Financial Statements and Independent Auditor's Report

Lydian Armenia CJSC

31 December 2017

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Independent auditor's report

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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 2017, 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 2017, 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 IAS 39 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 as well as the matter 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.

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 33,409 (2016: thousand US dollars 4,468), 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.

We also draw attention to note 19 to the financial statements, which explains the current political situation in the Republic of Armenia, that has started from 13 April 2018 and uncertainties connected with it (different social and expert groups raise concerns about the possible environmental issues in relation to the operations of the Company). Management believes that these processes do not have any significant influence on the Company's operation and there is no necessity to adjust financial statements of the Company as of and for the year ended 31 December 2017 in respect of this. 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	Emil Vassilyan, FCCA
Managing Partner	Engagement Partner

29 June 2018

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Statement of financial position

In thousand US dollars	Note	As of 31 December 2017	As of 31 December 2016
Assets			
Non-current assets			
Mineral property, plant and equipment	4	350,817	96,903
Derivative assets	5	2,789	7,592
Deferred financing costs	6	12,053	18,058
Other non-current assets	7	34,479	5,935
		400,138	128,488
Current assets			
Other current assets	8	1,225	5,014
Restricted cash	9	636	9,078
Cash and bank balances	9	13,020	42,370
		14,881	56,462
Total assets		415,019	184,950
Equity and liabilities			
Capital and reserves	10		
Share capital		-	-
Capital contribution		95	95
Accumulated loss		(38,961)	(15,617)
		(38,866)	(15,522)
Non-current liabilities			
Stream liability	11	67,712	60,269
Loans and borrowings	13	105,318	10,847
Derivative liabilities	5	39,097	21,178
Other non-current liability	12	58,725	33,297
Restoration liabilities	14	8,086	452
		278,938	126,043
Current liabilities			
Accounts payable and accrued liabilities	15	36,115	3,778
Current portion of loans and borrowings	13	137,137	70,651
Stream liability	11	1,695	-
		174,947	74,429
Total equity and liabilities		415,019	184,950

The financial statements were approved on 29 June 2018 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 42.

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Statement of profit or loss and other comprehensive income

In thousand US dollars	Note	Year ended 31 December 2017	Year ended 31 December 2016
Employee benefits		-	(248)
Administrative and general expenses		-	(1,005)
Depreciation and amortization expenses		-	(20)
Other operating expenses		(1,175)	(156)
Operating income		347	133
Loss from operations		(828)	(1,296)
Finance income		87	107
Gain/(Loss) on financial instruments at fair value	5	(22,722)	5,267
Foreign currency exchange gain, net		119	1,201
Profit/(loss) before income tax		(23,344)	5,279
Income tax expense	16	-	-
Profit/(loss) for the year		(23,344)	5,279
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Currency translation difference		-	-
Total comprehensive income for the year		(23,344)	5,279

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 42.

Statement of changes in equity

In thousand US dollars	Capital contribution	Foreign currency translation reserve	Accumulated profit/(loss)	Total
as of 1 January 2016	125	4,160	(24,782)	(20,497)
Profit for the year	-	-	5,279	5,279
Total comprehensive income for the year	-	-	5,279	5,279
Effect of change in functional currency	(30)	(4,160)	3,886	(304)
as of 31 December 2016	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)

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 42.

Statement of cash flows

In thousand US dollars	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Profit/(loss) for the year	(23,344)	5,279
Adjustments for:		
Depreciation and amortization	-	11
Loss on disposal of property and equipment	-	20
Write-off of deferred financing costs	-	91
Finance income	(87)	(107)
Loss/(gain) on financial instruments at fair value	22,722	(5,267)
Foreign exchange gain	(119)	(1,177)
Operating loss before working capital changes	(828)	(1,150)
Change in other current assets	12,179	18,397
Change in other current liabilities	32,312	3,602
Change in other non-current liabilities	33,062	305
Cash generated from operations	76,725	21,154
Cash flows from investing activities		
Increase in mineral property, plant and equipment	(253,914)	(19,985)
Decrease in other non-current assets	(28,499)	-
Borrowings redeemed	-	6
Interest income received	87	74
Net cash used in investing activities	(282,326)	(19,905)
Cash flows from financing activities		
Proceeds from loans	114,450	6,185
Proceeds from intercompany borrowings, net	52,529	-
Prepayments received	9,138	34,902
Net cash from financing activities	176,117	41,087
Net increase/(decrease) in cash and bank balances	(29,484)	42,336
Foreign exchange effect on cash	134	(15)
Cash and bank balances at the beginning of the year	42,370	49
Cash and bank balances at the end of the year	13,020	42,370

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 42.

