



GOLDGROUP MINING INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Expressed in Thousands of United States Dollars)

Independent Auditor's Report

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To the Shareholders of
Goldgroup Mining Inc.

We have audited the accompanying consolidated financial statements of Goldgroup Mining Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Goldgroup Mining Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe that the Company has incurred cumulative losses of \$52.75 million as at December 31, 2013, has reported a net loss of \$6.98 million during the year ended December 31, 2013, and is subject to certain legal, regulatory and environmental challenges relating to certain mineral property interests in Mexico. These conditions, along with other matters set forth in Note 1, indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada
March 28, 2014

Grant Thornton LLP

Chartered Accountants

GOLDGROUP MINING INC.
Consolidated Statements of Financial Position
December 31, 2013 and 2012

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

	Note	As at December 31,	
		2013	2012
ASSETS			
Current assets			
Cash and cash equivalents	5	\$ 963	\$ 8,488
Investments	6	170	-
Receivables	7	5,780	4,889
Inventories	8	2,032	5,111
Prepays and deposits		523	368
Total current assets		9,468	18,856
Non-current assets			
Plant and equipment	9	1,830	3,529
Enterprise Resource Planning Software	9	398	612
Investment in DynaResource de Mexico SA de CV	10	18,056	17,938
Exploration and evaluation properties	11	64,468	63,388
Development and operating mine properties	12	11,155	-
Total non-current assets		95,907	85,467
Total assets		\$ 105,375	\$ 104,323
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other accounts payable	13	\$ 2,830	\$ 4,426
Taxes payable		108	109
Loan payable	14	4,192	-
Total current liabilities		7,130	4,535
Non-current liabilities			
Promissory note payable	15	1,399	-
Decommissioning and restoration provision	16	950	855
Warrant liability	17	3	90
Deferred tax liability	20	8,236	6,377
Total liabilities		17,718	11,857
Equity			
Share capital	18	128,768	128,011
Share option reserve	18.3	7,322	7,279
Contingent share consideration	18.4	4,672	3,305
Translation reserve		(355)	(355)
Deficit		(52,750)	(45,774)
Total equity		87,657	92,466
Total equity and liabilities		\$ 105,375	\$ 104,323
Nature of Operations and Going Concern	1		
Commitments	26		

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.**Consolidated Statements of Loss and Comprehensive Loss****December 31, 2013 and 2012***(Expressed in thousands of United States dollars except per share amounts)*

		Year Ended December 31,	
	Note	2013	2012
Revenue			
Gold sales		\$ 25,250	\$ 33,041
Silver sales		329	433
		<u>25,579</u>	<u>33,474</u>
Costs and expenses of mining operations			
Cost of sales	21	22,639	29,130
Depreciation and depletion	21	1,657	3,210
		<u>24,296</u>	<u>32,340</u>
Gross profit		<u>1,283</u>	<u>1,134</u>
Other expenses (income)			
Administrative costs	22	3,792	6,663
Share of equity loss in DynaMexico	10	2	180
Impairments and write-off's	9,11,12	41	2,507
Other expenses (income)	23	1,643	(462)
		<u>5,478</u>	<u>8,888</u>
Loss before income taxes		<u>(4,195)</u>	<u>(7,754)</u>
Provision for income taxes:			
Current	20	907	356
Deferred	20	1,874	1,898
		<u>2,781</u>	<u>2,254</u>
Total comprehensive loss for the year		<u>\$ (6,976)</u>	<u>\$ (10,008)</u>
Basic and diluted loss per share		<u>\$ (0.05)</u>	<u>\$ (0.08)</u>
Basic weighted average shares outstanding (000's)		<u>132,790</u>	<u>130,221</u>

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

GOLDGROUP MINING INC.
Consolidated Statements of Cash Flows
December 31, 2013 and 2012

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

	Notes	Year Ended December 31,	
		2013	2012
CASH AND CASH EQUIVALENTS DERIVED FROM (USED IN) OPERATING ACTIVITIES			
Loss for the year		\$ (6,976)	\$ (10,008)
Items not involving cash:			
Deferred tax provision		1,874	1,898
Depreciation and depletion		1,886	3,298
Impairments and write-off's	6,8,9	1,522	3,317
Unrealized foreign exchange gain		(9)	(48)
Share-based compensation expense	19	43	736
Financing costs	15,16	121	85
Loss (gain) on warrants	6,17	4	(1,382)
Share of loss of DynaMexico	10	2	180
		(1,533)	(1,924)
Changes in non-cash working capital items	28	205	898
		(1,328)	(1,026)
FINANCING ACTIVITIES			
Issuance of shares, net of issue costs	18	-	65
Proceeds from loan payable	14	4,027	-
		4,027	65
INVESTING ACTIVITIES			
Purchase of plant and equipment	9	(210)	(2,131)
Investment in Oroco Resources Corp.	6	(1,003)	-
Investment in DynaMexico	10	(120)	(19)
Exploration and evaluation properties	11	(1,387)	(11,714)
Developing and operating properties	12	(7,504)	-
		(10,224)	(13,864)
Decrease in cash and cash equivalents		(7,525)	(14,825)
Cash and cash equivalents, beginning of year		8,488	23,313
Cash and cash equivalents, end of year		\$ 963	\$ 8,488
Cash and cash equivalents is comprised of:			
Cash	5	\$ 942	\$ 7,946
Short-term deposits	5	21	542
		\$ 963	\$ 8,488
Supplemental Cash Flow Information	28		

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

GOLDGROUP MINING INC.
Consolidated Statements of Changes in Equity
December 31, 2013 and 2012

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

	Common Shares		Share Option Reserve	Contingent Share Consideration	Translation Reserve	Deficit	Total Equity
	Number (000's)	Amount					
January 1, 2013	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	-	-	43	-	-	-	43
Loss for the year	-	-	-	-	-	(6,976)	(6,976)
December 31, 2013	136,437	\$ 128,768	\$ 7,322	\$ 4,672	\$ (355)	\$ (52,750)	\$ 87,657

	Common Shares		Share Option Reserve	Contingent Share Consideration	Translation Reserve	Deficit	Total Equity
	Number (000's)	Amount					
January 1, 2012	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 exercised	220	65	-	-	-	-	65
Transfer value on option exercise	-	173	(173)	-	-	-	-
Share-based compensation	-	-	736	-	-	-	736
Loss for the year	-	-	-	-	-	(10,008)	(10,008)
December 31, 2012	130,937	\$ 128,011	\$ 7,279	\$ 3,305	\$ (355)	\$ (45,774)	\$ 92,466

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

GOLDGROUP MINING INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of operations

Goldgroup Mining Inc. is the parent company of its consolidated group ("Goldgroup" or the "Company"). Goldgroup was incorporated in Quebec under the *Business Corporations Act* (Québec) and on July 28, 2011 it was continued under the *Business Corporations Act* (British Columbia). Its head office is located at Suite 1502 – 1166 Alberni Street, Vancouver BC, V6E 3Z3. Goldgroup 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, a 100% interest in the Cerro Prieto project in Sonora 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".

