



GOLDGROUP MINING INC.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010**

(Unaudited)

(Expressed in Thousands of United States Dollars)

GOLDGROUP MINING INC.**Condensed Interim Consolidated Statements of Financial Position****June 30, 2011 and December 31, 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

	Note	June 30, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current assets				
Cash and cash equivalents	5	\$ 40,846	\$ 12,654	\$ 515
Investment held for trading		-	-	2,313
Receivables	6	3,186	2,557	219
Inventories	7	4,458	4,165	-
Prepays and deposits		499	274	99
Total current assets		48,989	19,650	3,146
Non-current assets				
Plant and equipment	8	7,751	5,423	458
Investment in DynaResource de Mexico SA de CV	9	18,429	14,390	10,031
Exploration and evaluation properties	10	24,791	19,795	18,568
Mine Properties	11	8,784	9,577	-
Total non-current assets		59,755	49,185	29,057
Total assets		\$ 108,744	\$ 68,835	\$ 32,203
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other accounts payable	12	\$ 1,764	\$ 2,345	\$ 402
Warrant liability	14	-	962	-
Agreement payable		-	-	4,758
Total current liabilities		1,764	3,307	5,160
Non-current liabilities				
Decommissioning and restoration provision	13	607	583	-
Warrant liability	14	2,456	2,741	-
Deferred tax liability		5,403	4,572	692
Total liabilities		10,230	11,203	5,852
Equity				
Share capital	15	114,181	72,421	30,947
Share option reserve	15	5,530	4,372	2,326
Translation reserve		(355)	(355)	(1,334)
Deficit		(20,842)	(18,806)	(5,588)
Total equity		98,514	57,632	26,351
Total equity and liabilities		\$ 108,744	\$ 68,835	\$ 32,203

Commitments

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Approved by the Board of Directors:

/s/ Keith Piggott

Director

/s/ Gregg J. Sedun

Director

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

GOLDGROUP MINING INC.
Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
June 30, 2011 and 2010
(Unaudited - Expressed in Thousands of United States Dollars except per share amounts)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
Revenue	4,26				
Gold sales		\$ 9,750	\$ 5,323	\$ 16,184	\$ 5,323
Silver sales		74	49	112	49
		<u>9,824</u>	<u>5,372</u>	<u>16,296</u>	<u>5,372</u>
Costs and expenses of mining operations					
Cost of sales	17	7,080	4,457	12,363	4,457
Depreciation, depletion and amortization		690	1,259	1,253	1,259
		<u>7,770</u>	<u>5,716</u>	<u>13,616</u>	<u>5,716</u>
Mine operating income (loss)		<u>\$ 2,054</u>	<u>\$ (344)</u>	<u>\$ 2,680</u>	<u>\$ (344)</u>
Other expenses (income)					
Administrative expenses	18	\$ 1,991	\$ 1,484	\$ 3,689	\$ 2,354
Other income	19	(1,070)	(411)	(367)	(579)
Share of equity loss (gain) in DynaMexico	9	(78)	51	(39)	60
Other expenses	20	28	364	50	364
		<u>871</u>	<u>1,488</u>	<u>3,333</u>	<u>2,199</u>
Income (loss) before income taxes		<u>1,183</u>	<u>(1,832)</u>	<u>(653)</u>	<u>(2,543)</u>
Provision for income taxes:					
Current		565	-	585	-
Deferred		599	717	798	798
		<u>1,164</u>	<u>717</u>	<u>1,383</u>	<u>798</u>
Net income (loss) for the period		<u>\$ 19</u>	<u>\$ (2,549)</u>	<u>\$ (2,036)</u>	<u>\$ (3,341)</u>
Attributable to:					
Shareholders of the Company		19	(2,549)	(2,036)	(3,341)
Non-controlling interest		-	-	-	-
		<u>\$ 19</u>	<u>\$ (2,549)</u>	<u>\$ (2,036)</u>	<u>\$ (3,341)</u>
Other comprehensive income		-	979	-	979
Comprehensive income (loss) for the period		<u>\$ 19</u>	<u>\$ (1,570)</u>	<u>\$ (2,036)</u>	<u>\$ (2,362)</u>
Attributable to:					
Shareholders of the Company		19	(1,570)	(2,036)	(3,341)
Non-controlling interests		-	-	-	-
		<u>\$ 19</u>	<u>\$ (1,570)</u>	<u>\$ (2,036)</u>	<u>\$ (3,341)</u>
Basic and diluted income (loss) per share		<u>\$ 0.00</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>
Weighted average number of shares outstanding (000's)		<u>119,608</u>	<u>71,274</u>	<u>107,824</u>	<u>61,662</u>

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

GOLDGROUP MINING INC.
Condensed Interim Consolidated Statements of Cash Flows
June 30, 2011 and 2010
(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

	Note	Three Months Ended		Six Months Ended	
		June 30		June 30	
		2011	2010	2011	2010
CASH AND CASH EQUIVALENTS DERIVED FROM (USED IN)					
OPERATING ACTIVITIES					
Income (loss) for the period		\$ 19	\$ (2,549)	\$ (2,036)	\$ (3,341)
Items not involving cash:					
Deferred tax		599	717	798	798
Depletion, depreciation and amortization		697	1,270	1,270	1,281
Unrealized foreign exchange loss (gain)		(96)	(350)	33	(350)
Change in fair value of investment		-	(19)	-	-
Loss on sale of investment		-	414	-	130
Share-based compensation expense	15	889	469	1,510	487
Financing costs	20	12	31	24	31
Gain on warrants	14	(628)	(405)	(162)	(405)
Share of (gain) loss of DynaMexico	9	(78)	51	(39)	60
		<u>1,414</u>	<u>(371)</u>	<u>1,398</u>	<u>(1,309)</u>
Changes in non-cash working capital items	24	<u>(1,216)</u>	<u>566</u>	<u>(1,970)</u>	<u>802</u>
		<u>198</u>	<u>195</u>	<u>(572)</u>	<u>(507)</u>
FINANCING ACTIVITIES					
Issuance of shares, net of issue costs	15	551	14	40,323	5,799
Treasury shares		-	(441)	-	(441)
Repayment of loans		-	234	-	(1,517)
		<u>551</u>	<u>(193)</u>	<u>40,323</u>	<u>3,841</u>
INVESTING ACTIVITIES					
Acquisition of Sierra	4	-	516	-	516
Sale of investments		-	1,742	-	3,902
Purchase of investments		-	(1,095)	-	(1,658)
Purchase of plant and equipment	8	(1,707)	(271)	(2,874)	(271)
Investment in DynaMexico	9	-	(803)	(4,000)	(1,700)
Exploration and evaluation properties	10	(2,807)	(2,214)	(4,685)	(3,086)
		<u>(4,514)</u>	<u>(2,125)</u>	<u>(11,559)</u>	<u>(2,297)</u>
Effect of functional exchange rate changes on cash and cash equivalents		-	192	-	58
(Decrease) increase in cash and cash equivalents		<u>(3,765)</u>	<u>(1,930)</u>	<u>28,192</u>	<u>1,095</u>
Cash and cash equivalents, beginning of period		<u>44,611</u>	<u>3,541</u>	<u>12,654</u>	<u>515</u>
Cash and cash equivalents, end of period		<u>\$ 40,846</u>	<u>\$ 1,610</u>	<u>\$ 40,846</u>	<u>\$ 1,610</u>
Cash and cash equivalents is comprised of:					
Cash		\$ 7,765	\$ 1,610	\$ 7,765	\$ 1,610
Short-term deposits		33,081	-	33,081	-
		<u>\$ 40,846</u>	<u>\$ 1,610</u>	<u>\$ 40,846</u>	<u>\$ 1,610</u>

