Financial Statements and Independent Auditor's Report

Lydian Armenia CJSC

31 December 2018

Contents

Grant Thornton

Independent auditor's report

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Վաղարշյան 8/1

Հ. + 374 10 260 964
Ֆ.+ 374 10 260 961

Grant Thornton CJSC
8/1 Vagharshyan Str.
0012 Yerevan, Armenia

T + 374 10 260 964
F + 374 10 260 961

To the shareholder of Lydian Armenia CJSC

Qualified Opinion

We have audited the financial statements of Lydian Armenia CJSC (the "Company"), which comprise the statement of financial position as of 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As described in note 13 to the financial statements, the Company received interest-free borrowings from its parent company. Management treated these borrowings as current in the Company's financial statements. However, since the Company is in development stage and is not generating revenues, it is not probable that the lender will claim back the borrowings in the foreseeable future, which evidences that the borrowings should have been treated as non-current. Additionally, as described in note 12 to the financial statements the Company has long-term payable to its parent company in respect of services received. Management failed to record the borrowings and long-term payables at fair value on initial recognition, as required by IFRS 9 Financial Instruments: Recognition and Measurement, since it was unable to estimate the possible repayment date of the borrowings and payables and discount rate for similar instruments. We were unable to determine ourselves the effect of the above on the financial statements. Accordingly, we were unable to determine whether any adjustments were needed in respect to these financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical 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 to the financial statements, which indicates that the illegal road blockades caused the construction activities to be suspended since 22 June 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 entered into forbearance agreements with these parties and continuation as a going concern is dependent upon continuation of funding under these agreements. As stated in note 1 to the 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.

Emphasis of Matter

We draw attention to note 7 to the financial statements, which explains that the Company has receivables from the State budget in respect of input VAT at the amount of thousand US dollars 23,752 (2017: thousand US dollars 33,409), which will be refunded by the tax authorities or offset with other tax liabilities whenever the Company starts trading. Although the Company has recorded the VAT receivable based on its best interpretation of current tax legislation, future results may not be in line with current expectations as there is a risk of different interpretation by tax authorities during tax inspections, and the amount may not be recoverable in full. Our opinion is not modified in respect of this matter.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to 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 but 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Gagik Gyulbudaghyan
Managing Partner

Emil Vassilyan, FCCA
Engagement Partner

10 May 2019

Statement of financial position

In thousand US dollars	Note	As of 31 December 2018	As of 31 December 2017
Assets			
Non-current assets			
Mineral property, plant and equipment	4	344,355	350,817
Derivative assets	5	-	2,789
Deferred financing costs	6	-	12,053
Other non-current assets	7	25,284	34,479
		369,639	400,138
Current assets			
Derivative assets	5	2,290	-
Other current assets	8	11,675	1,225
Restricted cash	9	1,029	636
Cash and bank balances	9	1,095	13,020
		16,089	14,881
Total assets		385,728	415,019
Equity and liabilities			
Capital and reserves	10		
Share capital		-	-
Capital contribution		95	95
Accumulated loss		(166,021)	(38,961)
		(165,926)	(38,866)
Non-current liabilities			
Stream liability	11	-	67,712
Loans and borrowings	13	-	105,318
Derivative liabilities	5	-	39,097
Other non-current liability	12	47,622	58,725
Restoration liabilities	14	8,137	8,086
Non-current deferred tax payable		14,051	-
		69,810	278,938
Current liabilities			
Stream liability	11	78,473	1,695
Accounts payable and accrued liabilities	15	3,036	36,115
Derivative liabilities	5	30,277	-
Current portion of loans and borrowings	13	370,058	137,137
		481,844	174,947
Total equity and liabilities		385,728	415,019

The financial statements were approved on 10 May 2019 by:

Hayk Aloyan
Director

Armen Martirosyan
Financial Manager

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 43.

Statement of profit or loss and other comprehensive income

In thousand US dollars	Note	Year ended 31 December 2018	Year ended 31 December 2017
Blockade expenses	16	(39,931)	-
Administrative and general expenses		(2)	-
Impairment of development assets	20	(92,700)	-
Operating income/(expense)		(216)	347
Other operating expenses	17	(2,538)	(1,175)
Loss from operations		(135,387)	(828)
Finance income		145	87
Gain/(loss) on financial instruments at fair value	5	8,321	(22,722)
Foreign currency exchange gain/(loss), net		(139)	119
Loss before income tax		(127,060)	(23,344)
Income tax expense	18	-	-
Loss for the year		(127,060)	(23,344)
Total comprehensive loss for the year		(127,060)	(23,344)

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 43.

Statement of changes in equity

In thousand US dollars	Capital contribution	Accumulated loss	Total
as of 1 January 2017	95	(15,617)	(15,522)
Loss for the year	-	(23,344)	(23,344)
Total comprehensive loss for the year	-	(23,344)	(23,344)
as of 31 December 2017	95	(38,961)	(38,866)
Loss for the year	-	(127,060)	(127,060)
Total comprehensive loss for the year	-	(127,060)	(127,060)
as of 31 December 2018	95	(166,021)	(165,926)

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 43.

Statement of cash flows

In thousand US dollars	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities		
Loss for the year	(127,060)	(23,344)
Adjustments for:		
Impairment of development asset	92,700	-
Finance income	(145)	(87)
Loss/(gain) on financial instruments at fair value	(8,321)	22,722
Foreign exchange (gain)/loss	139	(119)
Operating loss before working capital changes	(42,687)	(828)
Change in other current assets	(10,843)	12,179
Change in other current liabilities	(33,078)	32,312
Change in other non-current assets	9,195	(28,499)
Change in other non-current liabilities	2,999	33,062
Cash generated from/(used in) operations	(74,414)	48,226
Cash flows from investing activities		
Increase in mineral property, plant and equipment	(86,238)	(253,914)
Interest income received	145	87
Net cash used in investing activities	(86,093)	(253,827)
Cash flows from financing activities		
Proceeds from loans	111,267	114,450
Proceeds from intercompany borrowings, net	28,389	52,529
Prepayments received	9,066	9,138
Net cash from financing activities	148,722	176,117
Net decrease in cash and bank balances	(11,785)	(29,484)
Foreign exchange effect on cash	(140)	134
Cash and bank balances at the beginning of the year	13,020	42,370
Cash and bank balances at the end of the year	1,095	13,020

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 43.

Notes to the financial statements

1 Nature of operations and general information

Lydian Armenia Closed Joint Stock Company (the “Company”) was registered on 13 October 2005. On 15 April 2006 the Company received an exploration license for the complex research of quartzite properties in the area of Amulsar in Vayots Dzor region from the Ministry of Natural Protection of the Republic of Armenia. Two nearby licenses covering further prospective ground to the immediate east and west of the central Amulsar license area were granted in May 2007.

