



**LYDIAN INTERNATIONAL LIMITED
UNAUDITED INTERIM
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

MARCH 31, 2019

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LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(expressed in thousands of US Dollars)

		As of	
	Notes	March 31, 2019	December 31, 2018
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents		\$ 5,192	\$ 3,386
Restricted cash		1,019	1,029
Other current assets	4	11,009	14,011
Total current assets		17,220	18,426
<i>Non-current assets</i>			
Mineral property, plant and equipment, net	5	326,070	355,833
Other non-current assets	6	22,019	25,284
Total non-current assets		348,089	381,117
TOTAL ASSETS		\$ 365,309	\$ 399,543
LIABILITIES			
<i>Current liabilities</i>			
Accounts payable and other current liabilities		\$ 1,623	\$ 4,533
Stream liability and debt	7	320,155	297,030
Derivative liabilities	8	21,689	30,324
Total current liabilities		343,467	331,887
<i>Non-current liabilities</i>			
Provisions	9	7,147	8,137
Deferred VAT payable		13,973	14,051
Non-current portion of lease liabilities	10	160	-
Total liabilities		364,747	354,075
EQUITY			
Share capital	11	285,823	284,924
Employee share-based plan reserves		3,992	4,769
Translation of foreign operations		(18,445)	(18,479)
Accumulated deficit		(270,808)	(225,746)
Total equity		562	45,468
TOTAL LIABILITIES AND EQUITY		\$ 365,309	\$ 399,543
Going concern	1		
Commitments	18		
Contingencies	19		

On behalf of the Board of Directors:

"Russell Ball" (signed)

Russell Ball, Chairman of the Board

"Stephen Altmann" (signed)

Stephen Altmann, Chairman of the Audit Committee

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

LYDIAN INTERNATIONAL LIMITED

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

(expressed in thousands of US Dollars)

	Notes	For the three months ended March 31,	
		2019	2018
Interest income		\$ 26	\$ 208
Total income		<u>26</u>	<u>208</u>
Blockade expense	13	21,702	-
Employee salaries and benefits expense	14	1,045	1,124
General and administrative expense		503	956
Depreciation and amortization expense		18	16
(Gain) loss on financial instruments fair value	8	(6,345)	2,201
Impairment of mineral property, plant and equipment	15	28,000	-
Other expense (income), net		165	105
Total expense		<u>45,088</u>	<u>4,402</u>
Loss before income taxes		(45,062)	(4,194)
Income taxes		-	2
Net loss		<u>\$ (45,062)</u>	<u>\$ (4,196)</u>
Net loss per share - basic and diluted	16	<u>\$ (0.06)</u>	<u>\$ (0.01)</u>
Other comprehensive loss:			
Net loss		\$ (45,062)	\$ (4,196)
Other comprehensive profit (loss):			
Currency translation adjustment		34	17
Total comprehensive loss		<u>\$ (45,028)</u>	<u>\$ (4,179)</u>

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

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(expressed in thousands of US Dollars)

	Notes	For the three months ended March 31,	
		2019	2018
Cash from operating activities			
Net loss		\$ (45,062)	\$ (4,196)
<i>Adjustments for:</i>			
Interest and other financing costs	13	16,614	-
(Gain) loss on financial instruments at fair value, net	8	(6,345)	2,201
Share-based compensation	12	122	383
Impairment of mineral property, plant and equipment	15	28,000	-
Depreciation and amortization expense		1,582	16
Interest income		(26)	(208)
Other		278	(169)
<i>Working capital changes:</i>			
Change in other current assets		(870)	35
Change in accounts payable and accrued liabilities		(1,516)	(362)
Cash used in operations		<u>(7,223)</u>	<u>(2,300)</u>
Cash flows from investing activities			
Acquisition of mineral property, plant and equipment		(1,846)	(49,492)
Change in other assets		4,124	(6,095)
Interest income received		26	208
Cash provided by (used in) investing activities		<u>2,304</u>	<u>(55,379)</u>
Cash flows from financing activities			
Proceeds from borrowings	7	7,000	56,447
Financing costs	7	(238)	(2,578)
Debt repayments		-	(1,393)
Finance lease principle and interest payments	10	(66)	-
Decrease in restricted cash		(3)	(18)
Cash provided by financing activities		<u>6,693</u>	<u>52,458</u>
Net increase (decrease) in cash and cash equivalents		1,774	(5,221)
Foreign exchange effect on cash		32	10
Cash and cash equivalents, beginning of year		3,386	53,937
Cash and cash equivalents, end of year		<u>\$ 5,192</u>	<u>\$ 48,726</u>
Supplemental cash flow information			
Interest paid		\$ -	\$ 1,400
Income taxes paid		\$ 17	\$ -