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 and aims to complete it in 2018 and have first commercial production in 2018.

The Company changed its accounting software from Armenian Software to NetSuite starting from 1 July 2017.

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 June 2016, the Company changed the functional currency from the Armenian Dram to the U.S. Dollar. This change was deemed appropriate as it became evident that Company's underlying transactions, particularly capital spending and financing for Amulsar, are predominantly denominated in U.S. Dollars.

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.

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 2017 the average number of employees made 149 (2016: 73).

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").

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 20 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 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Company.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2017

Amendments to IAS 12 *Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealized Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;
- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are required to be applied retrospectively. There has not been a material impact on the Company's financial statements from these Amendments.

Annual Improvements 2012-2014

The Annual Improvements 2012-2014 made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarized below:

IFRS 7 *Financial Instruments: Disclosures*

The amendments provide additional guidance to help entities identify the circumstances under which a servicing contract is considered to be "continuing involvement" for the purposes of applying the disclosure requirements in paragraphs 42E-42H of IFRS 7. Such circumstances commonly arise when, for example, the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset or when a fixed fee is not paid in full due to non-performance of that asset.

IFRS 7 *Financial Instruments: Disclosures*

These amendments clarify that the additional disclosure required by the recent amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with IAS 34 *Interim Financial Reporting* when its inclusion would be necessary in order to meet the general principles of IAS 34.

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.

IFRS 9 *Financial Instruments (2014)*

The IASB released IFRS 9 *Financial Instruments* (2014), representing the completion of its project to replace 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.

The Company's management have yet to assess the impact of this new standard on the Company's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Company's management have not yet assessed the impact of IFRS 15 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 January 1, 2019. Early application is permitted provided IFRS 15 *Revenue from Contracts with Customers* is also applied. The Company's management have not yet assessed the impact of IFRS 16 on these financial statements.

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 Company shall determine a date of the transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

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.

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 0.002 US dollars for 1 dram and 0.83 US dollars for 1 euro as of 31 December 2017 (31 December 2016: 0.002 US dollars for 1 dram and 1.06 US dollars 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

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 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.

The Company's Amulsar Gold Project is a development asset.

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, initial measurement 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.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets other than hedging instruments are divided into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or in other comprehensive income. Refer to note 21.2 for a summary of the Company's financial assets by category.

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.

i Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables as well as cash and bank balances.

Trade and other receivables

Current accounts receivable is initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to profit or loss of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

Cash and bank balances

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

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

ii Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. By definition, all derivative financial instruments that do not qualify for hedge accounting fall into this category.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

iii Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity and include deposits at commercial banks. Investments are classified as held-to-maturity if it is the intention of the Company's management to hold them until maturity.

Deposits [change as appropriate] are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the deposit has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the deposit are recognized in profit or loss.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include

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

A summary of the Company's financial liabilities by category is given in note 21.2.

i Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are initially recorded at fair value and carried at amortized cost.

ii 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.

iii 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.

Financing costs

Costs incurred for debt and equity arrangements are recorded as financing costs. Such costs include legal and accounting fees, fees from independent engineers, printing costs, investment banker or registration fees, agency fees, arrangement fees, and the fair value of derivatives resulting from such debt and equity arrangements. As proceeds from financing transactions are received, the associated costs are allocated to and reclassified against such financing arrangements. Financing costs associated with debt are expensed over time as interest expense using the effective interest rate method. 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 as a value in use can be determined. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. When there is no binding sales agreement, fair value less costs to sell is estimated as the discounted future pre-tax, post royalty cash flows expected to be derived from the asset, less an amount for costs to sell estimated based on similar transactions. The inputs used in the fair value measurement constitute Level 3 inputs under the fair value hierarchy. When discounting estimated future cash flows, the Company uses a discount rate that would approximate what market participants would assign. Estimated cash flows are based on expected future production, metal selling prices, operating costs and capital costs.