Going Concern

The Company has experienced recurring operating losses and has an accumulated deficit of \$52,750 at December 31, 2013 (2012 – \$45,774). In addition the Company has working capital of \$2,338 (2012 - \$14,321). Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year. The continuing operations of the Company are dependent upon its ability to arrange additional financing, favourably resolve the legal disputes with DynaUSA, complete the development of Caballo Blanco, including obtaining the necessary permits to operate, and achieving future profitable operations. These matters results in material uncertainties which may doubt on its ability to continue as a going concern. These financial statements do not include any adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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.

GOLDGROUP MINING INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

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

2. BASIS OF PRESENTATION (CONTINUED)

These consolidated financial statements were approved for issue by the Board of Directors on March 27, 2014.

2.1. Basis of measurement

These consolidated financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, revenue and expense as set out in the accounting policies below. Certain items, including derivative financial instruments, are stated at fair value.

2.2. Significant judgments in applying accounting policies

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

(i) Impairment assets

The carrying value of plant and equipment, intangible assets, 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, 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 assets could impact the impairment analysis.

(ii) Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

(iii) Functional currency

The functional currency for each of the Company's subsidiaries, joint ventures and investments in associates, is the currency of the primary economic environment in which the entity operates. The Company has determined the functional currency of each entity is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

GOLDGROUP MINING INC.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

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

2. BASIS OF PRESENTATION (CONTINUED)

2.3. Key sources of Estimation Uncertainty

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make certain 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. Differences may be material.

The areas which require management to make significant 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) 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 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 reserves.

GOLDGROUP MINING INC.

Notes to the Consolidated Financial Statements

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

2. BASIS OF PRESENTATION (CONTINUED)

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 reserves through exploration activities, differences between estimated and actual costs of mining and differences in gold price used in the estimation of 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.

(iii) 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 and depletion 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, proven and probable 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.

GOLDGROUP MINING INC.
Notes to the Consolidated Financial Statements
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(Expressed in thousands of United States dollars, except per share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

(iv) 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 and exploration and development property. 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.

(v) Share-based 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.

For asset acquisitions, contingent share consideration are an estimate of the fair value of the contingent amounts expected to be payable in the future. The fair value is based on number of contingent shares, the share price of the Company on the date of acquisition and management's expectations of probability.

(vi) Contingencies

Due to the size, complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date such changes occur.

In the fourth quarter of 2012, the Mexican government amended the Federal labour law regarding subcontracting arrangements to prevent the use of service companies to reduce labour and tax obligations. The Company currently operates in Mexico using these subcontracting arrangements as is the common practice. The amendments also provided clarification on certain regulatory requirements associated with an employer's obligation to compensate employees with appropriate statutory profit sharing within Mexico. The Company has assessed the implications of these amendments and has determined that it is probable that no additional obligation for statutory profit sharing payments is required to be recorded in the Company's consolidated financial statements as at and for the year ended December 31, 2013, other than what is presently recorded.

GOLDGROUP MINING INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

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

2. BASIS OF PRESENTATION (CONTINUED)

(vii) Deferred taxes

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

GOLDGROUP MINING INC.
Notes to the Consolidated Financial Statements
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(Expressed in thousands of United States dollars, except per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value.

3.1 Basis of Consolidation

(i) Subsidiaries:

Subsidiaries are all entities controlled by the Company. An investor controls an investee when it is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. These consolidated financial statements include the financial statements of the Company and its subsidiaries:

Entity	Property	Location	As at December 31, 2013	As at December 31, 2012
Subsidiaries:				
Granmin Malaysia Ltd. ("Granmin Malaysia")	-	Malaysia	100%	100%
Granmin SA de CV ("Granmin Mexico")	Cerro Colorado	Mexico	100%	100%
Minera Calipuy SA de CV ("Calipuy")	-	Mexico	100%	100%
Goldgroup Resources Inc. ("Holdings")	-	Canada	100%	100%
GGR Candeler SA de CV ("GGR")	-	Mexico	100%	100%
Candymin SA de CV ("Candymin")	Caballo Blanco	Mexico	100%	100%
0919921 B.C. Ltd.	Caballo Blanco	Mexico	100%	100%
Gold Opmin SA de CV ("Gold Opmin")	-	Mexico	100%	100%
0788598 B.C. Ltd.	-	Canada	100%	100%
0788601 B.C. Ltd.	-	Canada	100%	100%
091152 B.C. Ltd.	-	Canada	100%	-
Minera Polimetalicos Mexicanos S.A.	-	Panama	100%	-
Minas de Oroco Resources SA de CV	Cerro Prieto	Mexico	100%	-
Minera Cardel SA de CV ("Minera Cardel")	Caballo Blanco	Mexico	100%	100%
Investment in associates:				
(Equity accounted)				
DynaResource de Mexico SA de CV ("DynaMexico") ^b	San José de Gracia	Mexico	50%	50%

(ii) Investment in associates:

Associates are entities over which the Company has significant influence and that are neither subsidiaries nor interests in joint ventures. Significant influence is the ability to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies. In general, significant influence is presumed to exist when the Company has between 20% and 50% of voting power. Significant influence may also be evidenced by factors such as the Company's representation on the board of directors, participation in policy-making of the investee, material transactions with the investee, interchange of managerial personnel, or the provision of essential technical information. Associates, except when classified as held-for-sale, are equity accounted for from the effective date of commencement of significant influence to the date that the Company obtains control or ceases to have significant influence.

GOLDGROUP MINING INC.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Results of associates are equity accounted for using the results of their most recent annual and interim financial statements. Losses from associates are recognized in the consolidated financial statements until the interest in the associate is written down to nil. Thereafter, losses are recognized only to the extent that the Company is committed to providing financial support to such associates.

The carrying value of the investment in an associate represents the cost of the investment, including a share of the post-acquisition earnings and losses, accumulated other comprehensive income ("AOCI") and any impairment losses. At the end of each reporting period, the Company assesses whether there is any objective evidence that its investments in associates are impaired.

(iii) Impairment of investments in associates

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating there is a measurable decrease in the estimated future cash flows of the associate's operations. When there is objective evidence that an investment in associate is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its fair value less costs of disposal and value-in-use ("VIU"). If the recoverable amount of an investment in associate is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period in which the relevant circumstances are identified. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings in the period in which the reversal occurs.