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

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(expressed in thousands of US Dollars)

	Reserves					Total
	Share Capital	Employee share option plan reserve	Restricted stock unit plan reserve	Translation of foreign operations	Accumulated deficit	
Balance at December 31, 2017	\$ 283,594	\$ 2,635	\$ 1,588	\$ (18,528)	\$ (89,662)	\$ 179,627
Issue of new shares	864	-	(864)	-	-	-
Share based compensation	-	15	493	-	-	508
Comprehensive loss	-	-	-	17	(4,196)	(4,179)
Balance at March 31, 2018	<u>\$ 284,458</u>	<u>\$ 2,650</u>	<u>\$ 1,217</u>	<u>\$ (18,511)</u>	<u>\$ (93,858)</u>	<u>\$ 175,956</u>
Balance at December 31, 2018	\$ 284,924	\$ 2,586	\$ 2,183	\$ (18,479)	\$ (225,746)	\$ 45,468
Share based compensation	-	-	122	-	-	122
Attributable to expired options	899	(899)	-	-	-	-
Comprehensive loss	-	-	-	34	(45,062)	(45,028)
Balance at March 31, 2019	<u>\$ 285,823</u>	<u>\$ 1,687</u>	<u>\$ 2,305</u>	<u>\$ (18,445)</u>	<u>\$ (270,808)</u>	<u>\$ 562</u>

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

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2019 and 2018

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

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, Francis Street, St Helier, Jersey JE2 4QE Channel Islands. Lydian’s ordinary shares (“Ordinary Shares”) are listed on the Toronto Stock Exchange (“TSX”) and began trading under the symbol LYD on January 10, 2008.

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 suspended due to actions and inactions of the Government of Armenia that, among other things, have permitted illegal blockades and prevented access to Amulsar since June 2018.

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

These unaudited condensed consolidated financial statements were prepared on a going concern basis that assumes the Company continues and will be able to realize its assets and discharge its liabilities in the normal course of business. Following a 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 Gold Project. Despite recent court rulings in favour of the Company, a continuous illegal blockade at Amulsar has been in place since June 22, 2018, causing construction activities to be suspended since this date. Access has generally been limited to contractor demobilization and winterization during the fourth quarter of 2018.

The Government of Armenia has not enforced the rule of law to remove the illegal blockades at Amulsar and prosecute other illegal acts carried out against the Company. Furthermore, the Government of Armenia has taken certain actions and failed to act on other matters. The Government of Armenia’s actions and inactions have substantially restricted the Company’s access to capital and caused conditions to occur that were deemed events of default by the senior lenders, stream financing providers, and equipment financiers. As a result, in December 2018 the Company entered into the A&R Forbearance Agreement and thereafter in January 2019 the Thirteenth Amending Agreement and the A&R Stream Agreement, with its senior lenders, stream financing providers, and equipment financiers. As a result of these circumstances, the Company has incurred blockade-related costs, see Note 13.

The Company’s ability to continue as a going concern is dependent upon the Government of Armenia resolving the disputes it has created with the Company and making the Company whole. It will also be necessary for the Company to continue to receive forbearance under the A&R Forbearance Agreement and funding under the Thirteenth Amending Agreement. Blockade-related costs will continue to be incurred until the illegal blockades are removed and unrestricted access for all purposes is available to the Company.

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Thereafter, the Company anticipates additional time and funding will be needed for site restoration, sourcing of financing, if available, for completing construction and working capital until positive cash flows from operations can be achieved. Alternatively, funding will be required until a strategic alternative can be arranged, if at all, or to support the Company's legal alternatives.

