150 per ounce for gold and $21.50 per ounce for silver. The initial strip ratio is 0.5 and 1.3 in years one and two respectively, and an overall strip ratio of 1.66 for the Life-of-Mine ("LOM").

- Overall anticipated metallurgical gold recovery of 80.7% is based on initial metallurgical testing.
- At full production of 20,000 tonnes per day, annual production of 95,000 ounces of gold for years two to seven is projected, for a total production of 687,000 ounces of gold and 1.3 million ounces of silver for the expected LOM of 7.5 years.
- Total cash operating cost of US$784 per ounce of gold.
- Anticipate pre-production period of approximately one year, which includes nine months of construction and three months of pre-production ramp up.
- Initial capital costs estimated at US$84.8 million, plus additional US$53.5 million of sustaining capital costs over the LOM.
- Un-leveraged pre-tax internal rate of return ("IRR") of 66.4% and a net present value ("NPV") of US$283.8 million at a base case gold price of US$1,500 per ounce, a silver price of US$30 per ounce, and a discount rate of 5%, representing a payback period of 1.5 years.
- Total LOM pre-income tax cash flow is US$386.3 million, net of pre-production development and sustaining capital of US$138.3 million.

Table 1: PEA Highlights – Base Case

	Unit	Values
Average Mined Gold Grade	g/t	0.538
LOM from Production Start	Years	7.5
IRR Pre-Tax	%	66.4
NPV Pre-Tax (5% Discount Rate)	US$M	283.8
Payback Period from Production Start	Years	1.5
NPV Pre-Tax (0% Discount Rate)	US$M	386.3
Initial Capital Cost	US$M	84.8
Sustaining Capital Cost	US$M	53.5
Cash Costs	US$/oz	783.99
Metallurgical Recovery	%	80.7
Total Recovered Gold	oz	687,000
Total Mine Gold to Leach Pad	oz	852,000

Table 2: Economic Parameters

	US $M	US $/t Resource	US $/oz Au
Mine Gate Value of All Resource Net of Transportation and Refining	1,064	21.58	1,546.77
Mining Operating Cost	(264.3)	(5.36)	(384.33)
Processing Cost	(160.7)	(3.26)	(233.69)
Water Treatment/Management Cost	(35.4)	(0.72)	(51.45)
General & Administration Cost	(60.1)	(1.22)	(87.45)
Royalty Cost	(18.6)	(0.38)	(27.07)
Cash Operating Cost	(539.1)	(10.94)	(783.99)
Cash Operating Cash Flow	524.6	10.64	762.78
Capital Cost Including Pre-Production Development	(138.3)	(2.80)	(201.04)
Pre-Income Tax Cash Flow	386.3	7.84	561.74

The full PEA study was filed on SEDAR and on the Company's website on May 10, 2012. The PEA was based on contract-mining, incorporating an open-pit mine and a 20,000 tonne per day heap-leach processing facility. Utilizing the Whittle optimization model, economic pit optimization was run using a US$1,150 per ounce of gold. The PEA was completed and compiled by KD Engineering (the "Engineer") of Tucson, Arizona, with contributions by SRK Consulting (Canada) Inc., and MWH Americas, Inc. The PEA was based on indicated and inferred mineral resources using the mineral resource estimate dated February 16, 2012 prepared by Jim Cuttle, P. Geo., and Gary Giroux, P. Eng., of Giroux Consultants Ltd., each of which is an independent Qualified Person under NI 43-101 standards.

Recommendations of the PEA

Goldgroup will address the recommendations identified in the PEA with a view of eliminating assumptions and providing substantive data to advance the project to production, in addition to determining methods to improve expected operating costs and reduce CAPEX costs. The following areas will be further investigated by Goldgroup:

- Electrical connection to the main power grid that traverses the property
- Evaluating option of installing conveyors in later years for conveying of ore from mine site to heap leach pad and stacking of ore by conveyor versus trucks
- Crushing parameters for the different ore types to optimize recovery and cash flows

Goldgroup intends to complete additional engineering investigations in the following areas:

- Water balance refinement by continuing to gather onsite precipitation data
- Determination of the heap hydraulic properties
- Geotechnical assessment of plant site and pit slope stability for mine design purposes
- Metallurgical testing to investigate and quantify but not limited to:
    - Variations in gold recovery according to the host rock lithology (vuggy silica, brecciated and massive silica) using the existing drill hole data
    - Metallurgical testing to determine gold recovery from the different host lithologies that occur in the exploration tunnel
    - Metallurgical testing to establish the optimum particle size for leaching each of the various ore types
- Crushing and abrasion indices
- Mineralogy as appropriate
- Geochemical testing of ore and waste rock
- Improved accuracy of survey and contours for detailed design purposes
- Utility Power supply cost for overhead power lines and power distribution
- Trade-off options to improve the overall economics of the project.