If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit and loss for that period. Impairment is assessed at the level of cash-generating units, 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 Capitalized Interest

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.

3.10 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.

3.11 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 2016	-	8,104	8,104
Additions	30,075	2,820	32,895
Disposals	-	(141)	(141)
Transfer from exploration and evaluation assets	59,815	-	59,815
Transfer to development assets	-	(234)	(234)
Foreign currency translation differences	-	116	116
Reversal of interest on stream agreement	(328)	-	(328)
as of 31 December 2016	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
Accumulated depreciation			
as of 1 January 2016	-	2,649	2,649
Charge for the year	-	756	756
Eliminated on disposal	-	(119)	(119)
Foreign currency translation differences	-	38	38
as of 31 December 2016	-	3,324	3,324
Charge for the year	-	797	797
Eliminated on disposal	-	(308)	(308)
as of 31 December 2017	-	3,813	3,813
Carrying amount			
as of 31 December 2016	89,562	7,341	96,903
as of 31 December 2017	336,927	13,890	350,817

The Amulsar project 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 $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 include all expenses incurred during the reporting period associated with mine development of the Amulsar project, 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.

Non-cash additions during the reporting period include capitalized depreciation at the amount of thousand US dollars 797 (2016: thousand US dollars 747), restoration liability at the amount of thousand US dollars 7,634 (2016: thousand US dollars 107) and capitalized interest from financial arrangements at the amount of thousand US dollars 14,107 (2016: thousand US dollars 5,281).

5 Derivative assets and liabilities

The Company recognized certain financial instruments relating to the financing agreements described in note 18, 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 as of 31 December 2017:

In thousand US dollars	Fair value hierarchy level	As of 31 December 2017		As of 31 December 2016	
		Carrying value	Fair value	Carrying value	Fair value
Derivative assets:					
Stream prepayment option	3	2,789	2,789	1,308	1,308
Stream commodity linked repayment	3	-	-	6,284	6,284
Total derivative assets		2,789	2,789	7,592	7,592
Derivative liabilities:					
Offtake agreement derivative	3	39,097	39,097	21,178	21,178
Total derivative liabilities		39,097	39,097	21,178	21,178

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 2016	3,069	(21,922)	-	
Change in fair value	(1,761)	744	6,284	5,267
Fair value as of 31 December 2016	1,308	(21,178)	6,284	
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)
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
Impact upon fair value as of 31 December 2016 of:				
10% change in gold price	1,049	(2,158)	(9,327)	(10,436)
10% change in silver price	131	-	(865)	(734)
10% change in 3-month LIBOR rate	66	42	(122)	14

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 2016	552
Additions	17,506
Balance as of 31 December 2016	18,058
Additions	10,907
Reclassified to debt	(16,912)
Balance as of 31 December 2017	12,053

Deferred financing costs include fees incurred on financial arrangements described in note 18.

7 Other non-current assets

In thousand US dollars	As of 31 December 2017	As of 31 December 2016
Deferred VAT receivable	13,654	191
Refundable VAT	19,755	4,277
Rehabilitation and monitoring prepayment	325	293
Other	745	1,174
	34,479	5,935

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 applied for a refund in early 2018.

Deferred VAT is associated with the import of equipment, which allows the Company to defer payments for up to three years from the date of import. The deferred VAT receivable and deferred payable of thousand US dollar 13,654. Deferred VAT will become recoverable upon maturity of deferral and payment of respective payable.

Rehabilitation and monitoring prepayment

The prepayment for rehabilitation as of 31 December 2017 was discounted to present value using 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 2017	As of 31 December 2016
Deposits	8	8
Prepayments and other receivables	888	4,759
Inventory and other supplies	329	247
	1,225	5,014

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

9 Cash and bank balances

In thousand US dollars	As of 31 December 2017	As of 31 December 2016
Cash in hand	-	4
Bank accounts	13,020	42,366
Cash and bank balances reported in the statement of cash flows	13,020	42,370
Restricted bank balance	636	9,078
Cash and bank balances in the statement of financial position	13,656	51,448

As of 31 December 2017, the Company held cash amounts at the amount of thousand US dollars 636 (2016: thousand US dollars 9,078) 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 22 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 2017	Ordinary shares 2016
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 provide up to US dollars 325 million in construction financing for Amulsar project.