While the Company has entered into the A&R Forbearance Agreement with its senior lenders, stream financing providers, and equipment financiers, as a result of the actions and inactions of the Government of Armenia there is no assurance that the Company will be able to meet its obligations under the applicable credit or loan agreements with its senior lenders, stream financing providers, and equipment financiers and that the Company will avoid further events of default as contemplated under such agreements. As a result, the Company may not be able to receive forbearance and continuing funding from the same parties under the A&R Forbearance Agreement, the Thirteenth Amendment, and the A&R Stream Agreement. Therefore, there is a risk that the Company will be in default under its agreements with its senior lenders, stream financing providers, and equipment financiers, which may ultimately result in one or more secured parties exercising rights to demand repayment and enforcing security rights, which may result in partial or full loss of the assets of the Company. During this forbearance period, Lydian will continue to engage with its lenders and stream financing providers to address the issues resulting from the illegal blockades and seek continuing forbearance and funding, while at the same time evaluating a range of strategic, financing, and legal alternatives.

Although the Company has obtained sufficient financing to date, including during the period of the illegal blockades and as provided in the A&R Forbearance Agreement, the Thirteenth Amendment, and the A&R Stream Agreement, as a result of the actions and inactions of the Government of Armenia 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, find an acceptable strategic alternative, or fund legal alternatives. Furthermore, there are no assurances of future forbearances or lenders not demanding repayment and exercising security rights under the respective credit agreements. 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 unaudited interim condensed 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 additional 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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The accounting policies applied in these unaudited interim consolidated financial statements are consistent with those used in the Company's audited consolidated financial statements for the year ended December 31, 2018, except for the adoption of new and amended standards as set out below.

The preparation of unaudited interim financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expense. In management's opinion, all adjustments considered necessary for a

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2019 and 2018

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fair presentation have been included in these unaudited interim financial statements. Interim results are not necessarily indicative of the results expected for the financial year. Actual annual results may differ from interim estimates. The significant judgements made by management applied in the preparation of these unaudited interim consolidated financial statements are consistent with those applied and disclosed in the Companies audited consolidated financial statements for the year ended December 31, 2018, except for those significant judgements made by management arising from the adoption of new and amended accounting standards as set out in Note 3. For a description of the Company's critical accounting estimates and assumptions, please refer to the Company's audited consolidated financial statements and related notes for the year ended December 31, 2018.

The format of the financial statements has been changed from the format presented in the Company's audited annual consolidated financial statements for the year ended December 31, 2018 to reflect the adoption of new and amended accounting standards as set out in Note 3.

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 15, 2019.

3. NEW ACCOUNTING PRONOUNCEMENTS

Impact of adoption of new accounting standards that have been applied starting January 1, 2019

Overview of IFRS 16 – Leases

The Company has adopted IFRS 16, *Leases* as of January 1, 2019 using the modified retrospective method and therefore has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. The reclassifications and adjustments arising from the new leasing standard are therefore reflected as of January 1, 2019.

The Company leases office and warehouse space. These real estate property lease contracts are typically made for fixed periods of three to five years but may have extension options. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants on the Company and leased assets are not used as security for borrowing purposes.

Until the end of 2018, leases of real estate property were classified as operating leases. Payments made under operating leases were charged to the Consolidated Statements of Profit (Loss) and Comprehensive Profit (Loss) on a straight-line basis over the period of the lease.

Effects of Adoption of IFRS 16

On adoption of IFRS 16, the Company recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as operating leases under the principles of IAS 17, *Leases*. See Notes 5 and 10.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2019 and 2018

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

4. OTHER CURRENT ASSETS

	March 31, 2019	December 31, 2018
Refundable VAT	\$ 5,223	\$ 9,870
Government receivables	4,495	1,200
Derivative assets	-	2,290
Advances to vendors and other receivables	1,220	394
Other	71	257
	<u>\$ 11,009</u>	<u>\$ 14,011</u>

5. MINERAL PROPERTY, PLANT AND EQUIPMENT, NET

	Development Assets	Plant and Equipment		Total
		Cost	Accumulated Depreciation	
Balance at December 31, 2017	\$ 351,454	\$ 13,376	\$ (4,041)	\$ 360,789
Additions	93,583	9	-	93,592
Impairment	(92,700)	-	-	(92,700)
Transfers of assets into service	(47,806)	47,806	-	-
Disposals	-	(64)	14	(50)
Depreciation and amortization	-	-	(5,798)	(5,798)
Balance at December 31, 2018	<u>\$ 304,531</u>	<u>\$ 61,127</u>	<u>\$ (9,825)</u>	<u>\$ 355,833</u>
Adjustments and additions	(704)	523	-	(181)
Impairment	(28,000)	-	-	(28,000)
Depreciation and amortization	-	-	(1,582)	(1,582)
Balance at March 31, 2019	<u>\$ 275,827</u>	<u>\$ 61,650</u>	<u>\$ (11,407)</u>	<u>\$ 326,070</u>

As discussed in Note 3, upon adoption of IFRS 16, right-of-use assets related to leases were measured at an amount equal to the lease liability, adjusted for deposits and accruals as of January 1, 2019. Right-of-use assets due to the adoption of IFRS 16 of \$0.5 million are included as additions in plant and equipment as shown in the table above. See Note 10, Leases.