Goldgroup is developing an overall project execution plan to address engineering, procurement, contracting, construction and management of construction, construction progress measurement, mine development, commissioning and ramp-up. A detailed project schedule has been developed which has identified critical path items in engineering, procurement and construction.

Drilling

A total of 145 diamond drill holes were included in the NI 43-101 resource estimate dated February 10, 2012. An additional 30 drill holes completed by Goldgroup were not included in the NI 43-101 resource estimate, which includes: 19 reverse circulation holes, seven holes drilled outside the La Paila Zone but within the Northern Zone, and four unassayed holes as of the date of the NI 43-101 resource estimate.

In 2011, Goldgroup completed 32,345 meters of diamond drilling and an additional 13,759 meters were drilled in 2012. This drilling targeted expansion of the La Paila Zone to the south, southwest and northeast and was designed to expand and to upgrade the current mineral resource.

Permitting

The EIS was presented to the governing environmental authority in Mexico, SEMARNAT, on December 15, 2011. On March 13, 2012, the Company received comments on the EIS application from SEMARNAT. The comments requested more information on risk mitigation, along with environmental protection and rehabilitation, of several aspects of the proposed mining operations. On June 11, 2012 Goldgroup submitted responses to the comments received from SEMARNAT on March 13, 2012, regarding the EIS. The responses are standard procedure in the environmental permitting process and are intended to clarify certain aspects of Goldgroup's permit application, as well as facilitate SEMARNAT's review of the EIS. The environmental permitting process is governed by Mexican federal law and regulations.

The Change in Soil Use Permit, also known as the 'Estudio Técnico Justificativo para Cambio de Uso de Suelo ("ETJ"), was submitted to SEMARANT on December 16, 2011. The ETJ permit was returned to Goldgroup and it included comments from SEMARNAT requesting further details as follows:

- Rescue programs for protected flora species
- Environmental mitigation measures for the project and how Goldgroup will measure its success
- Ecosystems affected by the use of environmental services (water, soil, air, etc.) required for the project
- Economic and social benefits of the project

Goldgroup is currently addressing these comments and after completion, is expected to resubmit an enhanced ETJ application to SEMARNAT in the fourth quarter of 2012. When the enhanced ETJ application is submitted Goldgroup will also include all information on additional land which has been acquired since the time of the initial filing of the ETJ application.

The timing of the Federal government decision with respect to the EIS permit application is expected to be in the third quarter of 2012. Based on initial results from the PEA, management estimates that the Caballo Blanco project will require a combined period of twelve months for detailed engineering and construction time from the date of anticipated approval of the EIS, ETJ and related permits.

The local municipal authority has alleged that underground workings at the Caballo Blanco site have encroached on a neighbouring surface property and could potentially cause harm to the landowners. Goldgroup retained surveyors who have confirmed that no such encroachment has occurred and that no such danger exists. Until this encroachment issue is resolved, the municipal authority has restricted access to certain areas of the Caballo Blanco property as a result of the alleged encroachment. The Company has applied to the Mexican courts for formal restoration of access to the Caballo Blanco site. The courts are currently in the process of rendering a judgement and issuing notifications to the parties involved.