3.2 Business Combinations

A business combination is a transaction or other event in which control over one or more businesses is obtained. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits. A business consists of inputs and processes applied to those inputs that have the ability to create outputs that provide a return to the Company and its shareholders. A business need not include all of the inputs and processes that were used by the acquiree to produce outputs if the business can be integrated with the inputs and processes of the Company to continue to produce outputs. If the integrated set of activities and assets is in the exploration and development stage, and thus, may not have outputs, the Company considers other factors to determine whether the set of activities and assets is a business. Those factors include, but are not limited to, whether the set of activities and assets:

- has begun planned principal activities;
- has employees, intellectual property and other inputs and processes that could be applied to those inputs;
- is pursuing a plan to produce outputs; and

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Not all of the above factors need to be present for a particular integrated set of activities and assets in the development stage to qualify as a business.

Business acquisitions are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the purchase consideration over such fair value being recorded as goodwill and allocated to cash-generating units. Non-controlling interest in an acquisition may be measured at either fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's net identifiable assets.

Acquisition related costs are expensed during the period in which they are incurred, except for the cost of debt or equity instruments issued in relation to the acquisition which is included in the carrying amount of the related instrument.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

If the assets acquired are not a business, the transaction is accounted for as an asset acquisition.

3.3 Foreign Currency Translation

The consolidated financial statements are presented in US dollars which is also the functional currency of the Company and its subsidiaries. Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gain and losses are included in profit or loss.

3.4 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase.

3.5 Revenue Recognition

Revenue from the sale of metals is recognized when all of the following conditions have been satisfied:

- The significant risks and rewards of ownership have been transferred;
- Neither continuing managerial management involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Inventories

Finished goods (doré inventory) and heap leach ore are valued at the lower of average production cost and net realizable value. Doré represents a bar containing predominantly gold by value which must be refined offsite to return saleable metals. Net realizable value is the amount estimated to be obtained from sale of the inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. The production cost of inventories is determined on a weighted average basis and includes cost of raw materials, direct labour, mine-site overhead and depreciation and depletion of mine properties and plant and equipment.

The recovery of gold and by-products from oxide ores is achieved through the heap leaching process at the Cerro Colorado mine. Under this method, ore is placed on leach pads where it is treated with a chemical solution which separates the gold contained in the ore. The time required for the majority of the gold to be recovered utilizing heap leaching is over a period of up to 120 days. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. Operating costs at each stage of the process are capitalized and included in work-in-process inventory based on current mining and leaching costs, including applicable depreciation and depletion relating to the mine properties and plant and equipment. These costs are removed from heap leach inventory as ounces of gold are recovered at the average cost per ounce per recoverable ounce of gold on the leach pads. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured tonnes added to leach pads), the grade of ore placed on the leach pads (based on assays analysis), and a recovery percentage (based on testing and ongoing monitoring of the rate of gold recoveries).

Consumable supplies and spare parts expected to be used in production are valued at the lower of weighted average cost or net realizable value, which includes the cost of purchase as well as transportation and charges to bring them to their existing location and condition.

Write-down of inventory is recognized as an expense in profit or loss in the period the write-down occurs. Reversal of any write-down of inventory, arising from an increase in net realizable value, is recognized in profit or loss as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

3.7 Plant and Equipment and Enterprise Resource Planning Software

Plant and equipment are recorded at cost and carried net of accumulated depreciation and accumulated impairment losses. Costs of additions and improvements are capitalized. An item of plant and equipment is derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds and the carrying amount of the asset is recognized in profit or loss.

Plant assets used in commercial production are subject to depreciation and depletion over their useful life. For buildings and machinery, the UOP method is applied where the mine operating plan calls for production from well-defined mineral deposits. Where total mineral deposits are not determinable because ore bearing structures are open at depth or are open laterally, the straight-line method is applied over the estimated life of the mine.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For transportation, computer and other equipment, the straight-line method is also applied over the estimated useful lives of the assets:

	Years
Vehicles	3-4
Office equipment	3-5
Computer equipment	2-3
Computer software	2
Leasehold improvements	lesser of 5 years straight line or term of lease
Enterprise resource planning software	3

Major overhaul expenditures on mobile equipment and other tangible property, including replacement spares and labour costs, are capitalized and amortized over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of the mobile equipment are charged to operating costs if it is not probable that future economic benefits will flow to the Company.

3.8 Mineral Properties

(i) Pre-license costs:

Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

(ii) Exploration and evaluation costs:

Once the legal right to explore has been acquired, exploration and evaluation expenditures are charged to profit or loss as incurred, unless future economic benefit is more likely than not to be realized. The Company capitalizes as exploration and evaluation costs on a property by property basis, the costs of acquiring, maintaining its interest in, exploring and evaluating mineral properties until such time as the lease expires, the mineral properties abandoned, sold or considered impaired in value or is transferred to mines under construction as development cost. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

(iii) Mines under construction and development costs:

All costs relating to the construction, installation or completion of the mine that are incurred subsequent to the exploration and evaluation stage, are capitalized to assets under construction within mine properties.

In order for production to occur, the Company must first obtain exploitation and other permits on such properties. Such permits are subject to the approval of the local government and government controlled entities. Unless and until such permits are obtained there can be no assurance that such permits will be obtained. As such, permits need to be obtained before costs are reclassified from exploration and evaluation properties to mines under construction.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Mine properties:

Once a mineral property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining useful life of the related assets. Mine properties include deferred stripping costs and decommissioning and restoration costs related to the reclamation of mine properties. Mine properties are derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds received and the carrying amount of the asset is recognized in profit or loss.

Costs of producing mine properties are depreciated and depleted on the unit-of-production basis using estimated proven and probable reserves. Depreciation or depletion is recorded against the mine property only upon the commencement of commercial production.

Exploration expenditures are expensed as incurred at mine properties, unless the nature of the expenditures are to convert mineral resources into mineral reserves or in the absence of a mineral resource estimate, are to define areas to be included in the mine plan. Any amounts deferred in this regard are depreciated based on the unit-of-production method.

Mine properties are recorded at cost, net of accumulated depreciation and depletion and accumulated impairment losses and are not intended to represent future values.

Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

3.9 Stripping Costs

Stripping costs incurred during the development of a mine are capitalized in mine properties. Stripping costs incurred subsequent to commencement of commercial production are variable production costs that are included in the costs of inventory produced during the period in which the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalized. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body. Capitalized stripping costs are depleted based on the unit-of-production method, using proven and probable reserves as the depletion base.

3.10 Decommissioning and Restoration

The Company is subject to various governmental laws and regulations relating to the protection of the environment. The environmental regulations are continually changing and are generally becoming more restrictive.

