

Financial Statements and Independent Auditor's Report

Lydian Armenia CJSC

31 December 2020



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Independent auditor's report

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 2020, 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 matters 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 2020, 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

- The Company failed to submit us calculations regarding its derivative liabilities per the requirements of IFRS. Due to the nature of those liabilities and complexities related to the fair value determination of those derivatives, as well as uncertainties regarding the ability of the Company to redeem its liabilities, we were unable to verify the fair values of the derivative liabilities as of 31 December 2020 through alternative audit procedures. Accordingly, we were unable to determine whether any adjustments were needed in respect of those items liabilities.
- The Company failed to submit us calculations regarding its provisions for reclamation costs per the requirements of IFRS. Due to the nature of those provisions and complexities related to the estimations of the future outflows of economic benefits to restore and rehabilitate the mine explained by the inability of the Company to continue its operations, we were unable to verify the amount of the provision as of 31 December 2020 through alternative audit procedures. Accordingly, we were unable to determine whether any adjustments were needed in respect of the provision.

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.

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Other Matter

As discussed in note 1 to the financial statements, the shareholders of the Company are considering realization of a plan of liquidation within the coming 12 months. As a result, the Company changed its basis of accounting from the going concern basis to a liquidation basis. Our opinion is not modified with respect to 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.

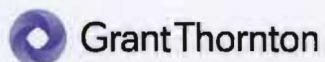
Those charged with governance are responsible for overseeing the Company's financial reporting process.

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.

Armen Hovhannisyan
Chief Executive Officer

Emil Vassilyan, FCCA
Engagement Partner

9 July 2021



A handwritten signature in blue ink, appearing to be "Emil Vassilyan".

Statement of financial position

In thousand US dollars

	Note	As of 31 December 2020	As of 31 December 2019
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents		1,797	2,217
Restricted cash		3	1,015
Other current assets	5	11,372	15,212
		<u>13,172</u>	<u>18,444</u>
Non-current assets classified as held for sale	6	19,531	-
		<u>19,531</u>	<u>-</u>
Total current assets		<u>32,703</u>	<u>18,444</u>
<i>Non-current assets</i>			
Mineral property, plant and equipment, net	7	1,695	27,857
Other non-current assets	8	1,470	5,167
Total non-current assets		<u>3,165</u>	<u>33,024</u>
TOTAL ASSETS		<u>35,868</u>	<u>51,468</u>
LIABILITIES			
<i>Current liabilities</i>			
Accounts payable and other current liabilities	9	1,540	670
Current deferred VAT payable	5	7,605	13,442
Borrowings from related parties, net	12	148,600	-
Stream liability and debt	10	420,103	354,378
Derivative liabilities	11	19,931	19,931
Current provisions		100	1,272
Total current liabilities		<u>597,879</u>	<u>389,693</u>
<i>Non-current liabilities</i>			
Borrowings from related parties, net	12	-	190,210
Provisions	13	3,183	3,180
Deferred VAT payable		-	723
Non-current portion of lease liabilities		-	67
Total non-current liabilities		<u>3,183</u>	<u>194,180</u>
Total liabilities		<u>601,062</u>	<u>583,873</u>
EQUITY			
Capital contribution		95	95
Translation of foreign operations		(7,851)	(7,851)
Accumulated deficit		(557,438)	(524,649)
Total equity		<u>(565,194)</u>	<u>(532,405)</u>
TOTAL LIABILITIES AND EQUITY		<u>35,868</u>	<u>51,468</u>

The financial statements were approved on 9 July 2021 by:

Hayk Aloyan
Director

Armen Martirosyan
Financial Manager

The accompanying notes from pages 10 to 27 are an integral part of these financial statements.



Statement of profit or loss and other comprehensive income

In thousand US dollars	Note	Year ended 31 December 2020	Year ended 31 December 2019
Income from write off of intercompany payables	12	43,352	-
Interest income		5	67
Total income		43,357	67
Dislocation-related expense	15	(66,645)	(72,387)
Gain/(loss) on financial instruments fair value, net	11	-	10,028
Impairment of mineral property, plant and equipment	16	(6,230)	(303,954)
Other income/expense, net		(3,271)	(233)
Total expense		(76,146)	(366,546)
Loss before income taxes		(32,789)	(366,479)
Income tax expenses	17	-	-
Net loss		(32,789)	(366,479)
Total comprehensive loss		(32,789)	(366,479)

The accompanying notes from pages 10 to 27 are an integral part of these financial statements.