Supplemental Cash Flow Information

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

GOLDGROUP MINING INC.**Condensed Interim Consolidated Statements of Changes in Equity****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

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

	<u>Common Shares</u>		<u>Share Option Reserve</u>	<u>Translation Reserve</u>	<u>Deficit</u>	<u>Total Equity</u>
	<u>Number (000's)</u>	<u>Amount</u>				
January 1, 2010	45,882	30,947	2,326	(1,334)	(5,588)	26,351
Private placement	6,060	5,785	-	-	-	5,785
Business combination (Note 4)	33,010	34,120	1,607	-	-	35,727
Options exercised	40	14	-	-	-	14
Transfer value on option exercise	-	26	(26)	-	-	-
Share-based compensation	-	-	487	-	-	487
Loss for the period	-	-	-	-	(3,341)	(3,341)
Treasury shares	(439)	(441)	-	-	-	(441)
Other comprehensive income	-	-	-	979	-	979
June 30, 2010	<u>84,553</u>	<u>\$ 70,451</u>	<u>\$ 4,394</u>	<u>\$ (355)</u>	<u>\$ (8,929)</u>	<u>\$ 65,561</u>

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

1. NATURE OF OPERATIONS

Goldgroup Mining Inc. is the ultimate parent company of its consolidated group ("Goldgroup Mining" or the "Company"). Goldgroup Mining was incorporated in Quebec under the Business Corporations Act (Québec) and on July 28, 2011 it was continued under the Business Corporations Act (British Columbia). Its head office is located at Suite 2184 – 1055 Dunsmuir Street, Vancouver BC, V7X 2X8. Goldgroup Mining, formerly Sierra Minerals Inc. ("Sierra"), together with its subsidiaries, is a Canadian-based gold producer and is focused on the acquisition, exploration and development of advanced stage gold-bearing mineral properties in the Americas. The Company's current gold production and exploration and development related activities are conducted exclusively in Mexico. Goldgroup owns and operates the Cerro Colorado Mine in Sonora along with a property portfolio that includes an interest in the Caballo Blanco Project in Veracruz and the San José de Gracia Project in Sinaloa. The Company is listed on the Toronto Stock Exchange ("TSX").

2. BASIS OF PRESENTATION

The preparation of these condensed interim consolidated financial statements resulted in changes to the accounting policies as compared to the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("Canadian GAAP"). The accounting policies set out below have been applied to all periods presented in these financial statements; and are based on IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") that the Company expects to be applicable for its annual consolidated financial statements for the year ending December 31, 2011.

The interim results are not necessarily indicative of results for a full year.

2.1. Adoption of International Financial Reporting Standards

The Company was required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on January 1, 2011. The Company's transition date to IFRS was January 1, 2010 (the "Transition Date") and the comparative consolidated statement of financial position as at December 31, 2010 and comparative consolidated statements of loss and comprehensive income (loss), changes in equity and cash flows for the three and six months ended June 30, 2010, have been restated in IFRS.

The guidance for adoption of IFRS is set out in IFRS 1, First-Time Adoption of International Financial Reporting Standards. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company elected to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date.

Reconciliations between the Company's previously reported consolidated statements of financial position and consolidated statements of loss and comprehensive income (loss) are presented in note 26.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

2.2. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" using accounting principles consistent with IFRS as published by the IASB and IFRIC. These condensed interim consolidated financial statements, do not include all disclosure required by IFRS for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2010 presented under Canadian GAAP.

The disclosures contained in these condensed interim consolidated financial statements exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and other additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's condensed interim consolidated financial statements under IFRS as the reader will be able to refer to the condensed annual consolidated financial statements for the year ending December 31, 2011 which will be prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on August 11, 2011.

2.3. Basis of measurement

These condensed interim 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.

2.4. Significant judgments, estimates and assumptions

The preparation of the Company's condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

(i) Mineral Reserves

Proven and probable mineral reserves are the economically mineable parts of the Company's measured and indicated mineral resources demonstrated by at least a preliminary feasibility study. The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. 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, depletion and amortization.

(ii) Purchase Price Allocation

Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition-date fair value. The excess, if any, of the fair value of consideration over the fair value of the net assets acquired is recognized as goodwill. The determination of the acquisition-date fair values often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of plant and equipment acquired generally require a high degree of judgment, and include estimates of mineral reserves acquired, future metal prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

(iii) Depreciation, depletion and amortization

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.

The calculation of the UOP rate, and therefore the annual depreciation, depletion and amortization 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.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation, depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

(iv) Impairment of goodwill and other assets

Any goodwill is tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of plant and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in profit or loss. The assessment of fair values, including those of the cash-generating units for purposes of testing goodwill, require the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of goodwill or other assets could impact the impairment analysis.

(v) Inventories

Expenditures incurred, and depreciation, depletion and amortization of assets used in mining and processing activities are deferred and accumulated as the cost of ore in stockpiles, ore on leach pads, in-process and finished metal inventories. These deferred amounts are carried at the lower of average cost or net realizable value ("NRV"). Write-downs of ore in stockpiles, ore on leach pads, in-process and finished metal inventories resulting from NRV impairments are reported as a component of current period costs. The primary factors that influence the need to record write-downs include prevailing and long-term metal prices and prevailing costs for production inputs such as labour, fuel and energy, materials and supplies, as well as realized ore grades and actual production levels.

Costs are attributed to the leach pads based on current mining costs, including applicable depreciation, depletion and amortization relating to mining operations incurred up to the point of placing the ore on the pad. Costs are removed from the leach pad based on the average cost per recoverable ounce of gold on the leach pad as the gold is recovered. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the pads, the grade of ore placed on the leach pads and an estimated percentage of recovery. Timing and ultimate recovery of gold contained on leach pads can vary significantly from the estimates. The quantities of recoverable gold placed on the leach pads are reconciled to the quantities of gold actually recovered (metallurgical balancing), by comparing the grades of ore placed on the leach pads to actual ounces recovered. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and the engineering estimates are refined based on actual results over time. The ultimate recovery of gold from a pad will not be known until the leaching process is completed.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

2. BASIS OF PRESENTATION (CONTINUED)

The allocation of costs to ore in stockpiles, 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.

(vi) Decommissioning and restoration provision

The Company assesses its provision for reclamation and remediation on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

(vii) Deferred taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

(viii) 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.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared at its historical cost convention except for certain financial instruments which are measured at fair value.

Refer to the condensed interim consolidated financial statements for the three months ended March 31, 2011 and 2010 (unaudited) for a summary of significant accounting policies.

3.1 Changes in Accounting Standards

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 is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

Accounting Standards Issued and Effective January 1, 2012

IAS 12 – *Income Taxes (Amended)* (“IAS 12”), introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

IFRS 7 – *Financial instruments: Disclosures (Amended)* require additional disclosures on transferred financial assets.