As described in note 18, 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 US dollar 400/oz for gold and US dollar 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	Advances under stream agreement	Stream liability
As of 1 January 2016	24,925	-
Accrued interest	1,671	-
Subtotal	26,596	-
Derecognition / replacement	(26,596)	23,453
Debt additions	-	35,000
Financing costs	-	(1,794)
Accrued interest	-	3,610
As of 31 December 2016	-	60,269
Financing costs	-	295
Accrued interest	-	8,843
Less current portion	-	(1,695)
As of 31 December 2017	-	67,712

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 2017		As of 31 December 2016	
		Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:					
Stream liability	3	67,712	85,085	60,269	61,289
Current portion of stream liability		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 2017	As of 31 December 2016
Payables to related parties	45,064	33,106
Payables to state budget	13,661	191
	58,725	33,297

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 22 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 2017	As of 31 December 2016	As of 31 December 2017	As of 31 December 2016
Bank loans and overdraft	14,025	68	105,318	10,847
Borrowings from related party	123,112	70,583	-	-
	137,137	70,651	105,318	10,847

On 22 November 2016, the Company entered into US dollars 24 million secured credit facility agreement with Ameriabank CJSC ("Ameriabank Credit Facility"). Proceeds from the secured credit facility will be used for equipment purchases for the Amulsar project. Details on the loan facility are as follows:

- Maximum principal amount of US dollar 24 million, available in multiple tranches, no minimum or maximum amount with each tranche payable over a 10-year period from date of advance.
- Security consists of specific equipment financed by the bank.
- Initial principal grace period of one year.
- Interest at Libor plus 8.75%, commitment fee of 2% on undrawn portion of the facility.
- Payments are due quarterly beginning 2018 through 2026.

The Company received an initial loan advance of US dollar 10 million in December 2016.

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 2017 the Company received borrowings from Lydian International Limited (ultimate parent) at the amount of thousand US dollars 52,535 (2016: thousand US dollars 4,347).

The Company has undrawn borrowing facilities at the amount of thousand US dollars 142,167 as of 31 December 2017 (31 December 2016: thousand US dollars 29,414).

Refer to note 22 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

Non-current provisions fully relate to restoration liabilities of the Company which represents a rehabilitation obligations related to the closure of the Amulsar project. As of 31 December 2017 the Company has rehabilitation obligations over 45.1 hectare pertaining to exploration activities undertaken as of that date.

Movement in the restoration liabilities is presented below:

In thousand US dollars	2017	2016
Balance at the beginning of year	452	339
Additions	7,650	108
Foreign currency translation differences	(16)	5
Balance at the end of year	8,086	452

15 Accounts payable and accrued liabilities

In thousand US dollars	As of 31 December 2017	As of 31 December 2016
Trade payables	27,519	3,000
Accruals for employee benefits	1,200	463
Taxes and duties payable	378	261
Other	7,018	54
	36,115	3,778

No interest is charged on the trade payables.

Refer to note 22 for the currencies in which the payables are denominated and for more information about the Company's exposure to foreign currency risk.

16 Income tax expense

In thousand US dollars	Year ended 31 December 2017	Year ended 31 December 2016
Current tax	-	-
Deferred tax (refer to note 17)	-	-
	-	-

There were no income taxes payable by the Company for the year ended 31 December 2017 and the corresponding period in 2016.