On 20 February 2009 the state authorities confirmed the reserve and the Company submitted its schedule of mining activities to the Government and received a license for mining activities. On 26 November 2014 the Company updated the mining license in respect of which mineral reserves were increased to 89,376.3 thousand tones and reserves contained in ore were restated as Au 73,733 kilos and Ag 294.4 tones. At the same time, a new mining location called Erato was added to the mining license which includes minable ore of 32,941.8 thousand tones and contains Au 21,069 kilos and Ag 83.9 tones.

In November 2014 the mining license was revised to expire on 1 January 2034 based on acceleration of the annual production of up to 10 million tones, further supporting the Company’s intention to move forward with construction. The Company commenced the construction of the mine in 2016.

The Company entered the development phase effective 26 May 2016 when conditions for its financing were met and the Company made a formal construction decision.

On 30 November 2015, the Company entered into definitive agreement for US dollars 325 million construction financing package with Orion Mine Finance and Resource Capital Fund (“RCF”).

On 22 November 2016, the Company entered into US dollars 24 million secured credit facility with Ameriabank CJSC. Proceeds from the secured credit facility will be used to purchase equipment for the Amulsar project in Armenia.

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. A continuous illegal blockade at Amulsar has been in place since 22 June 2018, causing construction activities to be suspended since this date. Access has generally been limited to activities related to contractor demobilization and winterization. The Government of Armenia has not enforced the rule of law to remove the illegal blockades and prosecute other illegal acts carried out against the Company.

As a result, the Company incurred US dollars 39.9 million of blockade-related expenses during 2018. Such costs continue to be incurred and additional costs will be required to restart construction should access be restored. 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 the A&R Forbearance Agreement with its senior lenders, stream financing providers, and equipment financiers.

While the Company has entered into the A&R Forbearance Agreement with its senior lenders, stream financing providers, and equipment financiers, as a result of the actions and inactions of the Government of Armenia there is no assurance that the Company will be able to meet its obligations under the applicable credit or loan agreements with its senior lenders, stream financing providers, and equipment financiers and that the Company will avoid further events of default as contemplated under such agreements. There is a risk that the Company may not be able to receive forbearance from the same parties under the A&R Forbearance Agreement and as a result there is a risk that the Company will be in default under its agreements with its senior lenders, stream financing providers, and equipment financiers. During this forbearance period, the Company will continue to engage with its lenders and stream financing providers to address the issues resulting from the illegal blockades while at the same time evaluating a range of strategic, financing, and legal alternatives.

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

The ultimate parent of the Company is Lydian International Limited, which is located at Bourne House, 1st Floor, Francis Street, St. Helier Jersey, JE2 4QE, Channel Islands and consolidates the financial statements of the Company. Lydian International Limited commenced trading on the Toronto Stock Exchange on January 10, 2008 under the symbol LYD.

In 2018 the average number of employees made 223 (2017: 149).

The Company is located at 26/1 V. Sargsyan Street, seventh floor, Yerevan, Republic of Armenia.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption that the Company operates on a going concern basis.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are measured at fair value, and present discounted value of future cash flows.

2.3 Functional and presentation currency

The Company's functional currency is US dollar, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in US dollars, since management believes that this currency is more useful for the users of these financial statements.

2.4 Change in functional and presentation currency

Change in functional currency

On 30 June 2016, the Company changed the functional currency from the Armenian Dram to the U.S. dollar. The effect of a change in functional currency has been accounted for prospectively in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates.* All items in financial statements were translated into the new functional currency using the exchange rate at the date of the change.

2.5 Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 23 to the financial statements.

2.6 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018.

The nature and the effect of these changes are disclosed below.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2018

IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

When adopting IFRS 9, the Company has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognized in retained earnings.

The adoption of IFRS 9 has impacted the following areas:

- the classification and measurement of the Company's financial assets.
- the impairment of financial assets applying the expected credit loss model. This affects the Company's trade receivables and investments in debt-type assets measured at amortized cost.

In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. On adoption of IFRS 9, there were no differences in the carrying amounts of the Company's financial assets and financial liabilities.

IFRS 9 contains three principal classification categories for financial assets:

- measured at amortized cost,
- fair value through other comprehensive income ("FVTOCI") or
- fair value through profit and loss ("FVTPL").

The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics.

The Company classifies cash, cash equivalents and receivables at amortized cost and the derivative asset at FVTPL.

IFRS 9 retains the existing requirements in IAS 39 for the classification of financial liabilities. Under IAS 39, all fair value changes on liabilities designated under the fair value option were recognized in profit (loss). Under IFRS 9, those fair value changes are generally presented as follows:

(i) the amount that is attributable to changes in the credit risk of the liabilities is presented in other comprehensive income (loss) ("OCI") and

(ii) the remaining amount of change in the fair value is presented in profit (loss). The Company classifies accounts payable, accrued liabilities, stream and debt at amortized cost and the derivative liabilities at FVTPL.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 and related *Clarifications to IFRS 15* (hereafter referred to as "IFRS15") replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognized as an adjustment to the opening balance of retained earnings at 1 January 2018.

In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as of 1 January 2018.

The adoption of IFRS 15 has not affected any of the areas, as the Company does not generate revenue. The Company will apply the new standard and related disclosures upon commencement of production.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which the Company initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the [Group/Company] shall determine a date of the transaction for each payment or receipt of advance consideration.

Annual Improvements 2014-2016

The Annual Improvements 2014-2016 made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarized below:

IAS 28 *Investments in Associates and Joint Ventures*

Measuring an associate or a joint venture at fair value.

Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions

The Company has adopted the amendments to IFRS 2, *Share based payments*. The amendments clarify the accounting treatment for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The Company evaluated the change in this standard and there was no impact from the adoption.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company’s accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company’s financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company’s financial statements.

Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. The Company’s management have not yet assessed the impact of these amendments on these financial statements.

IFRS 16 *Leases*

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17’s approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

The Company’s management have not yet assessed the impact of IFRS 16 on these financial statements.

The Company intends to adopt the modified retrospective approach and will not restate balances for the comparative period. The Company is completing its review of all existing operating leases to identify contracts in scope for IFRS 16 and the quantitative impact of the adoption.

IFRIC 23 *Uncertainty over Income Tax Treatment*

IFRIC 23 provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Annual Improvements 2015-2017

The Annual Improvements 2015-2017 made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarized below:

IAS 12 *Income Taxes: Income tax consequences of payments on instruments classified as equity*

The amendments to IAS 12 clarify that the income tax consequences of dividends are recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 12 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

IAS 23 *Borrowing Costs: Borrowing costs eligible for capitalization*

IAS 23.14 specifies how to determine the amount of borrowing costs eligible for capitalization when an entity borrows funds generally and uses them to obtain a qualifying asset.