See note 15 for details on the impairment.

Non-cash additions to development assets for the three months ended March 31, 2019 was \$(1.2) million due to a reduction in the reclamation obligation and the associated asset as a result of a change in the production time-line.

6. OTHER NON-CURRENT ASSETS

	March 31, 2019	December 31, 2018
Deferred VAT receivable	\$ 13,973	\$ 14,051
Refundable VAT	6,717	9,701
Restricted reclamation deposit	1,329	1,532
	<u>\$ 22,019</u>	<u>\$ 25,284</u>

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2019 and 2018

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

7. STREAM LIABILITY AND DEBT

	Stream Liability	Term Facilities	Equipment Financing	Total
As of December 31, 2017	\$ 69,407	\$ 71,436	\$ 47,871	\$ 188,714
Proceeds from borrowings	-	61,896	33,556	95,452
Reclassified from financing costs	-	(9,296)	(4,962)	(14,258)
Accrued interest	8,771	11,973	5,210	25,954
Amortization of financing costs	295	5,357	2,595	8,247
Debt payments	-	-	(7,079)	(7,079)
As of December 31, 2018	\$ 78,473	\$ 141,366	\$ 77,191	\$ 297,030
Proceeds from borrowings	-	7,000	-	7,000
Financing Costs	-	(238)	-	(238)
Accrued interest	2,175	4,716	1,862	8,753
Amortization of financing costs	73	5,485	2,052	7,610
As of March 31, 2019	\$ 80,721	\$ 158,329	\$ 81,105	\$ 320,155

As of March 31, 2019, the Company was in default of certain loan provisions contained in the Stream Agreement, the Term Facility and equipment financing facilities. As such, the stream, debt and associated derivatives are classified as current.

Amended and Restated Forbearance Agreement (A&R Forbearance Agreement)

The Company entered into the A&R Forbearance Agreement on December 21, 2018 with its senior lenders, stream financing providers and equipment financiers, pursuant to which they have agreed to: (a) continue to temporarily suspend all principal and interest payments due and payable (provided that interest shall accrue on all principal and interest during the forbearance period at a rate which is 2% per annum higher than the rate which would otherwise have been payable), and (b) continue to forbear from declaring or acting upon, or exercising default related rights or remedies under such creditor's financing agreement with respect to certain events of default, in each case, until the earlier of (a) June 30, 2019, (b) the occurrence of an additional event of default under such creditor's financing agreement, or (c) any breach by the Company of the A&R Forbearance Agreement. In January 2019 through an amendment to the Company's existing Term Facility Agreement ("Thirteenth Amending Agreement"), the senior lenders committed to make available up to \$18.6 million to fund the Company during the forbearance period and allow it to maintain a minimum unrestricted cash balance.

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.

A&R Stream Agreement

On January 15, 2019, the Company entered into an Amended and Restated Purchase and Sale Agreement (the "A&R Stream Agreement") with Osisko Bermuda Limited ("Osisko") and Resource Capital Fund VI L.P.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2019 and 2018

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

(“RCF”) (the “Purchasers”). This agreement amends and restates the purchase and sale agreement (gold and silver) that was originally entered on November 30, 2015 (the “Stream Agreement”).

Under the A&R Stream Agreement, the Purchasers have an option to make a third deposit (the “Third Deposit”) in an amount of \$8.0 million during the period commencing on the Term Facility B Maturity Date (as defined below) and ending 10 business days thereafter. The Third Deposit amount may be paid in part or full by applying any amounts owing to RCF and Osisko under Term Facility B. However, the Purchasers shall not have the option to make a Third Deposit if the Term Facility B Maturity Date occurs due to a change of control of Lydian Armenia or any guarantor under the A&R Stream Agreement and the buyer in connection with the change of control has purchased all of the stream obligations from the Purchasers.

