LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

Contents

DIRECTORS
Mr. Russell Ball, Non-Executive Director and Chairman of the Board
Mr. Willan Abel, Non-Executive Director
Mr. Stephen J. Altmann, Non-Executive Director
Dr. Gillian Davidson, Non-Executive Director
Mr. Victor Flores, Non-Executive Director
Mr. Edward Sellers, Interim President & Chief Executive Officer

OFFICERS
Mr. Edward Sellers, Interim President & Chief Executive Officer
Mr. William Dean, Chief Financial Officer
Dr. Hayk Aloyan, Managing Director Lydian Armenia, CJSC

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Canada

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France

The accompanying consolidated financial statements, notes thereto, and other information in Management's Discussion and Analysis of Lydian International Limited and its subsidiaries (the "Company"), are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect Management's best estimates, judgments and policies that it believes appropriate in the circumstances.

The Company maintains a system of internal accounting controls that provides, on a reasonable basis, assurance that the financial information is relevant, reliable, accurate and that the Company's assets are appropriately accounted for and safeguarded.

The Board of Directors, principally through the Audit Committee, is responsible for ensuring Management fulfills its responsibilities for financial reporting and internal control. The Audit Committee is composed of three directors, all of whom are independent, and meets periodically with Management and the external auditors to review accounting, auditing, internal control, and financial reporting matters.

The consolidated financial statements have been audited by Grant Thornton LLP, Chartered Professional Accountants, Licensed Public Accountants who were appointed by the shareholders. The auditor's report outlines the scope of their examination and their opinion on the consolidated financial statements.

"Edward Sellers" (signed)
Edward Sellers
Interim President and Chief Executive Officer

"William Dean" (signed)
William Dean
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lydian International Limited

Opinion

We have audited the consolidated financial statements of Lydian International Limited ("the Company"), which comprise the consolidated statements of financial position as at December 31, 2019, and December 31, 2018, and the consolidated statements of profit (loss) and comprehensive profit (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the road blockades caused the construction activities to be suspended since June 22, 2018. 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. The Company has not been able to extend the forbearance agreements with these parties and filed for Companies' Creditors Arrangement Act (the "CCAA") protection. As stated in Note 1 in the consolidated financial statements, these events or conditions, along with the matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing these consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Irwin.

Signed "Grant Thornton LLP"

Toronto, Canada	Chartered Professional Accountants
March 4, 2020	Licensed Public Accountants

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in thousands of US Dollars)

	Note	As of December 31, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		$ 3,221	$ 3,386
Restricted cash	5	1,015	1,029
Other current assets	6	15,264	14,011
Total current assets		19,500	18,426
Non-current assets			
Mineral property, plant and equipment, net	7	27,993	355,833
Other non-current assets	8	5,167	25,284
Total non-current assets		33,160	381,117
TOTAL ASSETS		$ 52,660	$ 399,543
LIABILITIES			
Current liabilities			
Accounts payable and other current liabilities	9	$ 1,615	$ 4,349
Current deferred VAT payable		13,442	184
Stream liability and debt	10	354,378	297,030
Derivative liabilities	11	19,931	30,324
Current provisions	12	1,272	-
Total current liabilities		390,638	331,887
Non-current liabilities			
Provisions	12	3,180	8,137
Deferred VAT payable		723	14,051
Non-current portion of lease liabilities	13	67	-
Total liabilities		394,608	354,075
EQUITY			
Share capital	14	286,074	284,924
Employee share-based plan reserves		1,347	4,769
Translation of foreign operations		(18,479)	(18,479)
Accumulated deficit		(610,890)	(225,746)
Total equity		(341,948)	45,468
TOTAL LIABILITIES AND EQUITY		$ 52,660	$ 399,543
Going concern	1		
Commitments	25		
Contingencies	26		
Subsequent events	10, 23 &27		

On behalf of the Board of Directors:

"Russell Ball" (signed)
Russell Ball, Chairman of the Board

"Stephen Altman" (signed)
Stephen Altmann, Chairman of the Audit Committee

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

LYDIAN INTERNATIONAL LIMITED

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

(expressed in thousands of US Dollars)

	Note	For the year ended December 31, 2019	2018
Interest income		$ 83	$ 411
Total income		83	411
Dislocation-related expense	16	77,627	42,027
Employee salaries and benefits expense	17	2,030	5,132
General and administrative expense	18	2,504	3,483
Depreciation and amortization expense		71	33
Gain on financial instruments fair value, net	11	(10,076)	(8,606)
Impairment of mineral property, plant and equipment	19	315,398	92,700
Other expense, net	20	(96)	1,726
Total expense		387,458	136,495
Loss before income taxes		(387,375)	(136,084)
Income taxes	21	-	-
Net loss		$ (387,375)	$ (136,084)
Net loss per share - basic and diluted	22	$ (0.51)	$ (0.18)
Other comprehensive loss:			
Net loss		$ (387,375)	$ (136,084)
Other comprehensive profit:			
Currency translation adjustment		-	49
Total comprehensive loss		$ (387,375)	$ (136,035)

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

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of US Dollars)

	Note	For the year ended December 31, 2019	2018
Cash from operating activities			
Net loss		$ (387,375)	$ (136,084)
Adjustments for:			
Interest and other financing costs	10	53,548	21,869
Gain on financial instruments at fair value, net	11	(10,076)	(8,606)
Share-based compensation	15	(41)	1,235
Impairment of Mineral property, plant and equipment	19	315,398	92,700
Other operating write downs		1,331	1,454
Depreciation and amortization expense		6,293	3,270
Interest income		(83)	(411)
Other		801	65
Working capital changes:			
Change in other current assets		(300)	(241)
Change in accounts payable and accrued liabilities		(799)	1,565
Cash used in operations		(21,303)	(23,184)
Cash flows from investing activities			
Acquisition of mineral property, plant and equipment		(1,117)	(111,360)
Change in other assets		16,551	(27)
Interest income received		83	411
Other		41	29
Cash used in investing activities		15,558	(110,947)
Cash flows from financing activities			
Proceeds from borrowings		9,074	95,452
Financing costs		(300)	(4,226)
Debt repayments		(3,000)	(7,079)
Other		(232)	(421)
Cash provided by financing activities		5,542	83,726
Net decrease in cash and cash equivalents		(203)	(50,405)
Foreign exchange effect on cash		38	(146)
Cash and cash equivalents, beginning of year		3,386	53,937
Cash and cash equivalents, end of year		$ 3,221	$ 3,386

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

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(expressed in thousands of US Dollars)

		Reserves				
	Share Capital	Employee share option plan reserve	Restricted stock unit plan reserve	Translation of foreign operations	Accumulated deficit	Total
Balance as of December 31, 2017	$ 283,594	$ 2,635	$ 1,588	$ (18,528)	$ (89,662)	$ 179,627
Issue of new shares	1,265	-	(1,265)	-	-	-
Share based compensation	-	16	1,860	-	-	1,876
Attributable to expired options	65	(65)	-	-	-	-
Loss for the year	-	-	-	49	(136,084)	(136,035)
Balance as of December 31, 2018	$ 284,924	$ 2,586	$ 2,183	$ (18,479)	$ (225,746)	$ 45,468
Issue of new shares	$ 1,150	$ -	$ (1,150)	$ -	$ -	$ -
Share based compensation	-	-	(41)	-	-	(41)
Attributable to expired options	-	(2,231)	-	-	2,231	-
Loss for the year	-	-	-	-	(387,375)	(387,375)
Balance as of December 31, 2019	$ 286,074	$ 355	$ 992	$ (18,479)	$ (610,890)	$ (341,948)

The accompanying notes are an integral part of these 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, Francis Street, St Helier, Jersey JE2 4QE Channel Islands. Lydian's ordinary shares ("Ordinary Shares") were listed on the Toronto Stock Exchange ("TSX") throughout the financial year 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.

