LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2018

Contents

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

(expressed in thousands of US Dollars)

	Notes	As of September 30, 2018	As of December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		$ 10,205	$ 53,937
Restricted cash		3,780	636
Deferred financing costs	4	1,374	-
Other current assets	5	8,783	1,391
Total current assets		24,142	55,964
Non-current assets			
Mineral property, plant and equipment, net	6	450,637	360,789
Deferred financing costs	4	-	12,054
Other non-current assets	7	34,405	35,387
Derivative assets	9	-	2,789
Total non-current assets		485,042	411,019
TOTAL ASSETS		$ 509,184	$ 466,983
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 12,618	$ 37,466
Stream liability and debt	8	283,062	15,684
Derivative liabilities	9	24,462	-
Total current liabilities		320,142	53,150
Non-current liabilities			
Stream liability	8	-	67,712
Debt	8	-	105,318
Provisions	10	8,774	8,086
Deferred VAT tax payable		14,215	13,661
Derivative liabilities	9	-	39,429
Total liabilities		343,131	287,356
EQUITY			
Share capital	11	284,751	283,594
Employee share-based plan reserves		4,333	4,223
Translation of foreign operations		(18,479)	(18,528)
Accumulated deficit		(104,552)	(89,662)
Total equity		166,053	179,627
TOTAL LIABILITIES AND EQUITY		$ 509,184	$ 466,983
Going Concern	1		
Commitments	18		
Contingencies	19		
Subsequent events	20		

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

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT (LOSS) AND COMPREHENSIVE PROFIT (LOSS) (Unaudited)

(expressed in thousands of US Dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Notes	2018	2017	2018	2017
Interest income		$ 56	$ 173	$ 362	$ 458
Total income		56	173	362	458
Employee salaries and benefits expense	13	830	796	3,724	2,753
General and administrative expense		898	608	2,621	2,273
Blockade expenses	14	21,152	-	21,152	-
Depreciation and amortization expense		5	(2)	28	9
(Gain) loss on fair value	9	(8,810)	1,985	(13,816)	13,001
Other (income) expense, net	15	1,119	(156)	1,526	(1,053)
Total expense		15,194	3,231	15,235	16,983
Loss before income taxes		(15,138)	(3,058)	(14,873)	(16,525)
Income taxes		9	-	17	25
Net loss		$ (15,147)	$ (3,058)	$ (14,890)	$ (16,550)
Net loss per share (basic and diluted)	16	$ (0.02)	$ (0.00)	$ (0.02)	$ (0.02)
Other comprehensive loss:					
Net loss		$ (15,147)	$ (3,058)	$ (14,890)	$ (16,550)
Other comprehensive gain					
Currency translation adjustment		1	-	49	-
Total comprehensive loss		$ (15,146)	$ (3,058)	$ (14,841)	$ (16,550)

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

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(expressed in thousands of US Dollars)

	Notes	Nine months ended September 30, 2018	2017
Cash provided by (used) operating activities			
Net loss		$ (14,890)	$ (16,550)
Adjustments for:			
Depreciation expense		1,515	9
Interest income		(362)	(458)
Interest and other financing costs	14	9,268	-
(Gain) loss on financial instruments at fair value, net	9	(13,816)	13,001
Share-based compensation	12	627	776
Other operating write downs	15	1,281	-
Other		37	-
Working capital changes:			
Change in other current assets		(931)	100
Change in accounts payable and accrued liabilities		3,514	(279)
Cash used in operations		(13,757)	(3,401)
Cash flows provided by (used) investing activities			
Acquisition of mineral property, plant and equipment		(106,102)	(150,505)
Change in other non current assets		(4,456)	153
Return of deposit to equipment supplier		-	4,000
Interest income received		362	458
Other		29	-
Cash used in investing activities		(110,167)	(145,894)
Cash flows provided by (used) in financing activities			
Proceeds from borrowings		91,794	82,809
Financing costs		(3,169)	(6,591)
Debt payments		(5,539)	-
Decrease (increase) in restricted cash		(3,044)	8,275
Other		-	83
Cash provided by financing activities		80,042	84,576
Net decrease in cash and cash equivalents		(43,882)	(64,719)
Foreign exchange effect on cash		150	1
Cash and cash equivalents, beginning of period		53,937	137,196
Cash and cash equivalents, end of the period		$ 10,205	$ 72,478