IAS 23 requires an entity, when determining the funds that it borrows generally, to exclude "borrowings made specifically for the purpose of obtaining a qualifying asset". The IASB observed that an entity might misinterpret those words to mean that funds borrowed generally would exclude funds outstanding that were originally borrowed specifically to obtain a qualifying asset that is now ready for its intended use or sale.

The amendments therefore clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of the funds that it has borrowed generally.

The amendments are to be applied prospectively (i.e. only to borrowing costs incurred on or after the beginning of the annual reporting period in which the amendments are first applied) as the costs of gathering the information required to capitalize borrowing costs retrospectively may exceed the potential benefits.

IAS 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

3 Significant accounting policies

3.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 483.75 drams for 1 US dollar and 553.65 drams for 1 euro as of 31 December 2018 (31 December 2017: 484.10 drams for 1 US dollar, 580.10 drams for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Mineral property, plant and equipment

Mineral property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of mineral property, property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

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 assets. The estimated useful lives are as follows:

Motor vehicles	-	3-5 years
Machinery and equipment	-	7-10 years
Office equipment	-	3-5 years
Computers and accessories	-	1 year.

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.

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, issued in accordance with NI 43-101, and such development 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.

Development costs 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

Upon entering the commercial production phase, a portion of the development costs will be transferred to producing properties, plant and equipment. Producing properties will be depleted using the units of production method over proven and probable reserves. Plant and equipment will be amortized over the useful life of the asset. No amortization or depreciation is recorded until the assets are substantially complete and available for their intended use.

Material and supplies inventories consist mostly of equipment parts and consumables and are valued at the lower of average cost or net realizable value. Since inventories relate to the construction of the mine, the balance as of the reporting date is included in mineral property, plant and equipment.

Intangible assets are also accounted under plant and equipment in the statement of financial position.

3.3 Borrowing costs

Interest costs for qualifying assets are capitalized. Qualifying assets are assets that require a significant amount of time to prepare for their intended use, including projects that are in development or construction stages. Capitalized interest costs are considered an element of the cost of the qualifying asset. Capitalization ceases when the asset is available for use in the manner intended by management or if active development is suspended or ceases. Where the funds used to finance a qualifying asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to the relevant borrowings during the period. Where funds borrowed are directly attributed to a qualifying asset, the amount capitalized represents the borrowing costs specific to those borrowings.

3.4 Leased assets

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

All leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.5 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Company does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the Company's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses. A summary of the Company's financial assets by category is given in note 24.2.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company’s cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

Generally, the Company recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or foreign currency exchange gain/(loss), net.

Impairment of financial assets

IFRS 9’s impairment requirements use more forward-looking information to recognize expected credit losses – the "expected credit loss (ECL) model". This replaces IAS 39’s "incurred loss model". Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, accounts receivable, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and

- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Previous financial asset impairment under IAS 39

In the prior year, the impairment of accounts receivable was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

Accounts receivable and contract assets

The Company makes use of a simplified approach in accounting for accounts receivable as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Company’s financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Company's financial liabilities include loans and borrowings, trade and other payables and finance lease liabilities. A summary of the Company's financial liabilities by category is given in note 24.2.

Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. The difference between fair value and nominal value is recognized in profit or loss, except when the borrowing was received from the owners. In this instance the difference between fair value and nominal value is recognized in equity as additional capital. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are stated at fair value and subsequently stated at amortized cost.

Stream and debt liabilities

Stream and debt liabilities are initially recognized at fair value (net of transaction costs). Subsequent to initial recognition, stream and debt liabilities are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss over the period of the liabilities on an effective interest basis. Interest and other costs incurred in connection with debt liabilities are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

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.

Derivative liabilities

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 profit or loss.

Deferred financing costs

Costs incurred for debt and equity arrangements are recorded as deferred 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. In the event that a financing effort is abandoned or unsuccessful, allocable financing costs are charged to expense.

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 tax regulation. On import, the Company records a long-term VAT receivable and a long-term VAT payable as the timing of the recoverability and payment are different.

3.6 Impairment

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.

Impairment of development assets

The Company reviews and evaluates the carrying value of its development assets for impairment when events or changes in circumstances indicate 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 commodity prices, foreign currency exchange rates, mineral resources, and operating, capital and reclamation costs, 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 when 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, 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.

3.7 Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the nominal value of shares that have been issued.

Accumulated loss includes all current and prior period retained losses.

Dividends are recognized as a liability in the period in which they are declared.

3.8 Restoration and rehabilitation

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, 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 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.

3.9 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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.

3.10 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

(a) wages, salaries and bonuses;

(b) paid annual leaves and paid disability leaves;

When employees render services to the Company during the accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Company shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

Paid absences

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

Bonuses

The expected cost of bonus payments is recognized when and only when the Company has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

4 Mineral property, plant and equipment

In thousand US dollars	Development assets	Equipment	Total
as of 1 January 2017	89,562	10,665	100,227
Additions	252,036	3,110	255,146
Disposals	-	(743)	(743)
Internal movement	(4,671)	4,671	-
as of 31 December 2017	336,927	17,703	354,630
Additions	92,103	-	92,103
Disposal	-	(7)	(7)
Internal movement	(43,243)	43,243	-
as of 31 December 2018	385,787	60,939	446,726
Accumulated depreciation and impairment			
as of 1 January 2017	-	3,324	3,324
Charge for the year	-	797	797
Eliminated on disposal	-	(308)	(308)
as of 31 December 2017	-	3,813	3,813
Charge for the year	-	5,859	5,859
Impairment	92,700	-	92,700
Eliminated on disposal	-	(1)	(1)
as of 31 December 2018	92,700	9,671	102,371
Carrying amount			
as of 31 December 2017	336,927	13,890	350,817
as of 31 December 2018	293,087	51,268	344,355

The Amulsar entered the development phase effective 26 May 2016 when conditions for its financing were met and the Company made a formal construction decision. As a result, previously capitalized exploration and evaluation assets of US dollars 71.6 million were reclassified to development assets. Certain amounts, including the acquisition of surface rights, have been reclassified from property plant and equipment to development assets to conform to current year presentation.

Additions of 2018 include acquisition of operating supplies and consumables with total amount of 50.6 million US dollars, consulting services with total amount of 15 million US dollars, capitalized financial costs with total amount of 9.3 million US dollars, capitalized depreciation with total amount of 3 million US dollars and capitalized salary with total amount of 1.5 million US dollars,

Additions for 2017 include all expenses incurred during the reporting period associated with mine development of Amulsar, except for the loss on financial instruments at the amount of thousand US dollars 22,722, loss from foreign currency conversion at the amount of thousand US dollars 162, management fee from Lydian US Corporation at the amount of 1,000, and other expenses at the amount of thousand US dollars 13.