On December 23, 2019, Lydian filed for protection under the Canadian Companies' Creditors Arrangement Act ("CCAA") and was granted protection pursuant to an order of the Ontario Superior Court of Justice (the "Court"). Alvarez & Marsal Canada Inc. is acting as the Court appointed monitor. Subsequently, trading of the Company's Ordinary Shares was halted and a de-listing review by the TSX was initiated. This review resulted in the TSX deciding to delist the Company's Ordinary Shares on February 5, 2020. While under CCAA protection, creditors and others are stayed from enforcing any rights against Lydian. It is not possible to predict the outcome of matters related to the CCAA proceedings. As a result of the CCAA proceedings and other factors outlined below, a material uncertainty exists that cast significant doubt of Lydian's ability to continue as a going concern.

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 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 Project. Despite court rulings in favor of Lydian, a continuous illegal blockade at the Amulsar Project has been in place since June 22, 2018 causing construction activities to be suspended. Lydian has been dislocated from the Amulsar Project site and its access has been limited to contractor demobilization and winterization during the fourth quarter of 2018, and to one day of limited Police escorted access in the second quarter of 2019.

The Government of Armenia has not enforced the rule of law to remove the illegal blockades at the Amulsar Gold Project 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, the Company entered into four successive forbearance agreements with its senior lenders, stream financing providers and equipment financiers as detailed in Note 10. The ultimate agreement being the Fourth A&R Forbearance Agreement dated October 14, 2019, which expired on December 20, 2019. On December 20, 2019, the Company was unable to reach a consensus on terms with all of its lenders to extend the forbearance period, so the lenders' obligation 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 came to an end. To protect the assets and interests of the Company and its stakeholders, Lydian filed for protection under CCAA on December 23, 2019. The Company will operate under court protection until a defined course of action is approved by its lenders and the supervising court. Subsequently, trading of the Company's stock was halted and a de-listing review by the TSX was initiated. This review resulted in the TSX deciding to delist the Company's Ordinary Shares on February 5, 2020. While under CCAA protection, creditors and others are stayed from enforcing any rights against the Company. It is not possible to predict the outcome of matters related to the CCAA proceedings. As a result of the CCAA proceedings and other factors outlined below, a material uncertainty exists that may cast significant doubt on Lydian's ability to continue as a going concern.

As a result of the actions and inactions of the Government of Armenia, the Company has fully written off the carrying value of its investment in development assets at Amulsar. See Note 19 for additional information.

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 obtain additional funding from its senior lenders, or other lenders until a strategic alternative can be arranged, if at all, or to support the Company's legal alternatives. Dislocation-related expenses will continue to be incurred until the illegal blockades are removed and unrestricted access for all purposes is available to the Company. Should the Company gain access to the Amulsar site, it anticipates that 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.

There is no assurance that the Company will be able to meet its obligations with its current funding or when a defined course of action will be approved by its senior lenders and the CCAA court. There is a significant risk that the Company's default of its agreements with its senior lenders, stream financing providers, and equipment financiers, may ultimately result in one or more secured parties exercising rights to demand repayment and enforcing security rights, that may result in partial or full loss of the assets of the Company. While under CCAA protection, Lydian continues to engage with its senior lenders, stream financing providers, and equipment financiers to seek continuing funding for a range of strategic, financing, and legal alternatives.

Although in the past the Company was able to obtain sufficient financing through most of 2019 as provided in the Fourth A&R Forbearance Agreement, the Fifteenth Amending Agreement, and the A&R Stream Agreement, 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 a legal alternative. 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 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.

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

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, effective as of December 31, 2019, and interpretations of the International Financial Reporting Interpretations Committee.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as discussed in Note 11. All amounts are presented in thousands of US Dollars unless otherwise stated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its "subsidiaries"). Control is achieved where the Company is exposed to variable returns and can affect those returns through power to direct the relevant activities. All intercompany transactions and balances are eliminated in full upon consolidation.

Details of the Company's direct and indirect subsidiaries as of December 31, 2019 and 2018 are as follows:

Name of subsidiary	Place of incorporation or registration	Functional currency	Effective ownership interest	Principal activity
Lydian International Limited	Jersey	USD	100%	Intermediate holding company
Lydian Canada Ventures Corp.	Canada	USD	100%	Intermediate holding company
Lydian U.K. Corp.	United Kingdom	USD	100%	Intermediate holding company
Lydian U.S. Corporation	U.S.A.	USD	100%	Management company
Lydian International Holdings Ltd.	British Virgin Islands	USD	100%	Intermediate holding company
Lydian Resources Kosovo	British Virgin Islands	CAD	100%	Intermediate holding company
Lydian Resources Armenia	British Virgin Islands	USD	100%	Intermediate holding company
Lydian Armenia CJSC	Republic of Armenia	USD	100%	Mineral exploration and development
Lydian Resources Georgia Limited	Jersey	CAD	100%	Intermediate holding company
Georgian Resource Company LLC	Georgia	GEL	100%	Mineral exploration
Kavkaz Zoloto CJSC	Armenia	AMD	95%	Dormant company

Critical accounting estimates and judgments

The preparation of these audited consolidated 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 fair presentation have been included in these audited consolidated financial statements.

Certain events and transactions occurring during the years ended December 31, 2019 and 2018 required management to apply significant judgments or required the use of estimates, including:

Recovery of development assets and other long-lived assets – Management's review of impairment indicators included consideration of external and internal sources of information, including factors such as market, geopolitical and economic conditions, metal prices and forecasts, commercial viability, technical feasibility, and availability of permits.

The application of the Company's accounting policy for assessing impairment of development assets requires judgment. This includes the amount and timing of cash flows, reflecting estimates such as minable ore, additional mineral resources not included in minable ore, gold and silver prices, metal recovery rates, capital costs, operating costs, royalty and tax burdens, and the discount rate applied to future cash flows. Each of these considerations and judgments applied by management in completing the impairment assessments represent key sources of estimation uncertainty.

Fair value of financial instruments – Fair value of financial instruments that are not traded on an active market and embedded derivatives are determined using alternative valuation techniques.

The Company entered into several financing agreements (the "Agreements") that contained provisions giving rise to financial derivatives. These derivatives are accounted for at fair value and marked to market each reporting period thereafter. In determining fair value, management's judgment is required in respect of input variables of the financial model used for estimation purposes. These variables include such inputs as the Company's stock prices, stock price volatility, trading volumes of its warrants, risk-free rates of return, the credit-risk-premium, LIBOR terms and associated rates, availability of alternative financing, gold and silver price forward curves, gold and silver price volatilities, timing of future production, timing of draws upon financing facilities, timing of repayments of financing facilities, expected future LIBOR rates, timing of achieving commercial production, availability of positive cash flows from operations, and other factors. Management uses its judgment to select from a variety of valuation methods and utilizes assumptions deemed to be reflective of conditions at the end of each reporting period.