Reconciliation of effective tax rate is as follows:

In thousand US dollars	Year ended 31 December 2017	Effective tax rate (%)	Year ended 31 December 2016	Effective tax rate (%)
Profit/ (loss) before taxation (under IFRSs)	(23,344)		5,279	
Tax calculated at a tax rate of 20% (2016: 20%)	(4,669)	20.0	1,056	20.0
(Non-taxable)/non-deductible items, net	4,542	(19.5)	(1,100)	(21.0)
Effect of unused tax losses not recognized as deferred income tax assets	90	(0.4)	41	1.0
Temporary differences not recognized as deferred income tax assets/liabilities	37	(0.1)	3	-
Income tax expense/ (recovery)	-	-	-	-

17 Deferred income taxes

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 taxes for the year ended 31 December 2016 can be summarized as follows:

In thousand US dollars

	1 January 2016	Recognized in profit and loss	31 December 2016
Deferred income tax assets			
Development assets	-	106	106
Trade and other payables	27	5	32
Tax losses to carry forward	884	41	925
	911	152	1,063
Deferred income tax liabilities			
Property and equipment	(2)	(107)	(109)
Valuation of deferred tax assets	(909)	(45)	(954)
Net position	-	-	-

Deferred income tax assets at thousand US dollars 1,080 (2016: US dollars 954) were not recognized due to uncertainties related to their future realization. The unutilized tax losses expire in 5 years, following the year of origination, after which they may never be used.

18 Financing arrangements

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.

Term Loan and cost overrun facility

In 2016, the Company entered into the Term Loan agreement, which provides $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. Principal plus interest will be paid through quarterly scheduled installments and a 30% cash sweep of excess cash flow beginning 30 June 2018 and continuing through maturity on 30 September 2021. A $14 million cost overrun facility (“COF”) is also available as part of the Term Loan. Interest is calculated based on the 3-month US dollar LIBOR rate, subject to a minimum of 1%, plus a 9.5% margin. A cash sweep of 30% of excess cash flows will be used to repay the COF. Any remaining balance will be due in full on 30 September 2020.
On 30 June 2017, the Company entered into a Fifth Amending Agreement to the Term Loan that modified the availability period of the Second Advance to 15 August 2017, extended Commercial Production date to 30 September 2018 and provided for certain changes to other conditions precedent. As of 31 December 2017, three Term Loan draws totaling $80 million had been received. Availability of additional funds is subject to satisfaction or waiver of certain conditions.

Equipment Financing

The Company entered three secured credit facilities for the purpose of purchasing equipment associated with the Amulsar Gold Project. The maximum aggregate borrowings under these term facilities is limited to $90 million. A summary of each term facility is below:

- The Ameriabank Term Facility has a maximum principal amount of $24 million and will be secured by certain equipment. Interest is calculated based on LIBOR plus 8.75% and there is a 2% commitment fee on any undrawn portion. Interest and commitment fees are payable quarterly and principal payments become payable quarterly beginning in January 2018. As of 31 December 2017, $10 million was drawn on this facility. Availability of additional funds is subject to satisfaction or waiver of certain conditions.
- The Cat Term Facility has a maximum principal amount of $42 million and will be secured by certain mobile mining equipment. Interest is calculated based on LIBOR plus 4.5%. Each advance is repayable over a 75-month term, inclusive of a six-month initial repayment grace period. As of 31 December 2017, $2.3 million was drawn on this facility. Availability of funds is subject to satisfaction or waiver of certain conditions.
- The ING Term Facility has a maximum principal amount of $50 million and will be secured by material handling and electrical equipment. Interest is calculated based on LIBOR plus 2.95%. Each advance is repayable over a 51-month term. As of 31 December 2017, $40.5 million was drawn on this facility. Availability of additional funds is subject to satisfaction or waiver of certain conditions.

The Company is either in compliance with the provisions of its debt facilities or has received waivers as of 31 December 2017.

19 Subsequent events

Additional borrowing

Subsequent to 31 December 2017, the Company borrowed an additional $75.9 million including $43.6 million on the Term Loan, $6.3 million from ING Bank and $26 million on the CAT Term Facility.

Political situation

The political situation in the Republic of Armenia was unstable since April 2018, due to mass demonstrations of inhabitants in Armenia against the ruling political party. These demonstrations were performed through civil disobedience by blocking streets, bridges and other infrastructure.

On 8 May 2018 the Armenian National Assembly elected the Prime Minister and demonstrations ceased, however, these may give rise to uncertainties in state regulations, including those relating to mining industry and may lead to changes in interpretations of existing legal and environmental approaches by state and local authorities.

