



**GOLDGROUP MINING INC.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**

**(Unaudited)**

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

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that these condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

**GOLDGROUP MINING INC.**  
**Interim Consolidated Statements of Financial Position**  
**September 30, 2013 and December 31, 2012**

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

	Note	September 30, 2013	December 31, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	\$ 1,778	\$ 8,488
Investments	6	199	-
Receivables	7	5,941	4,889
Inventories	8	3,766	5,111
Prepays and deposits		377	368
<b>Total current assets</b>		<b>12,061</b>	<b>18,856</b>
<b>Non-current assets</b>			
Plant and equipment	9	1,939	3,529
Intangible asset	9	452	612
Investment in DynaResource de Mexico SA de CV	10	18,058	17,938
Exploration and evaluation properties	11	74,589	63,388
<b>Total non-current assets</b>		<b>95,038</b>	<b>85,467</b>
<b>Total assets</b>		<b>\$ 107,099</b>	<b>\$ 104,323</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other accounts payable	13	\$ 2,851	\$ 4,426
Taxes payable		107	109
Loan payable - current portion	15	3,230	-
<b>Total current liabilities</b>		<b>6,188</b>	<b>4,535</b>
<b>Non-current liabilities</b>			
Decommissioning and restoration provision	16	925	855
Warrant liability	17	4	90
Promissory note payable	14	1,510	-
Loan payable	15	1,011	-
Deferred tax liability		6,881	6,377
<b>Total liabilities</b>		<b>16,519</b>	<b>11,857</b>
<b>Equity</b>			
Share capital	18	128,768	128,011
Share option reserve	18.3	7,304	7,279
Contingent share consideration	18.4	4,672	3,305
Translation reserve		(355)	(355)
Investment revaluation reserve		(676)	-
Deficit		(49,133)	(45,774)
<b>Total equity</b>		<b>90,580</b>	<b>92,466</b>
<b>Total equity and liabilities</b>		<b>\$ 107,099</b>	<b>\$ 104,323</b>
Nature of Operations and Going Concern	1		
Commitments	24		
Subsequent Events	27		

Approved by the Board of Directors:

*/s/ Keith Piggott*

Director

*/s/ Donald R. Siemens*

Director

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

**GOLDGROUP MINING INC.****Interim Consolidated Statements of Loss and Comprehensive Loss****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars except per share amounts)*

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2013	2012	2013	2012
<b>Revenue</b>					
Gold sales		\$ 5,588	\$ 6,889	\$ 21,969	\$ 26,443
Silver sales		52	86	285	307
		<u>5,640</u>	<u>6,975</u>	<u>22,254</u>	<u>26,750</u>
<b>Costs and expenses of mining operations</b>					
Cost of sales	20	5,998	7,776	18,840	21,897
Depreciation and depletion		518	532	1,620	1,723
		<u>6,516</u>	<u>8,308</u>	<u>20,460</u>	<u>23,620</u>
<b>Gross profit</b>		<u>(876)</u>	<u>(1,333)</u>	<u>1,794</u>	<u>3,130</u>
<b>Other expenses (income)</b>					
Administrative expenses	21	704	1,415	3,030	4,606
Share of equity loss (gain) in DynaMexico	10	2	43	(1)	143
Write-off of mineral property	11	-	435	-	435
Other (income) expenses	22	764	78	804	(867)
		<u>1,470</u>	<u>1,971</u>	<u>3,833</u>	<u>4,317</u>
<b>Loss before income taxes</b>		<u>(2,346)</u>	<u>(3,304)</u>	<u>(2,039)</u>	<u>(1,187)</u>
<b>Provision for income taxes:</b>					
Current		(115)	(366)	808	624
Deferred		337	(3)	512	1,567
<b>Loss for the period</b>		<u>\$ (2,568)</u>	<u>\$ (2,935)</u>	<u>\$ (3,359)</u>	<u>\$ (3,378)</u>
<b>Other comprehensive loss</b>					
Items that may be reclassified subsequently to net loss					
Mark-to-market loss on available-for-sale securities	6	\$ 48	\$ -	\$ 676	\$ -
<b>Total Comprehensive loss for the period</b>		<u>\$ (2,616)</u>	<u>\$ (2,935)</u>	<u>\$ (4,035)</u>	<u>\$ (3,378)</u>
<b>Basic and diluted loss per share</b>		<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>
<b>Basic weighted average shares outstanding (000's)</b>		<u>132,790</u>	<u>130,937</u>	<u>131,561</u>	<u>130,221</u>

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

**GOLDGROUP MINING INC.**  
**Interim Consolidated Statements of Cash Flows**  
**September 30, 2013 and 2012**

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

	Note	Three Months Ended September		Nine Months Ended September	
		2013	2012	2013	2012
<b>CASH AND CASH EQUIVALENTS DERIVED FROM (USED IN) OPERATING ACTIVITIES</b>					
(Loss) income for the period		\$ (2,568)	\$ (2,935)	\$ (3,359)	\$ (3,378)
Items not involving cash:					
Deferred tax provision		337	(3)	512	1,567
Depreciation and depletion		575	534	1,792	1,749
Write-off equipment and inventory		397	442	638	442
Unrealized foreign exchange gain		(1)	23	2	6
Share-based compensation expense	18	(20)	162	25	709
Financing costs	16	24	21	70	63
Gain on warrants	17	55	(59)	6	(1,270)
Share of loss of DynaMexico	10	2	43	(1)	143
		(1,199)	(1,772)	(315)	31
Changes in non-cash working capital items	26	539	2,240	(1,535)	1,313
		(660)	468	(1,850)	1,344
<b>FINANCING ACTIVITIES</b>					
Issuance of shares, net of issue costs	18	-	-	-	65
Proceeds from loan payable	15	4,189	-	4,189	-
		4,189	-	4,189	-
<b>INVESTING ACTIVITIES</b>					
Purchase of plant and equipment	9	-	(590)	(211)	(1,083)
Investment in Oroco Resources Corp.	6	-	-	(977)	-
Investment in DynaMexico	10	-	-	(120)	(19)
Exploration and evaluation properties	11	(5,753)	(1,693)	(7,741)	(11,164)
		(5,753)	(2,283)	(9,049)	(12,266)
<b>Decrease in cash and cash equivalents</b>		(2,224)	(1,815)	(6,710)	(10,922)
<b>Cash and cash equivalents, beginning of period</b>		4,002	14,271	8,488	23,313
<b>Cash and cash equivalents, end of period</b>		\$ 1,778	\$ 12,456	\$ 1,778	\$ 12,391
<b>Cash and cash equivalents is comprised of:</b>					
Cash		\$ 1,757	\$ 11,914	\$ 1,757	\$ 11,914
Short-term deposits		21	542	21	542
		\$ 1,778	\$ 12,456	\$ 1,778	\$ 12,456
Supplemental Cash Flow Information	26				