The Company recorded US dollars 92.7 million impairment on its Development asset at 31 December 2018 (refer to note 20 for details). The illegal blockades have prevented the Company from accessing site, completing construction, thus impacting the timing of future cash flows from operations, increasing the initial capital costs, and adding an additional risk premium. To the extent the blockade continues and the government takes further adverse steps against the Company, this impairment may need to be increased.

5 Derivative assets and liabilities

The Company recognized certain financial instruments relating to the financing agreements described in note 21, including the advance under streaming agreement, streaming liability, and derivatives. None of these financial instruments are held for trading, and the Company does not currently engage in hedge activities. The agreements were executed in contemplation of one another and the cash flows and embedded derivatives were fair valued in consideration of all the agreements in combination to determine an effective yield on the date the agreements were considered effective.

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. The table below sets out the fair value hierarchy levels, carrying values, and fair values of these financial instruments:

In thousand US dollars	Fair value hierarchy level	As of 31 December 2018		As of 31 December 2017	
		Carrying value	Fair value	Carrying value	Fair value
Derivative assets:					
Stream prepayment option	3	2,290	2,290	2,789	2,789
Total derivative assets		2,290	2,290	2,789	2,789
Derivative liabilities:					
Offtake agreement derivative	3	30,277	30,277	39,097	39,097
Total derivative liabilities		30,277	30,277	39,097	39,097

The following table presents the carrying value of the derivatives and gains and losses recognized:

In thousand US dollars	Stream prepayment option	Offtake agreement	Stream commodity linked repayment	Gain/(loss)
Summary of derivatives				
Fair value as of 1 January 2017	1,308	(21,178)	6,284	5,267
Change in fair value	1,481	(5,850)	(18,353)	(22,722)
Fair value as of 31 December 2017	2,789	(27,028)	(12,069)	(17,455)
Change in fair value	(499)	5,052	3,768	8,321
Fair value as of 31 December 2018	2,290	(21,976)	(8,301)	(9,134)

	Stream prepayment option	Offtake agreement	Stream commodity linked repayment	Gain/(loss)
Impact upon fair value as of 31 December 2018 of:				
10% change in gold price	1,381	(2,236)	(10,012)	(10,867)
10% change in silver price	129	N/A	(812)	(683)
10% change in 3-month LIBOR rate	20	(1)	(125)	(106)
Impact upon fair value as of 31 December 2017 of:				
10% change in gold price	1,629	(2,691)	(11,395)	(12,457)
10% change in silver price	119	-	(679)	(560)
10% change in 3-month LIBOR rate	4	21	42	67

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.

6 Deferred financing costs

In thousand US dollars	Financing costs
Balance as of 1 January 2017	18,058
Additions	10,907
Reclassified to debt	(16,912)
Balance as of 31 December 2017	12,053
Additions	2,887
Write-off for unsuccessful financing	(682)
Reclassified to debt	(14,258)
Balance as of 31 December 2018	-

Deferred financing costs include fees incurred on financial arrangements described in note 21.

7 Other non-current assets

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Deferred VAT receivable	14,051	13,654
Refundable VAT	9,701	19,755
Rehabilitation and monitoring prepayment	1,531	325
Other	1	745
	25,284	34,479

Deferred and refundable VAT receivable

Value added tax ("VAT') is initially paid on the provision of goods or services to the Armenian Government. Refundable VAT is recoverable through future export sales. Effective from 1 January 2018, the Armenian Government changed the legislation to allow for the early refund of certain VAT for semi-annual periods from 1 July 2017 forward. The Company continually applied for a refund in the reporting period.

Deferred VAT is associated with the import of equipment. Payments can be deferred for up to three years from the date of import; the receivable will become recoverable upon the Company's payment of import VAT when due dates come.

Rehabilitation and monitoring prepayment

According to the Mining Right, the Company is required to make installment payments to the Armenian government as a guarantee for post mining rehabilitation and government monitoring. The rehabilitation prepayments will be refunded to the Company after the Armenian government accepts the post mine closure rehabilitation work. The Company is also required to prepay non-refundable post closure monitoring of Amulsar.

The prepayment for rehabilitation as of 31 December 2018 was discounted to present value using 10.7% (31 December 2017: 10.7%) interest rate and difference between the book value and present value was charged to development assets. 10.7% represents a risk-free rate of 10-year government bonds. Management believes that the receivables from the State budget are fully recoverable, therefore no provision for the above amounts has been made.

8 Other current assets

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Deposits	8	8
Prepayments and other receivables	352	888
Inventory and other supplies	68	329
Receivables from State Budget	1,200	-
Refundable VAT	9,860	-
Deferred VAT	187	-
	11,675	1,225

The major part of prepayments was given to vendors for construction and acquisition of equipment.

9 Cash and bank balances

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Bank accounts	1,095	13,020
Cash and bank balances reported in the statement of cash flows	1,095	13,020
Restricted bank balance	1,029	636
Cash and bank balances in the statement of financial position	2,124	13,656

As of 31 December 2018 the Company held cash at the amount of thousand US dollars 1,029 (2017: thousand US dollars 636) advanced under a credit agreement, which are required to be used to acquire equipment for Amulsar. Such cash amounts are restricted until expenditures are required to purchase equipment acceptable to the lender.

Refer to note 25 for the currencies in which the cash and bank balances are denominated.

10 Capital and reserves

10.1 Share capital

Number of shares unless otherwise stated	Ordinary shares 2018	Ordinary shares 2017
Authorized shares		
Number of ordinary shares of drams 5,000 each	20	20

The Company has one class of ordinary shares, which carry no right to fixed income.

Share capital of US dollars 207 was not reflected in the statement of financial position as a result of rounding balances to the nearest thousand US dollar.

10.2 Capital contribution

Capital contribution represents the difference between the fair value and the contractual amount of the borrowings received from the parent company.

11 Stream liability

On 30 November 2015 the Company entered into definitive financing agreements with Orion Mine Finance ("Orion") and Resource Capital Funds ("RCF") to receive up to US dollars 325 million in construction financing for Amulsar project.

As described in note 21, the agreements included among other arrangements US dollar 60 million gold and silver purchase and sale agreement (“Stream Agreement”).

The financing received under Stream Agreement, has been accounted for as a liability. Derivative financial instruments resulting from the agreement are discussed in note 5.