Asset retirement obligation – The Company's calculation of rehabilitation and closure provisions relies on estimates of costs required to rehabilitate and restore land to appropriate post-operation condition. Key assumptions are reviewed regularly and adjusted to reflect current assumptions used to calculate these estimates. Significant judgment is required in determining the provision for mine closure and rehabilitation as there are many transactions and other factors that will affect the ultimate costs required to rehabilitate the mine site. Factors that will affect this liability include future development and operating activity, changes in technology, price, and inflation rate, and interest rate changes.

Deferred Taxes – Until such time as the Company has certainty as to future profits, deferred tax assets and liabilities are not recognized.

Leases - Management's review of lease liabilities included consideration of external and internal sources of information, including factors such as the Company's incremental borrowing rate, fixed and variable lease payment amounts, residual value guarantees (if any), the exercise price of purchase options, lease extensions and termination penalties.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3. ACCOUNTING POLICIES

The accounting policies adopted, other than policies associated with changes in circumstances, are consistent with those of the previous financial year.

Foreign currency
The individual financial statements of each entity of the Company are prepared in the currency of the primary economic environment in which the entity operates (its "functional currency"). The consolidated financial statements are expressed in US Dollars, which is the presentation currency.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities which are denominated in foreign currencies are retranslated at rates prevailing at the reporting date and are recognized in the Consolidated Profit and Loss in the period in which they arise.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, at banks and other highly liquid short-term instruments with initial maturities of 90 days or less.

Restricted cash
Cash subject to restrictions that prevent its immediate use for general purposes is excluded from cash and cash equivalents. Restricted cash is separately reported as current or non-current depending on the expected disposition of the use restrictions.

Financial instruments (assets)
The Company's financial assets include:

- Cash and cash equivalents, as well as restricted cash, are recorded at fair value;
- Receivables that are initially recorded at fair value and subsequently measured at amortized cost less any impairment losses, and;
- Derivative assets that are originally recorded at fair value and subsequently remeasured at fair value with changes recorded through profit and loss.

Financial instruments (liabilities)
The Company's financial liabilities include:

- Accounts payable and accrued liabilities which are initially recorded at fair value and carried at amortized cost;
- Stream and debt which are initially recognized at fair value (net of transaction costs) and subsequently carried at amortized cost using the effective interest method, and;
- Derivative liabilities which are originally recorded at fair value and subsequently remeasured at fair value with changes recorded through profit and loss.

The Company classifies financing arrangements giving consideration to cash flow characteristics, contractual terms and relevant business objectives. Financing arrangements are classified as a financial liability when all or a significant portion of the commitment can be settled in cash and, in management's judgment, other considerations are insufficient to support an alternative accounting method.

Derivatives, other than those deemed to be swaps, are accounted for at fair value on the inception date. Swap derivatives have a zero-fair value at inception as the strike price of the underlying variable will be equal to the market price. After inception, all derivatives are adjusted to fair value as of the financial statement date, with the amount of adjustment being recognized currently as a gain or loss in the statement of profit and loss.

Financing costs
Costs incurred for debt and equity arrangements are recorded as financing costs. Such costs include legal and accounting fees, fees from independent engineers, printing costs, investment banker or registration fees, agency fees, arrangement fees, and the fair value of derivatives resulting from such debt and equity arrangements. As proceeds from financing transactions are received, the associated costs are allocated to and reclassified against such financing arrangements. Financing costs associated with debt are expensed over time as interest expense using the effective interest rate method, unless capitalized during construction period. In the event that a financing effort is abandoned, or unsuccessful, allocable financing costs are charged to expense.

Refundable Value Added Tax
Value added tax is paid to the Armenian government for the provision of certain goods and services. Refundable value added tax is recoverable at the time of export sale or earlier through certain legislated provisions. The Company classifies refundable VAT as a current asset if it is available for offset with the Company's payable VAT or refundable to the Company, all other refundable VAT is presented as a long-term asset.

Deferred Value Added Tax
Value added tax associated with import of certain equipment can be deferred for up to three years based on the Armenian regulation. On import, the Company records a long-term VAT receivable and a long-term VAT payable. Subsequently, amounts are presented as current if the amount recoverable is due within one year from the reporting date.

Exploration and evaluation assets
Exploration and evaluation expenditures comprise costs incurred directly in exploration and evaluation, as well as the cost of mineral licenses. Such costs are capitalized as exploration and evaluation assets subsequent to acquisition of the licenses and pending determination of the feasibility of the project and an affirmative construction decision by the Company.

Development costs
Expenditures are considered to be development costs when the work completed supports the future development of the property through the issuance of a technical report, in accordance with NI 43-101, and such development decision receives appropriate Board approvals. In addition to economic viability, the Board also considers the ability to obtain commercial financing and the Company's ability to execute within time and cost limitations. The Company's Amulsar Gold Project is considered a development asset, though its carrying value has been fully impaired as of December 31, 2019. See Note 19.

Development costs are capitalized and include costs directly related to bringing the mine to production. Development costs include:

- costs of exploration reclassified to development once economic recoverability is demonstrable and development is approved by the Board;
- environmental assessment and permitting costs;
- costs to acquire surface rights;
- construction in progress, including advances to contractors;
- asset restoration and rehabilitation costs;
- interest costs; and
- other costs directly associated with mine development.

Costs incurred during long periods of work stoppage are expensed as incurred, unless such costs provide a direct benefit toward project development. As assets are placed in service, costs are transferred to plant and equipment.

Restoration and reclamation
Provisions for reclamation and closure cost obligations represent management's best estimate of the present value of the future expenditures required to settle the obligation which reflects estimates of future costs, inflation rates, changes in foreign exchange rates and assumptions of risks associated with the future expenditures, using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Changes in the above factors can result in a change to the provision being recognized. An asset retirement obligation to incur decommissioning and reclamation costs generally occurs when an environmental disturbance is caused by exploration, evaluation or development. Costs are estimated on the basis of a closure plan and are subject to periodic review. Decommissioning and site reclamation costs are discounted to present value when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs will be charged through depreciation and/or depletion of the asset and unwinding of the discount on the provision.

Capitalized interest
Interest costs are capitalized for assets that require a significant amount of time to prepare for their intended use, which includes the Amulsar Gold Project. Capitalization ceases when the asset is available for use in the manner intended by management, or if active development is suspended. The amounts capitalized represents the borrowing costs specific to those borrowings used to finance construction of the Amulsar Gold Project.

Impairment of development assets
The Company reviews and evaluates the carrying value of its development assets for impairment when events or changes in circumstances create indicators that the carrying amounts of the related asset may not be recoverable. The identification of such events or changes and the performance of the assessment requires significant judgment. Furthermore, management's estimates of many of the factors relevant to completing this assessment, including gold and silver prices, foreign currency exchange rates, interest rates, mineral resources and mineral reserves, recovery rates, capital and operating costs and reclamation costs, also involve significant judgement and are subject to risks and uncertainties that may further affect the determination of the recoverability of the carrying amount.