GOLDGROUP MINING INC.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine or site reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is reflected by an other-than-temporary removal from service, including sale of the asset, abandonment or disposal in some other manner.

The present value of a liability for decommissioning and restoration is recorded in the period in which the obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement of fair value. The capitalized cost is depleted or depreciated on either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of its provision for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

3.11 Impairment of Non-Financial Assets

For the purposes of assessing impairment, the recoverable amount of an asset, which is the higher of its fair value less costs to sell and its value in use, is estimated. If it is not possible to estimate the recoverable amount of an individual asset, the asset is included in the cash-generating unit to which it belongs and the recoverable amount of the cash generating unit is estimated. As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Cash-generating units are tested for impairment at least annually. Intangible assets with an indefinite useful life and intangible asset not yet available for use are also tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the asset is impaired such as decreases in metal prices, an increase in operating costs, a decrease in mineable reserves or a change in foreign exchange rates. The Company also considers net book value of the asset, the ongoing costs required to maintain and operate the asset, and the use, value and condition of the asset.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the value-in-use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Future cash flows used in the determination of value in use are estimated based on expected future production, recoverability of reserves, commodity prices, operating costs, reclamation costs and capital costs. Management estimates of future cash flows are subject to risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the recoverable amounts of assets, including the Company's investments in mine properties.

GOLDGROUP MINING INC.**Notes to the Consolidated Financial Statements****December 31, 2013 and 2012***(Expressed in thousands of United States dollars, except per share amounts)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value is determined with reference to discounted estimated future cash flow analysis or on recent transactions involving dispositions of similar properties.

An impairment loss for a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is allocated on a pro rata basis to the other assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist or may have decreased. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, however only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years.

3.12 Provisions

Liabilities are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is certain that a reimbursement will be received and the amount receivable can be measured reliably.

3.13 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit. Deferred tax liabilities on temporary differences associated with shares in subsidiaries and joint ventures is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

GOLDGROUP MINING INC.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets and liabilities are measured, without discounting, using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized for all temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

3.14 Share-based Payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received are not determinable, then the fair value of the share-based payment is used.

The Company uses a fair value based method (Black-Scholes Option Pricing Model) for all share options granted to directors, employees and certain non-employees. For directors and employees, the fair value of the share options is measured at the date of grant. For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.

The fair value of share-based payments is charged either to profit or loss, with the offsetting credit to share option reserve. For directors and employees, the share options are recognized over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods where vested. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in share option reserve are transferred to share capital.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and/or warrants granted and/or vested during the period.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the event share options are forfeited prior to vesting, the associated fair value recorded to date is reversed. The fair value of any vested share options that expire remain in share option reserve.

3.15 Contingent share consideration

When purchase consideration that is contingent on the future event is granted in an acquisition that does not constitute a business combination, the initial cost of the acquisition includes an estimate of the fair value of the contingent amounts expected to be payable in the future. Subsequent changes to the estimated fair value of contingent consideration are recorded as part of the cost of the assets acquired.

The fair value of the contingent amounts are based the number of contingent shares, the share price of the Company's on the date of acquisition and management's expectations of probability.

3.16 Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) (the numerator) by the weighted average number of outstanding common shares for the period (denominator). When diluted earnings per share is calculated, only those outstanding share options and warrants and other convertible instruments with exercise prices below the average trading price of the Company's common shares for the period will be dilutive.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive. Therefore basic and diluted loss per share is the same.

3.17 Related Party Transactions

Related party transactions are measured at the exchange amount, which is the consideration established and agreed to by the parties.

3.18 Segmented Reporting

In identifying its operating segments, management generally follows the Company's activities. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The activities are undertaken by the mine operating segment and the exploration and development segment and are supported by the corporate segment. Each segment is managed separately. The operating results of the segments are reviewed regularly by the Company's Chief Executive Officer (who is considered the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3.19 Financial Instruments - Recognition and Measurements

(i) Non-derivative financial assets

Financial assets, other than derivatives, are classified as available-for-sale, held-to-maturity investments, loans and receivables or at fair value through profit or loss ("FVTPL").

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets classified as available-for-sale are measured at fair value on initial recognition plus transaction costs and subsequently at fair value with unrealized gains and losses recognized in other comprehensive income (loss), except for financial assets that are considered to be impaired in which case the loss is recognized in profit or loss. The Company has not classified any assets as available for sale for any period presented.

Financial assets classified as held-to-maturity investments and loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortized cost using the effective interest method. The Company's cash and cash equivalents and certain accounts receivables are classified as loans and receivables.

Financial assets classified as FVTPL are measured on initial recognition and subsequently at fair value with unrealized gains and losses recognized in profit or loss. Transaction costs are expensed for assets classified as FVTPL. The Company has not classified any assets as FVTPL for any period presented.

(ii) Non-derivative financial liabilities

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other accounts payable are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in profit or loss. The Company has not designated any financial liabilities as FVTPL.

(iii) Derivative financial instruments

The Company issues warrants exercisable in a currency other than the Company's functional currency and as a result, the warrants are derivative financial instruments.

Derivative financial instruments are initially recognized at fair value and subsequently measured at fair value with changes in fair value recognized in profit or loss. Transaction costs are recognized in profit or loss as incurred.

3.20 Share Issuance Costs

Share issue costs, which includes commissions, facilitation payments, professional fees and regulatory fees, are charged directly to share capital.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Valuation of Equity Units Issued in a Private Placement

Shares and warrants issued as private placement units are measured using the residual value method whereby value is first allocated to the warrant liability component based on its fair value with the residual value being attributed to the equity unit. The fair value of the warrant is determined using the Black-Scholes Option Pricing Model.

All of the Company's warrants are exercisable in a currency other than the functional currency of the Company. As a result, the fair value allocated to the warrant is recorded as a derivative financial liability and is marked to market at the end of each period. Upon exercise of the warrant, the fair value of the warrant at the date of exercise is transferred to share capital.

3.22 Comprehensive Income (loss)

Total comprehensive income (loss) comprises all components of profit or loss and other comprehensive income (loss). Other comprehensive income (loss) includes changes in revaluation surplus, actuarial gains and losses on defined benefit plans, gains and losses from translating the financial statements of a foreign operation, gains and losses on remeasuring available-for-sale financial assets.

3.23 Changes in Accounting Standards

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 audited consolidated financial statements.

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.

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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 these adopted accounting standards did not result in an adjustment to the Company's consolidated financial statements.

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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 that have Unspecified Effective Date

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.

Levies imposed by governments

In May 2013, the IASB issued IFRIC 21 – Levies (“IFRIC 21”), an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the impact of applying IFRIC 21 on its consolidated financial statements.

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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 \$8,106 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.