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

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)

(expressed in thousands of US Dollars)

	Share Capital	Reserves: Employee share option plan reserve	Reserves: Restricted stock unit plan reserve	Reserves: Translation of foreign operations	Accumulated deficit	Total
Balance at December 31, 2016	$ 268,608	$ 2,625	$ 669	$ (18,472)	$ (65,509)	$ 187,921
Issue of new shares	50	-	(50)	-	-	-
Share based compensation	-	64	1,079	-	-	1,143
Attributable to expired options	12	(12)	-	-	-	-
Total comprehensive loss	-	-	-	-	(16,550)	(16,550)
Balance at September 30, 2017	$ 268,670	$ 2,677	$ 1,698	$ (18,472)	$ (82,059)	$ 172,514
Balance at December 31, 2017	$ 283,594	$ 2,635	$ 1,588	$ (18,528)	$ (89,662)	$ 179,627
Issue of new shares	1,097	-	(1,097)	-	-	-
Share based compensation	-	16	1,251	-	-	1,267
Attributable to expired options	60	(60)	-	-	-	-
Total comprehensive loss	-	-	-	49	(14,890)	(14,841)
Balance at September 30, 2018	$ 284,751	$ 2,591	$ 1,742	$ (18,479)	$ (104,552)	$ 166,053

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

1. GENERAL INFORMATION AND GOING CONCERN

Lydian International Limited ("Lydian") is a corporation continued under the laws of Jersey effective on December 12, 2007 (formerly existing under the laws of Alberta, Canada). The registered office address of Lydian is Bourne House, 1st Floor, St Heller, Jersey JE2 4QE Channel Islands. Lydian had two securities listed on the Toronto Stock Exchange ("TSX"). Its ordinary shares ("Ordinary Shares") began trading under the symbol LYD on January 10, 2008. Certain warrants ("Public Offering - Warrants") began trading under the symbol LYD.WT on May 26, 2016 and ceased trading following their expiration on November 27, 2017.

Lydian, together with its subsidiaries (the "Company"), is a gold development company, focusing on construction at its 100%-owned Amulsar Gold Project ("Amulsar"), located in south-central Armenia. Development at Amulsar is being conducted under the Mining Right ("Mining Right") issued by the Republic of Armenia in May 2016. Construction has been disrupted due to illegal blockades that have prevented access to Amulsar since late June 2018.

In conducting development activities in Armenia, the Company is subject to considerations and risks not typically associated with companies operating in Jersey or Canada. These include but are not limited to risks such as political, economic and legal environments in emerging markets. The Company's results have been and continue to be adversely affected by changes in political and social conditions and by changes in governmental policies with respect to Lydian, mining laws and regulations, currency conversion, remittance abroad, rates and methods of taxation, and other factors.

These consolidated financial statements were prepared on a going concern basis that assumes the Company continues to realize its assets and discharge its liabilities in the normal course of business. Following the change in the government of Armenia in May 2018, demonstrations and road blockades occurred sporadically throughout the country. These initial protests primarily targeted the mining sector, including the Amulsar project. A continuous illegal blockage at Amulsar has been in place since June 22, 2018, causing construction activities to be suspended since this date. These events have substantially restricted access to capital and caused conditions to occur that may be deemed events of default by the Company's senior lenders, stream financing providers, and equipment financiers. As described in Note 20, the Company, has entered into a forbearance agreement with its senior lenders, stream financing providers, and equipment financiers (the "Forbearance Agreement") to: (a) temporarily suspend all principal and interest payments due and payable to each of them under such lender's credit or loan agreement, and (b) forbear from declaring or acting upon, or exercising default-related rights or remedies under such lender's credit or loan agreement with respect to certain events of default, in each case, until the earlier of December 31, 2018, the occurrence of an additional event of default under such lender's credit or loan agreement or any breach by the Company of the Forbearance Agreement.