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

**GOLDGROUP MINING INC.**

**Interim Consolidated Statements of Changes in Equity**

**September 30, 2013 and 2012**

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

	<u>Common Shares</u>		<u>Share Option Reserve</u>	<u>Contingent Share Consideration</u>	<u>Translation Reserve</u>	<u>Investment Revaluation Reserve</u>	<u>Deficit</u>	<u>Total Equity</u>
	<u>Number (000's)</u>	<u>Amount</u>						
<b>January 1, 2013</b>	130,937	128,011	7,279	3,305	(355)	-	(45,774)	92,466
Issued to Oroco (Note 4)	5,500	757	-	1,367	-	-	-	2,124
Share-based compensation	-	-	25	-	-	-	-	25
Loss for the period	-	-	-	-	-	-	(3,359)	(3,359)
Other comprehensive loss	-	-	-	-	-	(676)	-	(676)
<b>September 30, 2013</b>	<u>136,437</u>	<u>\$ 128,768</u>	<u>\$ 7,304</u>	<u>\$ 4,672</u>	<u>\$ (355)</u>	<u>\$ (676)</u>	<u>\$ (49,133)</u>	<u>\$ 90,580</u>

	<u>Common Shares</u>		<u>Share Option Reserve</u>	<u>Contingent Share Consideration</u>	<u>Translation Reserve</u>	<u>Investment Revaluation Reserve</u>	<u>Deficit</u>	<u>Total Equity</u>
	<u>Number (000's)</u>	<u>Amount</u>						
<b>January 1, 2012</b>	128,517	125,998	6,716	3,305	(355)	-	(35,766)	99,898
Issued to NGEx (note 11.1)	2,200	1,775	-	-	-	-	-	1,775
Options	220	65	-	-	-	-	-	65
Transfer value on option	-	173	(173)	-	-	-	-	-
Share-based compensation	-	-	709	-	-	-	-	709
Loss for the period	-	-	-	-	-	-	(3,378)	(3,378)
<b>September 30, 2012</b>	<u>130,937</u>	<u>\$ 128,011</u>	<u>\$ 7,252</u>	<u>\$ 3,305</u>	<u>\$ (355)</u>	<u>\$ -</u>	<u>\$ (39,144)</u>	<u>\$ 99,069</u>

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

## **GOLDGROUP MINING INC.**

### **Notes to the Consolidated Financial Statements**

**September 30, 2013 and 2012**

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

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Goldgroup Mining Inc. is the parent company of its consolidated group ("Goldgroup" or the "Company"). Goldgroup was incorporated in Quebec under the *Business Corporations Act* (Québec) and on July 28, 2011 it was continued under the *Business Corporations Act* (British Columbia). Its head office is located at Suite 818 – 475 Howe Street, Vancouver BC, V6C 2B3. Goldgroup, formerly Sierra Minerals Inc. ("Sierra"), together with its subsidiaries, is a Canadian-based gold producer and is focused on the acquisition, exploration and development of advanced stage gold-bearing mineral properties in the Americas. The Company's current gold production and exploration and development related activities are conducted exclusively in Mexico. Goldgroup owns and operates the Cerro Colorado mine in Sonora, along with a property portfolio that includes a 100% interest in the Caballo Blanco gold project in Veracruz and a 50% interest in DynaResource de Mexico, S.A. de C.V., which owns 100% of San José de Gracia gold project in the state of Sinaloa. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "GGA".

These financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company has financial uncertainties that cast significant doubt on its ability to continue as a going concern.

#### **2. BASIS OF PRESENTATION**

These unaudited condensed consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB have been condensed or omitted and these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012.

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its unaudited interim condensed consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of the effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of the Company's unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in note 2 to the Company's consolidated financial statements for the year ended December 31, 2012.

**GOLDGROUP MINING INC.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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

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**2. BASIS OF PRESENTATION (CONTINUED)**

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

These unaudited condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 13, 2013.

**3. SIGNIFICANT ACCOUNTING POLICIES**

Refer to the audited consolidated financial statements for the year ended December 31, 2012 and 2011 for a summary of significant accounting policies.

**Changes in Accounting Standards that are effective and have been adopted by the Company**

The Company has applied the following new and revised IFRSs in these unaudited condensed interim consolidated financial statements.

Effective from January 1, 2013, IFRS 10 – *Consolidated Financial Statements* (“IFRS 10”) supersedes SIC 12 – *Consolidation – Special Purpose Entities* and the requirements relating to consolidated financial statements in IAS 27 – *Consolidated and Separate Financial Statements*. Concurrent with the issuance of IFRS 10, the IASB issued IFRS 11 – *Joint Arrangements* (“IFRS 11”) and IFRS 12 – *Disclosure of Interests in Other Entities* (“IFRS 12”) and reissued IAS 27 – *Separate Financial Statements* and IAS 28 – *Investments in Associates and Joint Ventures*.

***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.



## **GOLDGROUP MINING INC.**

### **Notes to the Consolidated Financial Statements**

**September 30, 2013 and 2012**

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

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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. The Company has applied IFRS 13 on a prospective basis, commencing January 1, 2013.

IAS 1 *Presentation of Financial Statements* ("IAS 1") requires an entity to group items presented in the statement of other comprehensive income on the basis of whether they may be reclassified to profit or loss subsequent to initial recognition. For those items presented before tax, the amendments to IAS 1 also require that the tax related to the two separate groups be presented separately. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

IAS 19 *Employee Benefits* ("IAS 19") amended the standard to include changes made to the date of recognition of liabilities for termination benefits, and changes to the definitions of short-term employee benefits and other long-term employee benefits which may impact on the classification of liabilities associated with those benefits. The amendments to IAS 19 did not have a significant impact on the Company's consolidated financial statements.

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 application of IFRIC 20 did not result in an adjustment to the Company's unaudited condensed interim consolidated financial statements.

## GOLDGROUP MINING INC.

### Notes to the Consolidated Financial Statements

September 30, 2013 and 2012

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

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Changes in Accounting Standards that are not yet effective and have not been early adopted by the Company**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and does not expect any of these standards to have an impact on its consolidated financial statements except as noted below.

##### ***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.

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

#### 4. ACQUISITION OF MINAS DE OROCO RESOURCES, SA DE CV

Pursuant to an agreement (the "Oroco Agreement") dated August 30, 2013 with Oroco Resources Corp. ("Oroco"), an unrelated TSX Venture Exchange listed company, the Company acquired all of the issued and outstanding shares of Minera Polymetalicos Mexicanos, S.A. ("Polymetalicos"), thereby indirectly acquiring Minas de Oroco Resources, S.A. de C.V. ("MOR"). MOR owns a 100% interest in the Cerro Prieto Project located in Sonora, Mexico, and is engaged in the exploration and development of that mineral property interest.

