



GOLDGROUP MINING INC.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 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 November 14, 2012, and is intended to supplement and complement the Company's condensed interim consolidated financial statements for the three and nine months ended September 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 nine months ended September 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

Highlights and Developments

- On November 14, 2012 the Board of Directors announced that Chester F. Millar was appointed Chairman of the Company, replacing Gregg J. Sedun. Furthermore, Hans von Michaelis was appointed as CEO and President, replacing Gregg J. Sedun, who was appointed as interim President and CEO on October 11, 2012. In addition, Michael Clark was appointed as Chief Financial Officer, replacing John J. Sutherland. The newly appointed Chairman, CEO and President will not have salary remuneration. These changes are part of the Company's continued focus on optimizing capital and other costs.
- On October 11, 2012, the Company appointed Executive Chairman, Gregg J. Sedun, to fill the role of interim President and Chief Executive Officer, replacing Keith Piggott until such time that the corporate structure is determined and the position is filled permanently. Mr. Piggott is a major shareholder of the Company and continues to serve on the Company's Board of Directors.
- On September 14, 2012, the Company deferred the evaluation of the Environmental Impact Statement ("EIS") for Caballo Blanco, as Mexico is undergoing a change in Federal government and the Company recognizes the importance of working with the transitioning team and new authorities to integrate their requirements for the development of the project.
- The Company installed a new secondary crusher for Cerro Colorado in October 2012. The total expected cost for the new secondary crusher is \$1,275,000, including installation costs, of which \$520,000 was paid as of September 30, 2012 and was included in prepaid expenses. The secondary crusher is expected to improve recoveries and will be capable of being transferred to another site.
- During the third quarter of 2012, the Company successfully completed the implementation of an Enterprise Resource Planning ("ERP") system at all of its locations.
- Gold production at Cerro Colorado for the quarter ended September 30, 2012 decreased significantly resulting in cash costs per ounce of \$1,846. The largest factor was crusher circuit

down time causing the mining activities to focus on stripping of waste. This resulted in the waste to ore ratio increasing to 3.91 during the period. Other factors contributing to the poor production include lower ore grade being mined and the increased rain fall during the quarter which caused the cyanide solution to be diluted. Management expects gold production to improve as the new crusher is installed and the rainy season has ended, which will allow the cyanide solution to return to proper levels.

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.

The Company is listed on the Toronto Stock Exchange (“TSX”) under the symbol “GGA” and on the Over-The-Counter (“OTC”) market under the symbol “GGAZF”.

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

The profitability and operating cash flow of the Company are affected by various factors, including the amount of gold produced and sold, the market price of gold, operating costs, interest rates, regulatory and environmental compliance, general and administrative costs, the level of exploration and development expenditures, decommissioning and restoration provisions and other discretionary costs. Goldgroup is also exposed to fluctuations in foreign currency exchange rates that can materially impact profitability and cash flow. To date, all of the Company’s projects are located in Mexico and 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 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. There can be no assurance that additional capital or other types of financing will be available to the Company if needed or that, if available, the terms of such financing will be on terms favourable to the Company.

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 occurring 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. ("Almaden"). 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 and there can be no assurance that surface rights agreements, permits or studies will be obtained or completed when needed, which could have a material adverse effect on the Company's business and operations.

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.

Effective November 1, 2012, the Company has appointed the Company's Project Manager, Dustin VanDoorselaere, as Vice President, Operations. Mr. Richard Irvine, the former General Manager of Caballo Blanco, resigned from Goldgroup on February 23, 2012. Effective October 30, 2012, Patrick Glynn resigned as Vice President Technical and Projects.

Status of Project

Goldgroup released an updated technical report on the Caballo Blanco gold project effective February 7, 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 and supersedes the disclosure in the February 7, 2012 technical report. 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 7, 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.

Readers are cautioned that the PEA is preliminary in nature, as it includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be characterized as mineral reserves, and there is no certainty that the PEA will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mineral resource estimates do not account for mineability, selectivity, mining loss and dilution. There is also no certainty that the inferred mineral resources will be converted to measured and indicated categories through further drilling, or into mineral reserves, once economic considerations are applied.