The project has an existing 2% net smelter return royalty.

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 do not constitute a business as defined by IFRS 3, *Definition of a Business*.

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4. ACQUISITION OF MINAS DE OROCO RESOURCES, SA DE CV (CONTINUED)

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) ¹		1,331
Second Loan (\$4,125 promissory note or 16.5 million shares) ²		1,367
Legal and other fees		151
	\$	<u>8,106</u>
Net identifiable assets		
Mineral property	\$	<u>8,106</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 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.

5. CASH AND CASH EQUIVALENTS

	As at December 31,	
	2013	2012
Cash at the bank and on hand		
US dollar	\$ 809	\$ 5,362
Canadian dollar	52	66
Mexican pesos	81	3,038
Short term deposits - Canadian dollar	21	22
	<u>\$ 963</u>	<u>\$ 8,488</u>

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6. INVESTMENTS

At December 31, 2013, the Company held the following:

		<u>Quantity (000's)</u>	<u>Fair Value</u>
Oroco common shares	(a&b)	5,000	\$ 164
Oroco share purchase warrants	(a&c)	5,000	6
			<u>\$ 170</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 12.1). The total purchase price paid for the Oroco units was \$1,003 (CDN\$1,000). The fair value allocated to the common shares was \$903 and the fair value allocated to the warrants was \$100.
- 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 \$700 (2012 - \$nil) was recorded for the year ended December 31, 2013. There has been a significant and prolonged decline in the fair value of the common shares therefore the cumulative loss has been reclassified from equity (other comprehensive income) to the statement of loss.
- 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 \$91 (2012 - \$nil) was recorded during the year ended December 31, 2013.

7. RECEIVABLES

	As at December 31,	
	<u>2013</u>	<u>2012</u>
Financial assets		
Receivables	\$ 22	\$ 78
Employee receivables	2	11
	<u>24</u>	<u>89</u>
Non-financial assets		
Value-added tax receivable	4,377	3,425
Corporate tax receivable	1,379	1,375
	<u>\$ 5,780</u>	<u>\$ 4,889</u>

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8. INVENTORIES

Inventories consist of the following:

	As at December 31,	
	2013	2012
Doré	\$ 177	\$ 118
Gold-in-process	92	2,783
Consumable supplies	1,763	2,210
	<u>\$ 2,032</u>	<u>\$ 5,111</u>

Cost of sales represents the amount of product inventory recognized as an expense. All of the Company's inventories on hand are located at the Cerro Colorado mine in Mexico. During the year ended December 31, 2013 the Company recorded an impairment of \$780 with a corresponding entry to cost of sales (2012 - \$810).

As of September 30, 2013, the Company ceased mining operations at Cerro Colorado. As a result, the remaining balance in gold-in-process is being amortized over the estimated number of months that it is expected to continue leaching. During the year ended December 31, 2013 the Company recorded a decrease to gold-in-process inventory of \$1,911.

9. PLANT AND EQUIPMENT AND INTANGIBLE ASSET

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
Cost						
Balance, January 1, 2013	\$ 9,139	\$ 1,294	\$ 381	\$ 909	\$ 61	\$ 11,784
Additions	-	176	15	8	11	210
Write-off of fixed assets	(10)	-	(137)	(12)	-	(159)
Balance, December 31, 2013	<u>9,129</u>	<u>1,470</u>	<u>259</u>	<u>905</u>	<u>72</u>	<u>11,835</u>
Accumulated depreciation						
Balance, January 1, 2013	6,187	988	281	739	60	8,255
Depreciation for the year	1,477	193	36	161	1	1,868
Write-off of fixed assets	-	-	(106)	(12)	-	(118)
Balance, December 31, 2013	<u>7,664</u>	<u>1,181</u>	<u>211</u>	<u>888</u>	<u>61</u>	<u>10,005</u>
Net book value	<u>\$ 1,465</u>	<u>\$ 289</u>	<u>\$ 48</u>	<u>\$ 17</u>	<u>\$ 11</u>	<u>\$ 1,830</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 year was \$214 (2012 - \$53). The net book value as of December 31, 2013 was \$398 (2012 - \$612).

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9. PLANT AND EQUIPMENT AND INTANGIBLE ASSET (CONTINUED)

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
Cost						
Balance , January 1, 2012	\$ 7,849	\$ 1,246	\$ 344	\$ 840	\$ 61	\$ 10,340
Additions	1,290	48	37	91	-	1,466
Write-off of equipment	-	-	-	(22)	-	(22)
Balance, December 31, 2012	9,139	1,294	381	909	61	11,784
Accumulated depreciation						
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	6,187	988	281	739	60	8,255
Net book value	\$ 2,952	\$ 306	\$ 100	\$ 170	\$ 1	\$ 3,529

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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10. INVESTMENT IN DYNARESOURCE DE MEXICO SA DE CV (CONTINUED)

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

	Year ended December 31,	
	2013	2012
Investment, beginning of year	\$ 17,938	\$ 18,099
Funds invested	120	19
Share of loss	(2)	(180)
Investment, end of year	<u>\$ 18,056</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 alleged, 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 March 11, 2014 the Company announced that DynaResource dropped its lawsuit in Dallas County District Court.

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.

On March 14, 2014 the Company filed for arbitration in Denver, Colorado, against DynaResource Inc. to protect its interests pursuant to the SJG earn-in option agreement dated September 1, 2006.

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11. EXPLORATION AND EVALUATION PROPERTIES

	Caballo Blanco	Other	Total
January 1, 2013	\$ 63,388	-	\$ 63,388
Acquisition Costs	-	-	-
Exploration Costs			
Depreciation	97	-	97
Exploration	1,102	-	1,102
Fees and taxes	131	-	131
	<u>64,718</u>	<u>-</u>	<u>64,718</u>
Reimbursement for 0.1% NSR	(250)	-	(250)
December 31, 2013	<u>64,468</u>	<u>-</u>	<u>64,468</u>
January 1, 2012	\$ 50,232	\$ 816	\$ 51,048
Acquisition Costs	4,107	-	4,107
Exploration Costs			
Depreciation	159	4	163
Drilling	3,600	-	3,600
Exploration	4,192	2	4,194
Fees and taxes	935	102	1,037
Development costs	163	-	163
	<u>63,388</u>	<u>924</u>	<u>64,312</u>
Write-off properties	-	(924)	(924)
December 31, 2012	<u>63,388</u>	<u>-</u>	<u>63,388</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.

The Company has substantially reduced exploration and development activity on the project until all necessary permits, including the Environmental Impact Assessment ("EIS") have been secured. The EIS was initially submitted to the Secretaria de Medio Ambiente y Recursos Naturales ("SEMARNAT") on December 15, 2011. On September 14, 2012, the Company deferred the evaluation of the EIS and is currently in the process of working on three environmental studies that have been brought forth through the EIS permitting process.