1.2.3 San José de Gracia Project

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

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

Management has had numerous discussions with DynaResource, Inc. ("DynaUSA"), the other 50% shareholder of DynaMexico, to determine how to proceed with this project. The Company continues to assess available alternatives for the future development of the San José de Gracia project. Until such time as a development strategy and financial plan for the San José de Gracia project can be agreed to with DynaUSA, Goldgroup's financial support to fund further exploration and development activities has been placed on hold. Development activities will be limited and the costs of maintaining the project are expected to be nominal. This decision also reflects the Company's strategy to focus its resources on the development of its 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 on the San José de Gracia project dated effective September 5, 2011, which was prepared by Jim Cuttle, P.Geo. and Gary Giroux, P.Eng of Giroux Consultants Ltd., each an independent qualified person under NI 43-101 standards. The technical report significantly increased the Company's mineral resource estimate at San José de Gracia, establishing indicated mineral resources at the Tres Amigos vein of 147,000 ounces of gold, 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, totaling 127,921 oz/Au, and at San Pablo of 1,307,509 tonnes, with an average grade of 6.52 g/t, totaling 274,171 oz/Au, and aggregate inferred mineral resources of 3,953,143 tonnes, with an average grade of 5.83 g/t, totaling 740,911 oz/Au. The DynaUSA Estimate includes a higher volume of indicated mineral resources as compared to the mineral resources estimate contained in the technical report released by Goldgroup due to the use of different qualified persons and their corresponding assumptions and parameters.

Upon reaching an agreement with DynaUSA, the current mineral resource estimate is expected to be used to support a future preliminary economic assessment for development of the project.

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 refining prior to sale. The project is subject to a NSR royalty of 3%. As of June 30, 2012, the remaining life of the in-pit resource at Cerro Colorado mine is currently estimated by Goldgroup to be approximately 12 months. Goldgroup expects that the heap leach operation will continue to produce gold for an extended period of time beyond the life of mining operations.

There have been challenges at the mine resulting from uncertainty around the mine plan and the complexity of the ore body. In 2010, 2011 and 2012, the grade decreased, the stripping ratio increased and the recoveries fluctuated. Management continues exploration to extend the life of the mine.

For the year ended December 31, 2011, an impairment charge totalling $8,600,000 was recorded against the Cerro Colorado mine. The impairment was charged proportionately against the carrying value of the mine for $4,650,000 and plant and equipment for $3,950,000.

On May 16, 2012 the Company released an updated technical report on the Cerro Colorado mine. The technical report outlined the Company's mineral resource estimate, establishing measured resources of 14,000 ounces of gold, indicated resources of 30,000 ounces of gold and inferred resources of 56,000 ounces of gold using a cutoff grade of 0.20 g/t Au. The Technical Report was prepared for the Company by Marc Simpson, P.Geo., the Company's qualified person under National Instrument 43-101 Standards with the mineral resource estimate prepared by Gary H. Giroux, P.Eng., MASc., of Giroux Consultants Ltd., an independent qualified person under National Instrument 43-101 Standards. The Whittle Shell was prepared by Fernando Rodrigues BSc, MBA, MAusIMM, MMSAQP of SRK Consulting, an independent qualified person under National Instrument 43-101 Standards.

Status of Operations and Outlook

At the Cerro Colorado gold mine, the Company produced 11,623 ounces of gold during the six months ended June 30, 2012 (2011 – 11,204 ounces).

In 2012, the Company will focus its efforts at the mining operations by:

- Improving the secondary crushing system by replacing a cone crusher structure, allowing the crush size to be reduced to minus one inch which is expected to improve recoveries and the reliability of the secondary crusher. The new crushing system is expected to be installed in October 2012.
- Exploration drilling outside the current pit limits.
- Optimizing the mine by improving haul roads, dumps and pit benches for quick haul times with short hauls where possible.
- Continuing to conduct metallurgical tests of the various ores coming from the mine to improve recoveries on the leach pad.

- Continue looking for nearby mining opportunities for near term production to utilise the fixed cost, personnel and facilities at the Cerro Colorado mine.

1.3 Selected Quarterly Information

Three and six months ended June 30, 2012 versus June 30, 2011

(Unaudited - expressed in 000's)	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	**2011**	**2012**	2011
Metal sales	**$10,172**	$9,824	**$19,775**	$16,296
Cost of sales [(a)]	**7,146**	7,080	**14,121**	12,363
Depreciation and depletion	**619**	690	**1,191**	1,253
Gross margin	**2,407**	2,054	**4,463**	2,680
Other expenses (income):				
Administrative expenses	**1,534**	1,680	**3,191**	3,288
Share of equity loss (income) in DynaMexico	**57**	(78)	**100**	(39)
Other expenses (income)	**(88)**	(731)	**(945)**	84
	1,503	871	**2,346**	3,333
Earnings (loss) before income taxes	**904**	1,183	**2,117**	(653)
Provision for income taxes:				
Current	**524**	565	**990**	585
Future	**1,166**	599	**1,570**	798
Net earnings (loss) for the period	**$(786)**	$19	**$(443)**	$(2,036)
Loss per share – basic and diluted	**$(0.01)**	$0.00	**$(0.00)**	$(0.02)