If the Third Deposit is made, the A&R Stream Agreement will apply for the entire duration of the life of Amulsar, otherwise the term of the A&R Stream Agreement will remain same as that of the Stream Agreement.

Under the A&R Stream Agreement, Lydian Armenia shall sell to the Purchasers, and the Purchasers shall purchase from Lydian Armenia, the Designated Gold Percentage and the Designated Silver Percentage. These terms are defined as follows:

- The Designated Gold Percentage means prior to the Third Deposit Date, 6.75% of the number of ounces of refined gold produced from Amulsar, and following the Third Deposit Date (if any): (i) until such time as an aggregate of 165,000 ounces of refined gold have been delivered to the Purchasers, 6.75% of the number of ounces of refined gold produced from Amulsar, (ii) thereafter, until such time as an additional 35,000 ounces of refined gold have been delivered to the Purchasers, 2.70% of the number of ounces of refined gold produced from Amulsar, and (iii) thereafter, 2.3625% of the number of ounces of refined gold produced from Amulsar.
- The Designated Silver Percentage means prior to the Third Deposit Date, 100% of the number of ounces of refined silver produced from Amulsar, and following the Third Deposit Date (if any): (i) until such time as an aggregate of 805,000 ounces of refined silver have been delivered to the Purchasers, 100% of the number of ounces of refined silver produced from Amulsar, (ii) thereafter, until such time as an additional 190,000 ounces of refined silver have been delivered to the Purchasers, 40% of the number of ounces of refined silver produced from Amulsar, and (iii) thereafter, 35% of the number of ounces of refined silver produced from Amulsar.

Additionally, if the Third Deposit is made, Lydian will no longer be able to elect to reduce the amount of refined gold and refined silver to be delivered and sold by Lydian Armenia by 50% in accordance with the terms of the A&R Stream Agreement.

Term Facilities

The Company’s Term Facility agreement provided for \$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 (8.5% margin during the forbearance period). Principal plus interest will be paid through quarterly scheduled installments and a 30% cash sweep of excess cash flow beginning June 30, 2019 and continuing through maturity on September 30, 2021. In January 2019, all unutilized capacity was cancelled and replaced with a new Term Facility B pursuant to the Thirteenth Amending Agreement. The \$14.0 million

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cost overrun facility established as part of the Term Facility was also cancelled in January 2019 as part of the Thirteenth Amending Agreement.

Thirteenth Amending Agreement

On January 15, 2019, the Company also entered the Thirteenth Amendment to the Term Facility whereby: (a) Osisko was added as a lender, (b) all unfunded commitments under the Term Facility were cancelled, (c) all commitments under the cost overrun facility were cancelled, and (d) a new Term Facility B was made available to Lydian Armenia ("Term Facility B").

Term Facility B is for a total amount of \$18.6 million and available to be drawn in multiple advances through the earlier of (i) June 30, 2019, (ii) the date on which the A&R Forbearance Agreement terminates, and (iii) the date of change of control of Lydian Armenia or Lydian (the "Term Facility B Maturity Date").

All amounts advanced during December 2018 and January 2019 were deemed to have been advanced under the Term Facility B and the available commitment under the Term Facility B was reduced accordingly. For future advances under Term Facility B, the applicable percentages shall be 48.08% in respect of Orion, 34.37% in respect of Osisko and 17.55% in respect of RCF.

Subject to the A&R Forbearance Agreement, each advance under the Term Facility B bears an interest rate of 15% per annum. The default rate with respect to Term Facility B is 18.5% per annum.

As of March 31, 2019, Term Facility and Term Facility B draws totaling \$149.9 million had been received.

Equipment Financing

The Company entered into 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% (10.75% during the forbearance period) and there is a 2% commitment fee on any undrawn portion. Interest and commitment fees are payable quarterly and principal payments become payable quarterly beginning June 30, 2019. As of March 31, 2019, \$10.0 million was drawn on this facility. There were no principal or interest payments made during the three-months ended March 31, 2019. 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 is secured by certain mobile mining equipment. Interest is calculated based on LIBOR plus 4.5% (6.5% during the forbearance period) 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. The facility also requires a three-month principal and interest debt service reserve. As of March 31, 2019, \$28.4 million was drawn on this facility. There were no principal or interest payments made during the three-months ended March 31, 2019. Availability of funds is subject to satisfaction or waiver of certain conditions. The Company is precluded from utilizing any remaining availability by the A&R Forbearance Agreement.