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

In 2010 and 2011, Goldgroup completed 32,345 meters of diamond drilling and an additional 13,574 meters were drilled in 2012, for a total of 167 holes to date from 2010 to 2012 at the La Paila Zone. 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.

In 2012, the drill program was specifically focused on further defining the extent of mineralization around the existing estimated mineral resource at the La Paila Zone. 32 of the 57 drill holes reported below (see Table below) contain intervals above the established cut-off grade and are part of the ongoing drill program intended to increase the contained mineral resource at Caballo Blanco. Of the 57 drill holes reported below, 16 of these drill holes further define the area of the La Paila estimated mineral resource, and the remaining 41 drill holes were drilled to expand the southwestern flank of the La Paila Zone as well as test the mineralization at depth. The 2012 diamond drill results continue to confirm, define and expand the La Paila Zone.

At the time the NI 43-101 compliant mineral resource estimate in February 2012 was published, four drill holes assay results drilled in 2011 had not been received (11CBN179-181 and 11CBN183) and these results are now also included in the table below.

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.

Assay results for the 2012 drill program above a 0.2g/t cut off are shown in the table below.

Drill Hole	Mineralisation			
	From (m)	To (m)	Interval (m)	Au grade (g/t)
11 CBN 179	23.28	41.28	18.00	0.36
11 CBN 179	111.28	140.30	29.02	0.61
11 CBN 180	213.25	221.25	8.00	0.32
11 CBN 180	377.25	396.42	19.17	0.56
11 CBN 181	238.95	246.95	8.00	0.33
11 CBN 181	258.95	262.50	3.55	2.06
11 CBN 183	27.30	45.30	18.00	1.29
11 CBN 183	89.30	149.00	59.70	1.08
11 CBN 184	449.24	462.98	13.74	1.54
11 CBN 186	233.40	237.55	4.15	0.82
11 CBN 186	251.04	261.18	10.14	0.60
11 CBN 187	186.05	192.05	6.00	0.49
12 CBN 191	247.50	294.10	46.60	0.30
12 CBN 191	311.10	322.50	11.40	0.21
12 CBN 192	233.05	251.85	18.80	0.40
12 CBN 192	309.50	340.50	31.00	0.98
12 CBN 192	361.50	376.50	15.00	0.45
12 CBN 195	378.50	391.00	12.50	1.11
12CBN-198	99.9	113.65	13.75	2.37
12CBN-198	145.24	151.24	6	0.24
12CBN-198	159.25	260.3	101.05	0.52
12CBN-198	268.3	298.95	30.65	0.33
12CBN-198	305.1	313.1	8	0.28
12CBN-203	394.5	406.5	12	0.46
12CBN-205	97.8	111.3	13.5	0.22
12CBN-205	262.65	267.8	5.15	0.70
12CBN-207	260.1	277.7	17.6	0.30
12CBN-212	154	165.7	11.7	0.95
12CBN-213	208.5	222.5	14	0.28
12CBN-214	89.3	131.75	42.45	0.38
12 CBN 214	224	230	6	0.29
12CBN-214	260.7	264.25	3.55	0.90
12CBN-216	270.11	282	11.89	0.45
12CBN-217	183.6	195.6	12	0.39
12 CBN 217	391.6	399.6	8	0.27
12CBN-219	41.25	60.5	19.25	0.31
12CBN-219	70	95	25	0.65
12CBN-219	125.1	131.1	6	0.24
12CBN-220	264.6	291.6	27	0.68
12CBN-221	70.8	106.5	35.7	0.76
12CBN-221	118.25	135.3	10.75	0.99
12CBN-221	145.95	157.95	12	0.26
12CBN-222	82.6	176.6	94	1.24
12CBN-226	67.3	214.6	147.3	0.57
12CBN-227	102.8	166.8	64	0.48
12CBN-227	174.8	180.8	6	0.23
12CBN-227	208.8	236.8	28	0.26
12CBN-227	244.8	252.8	8	0.20
12CBN-228	118.16	157.16	39	0.52
12CBN-228	227.7	237.7	10	0.28
12CBN-228	251	256.2	5.2	1.15
12CBN-228	278	282.9	4.9	0.33
12CBN-231	106.35	122.44	16.09	0.42
12CBN-231	139.8	145.8	6	0.65
12CBN-231	176.25	255.92	79.67	0.76
12CBN-231	269.92	273.8	3.88	0.23