The Cerro Prieto Project was acquired for total consideration of \$8,275 comprised of:

- i) \$4,500 in cash;
- ii) a promissory note in the principal amount of \$1,500 (the "First Loan"), with the principal amount of the First Loan bearing simple interest at a rate of 8% per annum. The First Loan is payable in six equal monthly instalments of \$250 each, commencing on the later of January 31, 2015 and the first day of the month following the date the Cerro Prieto Project achieves commercial production. Interest will accrue on the principal amount of the First Loan from the date of closing of the Transaction and will be payable quarterly in arrears, on a declining balance, however, the Company's obligation to deliver such quarterly interest payments will be suspended until the Cerro Prieto Project achieves commercial production.
- iii) Issuing 5,500,000 common shares of the Company issued to Oroco at the date of closing;
- iv) A promissory note to Oroco in the principal amount of \$4,125 (the "Second Loan"), with the principal amount of the Second Loan bearing no interest and payable on the second anniversary of the closing of the Transaction. The Company may elect at its sole discretion to pay the principal amount of the Second Loan in cash or by issuing to Oroco 16,500,000 common shares;
- v) A production royalty calculated as 20% of the difference between the market price of gold and \$1,250 per ounce up to a maximum of US\$90 per ounce of gold produced from the Cerro Prieto Project, for the greater of (i) the first 90,000 ounces of gold produced from the Project and (ii) all ounces of gold produced from the Cerro Prieto Project until the completion of five full years of commercial production.

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***4. ACQUISITION OF MINAS DE OROCO RESOURCES, SA DE CV (CONTINUED)**

- vi) The assumption of obligations and liability to pay the existing 2% net smelter return royalty on the Cerro Prieto Project.

The Company incurred legal fees of \$88 relating to this acquisition. In addition, the Company reimbursed Oroco \$63 for interest payments that Oroco incurred on its loan during the extension period between June 30, 2013 and August 30, 2013.

The Company has accounted for the transaction as an asset acquisition, rather than a business combination, as the companies acquired does not constitute a business as defined by IFRS 3, *Definition of a Business*.

The purchase price has been calculated and allocated as follows:

## Consideration paid:

Cash	\$	4,500
Common shares issued		757
First Loan (\$1,500 promissory note) <sup>1</sup>		1,500
Second Loan (\$4,125 promissory note or 16.5 million shares) <sup>2</sup>		1,367
Legal and other fees		151
	\$	<u>8,275</u>
Net identifiable assets		
Mineral property	\$	<u>8,275</u>

1. The First Loan note is expected to be payable. As such, the present value of the expected future payment was recorded as an acquisition cost.

2. The Second Loan has been accounted for by subtracting from the share value of \$2,267, the deemed value of the Company's option to issue the shares lieu of payment. The deemed value of the option for the Company to issue 16,500,000 shares was \$900 and was calculated using the Black-Scholes Option Pricing model.

The purchase price allocation has been done on a preliminary basis and is a result of management's best estimates after taking into account all relevant information available at the time these consolidated financial statements were prepared. Management is performing further analysis with respect to these assets and liabilities. The Company will finalize the purchase price allocation within twelve months and its finalization may result in adjustments to the preliminary estimate of purchase date fair values and the identification of other intangible amounts and these differences may be material.

**GOLDGROUP MINING INC.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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

**5. CASH AND CASH EQUIVALENTS**

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Cash at the bank and on hand		
US dollar	\$ 1,404	\$ 5,362
Canadian dollar	184	66
Mexican pesos	169	3,038
Short term deposits - Canadian dollar	21	22
	<u>\$ 1,778</u>	<u>\$ 8,488</u>

**6. INVESTMENTS**

At September 30, 2013, the Company held the following:

		<b>Quantity (000's)</b>	<b>Fair Value</b>
Oroco common shares	(a&b)	5,000	\$ 194
Oroco share purchase warrants	(a&c)	5,000	5
			<u>\$ 199</u>

- a) On February 5, 2013 the Company acquired 5,000,000 units in Oroco at a price of CDN\$0.20 per unit by way of private placement, with each unit being comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the Issuer to purchase one common share of Oroco for a period of two years for CDN\$0.25 (See Note 10.2). The total purchase price paid for the Oroco units was \$978 (CDN\$1,000). On February 5, 2013 the fair value allocated to the common shares was \$880 and the fair value allocated to the warrants was \$98.
- b) The Company has designated its common shares of Oroco as available-for-sale financial assets and accordingly, changes in fair value are recorded in other comprehensive (income) loss in the period in which they occur. An unrealized loss of \$676 (2012 - \$nil) was recorded for the nine months ended September 30, 2013.
- c) The Oroco warrants are considered to be derivative financial instruments and are measured each period end at fair value through profit and loss. A derivative loss of \$93 (2012 - \$nil) was recorded during the nine months ended September 30, 2013.

**7. RECEIVABLES**

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Financial assets		
Receivables	\$ 341	\$ 78
Employee receivables	6	11
	<u>347</u>	<u>89</u>
Non-financial assets		
Value-added tax receivable	4,243	3,425
Corporate tax receivable	1,351	1,375
	<u>\$ 5,941</u>	<u>\$ 4,889</u>

**GOLDGROUP MINING INC.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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

**8. INVENTORIES**

Inventories consist of the following:

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Doré	\$ 27	\$ 118
Gold-in-process	1,829	2,783
Consumable supplies	1,910	2,210
	<b>\$ 3,766</b>	<b>\$ 5,111</b>

Cost of sales represents the amount of product inventory recognized as an expense. All of the Company's inventories on hand are located at the Cerro Colorado mine in Mexico. During the nine months ended September 30, 2013 the Company recorded an impairment of \$597 with a corresponding entry to cost of sales (Year ended December 31, 2012 - \$810).

**9. PLANT AND EQUIPMENT AND INTANGIBLE ASSET**

	<b>Plant and mining equipment</b>	<b>Machinery and equipment</b>	<b>Office equipment</b>	<b>Vehicles</b>	<b>Lab equipment</b>	<b>Total</b>
<b>Cost</b>						
Balance , January 1, 2013	\$ 9,139	\$ 1,282	\$ 381	\$ 909	\$ 61	\$ 11,772
Additions	181	11	10	8	-	210
Write-off of fixed assets	-	-	(147)	-	-	(147)
Balance, September 30, 2013	<u>9,320</u>	<u>1,293</u>	<u>244</u>	<u>917</u>	<u>61</u>	<u>11,835</u>
<b>Accumulated depreciation</b>						
Balance, January 1, 2013	6,187	976	281	739	60	8,243
Depreciation for the period	1,466	146	25	121	1	1,759
Write-off of fixed assets	-	-	(106)	-	-	(106)
Balance, September 30, 2013	<u>7,653</u>	<u>1,122</u>	<u>200</u>	<u>860</u>	<u>61</u>	<u>9,896</u>
Net book value	<u>\$ 1,667</u>	<u>\$ 171</u>	<u>\$ 44</u>	<u>\$ 57</u>	<u>\$ -</u>	<u>\$ 1,939</u>

The intangible asset relates to an Enterprise Resource Planning ("ERP") software implementation that occurred in 2012. The total cost of the software was \$665 and the accumulated amortization recorded during the period was \$160 (September 30, 2012 - \$nil). The net book value as of September 30, 2013 was \$452 (December 31, 2012 - \$612).