Accounting Standards Issued and Effective January 1, 2013

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.

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard

- a. requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements
- b. defines the principle of control, and establishes control as the basis for consolidation
- c. sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee
- d. sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

4. REVERSE TAKEOVER OF GOLDGROUP MINING (FORMERLY SIERRA) BY GOLDGROUP HOLDINGS CORP.

On April 30, 2010, Holdings effected a share exchange agreement ("the Agreement") with Goldgroup Mining to effect a business combination of the two companies. The acquisition was accounted for under IFRS 3, Business Combinations. The fair value of the consideration transferred is based on the number of Holdings' common shares that would have had to be issued in order to provide the same percentage of ownership in the combined entity to the shareholders of Goldgroup Mining.

The total purchase price has been calculated and allocated as follows:

Consideration paid		
Common shares (33,009,795)	\$	34,120
Exchange options and warrants (2,594,711 options and 1,956,129 warrants)		2,280
Total purchase price	\$	<u>36,400</u>

The purchase price allocation of the fair value of Goldgroup Mining's net identifiable assets, as follows:

Cash and cash equivalents	\$	516
Receivables		1,306
Inventories		4,508
Plant and equipment		4,958
Exploration and evaluation properties		384
Mine properties		15,742
Goodwill		16,719
Trade and other accounts payable		(1,850)
Decommissioning and restoration provision		(548)
Deferred tax liability		(5,335)
	\$	<u>36,400</u>

In accordance with the acquisition method of accounting, the purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values on the closing date. The purchase price allocation is a result of management's best estimates and assumptions after taking into account all relevant information available. Management consulted with an independent valuator prior to finalizing the purchase price allocation.

The purchase price allocation resulted in \$16,719 being attributed to goodwill. The Company had allocated its goodwill to the Cerro Colorado mine as it was the only reporting unit. The net asset value of the Cerro Colorado mine consists of plant and equipment and mine properties. The plant and equipment were valued by management and it was determined that carrying value was equal to fair value. The mine properties were valued using the discounted cash flow of proven and probable reserves, measured, indicated and inferred resources.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***4. REVERSE TAKEOVER OF GOLDGROUP MINING (FORMERLY SIERRA) BY HOLDINGS (CONTINUED)**

In the second quarter of 2010, management determined that goodwill and mine properties were impaired and therefore recorded a goodwill impairment charge of \$16,719 and an impairment to mine properties of \$4,900 at that time.

A component of the reverse take-over consideration was the exchange of share options and warrants in Sierra on April 30, 2010. The fair values allocated to these share options and warrants, included in the cost of the acquisition, using the Black-Scholes Option Pricing Model, was \$1,630 and \$650, respectively. The fair value of the exchange options and warrants was determined using the following weighted average assumptions:

	<u>Options</u>	<u>Warrants</u>
Strike Price	\$0.55	\$0.86
Risk free interest rate	1.81%	1.81%
Expected option life (years)	2	0.5
Expected stock price volatility	90%	90%
Dividend payments during life of option	nil	nil

Outstanding share options of Holdings were also exchanged pro rata for an equivalent number of share options of the Company. These exchange options have been accounted for as modified options and there was no appreciable increase in value.

The Company incurred transaction costs of \$395 which were expensed.

As a result of the accounting treatment for the reverse take-over of Sierra, only operating results from May 1, 2010 to December 31, 2010 of Sierra are included in the statements of loss and comprehensive income (loss) and cash flows for the year ended December 31, 2010.

5. CASH AND CASH EQUIVALENTS

	<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Cash at the bank and on hand			
US dollar	\$ 7,136	\$ 11,514	\$ 25
Canadian dollar	379	932	344
Mexican pesos	250	208	146
Short term deposits - Cdn dollar	33,081	-	-
	<u>\$ 40,846</u>	<u>\$ 12,654</u>	<u>\$ 515</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***6. RECEIVABLES**

	<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Financial assets			
Receivables	\$ 268	\$ 443	\$ 117
Employee receivables	41	37	20
	<u>309</u>	<u>480</u>	<u>137</u>
Non-financial assets			
Value-added and corporate tax	2,877	2,077	82
	<u>\$ 3,186</u>	<u>\$ 2,557</u>	<u>\$ 219</u>

7. INVENTORIES

Inventories consist of the following:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Doré	\$ 424	\$ 440	-
Gold-in-process	2,659	2,640	-
Consumable supplies	1,375	1,085	-
	<u>\$ 4,458</u>	<u>\$ 4,165</u>	<u>-</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.

8. PLANT AND EQUIPMENT

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
Cost						
Balance, January 1, 2011	\$ 5,358	\$ 1,046	\$ 273	\$ 516	\$ 61	\$ 7,254
Additions	2,573	143	29	129	-	2,874
Balance, June 30, 2011	<u>7,931</u>	<u>1,189</u>	<u>302</u>	<u>645</u>	<u>61</u>	<u>10,128</u>
Accumulated depreciation and amortization						
Balance, January 1, 2011	1,032	342	157	278	22	1,831
Depreciation for the period	385	63	31	61	6	546
Balance, June 30, 2011	<u>1,417</u>	<u>405</u>	<u>188</u>	<u>339</u>	<u>28</u>	<u>2,377</u>
Net book value	<u>\$ 6,514</u>	<u>\$ 784</u>	<u>\$ 114</u>	<u>\$ 306</u>	<u>\$ 33</u>	<u>\$ 7,751</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***8. PLANT AND EQUIPMENT (CONTINUED)**

	Plant and mining equipment	Machinery and equipment	Office equipment	Vehicles	Lab equipment	Total
Cost						
Balance , January 1, 2010	\$ -	\$ 348	\$ 190	\$ 117	\$ 59	\$ 714
Additions	1,778	302	47	97	-	2,224
Assets acquired as part of a business acquisition (Note 4)	4,245	378	34	301	-	4,958
Disposals	(665)	-	-	-	-	(665)
Translation adjustment	-	18	2	1	2	23
Balance, December 31, 2010	5,358	1,046	273	516	61	7,254
Accumulated depreciation, amortization and impairment						
Balance, January 1, 2010	-	145	70	32	9	256
Depreciation for the period	1,456	191	87	245	12	1,991
Disposal	(424)	-	-	-	-	(424)
Translation adjustment	-	6	-	1	1	8
Balance, December 31, 2010	1,032	342	157	278	22	1,831
Net book value	\$ 4,326	\$ 704	\$ 116	\$ 238	\$ 39	\$ 5,423

9. INVESTMENT IN DYNARESOURCE de MEXICO SA de CV ("DynaMexico")

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

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

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

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.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

9. INVESTMENT IN DYNARESOURCE de MEXICO SA de CV (CONTINUED)

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

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

The investment in DynaMexico is comprised of:

	Six Months Ended June 30, 2011	Year ended December 31, 2010
Investment, beginning of period	\$ 14,390	\$ 10,031
Funds invested	4,000	4,128
Share of income (loss)	39	(128)
Translation adjustment	-	359
Investment, end of period	<u>\$ 18,429</u>	<u>\$ 14,390</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***10. EXPLORATION AND EVALUATION PROPERTIES**

