GoGold Resources Inc

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

QUARTER ENDED

DECEMBER 31, 2016

(in thousands of United States Dollars unless stated otherwise)
(Unaudited)

GoGold Resources Inc

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - in thousands of United States dollars)

	December 31 2016	September 30 2016
ASSETS		
Current assets:		
Cash	**$ 374**	$ 2,091
Trade receivables	**2,045**	416
Input tax recoverable	**2,456**	2,738
Prepaid expenses	**257**	226
Inventories (Note 3)	**18,466**	24,191
	23,598	29,662
Non-current assets:		
Input tax recoverable	**5,687**	5,707
Inventories (Note 3)	**12,880**	3,987
Property, plant and equipment (Note 4)	**82,202**	83,185
Exploration and evaluation assets (Note 5)	**17,372**	18,110
Total assets	**$ 141,739**	$ 140,651
LIABILITIES		
Current liabilities:		
Trade and other payables	**$ 11,673**	$ 13,486
Income taxes payable	**77**	77
Derivative liability (Note 10 (d))	**227**	63
Current portion of long term debt (Note 6)	**-**	35,077
	11,977	48,703
Non-current liabilities:		
Long term debt (Note 6)	**37,146**	-
Provision for site restoration	**1,051**	1,199
Deferred income taxes	**2,566**	1,847
Derivative liability (Note 10 (d))	**474**	804
Total liabilities	**53,214**	52,553
EQUITY		
Share capital (Note 7)	**140,885**	140,885
Contributed surplus	**7,092**	6,994
Accumulated other comprehensive loss	**(18,851)**	(18,518)
Deficit	**(40,601)**	(41,263)
Total equity	**88,525**	88,098
Total liabilities and equity	**$ 141,739**	$ 140,651

Commitments (Note 11)
Subsequent event (Note 6)

See accompanying notes to the unaudited condensed consolidated interim financial statements.

GoGold Resources Inc

Condensed Consolidated Statements of Operations and Comprehensive Income

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

For the three months ended	**December 31, 2016**	December 31, 2015
Revenue from mining operations	**$ 6,856**	$ 3,001
Cost of sales:		
Production costs, except amortization and depletion	**2,773**	1,433
Amortization and depletion	**907**	743
	3,680	2,176
General and administrative	**1,001**	1,093
Operating income (loss)	**2,175**	(268)
Gain on derivative liability	**163**	29
Foreign exchange loss	**(525)**	(1,307)
Finance costs	**(472)**	(357)
Other income	**40**	-
	(794)	(1,635)
Income (loss) before income taxes	**1,381**	(1,903)
Current income tax (expense)	**-**	(56)
Deferred income tax (expense) recovery	**(719)**	(390)
	(719)	(446)
Net income (loss) for the period	**662**	(2,349)
Items which may subsequently be recycled through profit or loss:		
Foreign currency translation differences arising on translation of foreign operations	**(333)**	426
Total comprehensive income (loss) for the period	**$ 329**	$ (1,923)
Net income (loss) per share:		
Basic (Note 7)	**$ 0.00**	$ (0.01)
Diluted (Note 7)	**$ 0.00**	$ (0.01)
Weighted average number of common shares outstanding (Note 7):		
Basic	**171,376,481**	162,222,003
Diluted	**179,882,020**	162,222,003

See accompanying notes to the unaudited condensed consolidated interim financial statements.