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***9. PLANT AND EQUIPMENT AND INTANGIBLE ASSET (CONTINUED)**

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
<b>Cost</b>						
Balance , January 1, 2012	\$ 7,849	\$ 1,246	\$ 344	\$ 840	\$ 61	\$ 10,340
Additions	1,290	48	37	91	-	1,466
Write-off of equipment	-	-	-	(22)	-	(22)
Balance, December 31, 2012	<u>9,139</u>	<u>1,294</u>	<u>381</u>	<u>909</u>	<u>61</u>	<u>11,784</u>
<b>Accumulated depreciation</b>						
Balance, January 1, 2012	5,185	854	230	581	34	6,884
Depreciation for the year	1,002	134	51	173	26	1,386
Write-off of equipment	-	-	-	(15)	-	(15)
Balance, December 31, 2012	<u>6,187</u>	<u>988</u>	<u>281</u>	<u>739</u>	<u>60</u>	<u>8,255</u>
Net book value	<u>\$ 2,952</u>	<u>\$ 306</u>	<u>\$ 100</u>	<u>\$ 170</u>	<u>\$ 1</u>	<u>\$ 3,529</u>

**10. INVESTMENT IN DYNARESOURCE DE MEXICO SA DE CV ("DynaMexico")**

The Company has a 50% equity interest in DynaMexico which owns 100% of the high-grade gold exploration project, San José de Gracia located in the state of Sinaloa.

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

The other 50% equity holder of DynaMexico is DynaResource, Inc. ("DynaUSA"). DynaUSA provides management and accounting services based on 2.5% of the cash expenditures incurred by DynaMexico.

As a result of the Company qualifying to earn its 50% equity interest on March 14, 2011, the board of directors of DynaMexico is to be expanded to five members with DynaUSA and Goldgroup each appointing two members and mutually agreeing on one additional member. Currently there are only four members as the one additional member has yet to be added.

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**11. INVESTMENT IN DYNARESOURCE DE MEXICO SA DE CV (CONTINUED)**

The investment in DynaMexico is accounted for using the equity method and is comprised of:

	<b>Nine Months Ended September 30, 2013</b>	<b>Year Ended December 31, 2012</b>
Investment, beginning of period	\$ 17,938	\$ 18,099
Funds invested	120	19
Share of income	-	(180)
Investment, end of period	<u>\$ 18,058</u>	<u>\$ 17,938</u>

On January 22, 2013 Goldgroup announced that it had moved to dismiss as totally without merit a lawsuit filed against it and others in Dallas County District Court by DynaResource, Inc. and DynaResource de Mexico, S.A. de C.V. (collectively "DynaResource").

DynaResource alleges, among other things, that Goldgroup has wrongfully used and disseminated confidential information and data belonging to DynaResource, and materially misrepresented Goldgroup's ownership interest in SJG. Goldgroup owns a 50% interest in DynaMexico, which owns 100% of SJG. Goldgroup has properly disclosed its interest in SJG, has not materially misrepresented it, and has not improperly used any DynaResource confidential information. Goldgroup denies all such allegations by DynaResource, has moved to dismiss the lawsuit, and intends to vigorously defend itself and its interests.

On October 28, 2013 Goldgroup announced that it filed a legal action before the appropriate criminal authorities in Mexico concerning recent activities undertaken by Koy Wilber Diepholz ("Diepholz"), shareholder, President and Chairman of the Board of Directors of DynaMexico and Chairman, Chief Executive Officer and Treasurer of DynaUSA. The purpose of the legal action case is to investigate whether illegal acts were committed by Diepholz, in his role as CEO of DynaMexico, for his own benefit and for the benefit of DynaUSA.

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***11. EXPLORATION AND EVALUATION PROPERTIES**

	<u>Caballo Blanco</u>	<u>Cerro Prieto</u>	<u>Other</u>	<u>Total</u>
<b>January 1, 2013</b>	\$ 63,388	-	-	\$ 63,388
<b>Acquisition Costs</b>	-	8,275	-	8,275
<b>Exploration Costs</b>				
Depreciation	76	52	-	128
Exploration	1,017	527	-	1,544
Fees and taxes	132	-	-	132
Development costs		1,122		1,122
<b>September 30, 2013</b>	<u>64,613</u>	<u>9,976</u>	<u>-</u>	<u>74,589</u>
<b>January 1, 2012</b>	\$ 50,232	\$ -	\$ 816	\$ 51,048
<b>Acquisition Costs</b>	4,107	-	-	4,107
<b>Exploration Costs</b>				
Depreciation	121	-	3	124
Drilling	3,600	-	-	3,600
Exploration	3,321	-	2	3,323
Fees and taxes	935	-	90	1,025
Development costs	162	-	-	162
	<u>62,478</u>	<u>-</u>	<u>911</u>	<u>63,389</u>
Write-off El Cajon			(435)	(435)
<b>September 30, 2012</b>	<u>62,478</u>	<u>-</u>	<u>476</u>	<u>62,954</u>

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



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#### **11. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)**

##### **11.1 Caballo Blanco**

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

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

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

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

Subsequent to September 30, 2013, the Company received \$290 as a reimbursement for funds previously paid to a royalty holder on Caballo Blanco to reduce their NSR. The \$290 reimbursement represented a 0.1% increase to the NSR payable on Caballo Blanco. The NSR payable on the project is now 2%.

As part of ongoing surface rights land negotiations with local property owners, the Company entered into surface land purchase agreements whereby it had agreed to pay \$453 (5,961,000 pesos) by October 25, 2013 and \$1,624 (21,360,053 pesos) by October 25, 2016 for specific surface rights. In October 2013 the Company and the local property owners verbally agreed to defer the surface land rights payments, originally due on October 25, 2013, by six months each and up to another six months in the event that the Company has not commenced construction on the Caballo Blanco project.