(a) Cost of sales excludes depreciation and depletion

Three months ended June 30, 2012 compared to three months ended June 30, 2011

- Gold sales during the second quarter of 2012 were 6,233 ounces at an average gold price of $1,607 per ounce compared to 6,477 ounces at an average gold price of $1,505 per ounce during the same period of 2011. During the second quarter of 2012, the Cerro Colorado gold mine produced 5,882 ounces of gold compared to 6,046 during the same period of 2011.

- Cost of sales of $7,145,230 represented cash operating costs at the Cerro Colorado gold mine for the second quarter of 2012 or $1,121 per ounce of gold sold, compared to cash operating costs of $7,079,883 for the same period in 2011 or $1,082 per ounce of gold sold. The cash cost per ounce increased during the second quarter of 2012 as a result of the waste-to-ore ratio increasing from 1.64 to 3.15 offset slightly by higher grade ore in the 2012 period.

- Depreciation and depletion of $618,596 during the three months ended June 30, 2012 resulted primarily from the depreciation and depletion on the Cerro Colorado mine and plant and equipment compared to $690,012 during the same period of 2011. The depletion expense is calculated on a unit-of-production basis.

- Administrative expenses were $1,533,966 for the quarter ended June 30, 2012 compared to $1,680,016 during the second quarter of 2011. The administrative costs are primarily comprised of accounting and legal costs, investor relations expenses, salaries and consulting fees and share-based compensation for the recognition of part of the fair value of options granted during 2010, 2011 and 2012.

- Other expenses (income) were $(88,494) for the quarter ended June 30, 2012 compared to $(731,102) during the same period in 2011. The 2012 balance relates to exploration at Cerro Colorado and exploration related to project generation offset by a foreign exchange gain and gain on warrants during the quarter. The 2011 balance primarily relates to a derivative gain on warrants and a foreign exchange gain offset by exploration at Cerro Colorado.

- Income tax expense of $523,548 was recorded in the second quarter of 2012 compared to $564,760 during the same period of 2011. The 2012 and 2011 expense relates to profits at the Cerro Colorado mine. A deferred income tax expense of $1,165,994 was recorded during the three months ended June 30, 2012 compared to $598,681 during the same period of 2011. The deferred income tax expense in 2012 and 2011 is primarily a result of the exploration expenditures in the Company's Mexican subsidiaries.

First Six Months 2012 vs. First Six Months 2011

- Gold sales during the first six months of 2012 were 11,896 ounces at an average gold price of $1,644 per ounce compared to 11,118 ounces at an average gold price of $1,456 per ounce during the comparative period of 2011. During the first six months of 2012, the Cerro Colorado gold mine produced 11,623 ounces of gold compared to 11,204 during the same period of 2011.

- Cost of sales of $14,120,807 represented cash operating costs at the Cerro Colorado gold mine for the first six months of 2012 or $1,168 per ounce of gold sold, compared to cash operating costs of $12,362,607 for the same period in 2011 or $1,102 per ounce of gold sold. The cash cost per ounce increased during the first six months of 2012 as a result of the waste-to-ore ratio increasing from 1.66 to 3.42 offset by increased recoveries during the 2012 period.

- Depreciation and depletion of $1,190,567 during the six months ended June 30, 2012 resulted primarily from the depreciation and depletion on the Cerro Colorado mine and plant and equipment compared to $1,252,551 during the same period of 2011. The depletion expense is calculated on a unit-of-production basis.

- Administrative expenses were $3,191,062 for the six months ended June 30, 2012 compared to $3,288,485 during the same period of 2011. The administrative costs are primarily comprised of accounting and legal costs, investor relations expenses, salaries and consulting fees and share-based compensation for the recognition of part of the fair value of options granted during 2010, 2011 and 2012.

- Other expenses (income) were $(944,525) for the six months ended June 30, 2012 compared to $84,190 during the same period in 2011. The 2012 balance relates to exploration at Cerro Colorado and exploration related to project generation offset by a foreign exchange gain and gain on warrants during the quarter. The 2011 balance primarily relates to exploration at Cerro Colorado offset by a derivative gain on warrants.