If any such indicator exists, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In determining the recoverable amounts of the Company's development assets, the Company uses the fair value less costs to sell approach until such time as a value in use can be determined. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. When there is no binding sales agreement, fair value less costs to sell is estimated as the discounted future pre-tax, post royalty cash flows expected to be derived from the asset, less an amount for costs to sell estimated based on similar transactions. The inputs used in the fair value measurement constitute Level 3 inputs under the fair value hierarchy. When discounting estimated future cash flows, the Company uses a discount rate that would approximate what market participants would assign. Estimated cash flows are based on expected future production, metal selling prices, operating costs and capital costs.

If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit and loss for that period. Impairment is assessed at the level of cash-generating units ("CGUs"), which are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets.

Plant and equipment
Plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit and loss.

Depreciation of plant and equipment is based on the cost, less estimated residual value, of the asset on a straight-line basis over the estimated useful life and during construction is charged to development costs, otherwise to expense. Depreciation commences when the assets are substantially completed and ready for their intended use. The estimated useful lives are as follows:

Machinery and equipment	7 - 10 years
Motor vehicles	3 - 5 years
Office equipment	3 - 5 years

Impairment of plant and equipment
Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of plant and equipment at the date the impairment is reversed does not exceed what the cost less accumulated depreciation would have been had the impairment not been recognized.

Share-based compensation

Equity-settled awards, including share options and restricted stock units, are measured at fair value at the date of grant and recognized, over the vesting period, based on the Company's estimate of equity settled awards that will eventually vest, along with a corresponding increase in equity. Compensation costs for the Option Plan and RSU Plan are recorded in share-based compensation expense unless directly attributable to a development asset, in which case such costs are capitalized.

Under the Company's Stock Option Plan ("Option"), amounts related to expired and exercised options are transferred from share-based compensation reserve to share capital when the related expiration or exercise takes place.

Under the Company's Restricted Stock Unit Plan ("RSU"), awards can be either equity or cash settled upon vesting at the discretion of the Board of Directors. As the Company does not have a present obligation to settle in cash, the awards are treated as equity-settled instruments. The vesting terms for RSU's are specific to each individual award as determined and approved by the Board of Directors. The fair value of the RSU's are recognized over the vesting period specific to the grant. On redemption of the RSU's, the accumulated amount in the reserve is credited to share capital.

Dislocation-related expense

Costs incurred during long periods of work stoppage do not directly relate to bringing the mine to production and are therefore expensed.

Taxation

The Company has minimal taxable profit. Until such time as the Company has certainty as to future profits, deferred tax assets and tax liabilities are not recognized.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Net profit (loss) per share

Net profit (loss) per ordinary share is calculated by dividing the net profit (loss) attributed to shareholders for the period by the weighted average number of ordinary shares outstanding during the period. Diluted profit (loss) per ordinary share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares using the treasury stock method.

Segment information

The Company has identified its operating segments based on the internal reports that are reviewed and used by executive management (collectively, the Chief Operating Decision Maker, or "CODM") in assessing performance and in determining the allocation of resources. The CODM considers the business from a geographic perspective and assesses the performance of geographic segments based on measures of profit and loss as well as assets and liabilities. These measures include operating expenditures, expenditures on exploration and development, plant and equipment, non-current assets and total debt, if any.

The Company operates under a single geographic segment engaged in mineral exploration and development in the Caucasus region. Financial information is reported to the CODM on at least a monthly basis. As the operations comprise a single segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

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

4. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

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*. For additional detail, see Notes 7 and 13.

5. RESTRICTED CASH

As of December 31, 2019, the Company held $1.0 million of restricted cash related to the Ameriabank Term Facility. This cash was restricted until expenditures to purchase equipment for Amulsar were acceptable to the lender. See Note 27 for information on the subsequent sweep of this cash to pay down a portion of the Ameriabank Term Facility

6. OTHER CURRENT ASSETS

	As of	
	December 31, 2019	December 31, 2018
Deferred VAT receivable	$ 13,442	$ 184
Advances to vendors and other receivables	510	394
Refundable VAT	1,070	9,870
Government receivables	173	1,200
Derivative assets	-	2,290
Other	69	73
	$ 15,264	$ 14,011

Deferred value added tax ("VAT") is associated with the import of equipment into Armenia. The regulations allow the Company to defer VAT payments for up to three years from the date of import. The deferred VAT receivable has an equal and offsetting deferred VAT payable. The deferred VAT receivable will become recoverable upon the Company's export of a finished product.

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

See Note 11 for additional information about the derivative assets.

7. MINERAL PROPERTY, PLANT AND EQUIPMENT, NET

	Development Assets	Plant and Equipment: Cost	Plant and Equipment: Accumulated Depreciation	Total
Cost				
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	$ 304,531	$ 61,127	$ (9,825)	$ 355,833
Impairment	(297,507)	(24,634)	6,743	(315,398)
Adjustments and additions	(6,934)	920	-	(6,014)
Disposals	(90)	(172)	127	(135)
Depreciation and amortization	-	-	(6,293)	(6,293)
Balance at December 31, 2019	$ -	$ 37,241	$ (9,248)	$ 27,993

As discussed in Note 4, 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 $0.4 million are included as additions in plant and equipment as shown in the table above. For additional detail see Note 13.

See Note 19 for details on the development asset impairment.

8. OTHER NON-CURRENT ASSETS

	As of December 31, 2019	As of December 31, 2018
Deferred VAT receivable	$ 723	$ 14,051
Refundable VAT	3,096	9,701
Restricted reclamation deposit	1,348	1,532
	$ 5,167	$ 25,284

According to the Mining Right, Lydian Armenia CJSC (“Lydian Armenia’) is required to make installment payments to the Armenian government as a guarantee for post mining rehabilitation and government monitoring. These rehabilitation deposits will be refunded to the Company after the Armenian government accepts the post mine closure rehabilitation work.

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As of December 31, 2019	As of December 31, 2018
Accounts payable and accrued liabilities	$ 1,283	$ 3,548
Wage accruals	150	801
Current lease obligations	182	-
	$ 1,615	$ 4,349

See Note 13 for additional information on the lease obligations.

10. STREAM LIABILITY AND DEBT

	Stream Liability	Term Facilities	Equipment Financing	Total
Balance at December 31, 2017	$ 69,407	$ 71,436	$ 47,871	$ 188,714
Proceeds from borrowings	-	61,896	33,556	95,452
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	-	9,074	-	9,074
Financing Costs	-	(300)	-	(300)
Accrued interest	8,872	19,244	7,407	35,523
Amortization of financing costs	295	11,404	4,352	16,051
Debt payments	-	-	(3,000)	(3,000)
As of December 31, 2019	$ 87,640	$ 180,788	$ 85,950	$ 354,378

As of December 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.

Forbearance Agreements

Fourth Amended and Restated Forbearance Agreement ("Fourth A&R Forbearance Agreement")
The Company entered into four successive forbearance agreements with its senior lenders, stream financing providers and equipment financiers (as detailed below). The ultimate agreement being the Fourth Amended and Restated Forbearance Agreement dated October 14, 2019 which expired on December 20, 2019. On December 20, 2019 the Company was unable to reach a consensus on terms with all of its lenders to extend the forbearance period, so the lenders' obligation to forbear from declaring or acting upon, or exercising default related rights or remedies under each creditor's financing agreement with respect to certain events of default came to an end. To protect the assets and interests of the Company and its stakeholders, Lydian filed for protection under the CCAA on December 23, 2019. The Company will operate under Court protection until a defined course of action is approved by its lenders and the Court. Subsequently, trading of Ordinary Shares was halted and a de-listing review by the TSX was initiated. This review resulted in the TSX deciding to delist the Company's Ordinary Shares on February 5, 2020.