Continuation as a going concern is dependent upon a continuation of funding under the Forbearance Agreement. Thereafter, the Company will be dependent upon the resumption of construction once the illegal blockades are removed, the Company's ability to successfully fund its cash obligations from external courses until construction is complete, and sufficient cash flow from operations being generated. Alternatively, sufficient funding will be required until a strategic alternative can be arranged, if at all. Currently and at least until the illegal blockades are removed, potential external sources of funding are limited. To secure additional financing, a restructuring or refinancing of existing obligations may be required, which would also require issuance of additional equity.

Although the Company has obtained sufficient financing to date, including during the period of the illegal blockades, there can be no assurance that adequate financing will be available when needed at commercially acceptable terms and that the Company will ultimately be able to generate sufficient positive cash flow from operations or find an acceptable strategic alternative. These circumstances indicate the existence of material uncertainties that create significant doubt as to the Company's ability to meet its obligations when due, and accordingly, continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to obtain adequate financing. Changes in future conditions could require material write downs of the carrying values of certain assets.

2. BASIS OF PRESENTATION, CRITICAL ACCOUNTING JUDGMENTS AND KEY ESTIMATION UNCERTAINTIES

Statement of compliance

These condensed consolidated financial statements were prepared in accordance with IAS 34, "*Interim Financial Reporting*" as issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2017. Certain reclassifications of prior period data have been made to conform to the current interim report.

The unaudited condensed consolidated financial statements were authorized for issue by the Board of Directors on November 14, 2018.

Use of judgements and estimates

Preparation of these condensed consolidated financial statements required management to make judgements, estimates and assumptions that affected the basis of accounting, application of policies, and reported amounts of assets, liabilities, contingent liabilities and expenses. Estimates and assumptions are continually evaluated and are based on management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ materially from these estimates.

Significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty are the same as those that applied to the annual audited consolidated financial statements for the year ended December 31, 2017, except that the timing to achieve positive cash flow from operations has been revised in the Company's impairment analysis for mineral properties.

In management's opinion, all adjustments considered necessary for fair presentation were included in these condensed consolidated financial statements.

3. ACCOUNTING POLICIES

The accounting policies followed in these condensed consolidated financial statements were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2017, except for the following new standards, interpretations and amendments to standards and interpretations were issued and effective for the current reporting period:

IFRS 9, *Financial Instruments* – The IASB published IFRS 9 in July 2014, effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces IAS 39, Financial Instruments: Recognition and

(expressed in thousands of US Dollars, unless otherwise stated)

Measurement, and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model, and a substantially reformed approach to hedge accounting. The Company evaluated this change in the standard and there was no impact from the adoption.

IFRS 2, *Share based payments* – In June 2016 the IASB issued an amendment clarifying the accounting treatment for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The IFRS 2 amendments were effective for annual periods beginning on or after January 1, 2018. The Company evaluated the change in this standard and there was no impact from the adoption.

IFRS 15, *Revenue from Contracts with Customers* – The IASB published IFRS 15 in July 2014, effective for annual periods beginning on or after January 1, 2018. IFRS 15 presents new requirements for the recognition of revenue replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance not covered under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. Presently IFRS 15 has no impact because the Company had no revenue from operations. The Company will apply the new standard and related disclosures upon commencement of production.

The following new standards, interpretations and amendments to standards and interpretations have been issued but are not effective for the current reporting period and have not been early adopted by the Company.

IFRS 16, *Leases* – The IASB published IFRS 16 in January 2016 effective for annual periods beginning on or after January 1, 2019. IFRS 16 may be applied before that date but only in conjunction with IFRS 15. The standard establishes principles to determine recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces IAS 17 and related interpretations. The Company is evaluating the effect of the standard on its financial statements.