Drill Hole	Mineralisation			
	From (m)	To (m)	Interval (m)	Au grade (g/t)
12CBN-231	280	292	12	0.29
12CBN-231	313.1	319	5.9	0.25
12CBN-232	42.55	133.1	90.55	1.08
12CBN-232	147.1	191.6	44.5	0.54
12CBN-232	199.6	204.12	4.52	0.47
12CBN-232	269.7	280.55	10.85	0.37
12 CBN 232	305	336.35	31.35	0.48
12CBN-233	34.8	40.8	6	0.80
12CBN-235	51.85	59.5	7.65	0.29
12CBN-235	82.35	141.9	59.55	0.46
12CBN-235	176.6	183.85	7.25	0.51

These drill results do not materially affect the mineral resource estimate dated February 7, 2012 prepared by Jim Cuttle, P. Geo., and Gary Giroux, P. Eng., of Giroux Consultants Ltd.

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. On September 14, 2012, the Company deferred the evaluation of the EIS for Caballo Blanco, as Mexico is undergoing a change in Federal government and the Company recognizes the importance of working with the transitioning team and new authorities to integrate their requirements for the development of the project. The environmental permitting process is governed by Mexican federal law and regulations.

Goldgroup is working on three environmental studies that have been brought forth through the EIS permitting process.

- Incorporating changes that arose at Caballo Blanco as a result of the PEA, including a haulage tunnel, connection to the electrical grid and modification to the pit outline, waste dump and leach pad.
- Providing additional information on the management of Cicadas, which are an endangered species in the area. The Company is working on ensuring that strategic plans to ensure their transplant and survival, as well as an environmental management plan to increase their numbers, is completed.
- Completing additional studies on the Actopan watershed to ensure that there is sufficient water resource to support the project.

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 working with the relevant Federal, State and local authorities to ensure that the Company addresses these environmental comments and expects to reactivate the EIS and ETJ submissions in a timely manner. When the enhanced ETJ and EIS applications are 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.

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 most recent 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 September 30, 2012, the remaining life of the in-pit resource at Cerro Colorado mine is currently estimated by Goldgroup to be approximately nine 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 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. The Whittle Shell was prepared by Fernando Rodrigues BSc, MBA, MAusIMM, MMSAQP of SRK Consulting, an independent qualified person under National Instrument 43-101.

Status of Operations and Outlook

At the Cerro Colorado gold mine, the Company produced 15,306 ounces of gold during the nine months ended September 30, 2012 (2011 – 15,988 ounces).

In 2012, the Company is focusing 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 was 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 nine months ended September 30, 2012 versus September 30, 2011

<i>(Unaudited - expressed in 000's)</i>	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Metal sales	\$6,975	\$8,052	\$26,750	\$24,348
Cost of sales ^(a)	7,776	5,379	21,897	17,742
Depreciation and depletion	532	595	1,723	1,848
Gross profit (loss)	(1,333)	2,078	3,130	4,758
Other expenses (income):				
Administrative expenses	1,415	1,554	4,606	4,842
Share of equity loss in DynaMexico	43	95	143	56
Other expenses (income)	513	3,175	(432)	3,259
	1,971	4,824	4,317	8,157
Loss before income taxes	(3,304)	(2,746)	1,187	(3,399)
Provision for income taxes:				
Current	(366)	1,749	624	2,334
Future	(3)	(26)	1,567	772
Net loss for the period	\$(2,935)	\$(4,469)	\$(3,378)	\$(6,505)
Loss per share – basic and diluted	\$(0.02)	\$(0.04)	\$(0.03)	\$(0.06)