The Company entered into the Fourth A&R Forbearance Agreement on October 14, 2019 with its senior lenders, stream financing providers and equipment financiers, pursuant to which they agreed to continue to forbear until the earlier of (a) December 20, 2019, (b) the occurrence of an additional event of default under such creditor's financing agreement, or (c) any breach by Lydian of the Fourth A&R Forbearance Agreement. Under the Fourth A&R Forbearance Agreement, Lydian Armenia followed the strict budget prescribed in an itemized schedule which focuses on implementing a conservation plan and strategy anchored in asset stewardship, value preservation and site recovery, and implementing a strategic transaction. Advances from Term Facility B were subject to Lydian's progression in implementing certain strategic alternatives.

Third Amended and Restated Forbearance Agreement ("Third A&R Forbearance Agreement")
The Company entered into the Third A&R Forbearance Agreement on October 1, 2019 with its senior lenders, stream financing providers and equipment financiers, pursuant to which they agreed to continue to forbear until the earlier of (a) October 11, 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 Third A&R Forbearance Agreement.

Second Amended and Restated Forbearance Agreement ("Second A&R Forbearance Agreement")
The Company entered into the Second A&R Forbearance Agreement on July 1, 2019 with its senior lenders, stream financing providers and equipment financiers, pursuant to which they agreed to continue to forbear until the earlier of (a) September 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 Second A&R Forbearance Agreement.

Pursuant to the Second A&R Forbearance Agreement, on July 8, 2019 the Company issued 23,036,136 warrants to AB Svensk Exportkredit and 4,746,324 warrants to Ameriabank CJSC (collectively, the "Forbearance Warrants"), which represented 3.5% of the Company's issued and outstanding ordinary shares (on a fully diluted basis) as of July 1, 2019. The Forbearance Warrants are ordinary share purchase warrants, with each warrant being exercisable for one ordinary share of the Company. The Forbearance Warrants have a term of 5 years with an exercise price of CAD $0.1495, the holders will have the ability to exercise the Forbearance Warrants on a cashless basis. Because the Forbearance Warrants have a conversion price in a currency other than the Company's functional currency, they represent a financial instrument and are measured at fair value on a recurring basis. See Note 11 for the inputs used for calculating the value.

Also pursuant to the Second A&R Forbearance Agreement, the Company made principal payments of $1.0 million on July 8, 2019 and $2.0 million on September 30, 2019, on the Cat Term Facility.

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.

Amended and Restated Purchase and Sale Agreement ("A&R Stream Agreement")
On January 15, 2019, the Company entered into the A&R Stream Agreement with Osisko Bermuda Limited ("Osisko") and Resource Capital Fund VI L.P. ("RCF" or 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, (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 was 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). In January 2019, as part of the Thirteenth Amending Agreement, all unutilized capacity under the Term Facility and the $14.0 million Cost Overrun Facility, were cancelled and replaced with a new Term Facility B ("Term Facility B"). However, the Forbearance period ended on December 20, 2019. The 2% premium over the rates which would otherwise have been payable also ceased. As a result, and pursuant to individual loan agreement terms, on December 21, 2019 the Company began using the default rates as follows.

- For the Term Facility, Libor plus 10%, and
- For Facility B 18.5%.

Payments are scheduled to be paid through quarterly scheduled installments with a 30% cash sweep of excess cash flow through maturity on September 30, 2021.

Thirteenth Amendment to the Term Facility ("Thirteenth Amending Agreement")
On January 15, 2019, the Company entered the Thirteenth Amending Agreement 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 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 in December 2018 and during 2019 were deemed to have been advanced under the Term Facility B and the remaining available balance 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 plus an additional 2% during the forbearance period. The default rate with respect to Term Facility B is 18.5% per annum.

Fourteenth Amendment to the Term Facility ("Fourteenth Amending Agreement")
On July 1, 2019, the Company entered the Fourteenth Amending Agreement whereby the lenders agreed to extend the availability period and the maturity date under the Company's existing Term Facility B through the earlier of (i) September 30, 2019, (ii) the date on which the Second Amended and Restated Forbearance Agreement terminates, and (iii) the date of change of control.

Fifteenth Amendment to the Term Facility ("Fifteenth Amending Agreement")
On October 1, 2019, the Company entered the Fifteenth Amending Agreement whereby the lenders agreed to extend the availability period and the maturity date under the Company's existing Term Facility B through the earlier of (i) December 20, 2019, (ii) the date on which the Second Amended and Restated Forbearance Agreement terminates, and (iii) the date of change of control.

As of December 31, 2019, Term Facility and Term Facility B draws totaling $152.0 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 for any due and postponed payments). All scheduled principal and interest payments were postponed in accordance with the Forbearance Agreements. As of December 31, 2019, $10.0 million was drawn on this facility. There were no principal or interest payments made during the year ended December 31, 2019. Effective July 1, 2019, no additional funds are available under the Ameriabank Term Facility and the 2% commitment fee on any undrawn portion has been eliminated. As of January 8, 2020, the 2% forbearance premium ceased and the default rate of Libor plus 12.25% commenced.

- 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, which ended on December 20, 2019) 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 December 31, 2019, $28.4 million was drawn on this facility. Principal payments of $3.0 million were made during the year ended December 31, 2019. No additional funds can be drawn under the Cat Term Facility as the availability period has expired. On December 21, 2019 the Company began using the default rate of LIBOR plus 6.5%.

- 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, which ended on December 20, 2019). All scheduled principal and interest payments have been postponed in accordance with the Forbearance Agreements. As of December 31, 2019, $48.0 million was drawn on this facility. There were no principal or interest payments made during the year ended December 31, 2019. No additional funds can be drawn under the ING Term Facility as the availability period has expired. On December 21, 2019 the Company began using the default rate of LIBOR plus 4.95%.

11. FINANCIAL INSTRUMENTS

The Company recognized certain financial instruments relating to the Financing Agreements including the stream liability, debt and derivatives as discussed in Note 10, Stream Liability and Debt. The classification of the derivative follows the Financing Agreements. The derivatives were classified as current as of December 31, 2019. None of these financial instruments are held for trading and the Company does not currently engage in hedge activities.

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

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)				
	Stream Prepayment Option	Offtake Agreement	Stream Commodity Linked Repayment	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	(499)	5,052	3,769	284	$ 8,606
Fair value at December 31, 2018	$ 2,290	$ (21,976)	$ (8,300)	$ (48)	
Fair value at issuance	-	-	-	(1,973)	
Change in fair value	(2,290)	11,840	(1,495)	2,021	$ 10,076
Fair value at December 31, 2019	$ -	$ (10,136)	$ (9,795)	$ -	
Sensitivity impact upon fair value at December 31, 2019:					
10% increase in gold price[2]	N/A	$ (1,014)	$ (5,178)	N/A	$ (6,192)
10% increase in silver price[2]	N/A	N/A	$ (605)	N/A	$ (605)
10% increase in 3-month LIBOR rate[2]	N/A	$ 16	$ 319	N/A	$ 335

[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 - The fair value and carrying value of debt is the same for all reported periods.