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.

During 2013, the Company received \$250 as a reimbursement for funds previously paid to a royalty holder on Caballo Blanco to reduce their NSR. The \$250 reimbursement represented a 0.1% increase to the NSR payable on Caballo Blanco. The NSR payable on the project is now 2%.

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11. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

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.

11.2 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.

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 1st 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.

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12. DEVELOPMENT AND OPERATING MINE PROPERTIES

	Note	Year ended December 31,	
		2013	2012
Mine under construction - Cerro Prieto	12.1		
Balance, beginning of year		\$ -	\$ -
Acquisition Costs			
Development Costs			
Depreciation		100	-
Mine operations		1,258	-
Plant and lab		405	-
Engineering		62	-
Leach pad		296	-
Geology		293	-
Roads		157	-
Crusher		358	-
Other		120	-
Balance, end of year		\$ 11,155	\$ -
Operating mine - Cerro Colorado		12.2	
Costs			
Balance, beginning of year	\$ 15,811		\$ 15,811
Balance, end of year	15,811		15,811
Accumulated depletion			
Balance, beginning of year	(15,811)		(12,211)
Depletion for period	-		(2,024)
Impairment	-		(1,576)
Balance, end of year	(15,811)		(15,811)
	\$ -		\$ -

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12. DEVELOPMENT AND OPERATING MINE PROPERTIES (CONTINUED)

12.1 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 \$8,106, 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.

The project has an existing 2% net smelter return royalty.

12.2 Cerro Colorado

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. On September 30, 2013, the Company stopped full scale mining operations and is continuing to process gold from the leach pad. The project is subject to a NSR royalty of 3%.

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

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13. TRADE AND OTHER ACCOUNTS PAYABLE

	As at December 31,	
	2013	2012
Financial liabilities		
Trade payables	\$ 2,584	\$ 4,180
Employee payables	84	238
Payroll accruals	162	8
	<u>\$ 2,830</u>	<u>\$ 4,426</u>

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

14. 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 fees of the Lender. The Lender's legal fees totalled \$246.

The Loan is for a term of 16 months and is secured against all of the assets of the Company and its subsidiaries. The stated 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.

	December 31, 2013
Loan balance, beginning of the year	\$ -
Loan on August 30, 2013	3,846
Interest expense	200
Legal fees	246
Repayments	-
Foreign exchange gain	(100)
Loan balance, end of year	<u>\$ 4,192</u>

The entire loan is due within twelve months therefore it has been classified as a current liability.

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15. 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.

The undiscounted amount of estimated cash flows required to settle the promissory note payable are estimated to be \$1,695, including interest of \$195. The discounted amount of the promissory note at August 30, 2013 was \$1,330, using a discount rate of 15%.

	December 31, 2013
Promissory note payable balance, beginning of year	\$ -
Issued on August 30, 2013 (face value)	1,500
Discount for present value	(169)
Interest expense	41
Accretion	27
Repayments	-
Promissory note payable balance, end of year	\$ 1,399

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%.

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16. DECOMMISSIONING AND RESTORATION PROVISION (CONTINUED)

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

	As at December 31,	
	2013	2012
Opening	\$ 855	\$ 770
Accretion expense	95	85
	<u>\$ 950</u>	<u>\$ 855</u>

17. WARRANT LIABILITY

	Warrants	Weighted average exercise price (C\$)	Warrant liability (US\$)
Balance, January 1, 2012	2,000,000	\$ 1.25	\$ 90
Change in fair value	-	-	(87)
Balance, December 31, 2013	<u>2,000,000</u>	<u>\$ 1.25</u>	<u>\$ 3</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>

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

The fair value allocated to the warrants at December 31, 2013 was \$3 (December 31, 2012 - \$90) and is recorded as a derivative financial liability. The gain recognized in the statement of loss for the year ended December 31, 2013 and 2012 was \$87 and \$1,382, 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.

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18. EQUITY

18.1 Authorized

Unlimited number of common shares with no par value

18.2 Shares Issued

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

During the year ended December 31, 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 December 31, 2013, share options available for issue under the plan were 13,643,657.

Total share options granted during the year ended December 31, 2013 were 3,560,000 (2012 – 1,455,000). Total share-based compensation expense recognized for the fair value of share options granted and vested during the year ended December 31, 2013 was \$43 (2012 - \$736).

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18. EQUITY (CONTINUED)

The fair value of the share options granted during the year ended December 31, 2013 and 2012 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year ended December 31,	
	2013	2012
Expected option life	2.5 years	2.5 years
Expected stock price volatility	71%	64%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Risk free interest rate	1.09%	1.24%
Weighted average strike price	\$0.10	\$0.66
Weighted average fair value per option	\$0.02	\$0.23
Weighted average share price	\$0.17	\$0.72

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

The following stock options were outstanding:

	Options	Weighted average exercise price (Cdn\$)
January 1, 2013	10,375,108	\$ 1.00
Granted	3,560,000	\$ 0.10
Expired	(5,011,250)	\$ 0.89
Forfeited	(175,000)	\$ 0.64
December 31, 2013	<u>8,748,858</u>	<u>\$ 0.70</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>\$ 1.00</u>

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18. EQUITY (CONTINUED)

The following table summarizes information about the Company's stock options outstanding at December 31, 2013:

Exercise price (C\$/option)	Options Outstanding			Options Exercisable		
	Options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (C\$/option)	Options outstanding and exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (C\$/option)
\$0.10 to \$0.70	4,568,940	4.23	\$0.20	1,882,690	3.33	\$0.34
\$0.71 to \$1.15	1,254,918	0.38	1.00	1,254,918	0.38	1.00
\$1.16 to \$1.60	2,925,000	2.07	1.36	2,925,000	2.07	1.36
Total	8,748,858	2.95	\$0.70	6,062,608	2.11	\$0.97

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 December 31, 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).

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.

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19. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key management compensation includes:	Year ended December 31,	
	2013	2012
Salaries ¹	\$ 641	\$ 1,988
Non-executive director fees	188	109
Benefits ¹	59	63
Bonuses ²	43	78
Options ³	43	313
	<u>\$ 974</u>	<u>\$ 2,551</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 December 31, 2013, trade and other accounts payable includes \$71 (2012 - \$203) owing to a director and/or officer and/or companies controlled by the directors.

During the year ended December 31, 2013 the Company paid legal fees totalling \$44 (2012 - \$nil) to a Company controlled by a director of the Company.

Due to the particulars 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 year ended December 31, 2013 this fee totaled \$141 (2012 - \$160). 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 December 31, 2013, amounts owing to Pabelini totalled \$77 (2012 - \$49).