(a) Cost of sales excludes depreciation and depletion

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

- Gold sales during the third quarter of 2012 were 4,165 ounces at an average gold price of \$1,654 per ounce compared to 4,686 ounces at an average gold price of \$1,698 per ounce during the same period of 2011. During the third quarter of 2012, the Cerro Colorado gold mine produced 3,685 ounces of gold compared to 4,784 during the same period of 2011.
- Cost of sales of \$7,776,123 represented cash operating costs at the Cerro Colorado gold mine for the third quarter of 2012 or \$1,846 per ounce of gold sold, compared to cash operating costs of \$5,378,952 for the same period in 2011 or \$1,127 per ounce of gold sold. The cash cost per ounce increased during the third quarter of 2012 as a result of crusher circuit down-time and the crusher generator breaking down. During the crusher downtime the mine focused on the stripping of waste resulting in the waste-to-ore ratio increasing from 2.10 to 3.91.
- Depreciation and depletion of \$532,243 during the three months ended September 30, 2012 resulted primarily from the depreciation and depletion on the Cerro Colorado mine and plant and equipment compared to \$595,340 during the same period of 2011. The depletion expense is calculated on a unit-of-production basis.
- Administrative expenses were \$1,415,402 for the quarter ended September 30, 2012 compared to \$1,553,516 during the third 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 2011 and 2012.

- Other expenses (income) were \$512,857 for the quarter ended September 30, 2012 compared to \$3,175,056 during the same period in 2011. The 2012 balance relates to the write-off of the El Cajon property, 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 loss on warrants, a foreign exchange gain, and exploration at Cerro Colorado.
- Income tax expense (recovery) of \$(365,784) was recorded in the third quarter of 2012 compared to \$1,748,585 during the same period of 2011. The 2012 recovery of Cerro Colorado taxes relates to a recovery from the first six months of 2012. The 2011 expense relates to profits at the Cerro Colorado mine. Deferred income tax expense (recovery) of \$(2,930) was recorded during the three months ended September 30, 2012 compared to \$(26,232) during the same period of 2011.

Nine Months 2012 vs. Nine Months 2011

- Gold sales during the first nine months of 2012 were 16,061 ounces at an average gold price of \$1,647 per ounce compared to 15,804 ounces at an average gold price of \$1,527 per ounce during the comparative period of 2011. During the first nine months of 2012, the Cerro Colorado gold mine produced 15,306 ounces of gold compared to 15,988 during the same period of 2011.
- Cost of sales of \$21,896,930 represented cash operating costs at the Cerro Colorado gold mine for the first nine months of 2012 or \$1,344 per ounce of gold sold, compared to cash operating costs of \$17,741,559 for the same period in 2011 or \$1,109 per ounce of gold sold. The cash cost per ounce increased during the first nine months of 2012 as a result of the waste-to-ore ratio increasing from 1.81 to 3.57 and lower ore grade offset by increased recoveries during the 2012 period.
- Depreciation and depletion of \$1,722,810 during the nine months ended September 30, 2012 resulted primarily from the depreciation and depletion on the Cerro Colorado mine and plant and equipment compared to \$1,847,891 during the same period of 2011. The depletion expense is calculated on a unit-of-production basis.
- Administrative expenses were \$4,605,564 for the nine months ended September 30, 2012 compared to \$4,842,001 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 2011 and 2012.
- Other expenses (income) were \$(431,668) for the nine months ended September 30, 2012 compared to \$3,259,245 during the same period in 2011. The 2012 balance relates to the write-off of the El Cajon property, 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 foreign exchange loss, exploration at Cerro Colorado and a derivative loss on warrants.
- Income tax expense of \$624,063 was recorded for the first nine months of 2012 compared to \$2,334,486 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 \$1,567,384 was recorded during the first nine months of 2012 compared to \$772,084 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 November 14, 2012, Goldgroup has cash and cash equivalents of approximately \$10,000,000. 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	3,000

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 nine months ended September 30, 2012 was \$1,651 and \$1,651 per ounce, respectively. London P.M. fixings of the gold price during the nine month period ranged from a low of \$1,540 per ounce on May 30, 2012 to a high of \$1,785 per ounce on September 21, 2012. These prices compare with averages of \$1,702 and \$1,534 per ounce, respectively, during the three and nine months ended September 30, 2011 and averages of \$1,227 and \$1,178 per ounce, respectively, during the three and nine months ended September 30, 2010. Prices for the nine months ended September 30, 2011 ranged from a low of \$1,483 per ounce to a high of \$1,895 per ounce.