Key provisions of the Stream Agreement were as follows:

- US dollar 60 million was advanced in two deposits;
- Delivery obligations of 6.75% of gold production up to 2.1 million refined ounces and 100% of silver production up to 0.7 million refined ounces;
- Payment upon delivery to be the lower of prevailing market prices or $400/oz for gold and $4/oz for silver, each subject to escalation;
- The Company may elect to reduce metal deliveries by 50% on either the second or the third anniversaries of achieving commercial production by making a payment of US dollar 55 million or US dollar 50 million, respectively;
- Expiration is the earlier of the date (i) the aggregate stated gold and silver quantities have been delivered or (ii) 40 years;
- Security includes, among other things: guarantees of the Lydian International Limited and a mortgage over the assets and rights of the Company.

The initial US dollar 25 million deposit under the Stream Agreement was received in December 2015 by Lydian International Limited. At that time, the agreements were subject to certain conditions that limited availability of additional funding under the agreements. As such, the Company accounted for this initial advance as a current liability. Upon satisfaction of the conditions in May 2016, management derecognized the advance and replaced it with the non-current stream liability. On 30 September 2016, the Company received the second deposit under the Stream Agreement in the amount of US dollars 35 million for a total of US dollars 60 million.

The effective interest rate on the stream liability is estimated at 14% (2016: 14.7%). The difference between the de-recognition and replacement values was credited to financing costs.

The movement in the stream liability is presented below:

In thousand US dollars	Stream liability
As of 1 January 2017	60,269
Financing costs	295
Accrued interest	8,843
Less current portion	(1,695)
As of 31 December 2017	67,712
Financing costs	295
Accrued interest	8,771
Less current portion	(76,778)
As of 31 December 2018	-

The advance under streaming agreement was initially recorded at fair value and replaced with the fair value of the stream liability on 26 May 2016. Thereafter, the stream liability was carried at amortized cost using the effective interest method. The table below sets out the fair value hierarchy levels, carrying values, and fair values of these financial instruments as of:

In thousand US dollars	Fair value hierarchy level	As of 31 December 2018		As of 31 December 2017	
		Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:					
Stream liability	3	-	-	67,712	85,085
Current portion of stream liability		78,473	78,473	1,695	1,695

The first advance under the Stream Agreement was received in December 2015. At that time the Agreement was subject to certain conditions that limited the availability of additional funding. As such, the Company accounted for the initial advance as a current liability. Upon satisfaction of the conditions in May 2016, management derecognized the advance and replaced it with a non-current stream liability. 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 prices or $400/oz. for gold and $4/oz. 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.

See note 5, for additional information relating to these derivative financial instruments.

12 Other non-current liability

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Payables to related parties	47,622	45,064
Payables to the State budget	-	13,661
	47,622	58,725

According to the contract between the Company and Lydian International Limited, the Company receives detail engineering design for the construction, consultation services and deferred financial costs for Project Vela. The payment terms for the services shall be defined by a schedule to be agreed by the Company and Lydian International Limited following the third year after the sale of the first mining product. According to the contract between the Company and Lydian US Corporation, the Company receives services for which management fee is being charged on a quarterly basis.

No interest is charged on the payables to related parties.

Refer to note 25 for the currencies in which the payables are denominated and for more information about the Company's exposure to foreign currency risk.

13 Loans and borrowings

In thousand US dollars	Current		Non-current	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
Loans and overdraft	218,557	14,025	-	105,318
Borrowings from related party	151,501	123,112	-	-
	370,058	137,137	-	105,318

Borrowings from related parties are unsecured interest free borrowings from Lydian International Limited, the ultimate parent company. The borrowings are repayable on demand of the lender.

During 2018 the Company received borrowings from Lydian International Limited (ultimate parent) at the amount of thousand US dollars 28,388 (2017: thousand US dollars 52,535).

The Company has undrawn borrowing facilities at the amount of thousand US dollars 14,999 as of 31 December 2018 (31 December 2017: thousand US dollars 142,167).

As of 31 December 2018 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.

Refer to note 25 for the currencies in which the loans and borrowings are denominated and for more information about the Company's exposure to foreign currency risk.

14 Restoration liabilities

Restoration liabilities of the Company represent rehabilitation obligations related to the closure of the Amulsar project. As of 31 December 2018 the Company has rehabilitation obligations over 296.7 hectare pertaining to mine development activities undertaken as of that date.

Movement in the restoration liabilities is presented below:

In thousand US dollars	2018	2017
Balance at the beginning of year	8,086	452
Additions	-	7,650
Accreting and unwinding of discount	667	-
Change in timing of cash flows	(619)	-
Foreign currency translation differences	3	(16)
Balance at the end of year	8,137	8,086

15 Accounts payable and accrued liabilities

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Trade payables	1,121	27,519
Accruals for employee benefits	389	1,200
Taxes and duties payable	188	378
Other	1,338	7,018
	3,036	36,115

No interest is charged on the trade payables.

Refer to note 25 for the currencies in which the payables are denominated and for more information about the Company's exposure to foreign currency risk.

16 Blockade expenses

Following the change in the Government of Armenia in May 2018, demonstrations and road blockades have occurred sporadically throughout the country. These protests also affected the mining sector, including the Amulsar project. Access to Amulsar has been blocked since June 2018. During the year ended December 31, 2018 blockade expenses of US dollars 39.9 million relate to idle costs incurred during the blockade, including US dollars 21 million of interest, US dollars 8.1 million of labor and contractor costs, US dollars 5.2 million of indirect costs, US dollars 3.7 million of depreciation and amortization and US dollars 1.9 million of professional fees.

17 Other operating expenses

In thousand US dollars	Year ended 31 December 2018	Year ended 31 December 2017
Management fees	1,134	1,000
Write off of deferred financing costs	682	-
Write down of asset carrying value	671	-
(Gain)/loss on foreign currency	(74)	161
Other expense and income, net	125	14
	2,538	1,175

18 Income tax expense

In thousand US dollars	Year ended 31 December 2018	Year ended 31 December 2017
Current tax	-	-
Deferred tax (refer to note 19)	-	-
	-	-

There were no income taxes payable by the Company for the year ended 31 December 2018 and 31 December 2017.