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

	<u>Caballo Blanco</u>	<u>El Porvenir</u>	<u>Other</u>	<u>Total</u>
January 1, 2010	\$ 14,312	\$ 3,334	\$ 922	\$ 18,568
Acquisition Costs	60	1,404	599	2,063
Exploration Costs				
Amortization of plant and equipment	84	36	10	130
Drilling	1,215	83	-	1,298
Exploration	1,898	1,254	23	3,175
Fees and taxes	77	277	98	452
Translation adjustment	465	125	32	622
	<u>18,111</u>	<u>6,513</u>	<u>1,684</u>	<u>26,308</u>
Sale of property	-	(6,513)	-	(6,513)
December 31, 2010	18,111	-	1,684	19,795
Acquisition Costs	912	-	-	912
Exploration Costs				
Amortization of plant and equipment	65	-	5	70
Drilling	1,940	-	-	1,940
Exploration	1,879	-	-	1,879
Fees and taxes	64	-	131	195
June 30, 2011	<u>\$ 22,971</u>	<u>\$ -</u>	<u>\$ 1,820</u>	<u>\$ 24,791</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.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)**10.1 Caballo Blanco**

The Company's 100% owned subsidiary, Candymin, owns a 70% interest on the Caballo Blanco project which consists of 15 mineral concessions covering 50,000 hectares, 65 kilometres north northwest of Veracruz, Mexico.

To earn its 70% interest, the Caballo Blanco option agreement requires property expenditures of \$12 million to be spent as follows:

<u>On or before May 31,</u>	<u>Amount (000s')</u>
2008	\$ 1,500
2009	1,500
2010	2,000
2011	2,000
2012	2,500
2013	2,500
	<u>\$ 12,000</u>

The Company has met the required aggregate property related expenditures of \$12 million, which includes \$8.2 million of expenditures incurred by the previous Caballo Blanco option holder, NGEx Resources Inc. ("NGEx"). The 70/30 joint venture will form once Goldgroup Mining has completed a bankable feasibility study. At that time, the 30% equity holder has the option of participating in the joint venture with Goldgroup or converting their 30% equity interest to a 2% Net Smelter Royalty ("NSR") on 100% of net smelter revenues.

Goldgroup Mining's 70% interest will be subject to a 1.5% NSR payable on 70% of net smelter revenues to NGEx and Goldgroup Mining will also make a \$5,185 (C\$5,000) advance royalty payment to NGEx within 30 days following the commencement of commercial production of the project.

10.2 El Porvenir

By way of an agreement dated February 27, 2007, (and amended on December 18, 2008 and December 18, 2009) between the Company's wholly-owned subsidiary Candymin, with the Company as guarantor, and Desarrollos Mineros San Luis SA de CV (DMSL), Candymin was granted an option to acquire DMSL's El Porvenir mine located in Aguascalientes, Mexico for a total of \$3,130. The property was subject to an NSR of 3% once commercial production was achieved. The option was exercised in June 2010.

On July 12, 2010 the Company sold the El Porvenir Gold project for \$25 million and paid \$1.7 million to discharge the royalty interest on the property.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

10.3 Other Properties

i) Kenya

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

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

The Company may acquire an additional five concessions, located within the Kenya area, at any time during the term of the agreement for an aggregate payment of \$2 million.

ii) El Candelero

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

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

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

<u>On or before</u>	<u>Amount (in 000's)</u>
June 2, 2008	\$ 150
June 2, 2009	\$ 300
June 2, 2010	\$ 550

To June 30, 2011, the Company has expended aggregate property related work costs of \$416. Exploration work on the property has been deferred due to local unrest in the area of the property since early 2009 and by June 2, 2009, the Company was in default of funding the work costs.

As a result, in June 2010, the Company declared force majeure, as allowed under the option agreement. The required funding of work costs will resume once force majeure no longer exists.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

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

<u>On or before</u>	<u>Amount (in 000's)</u>
June 2, 2011	\$ 250
June 2, 2012	\$ 250

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

As a result of the force majeure, on August 27, 2010, the option agreement deadline to earn the first option was extended to June 24, 2012.

iii) San Martin

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

iv) El Cobre

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

v) El Cajon

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

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***11. MINE PROPERTIES**

The Company owns a 100% interest in the Cerro Colorado mine, located in northern Sonora, Mexico. The property consists of six mineral concessions 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. The remaining life of the Cerro Colorado mine is estimated to be approximately four to five years. The project became subject to a NSR of 3% when cumulative production exceeded 100,000 ounces, which occurred on May 25, 2010. The following table summarizes the capitalized costs associated with the Cerro Colorado mine:

	Six months ended June 30, 2011	Year ended December 31, 2010
Costs		
Balance, beginning of period	\$ 15,811	\$ -
Acquisition	-	15,742
Additions	-	69
Balance, end of period	<u>15,811</u>	<u>15,811</u>
Accumulated depletion and impairment		
Balance, beginning of period	(6,234)	-
Depletion for period	(793)	(1,334)
Write-down	-	(4,900)
Balance, end of period	<u>(7,027)</u>	<u>(6,234)</u>
	<u>\$ 8,784</u>	<u>\$ 9,577</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 and applied against future mining expenditures during the life of the concession.

12. TRADE AND OTHER ACCOUNTS PAYABLE

	June 30, 2011	December 31, 2010	January 1, 2010
Financial liabilities			
Trade payables	\$ 1,737	\$ 1,958	\$ 338
Employee payables	8	41	-
Payroll accruals	19	281	64
	<u>1,764</u>	<u>2,280</u>	<u>402</u>
Non-financial liabilities			
Value added tax	-	65	-
	<u>\$ 1,764</u>	<u>\$ 2,345</u>	<u>\$ 402</u>

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

13. 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 local 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 Company estimates the undiscounted future decommissioning and reclamation costs to be \$675. The key assumptions on which this estimate is based on are:

- (i) Expected timing of the cash flows is based on the estimated useful life of the Cerro Colorado mine to the extent of currently known proven and probable mineral reserves. The majority of the expenditures are expected to occur in 2014 to 2015.
- (ii) The discount rate used is 9% and the inflation rate is 3%.

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

	June 30, 2011	December 31, 2010
Opening	\$ 583	\$ -
Acquisition of Sierra (Note 4)	-	548
Accretion expense	24	35
	<u>\$ 607</u>	<u>\$ 583</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***14. WARRANT LIABILITY**

The following warrants were outstanding:

	<u>Warrants</u>	<u>Exercise Price (C\$)</u>	<u>Warrant liability (US\$)</u>
Balance, January 1, 2010	-	\$ -	\$ -
Granted	3,100,000	1.25	2,206
Exercised	(21,929)	0.86	(5)
Exchange warrants on reverse take-over (Note 4)	1,956,129	0.86	650
Change in fair value	-	-	852
Balance, December 31, 2010	5,034,200	\$ 1.10	\$ 3,703
Exercised	(2,117,400)	0.88	(1,011)
Change in fair value	-	-	(236)
Balance, June 30, 2011	<u>2,916,800</u>	<u>\$ 1.25</u>	<u>\$ 2,456</u>

<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Weighted average exercise price (C\$/warrant)</u>
November 26, 2015	<u>2,916,800</u>	<u>\$ 1.25</u>

The fair value allocated to the warrants at June 30, 2011 was \$2,456 (December 31, 2010 - \$3,703) and is recorded as a derivative financial liability. The gain recognized in the statement of loss for the six months ended June 30, 2011 and 2010 was \$162 and \$nil, respectively and is included in other income.