## **GOLDGROUP MINING INC.**

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#### **11. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)**

##### **11.2 Cerro Prieto**

Pursuant to an agreement (the "Oroco Agreement") dated August 30, 2013 with Oroco, an unrelated TSX Venture Exchange listed company, Goldgroup acquired all of the issued and outstanding shares of Polymetalicos, thereby indirectly acquiring MOR. MOR owns a 100% interest in the Cerro Prieto Project located in Sonora, Mexico, and is engaged in the exploration and development of that mineral property interest.

The Cerro Prieto Project was acquired for total consideration of \$8,275, comprised of:

- i) \$4,500 in cash;
- ii) a promissory note in the principal amount of \$1,500 (the "First Loan"), with the principal amount of the First Loan bearing simple interest at a rate of 8% per annum and repayable in six equal monthly instalments of \$250 each, commencing on the later of January 31, 2015 and the first day of the month following the date the Project achieves commercial production. Interest will accrue on the principal amount of the First Loan from the date of closing of the Transaction and will be payable quarterly in arrears, on a declining balance, however, the Company's obligation to deliver such quarterly interest payments will be suspended until the Project achieves commercial production.
- iii) Issuing 5,500,000 common shares of the Company issued to Oroco at the date of closing;
- iv) A promissory note to Oroco in the principal amount of \$4,125 (the "Second Loan"), with the principal amount of the Second Loan bearing no interest and repayable on the second anniversary of the closing of the Transaction. The Company may elect at its sole discretion to repay the principal amount of the Second Loan in cash or by issuing to Oroco 16,500,000 common shares;
- v) A production royalty calculated as 20% of the difference between the market price of gold and \$1,250 per ounce up to a maximum of US\$90 per ounce of gold produced from the Project, for the greater of (i) the first 90,000 ounces of gold produced from the Project and (ii) all ounces of gold produced from the Project until the completion of five full years of commercial production.
- vi) The assumption of obligations and liability to pay the existing 2% net smelter return royalty on the Project.

##### **11.3 Other Properties**

###### **i) El Candelero**

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

During the fourth quarter of 2012 management decided not to continue exploration on this property. Accordingly, exploration costs of \$489 were written off in the period.

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***11. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)****ii) El Cajon**

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

During the third quarter of 2012 management decided not to continue exploration on this property. Accordingly, exploration costs of \$435 were written off in the period.

**12. MINE PROPERTIES**

The Company owns a 100% interest in the Cerro Colorado mine, located in northern Sonora, Mexico. The property consists of six mineral concessions totalling 197 hectares, covering the area of the mine and 44 concessions in the immediate vicinity of the mine totalling 33,767 hectares. Gold is produced in doré in Mexico and then shipped to a refiner in the United States for final processing prior to sale. As of September 30, 2013, the Company stopped full scale mining operations and is continuing to process gold from the leach pad.

For the year ended December 31, 2012, an impairment charge totalling \$1,576 was recorded against the Cerro Colorado mine.

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

	<b>Nine Months ended September 30, 2013</b>	<b>Year ended December 31, 2012</b>
<b>Costs</b>		
Balance, beginning of period	\$ 15,811	\$ 15,811
Balance, end of period	15,811	15,811
<b>Accumulated depletion</b>		
Balance, beginning of period	(15,811)	(12,211)
Depletion for period	-	(2,024)
Impairment	-	(1,576)
Balance, end of period	(15,811)	(15,811)
	<u>\$ -</u>	<u>\$ -</u>

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**13. TRADE AND OTHER ACCOUNTS PAYABLE**

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
<b>Financial liabilities</b>		
Trade payables	\$ 2,673	\$ 4,180
Employee payables	57	238
Payroll accruals	121	8
	<u>\$ 2,851</u>	<u>\$ 4,426</u>

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

**14. PROMISSORY NOTE PAYABLE**

Pursuant to the "Oroco Agreement dated August 30, 2013 with Oroco (Note 4), a promissory note in the principal amount of \$1,500 (the "First Loan"), bearing simple interest at a rate of 8% per annum and payable in six equal monthly instalments of \$250 each, commencing on the later of January 31, 2015 and the first day of the month following the date the Cerro Prieto Project achieves commercial production. Interest will accrue on the principal amount of the First Loan from the date of closing of the Transaction and will be payable quarterly in arrears, on a declining balance, however, the Company's obligation to deliver such quarterly interest payments will be suspended until the Project achieves commercial production.

	<u>September 30, 2013</u>
<b>Promissory note payable balance, beginning of the period</b>	\$ -
Issued on August 30, 2013	1,500
Interest expense	10
Repayments	-
<b>Promissory note payable balance, end of period</b>	<u>\$ 1,510</u>

**15. LOAN PAYABLE**

By a loan agreement dated August 30, 2013 (the "Loan Agreement"), the Company borrowed \$4,027 (CDN\$4,250) (the "Bridge Loan") from a wholly owned subsidiary of a New York-based, private institutional investor (the "Lender") for the purpose of paying the initial cash payment of \$4,500 for the Oroco Agreement (Note 4) for the Cerro Prieto Project. As part of the Loan Agreement, the Company was responsible for certain legal fee of the Lender. The Company estimated the Lender's legal fees to be of \$237 (CDN\$250) of which \$65 is included as an accrual to the Lender.

The Loan is for a term of 16 months and is secured against all of the assets of the Company and its subsidiaries. The interest rate of the loan is 15% per annum. The principal and interest will be repaid with nine equal monthly payments commencing April 30, 2014 and ending December 31, 2014.

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**15. LOAN PAYABLE (CONTINUED)**

	<b>September 30, 2013</b>
<b>Loan balance, beginning of the period</b>	\$ -
Loan on August 30, 2013	4,027
Interest expense	52
Financing fee accrual	65
Repayments	-
Foreign exchange	97
<b>Loan balance, end of period</b>	<b>\$ 4,241</b>

The current portion of the Loan Payable due before September 30, 2014 is \$3,230. This has been classified as a current liability.

**16. DECOMMISSIONING AND RESTORATION PROVISION**

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

The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs is estimated at \$950. The key assumptions on which this estimate was based on are:

- (i) Expected timing of the cash flows is based on the estimated useful life of the Cerro Colorado mine to the extent of currently known proven and probable mineral reserves. The majority of the expenditures are expected to occur in 2015.
- (ii) The discount rate used is 8.6% and the country rate risk is 2.4%.