- Income tax expense of $989,847 was recorded for the first six months of 2012 compared to $584,901 during the same period of 2011. The 2012 and 2011 expense relates to profits at the Cerro

Colorado mine. A deferred income tax expense of $1,570,314 was recorded during the first six months of 2012 compared to $798,316 during the same period of 2011. The deferred income tax expense in 2012 and 2011 is primarily a result of the exploration expenditures in the Company's Mexican subsidiaries.

1.4 Planned Exploration and Development Expenditures

As of August 13, 2012, Goldgroup has cash and cash equivalents of approximately $14,000,000. The Company is debt-free and unhedged. The Company currently intends to spend the majority of these funds on the Caballo Blanco project in 2012 as follows:

Caballo Blanco Project	(000's)
• Administration, consulting and legal	$ 1,000
• Technical reports, Environmental Impact Statement, permitting	800
• Metallurgical work	500
• Production site preparation and land acquisitions	5,000

1.5 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 six months ended June 30, 2012 was $1,611 and $1,651 per ounce, respectively. London P.M. fixings of the gold price during the six month period ranged from a low of $1,540 per ounce on May 30, 2012 to a high of $1,781 per ounce on February 28, 2012. These prices compare with averages of $1,506 and $1,445 per ounce, respectively, during the three and six months ended June 30, 2011 and averages of $1,197 and $1,152 per ounce, respectively, during the three and six months ended June 30, 2010. Prices for the six months ended June 30, 2011 ranged from a low of $1,319 per ounce to a high of $1,553 per ounce.

The Company realized an average price of $1,607 per ounce on its sales of gold during the second quarter of 2012 compared to an average realized price of $1,505 and $1,198 for the same periods in 2011 and 2010, respectively. The Company realized an average price of $1,644 per ounce on its sales of gold during the first half of 2012 compared to an average realized price of $1,456 and $1,152 for the same period in 2011 and 2010, respectively. The average London P.M. fix for the first half of 2012 was $1,651 per ounce compared to $1,444 and $1,152 for 2011 and 2010, respectively.

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.

1.6 Results of Mining Operations

Three and six months ended June 30, 2012 versus June 30, 2011
Cerro Colorado Gold Mine (100% ownership)

Operating Statistics *(Unaudited)*	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	2011	**2012**	2011
Ore mined – placed on leach pad (tonnes)	**475,644**	608,849	**952,134**	1,184,819
Waste mined (tonnes)	**1,497,012**	999,016	**3,253,575**	1,970,170
Total mined (tonnes)	**1,972,656**	1,607,865	**4,205,709**	3,154,989
Waste-to-ore-ratio	**3.15**	1.64	**3.42**	1.66
Recovery	**66%**	69%	**66%**	61%
Grade (g/t Au)	**0.54**	0.47	**0.52**	0.53
Gold ounces mined	**8,963**	8,825	**17,660**	18,163
Gold ounces – produced	**5,880**	6,045	**11,621**	11,204
Gold ounces – sold	**6,233**	6,477	**11,896**	11,118
Operating Financial Data ***(Unaudited - Expressed in 000's)***				
Metal Sales	**$10,172**	$9,824	**$19,775**	$16,296
Cost of sales[(a)]	**$7,146**	$7,080	**$14,121**	$12,363
Depreciation and depletion	**$619**	$690	**$1,191**	$1,253
Gross profit	**$2,407**	$2,054	**$4,463**	$2,680
Net earnings (loss)	**$(786)**	$19	**$(443)**	$(2,036)
Basic and diluted earnings (loss) per share	**$(0.01)**	$0.00	**$(0.01)**	$(0.02)
Average realized gold price per ounce sold	**$1,607**	$1,505	**$1,644**	$1,456
Cash cost per ounce sold	**$1,121**	$1,082	**$1,168**	$1,102
Exploration – Cerro Colorado	**$372**	$158	**$654**	$211
Plant and equipment expenditures at Cerro Colorado	**$28**	$1,590	**$140**	$2,749

(a) Cost of sales excludes depreciation and depletion.

Three months ended June 30, 2012 versus June 30, 2011

- Tonnes mined for the quarter ended June 30, 2012 increased 23% over the same 2011 period, primarily due to better equipment availability allowing more tonnes to be handled. In addition, there was a much higher stripping ratio requiring more tonnes of waste to be mined compared to the same period last year.