15. EQUITY**15.1 Authorized**

Unlimited number of common shares with no par value

15.2 Shares Issued

Shares issued and outstanding as at June 30, 2011 are 120,142,749 (December 31, 2010 – 88,633,127).

During the six months ended June 30, 2011, the following share transactions occurred:

- i. On March 10, 2011, the Company completed a short form prospectus financing of 25 million common shares at a price of \$1.44 (C\$1.40) per share, for gross proceeds of \$35,966 (C\$35,000). In connection with the offering, the underwriters exercised an overallotment option, in full, to acquire an additional 3.75 million common shares at \$1.44 (C\$1.40) per share, for gross proceeds of \$5,395 (C\$5,250). Share issue costs on this financing were \$3,413 which were paid to arm's length parties. The net proceeds received were \$37,948.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

15. EQUITY (CONTINUED)

- ii. 642,222 share options were exercised for proceeds of \$474 and \$352 was reallocated from share option reserve to share capital.
- iii. 2,117,400 warrants were exercised for proceeds of \$1,902 and \$1,003 was reallocated from warrant liability to share capital. An additional \$81 was allocated to share capital on the exercise of warrants with a corresponding entry to loss on derivatives.

During the year ended December 31, 2010, the following share transactions occurred:

- i. On March 4, 2010, the Company closed a non-brokered private placement financing of 6,060,000 common shares at a price of \$0.97 (C\$1.00) per share, for gross proceeds of \$5,878. Share issue costs on this financing were \$93 of which \$90 were financing fees paid to arm's length parties.
- ii. In connection with the reverse takeover on April 30, 2010, the Company recorded the issuance of 33,009,795 common shares, 2,554,711 options and 1,956,129 warrants (Note 4).
- iii. 1,097,362 share options were exercised for proceeds of \$541 and \$763 was reallocated from share option reserve to share capital.
- iv. During the period from April 16, 2010 to May 6, 2010, Holdings purchased 438,596 Sierra shares on the open market at a cost of \$441. The reverse takeover transaction was completed on April 30, 2010 and the Sierra shares held at that time have been classified as treasury shares and recorded as a reduction of share capital at their acquisition cost of \$441.

15.3 Share-based compensation expense

The Company has adopted a share option plan for which options to acquire up to 10% of the issued share capital, at the award date, may be granted to eligible optionees from time to time. Generally, share options granted have a maximum term of five years, and a vesting period and exercise price determined by the directors. The exercise price may not be less than the closing quoted price of the Company's common shares traded through the facilities of the exchange on which the Company's common shares are listed. As at June 30, 2011, share options available for issue under the plan were 12,014,274.

Total share options granted during the six months ended June 30, 2011 were 5,090,000 (six months ended June 30, 2010 – 3,219,486). Total share-based compensation expense recognized for the fair value of share options granted, vested and approved by the shareholders during the six months ended June 30, 2011 was \$1,510 (six months ended June 30, 2010 - \$487).

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***15. EQUITY (CONTINUED)**

The fair value of the share options granted during the six months ended June 30, 2011 and the year ended December 31, 2010 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Six months ended	Year ended
	June 30, 2011	December 31, 2010
Strike Price	\$1.35	\$0.96
Risk free interest rate	1.61%	1.63%
Expected option life	2.34 years	2 years
Expected stock price volatility	94%	90%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil

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 average share price during the six months ended June 30, 2011 was \$1.37 per share.

The following stock options were outstanding:

	Options	Weighted average	exercise price (C\$)
January 1, 2010	2,720,000	\$	0.65
Granted	3,964,486	\$	0.96
Exercised	(1,097,362)	\$	0.76
Exchange options (Note 4)	2,594,711	\$	0.53
Expired	(212,588)	\$	0.93
Forfeited	(743,949)	\$	0.94
December 31, 2010	7,225,298	\$	0.76
Granted	5,090,000	\$	1.35
Exercised	(642,222)	\$	0.72
Forfeited	(125,000)	\$	0.65
June 30, 2011	11,548,076	\$	1.02

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***15. EQUITY (CONTINUED)**

Expiry Date	Outstanding					Vested		
	Exercise price (C\$)	Number of options	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)		Number of options	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)
Sep. 30, 2011	\$ 1.00	62,500	\$ 1.00	0.3		62,500	\$ 1.00	0.3
Nov. 9, 2011	\$ 1.00	150,000	\$ 1.00	0.4		75,000	\$ 1.00	0.4
May 5, 2013	\$ 0.65	2,320,000	\$ 0.65	1.9		2,320,000	\$ 0.65	1.9
May 18, 2013	\$ 1.00	400,000	\$ 1.00	1.9		400,000	\$ 1.00	1.9
Dec. 22, 2013	\$ 0.29	210,526	\$ 0.29	2.5		210,526	\$ 0.29	2.5
Feb. 5, 2014	\$ 0.49	315,789	\$ 0.49	2.6		315,789	\$ 0.49	2.6
May 1, 2014	\$ 0.57	61,403	\$ 0.57	2.8		61,403	\$ 0.57	2.8
May 18, 2014	\$ 1.00	1,954,570	\$ 1.00	2.9		1,454,735	\$ 1.00	2.9
Jun. 23, 2014	\$ 0.65	84,000	\$ 0.65	3.0		84,000	\$ 0.65	3.0
Jul. 29, 2014	\$ 0.65	150,000	\$ 0.65	3.1		75,000	\$ 0.65	3.1
Oct. 1, 2014	\$ 0.63	719,288	\$ 0.63	3.3		719,288	\$ 0.63	3.3
Nov. 12, 2014	\$ 0.65	30,000	\$ 0.65	3.4		22,500	\$ 0.65	3.4
Jan. 10, 2015	\$ 1.00	140,000	\$ 1.00	3.5		35,000	\$ 1.00	3.5
Jan. 31, 2015	\$ 1.25	1,545,000	\$ 1.25	3.6		386,250	\$ 1.25	3.6
Jun. 15, 2016	\$ 1.40	3,405,000	\$ 1.40	5.0		713,750	\$ 1.40	5.0
		11,548,076	\$ 1.02	3.4		6,935,741	\$ 0.84	2.7

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

Uracan Resources Ltd. ("Uracan")

Nature of the relationship

Uracan is a public company and shares certain directors and key management. The Company shares office premises with Uracan.

Key management

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

16. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key Management compensation includes:

	Six months ended June 30,	
	2011	2010
Salaries ¹	\$ 546	\$ 335
Benefits ¹	18	7
Bonuses ²	52	-
Options ³	607	-
	<u>\$ 1,223</u>	<u>\$ 342</u>

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

At June 30, 2011, receivables include \$36 (December 31, 2010 - \$39; January 1, 2010 - \$31) owing from Uracon and \$nil (December 31, 2010 - \$5; January 1, 2010 - \$2) owing from an officer of the Company. The amount owing from Uracon is for its unpaid share of rent, administration staff salary and general office expenses. The companies share common office premises and have entered into a cost sharing arrangement, effective February 1, 2007.

At June 30, 2011, trade and other accounts payable includes \$6 (December 31, 2010 - \$11; January 1, 2010 - \$66) owing to directors and/or companies controlled by the directors.