Reconciliation of effective tax rate is as follows:

In thousand US dollars	Year ended 31 December 2018	Effective tax rate (%)	Year ended 31 December 2017	Effective tax rate (%)
Loss before taxation (under IFRSs)	(127,060)		(23,344)	
Tax calculated at a tax rate of 20% (2017: 20%)	(25,412)	20.0	(4,669)	20.0
(Non-taxable)/non-deductible items, net	22,023	(17.3)	4,542	(19.5)
Effect of unused tax losses not recognized as deferred income tax assets	3,531	(2.8)	90	(0.4)
Temporary differences not recognized as deferred income tax assets/liabilities	(142)	0.1	37	(0.1)
Income tax expense/ (recovery)	-	-	-	-

19 Deferred income taxes

Deferred income taxes for the year ended 31 December 2018 can be summarized as follows:

In thousand US dollars	1 January 2018	Recognized in profit or loss	31 December 2018
Deferred income tax assets			
Trade and other payables	65	13	78
Tax losses to carry forward	1,015	3,531	4,546
	1,080	3,544	4,624
Deferred income tax liabilities			
Property and equipment	-	(155)	(155)
Valuation of deferred tax assets	(1,080)	(3,389)	(4,469)
Net position	-	-	-

Deferred income taxes for the year ended 31 December 2017 can be summarized as follows:

In thousand US dollars	1 January 2017	Recognized in profit or loss	31 December 2017
Deferred income tax assets			
Development assets	106	(106)	-
Trade and other payables	32	33	65
Tax losses to carry forward	925	90	1,015
	1,063	17	1,080
Deferred income tax liabilities			
Property and equipment	(109)	109	-
Valuation of deferred tax assets	(954)	(126)	(1,080)
Net position	-	-	-

Deferred income tax assets at thousand US dollars 4,469 (2017: US dollars 1,080) were not recognized due to uncertainties related to their future realization. The accumulated tax losses expire in 5 years, following the year of origination, after which they may never be used.

20 Impairment of development assets

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 31 December 2018 the Company determined that the recoverable amount of the Amulsar development asset was less than the carrying value. The recoverable amount was determined as the fair value less costs of disposal, using a discounted cash flow model. In December 2018, the Company recognized an impairment loss of US dollars 92.7 million.

The discounted future cash flow model includes management's estimates for the timing of future cash flows. Key assumptions include initial capital expenditures, future operating costs, future sustaining capital expenditures, recoverable reserves, timing of future production, discounted at the appropriate rate.

Key assumptions for impairment testing at 31 December 2018 include:

- Discount rate of 17%
- Gold price US dollars 1,300
- Silver price US dollars 16

21 Financing arrangements

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

The Company entered into the A&R Forbearance Agreement on 21 December 2018 with its senior lenders, stream financing providers and equipment financiers, pursuant to which they have agreed to: (a) continue to temporarily suspend all principal and interest payments due and payable (provided that interest shall accrue on all principal and interest during the forbearance period at a rate which is 2% per annum higher than the rate which would otherwise have been payable), and (b) continue to forbear from declaring or acting upon, or exercising default related rights or remedies under such creditor's financing agreement with respect to certain events of default, in each case, until the earlier of (a) 30 June 2019, (b) the occurrence of an additional event of default under such creditor's financing agreement, or (c) any breach by the Company of the A&R Forbearance Agreement. In January 2019 through an amendment to the Company's existing Term Facility Agreement ("Thirteenth Amending Agreement"), the senior lenders committed to make available up to US dollars 18.6 million to fund the Company during the forbearance period and allow it to maintain a minimum unrestricted cash balance. See note 22 for subsequent amendments.

Stream Arrangement

The first advance under the Stream Agreement was received in December 2015. At that time the Agreement was subject to certain conditions that limited the availability of additional funding. As such, the Company accounted for the initial advance as a current liability. Upon satisfaction of the conditions in May 2016, management derecognized the advance and replaced it with a non-current stream liability. 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 prices or $400/oz. for gold and $4/oz. 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. See note 22 for subsequent amendments.

Term Facility and cost overrun facility

In 2016, the Company entered into the Term Loan agreement, which provides US dollars 160 million on a senior secured basis for purposes of construction of Amulsar. Interest is based on the 3-month US dollar LIBOR rate, subject to a minimum of 1%, plus a 6.5% margin (8.5% margin during the forbearance period). Principal plus interest will be paid through quarterly scheduled installments and a 30% cash sweep of excess cash flow beginning 30 June 2019 and continuing through maturity on 30 September 2021. Subsequent to 31 December 2018, all unutilized capacity was cancelled and replaced with a new Term Facility B pursuant to the Thirteenth Amending Agreement. The US dollars 14 million cost overrun facility ("COF") established as part of the Term Facility was also cancelled in January 2019 as part of the Thirteenth Amending Agreement. See note 22 for subsequent amendments.

As of 31 December 2018, three Term Loan draws totaling US dollars 142.9 million had been received. Availability of additional funds is subject to satisfaction or waiver of certain conditions.

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 US dollars 90 million. A summary of each term facility is below:

- The Ameriabank Term Facility has a maximum principal amount of US dollars 24 million and will be secured by certain equipment. Interest is calculated based on LIBOR plus 8.75% 10.75% during the forbearance period) and there is a 2% commitment fee on any undrawn portion. Interest and commitment fees are payable quarterly and principal payments become payable quarterly beginning in 30 June 2019. As of 31 December 2018, US dollars 10 million was drawn on this facility. Principal and interest payments of US dollars 1.8 million were paid during the year ended 31 December 2018. Availability of additional funds is subject to satisfaction or waiver of certain conditions.
- The Cat Term Facility has a maximum principal amount of US dollars 42 million and will be secured by certain mobile mining equipment. Interest is calculated based on LIBOR plus 4.5% (6.5% during the forbearance period) and there is a 1.5% commitment fee on any undrawn portion. Each advance is repayable over a 72-month term, inclusive of a six-month initial repayment grace period. As of 31 December 2018, US dollars 28.4 million was drawn on this facility. Principal and interest payments of

US dollars 3.6 million were paid during the year ended 31 December 2018. Availability of funds is subject to satisfaction or waiver of certain conditions. The Company is precluded from utilizing any remaining availability by the A&R Forbearance Agreement.

- The ING Term Facility has a maximum principal amount of US dollars 50 million and will be secured by material handling and electrical equipment. Interest is calculated based on LIBOR plus 2.95% (4.95% during the forbearance period) and there is a 2% commitment fee on any undrawn portion. Each advance is repayable over a 51-month term, with repayment of the first advance beginning in June 2019. As of 31 December 2018, US dollars 48.0 million was drawn on this facility. Interest payments of US dollars 1.7 million were paid during the year ended 31 December 2018. No additional funds can be drawn under the ING Term Facility as the availability period has expired.

22 Subsequent events

A&R Stream Agreement

On 15 January 2019, the Lydian International Limited and the Company entered into an Amended and Restated Purchase and Sale Agreement (the “A&R Stream Agreement”) with Osisko Bermuda Limited (“Osisko”) and Resource Capital Fund VI L.P. (“RCF”) (the “Purchasers”). This agreement amends and restates the purchase and sale agreement (gold and silver) that was originally entered on 30 November 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 US dollars 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 the Company 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 the development asset, otherwise the term of the A&R Stream Agreement will remain same as that of the Stream Agreement.