4. DEFERRED FINANCING COSTS

As of December 31, 2017	$	12,054
Additions		4,043
Write-off for unsuccessful financing		(618)
Reclassified to debt		(14,105)
As of September 30, 2018	$	1,374

(expressed in thousands of US Dollars, unless otherwise stated)

5. OTHER CURRENT ASSETS

	As of	
	September 30, 2018	December 31, 2017
Refundable VAT	$ 4,608	$ 57
Vendor advances and other receivables	2,287	1,005
Derivative assets	1,638	-
Supplies	136	329
Deferred VAT receivable	114	-
	$ 8,783	$ 1,391

Value added tax ("VAT") is generally paid on the provision of goods and services to the Armenian Government. Refundable VAT is recoverable through future export sales. Effective January 1, 2018, the Armenian Government changed the legislation to allow for the early refund of certain VAT for semi-annual periods from July 1, 2017 forward. See Note 9 for information on the derivative assets.

6. MINERAL PROPERTY, PLANT AND EQUIPMENT, NET

	Development Assets	Plant and Equipment	Total
Cost			
As of December 31, 2017	$ 351,454	$ 13,376	$ 364,830
Additions	93,882	9	93,891
Disposals	-	(14)	(14)
Transfers of assets into service	(45,658)	45,658	-
As of September 30, 2018	$ 399,678	$ 59,029	$ 458,707
Accumulated Depreciation			
As of December 31, 2017	$ -	$ 4,041	$ 4,041
Additions	-	4,043	4,043
Disposals	-	(14)	(14)
As of September 30, 2018	$ -	$ 8,070	$ 8,070
Carrying Amount			
As of December 31, 2017	$ 351,454	$ 9,335	$ 360,789
As of September 30, 2018	$ 399,678	$ 50,959	$ 450,637

(expressed in thousands of US Dollars, unless otherwise stated)

The table below summarizes non-cash additions to development assets for the nine months ended September 30, 2018.

	Nine months ended September 30, 2018
Interest	$ 13,691
Depreciation	2,556
Reclamation obligation	666
Share-based compensation	640
	$ 17,553

7. OTHER NON-CURRENT ASSETS

	As of September 30, 2018	As of December 31, 2017
Deferred VAT receivable	$ 14,215	$ 13,661
Refundable VAT	18,943	19,748
Restricted reclamation deposit	1,247	1,234
Other	-	744
	$ 34,405	$ 35,387

Deferred VAT is associated with the import of equipment, the Company can defer payments for up to three years from the date of import. The deferred VAT receivable and deferred payable of $14.2 million as of September 30, 2018 will become recoverable upon the Company's export of a finished product.

8. STREAM LIABILITY AND DEBT

		Debt		
	Stream Liability	Term Loan	Equipment Financing	Total Debt
As of December 31, 2017	$ 69,407	$ 71,436	$ 47,871	$ 119,307
Proceeds from borrowings	-	58,238	33,556	91,794
Reclassified from financing costs	-	(9,121)	(4,984)	(14,105)
Accrued interest	6,548	8,013	3,751	11,764
Amortization of financing costs	220	2,733	933	3,666
Debt payments	-	-	(5,539)	(5,539)
As of September 30, 2018	$ 76,175	$ 131,299	$ 75,588	$ 206,887

As of September 30, 2018, the Company was default of certain loan provisions contained in the Stream Agreement, the Term Loan and equipment financing facilities. As such, the stream, debt and associated derivatives are presented as current. Discussion regarding the Forbearance Agreement including restrictions on advancement of funds is outlined in subsequent event Note 20.

Stream Agreement
The Company is obligated to deliver 6.75% of gold production, limited to aggregate deliveries of 142,454 refined ounces and 100% of silver production, limited to aggregate deliveries of 694,549 refined ounces. Upon delivery, the Company will be paid the lower of prevailing market price, or $400/oz. for gold and $4/oz. for silver, each subject to escalation provisions. Expiration of the agreement is the earlier of the date the aggregate gold and silver deliveries have been made or 40 years.