Amounts owing to or from related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***17. COST OF SALES**

	Three months ended June 30,		Six months ended June 30,	
	2011	2010 *	2011	2010 *
Raw materials	\$ 4,017	\$ 2,347	\$ 8,458	\$ 2,564
Salaries and employee benefits	1,284	760	2,305	760
Rental machinery	33	239	194	239
Contractors	78	48	221	95
Royalties	265	131	451	131
Change in inventories	1,193	577	179	577
Other	210	355	555	91
	<u>7,080</u>	<u>4,457</u>	<u>12,363</u>	<u>4,457</u>
Depreciation, depletion and amortization	690	1,259	1,253	1,259
	<u>\$ 7,770</u>	<u>\$ 5,716</u>	<u>\$ 13,616</u>	<u>\$ 5,716</u>

* Due to accounting treatment of the business combination with Holdings, only the results from May 1, 2010 to December 31, 2010 are applicable to the financial results of Goldgroup Mining Inc. Comparability of financial results for Goldgroup Mining Inc. (formerly Sierra Minerals Inc.) for the 2010 period is limited.

18. ADMINISTRATIVE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2011	2010 *	2011	2010 *
Labour costs	\$ 275	\$ 437	\$ 631	\$ 626
Office and rent	300	113	494	243
Investor relations	100	61	242	68
Professional fees	144	237	285	699
Travel	58	56	169	108
Share-based compensation	889	469	1,510	488
Exploration at Cerro Colorado	158	12	211	12
Other	67	99	147	110
	<u>\$ 1,991</u>	<u>\$ 1,484</u>	<u>\$ 3,689</u>	<u>\$ 2,354</u>

* Due to accounting treatment of the business combination with Holdings, only the results from May 1, 2010 to December 31, 2010 are applicable to the financial results of Goldgroup Mining Inc. Comparability of financial results for Goldgroup Mining Inc. (formerly Sierra Minerals Inc.) for the 2010 period is limited.

19. OTHER INCOME

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Interest	\$ 153	\$ 15	\$ 190	\$ 30
Foreign exchange gain	289	256	15	144
Loss on sale of investment	-	(265)	-	-
Gain on warrants	628	405	162	405
	<u>\$ 1,070</u>	<u>\$ 411</u>	<u>\$ 367</u>	<u>\$ 579</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***20. OTHER EXPENSES**

	Three months ended June 30,		Six months ended June 30,	
	2011	2010*	2011	2010*
Accretion for decommissioning and restoration provision	\$ 12	\$ 11	\$ 24	\$ 11
Interest and other	-	353	-	353
Financing expense	16	-	26	-
	<u>\$ 28</u>	<u>\$ 364</u>	<u>\$ 50</u>	<u>\$ 364</u>

** Due to accounting treatment of the business combination with Holdings, only the results from May 1, 2010 to December 31, 2010 are applicable to the financial results of Goldgroup Mining Inc. Comparability of financial results for Goldgroup Mining Inc. (formerly Sierra Minerals Inc.) for the 2010 period is limited*

21. 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, support continued production and maintenance at the Cerro Colorado mine 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 attempt to issue new shares, seek debt financing, acquire or dispose of assets or change the timing of its planned exploration and development projects.

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.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

21. MANAGEMENT OF CAPITAL (CONTINUED)

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 no long-term debt or bank credit facility. 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.

22. RISK MANAGEMENT

22.1 Financial Risk Management

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

a. Credit Risk

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

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

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

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

22. 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 and substantially all the Company's financial obligations, other than the provision for decommissioning and restoration 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 23). 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.

c. Market Risk

The significant market risks which the Company is exposed to are interest rate 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. Foreign currency risk

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

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***22. RISK MANAGEMENT (CONTINUED)**

The Company is exposed to foreign currency exchange risk on financial instruments related to cash and cash equivalents, receivables, trade and other accounts payable and the agreement payable. 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 has not undertaken to mitigate transactional volatility in either the Mexican peso, Canadian dollar or the US dollar at this time. The Company does not use derivative financial instruments to reduce its exposure to foreign currency risk.

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

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

As at June 30, 2011	Canadian Dollar (C\$)	Mexican Peso (Mex\$)
Financial assets		
Cash and cash equivalents	\$ 32,265	2,913
Receivables	179	35,161
	\$ 32,444	38,074
Financial liabilities		
Trade and other accounts payable	\$ 132	8,973

The following table indicates the impact of foreign currency exchange risk on working capital as at June 30, 2011. The table also provides a sensitivity analysis of a 10 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 C\$	Mexican Pesos Mex\$
Financial assets	32,444	38,074
Financial liabilities	(132)	(8,973)
Net foreign currency working capital	32,312	29,101
US\$ exchange rate	1.037	0.085
Net foreign currency working capital in US\$	33,508	2,474
Foreign exchange loss on a 10% strengthening of the US\$	3,351	248
Foreign exchange gain on a 10% weakening of the US\$	3,351	248

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)*

22. RISK MANAGEMENT (CONTINUED)**22.2 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 following table outlines the Company's financial assets and financial 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.

As at June 30, 2011, the Company's financial instruments are all classified as Level 3 and measured at fair value:

Liabilities: Warrant liability \$2,456

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

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

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

23. COMMITMENTS

The Company leases office premises with Uracon (Note 16) pursuant to a lease agreement expiring September 30, 2015. During the term of this lease agreement, the Company will be responsible for 50% of the annual lease costs. The Company's share of the minimum lease payments due under the terms of the lease over the next five years are:

2011	53
2012	108
2013	110
2014	111
2015	84
	<hr/>
	\$ 466

The Company is also responsible for its proportionate share of the operating costs and property taxes estimated at \$57 (C\$55) per year. The Company is jointly and severally liable for the lease costs.

The Company has entered into a lease agreement with the owner 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.

Exploration and evaluation properties commitments are disclosed in Note 10.

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***24. 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 is the Cerro Colorado mine, while Exploration and Development is primarily the Caballo Blanco and the Investment in DynaMexico. During the six months ended June 30, 2011, 100% of the Company's sales were to two third parties. The balance owing from these parties at June 30, 2011 was \$nil.

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

	June 30, 2011		
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Plant and equipment	\$ 63	\$ 7,688	\$ 7,751
Investment in DynaMexico	-	18,429	18,429
Exploration and evaluation properties	-	24,791	24,791
Mine properties	-	8,784	8,784

	December 31, 2010		
	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Plant and equipment	\$ 70	\$ 5,353	\$ 5,423
Investment in DynaMexico	-	14,390	14,390
Exploration and evaluation properties	-	19,795	19,795
Mine properties	-	9,577	9,577

Selected financial information by operating segments is as follows:

	Six months ended June 30,	
	<u>2011</u>	<u>2010</u>
Revenue		
Mining operations	\$ 16,296	\$ 5,372
Exploration and evaluation	-	-
Corporate	-	-
	<u>\$ 16,296</u>	<u>\$ 5,372</u>
Income (loss) before income taxes for the period		
Mining operations	\$ 2,680	\$ (344)
Exploration and evaluation	(173)	(72)
Corporate	(3,160)	(2,127)
	<u>\$ (653)</u>	<u>\$ (2,543)</u>