The Company realized an average price of \$1,654 per ounce on its sales of gold during the third quarter of 2012 compared to an average realized price of \$1,698 and \$1,237 for the same periods in 2011 and 2010, respectively. The Company realized an average price of \$1,647 per ounce on its sales of gold during the first nine months of 2012 compared to an average realized price of \$1,527 and \$1,174 for the same period in 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 nine months ended September 30, 2012 versus September 30, 2011 Cerro Colorado Gold Mine (100% ownership)

Operating Statistics (Unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Ore mined – placed on leach pad (tonnes)	421,467	605,615	1,373,601	1,790,434
Waste mined (tonnes)	1,648,598	1,273,005	4,902,173	3,243,175
Total mined (tonnes)	2,070,065	1,878,620	6,275,774	5,033,609
Waste-to-ore-ratio	3.91	2.10	3.57	1.81
Recovery	59%	47%	64%	55%
Grade (g/t Au)	0.46	0.58	0.50	0.55
Gold ounces mined	6,239	10,236	23,898	28,887
Gold ounces – produced	3,685	4,784	15,306	15,988
Gold ounces – sold	4,165	4,686	16,061	15,804
Operating Financial Data (Unaudited - Expressed in 000's)				
Metal Sales	\$6,975	\$8,052	\$26,750	\$24,348
Cost of sales ^(a)	\$7,776	\$5,379	\$21,897	\$17,742
Depreciation and depletion	\$532	\$595	\$1,723	\$1,848
Gross profit (loss)	\$(1,333)	\$2,078	\$3,130	\$4,758
Net loss	\$(2,935)	\$(4,469)	\$(3,378)	\$(6,505)
Basic and diluted loss per share	\$(0.02)	\$(0.04)	\$(0.03)	\$(0.06)
Average realized gold price per ounce sold	\$1,654	\$1,698	\$1,647	\$1,527
Cash cost per ounce sold	\$1,846	\$1,127	\$1,344	\$1,109
Exploration – Cerro Colorado	\$354	\$244	\$1,007	\$455
Plant and equipment expenditures at Cerro Colorado	\$215	\$155	\$355	\$2,904

(a) Cost of sales excludes depreciation and depletion.

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

- Tonnes mined for the quarter ended September 30, 2012 increased 10% 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 September 30, 2012 decreased by 23% over the same 2011 period, primarily as a result of crusher circuit down time and the generator for the crusher breaking down causing mining activities to focus on stripping of waste. This resulted in the waste to ore ratio increasing to 3.91 during the period. In addition, the ore grade being mined during the period was lower at 0.46 g/t. The increased stripping of waste and lower ore grade available resulted in less gold being placed on the leach pad in 2012 compared to the 2011 period.
- Gold sales for the quarter ended September 30, 2012 were 4,165 ounces at an average realized price of \$1,654 per ounce compared to 4,686 ounces sold at an average realized price of \$1,698 for the same period in 2011.
- Operating cash costs for the quarter ended September 30, 2012 were \$7,776,123 or \$1,846 per ounce of gold sold including silver by-product credits of \$21 per ounce, compared to \$5,378,952 or \$1,127 per ounce of gold sold for same period in 2011, before silver by-product credits of \$21 per ounce. This represents an increase of \$719 per ounce over the third quarter of 2011. The cost per ounce increased during the third quarter of 2012 as a result of less ore with a lower ore grade being placed on the pad and increased waste stripping during the 2012 period. . This is slightly offset by higher recoveries during the 2012 period.
- Exploration costs at Cerro Colorado for the quarter ended September 30, 2012 were \$353,875 compared to \$244,133 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.