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- 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% (4.95% during the forbearance period) 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 June 2019. As of March 31, 2019, \$48.0 million was drawn on this facility. There were no principal or interest payments made during the three-months ended March 31, 2019. No additional funds can be drawn under the ING Term Facility as the availability period has expired.

8. FINANCIAL INSTRUMENTS

The Company recognized certain financial instruments relating to the Financing Agreements including the stream liability, debt and derivatives as discussed in Note 7, Stream Liability and Debt. The classification of the derivative follows the Financing Agreements; the net gains and losses are presented on the Unaudited Consolidated Statements of Profit (Loss) and Comprehensive Profit (Loss). The derivatives were classified as current as of March 31, 2019. 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)				Gain (Loss)
	Stream	Offtake	Stream	Loan Fee	
	Prepayment Option	Agreement	Commodity Linked Repayment	Warrants	
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	(499)	5,052	3,769	284	\$ 8,606
Fair value at December 31, 2018	\$ 2,290	\$ (21,976)	\$ (8,300)	\$ (48)	
Change in fair value	(2,290)	6,552	2,035	48	\$ 6,345
Fair Value at March 31, 2019	\$ -	\$ (15,424)	\$ (6,265)	\$ -	

Sensitivity impact upon fair value at March 31, 2019:

10% increase in gold price ²	N/A	\$ (1,554)	\$ (8,062)	N/A	\$ (9,616)
10% increase in silver price ²	N/A	N/A	\$ (421)	N/A	\$ (421)
10% increase in 3-month LIBOR rate ²	N/A	\$ (12)	\$ (66)	N/A	\$ (78)

¹The 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.

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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 Facility (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:

	March 31, 2019	December 31, 2018
Warrants outstanding	5,000,000	5,000,000
Expected remaining life in years	0.15	0.40
Expected volatility - share price	127.0%	126.5%
CAD Stock price per share on valuation date	\$0.11	\$0.16
CAD Exercise price	\$0.39	\$0.39
CAD Risk free interest rate	1.765%	1.72%
CAD/USD Exchange rate	0.7494	0.7348
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 techniques applied to these estimates are more complex, and 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:

	March 31, 2019	December 31, 2018
Gold spot price per ounce	\$ 1,293	\$ 1,278
Silver spot price per ounce	\$ 15	\$ 15
Gold Future Curve (2024) L1 market observable	\$ 1,456	\$ 1,482
10-year risk free interest rate	2.43%	2.74%
3-month LIBOR rate	2.650%	2.832%
Commodity Inflation (dates past published forward curves)	2.44%	2.78%
Expected Gold Volatility	11.88%	13.31%

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. Management believes that it is more likely than not that the third deposit under the A&R Stream Agreement will be exercised by the purchasers and therefore the stream prepayment option has nominal value as of March 31, 2019.

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.

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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.

9. PROVISIONS

Reclamation provision

The provision for reclamation 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 March 31, 2019 related only to the rehabilitation of Amulsar mine areas affected by exploration and development activities.

Balance at December 31, 2017	\$	8,086
Change in timing of cashflows		(853)
Accreting and unwinding of discount		901
Foreign currency exchange		3
Balance at December 31, 2018	\$	8,137
Change in timing of cashflows		(1,161)
Accreting and unwinding of discount		216
Foreign currency exchange		(45)
Balance at March 31, 2019	\$	7,147

10. LEASE LIABILITIES

	March 31, 2019	December 31, 2018
Additions under adoption of IFRS 16	\$ 491	\$ -
Lease payments	(66)	-
Amortization of discount	19	\$ -
Balance at end of period	\$ 444	\$ -

These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 17% as of January 1, 2019. According to IFRS 16, each lease payment is allocated between the lease liability and the finance cost. The finance cost, or amortization of the discount on the lease liability, is charged to the Consolidated Statements of Profit (Loss) and Comprehensive Profit (Loss).

The Company has considered the net present value of the following lease payments when calculating the lease liability on January 1, 2019:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option;

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- Where a lease contains an extension option, the lease payments for the extension period were included in the calculation of the lease liability if the Company was reasonably certain that it would exercise the option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

No adjustments were required upon adoption of IFRS 16 for finance leases as the Company did not have any leases previously classified as such as of December 31, 2018.