GoGold Resources Inc

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - in thousands of United States dollars)

For the three months ended	**December 31, 2016**	December 31, 2015
Cash provided by (used in) the following activities:		
Operating activities		
Net income (loss) for the period	**$ 662**	$ (2,349)
Items not involving cash:		
Amortization and depletion	**907**	743
Deferred income taxes	**719**	390
Foreign exchange loss	**525**	1,278
Gain on derivative liability	**(163)**	(29)
Amortization of deferred financing fees and accretion	**71**	70
Stock based compensation expense	**92**	20
	2,813	123
Net change in non-cash working capital (Note 8)	**(5,855)**	(2,103)
Net cash used in operating activities	**(3,042)**	(1,980)
Investing activities		
Exploration and evaluation expenditures	**(394)**	(680)
Purchase of property, plant and equipment	**(238)**	(2,988)
Net cash used in investing activities	**(632)**	(3,668)
Financing activities		
Proceeds from long term debt (Note 6)	**2,000**	4,000
Effect of exchange rate changes on cash	**(43)**	(52)
Net decrease in cash	**(1,717)**	(1,700)
Cash, beginning of period	**2,091**	2,721
Cash, end of period	**$ 374**	$ 1,021

See accompanying notes to the unaudited condensed consolidated interim financial statements.

GOGOLD RESOURCES INC

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - in thousands of United States dollars)

	Number of shares		Share capital		Contributed surplus		Accumulated other comprehensive loss		Deficit		Total equity
Balance at October 1, 2015	162,222,003	$	132,684	$	6,528	$	(14,630)	$	(20,726)	$	103,856
Net loss	-		-		-		-		(2,349)		(2,349)
Other comprehensive income	-		-		-		426		-		426
Stock-based compensation (Note 7)	-		-		37		-		-		37
Balance at December 31, 2015	162,222,003	$	132,684	$	6,565	$	(14,204)	$	(23,075)	$	101,970
Balance at October 1, 2016	171,376,481	$	140,885	$	6,994	$	(18,518)	$	(41,263)	$	88,098
Net income	-		-		-		-		662		662
Other comprehensive loss	-		-		-		(333)		-		(333)
Stock-based compensation (Note 7)	-		-		98		-		-		98
Balance at December 31, 2016	171,376,481	$	140,885	$	7,092	$	(18,851)	$	(40,601)	$	88,525

See accompanying notes to the unaudited condensed consolidated interim financial statements.

1. NATURE OF OPERATIONS

GoGold Resources Inc. (the "Corporation") is a company domiciled in Canada. The address of the Corporation's registered office is #1301-2000 Barrington Street, Cogswell Tower, Halifax, Nova Scotia, B3J 3K1. The Corporation's common shares are listed on the Toronto Stock Exchange trading under the symbol GGD. The condensed consolidated interim financial statements of the Corporation comprise the Corporation and its subsidiaries. The principal business of the Corporation is the exploration, development, and production of gold and silver primarily in Mexico.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. These condensed consolidated interim financial statements do not give effect to the adjustments necessary to the carrying values and classification of assets and liabilities should the Corporation be unable to continue as a going concern.

The Corporation's senior revolving credit facility has financial covenants (see Note 6), which are dependent on the financial results of the Corporation. Should the Corporation not achieve planned financial results, it may violate one or more covenants. The Corporation has been able to arrange for amendments to financial covenants during the current quarter in order to remain in compliance with the terms of the facility. In the event the Corporation violates any of the covenants under the credit facility and is unable to obtain amendments or waivers from the lenders in the future, its ability to borrow funds may be restricted or the lenders may demand repayment.

2. BASIS OF PREPARATION

a) Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board (''IASB''). These condensed consolidated interim financial statements were prepared using the same accounting policies and methods of computation, and are subject to the same use of estimates and judgments, as the Corporation's consolidated financial statements for the year ended September 30, 2016.

These condensed consolidated interim financial statements do not include all disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended September 30, 2016 prepared in accordance with IFRS as issued by the IASB.

b) Accounting changes

The Corporation has not adopted any new accounting standards or amendments to accounting standards in the current fiscal period.

(Unaudited – in thousands of United States dollars unless otherwise stated)

3. INVENTORIES

	December 31, 2016	September 30, 2016
Current:		
Supplies inventory	**$ 756**	$ 715
In process inventory	**17,442**	22,912
Finished goods inventory	**268**	564
	18,446	24,191
Long term:		
In process inventory	**12,880**	3,987
	$ 31,346	$ 28,178

The amount of inventory included in cost of sales for the three months ended December 31, 2016 was $2,773 (three months ended December 31, 2015 – $1,433).