Nine months ended September 30, 2012 versus September 30, 2011

- Tonnes mined for the nine months ended September 30, 2012 increased 25% 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 nine months ended September 30, 2012 decreased by 4% over the same 2011 period, primarily as a result of less ore placed on the pad and lower ore grade in the 2012 period.
- Gold sales for the nine months ended September 30, 2012 were 16,061 ounces at an average realized price of \$1,647 per ounce compared to 15,804 ounces sold at an average realized price of \$1,527 for the same period in 2011.
- Operating cash costs for the nine months ended September 30, 2012 were \$21,896,930 or \$1,344 per ounce of gold sold including silver by-product credits of \$19 per ounce, compared to \$17,741,559 or \$1,109 per ounce of gold sold for same period in 2011, before silver by-product credits of \$13 per ounce. This represents an increase of \$235 per ounce over the 2011 period. The cost per ounce increased during the first nine months of 2012 is mainly due to the downtime of the crusher circuit and the generator for the crusher breaking down during the third quarter which resulted in less ore being placed on the leach pad. During the crusher downtime the mine moved an increased amount of waste resulting in the waste-to-ore ratio increasing from 1.81 to 3.57. This is slightly offset by higher recoveries in the 2012 period.

- Exploration costs at Cerro Colorado for the nine months ended September 30, 2012 were \$1,007,468 compared to \$455,469 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, except per share amounts. Prior period amounts previously reported in Canadian GAAP are now being reported under IFRS.

<i>(Unaudited – expressed in 000's)</i>	2012			2011			2010	
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Revenue	6,975	10,172	9,603	6,871	8,052	9,824	6,472	6,188
Income (loss) from mine operations	(1,333)	2,407	2,056	404	2,078	2,054	626	917
Net income (loss)	(2,935)	(786)	343	(10,455)	(4,469)	19	(2,055)	(3,124)
Basic and diluted earnings (loss) per share	\$(0.02)	(0.01)	0.00	(0.09)	(0.04)	0.00	(0.02)	(0.03)
Cash and cash equivalents	12,456	14,271	19,415	23,313	35,802	40,846	44,611	12,654
Total assets	109,408	112,748	111,256	109,254	108,342	108,744	109,161	68,835
Non-current financial liabilities	202	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 \$10,856,590 during the nine months ended September 30, 2012 as compared to \$5,043,840 in the same period of 2011. As at September 30, 2012, the ending cash and cash equivalents balance was \$12,456,098 (December 31, 2011 - \$23,312,588).

Working capital

As at September 30, 2012, the Company had working capital of \$18,755,733 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 nine months ended September 30, 2012 and 2011 are provided below:

<i>(Unaudited - expressed in 000's)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Cash generated (consumed) by operating activities – gross	\$ (1,772)	\$ (2,571)	\$ 31	\$ (1,173)
Changes in non-cash operating working capital	2,240	161	1,313	(1,809)
Cash generated (consumed) by operating activities - net	468	(2,410)	1,344	(2,982)
Cash used in investing activities	(2,283)	(4,248)	(12,266)	(15,807)
Cash provided by financing activities	-	1,614	65	41,937
Increase (decrease) in cash and cash equivalents	(1,815)	(5,044)	(10,857)	23,148
Cash and cash equivalents, beginning of period	14,271	40,846	23,313	12,654
Cash and cash equivalents, end of period	\$ 12,456	\$ 35,802	\$ 12,456	\$ 35,802

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

Operating Activities

Cash consumed by operating activities before changes in non-cash operating working capital during the three months ended September 30, 2012 was \$1,772,404 compared to \$2,571,132 during the same period of 2011. The operating cash flow consumed in the quarter ended September 30, 2012 decreased compared to the same period of 2011 primarily as a result of the Company incurring a foreign exchange loss in the 2011 period offset by higher exploration costs, a foreign exchange gain and increased salaries expense in the quarter ended September 30, 2012.