Level 2 Fair Value Estimates - The fair value of the warrants was estimated using Level 2 criteria. The warrants issued in connection with the Term Facility (Loan Fee - Warrants) and the Second A&R Forbearance Agreement (Forbearance Warrants) are not trading instruments, therefore, the use of a pricing model was deemed appropriate.

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

Inputs used for calculating the fair value of the warrants included:

	Forbearance - Warrants		Loan Fee - Warrants
	December 31, 2019	July 8, 2019	December 31, 2018
Warrants outstanding	27,782,460	27,782,460	5,000,000
Expected remaining life in years	4.52	5.00	0.40
Expected volatility - share price	86.8%	80.8%	126.5%
CAD Stock price per share on valuation date	-	$0.15	$0.16
CAD Exercise price	$0.15	$0.15	$0.39
CAD Risk free interest rate	1.70%	1.41%	1.72%
CAD/USD Exchange rate	-	0.7639	0.7348
Expected dividend per share	$Nil	$Nil	$Nil

Level 3 Fair Value Estimates - Fair value of the derivatives, other than the warrants, were estimated using Level 3 criteria. The financial modelling 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:

	December 31, 2019	December 31, 2018
Gold spot price per ounce	$ 1,520	$ 1,278
Silver spot price per ounce	$ 18	$ 15
Gold Future Curve (L1 market observable)	$ 1,631	$ 1,482
10-year risk free interest rate	1.91%	2.74%
3-month LIBOR rate	1.92%	2.83%
Commodity Inflator (dates past published forward curves)	2.21%	2.78%
Expected Gold Volatility	10.79%	13.31%

The initial fair value of the stream liability and prepayment option were based on a Monte Carlo Simulation of correlated spot gold, spot silver, and similar debt yields of mining companies. 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 December 31, 2019. The current value of the stream agreement was based on a discounted cash flow analysis using forward market prices for gold, silver, and Libor.

The offtake agreement was valued using a Black-Scholes analysis. 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.

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

12. PROVISIONS

Current – Contract closure provision

In November 2019, the Company entered into an amicable agreement to cancel its long-term rental contract for employee accommodation in Jermuk, Armenia. The agreement provided for an immediate payment of $0.2 million and a final closure payment on June 30, 2020, of $1.3 million.

Noncurrent – 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 December 31, 2019 relates only to the rehabilitation of Amulsar mine areas affected by exploration and development activities.

As of December 31, 2017	$	8,086
Change in timing of cashflows		(853)
Accreting and unwinding of discount		901
Foreign currency exchange		3
As of December 31, 2018	$	8,137
Change in estimate		(3,301)
Change in timing of cashflows		(1,161)
Change in inflation rate		(1,272)
Accreting and unwinding of discount		716
Foreign currency exchange		61
As of December 31, 2019	$	3,180

At the end of each year, the Company reviews cost estimates and assumptions used in the valuation of environmental provisions. Changes in these cost estimates and assumptions have a corresponding impact on the carrying value of the obligation. The primary factors that can cause expected future cash flows to change are material changes in reserve estimates and the life-of-mine plan, and changes in laws and regulations governing the protection of the environment. The environmental provision established for reclamation and closure cost obligations represents the present value of rehabilitation costs for Amulsar.

For the year ended December 31, 2019, the Company updated the reclamation and closure cost obligation for Amulsar. The update was prepared based on management and third-party estimates. The total undiscounted expenditures adjusted for inflation are estimated at $11.7 million as of December 31, 2019. The critical assumptions used in the updated estimate include the expected costs to be incurred up to the year 2038, the timing of those expenditures, the average inflation rate of 2.5% and the discount rate of 9.0% used to determine net present value. The estimates are based on the Armenia inflation rate and the Central Bank of Armenia treasury bond rate. See Note 8 for required rehabilitation prepayments to the Government of Armenia.

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

13. LEASE LIABILITIES

	December 31, 2019	December 31, 2018
Additions under adoption of IFRS 16	$ 423	$ -
Lease payments	(233)	-
Amortization of discount	56	-
Foreign currency exchange	3	-
Balance at December 31, 2019	$ 249	$ -

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;
- 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:

	December 31, 2019	December 31, 2018
Current portion of lease liability	$ 182	$ -
Non-current portion of lease liability	67	-
Balance at December 31, 2019	$ 249	$ -

The total lease liability recognized as at January 1, 2019 was $0.4 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 dislocation-related expenses and 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 year ended December 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 dislocation-related expense, 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;
- 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.

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

	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	$ 123	$ 94	$ 62	$ -	$ 279	$ 249

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.

14. 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
Shares issued under RSU Plan	3,848,488	1,150
Shares outstanding, December 31, 2019	760,017,021	$ 286,074

The Company's warrants as of December 31, 2019 consist of Forbearance Warrants which expire on July 8, 2024. Certain warrants issued by the Company in 2016 expired in May 2019. The total outstanding warrants are shown below:

	Number of Warrants	Weighted Average Exercise Price (CAD)
Balance as of December 31, 2017	5,000,000	$ 0.39
Expired	-	-
Balance as of December 31, 2018	5,000,000	$ 0.39
Issued	27,782,460	0.15
Expired	(5,000,000)	(0.39)
Balance as of December 31, 2019	27,782,460	$ 0.15

15. SHARE-BASED COMPENSATION

Restricted Stock Unit Plan

On June 23, 2016, the shareholders approved the Company's Restricted Stock Unit ("RSU") Plan. Under the RSU Plan, awards can be either cash or equity settled upon vesting at the discretion of the Board of Directors. As the Company does not have a present obligation to settle in cash, the awards are treated as equity settled instruments and measured at fair value at the date of grant and recorded in equity. The associated compensation cost is recorded in share-based compensation expense unless directly attributable to development assets.

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

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

	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 as of December 31, 2018	10,447,368	$ 0.40
Granted	-	-
Forfeited/Expired	(2,624,170)	0.41
Redeemed	(3,848,488)	0.40
Balance as of December 31, 2019	3,974,710	$ 0.39

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	(3,670,000)	0.98
Balance as of December 31, 2019	1,630,000	$ 0.52

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

	Outstanding and exercisable options		
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price (CAD)
(CAD$0-$1.00)	1,630,000	0.46	$ 0.52
(CAD$1.01-$2.00)	-	-	-
	1,630,000	0.46	$ 0.52

For share-based compensation during the years ended December 31, 2019 and 2018, $nil and $1.0 million were included in employee benefits expense. For the same periods, $nil and $(0.2) million were included in dislocation-related expense. During the years ended December 31, 2019 and 2018, $nil and $0.6 million were capitalized to development assets, respectively.