Term Loan and Cost Overrun Facility
The Company's Term Loan agreement provides $160.0 million on a senior secured basis for purposes of construction of Amulsar. Interest is based on the 3-month US dollar LIBOR rate, subject to a minimum of 1%, plus a 6.5% margin. Principal plus interest will be paid through quarterly scheduled installments and a 30% cash sweep of excess cash flow beginning October 31, 2018 and continuing through maturity on September 30, 2021. A $14.0 million cost overrun facility ("COF") was also established as part of the Term Loan. Interest will be calculated based on the 3-month US dollar LIBOR rate, subject to a minimum of 1%, plus a 9.5% margin. A cash sweep of 30% of excess cash flows will be used to repay the COF. Any remaining balance will be due in full on September 30, 2020.

The Company has entered into amending agreements to the Term Loan that among other things, modified the availability period for subsequent advances to October 31, 2018, decreased the draw notification period from 30 days to 10 days, and extended the first payment date to October 31, 2018. As of September 30, 2018, Term Loan draws totaling $139.2 million had been received. Availability of funds under the Term Loan and COF are subject to satisfaction or waiver of certain conditions.

Equipment Financing
The Company entered three secured credit facilities for the purpose of purchasing equipment associated with the Amulsar Gold Project. The maximum aggregate borrowings under these term facilities is limited to $90.0 million. A summary of each term facility is below:

- The Ameriabank Term Facility has a maximum principal amount of $24.0 million and will be secured by certain equipment. Interest is calculated based on LIBOR plus 8.75% and there is a 2% commitment fee on any undrawn portion. Interest and commitment fees are payable quarterly and principal payments became payable quarterly beginning in January 2018. As of September 30, 2018, $10.0 million was drawn on this facility. Principal and interest payments of $1.5 million were paid during the nine months ended September 30, 2018. Availability of additional funds is subject to satisfaction or waiver of certain conditions.

- The Cat Term Facility has a maximum principal amount of $42.0 million and will be secured by certain mobile mining equipment. Interest is calculated based on LIBOR plus 4.5% and there is a 1.5% commitment fee on any undrawn portion. Each advance is repayable over a 72-month term, inclusive of a six-month initial repayment grace period. As of September 30, 2018, $28.4 million was drawn on this facility. Principal and interest payments of $1.5 million were paid during the nine months ended September 30, 2018. Availability of funds is subject to satisfaction or waiver of certain conditions.

(expressed in thousands of US Dollars, unless otherwise stated)

- The ING Term Facility has a maximum principal amount of $50.0 million and will be secured by material handling and electrical equipment. Interest is calculated based on LIBOR plus 2.95% and there is a 2% commitment fee on any undrawn portion. Each advance is repayable over a 51-month term, with repayment of the first advance beginning in October 2018. As of September 30, 2018, $48.0 million was drawn on this facility. Interest payments of $1.7 million were paid during the nine months ended September 30, 2018. Availability of additional funds is subject to satisfaction or waiver of certain conditions.

The table below presents the maturities of the stream liability and debt:

	As of	
	September 30, 2018	December 31, 2017
Up to one year	$ 283,062	$ 15,684
More than one year and not later than five years	-	153,293
More than five years	-	19,737
	$ 283,062	$ 188,714

9. FINANCIAL INSTRUMENTS

The Company recognized certain financial instruments relating to the Financing Agreements including the stream liability, debt and derivatives as discussed in Note 8, Stream Liability and Debt. The classification of the derivative follows the Financing Agreements. The derivatives were classified as current as of September 30, 2018. None of these financial instruments are held for trading and the Company does not currently engage in hedge activities.

The table below sets out the fair value hierarchy levels, fair values of the financial instruments, and the gains and losses recognized for the respective periods.

	Derivative Assets (Liabilities)				
Summary of Derivative Assets/(Liabilities)	Stream Prepayment Option	Offtake Agreement	Stream Commodity Linked Repayment	Loan Fee Warrants	Gain (Loss)
Fair Value Hierarchy Level [1]	3	3	3	2	
Fair value at December 31, 2017:	$ 2,789	$ (27,028)	$ (12,069)	$ (332)	
Change in fair value	(1,151)	5,425	9,215	327	$ 13,816
Fair value at September 30, 2018:	$ 1,638	$ (21,603)	$ (2,854)	$ (5)	

(expressed in thousands of US Dollars, unless otherwise stated)

Sensitivity impact upon fair value at September 30, 2018:					
10% increase in gold price[2]	$ 1,091	$ (2,168)	$ (9,802)	N/A	$ (10,879)
10% increase in silver price[2]	$ 50	N/A	$ (521)	N/A	$ (471)
10% increase in 3-month LIBOR rate[2]	$ (15)	$ 38	$ 105	N/A	$ 128

[1] The levels of the fair value hierarchy are defined as:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable, directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

[2] The above impacts reflect an increase in the stated variables on the resulting value of the asset and liability; the opposite would occur if the stated variables decreased.