On adoption of IFRS 16 on January 1, 2019 the right-of-use assets were measured at an amount equal to the lease liability, adjusted for lease deposits and accrued rent.

The current and noncurrent lease liabilities are shown in the table below:

	<u>March 31, 2019</u>
Current portion of lease liability	\$ 284
Non-current portion of lease liability	160
Total lease liability	<u>\$ 444</u>

The total lease liability recognized as at January 1, 2019 was \$0.5 million. The current portion of the lease liability is included with accounts payable and other current liabilities in the Consolidated Statement of Financial Condition. Interest expense on lease liabilities is now included within other expense (income), net in the Consolidated Statements of Profit (Loss) and Comprehensive Profit (Loss). Cash payments for the interest and principal portions of lease liabilities are shown as cash flows from financing activities in the Consolidated Statements of Cash Flows.

Until the end of 2018, payments made under operating leases were charged to the Consolidated Statements of Profit (Loss) and Comprehensive Profit (Loss) on a straight-line basis over the period of the lease and thus operating lease payments were fully included in calculations of earnings per share. On adoption of IFRS 16, only depreciation charged from right-of-use assets and interest expense on lease liabilities are now included in the Consolidated Statements of Profit (Loss) and Comprehensive Profit (Loss) and are included in calculations of basic and diluted earnings per share. Although there were these differences in accounting treatment as a result of adoption of IFRS 16, the adoption of IFRS 16 resulted in no change in the Company's basic and diluted earnings per share for the three-month period ended March 31, 2019.

Short-term lease payments and payments for leases of low-value assets are not included in the measurement of lease liabilities and are not shown in the Consolidated Statements of Financial Position in accordance with IFRS 16. These payments are shown within general and administrative expense or blockade costs, depending on the lease, and within the operating activities section of the Consolidated Statements of Cash Flows.

Practical expedients applied

In applying IFRS 16 for the first time, the Company has considered the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

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- The accounting for operating leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- The exclusion of low value leases (i.e., those with a value of less than \$5,000);
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and International Financial Reporting Interpretations Committee (“IFRIC”) 4 *Determining whether an Arrangement contains a Lease*.

The significant judgements, estimates, and assumptions made by management applied in the preparation of these financial statements, specifically as they relate to IFRS 16 *Leases*, primarily included evaluating the appropriate discount rate to use to discount the lease liability for each lease or groups of assets covered under leases, as well as determining the lease term, when the lease contained an extension option, and assessing if the Company was reasonably certain that it would exercise the extension option. Significant judgements, estimates, and assumptions over both of these factors would affect the present value of the lease liabilities upon adoption of IFRS 16, as well as the associated value of the right-of-use assets.

The table below analyzes the Company’s lease liabilities into relevant contractual maturity date groupings based on the remaining period at the Consolidated Statements of Financial Position date to the contractual maturity date of the lease. The amounts shown in the table below are the contractual undiscounted cash flows related to lease liabilities.

	Less than 6 Months	6 months to 1 year	1 year to 2 years	2 years to 5 years	Total Contractual Cash Flows	Carrying amount
Lease liabilities	\$ 132	\$ 132	\$ 208	\$ 55	\$ 527	\$ 444

The difference between the total contractual undiscounted cash flows related to lease payments to vendors and lessors and the carrying amount of the lease liability is the discount related to the lease liability.

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	4,203,900	1,265
Amount attributable to expired options	-	65
Shares outstanding, December 31, 2018	756,168,533	\$ 284,924
Amount attributable to expired options	-	899
Shares outstanding, March 31, 2019	756,168,533	\$ 285,823

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

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance as of December 31, 2017	5,000,000	0.39	1.40
Exercised	-	-	N/A
Expired	-	-	N/A
Balance at December 31, 2018	5,000,000	0.39	0.40
Exercised	-	-	N/A
Expired	-	-	N/A
Balance at March 31, 2019	5,000,000	0.39	0.15

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	10,131,764	\$ 0.37
Granted	9,223,789	0.43
Forfeited/Expired	(4,704,285)	0.40
Redeemed	(4,203,900)	0.38
Balance at December 31, 2018	10,447,368	\$ 0.40
Forfeited/Expired	(120,867)	0.40
Balance at March 31, 2019	10,326,501	\$ 0.40

During the three-months ended March 31, 2019 and 2018, \$0.1 million and \$0.4 million were included in employee benefits expense, \$nil and \$0.1 million were capitalized to development assets, and \$nil and \$nil were included in blockade costs, respectively.