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

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

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

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

Thirteenth Amending Agreement

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

Term Facility B is for a total amount of US dollars18.6 million and available to be drawn in multiple advances through the earlier of (i) 30 June 2019, (ii) the date on which the A&R Forbearance Agreement terminates, and (iii) the date of change of control of the Company or Lydian (the "Term Facility B Maturity Date").

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

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

23 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

23.1 Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Maturity periods of borrowings received from related parties

As described in note 13 to the financial statements, the Company received borrowings from Lydian International Limited. According to the initial terms of the agreement, the borrowings are repayable on demand. Management classified these borrowings as current, therefore considers that the fair value of the borrowings at initial recognition approximates the actual amount received, since the effect of discounting is not significant.

Restoration liability

The Company's calculation of rehabilitation and closure provisions relies on estimates of costs required to rehabilitate and restore land to appropriate post-operations' 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.

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. Such estimates by management have not been reviewed by qualified persons as defined by NI 43-101. Each of these considerations and judgments applied by management in completing the impairment assessments represent key sources of estimation uncertainty.

Recoverability of receivables from the State budget

As described in note 7 the Company has input VAT of thousand US dollars 23,752, which will be refunded by the State budget or offset with other tax liabilities whenever the Company starts trading. As additionally described in note 29.3 the taxation system in Armenia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Taxes are subject to review and investigations by tax authorities. Nevertheless, management believes that the entire amount of input VAT as of 31 December 2018 is recoverable.

Long-term prepayment to the Ministry of Energy and Natural Resources of Armenia at fair value

The Company recorded long-term prepayment made to the Ministry of Energy and Natural Resources measured at their fair value on initial recognition. The fair value was determined based on 10.7% interest rate, which represents a risk-free rate of 10-year government bonds. Determination of discount rate for measuring the fair value of the amount involves high degree of judgement. Long term prepayments are considered as financial assets, since the management believes that when mine closure works are complete, the Company will fully receive back the prepaid amount.

Management considers its estimates to be reasonable.

Fair value of financial instruments

Fair value of financial instruments that are not traded on an active market or do not have sufficient trading volumes and embedded derivatives are determined using alternative valuation techniques.

The Company entered into several financing 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.

Balances with suppliers

The Company is in the process of disputes with some of its suppliers. As a result of these disputes balances of receivables and payables with these parties may significantly change. Management believes that its conclusions and judgements are reasonable and will not have significant impact on financial statements.

24 Financial instruments

24.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 3.5.

24.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Amortized cost		
Term deposit	8	-
Trade and other receivables	84	-
Rehabilitation prepayment	1,531	-
Cash and bank balances	2,124	-
	3,747	-
Held to maturity (amortized cost) (in accordance with IAS 39)		
Term deposit	-	8
Held for trading (Fair value through profit or loss) (in accordance with IAS 39)		
Derivative asset	-	2,789
Loans and receivables (amortized cost) (in accordance with IAS 39)		
Trade and other receivables	-	21
Rehabilitation prepayment	-	325
Cash and bank balances	-	13,656
	-	16,799

Financial liabilities

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Financial liabilities designated at fair value through profit and loss:		
Derivative liabilities	30,277	39,097
Financial liabilities measured at amortized cost:		
Loans and borrowings	370,058	242,455
Stream liability	78,473	69,407
Accounts payable and accrued liabilities	2,848	35,737
Payables to related parties	47,622	45,064
	529,278	431,760

25 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Financial risk factors

a) 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.

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 US dollar and its primary operations are in Armenia.

The Company's assets and liabilities are predominately held in US dollars, Armenian drams and the Euro.

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

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts below show the net position of those amounts reported to key management translated into US dollars at the closing rate:

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Net of financial assets and liabilities denominated in:		
AMD	13,467	33,291
EUR	633	997
Other	-	1
	14,100	34,289

The following table details the Company's sensitivity to a 10% (2017: 10%) increase and decrease in US dollar against the relevant currency. 10% (2017: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2017: 10%) change in foreign currency rates.

If US dollar had strengthened against Euro and Armenian dram by 10% (2016: 10%) then this would have had the following impact:

In thousand US dollars	Euro impact		Armenian dram impact	
	2018	2017	2018	2017
Profit or loss	63	100	1,347	3,329
	63	100	1,347	3,329

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

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 has 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 Loan bear interest at LIBOR plus 6.5% (subject to a minimum of 1%) and advances from

Ameriabank Term Facility bears 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 31 December 2018 the Company had defaulted on certain loan provisions. As discussed in note 22, the Company entered into an A&R Forbearance Agreement with its lenders whereby the interest rate is increased by 2% above the applicable rate in each agreement during the forbearance period which ends on 30 June 2019.

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 31 December 2018 with respect to its cash and cash equivalent and restricted cash positions.

Sensitivity to a 1% change in interest rates with all other variables held constant as at 31 December 2018, would affect the profit or loss by a minimum amount in both 2018 and 2017.

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.

As of 31 December 2018, no gold or silver ounces had been delivered under these contacts. See note 5 for the impact of a 10% appreciation or depreciation of gold or silver prices on the embedded derivatives.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The effect of this risk for the Company arises from different financial instruments, such as accounts receivable, term deposits, derivative assets and cash. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Financial assets at carrying amounts		
Accounts receivable	352	21
Derivative assets	2,290	2,789
Rehabilitation prepayment	1,531	325
Term deposits	8	8
Bank balances	2,124	13,656
	6,305	16,799

As the Company has no revenue or trade receivables, management considers credit risk as low. The Company has a concentration of cash at a major Canadian bank, but 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. Advances are paid to major suppliers primarily relating to local construction companies for the development of the Amulsar project. Payment of these deposits is considered by management on a case by case basis. The VAT receivables will be refunded in future periods and rehabilitation prepayments are with the Government of the Republic of Armenia.

During the year ended 31 December 2018 and 2017 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.

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations.

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 approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, to the extent the Company does not believe it has sufficient liquidity to meet obligations, it will consider securing additional equity or debt funding. The Company's liquidity may be adversely affected if its access to the capital and debt markets are hindered, whether as a result of a downturn in market conditions generally, or as a result of conditions specific to the company. To date, the Company has 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 31 December 2018 and while the Company has entered into an A&R Forbearance Agreement, whereby the Lenders have agreed to waive principal and interest payments until 30 June 2019, there can be no assurance that the Company will be able to settle borrowings and other long-term liabilities beyond that date.