Fair Value Measurement

Level 1 Fair Value Estimates - Fair value of the debt was initially estimated using Level 1 criteria, which was the proceeds from debt received by the Company. The fair value and carrying value of debt is the same for all reported periods.

Level 2 Fair Value Estimates - The warrants issued in connection with the Term Loan (Loan Fee - Warrants) are not trading instruments, therefore, use of a pricing model was deemed appropriate. Inputs used for calculating the fair value of the warrants include:

	Loan Fee - Warrants	
	September 30, 2018	December 31, 2017
Warrants outstanding	5,000,000	5,000,000
Expected remaining life in years	0.65	1.40
Expected volatility	41.3%	48.0%
CAD Stock price per share on valuation date	$0.21	$0.38
CAD Exercise price	$0.39	$0.39
CAD Risk free interest rate	1.95%	1.47%
CAD/USD Exchange rate	0.7682	0.7977
Expected dividend per share	$Nil	$Nil

Level 3 Fair Value Estimates - Fair value of the derivatives other than the warrants were estimated using Level 3 criteria. The financial modeling technique applied to these estimates were more complex, require additional inputs such as estimated future production, simulated gold and silver prices, and other inputs based on non-observable market data. Key inputs for Level 3 fair value estimates include:

	September 30, 2018	December 31, 2017
Gold spot price per ounce	$1,191.50	$1,306.30
Silver spot price per ounce	$14.62	$17.06
10 year risk free interest rate	3.25%	2.42%
3-month LIBOR rate	2.440%	1.705%

(expressed in thousands of US Dollars, unless otherwise stated)

The initial fair value of the stream liability, and of the value of the stream prepayment option, were based on a Monte Carlo Simulation of correlated spot gold, spot silver, and similar debt yields of mining companies. The other key inputs and assumptions to the valuations include the risk-free interest rate, production volumes consistent with the NI 43-101, gold and silver prices consistent with forward price curves, the availability of additional financing, and the volatility of gold and silver prices over a 3-year period.

The offtake agreement was valued using an option pricing model similar to Black-Scholes. The key inputs used include the gold price and volatility, and the quotational period.

The stream commodity linked repayment is modeled as a swap. A swap has a zero-fair value at inception because the strike price is equal to the market price. As market prices change, the fair value of the stream commodity linked repayment derivative will change. The key input was the gold price.
Derivatives associated with the Agreements are measured at fair value on a recurring basis. As such, carrying values are adjusted to fair value as of the end of each reporting period as shown in the table above.

10. PROVISIONS

Reclamation provision

The provision for restoration and rehabilitation represents the present value of estimated future outflow of economic benefits that will be required to restore and rehabilitate Amulsar. The provision recognized as of September 30, 2018 relates only to the rehabilitation of Amulsar mine areas affected by exploration and development activities.

As of December 31, 2017	$	8,086
Accretion expense		666
Foreign currency exchange		22
As of September 30, 2018	$	8,774

(expressed in thousands of US Dollars, unless otherwise stated)

11. SHARE CAPITAL

Share capital consists of one class of fully paid Ordinary Shares, with no par value. The Company is authorized to issue an unlimited number of Ordinary Shares. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the Company's shareholders' meetings.