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Opening	\$ 855	\$ 770
Accretion expense	70	85
	<b>\$ 925</b>	<b>\$ 855</b>

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**17. WARRANT LIABILITY**

	<u>Warrants</u>	<u>Weighted average exercise price (C\$)</u>	<u>Warrant liability (US\$)</u>
Balance, January 1, 2012	2,000,000	\$ 1.25	\$ 90
Change in fair value	-	-	(86)
Balance, September 30, 2013	<u>2,000,000</u>	<u>\$ 1.25</u>	<u>\$ 4</u>
Balance, January 1, 2012	2,000,000	\$ 1.25	\$ 1,472
Change in fair value	-	-	(1,382)
Balance, December 31, 2012	<u>2,000,000</u>	<u>\$ 1.25</u>	<u>\$ 90</u>

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

The fair value allocated to the warrants at September 30, 2013 was \$4 (December 31, 2012 - \$90) and is recorded as a derivative financial liability. The gain recognized in the statement of loss for the nine months ended September 30, 2013 and 2012 was \$86 and \$1,270, respectively, and is included in other (income) expenses.

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

**18. EQUITY**

**18.1 Authorized**

Unlimited number of common shares with no par value

**18.2 Shares Issued**

Shares issued and outstanding as at September 30, 2013 are 136,436,575 (December 31, 2012 - 130,936,575).

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***18. EQUITY (CONTINUED)**

During the nine months ended September 30, 2013, the following share transactions occurred:

- i. 5,500,000 common shares were issued to Oroco as part of the Oroco Agreement with respect to the acquisition of the Cerro Prieto Project (see Note 4).

During the year ended December 31, 2012, the following share transactions occurred:

- ii. 219,526 share options were exercised for proceeds of \$65 and \$173 was reallocated from share option reserve to share capital.
- iii. 2,200,000 common shares were issued to NGEx as part of the termination of its 1.5% Net Smelter Return (“NSR”) royalty that NGEx held with respect to 70% of gold production, representing a 1.05% NSR on total gold production, from the Caballo Blanco Project (see Note 10.1).

**18.3 Share-based compensation expense**

The Company has adopted a share option plan for which options to acquire up to 10% of the issued share capital, at the award date, may be granted to eligible optionees from time to time. Generally, share options granted have a maximum term of five years, and a vesting period and exercise price determined by the directors. The exercise price may not be less than the closing quoted price of the Company’s common shares traded through the facilities of the exchange on which the Company’s common shares are listed. As at September 30, 2013, share options available for issue under the plan were 13,643,657.

Total share options granted during the nine months ended September 30, 2013 were 125,000 (September 30, 2012 – 1,265,000). Total share-based compensation expense recognized for the fair value of share options granted and vested during the nine months ended September 30, 2013 was \$25 (September 30, 2012 - \$710).

The fair value of the share options granted during the nine months ended September 30, 2013 and 2012 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
Expected option life	2.5 years	2.5 years
Expected stock price volatility	67%	64%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Risk free interest rate	1.01%	1.27%
Weighted average strike price	\$0.25	\$0.71
Weighted average fair value per option	\$0.01	\$0.24
Weighted average share price	\$0.20	\$0.76

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**18. EQUITY (CONTINUED)**

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

The following stock options were outstanding:

	<b>Options</b>	<b>Weighted average exercise price (Cdn\$)</b>	
January 1, 2013	10,375,108	\$	1.00
Granted	125,000	\$	0.25
Expired	(5,161,250)	\$	0.88
Forfeited	(25,000)	\$	0.98
September 30, 2013	<u>5,313,858</u>	<u>\$</u>	<u>1.09</u>
January 1, 2012	11,486,848	\$	1.04
Granted	1,455,000	\$	0.66
Exercised	(219,526)	\$	0.30
Expired	(1,618,464)	\$	0.99
Forfeited	(728,750)	\$	1.27
December 31, 2012	<u>10,375,108</u>	<u>\$</u>	<u>1.00</u>

The following table summarizes information about the Company's stock options outstanding at September 30, 2013:

<b>Exercise price (C\$/option)</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>		
	<b>Options outstanding</b>	<b>Weighted average contractual life (years)</b>	<b>Weighted average exercise price (C\$/option)</b>	<b>Options outstanding and exercisable</b>	<b>Weighted average contractual life (years)</b>	<b>Weighted average exercise price (C\$/option)</b>
\$0.25 to \$0.70	1,133,940	2.43	\$0.52	916,440	2.03	\$0.55
\$0.71 to \$1.15	1,254,918	0.58	1.00	1,254,918	0.58	1.00
\$1.16 to \$1.60	2,925,000	2.27	1.36	2,925,000	2.27	1.36
<b>Total</b>	<u>5,313,858</u>	<u>1.91</u>	<u>\$1.09</u>	<u>5,096,358</u>	<u>1.82</u>	<u>\$1.12</u>

**18.4 Contingent share consideration**

- a) The Company has committed to issue up to 7 million of its common shares to Almaden upon the achievement of certain project milestones on the Caballo Blanco project. This contingent share consideration was originally valued at \$3,305 (see note 11.1). There was no change in the fair value of the contingent share consideration as of September 30, 2013.
- b) The Company has committed to issue up to 16.5 million of its common shares or, at its option, pay \$4,125 to Oroco on or before August 30, 2015. This contingent share consideration was originally valued at \$1,367 (see note 4).



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**19. RELATED PARTY TRANSACTIONS AND BALANCES**

Key management                      Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include directors, current executive officers and former executive officers (if their relationship ended during the periods disclosed), and the general managers and technical directors of the Company's various operations.

Related parties other than key management include the estranged spouse and son-in-law of the Chairman and CEO of the Company.

Key management compensation includes:

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
Salaries <sup>1</sup>	\$ 503	\$ 1,015
Non-executive director fees	101	80
Benefits <sup>1</sup>	52	56
Bonuses <sup>2</sup>	43	71
Options <sup>3</sup>	12	270
	<u>\$ 711</u>	<u>\$ 1,492</u>

1. The salaries and benefits are included in costs of sales, administrative expenses and exploration and evaluation properties.

2. The bonuses are included in cost of sales or administrative costs.

3. The options are included in administrative expenses as share-based compensation expense.

At September 30, 2013, trade and other accounts payable includes \$42 (December 31, 2012 - \$203) owing to a director and/or officer and/or companies controlled by the directors.

During the nine months ended September 30, 2013 the Company paid legal fees totalling \$27 (2012: \$nil) to a Company controlled by a director of the Company.

Due to particular Mexican law, it is common for operating companies to employ their workers through a management company. The employees of Granmin Mexico are employed by Pabelini, S.A. de C.V. ("Pabelini"), a company owned by the estranged spouse of the CEO. Under a renewed agreement, dated June 1, 2011 and expiring May 31, 2014, between Granmin Mexico and Pabelini, Pabelini pays all of the Cerro Colorado mine employees and Granmin Mexico administrative personnel and is reimbursed by Granmin Mexico. Pabelini charges a fee equal to 5% of the base salaries of the employees, before additions for statutory remittances. During the nine months ended September 30, 2013 this fee totaled \$117 (September 30, 2012 - \$109). 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, 2013, amounts owing to Pabelini totalled \$57 (December 31, 2012 - \$49).