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Plant & Equipment	Mining Properties	Total
At September 30, 2016	$ 39,670	$ 56,654	$ 96,324
Additions	226	12	238
Reclamation obligation adjustments	-	(97)	(97)
Foreign exchange adjustments	-	(28)	(28)
At December 31, 2016	**$ 39,896**	**$ 56,541**	**$ 96,437**

Accumulated Amortization	Plant & Equipment	Mining Properties	Total
At September 30, 2016	$ 9,318	$ 3,821	$ 13,139
Amortization and depletion	678	419	1,097
Foreign exchange adjustments	-	(1)	(1)
At December 31, 2016	**$ 9,996**	**$ 4,239**	**$ 14,235**

Carrying Value	Plant & Equipment	Mining Properties	Total
At September 30, 2016	$ 30,352	$ 52,833	$ 83,185
At December 31, 2016	**$ 29,900**	**$ 52,302**	**$ 82,202**

For the three months ended December 31, 2016, additions to amortization and depletion include amounts of $190 (three months ended December 31, 2015 - $847) which are capitalized to in process inventory.

(Unaudited – in thousands of United States dollars unless otherwise stated)

5. EXPLORATION AND EVALUATION ASSETS

Cost	San Diego	Santa Gertrudis	Total
At September 30, 2016	$ 213	$ 17,897	$ 18,110
Additions	6	401	407
Foreign exchange adjustments	(13)	(1,132)	(1,145)
At December 31, 2016	**$ 206**	**$ 17,166**	**$ 17,372**

6. LONG TERM DEBT

Long term debt consists of a $50,000 senior revolving credit facility which was entered into on July 21, 2015 with a Canadian chartered bank (“the Bank”). The facility bears interest at LIBOR plus 2.00% to 3.25%, depending on the leverage ratio of the Corporation, matures on July 21, 2018, and may be extended upon mutual agreement by both parties. No principal payments under the facility are due until the maturity date. The credit facility is secured by a first charge over all the Corporation’s assets.

The credit facility has covenants that include a debt leverage ratio (for which debt is compared to EBITDA as defined in the credit facility agreements; excluding most significant non-cash and non-recurring items), an interest coverage ratio (defined as the ratio of EBITDA to interest expense), and a minimum level of tangible net worth of $65.6 million plus 50% of aggregate net income from April 1, 2015 and onward.

On December 18, 2015 and June 29, 2016, the Bank amended the credit facility to adjust the financial covenants to modify certain ratios to coincide with the ramp up of the Corporation’s production. On May 10, 2016 the Bank amended the credit facility to reduce the tangible net worth covenant requirement by the amount of an impairment taken on the San Diego property. On November 17, 2016, the Bank amended the credit facility by resetting the rolling four quarters as of December 31, 2016 in the calculation of the debt leverage ratio and interest coverage ratio. For the quarter ending December 31, 2016, the calculation is based on the current quarter’s EBITDA and multiplied by four, for the quarter ending March 31, 2017, the calculation will be based on the year to date EBITDA multiplied by two, and for the quarter ending June 30, 2017, the calculation will be based on the year to date EBITD multiplied by four and divided by three.

The Corporation is required to ensure at all times that the debt leverage ratio, determined on a rolling four quarter basis, does not exceed 3.5 to 1, and the interest coverage ratio, defined as the ratio of EBITDA to interest expense, determined on a rolling four quarter basis equals or exceeds 4.5 to 1. At December 31, 2016, the Corporation was in compliance with the financial covenants of the credit facility.