Investing Activities

During the three months ended September 30, 2012, the Company invested cash of \$2,283,169 compared to \$4,248,154 in the same period of 2011. During the 2012 period, the Company spent \$589,926 on plant and equipment and intangible asset and \$1,693,243 on exploration and evaluation properties. The majority of expenditures on plant and equipment and intangible asset relate to the new ERP system that was implemented, which is classified as intangible asset. Exploration and evaluation property expenditures were mainly incurred on the Caballo Blanco gold project where the Company spent \$1,643,355 on the most recent drill program, environmental impact study, column leach testing and ground geophysics and \$49,888 on development-type costs.

Financing Activities

During the three months ended September 30, 2012, cash flow generated by financing activities was \$nil compared to \$1,613,959 in the same period in 2011. During the three months ended September 30, 2011, the Company received \$444,470 on the exercise of options and \$1,169,489 on the exercise of warrants.

Nine months ended September 30, 2012 versus September 30, 2011

Operating Activities

Cash generated (consumed) by operating activities before changes in non-cash operating working capital during the nine months ended September 30, 2012 was \$30,593 compared to \$(1,173,333) during the same period of 2011. The operating cash outflow during the nine months ended September 30, 2012

decreased compared to the same period of 2011 primarily as a result of the Company incurring a foreign exchange loss in the 2011 period offset by higher exploration costs, a foreign exchange gain and increased salaries expense in the 2012 period.

Investing Activities

During the nine months ended September 30, 2012, the Company invested cash of \$12,265,895 compared to \$15,807,454 in the same period of 2011. During the 2012 period, the Company spent \$1,082,683 on plant and equipment and intangible asset, \$11,164,430 on exploration and evaluation properties and \$18,782 on its investment in DynaMexico. The majority of expenditures on plant and equipment and intangible asset relate to the implementation of the new ERP system, a generator, 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 \$7,745,122 on the current drill program, environmental impact study, column leach testing and ground geophysics and \$935,443 on engineering costs. Other exploration expenditures of \$91,429 were incurred on the Kenya property, El Cajon properties and the El Candelero property for concession payments.

Financing Activities

During the nine months ended September 30, 2012, cash flow generated by financing activities was \$65,475 compared to \$41,936,676 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 \$918,325 on the exercise of options and \$3,071,312 on the exercise of warrants.

Liquidity Outlook

Goldgroup had cash and cash equivalents of \$12,456,098 available at September 30, 2012, a decrease of \$10,856,490 from the balance at December 31, 2011 of \$23,312,588, while working capital decreased by \$11,707,386 to \$18,755,733 at September 30, 2012 from \$30,463,119 at December 31, 2011.

With cash and cash equivalents of \$12,456,098 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 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 \$463,251 (5,961,280 pesos) by October 25, 2013 and \$1,903,895 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, 2021 are \$233,130 (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	\$ 54,000
2013	216,000
2014	217,000
2015	166,000
	<u>653,000</u>
	<u>\$ 653,000</u>

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

The Company intends to use its current cash on hand to fund these costs and expenditures.

1.10 Off-Balance Sheet Arrangements

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

1.11 Transactions with Related Parties

Relationships

Uracan Resources Ltd. ("Uracan")

Nature of the relationship

Uracan is a public company and shares certain directors and key management.

Key management

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the former President and Chief Executive Officer, Executive Chairman, Chief Financial Officer, Vice-President, Exploration, General Manager of Cerro Colorado, former General Manager of Caballo Blanco, the Technical Director, former Vice-President Technical and Projects and non-executive directors of the Company. During 2012 the General Manager of Caballo Blanco and the Vice-President Technical Projects resigned. In addition on October 12, 2012 the President and Chief Executive Officer was replaced by the Executive Chairmen.