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 year ended December 31, 2013 this fee totaled \$35 (2012 - \$62). This fee is meant to reimburse Minop for administrative costs incurred by the company in providing these services. At December 31, 2013, amounts owing to Minop totalled \$80 (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.

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20. INCOME TAXES

a) Income tax expense

	Year ended December 31,	
	2013	2012
Current income tax expense	\$ 907	\$ 356
Deferred income tax expense	1,874	1,898
Income tax expense	<u>\$ 2,781</u>	<u>\$ 2,254</u>

b) Deferred tax liability

The tax effects of temporary differences between amounts recorded in the Company's accounts and the corresponding amounts as computed for income tax purposes give rise to deferred tax assets (liabilities) as follows:

December 31, 2013	Canada	Mexico	Total
Tax loss carryforwards	\$ 132	\$ 160	\$ 292
Exploration and evaluation properties and mine property	-	(8,396)	(8,396)
Other	(132)	-	(132)
Deferred tax liability	<u>\$ -</u>	<u>\$ (8,236)</u>	<u>\$ (8,236)</u>

December 31, 2012	Canada	Mexico	Total
Plant and equipment	\$ -	\$ (356)	\$ (356)
Exploration and evaluation properties and mine property	-	(6,328)	(6,328)
Other	-	307	307
Deferred tax liability	<u>\$ -</u>	<u>\$ (6,377)</u>	<u>\$ (6,377)</u>

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20. INCOME TAXES (CONTINUED)

At December 31, 2013, no deferred tax assets are recognized on the following temporary differences or it is not probable that sufficient future taxable profit will be available to realize such assets:

December 31, 2013	Canada	Mexico	Total
Tax loss carryforwards and tax credits	\$ 4,362	\$ 5,007	\$ 9,369
Royalty deduction		1,374	1,374
Mineral property	-	282	282
Plant and equipment	92	160	252
Share issue costs	435	-	435
Other	116	800	916
Unrecognized deferred tax assets	<u>\$ 5,005</u>	<u>\$ 7,623</u>	<u>\$ 12,628</u>
December 31, 2012	Canada	Mexico	Total
Tax loss carryforwards and tax credits	\$ 3,646	\$ 6,222	\$ 9,868
Mineral property	-	620	620
Share issue costs	555	-	555
Other	228	448	676
Unrecognized deferred tax assets	<u>\$ 4,429</u>	<u>\$ 7,290</u>	<u>\$ 11,719</u>

The Company has non-capital losses of approximately \$17,300 (2012 – \$14,600) to reduce future income tax payable in Canada which expire between the years 2014 and 2033.

In Mexico, the Company has losses of approximately 17,200 (2012 - \$9,700) to reduce income tax in Mexico which expire between 2018 and 2023.

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20. INCOME TAXES (CONTINUED)

The provision for income tax differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 25.75% (2012 – 25%) as follows:

	Year ended December 31,	
	2013	2012
Expected income tax expense (recovery)	\$ (1,080)	\$ (1,939)
Non-deductible items	663	425
Tax rate differences	(629)	(83)
Change in tax systems	(2,879)	-
Royalty deduction	3,207	-
Foreign exchange	524	(517)
Tax assets acquired on acquisition	(1,111)	-
Other	(31)	118
Deferred tax assets not recognized	4,117	4,250
	<u>\$ 2,781</u>	<u>\$ 2,254</u>

All deferred income tax expense recognized during the year relates to the Company's subsidiaries in Mexico.

21. COST OF SALES

	Year ended December 31,	
	2013	2012
Raw materials	\$ 15,026	\$ 21,867
Salaries and employee benefits	3,252	4,244
Rental machinery	-	166
Contractors	608	422
Royalties	795	913
Change in inventories	1,940	144
Write-off inventory (Note 8)	780	810
Other	238	564
	<u>22,639</u>	<u>29,130</u>
Depreciation and depletion	1,657	3,210
	<u>\$ 24,296</u>	<u>\$ 32,340</u>

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22. ADMINISTRATIVE COSTS

	Year ended December 31,	
	2013	2012
Salaries and consulting	\$ 1,181	\$ 2,711
Office and rent	611	827
Amortization	228	87
Investor relations	121	493
Professional fees	1,272	1,353
Travel	148	282
Share-based compensation expense	43	736
Interest income	(27)	(122)
Other	215	296
	<u>\$ 3,792</u>	<u>\$ 6,663</u>

23. OTHER (INCOME) EXPENSES

	Year ended December 31,	
	2013	2012
Accretion expense	\$ 122	\$ 85
Interest and other	242	14
Financing expenses	407	-
Loss (gain) on warrants (Note 6 and 14)	4	(1,382)
Impairment of investment (Note 6)	700	-
Foreign exchange gain	(389)	(934)
Exploration - project generation	344	477
Exploration - Cerro Colorado	213	1,278
	<u>\$ 1,643</u>	<u>\$ (462)</u>

24. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as its equity excluding non-controlling interest.

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders. The Company intends to pursue the acquisition, exploration and development of resource property interests and maintain a flexible capital structure which optimizes cost of capital at an acceptable risk.

The Company manages and reviews its capital structure based on the funds available for its operations and makes adjustments for changes in economic conditions, capital markets and the risk characteristics of the underlying assets. The Company expects it will be able to obtain equity financing and generate positive cash flow to maintain and grow operations. However, to maintain or adjust the capital structure, the Company may issue new shares, seek debt financing, acquire or dispose of assets or change the timing of its planned exploration and development projects.

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24. MANAGEMENT OF CAPITAL (CONTINUED)

To assess liquidity and facilitate management of its capital requirements, management prepares annual budgets and updates them, as necessary, depending on various factors many of which are beyond the Company's control and include successful capital deployment and general industry conditions. The Company also takes into account its expected cash flows from mining operations, including capital expenditures, and its cash and cash equivalent holdings. The Board of Directors approves the annual and updated budgets.

The Company places deposits only with major established banks in the currencies in which it operates. The Company's investment policy is to invest its excess cash in highly liquid, low risk, short-term interest-bearing investments. Investments are selected after taking into consideration the expected timing of operating and capital expenditures. The Company limits its exposure to credit risks on investments by primarily investing in securities rated AAA by credit rated agencies such as S&P and Moody's. Excess cash is invested in the highest rated investments including bankers acceptances, commercial paper or other highly rated short-term investment instruments with a maturity of 90 days or less when acquired. The investments are redeemable in portion or in full at the Company's option without penalty and are recorded as cash and cash equivalents. Any excess cash is held in the currency which management believes poses the least amount of volatility and risk.