During the three months ended December 31, 2016, the Corporation drew $2,000 (2015 - $4,000) under the facility. As of December 31, 2016, the Corporation had drawn $37,500 (September 30, 2016 - $35,500). In the event the Corporation is not in compliance with any of the covenants under the credit facility, its ability to borrow funds may be restricted or the Bank may demand repayment.

Subsequent to quarter end, the Corporation drew an additional $5,000 on the facility.

Finance costs for the three months ended December 31, 2016 include interest expense of $400 (2016 – $287).

7. SHARE CAPITAL

(a) Authorized

An unlimited number of common shares, without nominal or par value.

(Unaudited – in thousands of United States dollars unless otherwise stated)

(b) Issued

The following table summarizes the changes in issued common shares of the Corporation:

	Shares	Value
Balance September 30, 2015	162,222,003	$ 132,684
No transactions	-	-
Balance December 31, 2015	162,222,003	$ 132,684
Balance September 30, 2016	171,376,481	$ 140,885
No transactions	-	-
Balance December 31, 2016	**171,376,481**	**$ 140,885**

The weighted average number of common shares outstanding for the three months ending December 31, 2016 was 171,376,481 (2014 – 162,222,003).

(c) Incentive stock options

The Corporation has a rolling 10% incentive stock option plan (the "Plan") under which options to purchase common shares of the Corporation may be granted to directors, officers, employees and consultants of the Corporation. The number of common shares subject to options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Corporation and no one person may receive in excess of 5% of the outstanding common shares of the Corporation at the time of grant (on a non-diluted basis).

Under the Plan, the terms and conditions of each grant of options are determined by the Board of Directors. Options are granted at a price no lower than the market price of the common shares as defined in the Plan which is the five day weighted average of the Corporation's common shares prior to the date of grant rounded up to the nearest cent. Options granted under the Plan typically vest over a 3 year period, although the vesting period is at the Board of Directors' discretion.

The changes in incentive stock options during the three months ended December 31, 2016 and December 31, 2015 were as follows:

	December 31, 2016		**December 31, 2015**	
	Number of incentive options	Weighted average exercise price	Number of incentive options	Weighted average exercise price
Opening balance	4,025,000	CAD $ 1.33	3,365,000	CAD $ 1.26
Granted	-	-	1,675,000	1.20
Closing balance	4,025,000	CAD $ 1.33	5,040,000	CAD $ 1.24
Exercisable	2,750,000	CAD $ 1.36	2,790,000	CAD $ 1.23

(Unaudited – in thousands of United States dollars unless otherwise stated)

The following table summarizes information concerning outstanding and exercisable incentive stock options at December 31, 2016:

	Outstanding		**Exercisable**	
Expiry date	Number of options	Exercise price (CAD $)	Number of options	Exercise price (CAD $)
February 7, 2017	325,000	1.53	325,000	1.53
July 9, 2017	100,000	1.60	66,667	1.60
August 20, 2017	325,000	1.54	325,000	1.54
September 17, 2017	150,000	1.60	150,000	1.60
October 9, 2017	350,000	1.40	350,000	1.40
March 1, 2018	150,000	1.26	150,000	1.26
May 16, 2018	125,000	1.30	125,000	1.30
December 9, 2018	400,000	1.00	400,000	1.00
February 12, 2019	100,000	1.50	66,667	1.50
March 17, 2019	325,000	1.60	216,666	1.60
July 9, 2019	50,000	1.60	33,333	1.60
December 23, 2020	1,625,000	1.20	541,667	1.20
	4,025,000	CAD $ 1.33	2,750,000	CAD $ 1.36

The compensation cost for the 1,675,000 incentive stock options granted during the three months ended December 31, 2015 were determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Option grant date	Dec. 23, 2015
Exercise price	CAD $ 1.20
Risk-free rate	0.62%
Expected volatility of share price	47.83%
Expected dividend yield	0.00%
Expected life of each option	3.5 years
Weighted average grant date fair value	CAD $ 0.39

The expected volatility was determined based on the historical share price volatility from the date of the grant over a period of time equal to the expected life of the option. The expected forfeiture rate was nil. There were no options granted during the three months ended December 31, 2016.