Statement of changes in equity

In thousand US dollars	Capital Contribution	Translation of foreign operations	Accumulated deficit	Total
Balance as of 1 January 2019	95	(7,851)	(158,170)	(165,926)
Loss for the year	-	-	(366,479)	(366,479)
Balance as of 31 December 2019	95	(7,851)	(524,649)	(532,405)
Loss for the year	-	-	(32,789)	(32,789)
Balance as of 31 December 2020	95	(7,851)	(557,438)	(565,194)

The accompanying notes from pages 10 to 27 are an integral part of these financial statements.

Statement of cash flows

In thousand US dollars	Note	Year ended 31 December 2020	Year ended 31 December 2019
Cash from operating activities			
Net loss		(32,789)	(366,479)
<i>Adjustments for:</i>			
Interest and other financing costs	10	61,410	55,579
Loss on write off of intercompany payables		(43,352)	-
(Gain) on financial instruments at fair value, net	11	-	(10,028)
Impairment of mineral property, plant and equipment	16	6,230	303,954
Depreciation and amortization expenses		2,375	6,221
Loss on disposal		3,116	-
Interest income		(5)	(67)
Other		325	899
<i>Working capital changes:</i>			
Change in other current assets		3,382	(308)
Change in accounts payable and accrued liabilities		(1,343)	(175)
Cash used in operating activities		(651)	(10,404)
Cash flows from investing activities			
Acquisition of mineral property, plant and equipment		(5,089)	(670)
Change in other assets		3,697	16,541
Change in other non-current liabilities		(697)	-
Interest income received		5	67
Other		-	41
Cash from/(used in) investing activities		(2,084)	15,979
Cash flows from financing activities			
Proceeds/(repayment) from borrowings		-	9,074
Intercompany borrowings, net		8,523	(10,145)
Debt repayments		(6,364)	(3,000)
Other		-	(384)
Cash from/(used in) financing activities		2,159	(4,455)
Net increase/(decrease) in cash and cash equivalents		(576)	1,120
Foreign exchange effect on cash		156	2
Cash and cash equivalents, beginning of year		2,217	1,095
Cash and cash equivalents, end of year		1,797	2,217

The accompanying notes from pages 10 to 27 are an integral part of these financial statements.

Notes to the financial statements

1 Nature of operations and general information

Lydian Armenia Closed Joint Stock Company ("Lydian" or, 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.

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.

The former ultimate parent of the Company was Lydian International Limited, which was located at Bourne House, 1st Floor, Francis Street, St. Helier Jersey, JE2 4QE, Channel Islands and consolidated the financial statements of the Company till the financial year ended 31 December 2019. Lydian International Limited commenced trading on the Toronto Stock Exchange on January 10, 2008 under the symbol LYD. On 23 December 2019, the Company's ultimate parent, Lydian International Limited, a publicly traded entity on the Toronto Stock Exchange ("TSX"), filed for protection under the Canadian Companies' Creditors Arrangement Act ("CCAA") and was granted protection pursuant to an order of the Ontario Superior Court of Justice (the "Court"). Subsequently, trading of Lydian International Limited's Ordinary Shares was halted and a de-listing review by the TSX was initiated, and it was decided to delist the Lydian International Limited's Ordinary Shares on 5 February 2020.

Following a change in the Government of Armenia in May 2018, demonstrations and road blockades occurred sporadically throughout the country. These initial protests primarily targeted the mining sector, including the Amulsar Project. Despite court rulings in favor of Lydian, a continuous illegal blockade at the Amulsar Project has been in place since 22 June 2018 causing construction activities to be suspended. Lydian has been dislocated from the Amulsar Project site and its access has been limited to contractor demobilization and winterization during the fourth quarter of 2018, and to one day of limited Police escorted access in the second quarter of 2019.

The Government of Armenia has not enforced the rule of law to remove the illegal blockades at the Amulsar Gold Project and prosecute other illegal acts carried out against the Company. Furthermore, the Government of Armenia has taken certain actions and failed to act on other matters. The Government of Armenia's actions and inactions have substantially restricted the Company's access to capital and caused conditions to occur that were deemed events of default by the senior lenders, stream financing providers, and equipment financiers. As a result, the Company entered into four successive forbearance agreements with its senior lenders, stream financing providers and equipment financiers as detailed in Note 10. The ultimate agreement being the Fourth A&R Forbearance Agreement dated 14 October 2019, which expired on 20 December 2019. On 20 December 2019, the Company was unable to reach a consensus on terms with all of its lenders to extend the forbearance period, so the lenders' obligation to forbear from declaring or acting upon, or exercising default related rights or remedies under such creditor's financing agreement with respect to certain events of default came to an end. To protect the assets and interests of the Company and its stakeholders, Lydian International Limited filed for protection under CCAA on 23 December 2019.