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***19. RELATED PARTY TRANSACTIONS AND BALANCES**

In addition to Pabelini, a number of expatriate workers and Caballo Blanco employees are employed by MINOP, S.A. de C.V. ("Minop"). Minop is a private company controlled by the son-in-law of the CEO. Under a renewed agreement, dated October 1, 2011 and expiring September 30, 2014, Minop charges a service fee equal to 1.5% of base salary for employees earning greater than \$100 per year and 3% for employees earning less than \$100 base salary per year. During the nine months ended September 30, 2013 this fee totaled \$27 (September 30, 2012 - \$53). This fee is meant to reimburse Minop for administrative costs incurred by the company in providing these services. At September 30, 2013, amounts owing to Minop totalled \$64 (December 31, 2012 - \$398).

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.

**20. COST OF SALES**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Raw materials	\$ 3,169	\$ 5,591	\$ 13,475	\$ 15,887
Salaries and employee benefits	922	1,045	2,956	3,203
Rental machinery	-	11	-	166
Contractors	154	91	451	330
Royalties	157	158	676	713
Change in inventories	1,181	660	524	750
Write-off inventory	397	-	597	-
Other	18	220	161	848
	<u>5,998</u>	<u>7,776</u>	<u>18,840</u>	<u>21,897</u>
Depreciation and depletion	518	532	1,620	1,723
	<u>\$ 6,516</u>	<u>\$ 8,308</u>	<u>\$ 20,460</u>	<u>\$ 23,620</u>

**GOLDGROUP MINING INC.**  
**Notes to the Consolidated Financial Statements**  
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**21. ADMINISTRATIVE COSTS**

	Three Months Ended September 30,		Nine Months Ended September June 30,	
	2013	2012	2013	2012
Salaries and consulting	\$ 265	\$ 313	\$ 960	\$ 1,472
Office and rent	176	276	677	694
Investor relations	20	51	103	464
Professional fees	159	564	993	967
Travel	32	51	105	196
Share-based compensation expense	(20)	163	25	710
Interest income	(1)	(60)	(18)	(112)
Other	73	57	185	215
	<u>\$ 704</u>	<u>\$ 1,415</u>	<u>\$ 3,030</u>	<u>\$ 4,606</u>

**22. OTHER (INCOME) EXPENSES**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Accretion for decommissioning and restoration provision	\$ 24	\$ 21	\$ 70	\$ 63
Interest and other	37	7	63	18
Financing fee	392	-	392	-
Write off of fixed asset	-	-	41	-
Loss (gain) on warrants (Note 14)	55	(59)	6	(1,270)
Foreign exchange (gain) loss	39	(305)	(285)	(992)
Exploration - project generation	155	61	310	307
Exploration - Cerro Colorado	62	353	207	1,007
	<u>\$ 764</u>	<u>\$ 78</u>	<u>\$ 804</u>	<u>\$ (867)</u>

**23. RISK MANAGEMENT**

**23.1 Financial Risk Management**

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

**a. Credit Risk**

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

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***23. RISK MANAGEMENT (CONTINUED)**

The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions and by investing in high credit quality financial instruments. The Company manages its credit exposure with respect to operational matters by transacting with reputable, highly rated counterparties. The Company monitors the financial condition of its counterparties. The Company does not have derivative financial assets or significant trade receivables. Any credit risk exposure on cash and cash equivalents and receivables is considered negligible.

**b. Liquidity Risk**

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

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

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

<b>As at September 30, 2013</b>	<b>Current</b>		<b>Non-current</b>	
	<b>Within 1 year</b>	<b>1 to 3 years</b>	<b>Later than 3 years</b>	
Trade and other accounts payable	\$ 2,851	\$ -	\$ -	
Promissory note payable	-	1,510	-	
Loan payable	3,230	1,011	-	
<b>Total</b>	<b>\$ 6,081</b>	<b>\$ 2,521</b>	<b>\$ -</b>	

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)*

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**23. RISK MANAGEMENT (CONTINUED)**

<b>As at December 31, 2012</b>	<b>Current</b>	<b>Non-current</b>	
	<b><u>Within 1 year</u></b>	<b><u>1 to 3 years</u></b>	<b><u>Later than 3 years</u></b>
Trade and other accounts payable	\$ 4,426	\$ -	\$ -
Total	<u>\$ 4,426</u>	<u>\$ -</u>	<u>\$ -</u>

**c. Market Risk**

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

**i. Interest rate risk**

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

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

**ii. Price risk**

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

**iii. Foreign currency risk**

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

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***23. RISK MANAGEMENT (CONTINUED)**

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

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

Foreign currency exposure on the Company's financial assets and financial liabilities as of September 30, 2013 and December 31, 2012 is shown in the table below:

	Canadian dollar (Cdn \$)		Mexican Peso (Peso)	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
<b>Financial assets</b>				
Cash and cash equivalents	\$ 205	\$ 88	\$ 169	\$ 3,038
Receivables	15	93	5,811	4,926
	\$ 220	\$ 181	\$ 5,980	\$ 7,964
<b>Financial liabilities</b>				
Trade and other accounts payable	\$ 287	\$ 374	\$ 953	\$ 6,617
Loan payable	4,241	-	-	-
	\$ 4,528	\$ 374	\$ 953	\$ 6,617

The following table indicates the impact of foreign currency risk on working capital as at September 30, 2013. The table also provides a sensitivity analysis of a ten percent strengthening of the US dollar against foreign currencies as identified, which would have increased (decreased) the Company's net earnings by the amounts shown in the table below.

	Canadian Dollars	Mexican Pesos
Financial assets	\$220	5,980
Financial liabilities	(4,528)	(953)
Net foreign currency working capital	\$(4,328)	\$5,027
US\$ exchange rate	0.970	0.076
Net foreign currency working capital in US\$	(4,200)	382
Foreign exchange loss on a 10% strengthening of the US\$	420	38
Foreign exchange gain on a 10% weakening of the US\$	420	38

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**23. RISK MANAGEMENT (CONTINUED)**

**23.2 Fair Values**

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

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

As at September 30, 2013, the Company's cash and cash equivalents, receivables and trade and other accounts payable are measured at amortized cost.

The following table outlines the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy described below. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. At September 30, 2013 and December 31, 2012 the Company's financial instruments measured at fair value are as follows:

<b>As at September 30, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>			
Marketable securities	\$ 194	\$ -	\$ -
Warrant derivative assets	\$ -	\$ -	\$ 5
<b>Liabilities</b>			
Loan payable	\$ (4,241)	\$ -	\$ -
Warrant liability	\$ -	\$ -	\$ (4)
<b>As at December 31, 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Liabilities</b>			
Warrant liability	\$ -	\$ -	\$ (90)

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

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

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

## **GOLDGROUP MINING INC.**

### **Notes to the Consolidated Financial Statements**

**September 30, 2013 and 2012**

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#### **23. RISK MANAGEMENT (CONTINUED)**

There were no transfers between level 1 and level 2 during the three months ended June 30, 2013 or the year ended December 31, 2012.