	Number		Value
Shares outstanding, December 31, 2017	751,964,633	$	283,594
Shares issued under RSU Plan	3,668,819		1,097
Amount attributable to expired options	-		60
Shares outstanding, September 30, 2018	755,633,452	$	284,751

The Company's warrants consist of the Loan Fee – Warrants. The total outstanding is shown below:

	Number of Warrants	Weighted Average Exercise Price (CAD)	Remaining Life (Yrs.)
Balance as of December 31, 2017	5,000,000	$0.39	1.40
Exercised	-	-	NA
Expired	-	-	NA
Balance as of September 30, 2018	5,000,000	$0.39	0.65

12. SHARE-BASED COMPENSATION

Restricted Stock Unit Plan

The following table summarizes the outstanding restricted share units under the employee RSU Plan:

	Number of RSUs		Weighted Average Award Price (CAD)
Balance as of December 31, 2017	10,131,763	$	0.29
Granted	9,042,816		0.34
Expired	(3,668,819)		0.29
Redeemed	(2,859,975)		0.34
Balance as of September 30, 2018	12,645,785	$	0.31

During the three and nine months ended September 30, 2018 nil and $0.6 million (2017: $0.2 million and $0.7 million) were included in employee benefits expense in the consolidated statement of profit (loss) and comprehensive profit (loss), respectively. During the three and nine months ended September 30, 2018, nil and $0.6 million (2017: $0.1 million and $0.4 million) were capitalized to development assets, respectively.

Stock Option Plan

	Number of Options		Weighted Average Exercise Price (CAD)
Balance as of December 31, 2017	5,570,000	$	0.82
Granted	-		-
Expired	(250,000)		0.50
Balance as of September 30, 2018	5,320,000	$	0.84

(expressed in thousands of US Dollars, unless otherwise stated)

The following summarizes the outstanding and exercisable share options under the employee share option plan as of September 30, 2018:

	Outstanding options				Exercisable options			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price (CAD)	Number exercisable	Weighted average remaining life (years)		Weighted average exercise price (CAD)
(CAD$0-$1.00)	3,030,000	1.43	$	0.63	3,003,333	1.43	$	0.63
(CAD$1.01-$2.00)	2,290,000	0.56	$	1.12	2,290,000	0.56	$	1.12
	5,320,000	1.06	$	1.06	5,293,333	1.06	$	1.06

13. EMPLOYEE SALARIES AND BENEFITS EXPENSE

	Three months ended September 30,				Nine months ended September 30,			
		2018		2017		2018		2017
Salaries and other compensation	$	769	$	558	$	3,051	$	1,977
Share-based compensation		61		238		673		776
	$	830	$	796	$	3,724	$	2,753

14. BLOCKADE EXPENSES

Following the change in the government of Armenia in May 2018, demonstrations and road blockades have occurred sporadically throughout the country. These protests primarily targeted the mining sector, including the Amulsar project. Access to Amulsar has been blocked since June 2018. During the three and nine months ended September 30, 2018 blockade expenses of $21.2 million relate to idle costs incurred during the blockade, including $6.7 million of labor and contractor costs, $3.7 million of indirect costs, $9.3 million of interest and $1.5 million of depreciation and amortization.

15. OTHER (INCOME) EXPENSE, NET

	Three months ended September 30,				Nine months ended September 30,			
		2018		2017		2018		2017
Write down of financing costs	$	617	$	-	$	617	$	-
Write down of prepaid rent		664		-		664		-
(Gain) loss on foreign currency		(126)		(371)		305		(1,269)
Other		(36)		215		(60)		216
Other (income) expense, net	$	1,119	$	(156)	$	1,526	$	(1,053)

(expressed in thousands of US Dollars, unless otherwise stated)

16. NET LOSS PER SHARE

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Net loss	$ (15,147)	$ (3,058)	$ (14,890)	$ (16,550)
Weighted average shares - basic	755,633,452	699,452,949	754,987,889	699,450,498
Weighted average shares - diluted	763,853,215	709,112,163	763,207,652	709,109,712
Net loss per share - basic	$ (0.02)	$ (0.00)	$ (0.02)	$ (0.02)
Net loss per share - diluted	$ (0.02)	$ (0.00)	$ (0.02)	$ (0.02)

The treasury stock method assumes that all stock options and restricted stock units have been converted in determining fully diluted profit (loss) per share if they are in the money, except when such conversion is anti-dilutive.