GOLDGROUP MINING INC.**Notes to the Condensed Interim Consolidated Financial Statements****June 30, 2011 and 2010***(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)***24. SEGMENTED INFORMATION (CONTINUED)**

	<u>Mining Operations</u>	<u>Exploration and Development</u>	<u>Corporate</u>	<u>June 30, 2011 Total</u>
Plant and equipment	\$ 7,218	\$ 470	\$ 63	\$ 7,751
Investment in DynaMexico	-	18,429	-	18,429
Exploration and evaluation properties	-	24,791	-	24,791
Mine properties	8,784	-	-	8,784
	<u>\$ 16,002</u>	<u>\$ 43,690</u>	<u>\$ 63</u>	<u>\$ 59,755</u>

	<u>Mining Operations</u>	<u>Exploration and Development</u>	<u>Corporate</u>	<u>December 31, 2010 Total</u>
Plant and equipment	\$ 5,061	\$ 292	\$ 70	\$ 5,423
Investment in DynaMexico	-	14,390	-	14,390
Exploration and evaluation properties	-	19,795	-	19,795
Mine properties	9,577	-	-	9,577
	<u>\$ 14,638</u>	<u>\$ 34,477</u>	<u>\$ 70</u>	<u>\$ 49,185</u>

25. SUPPLEMENTAL CASH FLOW INFORMATION**Changes in non-cash operating working capital items:**

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>
Receivables	\$ 32	\$ (146)	\$ (629)	\$ (235)
Prepays and deposits	(241)	(52)	(226)	(25)
Inventories	843	710	(293)	710
Trade and other accounts payable	(1,762)	54	(581)	352
Accounts payable for exploration and evaluation properties	(88)	-	(241)	-
	<u>\$ (1,216)</u>	<u>\$ 566</u>	<u>\$ (1,970)</u>	<u>\$ 802</u>

Non-cash investing transactions not included in cash flows:

Amortization capitalized to exploration and evaluation properties	<u>\$ 38</u>	<u>\$ 30</u>	<u>\$ 70</u>	<u>\$ 60</u>
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GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

26. TRANSITION TO IFRS

The Company's IFRS accounting policies presented in Note 3 have been applied in preparing the financial statements for the period ended June 30, 2011, the comparative information and the opening consolidated statement of financial position at the Transition Date.

The Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards in preparing these IFRS consolidated financial statements. The effects of the transition to IFRS on equity, loss and comprehensive income (loss) and reported cash flows are presented in this section and are further explained in the notes that accompany the tables presented below. There was no significant impact on the consolidated statements of cash flows as a result of adopting IFRS.

26.1 First-time adoption and exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Company has applied the mandatory exceptions and elected certain optional exemptions. Mandatory exceptions adopted by the Company include:

- a. Financial assets and liabilities that have been derecognized before 1 January 2004 under Canadian GAAP have not been recognized under IFRS.
- b. The Company has used estimates under IFRS that are consistent with those applied under Canadian GAAP (with adjustments for accounting policy differences) unless there is objective evidence those estimates were in error.

Optional exemptions elected by the Company include:

- a. The Company has elected to not apply IFRS 3, Business Combinations retrospectively to business combinations that occurred before the Transition Date.
- b. The Company has elected to not apply IFRS 2, Share-based Payments to equity instruments that were granted prior to the Transition Date.

26.2 Presentation differences

The following presentation differences between Canadian GAAP and IFRS have no impact on reported loss and comprehensive income (loss) or equity:

- Mineral properties as reported under Canadian GAAP have been segregated into exploration and evaluation properties and mine properties under IFRS.
- Accretion expense has been reclassified from cost of sales to other expenses.

Some line items are described differently under IFRS compared to Canadian GAAP. These line items are as follows (with Canadian GAAP descriptions in brackets):

- Deferred tax liability ("Future income tax liability")
- Exploration and evaluation properties and Mine properties ("Mineral properties")
- Trade and other accounts payable ("Accounts payable and accrued liabilities")
- Decommissioning and restoration provision ("Asset retirement obligation")
- Share option reserve ("Contributed surplus")

GOLDGROUP MINING INC.
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(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)
26. TRANSITION TO IFRS (CONTINUED)

Adjustments required in transitioning from Canadian GAAP to IFRS are set out in the following statements:

Reconciliation of consolidated statements of financial position

	Note	As at January 1, 2010			As of June 30, 2010			As at December 31, 2010		
		CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS
ASSETS										
Current										
Cash and cash equivalents		\$ 515	\$ -	\$ 515	\$ 1,610	\$ -	\$ 1,610	\$ 12,654	\$ -	\$ 12,654
Investment held for trading		2,313	-	2,313	-	-	-	-	-	-
Receivables		219	-	219	1,771	-	1,771	2,557	-	2,557
Inventories		-	-	-	1,685	-	1,685	4,165	-	4,165
Prepays and deposits		99	-	99	124	-	124	274	-	274
		<u>3,146</u>	<u>-</u>	<u>3,146</u>	<u>5,190</u>	<u>-</u>	<u>5,190</u>	<u>19,650</u>	<u>-</u>	<u>19,650</u>
Plant and equipment		458	-	458	5,505	-	5,505	5,423	-	5,423
Investment in DynaResource de Mexico SA de CV		10,031	-	10,031	12,031	-	12,031	14,390	-	14,390
Exploration and evaluation properties	c	21,513	(2,945)	18,568	25,420	(3,060)	22,360	22,855	(3,060)	19,795
Mine properties	d	-	-	-	37,514	-	37,514	14,327	(4,750)	9,577
		<u>\$ 35,148</u>	<u>\$ (2,945)</u>	<u>\$ 32,203</u>	<u>\$ 85,660</u>	<u>\$ (3,060)</u>	<u>\$ 82,600</u>	<u>\$ 76,645</u>	<u>\$ (7,810)</u>	<u>\$ 68,835</u>
LIABILITIES AND EQUITY										
Current										
Trade and other accounts payable		\$ 402	\$ -	\$ 402	\$ 2,622	\$ -	\$ 2,622	\$ 2,345	\$ -	\$ 2,345
Warrant liability	b	-	-	-	-	264	264	-	962	962
Agreement payable		4,758	-	4,758	3,379	-	3,379	-	-	-
		<u>5,160</u>	<u>-</u>	<u>5,160</u>	<u>6,001</u>	<u>264</u>	<u>6,265</u>	<u>2,345</u>	<u>962</u>	<u>3,307</u>
Decommissioning and restoration provision	a	-	-	-	513	-	513	537	46	583
Warrant liability	b	-	-	-	-	-	-	-	2,741	2,741
Deferred tax liability	c,d	3,637	(2,945)	692	13,235	(2,974)	10,261	9,047	(4,475)	4,572
		<u>8,797</u>	<u>(2,945)</u>	<u>5,852</u>	<u>19,749</u>	<u>(2,710)</u>	<u>17,039</u>	<u>11,929</u>	<u>(726)</u>	<u>11,203</u>
Shareholders' equity		-	-	-	-	-	-	-	-	-
Share capital		30,947	-	30,947	70,451	-	70,451	72,421	-	72,421
Share option reserve		2,326	-	2,326	4,394	-	4,394	4,372	-	4,372
Warrant equity	b	-	-	-	669	(669)	-	2,719	(2,719)	-
Translation reserve		(1,334)	-	(1,334)	(355)	-	(355)	(355)	-	(355)
Deficit	a,b,c,d	(5,588)	-	(5,588)	(9,248)	319	(8,929)	(14,441)	(4,365)	(18,806)
		<u>26,351</u>	<u>-</u>	<u>26,351</u>	<u>65,911</u>	<u>(350)</u>	<u>65,561</u>	<u>64,716</u>	<u>(7,084)</u>	<u>57,632</u>
		<u>\$ 35,148</u>	<u>\$ (2,945)</u>	<u>\$ 32,203</u>	<u>\$ 85,660</u>	<u>\$ (3,060)</u>	<u>\$ 82,600</u>	<u>\$ 76,645</u>	<u>\$ (7,810)</u>	<u>\$ 68,835</u>