The Company does not pay dividends and has a short-term loan payable. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

There have not been any changes to the Company's capital management policy during the period.

25. RISK MANAGEMENT

25.1 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, royalty 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.

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.

GOLDGROUP MINING INC.**Notes to the Consolidated Financial Statements****December 31, 2013 and 2012***(Expressed in thousands of United States dollars, except per share amounts)***25. RISK MANAGEMENT (CONTINUED)****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 26). 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.

As at December 31, 2013	Current	Non-current	
	Within 1 year	1 to 3 years	Later than 3 years
Trade and other accounts payable	\$ 2,830	\$ -	\$ -
Promissory note payable	-	1,540	-
Loan payable	4,192	-	-
Total	\$ 7,022	\$ 1,540	\$ -

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

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25. RISK MANAGEMENT (CONTINUED)

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.

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.

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25. RISK MANAGEMENT (CONTINUED)

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

	Canadian dollar (Cdn \$)		Mexican Peso (Peso)	
	December 31,		December 31,	
	2013	2012	2013	2012
Financial assets				
Cash and cash equivalents	\$ 77	\$ 88	\$ 1,061	\$ 3,038
Receivables	7	93	77,712	64,922
	\$ 84	\$ 181	\$ 78,773	\$ 67,960
Financial liabilities				
Trade and other accounts payable	\$ 295	\$ 374	\$ 12,028	\$ 15,076
Loan payable	4,463	-	-	-
	\$ 4,758	\$ 374	\$ 12,028	\$ 15,076

The following table indicates the impact of foreign currency risk on working capital as at December 31, 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	\$84	78,773
Financial liabilities	(4,758)	(12,028)
Net foreign currency working capital	\$(4,674)	\$66,745
US\$ exchange rate	0.939	0.076
Net foreign currency working capital in US\$	(4,389)	5,073
Foreign exchange loss on a 10% strengthening of the US\$	439	507
Foreign exchange gain on a 10% weakening of the US\$	439	507

25.2 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.

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25. RISK MANAGEMENT (CONTINUED)

As at December 31, 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 December 31, 2013 the Company's financial instruments measured at fair value are as follows:

As at December 31, 2013	Level 1	Level 2	Level 3
	\$	\$	\$
Assets			
Cash and cash equivalents	\$ 963	\$ -	\$ -
Receivables	\$ -	\$ 24	\$ -
Marketable securities	\$ 164	\$ -	\$ -
Warrant derivative assets	\$ -	\$ -	\$ 6
Liabilities			
Trade and other accounts payable	\$ -	\$ (2,830)	\$ -
Loan payable	\$ -	\$ (4,192)	\$ -
Warrant liability	\$ -	\$ -	\$ (3)
Promissory note payable	\$ -	\$ (1,399)	\$ -

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly..

Level 3 – Unobservable inputs for the asset or liability.

There were no transfers between level 1, 2 or 3 during the year ended December 31, 2013 and 2012.

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26. COMMITMENTS

In December 2013 the Company entered into a new office lease agreement whereby the Company has minimum lease payments of \$50 per year for the period February 1, 2014 to July 31, 2016. Operating costs and property taxes are estimated to be \$36 per year.

The Company has entered into a lease agreement with the owner (son-in-law of CEO) 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 \$455 (5,961,280 pesos) by October 25, 2013 and \$1,870 (24,500,000 pesos) by October 25, 2016 for specific surface rights. On October 24, 2013 the Company and the local property owners 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 \$229 (3,000,000 pesos).

Exploration and evaluation properties commitments are disclosed in Note 11.

27. 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 year ended December 31, 2013, 100% of the Company's sales were to two third parties. The balance owing from these parties at December 31, 2013 and 2012 was \$nil.

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27. SEGMENTED INFORMATION (CONTINUED)

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

	December 31, 2013		
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
ASSETS			
Current assets	\$ 746	\$ 8,722	\$ 9,468
Plant and equipment	4	1,826	1,830
Enterprise resource planning software	398	-	398
Investment in DynaMexico	-	18,056	18,056
Exploration and evaluation properties	-	64,468	64,468
Development and operating properties	-	11,155	11,155
LIABILITIES			
Trade and other accounts payable	(390)	(2,440)	(2,830)
Taxes payable	-	(108)	(108)
Decommissioning and restoration provision	-	(950)	(950)
Promissory note payable	(1,399)	-	(1,399)
Loan payable	(4,192)	-	(4,192)

	December 31, 2012		
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
ASSETS			
Current assets	\$ 6,470	\$ 12,386	\$ 18,856
Plant and equipment	50	3,479	3,529
Enterprise resource planning software	612	-	612
Investment in DynaMexico	-	17,938	17,938
Exploration and evaluation properties	-	63,388	63,388
LIABILITIES			
Trade and other accounts payable	(341)	(4,085)	(4,426)
Taxes payable	-	(109)	(109)
Decommissioning and restoration provision	-	(855)	(855)

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27. SEGMENTED INFORMATION (CONTINUED)

Selected financial information by operating segments is as follows:

	Year ended December 31,	
	2013	2012
Revenue		
Mining operations	\$ 25,579	\$ 33,474
Income (loss) before income taxes for the period		
Mining operations	\$ 1,283	\$ 1,134
Exploration and evaluation	(559)	(4,341)
Corporate	(4,919)	(4,547)
	<u>\$ (4,195)</u>	<u>\$ (7,754)</u>

	Mining	Exploration and Development	Corporate	December 31, 2013 Total
	Operations			
Current assets	\$ 8,252	\$ 470	\$ 746	\$ 9,468
Plant and equipment	1,411	415	4	1,830
Intangible asset	-	-	398	398
Investment in DynaMexico	-	18,056	-	18,056
Exploration and evaluation properties	-	64,468	-	64,468
Development and operating properties	-	11,155	-	11,155
	<u>\$ 9,663</u>	<u>\$ 94,564</u>	<u>\$ 1,148</u>	<u>\$ 105,375</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>

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28. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	Nine months ended September 30,	
	2013	2012
Receivables	\$ (891)	\$ (838)
Inventories	2,298	(656)
Prepays and deposits	(154)	54
Trade and other accounts payable	(981)	2,935
Accounts payable for exploration and evaluation properties	(307)	(388)
Interest payable on loan payable and promissory note payable	240	-
Taxes payable	-	(209)
	<u>\$ 205</u>	<u>\$ 898</u>

Non-cash investing transactions not included in cash flows:

Depreciation capitalized to exploration and evaluation properties	\$ 196	\$ 163
Accretion expenses	\$ 122	\$ 85
Issuance of shares for exploration and evaluation property	\$ 757	\$ 1,775
Contingent share consideration for exploration and evaluation property	\$ 1,367	\$ -