#### **24. COMMITMENTS**

In January 2013 the Company moved offices and terminated its previous office lease agreement which required minimum annual aggregate lease payments of \$562 plus operating costs and property taxes through 2015. The terms to sublease the previous office space to a third party and terminate the lease included a payment of three month's rent. Effective January 25, 2013 the Company entered into a new lease agreement whereby the Company has minimum lease payments of \$18 per year for the period February 1, 2013 to April 30, 2014. Operating costs and property taxes are estimated to be \$25 per year.

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

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 \$477 (5,961,280 pesos) by October 25, 2013 and \$1,962 by October 25, 2016 (24,500,000 pesos) for specific surface rights. In October 2013 the Company and the local property owners verbally agreed to defer the surface land rights payments, originally due on October 25, 2013, by six months each and up to another six months in the event that the Company has not commenced construction on the Caballo Blanco project.

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 \$230 (3,000,000 pesos).

Exploration and evaluation properties commitments are disclosed in Note 11.

Effective August 30, 2013, the Company issued to Oroco a promissory note in the principal amount of \$1,500, bearing simple interest at a rate of 8% per annum. The promissory note is payable in six equal monthly instalments of \$250 each, commencing on the later of January 31, 2015 and the first day of the month following the date the Cerro Prieto Project achieves commercial production (see Note 14).

Effective August 30, 2013, the Company borrowed \$4,027 (CDN\$4,250) (the "Bridge Loan") from a wholly owned subsidiary of a New York-based, private institutional investor (the "Lender") (see note 15). The Bridge Loan is for a term of 16 months and is secured against all of the assets of the Company and its subsidiaries. The interest rate of the loan is 15% per annum. The principal and interest will be repaid with nine equal monthly payments commencing April 30, 2014 and ending December 31, 2014.



**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***25. SEGMENTED INFORMATION**

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

During the nine months ended September 30, 2013, 100% of the Company's sales were to two third parties. The balance owing from these parties at September 30, 2013 was \$nil (2012 - \$nil).

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

	<b>September 30, 2013</b>		
	<b>Canada</b>	<b>Mexico</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets	\$ 1,180	\$ 10,766	\$ 11,946
Plant and equipment	7	1,932	1,939
Intangible asset	452	-	452
Investment in DynaMexico	-	18,058	18,058
Exploration and evaluation properties	-	76,415	76,415
<b>LIABILITIES</b>			
Trade and other accounts payable	(207)	(2,644)	(2,851)
Taxes payable	-	(107)	(107)
Decommissioning and restoration provision	-	(925)	(925)
Promissory note payable	(1,510)	-	(1,510)
Loan payable	(4,241)	-	(4,241)
	<b>December 31, 2012</b>		
	<b>Canada</b>	<b>Mexico</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets	\$ 6,470	\$ 12,386	\$ 18,856
Plant and equipment	50	3,479	3,529
Intangible asset	612	-	612
Investment in DynaMexico	-	17,938	17,938
Exploration and evaluation properties	-	63,388	63,388
<b>LIABILITIES</b>			
Trade and other accounts payable	(341)	(4,085)	(4,426)
Taxes payable	-	(109)	(109)
Decommissioning and restoration provision	-	(855)	(855)

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**25. SEGMENTED INFORMATION (CONTINUED)**

Selected financial information by operating segments is as follows:

	Nine months ended September 30,	
	2013	2012
Revenue		
Mining operations	\$ 22,254	\$ 26,750
Income (loss) before income taxes for the period		
Mining operations	\$ 1,762	\$ 3,130
Exploration and evaluation	(516)	(443)
Corporate	(3,317)	(3,874)
	<u>\$ (2,071)</u>	<u>\$ (1,187)</u>

	Mining	Exploration and Development	Corporate	September 30, 2013 Total
	Operations			
Current assets	\$ 10,014	\$ 752	\$ 1,180	\$ 11,946
Plant and equipment	1,307	625	7	1,939
Intangible asset	-	-	452	452
Investment in DynaMexico	-	18,058	-	18,058
Exploration and evaluation properties	-	76,415	-	76,415
	<u>\$ 11,321</u>	<u>\$ 95,850</u>	<u>\$ 1,639</u>	<u>\$ 108,810</u>

	Mining	Exploration and Development	Corporate	December 31, 2012 Total
	Operations			
Current assets	\$ 10,358	\$ 2,028	\$ 6,470	\$ 18,856
Plant and equipment	3,220	259	50	3,529
Intangible asset	-	-	612	612
Investment in DynaMexico	-	17,938	-	17,938
Exploration and evaluation properties	-	63,388	-	63,388
	<u>\$ 13,578</u>	<u>\$ 83,613</u>	<u>\$ 7,132</u>	<u>\$ 104,323</u>

**GOLDGROUP MINING INC.****Notes to the Consolidated Financial Statements****September 30, 2013 and 2012***(Unaudited - Expressed in thousands of United States dollars, except per share amounts)***26. SUPPLEMENTAL CASH FLOW INFORMATION****Changes in non-cash operating working capital items:**

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Receivables	\$ (845)	\$ 1,723	\$ (1,053)	\$ 229
Inventories	1,303	821	749	230
Prepays and deposits	(54)	(310)	(9)	(487)
Trade and other accounts payable	590	558	(992)	2,275
Accounts payable for exploration and evaluation properties	(517)	(554)	(292)	(723)
Interest payable on loan payable and promissory note payable	62	-	62	-
Taxes payable	-	2	-	(211)
	<u>\$ 539</u>	<u>\$ 2,240</u>	<u>\$ (1,535)</u>	<u>\$ 1,313</u>

**Non-cash investing transactions not included in cash flows:**

Depreciation capitalized to exploration and evaluation properties	\$ 76	\$ 34	\$ 128	\$ 124
Accretion for decommissioning and restoration provision	\$ 25	\$ 21	\$ 71	\$ 63
Issuance of shares for exploration and evaluation property	\$ 757	\$ -	\$ 757	\$ -
Contingent share consideration for exploration and evaluation property	\$ 1,367	\$ -	\$ 1,367	\$ -

**27. SUBSEQUENT EVENTS**

- a) On October 15, 2013, the Company received \$290 as a reimbursement for funds previously paid to a royalty holder on Caballo Blanco to reduce their NSR. The \$290 reimbursement represented a 0.1% increase to the NSR payable on Caballo Blanco. The total NSR payable on the project is now 2%.