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

26. TRANSITION TO IFRS (CONTINUED)

Reconciliation of consolidated statements of loss and comprehensive income (loss)

	Note	Three months ended June 30, 2010			Six months ended June 30, 2010		
		CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS
Revenue							
Gold sales		\$ 5,323	\$ -	\$ 5,323	\$ 5,323	\$ -	\$ 5,323
Silver sales		49	-	49	49	-	49
		<u>5,372</u>	<u>-</u>	<u>5,372</u>	<u>5,372</u>	<u>-</u>	<u>5,372</u>
Cost and expenses of mining operations							
Cost of sales		4,457	-	4,457	4,457	-	4,457
Depreciation, depletion and amortization	d	1,259	-	1,259	1,259	-	1,259
Accretion of decommissioning and restoration provision	a	11	(11)	-	11	(11)	-
		<u>5,727</u>	<u>(11)</u>	<u>5,716</u>	<u>5,727</u>	<u>(11)</u>	<u>5,716</u>
Mine operating income		<u>(355)</u>	<u>11</u>	<u>(344)</u>	<u>(355)</u>	<u>11</u>	<u>(344)</u>
Expenses and other (income)							
Administrative expenses		1,484	-	1,484	2,354	-	2,354
Other income	c,d	(358)	59	(299)	(260)	(319)	(579)
Share of equity loss in Dyna Mexico		51	-	51	60	-	60
Other expenses	a,b	618	(366)	252	353	11	364
		<u>1,795</u>	<u>(307)</u>	<u>1,488</u>	<u>2,507</u>	<u>(308)</u>	<u>2,199</u>
Loss before income taxes	a,b,c,d	(2,150)	318	(1,832)	(2,862)	319	(2,543)
Provision for current tax		-	-	-	-	-	-
Recovery of deferred tax		717	-	717	798	-	798
		<u>(2,867)</u>	<u>318</u>	<u>(2,549)</u>	<u>(3,660)</u>	<u>319</u>	<u>(3,341)</u>
Other comprehensive income		979	-	979	979	-	979
Comprehensive income (loss) for the period		<u>\$ (1,888)</u>	<u>\$ 318</u>	<u>\$ (1,570)</u>	<u>\$ (2,681)</u>	<u>\$ 319</u>	<u>\$ (2,362)</u>

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

26. TRANSITION TO IFRS (CONTINUED)

Notes to Reconciliation

a) *Decommissioning and restoration provision*

Under Canadian GAAP the discount rate is established as the credit-adjusted risk-free rate ("CARF") and is set at the time the obligation is established. Under IFRS the discount rate reflects the risk specific to the provision and is updated if conditions change that would require a change in the rate. In addition the accretion expense is classified as a financing expense under IFRS.

For the three and six months ended June 30, 2010, \$11 was reclassified from cost of sales to other expenses.

b) *Warrant liability*

Under IFRS, warrants issued with exercise prices denominated in currencies other than the US dollar, the Company's functional currency, are classified and presented as financial liabilities and measured at fair value. Under Canadian GAAP, all warrants are presented as equity. At December 31, 2009, the Company had no warrants and therefore there is no impact on the opening consolidated statement of financial position. As part of the consideration for the reverse takeover in April 2010, the Company acquired warrant obligations. In the third quarter of 2010, the Company issued additional warrants of which issue costs were expensed.

During the three and six months ended June 30, 2010, \$669 was reallocated from warrant equity to warrant liability. In addition the decrease in fair value of the warrants resulted in a \$405 increase to other income with a corresponding decrease in warrant liability.

c) *Deferred tax liability*

Under IFRS, in the determination of temporary differences, the carrying value of non monetary assets and liabilities is translated into the functional currency at the historical rate and compared to its tax value translated into the functional currency at the current rate. The resulting temporary difference (measured in the functional currency) is then multiplied by the appropriate tax rate to determine the related deferred tax balance. Under CDN GAAP, in the determination of temporary differences related to non-monetary assets and liabilities, the temporary differences computed in local currency are multiplied by the appropriate tax rate. The resulting future income tax amount is then translated into the Company's functional currency if it is different from the local currency.

IFRS prohibits the recognition of a deferred tax asset or liability arising on initial recognition of an asset or liability if the acquisition is not a business combination and neither accounting profit nor taxable profit were affected. Under Canadian GAAP, temporary differences on initial recognition of an asset or liability are recorded. Accordingly, as at January 1, 2010 and subsequently for those periods previously reported in Canadian GAAP, the Company reversed the deferred tax liability on the November 2009 acquisition of Minera Cardel SA de CV with an associated reduction of exploration and evaluation properties (Caballo Blanco).

On transition, the temporary differences of foreign currency non-monetary assets and liabilities and the Minera Cardel SA de CV acquisition resulted in an opening balance sheet adjustment to decrease deferred tax liability and the exploration and evaluation properties by \$2,945.

GOLDGROUP MINING INC.

Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2011 and 2010

(Unaudited - Expressed in Thousands of United States Dollars, except per share amounts)

26. TRANSITION TO IFRS (CONTINUED)

During the three and six months ended June 30, 2010, \$2,974 additional deferred tax was reversed on the acquisition of Minera Cardel SA de CV with a \$3,060 decrease in exploration and evaluation properties and an \$86 increase to foreign exchange loss.

d) Impairment of mine property

Under Canadian GAAP, there is a two-step process to impairment analysis. Step one involves comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, step two is required and involves recognizing an impairment charge for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Under IFRS, the impairment analysis is a one-step process. An impairment charge is recognized for the amount by which the carrying value of the asset exceeds the recoverable amount of the asset.

Under Canadian GAAP, the estimated undiscounted future cash flows related to the April 30, 2010 Cerro Colorado acquisition exceeded the carrying value of the property.

There was no impact on the transition to IFRS or any impact during the six months ended June 30, 2010.

At September 30, 2010 the Company completed its annual goodwill and long-lived non-financial asset impairment tests under IFRS in accordance with the methodology described in note 2.4(iv) and it was determined that a recoverable amount was lower than the carrying value of the property. During the year ended December 31, 2010 the Company recorded a \$4,900 impairment charge with a corresponding decrease to the Cerro Colorado mine properties. In addition, the deferred tax liability decreased by \$1,421, deferred tax recovery increased by \$1,384 and foreign exchange gain increased by \$37. Also in relation to the impairment charge, during the year ended December 31, 2010 depletion expense on Cerro Colorado decreased by \$150 and correspondingly deferred tax liability increased by \$49, deferred tax recovery decreased by \$42 and foreign exchange gain decreased by \$7.