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

The ultimate responsibility for liquidity risk rests with the Board of Directors, which has designed an appropriate risk management framework for the management of the Company's short, medium and long-term funding requirements.

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. During 2016, the advance under stream was derecognized and replaced with the stream liability. The stream liability consists of a defined delivery obligation of ounces of gold and silver (6.75% of (expressed in thousands of US dollars, unless otherwise stated), 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. Subsequent to 31 December 2018, the Company entered into an A&R Stream Agreement, see note 22.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

2018	Non-interest bearing	Variable interest rate instruments	Total
Weighted average effective interest rate (%)		12%	
Up to 1 year	3,176	297,030	300,206
1-5 years	1,909	-	1,909
More than 5 years	6,088	-	6,088
	11,173	297,030	308,203

2017	Non-interest bearing	Variable interest rate instruments	Total
Weighted average effective interest rate (%)		12%	
Up to 1 year	158,843	15,720	174,563
1-5 years	13,661	153,513	167,174
More than 5 years	45,064	19,517	64,581
	217,568	188,750	406,318

26 Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

26.1 Fair value measurement of financial instruments

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).

Level 3 Fair Value Estimates

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

	31 December 2018	31 December 2017
Gold spot price per ounce	$1,278	$1,306
Silver spot price per ounce	$15	$17
Risk free interest rate	2,74%	2.42%
3-month LIBOR rate	2.832%	1,705%

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

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

The fair values of the above instruments are detailed in note 5.

27 Capital risk management

The Amulsar Gold Project is in the development stage, as such, the Company is dependent on external financing to fund its activities. The Company manages its capital structure and adjusts it based on changes in economic conditions and the risk characteristics of the underlying assets.

The capital structure of the Company consists of equity attributable to equity holders of the parent comprising issued capital, reserves and accumulated losses and debt, disclosed in note 13.

To maintain or adjust the capital structure, the Company may attempt to incur, repay or restructure debt, enter into strategic relationships, and acquire or dispose of assets to facilitate the management of its capital requirements. The Company has prepared expenditure budgets that are updated as necessary depending upon various factors, including successful capital deployment, general industry conditions and local conditions specific to Amulsar.

The capital required for the development of the Amulsar Gold Project was raised through deposits received in connection with the stream liability, and proceeds from debt. The net proceeds raised are used to advance the development of the Project and provide sufficient working capital to meet the Company's ongoing obligations. Access to available funds under the existing financing arrangements have been restricted by the Company's senior lenders due to the Government of Armenia's failure to take action in relation to the illegal blockades at the site that are preventing the Company from completing construction. The Company has entered into an A&R Forbearance Agreement as discussed in note 22. Access to additional funds from the senior lenders during the forbearance period are limited and are subject to satisfaction or waiver of certain conditions. The Company will need additional funds for completion of the Amulsar Gold Project or other alternatives. The Company may be able restructure the existing debt, negotiate additional funding from the stream or incur additional debt subject to market conditions. However, the Company's Financing Agreements limit the amount of additional indebtedness. Consent of certain lenders would be required to increase the stream liability or the debt limitation.

The amounts managed as capital by the Company for the reporting periods are summarized as follows:

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Total equity	165,926	38,866
Add: subordinated financing	199,123	168,176
Less: cash and bank balances	(2,124)	(13,656)
Capital	362,925	193,386
Total equity	165,926	38,866
Debt	(496,153)	(356,926)
Overall financing	(330,227)	(318,060)
Capital to overall financing ratio	(1.10)	(0.61)

The Company has entered into debt arrangements as discussed in note 21. Should the Company need additional funds to fund the completion of the Amulsar Gold Project, the Company may be able to negotiate additional funding from the stream or debt instruments, or incur additional debt subject to market conditions. However, the Company's Financing Agreements limit the amount of additional indebtedness. Consent of certain lenders would be required to increase a stream liability or the debt limitation.

28 Commitments

28.1 Operating lease commitments

The Company as lessee

The Company leases space for accommodations and office for administrative and operational purposes. In 2011, the Company entered into long term rental contracts for lands under the rock allocation area and other areas associated with mine development. The Company does not have an option to purchase the leased assets at the expiry of the lease period.

The Company leased a building in Jermuk, Armenia. As of 31 December 2018, the remaining commitments of US dollars 1.7 million are included in the table below. The Company is entitled, but not obligated, to perform repair of the building at the Company's expense and must return it to the lessor in good condition and suitable for use at the end of the lease term. Subsequent to 31 December 2018, the Company has provided notice of termination for cause for this lease.

Non-cancelable operating lease commitments are disclosed below:

In thousand US dollars	As of 31 December 2018	As of 31 December 2017
Within one year	1,691	1,572
1 to 5 years	5,685	6,093
After 5 years	7,440	8,735
	14,816	16,400

28.2 Legal commitments

In May 2016 the Company signed an amended Mining Right with the Ministry of Energy, Infrastructure and Natural Resources of Armenia. Under the agreement, the Company 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 US thousand dollars 252 over thirteen years commencing in 2016, and the remainder of the monitoring will be paid in equal installments of AMD 16.6 million, or US thousand dollars 34, over thirteen years commencing in 2016. In addition, the Company is committed to invest annually AMD 61.0 million, or US thousand dollars 126 after mine closure for workforce social mitigation and AMD 61.5 million, or US thousand dollars 127 for adjacent communities' social-economic development. The rehabilitation guarantee will be refunded to the Company after mine closure when rehabilitation is completed and accepted by the Armenian Government.

29 Contingencies

29.1 Business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

Deterioration of economic situation of countries collaborating with the Republic of Armenia led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependent. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Company. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

29.2 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Company does not have full coverage for its property and equipment or business interruption. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Company's operations and financial position.

29.3 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 tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management 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.

29.4 Environmental matters

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

30 Related parties

The Company's related parties include its parent, group companies, key management and others as described below.

30.1 Control relationships

The Company is controlled by Lydian Resource Armenia Limited, which owns 100% of the Company's shares. The ultimate parent of the Company is Lydian International Limited, which is located at Bourne House, 1st Floor, Francis Street, St. Helier Jersey, JE2 4QE, Channel Islands and produces publicly available financial statements.

30.2 Transactions with related parties

During the reporting year the Company had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand US dollars

Transactions	Year ended 31 December 2018	Year ended 31 December 2017
Parent		
Borrowings received	28,388	52,535
Services received	1,398	11,042
Entities under common control		
Services received	1,134	1,000
Key management		
Accrued salaries and bonuses	610	263

In thousand US dollars Outstanding balances	As of 31 December 2018	As of 31 December 2017
Parent		
Borrowings from related parties	151,501	123,112
Payables to related parties	44,810	43,412
Entities under common control		
Trade and other payables	2,812	1,651