As a result of the actions and inactions of the Government of Armenia, the Company has fully written off the carrying value of its investment in development assets at Amulsar. See Note 16 for additional information.

The Company is in default of its agreements with its senior lenders, stream financing providers, and equipment financiers since June 2020. As a result of this default, the Company's assets have been fully transferred to the senior lenders and the ultimate parent of the Company entered into a liquidation. As a result, the ultimate parent of the Company is Lydian Canada Ventures Corporation, whose partners are the senior lenders of the Company and who own 100% of the Company shares.

In advance of the change of ownership in the Company, a decision to implement revitalized efforts to re-engage with a broad group of interests was made given the dynamics at play in Armenia in 2020. These dynamics included:

1. A severe decline in economic activity throughout Armenia, which was not caused entirely by the COVID crisis but was exacerbated by it, and which became more acute.
2. A resurgence in encouraging commentary in mainstream and social media, and among the business community generally, about the benefits that would have come had the Amulsar mine been brought into operation as previously scheduled.
3. Tentative but favourable conversations with officials within the Government of Armenia at various levels (including cabinet level) regarding the potential for bringing the Amulsar mine into operation.

The accompanying notes from pages 10 to 27 are an integral part of these financial statements.

4. Changes in the political landscape and political leadership at senior levels within the GOA, including the dismissal of Erik Grigoryan as Minister of Environment.

From July to September 2020 the Company commenced re-engaging with the Government of Armenia officials at all levels, as well as the members of the Parliament from all parties, the diplomatic corps and supporters in the business community in Armenia. This was done as the first part of an intended multi-stage effort to develop and implement a strategic approach to regain access to the Amulsar site and permission to operate from the Government of Armenia. Messaging in the meetings focussed mainly on the economic benefits flowing from the Amulsar mine being in operation and developing the conditions which would permit new capital to be obtained to accomplish that end.

In September 2020, the illegal blockades at the Amulsar Site had dispersed and the Company gained access to site. Discussions with the Government of Armenia commenced at higher levels with the new Owners (previous Senior Lenders) of the company which included the creation of a Framework Agreement to ensure the smooth implementation of the project, ensure mutual performance of commitments and the full exercise of rights established by the legislation of the Republic of Armenia. The discussions with the Government of Armenia were delayed by the war in Nagorno Karabakh in the fall of 2020 had not recommenced and progressed by the end of 2020.

The Company is no longer operating as a going concern and these financial statements have been prepared on the liquidation basis. Dislocation-related expenses still continue to be incurred, additional time and funding are needed for site restoration.

The accompanying notes from pages 10 to 27 are an integral part of these financial statements.

2 Basis of Presentation, Critical Accounting Judgments and Key Estimation Uncertainties

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, and interpretations of the International Financial Reporting Interpretations Committee. They have been prepared on a “liquidation basis” of accounting, under the assumption that the Company will not operate on a going concern basis.

Currently IFRSs do not contain specific guidance on this basis of accounting concerning the accounting treatment and presentation of financial statements. Where IFRS do not give guidance on how to treat transactions and balances on the liquidation basis, accounting policies have been based on the general principles of IFRS, as detailed in the International Accounting Standards Board (“IASB”) The Conceptual Framework for Financial Reporting.

2.2 Basis of measurement

The financial statements have been prepared on the liquidation basis. Under this basis the Company has used the recognition and measurement requirements of IFRS as the starting point for accounting and has modified these requirements where adequate justifications existed. All such modifications have been disclosed in explained in the respective notes to the financial statements.

All amounts are presented in thousands of US Dollars unless otherwise stated.

2.3 Critical accounting estimates and judgment

The preparation of these financial statements under the liquidation basis of accounting requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expense. In management’s opinion, all adjustments considered necessary for a fair presentation have been included in these financial statements.

Recovery of mineral property, plant and equipment and other non-current assets

Management estimates that the recoverable amount of the mineral property, plant and equipment is close to nil considering the intentions to liquidate the Company. However, these assets will have a significant value if revalued once the site is rehabilitated and the minable ore is operated. Such a revaluation will consider the amount and timing of cash flows, reflecting estimates such as minable ore, additional mineral resources not included in minable ore, gold and silver prices, metal recovery rates, capital costs, operating costs, royalty and tax burdens, and the discount rate applied to future cash flows.