These political changes in the Republic of Armenia also activated the public interest in relation to the Company's operations, including that of some environmental activists. Without any legal ground, some environmental activists have blocked the entrances to the Amulsar Mine. In order to find a solution to the existing situation, the Government of the Republic of Armenia has created a "fact finding working group", which has a mission of collecting impartial information about legality of licenses granted to the Company and about the availability of any possible environmental issues. The Company is also involved in this working group and assists in getting trustworthy information as soon as possible.

Management believes that the Company's operations and licenses are fully compliant with the established laws and regulations and also believes that the existing situation has a temporary nature and will be resolved soon. Accordingly, management believes that there is no need to make any adjustments to the Company's financial statements as of and for the year ended 31 December 2017 in relation to this political instability.

20 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.

20.1 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.

Recoverability of receivables from the State budget

As described in note 7 the Company has input VAT of thousand US dollars 33,409, which will be refunded by the State budget or offset with other tax liabilities whenever the Company starts trading. As additionally described in note 26.3 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 2017 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 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.

Impairment of development assets

The Company had sufficient financial resources and therefore decided to proceed with construction of Amulsar in May 2016. Upon this decision, costs previously recorded as exploration and evaluation assets were reclassified to development assets. 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. Management has assessed impairment indicators of the Company's development assets and found that no impairment indicators exist at the end of each reporting period.

The application of the Company's accounting policy for assessing impairment of development assets requires judgment. In completing impairment assessments, the Company utilized certain findings as reported in its technical report dated 30 March 2017 ("2017 Amulsar Technical Report"), which was prepared in accordance with National Instrument 43-101 – Standards for Disclosure of Mineral Projects ("NI 43-101"). This included the amount and timing of cash flows, reflecting estimates such as mineral resources, mineral reserves, recovery rates, capital costs, operating costs, and royalty and tax burdens. Management also estimated gold and silver prices for the impairment assessments. Each of these considerations and judgments applied by management in completing the impairment assessments represent key sources of estimation uncertainty.

Fair value of financial instruments

Fair value of financial instruments that are not traded on an active market 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.

20.2 Critical judgments in applying accounting policies

Change in functional currency

Effective 26 May 2016, the Company changed the functional currency from the Armenian Dram to the US dollar. This change was deemed appropriate as it became evident that Company's underlying transactions, particularly capital spending and financing of Amulsar project, are predominantly denominated in US dollars. This change in judgment has been accounted for prospectively in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Stream liability

The Company entered into a stream agreement ("Stream Agreement") on 30 November 2015 and subsequently received an initial advance of cash. As set out in the financial statements for the year ended 31 December 2015, management treated the cash received as an advance based on consideration of the characteristics of the cash advance and contractual terms of the agreement. In May, 2016 the Company de-recognized the advance which was replaced with a financial liability, as it was management's judgment that the financing arrangement was best characterized as a financial liability as the Company met the conditions precedent to the agreement. This determination was based predominantly on conditions of the Stream Agreement permitting cash settlements.

21 Financial instruments

21.1 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.

21.2 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 2017	As of 31 December 2016
Held-to-maturity investments:		
Term deposit	8	8
Financial assets at fair value through profit or loss:		
Derivative asset	2,789	7,592
Loans and receivables:		
Accounts receivable	21	11
Borrowings provided	-	-
Rehabilitation prepayment	325	293
Cash and bank balances	13,656	51,448
	16,799	59,353

Financial liabilities

In thousand US dollars	As of 31 December 2017	As of 31 December 2016
Financial liabilities designated at fair value through profit and loss:		
Derivative liabilities	39,097	21,178
Financial liabilities measured at amortized cost:		
Loans and borrowings	242,455	81,498
Stream liability	69,407	60,269
Accounts payable and accrued liabilities	35,737	3,517
Payables to related parties	45,064	33,105
	431,760	199,567

22 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 2017	As of 31 December 2016
Net of financial assets and liabilities denominated in:		
AMD	33,291	(558)
EUR	997	-
Other	1	4,094
	34,289	3,536

The following table details the Company's sensitivity to a 10% (2016: 10%) increase and decrease in US dollar against the relevant currency. 10% (2016: 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% (2016: 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		Other currency impact		Armenian dram impact	
	2017	2016	2017	2016	2017	2016
Profit or loss	100	-	-	(409)	3,329	55
	100	-	-	(409)	3,329	55

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 bear interest at LIBOR plus 8.75%. Advances under the ING Term Facility bear interest at LIBOR plus 2.95% and advances under the Cat Term Facility bear interest at LIBOR plus 4.5%.