- Production for the quarter ended June 30, 2012 decreased by 3% over the same 2011 period, primarily as a result of less gold placed on the leach pad in 2012 compared to the 2011 period.

- Gold sales for the quarter ended June 30, 2012 were 6,233 ounces at an average realized price of $1,607 per ounce compared to 6,477 ounces sold at an average realized price of $1,505 for the same period in 2011.

- Operating cash costs for the quarter ended June 30, 2012 were $7,145,230 or $1,121 per ounce of gold sold including silver by-product credits of $25 per ounce, compared to $7,079,883 or $1,082 per ounce of gold sold for same period in 2011, before silver by-product credits of $11 per ounce. This represents an increase of $39 per ounce over the second quarter of 2011. The cost per ounce increased during the second quarter of 2012 as a result of the waste-to-ore ratio increasing from 1.64 to 3.15 offset slightly by higher grade ore in the 2012 period.

- Exploration costs at Cerro Colorado for the quarter ended June 30, 2012 were $372,284 compared to $158,620 during the same period in 2011. The increase in the 2012 period is a result of increased exploration work at Cerro Colorado, which includes the use of two exploration reverse circulation drills and additional man power.

Six months ended June 30, 2012 versus June 30, 2011

- Tonnes mined for the six months ended June 30, 2012 increased 33% over the same 2011 period, primarily due to better equipment availability allowing more tonnes to be handled. In addition, there was a much higher stripping ratio requiring more tonnes to be mined compared to the same period last year.

- Production for the six months ended June 30, 2012 increased by 4% over the same 2011 period, primarily as a result of higher recoveries in the 2012 period.

- Gold sales for the six months ended June 30, 2012 were 11,896 ounces at an average realized price of $1,644 per ounce compared to 11,118 ounces sold at an average realized price of $1,456 for the same period in 2011.

- Operating cash costs for the six months ended June 30, 2012 were $14,120,807 or $1,168 per ounce of gold sold including silver by-product credits of $19 per ounce, compared to $12,362,607 or $1,102 per ounce of gold sold for same period in 2011, before silver by-product credits of $10 per ounce. This represents an increase of $66 per ounce over the second quarter of 2011. The cost per ounce increased during the first six months of 2012 as a result of the waste-to-ore ratio increasing from 1.66 to 3.42 offset by increased recoveries during the 2012 period.

- Exploration costs at Cerro Colorado for the six months ended June 30, 2012 were $653,593 compared to $211,336 during the same period in 2011. The increase in the 2012 period is a result of increased exploration work at Cerro Colorado, which includes the use of two exploration reverse circulation drills and the addition of several geologists brought over from Caballo Blanco.

1.7 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 is stated in thousands of US dollars, expect per share amounts. Prior period amounts previously reported in Canadian GAAP are now being reported under IFRS.

(Unaudited - expressed in 000's)	2012		2011				2010	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Revenue	10,172	9,603	6,871	8,052	9,824	6,472	6,188	5,317
Income (loss) from mine operations	2,408	2,056	404	2,078	2,054	626	917	(93)
Net income (loss)	(786)	343	(10,455)	(4,469)	19	(2,055)	(3,124)	(6,753)
Basic and diluted earnings (loss) per share	(0.01)	0.00	(0.09)	(0.04)	0.00	(0.02)	(0.03)	(0.07)
Cash and cash equivalents	14,271	19,415	23,313	35,802	40,846	44,611	12,654	14,790
Total assets	112,748	111,256	109,254	108,342	108,744	109,161	68,835	67,616
Non-current financial liabilities	261	1,162	1,472	1,841	2,456	3,149	2,741	-
Cash dividend declared	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

1.8 Liquidity

Goldgroup’s cash and cash equivalents decreased by $9,041,542 during the six months ended June 30, 2012 as compared to $28,192,445 in the same period of 2011. As at June 30, 2012, the ending cash and cash equivalents balance was $14,271,346 (December 31, 2011 - $23,312,588).

Working capital
As at June 30, 2012, the Company had working capital of $22,290,107 compared to working capital of $30,463,120 as at December 31, 2011.