Stock Option Plan

	Number of Options	Weighted Average Exercise Price (CAD)
Balance as of December 31, 2017	5,570,000	\$ 0.83
Expired	(270,000)	0.50
Balance as of December 31, 2018	5,300,000	\$ 0.84
Expired	(1,370,000)	0.80
Balance as of March 31, 2019	3,930,000	\$ 0.74

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The following summarizes the outstanding and exercisable share options under the employee share option plan as of March 31, 2019:

Range of exercise prices	Outstanding and exercisable options		
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price (CAD)
(CAD\$0-\$1.00)	2,990,000	0.93	\$ 0.63
(CAD\$1.01-\$2.00)	940,000	0.15	1.11
	<u>3,930,000</u>	<u>0.75</u>	<u>\$ 0.74</u>

13. 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-months ended March 31, 2019 blockade expenses of \$21.9 million relate to idle costs incurred during the blockade, including \$16.6 million of interest, \$1.0 million of labor and contractor costs, \$1.7 million of indirect costs, \$1.6 million of depreciation and amortization and \$1.0 million of professional fees.

14. EMPLOYEE SALARIES AND BENEFITS EXPENSE

	For the three months ended March 31,	
	2019	2018
Salaries and other compensation	\$ 965	\$ 741
Share-based compensation	80	383
	<u>\$ 1,045</u>	<u>\$ 1,124</u>

15. IMPAIRMENT OF MINERAL PROPERTY, PLANT AND EQUIPMENT

In accordance with the Company's accounting policy, non-current assets, including the Amulsar development asset, are reviewed at each reporting date to determine whether there are any indicators of impairment. An impairment is recognized when the carrying amount exceeds the recoverable amount.

At March 31, 2019, the Company determined that the recoverable amount of the Amulsar Gold Project was less than the carrying value. The recoverable amount was determined as the fair value less costs of disposal, using a discounted cash flow model, as such, the Company recognized an additional impairment loss of \$28.0 million.

The discounted future cash flow model includes management's estimates for the timing of future cash flows. Key assumptions include initial capital expenditures, future operating costs, future sustaining capital expenditures, recoverable reserves, timing of future production, discounted at the appropriate rate. The primary driver for the additional impairment loss was an additional delay in the commercial production start date compared to the start date expected as of December 31, 2018, resulting from the events disclosed in Note 1.

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Key assumptions for impairment testing at March 31, 2019 include:

- Discount rate of 17%
- Gold price \$1,300
- Silver price \$16

16. NET LOSS PER SHARE

	For the three months ended March 31,	
	2019	2018
Net loss	\$ (45,062)	\$ (4,196)
Weighted average shares - basic and diluted	756,168,533	754,136,256
Net loss per share - basic and diluted	\$ (0.06)	\$ (0.01)

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 was as follows:

	For the three months ended March 31,	
	2019	2018
Salaries and other compensation	\$ 623	\$ 386
Share-based compensation	65	227
	<u>\$ 688</u>	<u>\$ 613</u>

18. COMMITMENTS

Construction contracts

The Company had entered into various contracts for purchase of equipment and supply, construction, and other service associated with Amulsar. Due to the blockades, most construction contractors were terminated or suspended. As of March 31, 2019, the Company had \$0.3 million in committed contracts.

Land leases

The Company has multiple contracts for land use related to non-regenerative minerals at its Amulsar Gold Project which are outside of the scope of IFRS 16, *Leases*. The contracts are with three communities, Zaritap,

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Gorayq and Jermuk. All the contracts are either within close proximity to the mine site, or within the rock allocation area. These lands are necessary for the exploration or extraction of the mineralization at Amulsar. As of March 31, 2019, the Company had \$11.8 million in land use obligations, of which \$0.9 million are due in under one year, \$3.7 million in more than one year, but less than five years, and \$7.2 million in more than five years.

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 makes annual 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. In addition, Lydian Armenia is committed to invest annually AMD 61.0 million, or \$0.1 million 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

Contingent quarterly payment

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 March 31, 2019 and, therefore, are not recognized in the unaudited interim condensed consolidated financial statements.