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 2017 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 2017, would affect the profit or loss by a minimum amount in both 2017 and 2016.

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 2017, 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 2017	As of 31 December 2016
Financial assets at carrying amounts		
Accounts receivable	21	11
Derivative assets	2,789	7,592
Rehabilitation and monitoring prepayment	325	294
Term deposits	8	8
Bank balances	13,656	51,448
	16,799	59,353

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 2017 and 2016 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. The Company's ability to settle borrowings and other long-term liabilities when due is dependent upon future liquidity from capital sources or positive cash flows from commercial operations.

Access to funds under the current financing arrangements is subject to meeting certain conditions. In addition, 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.

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.

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

2016	Non-interest bearing	Variable interest rate instruments	Total
Weighted average effective interest rate (%)		12%	
Less than 6 months	3,513	296	3,809
6 months to 1 year	70,586	481	71,067
More than 5 years	35,068	14,468	49,536
	109,167	15,245	124,412

23 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).

23.1 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 2017	31 December 2016
Gold spot price per ounce	$1,306.30	$1,150.00
Silver spot price per ounce	$17.06	$15.94
Risk free interest rate	2.42%	2.38%
3-month LIBOR rate	1,705%	0.935%

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.

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.

24 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.

Management assesses the Company's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Company's various classes of debt. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

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

In thousand US dollars	As of 31 December 2017	As of 31 December 2016
Total equity	(38,866)	(15,522)
Add: subordinated financing	168,176	103,691
Less: cash and bank balances	(13,656)	(51,448)
Capital	115,654	36,721
Total equity	(38,866)	(15,522)
Debt	356,926	174,876
Overall financing	318,060	159,354
Capital to overall financing ratio	0.36	0.23

The capital required for the development of the Amulsar Gold Project was raised through the deposits received in connection with the stream liability and proceeds from debt. The net proceeds raised are used to advance the development of the Amulsar Gold Project and provide sufficient working capital to meet the Company's ongoing obligations. Access to available funds is subject to satisfaction or waiver of certain conditions.

The Company has entered into debt arrangements as discussed in note 18. 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.

25 Commitments

25.1 Capital commitments

The Company has entered into key equipment supply and major earthworks contracts for construction of Amulsar. The contracts provide for termination provisions common to the industry. The provisions generally provide payment for i) the reasonable, direct, documented costs incurred as a result of such early termination, ii) if the contract is paid on a cost reimbursable basis, the amount owed for work performed to the termination date; or iii) if the contract is on a unit price or lump sum basis, an amount that is proportionate to the number of units completed or to the percentage of the work that has been completed as of the termination date as compared to the total work that was to have been completed.
Commitments as of 31 December 2017 were approximately $50 million.

25.2 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.

Non-cancelable operating lease commitments are disclosed below:

In thousand US dollars	As of 31 December 2017	As of 31 December 2016
Within one year	1,572	1,791
1 to 5 years	6,093	5,925
After 5 years	8,735	7,379
	16,400	15,095

25.3 Legal commitments

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

26 Contingencies

26.1 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.

26.2 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.

26.3 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.

26.4 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.

27 Related parties

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

27.1 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.

27.2 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 2017	Year ended 31 December 2016
Parent		
Borrowings received	52,535	3,327
Services received	11,042	11,843
Entities under common control		
Services received	1,000	652
Key management		
Accrued salaries and bonuses	263	329
Borrowings repaid	-	3

In thousand US dollars

Outstanding balances	As of 31 December 2017	As of 31 December 2016
Parent		
Borrowings from related parties	123,112	70,583
Payables to related parties	43,412	32,454
Entities under common control		
Trade and other payables	1,651	652
Key management		
Trade and other payables	-	103