A summary of the Company’s cash position and changes in cash and cash equivalents for three and six months ended June 30, 2012 and 2011 are provided below:

(Unaudited - expressed in 000’s)	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	2011	**2012**	2011
Cash generated by operating activities – gross	**$ 416**	$ 1,414	**$ 1,803**	$ 1,398
Changes in non-cash operating working capital	**(629)**	(1,216)	**(927)**	(1,970)
Cash generated (consumed) by operating activities - net	**(213)**	198	**876**	(572)
Cash used in investing activities	**(4,990)**	(4,514)	**(9,983)**	(11,559)
Cash provided by financing activities	**59**	551	**65**	40,323
Increase (decrease) 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

Three months ended June 30, 2012 versus June 30, 2011

Operating Activities
Cash generated by operating activities before changes in non-cash operating working capital during the three months ended June 30, 2012 was $415,501 compared to $1,414,031 during the same period of 2011. The operating cash flow in the quarter ended June 30, 2012 decreased compared to the same period of 2011 primarily as a result of the Company incurring higher exploration costs, a foreign exchange gain and increased salaries expense in the quarter ended June 30, 2012.

Investing Activities
During the three months ended June 30, 2012, the Company consumed cash of $4,990,969 compared to $4,513,934 in the same period of 2011. During the 2012 period, the Company spent $203,853 on plant and equipment, $4,767,350 on exploration and evaluation properties and $18,768 on its investment in DynaMexico. The majority of expenditures on plant and equipment relate to the new ERP system that is being implemented. Exploration and evaluation property expenditures were mainly incurred on the Caballo Blanco gold project where the Company made land acquisition costs of $1,655,147, incurred expenditures of $2,869,789 on the current drill program, environmental impact study, column leach testing and ground geophysics and $191,681 on development-type costs. Other exploration expenditures of $50,733 were incurred on the Masoro and the El Candelero property for concession payments.

Financing Activities
During the three months ended June 30, 2012, cash flow generated by financing activities was $58,632 compared to $550,995 in the same period in 2011. During the three months ended June 30, 2012, the Company received $58,632 on the exercise of options. During the three months ended June 30, 2011, the Company received $326,401 on the exercise of options and $224,594 on the exercise of warrants.

Six months ended June 30, 2012 versus June 30, 2011

Operating Activities
Cash generated by operating activities before changes in non-cash operating working capital during the six months ended June 30, 2012 was $1,803,397 compared to $1,398,319 during the same period of 2011. The operating cash flow during the six months ended June 30, 2012 increased compared to the same period of 2011 primarily as a result of the Company generating more profits at Cerro Colorado.

Investing Activities
During the six months ended June 30, 2012, the Company consumed cash of $9,982,724 compared to $11,559,300 in the same period of 2011. During the 2012 period, the Company spent $493,755 on plant and equipment, $9,470,201 on exploration and evaluation properties and $18,768 on its investment in DynaMexico. The majority of expenditures on plant and equipment relate to the implementation of the new ERP system and two new pick-up trucks and some mining equipment at the Cerro Colorado mine. Exploration and evaluation property expenditures were mainly incurred on the Caballo Blanco gold project where the Company made land acquisitions of $2,392,436, incurred expenditures of $6,122,150 on the current drill program, environmental impact study, column leach testing and ground geophysics and $884,555 on engineering costs. Other exploration expenditures of $71,060 were incurred on the Kenya property, El Cajon properties and the El Candelero property for concession payments.

Financing Activities
During the six months ended June 30, 2012, cash flow generated by financing activities was $65,475 compared to $40,323,328 in the same period in 2011. During the 2012 period, the Company received $65,475 on the exercise of options. During the 2011 period, the Company received $37,947,650 from short form prospectus offering, net of share issuance costs of $3,413,250 and received $473,855 on the exercise of options and $1,901,823 on the exercise of warrants.

Liquidity Outlook
Goldgroup had cash and cash equivalents of $14,271,346 available at June 30, 2012, a decrease of $9,095,242 from the balance at December 31, 2011 of $23,312,588, while working capital decreased by $8,12,012 to $22,291,107 at June 30, 2012 from $30,463,119 at December 31, 2011.

With cash and cash equivalents of $14,271,346 available, the Company is well positioned to conduct exploration and development on the Caballo Blanco gold project and any exploration on its 50% equity interest in the San José de Gracia gold project. The Company anticipates the Cerro Colorado mine to continue to generate positive cash flow for the next 12 months.

The Company will require additional financing to fully develop Caballo Blanco into production. The Company expects to pursue financing once the Caballo Blanco permitting issues have been resolved.