Key Management compensation includes:

Key management compensation includes: (expressed in 000's)	Nine months ended September 30,	
	2012	2011
Salaries ¹	\$ 1,015	\$ 876
Non-executive director fees	80	74
Benefits ¹	56	27
Bonuses ²	71	52
Options ³	270	1,923
	<u>\$ 1,492</u>	<u>\$ 2,952</u>

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

At September 30, 2012, receivables include \$nil (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 Uracon.

At September 30, 2012, trade and other accounts payable includes \$32 (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 a director and former 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 nine months ended September 30, 2012 this fee totaled \$108,830 (September 30, 2011 - \$113,572). This fee is meant to reimburse Pabelini for its office costs and administrative overhead costs incurred in managing the payroll and making all required remittances to the Mexican government in association with salaries of such employees. At September 30, 2012, amounts owing from Pabelini totalled \$18,892 (December 31, 2011 - \$17,894).

In addition to Pabelini, a number of expatriate workers and Caballo Blanco employees, including the Company's director and former CEO, are employed by MINOP, S.A. de C.V. ("Minop"). Minop is a private company controlled by the son-in-law of a director and former 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 nine months ended September 30, 2012 this fee totaled \$53,247 (September 30, 2011 - \$52,643). This fee is meant to reimburse Minop for administrative costs incurred by the company in providing these services. At September 30, 2012, amounts owing from Minop totalled \$2,626 (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 carry forwards. 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.

Effective January 1, 2012 the Company adopted IAS 7 – *Income Taxes (Amended)* and IAS 12 – *Financial Instruments: Disclosures (Amended)*. There was no impact to the financial statements.

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 nine months ended September 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 any investment in 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 November 13, 2012, there were 130,936,575 common shares issued and outstanding.

As at November 14, 2012, the Company also had the following options and warrants issued and outstanding:

- 10,841,358 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 concluded that internal control over financial reporting was effective as of December 31, 2011 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There have been no material changes to internal control over financial reporting since that date.

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 nine months ended September 30, 2012 and 2011

<i>(Unaudited)</i>	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Cost of sales (excluding depreciation and depletion)	\$ 7,776,123	\$ 5,378,952	\$ 21,896,930	\$17,741,559
Silver by-product credit	(85,742)	(96,881)	(306,703)	(209,148)
	\$ 7,690,381	\$ 5,282,071	\$ 21,590,227	\$17,532,411
Gold ounces sold	4,165	4,686	16,061	15,804
Total cash costs (\$/oz. sold)	\$1,846	\$1,127	\$1,344	\$ 1,109
Breakdown of cost per ounce sold				
Direct operating costs	\$1,829	\$ 1,088	\$1,319	\$ 1,076
3% NSR Royalty	38	60	44	46
Less: silver by-product credits	(21)	(21)	(19)	(13)
Total cash costs (\$/oz. sold)	\$1,846	\$ 1,127	\$1,344	\$ 1,109

1.17.5 Investor Relations Activities

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

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.

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

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

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;
- risks related to obtaining appropriate permits and licences to explore, develop, operate and produce at the Company’s projects;
- uncertainties related to current global economic conditions;
- fluctuations in precious and base metal prices;

- uncertainties related to the availability of future financing;
- potential difficulties with joint venture partners;
- risks that Goldgroup's title to its property could be challenged;
- political and country risk;
- risks associated with Goldgroup being subject to government regulation;
- risks associated with having adequate surface rights for operations;
- environmental risks;
- Goldgroup's need to attract and retain qualified personnel;
- risks associated with operating hazards at the Cerro Colorado Mine;
- risks associated with potential conflicts of interest;
- Goldgroup's lack of experience in overseeing the construction of a mining project;
- risks related to the integration of businesses and assets acquired by Goldgroup;
- uncertainties related to the competitiveness of the mining industry;
- risk associated with theft;
- risk of water shortages and risks associated with competition for water;
- uninsured risks and inadequate insurance coverage;
- risks associated with potential legal proceedings;
- risks associated with community relations;
- outside contractor risks;
- risks related to archaeological sites;
- foreign currency risks;
- risks associated with security and human rights; and
- risks related to the need for reclamation activities on Goldgroup's properties.

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

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

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

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

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