The Corporation has recorded total share based compensation during the quarter ended December 31, 2016 of $98 (2015 - $37), which has been recorded as compensation expense of $92 (2015 - $20) and as additions to exploration and evaluation assets of $6 (2015 -$17).

(d) Deferred share units

On March 24, 2016 the Corporation approved a deferred share unit ("DSU") plan as an alternative form of compensation for employees, officers, and directors of the Corporation. Each DSU entitles the participant to receive one common share of the Corporation issued from treasury upon redemption. The maximum number of common shares that are issuable under the DSU plan is 5,000,000, and when combined with the incentive stock option plan shall not exceed 10% of the issued and outstanding common shares. As of December 31, 2016 no DSUs were issued or outstanding.

(Unaudited – in thousands of United States dollars unless otherwise stated)

(e) Warrants

On June 7, 2016, in connection with a bought deal financing, the Corporation issued 4,280,539 warrants with an exercise price of CAD $1.70 and an expiration date of June 7, 2018. On July 12, 2016, 200,000 warrants with an exercise price of CAD $1.50 and an expiration date of June 30, 2018 were issued. The fair value of the warrants was determined using the Black-Scholes pricing model.

The warrants which were issued on June 7, 2016 are publicly traded on the Toronto Stock Exchange under the symbol GGD.WT, and at December 31, 2016 the market price was $0.095.

The warrants balances during the three months ended December 31, 2016 and December 31, 2015 were as follows:

	December 31, 2016			December 31, 2015		
	Number of warrants	Weighted average exercise price	Remaining contractual life (years)	Number of warrants	Weighted average exercise price	Remaining contractual life (years)
Opening balance	4,480,539	CAD $ 1.69	1.70	-	-	-
No transactions	-	-	-	-	-	-
Closing balance	4,480,539	1.69	1.70	-	-	-
Exercisable	4,480,539	CAD $ 1.69	1.70	-	-	-

(f) Earnings (loss) per share

Basic earnings (loss) per share is calculated based on the weighted average number of shares outstanding during the period. Diluted earnings per share is based on the assumption that stock options and finder's options have been exercised on the later of the beginning of the period and the date granted. As of December 31, 2016, nil options (2015 – 5,040,000) and nil warrants (2015 – nil) were excluded from the computation of diluted loss per share because their effect would have been anti-dilutive.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash operating working capital:

	Three months ended December 31, 2016	Three months ended December 31, 2015
Trade receivables	$ (1,628)	$ 55
Input tax recoverable	(220)	(1,034)
Prepaid expenses	(43)	95
Inventories	(2,978)	(2,163)
Trade and other payables	(986)	888
Income taxes payable	-	56
	$ (5,855)	$ (2,103)

9. SEGMENTED INFORMATION

The Corporation's reportable segments are consistent with the Corporation's geographic regions in which the Corporation operates. In determining the Corporation's segment structure, the Corporation considered the basis on which management reviews the financial and operational performance and whether any of the Corporation's mining operations share similar economic, operational and regulatory characteristics. The Corporation aggregates San Diego, Santa Gertrudis, and the Parral projects as the Mexico segment and the Corporation's corporate offices as the Canadian segment.

(Unaudited – in thousands of United States dollars unless otherwise stated)

The following table presents information about reportable segments:

	Mexico	Canada	Total
For the three months ended December 31, 2016:			
Depreciation	$ 907	$ -	$ 907
Segment net income (loss)	3,215	(2,553)	662
Expenditures on non-current assets	632	-	632
For the three months ended December 31, 2015:			
Depreciation	$ 743	$ -	$ 743
Segment net income (loss)	201	(2,648)	(2,447)
Expenditures on non-current assets	3,668	-	3,668
Reportable segment assets (December 31, 2016)	$ 141,637	$ 102	$ 141,739
Reportable segment liabilities (December 31, 2016)	15,006	38,208	53,214
Reportable segment assets (September 30, 2016)	$ 138,656	$ 1,994	$ 140,651
Reportable segment liabilities (September 30, 2016)	15,971	36,582	52,553

Included in segment net loss in Canada for the three months ended December 31, 2016 are foreign exchange losses of $826 (2015 - $1,168).

10. FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments:

The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable or unobservable, as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are based on inputs which have a significant effect on fair value that are observable, either directly or indirectly from market data; and
- Level 3 inputs are unobservable (supported by little or no market activity).

The following table provides the disclosures of the fair value and the level in the hierarchy for financial instruments valued at fair value through profit or loss.

	December 31, 2016		September 30, 2016	
	Level 1	Level 2	Level 1	Level 2
Cash	$ 374	-	$ 2,091	-
Derivative liabilities	-	$ 701	-	$ 867

For derivative contracts, the Corporation obtains a valuation of the contracts from counterparties of those contracts or performs valuations internally. The Corporation assesses the reasonableness of these valuations through internal methods and third party valuations. The Corporation then calculates a debt valuation adjustment or a credit valuation adjustment by considering the risk of nonperformance by the counterparties and the Corporation's own credit risk. Valuations are based on forward rates considering the market price, rate of interest and volatility, and take into account the credit risk of the financial instrument, and are therefore classified within Level 2 of the fair value hierarchy.

(Unaudited – in thousands of United States dollars unless otherwise stated)

(b) Capital management:

The Corporation's objective when managing capital is to maintain adequate levels of funding to support the acquisition, exploration and development of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and debt. Future financings are dependent on market conditions and there can be no assurance the Corporation will be able to raise funds in the future. The Corporation invests all capital that is surplus to its immediate operational needs in high interest savings accounts.

The capital of the Corporation consists of items included in shareholders' equity and debt, net of cash as follows:

	December 31, 2016	**September 30, 2015**
Shareholders' equity	$ 88,525	$ 88,098
Long term debt	37,146	35,077
	125,671	123,175
Less: cash	(374)	(2,091)
	$ 125,297	$ 121,084

(c) Financial risks:

The Corporation's financial risk exposures and the impact on the Corporation's financial instruments are summarized below:

Commodity price risk
The profitability of the Corporation's mining operations will be significantly affected by changes in the market price for gold and silver ("Metal"). Metal prices fluctuate on a daily basis and are affected by numerous factors beyond the Corporation's control. The supply and demand for Metal, the level of interest rates, the rate of inflation, investment decisions by large holders of Metal, including governmental reserves, and the stability of exchange rates can all cause significant fluctuations in Metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems, and political developments.

Credit Risk
The Corporation's credit risk is primarily attributable to cash, input tax recoverable and trade receivables. Input tax recoverable consists of harmonized sales tax due from the Federal Government of Canada of $64 and value added tax from the Federal Government of Mexico of $8,079. Exposure on trade receivables is limited as all receivables are collected within 10 business days and are with customers who the Corporation has strong working relationships with. Management believes the risk of loss with respect to financial instruments consisting of cash, input tax recoverable and trade receivables to be low.

Foreign Currency Risk
The Corporation's major purchases are transacted in Canadian dollars, US dollars, and Mexican Pesos. The Corporation funds certain operations, exploration and administrative expenses in Mexico using US dollar and Mexican Peso currency converted from its Canadian and US dollar bank accounts held in Canada. As GoGold Resources Inc., the parent corporation, has a functional currency of Canadian dollars, net liabilities held in US dollars are affected by foreign exchange fluctuations and will affect the Corporation's net loss. At December 31, 2016, GoGold Resources Inc. had net monetary liabilities in US dollars of $37,211 (September 30, 2016 – $33,477), for which a 10% change in US exchange rates would affect net loss by approximately $3,721, which would then be offset by a corresponding change recorded through foreign currency translation differences recorded through other comprehensive income. At December 31, 2016, the Corporation had net monetary liabilities in Mexican Pesos of approximately $2,423 (September 30, 2016 - $2,476), for which a 10% change in Mexican Peso exchange rates would change net loss by approximately $242.