The Company believes, exclusive of building and completing the Caballo Blanco project, 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 to execute its current business plans.

1.9 Capital Resources

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 $465,277 (5,961,280 pesos) by October 25, 2013 and $1,912,225 by October 25, 2016 (24,500,000 pesos) for specific surface rights.

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 $234,000 (3,000,000 pesos).

The Company is responsible for office premises, pursuant to a lease agreement expiring September 30, 2015. The minimum lease payments due under the terms of the lease over the next four years are:

2012	$ 102,000
2013	208,000
2014	209,000
2015	160,000
	$ 679,000

The Company is also responsible for the operating costs and property taxes estimated at $110,000.

1.10 Off-Balance Sheet Arrangements

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

1.11 Transactions with Related Parties

Relationships	Nature of the relationship
Uracan Resources Ltd. ("Uracan")	Uracan is a public company and shares certain directors and key management.
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. During the first quarter of 2012, the General Manager of Caballo Blanco resigned.

Key Management compensation includes:

(Unaudited - Expressed in 000's)	Six months ended June 30, 2012	Six months ended June 30, 2011
Salaries [1]	$ 733	$ 546
Non-executive director fees	51	51
Benefits [1]	34	18
Bonuses [2]	59	52
Options [3]	269	2,013
	$ 1,146	$ 2,680

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 June 30, 2012, receivables include $4,645 (December 31, 2011 - $1,573) 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 Uracan.

At June 30, 2012, trade and other accounts payable includes $31,293 (December 31, 2011 - $45,503) 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 Goldgroup's 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 totalled $71,855 (June 30, 2011 - $74,808) 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 $(25,216) (December 31, 2011 - $17,894).

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 $100,000 per year and 3% for employees earning less than $100,000 base salary per year. During the six months ended June 30, 2012 this fee totalled $44,282 (June 30, 2011 - $23,507) which is for Minop's administrative costs incurred by providing these services. As at June 30, 2012, amounts owing from Minop totalled $5,211 (December 31, 2011 - $24,216).

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.

1.12 Proposed Transactions

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

1.13 Critical Accounting Estimates

The preparation of the Company's condensed interim 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.

1.14 Changes in Accounting Policies

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.*

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.

1.15 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 19, “Risk Management” to the Condensed Interim Consolidated Financial Statements for three and six months ended June 30, 2012 and its approach to the “Management of Capital” described in note 21 to the Consolidated Financial Statements for year ended December 31, 2011.

1.16 Basis of Preparation

The Company has prepared its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). 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.

1.17 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 and on the Company's website at 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.

1.17.1 Disclosure of Outstanding Share Data

Goldgroup's authorized capital stock consists of an unlimited number of common shares without par value. As at August 10, 2012, there were 130,936,575 common shares issued and outstanding.

As at August 13, 2012, the Company also had the following options and warrants issued and outstanding:

- 11,231,358 common share options with a weighted average exercise price of C$1.02 expiring at various dates to June 22, 2017.
- 2,000,000 common share warrants with an exercise price of C$1.25 expiring on November 26, 2015.

1.17.2 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 June 30, 2012 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

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.

1.17.3 Disclosure Controls and Procedures

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

1.17.4 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 for three and six months ended June 30, 2012 and 2011

(Unaudited)	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	2011	**2012**	2011
Cost of sales (excluding depreciation and depletion)	**$ 7,145,230**	$ 7,079,883	**$ 14,120,807**	$12,362,607
Silver by-product credit	**(157,624)**	(74,395)	**(220,961)**	(112,267)
	$ 6,987,606	$ 7,005,488	**$ 13,899,846**	$12,250,340
Gold ounces sold	**6,233**	6,477	**11,896**	11,118
Total cash costs ($/oz. sold)	**$1,121**	$1,082	**$1,168**	$ 1,102
Breakdown of cost per ounce sold				
Direct operating costs	**$1,099**	$ 1,052	**$1,140**	$ 1,071
3% NSR Royalty	**47**	41	**47**	41
Less: silver by-product credits	**(25)**	(11)	**(19)**	(10)
Total cash costs ($/oz. sold)	**$1,121**	$ 1,082	**$1,168**	$ 1,102

1.17.5 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 relations 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 relations 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 relations 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.

1.17.6 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.

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.

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

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.