16. DISLOCATION-RELATED 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 Gold Project. Access to Amulsar has been blocked since June 2018. During the years ended December 31, 2019 and 2018, dislocation-related expenses consisted of the following:

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

	For the year ended December 31,	
	2019	2018
Interest and financing costs	$ 53,582	$ 21,367
Depreciation and Accretion	6,938	3,700
Other (Indirects/Site G&A)	5,827	4,645
Labor costs	5,392	8,370
Legal & Consulting	5,068	2,791
Standby, demobilization & winterization	820	1,154
	$ 77,627	$ 42,027

17. EMPLOYEE SALARIES AND BENEFITS EXPENSE

	For the year ended December 31,	
	2019	2018
Salaries and other compensation	$ 1,902	$ 4,135
Share-based compensation	128	997
	$ 2,030	$ 5,132

18. GENERAL AND ADMINISTRATIVE EXPENSE

	For the year ended December 31,	
	2019	2018
Professional fees	$ 922	$ 1,340
Directors and officer insurance	975	112
Travel	269	696
Investor and public relations	92	168
Consulting and contractors	-	451
Other	246	716
	$ 2,504	$ 3,483

19. 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 December 31, 2019, the Company determined that the recoverable amount of the Amulsar Gold Project was less than the carrying value. For the impairment, the Company separately evaluated what it considers to be its significant saleable fixed assets, the Mine Fleet and the Mine Camp. The Company believes that the Cat Term Facility loan value approximates the recoverable value of its fleet of large-scale vehicles and mining equipment manufactured by Caterpillar of $26.0 million. Furthermore, the Company believes that the recoverable value of the Mine Camp is its salvage value of $1.7 million. The remainder of the Plant and Equipment is primarily furniture and fixtures at the Company’s corporate offices

The recoverable amount of the remaining Development Asset and Plant and Equipment 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 $315.4 million, primarily resulting from the development asset being completely written off.

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

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. Key assumptions for impairment testing include:

- Discount rate of 18%
- Gold price $1,400

20. OTHER (INCOME) EXPENSE, NET

	2019	2018
Write down of asset carrying value	$ -	$ 771
Disposal of development assets	49	-
Write off deferred financing costs	-	683
Loss (gain) on foreign currency	(103)	288
Other income	(42)	(16)
	$ (96)	$ 1,726

21. INCOME TAXES

The Company reported current income tax expense of $nil for the year ended December 31, 2019 in the consolidated statements of profit and loss.

The income tax expense differs from that computed by applying the applicable statutory rate before taxes as follows:

	For the year ended December 31,	
	2019	2018
Accounting (loss) for the year	$ (387,375)	$ (136,084)
Applicable tax rate	20.00%	20.00%
Income tax expense (benefit) at statutory rate	$ (77,475)	$ (27,217)
Increase (decrease) attributable to:		
Foreign tax rate differential	4,062	1,756
Tax-exempt and non-deductible items	7,941	3,000
Change in deferred tax assets not recognized	65,472	22,460
Other permanent differences	-	1
Income tax expense	$ -	$ -

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

The Company has not recognized deferred taxes in its consolidated statement of financial position for the following amounts of deductible (taxable) temporary differences and net operating loss carryforwards:

	For the year ended December 31, 2019
Net operating losses	$ 26,041
Mineral property, plant and equipment	396,684
Other	2,621
Total for which deferred taxes have not been recognized	425,346

As of December 31, 2019, the Company had estimated available Armenian net operating loss carryforwards of AMD 12 billion which expire between 2020 and 2024. Management believes that sufficient uncertainty exists regarding the realization of the deferred tax assets associated with these net operating loss carryforwards such that they have not been recognized in the consolidated statements of financial position. The tax benefits not recognized reflect management's assessment regarding the future realization of these tax assets and estimates of future earnings and taxable income as of December 31, 2019.

22. NET LOSS PER SHARE

	For the year ended December 31, 2019	2018
Net loss	$ (387,375)	$ (136,084)
Weighted average shares - basic and dilutive	758,293,660	755,208,634
Net loss per share - basic and dilutive	$ (0.51)	$ (0.18)

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.

23. FINANCIAL RISK MANAGEMENT

As of December 31, 2019, the Company's financial instruments consist of cash and cash equivalents, restricted cash, other receivables, the rehabilitation prepayment, accounts payable, accrued liabilities, debt and derivative contracts. The Company estimates that the fair values of these items approximate their carrying values at December 31, 2019 and December 31, 2018.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below.

Capital Management

The Amulsar Gold Project has not yet reached production and the Government of Armenia's failure to take action in relation to the illegal blockades at the Amulsar site has prevented the Company from completing construction at Amulsar. As described in Note 10, on December 20, 2019, the Company was unable to reach a consensus on terms with all of its lenders to extend the forbearance period, so the lenders obligation 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 came to an end. Lydian filed for protection under Canada's CCAA on December 23, 2019 and has been operating under Court supervision until a defined course of action is approved by its lenders and the Court. Subsequently, trading of the Ordinary Shares was halted and on February 5, 2020, the Ordinary Shares were delisted from the TSX. As a result, the Company has been unable to raise additional capital needed to continue operations. The Company may attempt to incur additional debt until a strategic alternative can be arranged or dispose of the assets.

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

Capital is comprised of the aggregate of total equity attributable to owners, accounts payable and accrued liabilities, stream liability and debt. As of December 31, 2019, and December 31, 2018, the Company's equity was $(341.9) million and $45.4 million, respectively. Accounts payable and other current liabilities was $1.6 million and $4.3 million, respectively. Stream liability and debt, net of unamortized debt issuance costs, was $354.4 million and $297.0 million, respectively.

Financial risk management
The Company has exposure to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk from its use of financial instruments. This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk.

Market risk
Market risk is the risk that changes in market factors, such as foreign exchange rates, interest rates or commodity prices, will affect the value of the Company's financial instruments.

(i) Currency Risk - Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the United States dollar and its primary operations are in Armenia.

The Company's net assets and liabilities are predominately held in US dollars, Armenian drams, Canadian dollars and the Euro. The sensitivity analysis below indicates an influence on net income where the US dollar strengthens 10% against the relevant currency, resulting in a loss of foreign currency exchange. If the US dollar weakens, an opposite impact on net income would be realized.

	For the year ended December 31,	
	2019	2018
Armenian dram	$ (129)	$ (1,224)
Canadian dollar	$ 51	(87)
	$ (78)	$ (1,311)

The Company's currency risk policy is to hold funds primarily in the US Dollar, with funds held in the Armenian dram, the Canadian Dollar and the Euro roughly in proportion to expected future expenditure over the next quarter.

(ii) Interest rate risk - Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and assets. The Company's exposure to interest rate fluctuations is due primarily to its long-term debt, which have interest rates based on LIBOR. The Company has not entered into any agreements to hedge against unfavorable changes in the LIBOR rate. The Company evaluates, on an ongoing basis, opportunities to hedge its interest rate exposure on long-term debt.

Advances from the Term Facility bear interest at LIBOR plus 6.5% (subject to a minimum of 1%) and advances from Ameriabank Term Facility bear interest at LIBOR plus 8.75%. Advances under the ING Term Facility bear interest at LIBOR plus 2.95% and advances under the Cat Term Facility bear interest at LIBOR plus 4.5%. As of December 31, 2019, the Company had defaulted on certain loan agreements. As discussed in Note 10, the Fourth Amended and Restated Forbearance Agreement dated October 14, 2019 expired on December 20, 2019. Effective December 21, 2019, all borrowings are subject to the default interest rate specified in the individual loan agreements.