17. RELATED PARTY TRANSACTIONS

The parent and ultimate controlling party of the Company is Lydian International Limited. No individual party had overall control of the Company during the periods being presented. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

Related parties include the Board of Directors, key management personnel, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions. Compensation awarded to key management for the periods indicated below was as follows:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Salaries and other compensation	$ 411	$ 259	$ 1,756	$ 1,115
Share-based compensation	68	168	573	532
	$ 479	$ 427	$ 2,329	$ 1,647

18. COMMITMENTS

Leases

	September 30, 2018
Up to one year	$ 1,836
More than one year and not later than five years	6,557
More than five years	7,702
	$ 16,095

Construction Contracts

The Company has entered into equipment supply and earthworks contracts for the construction of Amulsar. Due to the blockades, construction contractors have been idled during the quarter. As of September 30, 2018, the Company had $34 million in committed contracts, of which many have been terminated subsequent to September 30, 2018.

Rehabilitation Payments

In May 2016, Lydian Armenia signed an amended Mining Right with the Ministry of Energy, Infrastructure and Natural Resources of Armenia. Under the agreement, Lydian Armenia previously made payments to the Armenian Government as a guarantee for post-mining environmental rehabilitation and for ongoing monitoring. The amounts paid represented 15% of the contractual obligation. The remainder of the rehabilitation guarantee will be paid in equal installments of AMD 121.9 million, or $0.3 million over thirteen years commencing in 2016, and the remainder of the monitoring will be paid in equal installments of AMD 16.6 million, or $34 thousand. In addition, Lydian Armenia is committed to invest annually AMD 61.0 million, or $126 thousand after mine closure for workforce social mitigation and AMD 61.5 million, or $0.1 million for adjacent communities' social-economic development. The rehabilitation guarantee will be refunded to the Company after mine closure when rehabilitation is completed and accepted by the Armenian Government.

19. CONTINGENCIES

Net Smelter Royalty

On April 23, 2010, the Company purchased all of Newmont's interests in the Company's joint venture which included Newmont's interests in the Amulsar Gold Project. A portion of the consideration included a 3% net smelter royalty ('NSR"). However, as provided for in the purchase agreement, on April 9, 2018 Lydian exercised its option to terminate the 3% NSR and in lieu thereof, elected the quarterly payment option to pay Newmont the aggregate sum of $20.0 million, without interest, in 20 equal quarterly installments of $1.0 million each, commencing on the first day of the third calendar month following the start of commercial production. On July 3, 2018, Maverix Metals Inc. acquired the NSR from Newmont. These potential payments do not meet the definition of an obligation as the triggering event had not occurred as of September 30, 2018 and, therefore, are not recognized in the condensed consolidated financial statements.

20. SUBSEQUENT EVENTS

On November 1, 2018, the Company announced it had entered into the Forbearance Agreement with its senior lenders, stream financing providers, and equipment financiers, pursuant to which the Company's senior lenders, stream financing providers, and equipment financiers have agreed to: (a) temporarily suspend all principal and interest payments due and payable to each of them under such lender's credit or loan agreement, and (b) forbear from declaring or acting upon, or exercising default-related rights or remedies under such lender's credit or loan agreement with respect to certain events of default, in each case, until the earlier of December 31, 2018, the occurrence of an additional event of default under such lender's credit or loan agreement or any breach by the Company of the Forbearance Agreement. The Forbearance Agreement was necessitated as a result of the previously announced illegal blockades that have prevented Lydian and its contractors from entering the Amulsar site since late June. During the period of forbearance, Lydian and other stakeholders will continue to petition local and national government officials to enforce the law by removing the illegal blockades and pursue additional options that allow Lydian to resume construction activities. Lydian will continue to engage in discussions with its lenders to address the issues resulting from the illegal blockades and is evaluating a range of financing and strategic alternatives.

The condensed consolidated financial statements for the three and nine months ended September 30, 2018 were approved for issuance by the Board of Directors on November 14, 2018 and subsequent events have been reviewed through November 14, 2018.