(Unaudited – in thousands of United States dollars unless otherwise stated)

Interest Rate Risk

The Corporation has cash balances and interest-bearing debt. The Corporation's current policy is to invest excess cash in Canadian bank high interest savings accounts. The long term debt as detailed in Note 6 bears interest based on the LIBOR rate, for which a 1% increase or decrease would result in an increase or decrease of annual interest expense of $375.

Liquidity Risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Corporation had cash balances of $374 (September 30, 2016 - $2,091) for settling current liabilities of $11,977 (September 30, 2016 - $48,703). Current liabilities at September 30, 2016 included $35,077 of debt which was classified as current at September 30, 2016 as the Corporation was in violation of a covenant at that date. As the covenants were met at December 31, 2016, the debt has been reclassified as long term.

The Corporation's senior revolving credit facility has financial covenants (see Note 6), which are dependent on the financial results of the Corporation. Should the Corporation not achieve planned financial results, it may violate one or more covenants. The Corporation has been able to arrange for amendments to financial covenants during the current quarter in order to remain in compliance with the terms of the facility. In the event the Corporation violates any of the covenants under the credit facility and is unable to obtain amendments or waivers from the lenders in the future, its ability to borrow funds may be restricted or the lenders may demand repayment.

(d) Derivatives:

As at December 31, 2016, the Corporation held foreign exchange option contracts to protect against the risk of the Mexican Peso ("MXN") strengthening against the USD within a certain range. The option contracts settle monthly and are for the purchase of 10,000,000 MXN per month and the sale of USD at a call option price of $1.00 USD to 19.00 MXN and a put option of $1.00 USD to 20.26 MXN. The contracts were entered into on September 16, 2016 and began on October 1, 2016 and expire on September 29, 2017. The Corporation had similar contracts during the prior year for the purchase of 8,000,000 MXN per month and the sale of USD at a call option price of $1.00 USD to 15.80 MXN and a put option of $1.00 USD to 17.01 MXN which began on September 1, 2015 and expired on August 31, 2016. These contracts had a negative fair value of $227 as of December 31, 2016 (September 30, 2016 - $63), all of which has been recognized in net income.

The Corporation, through its subsidiary Coanzamex, has an agreement which was renegotiated in the three months ending December 31, 2015 and finalized in January 2016 with the Municipality of Parral, Mexico ("Town") to mine and process tailings material for precious metal recovery. With the renegotiated agreement, the Corporation eliminated a 12% net profit royalty and increased the monthly royalty payment from $30 to a $48 per month to the Town which increases based on the market average silver price. As the monthly royalty payment increases based on the market average silver price, from a minimum of $48 per month to a maximum of $88 per month, this is accounted for as an embedded derivative liability. The fair value of the liability has been accounted for using a Monte Carlo simulation based on the spot price of silver at December 31, 2016 of $16.24 (September 30, 2016 of $19.48), as well as the historical volatility of silver market prices. The fair value of the liability under this method at December 31, 2016 was $474 (September 30, 2016 - $804).

11. COMMITMENTS

The following table summarizes the minimum future financial commitments over the next five years to keep the San Diego, Parral, and Santa Gertrudis projects in good standing:

	2017	2018	2019	2020	2020
Land payments - San Diego	$ 50	$ 50	$ -	$ -	$ -
Minimum royalty and land payments – Parral (Note 10 (d))	755	1,006	1,006	1,006	1,006
Land payments - Santa Gertrudis	180	180	180	180	180
	$ 955	$ 1,236	$ 1,186	$ 1,186	$ 1,186