Sensitivity to a 1% change in interest rates for debt with all other variables held constant as of December 31, 2019, would affect the Consolidated Statements of Profit and Loss and Comprehensive Profit and Loss by $3.3 million in 2019 and $2.9 million in 2018.

The Company deposits cash into fully liquid bank business accounts. As such, the Company does not consider its interest rate risk exposure to be significant as of December 31, 2019 and 2018 with respect to its cash and cash equivalents and restricted cash positions.

(iii) Commodity price risk - The Company is subject to commodity price risk from fluctuations in the market prices for gold and silver. Commodity price risks are affected by many factors that are outside the Company's control including global or regional consumption patterns, the supply of and demand for metals, speculative activities, the availability and costs of metal substitutes, inflation and political and economic conditions. There is no assurance that a profitable market will exist for gold and silver produced by the Company.

The financial instruments impacted by commodity prices are the embedded derivatives related to the Stream Agreement and the Offtake Agreement. See Note 11.

As of December 31, 2019, no gold or silver ounces had been delivered under these contacts. See Note 11 for the impact of a 10% appreciation or depreciation of gold or silver prices on the embedded derivatives.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company's credit risk is primarily liquid financial assets including cash and restricted cash. The Company has a concentration of cash at a major Canadian bank; however, management considers its credit risk on cash and cash equivalents to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

As the Company has no revenue or trade receivables, management considers this credit risk as low. Advances are paid to major suppliers primarily relating to local construction companies for the development of the Amulsar Gold Project. Payment of these deposits is considered by management on a case by case basis. The VAT receivables and rehabilitation pre-payments are with the Republic of Armenia. All but $4.2 million of the refundable VAT has been received by the Company as of December 31, 2019. The remainder of the refundable VAT is expected to be received in future periods.

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

The below table shows the Company's balances:

	For the year ended December 31,	
	2019	2018
VAT receivables	$ 4,166	$ 33,806
Restricted reclamation deposit	1,348	1,532
Advances to contractors	510	80
	$ 6,024	$ 35,418

During the years ended December 31, 2019 and 2018, there were no material impairment provisions required for any of the financial assets. There are no material financial assets that the Company considers past due. The carrying amount of financial assets recorded in the consolidated financial statements represents the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity has been adversely affected as its access to the capital and debt markets have been hindered. During 2017 and through October 2018, the Company relied on shareholders, advances under the stream, and debt funding to finance its operations and development of the Amulsar Gold Project. Due to the illegal blockades, the Company has not been able to access the Amulsar Gold Project site since June 2018 and as such, construction has been suspended and access to advances under its existing debt facilities have been restricted. The Company is in default of certain provisions of its financing agreements as of December 31, 2019, and as a result, there can be no assurance that the Company will be able to settle borrowings and other long-term liabilities. To protect the assets and interests of the Company and its stakeholders, Lydian filed for protection under the CCAA on December 23, 2019. The Company will operate under Court protection until a defined course of action is approved by its lenders and the Court. Subsequently, trading of Ordinary Shares was halted and a de-listing review by the TSX was initiated. This review resulted in the TSX deciding to delist the Company's Ordinary Shares on February 5, 2020.

The Company will require additional funds from other sources necessary to meet its obligations. There is no assurance that the Company will be able to arrange any additional sources of funding, therefore liquidity risk is present until such a time as additional funding is arranged.

The Company's cash and cash equivalents are held in fully liquid bank accounts which are available on demand by the Company.

The Company's financial obligations consist of accounts payable and accrued liabilities, the stream liability, debt, and a provision for restoration and rehabilitation. The stream liability consists of a defined delivery obligation of ounces of gold and silver (6.75% of refined gold ounces up to an aggregate 142,454 ounces and 100% of refined silver ounces, up to an aggregate of 694,549 ounces) over an estimated ten years. See Note 10 for additional information.

As of December 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, Term Facility and equipment financing facilities are shown as due within one year. The maturity schedule as of December 31, 2019 is as follows:

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

	For the year ended December 31, 2019			
	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$ 1,615	$ -	$ -	$ 1,615
Debt and interest	354,378	-	-	354,378
Provisions	-	-	3,180	3,180
	$ 355,993	$ -	$ 3,180	$ 359,173

Fair value of financial assets and liabilities

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). See Note 11.

24. 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 party transactions primarily consist of compensation paid to members of the Board and executive management personnel. The compensation is comprised of Board fees, employee salaries, share-based long-term incentive plans, employee benefits and pension costs. One member of the Board has a contractual entitlement with the Company for payment of the remainder due of an annual retainer in the event the director's appointment is terminated other than for cause. None of the Board members are entitled to any other termination benefits, nor are they entitled to pension benefits.

Compensation awarded to key management was as follows:

	For the year ended December 31,	
	2019	2018
Salaries and other compensation	$ 2,585	$ 2,297
Share-based compensation	133	941
	$ 2,718	$ 3,238

On August 9, 2019, a non-material subsidiary of the Company entered into a one-year, interest free loan for $0.1 million with a party related to a member of executive management. As of December 31, 2019, the loan is classified as accounts payable and other current liabilities.

25. 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, all the construction contractors were terminated or suspended.

Leases

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, 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 December 31, 2019, the Company had $11.3 million in land use obligations, of which $0.9 million are due in under one year, $3.6 million in more than one year, but less than five years, and $6.8 million in more than five years.

Software Leases

The Company leases its accounting software through a software-as-a-service contract which is outside the scope of IFRS 16, Leases. The lease is $0.04 million a year and expires in March 2022.

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. 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 (a.k.a., restricted reclamation deposit) will be refunded to the Company after mine closure when rehabilitation is completed and accepted by the Armenian government. For additional detail see Note 8.

26. 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 December 31, 2019 and, therefore, are not recognized in the consolidated financial statements.

Taxes
The taxation system in Armenia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by the tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create substantially more tax risks in Armenia than in other developing countries. The Company believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, however, the relevant authorities may have differing interpretations and the effects could be significant.

Environmental matters
The Company is of the opinion that it has met the Government of Armenia's requirements concerning environmental matters and, therefore, believes that the Company has adequately provided for environmental liabilities. However, environmental legislation in Armenia is in the process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

27. SUBSEQUENT EVENTS

The consolidated financial statements for year ended December 31, 2019 were approved for issuance by the Board of Directors on March 4, 2020 and subsequent events have been reviewed through the date of approval.

The Company's Forbearance Agreement for the Ameriabank Term Facility expired on December 20, 2019. In an amendment to the Ameriabank loan covenant, a principle and interest payment which had been due on July 1, 2019 was postponed to January 8, 2020. On January 9, 2020, Ameriabank swept the cash accounts of the Company and applied the monies towards the Ameriabank Term Facility. The sweep included $1.0 million of restricted cash and a nominal amount from the Company's cash account.

On March 2, 2020, the protection under the CCAA was extended until March 11, 2020.

On February 18, 2020, 11910728 Canada Inc. was incorporated. 11910728 Canada Inc., a 100% owned subsidiary of Lydian Canada Ventures Corporation, is (a) the sole director of Lydian International Holdings Limited and Lydian Resources Armenia Limited; and (b) the shareholder representative of Lydian Armenia. There was no activity in the company since the date of inception.