Management’s intention is to state the mineral property, plant and equipment at the recoverable amount until the intentions are changed and the mine becomes operable.

Fair value of financial instruments

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

The Company entered into several financing agreements (the “Agreements”) that contained provisions giving rise to financial derivatives. These derivatives are accounted for at fair value and marked to market each reporting period thereafter. In determining fair value, management’s judgment is required in respect of input variables of the financial model used for estimation purposes, such as 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.

The accompanying notes from pages 10 to 27 are an integral part of these financial statements.

Asset retirement obligation

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

Deferred Taxes

Deferred tax assets and liabilities are not recognized due to the liquidation basis of accounting adopted for these financial statements.

Leases

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

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

The accompanying notes from pages 10 to 27 are an integral part of these financial statements.

3 Accounting policies

The accounting policies adopted, other than policies associated with changes in circumstances, including the changes in relation to transformation to liquidation basis of accounting, are consistent with those of the previous financial year.

3.1 Foreign 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.

3.2 Cash and cash equivalents

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

3.3 Restricted cash

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

3.4 Financial instruments (assets)

The Company's financial assets include:

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

3.5 Financial instruments (liabilities)

The Company's financial liabilities include:

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

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

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

3.6 Financing costs

Costs incurred for debt and equity arrangements are recorded as financing costs. Such costs include legal and accounting fees, fees from independent engineers, printing costs, investment banker or registration fees, agency fees, arrangement fees, and the fair value of derivatives resulting from such debt and equity arrangements. As proceeds from financing transactions are received, the associated costs are allocated to and reclassified against such financing arrangements. Financing costs associated with debt

are expensed over time as interest expense using the effective interest rate method, unless capitalized during construction period. In the event that a financing effort is abandoned, or unsuccessful, allocable financing costs are charged to expense.

3.7 Refundable Value Added Tax

Value added tax is paid to the Armenian government for the provision of certain goods and services. Refundable value added tax is recoverable at the time of export sale or earlier through certain legislated provisions. The Company classifies refundable VAT as a current asset if the is planned to occur within one year.

3.8 Deferred Value Added Tax

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

3.9 Exploration and evaluation assets

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

3.10 Development costs

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

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

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

The Company's Amulsar Gold Project is considered a development asset, though its carrying value has been fully impaired as of 31 December 2020 (refer to note 16). Refer to note 3.12 for the Company's policy regarding the impairment of the development assets.

3.11 Restoration and reclamation

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

Changes in the above factors can result in a change to the provision being recognized. An asset retirement obligation to incur decommissioning and reclamation costs generally occurs when an environmental disturbance is caused by exploration, evaluation or development. Costs are estimated on the basis of a closure plan and are subject to periodic review.

Decommissioning and site reclamation costs are discounted to present value when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs will be charged through depreciation and/or depletion of the asset and unwinding of the discount on the provision.

3.12 Impairment of development assets

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

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

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

3.13 Plant and equipment

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

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

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

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

3.14 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.

3.15 Dislocation-related expense

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

3.16 Taxation

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

3.17 Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

4 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 2020.

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

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2020

New standards and amendments described below and applied for the first time in 2020 did not have a material impact on the annual financial statements of the Company:

- Conceptual Framework for Financial Reporting
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendment to IFRS 9 and IFRS 7)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

Management does not anticipate a material impact on the Company's financial statements from these Standards and Amendments, they are presented below:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)
- IFRS 17 Insurance contracts
- Proceeds before intended use (Amendments to IAS 16)
- References to the conceptual framework (Amendments to IFRS 3)
- Onerous contracts – costs of fulfilling a contract (Amendments to IAS 37)
- Annual improvements to IFRS Standards 2018-2020 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)
- Classification of liabilities as current or non-current (Amendments to IAS 1)

5 Other current assets

In thousand US dollars

	As of 31 December 2020	As of 31 December 2019
Deferred VAT	7,605	13,442
Refundable VAT	3,678	1,067
Advances to vendors and other receivables	13	454
Receivables from State Budget	-	173
Deposits	8	8
Other	68	68
	<u>11,372</u>	<u>15,212</u>

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

Deferred VAT liabilities have to be paid before 31 December 2021. Management believes that all the balances due from the State budget are fully recoverable. Refundable VAT was fully recovered as of 31 May 2021.

6 Non-current assets classified as held for sale

During the year due to the inability of the Company to repay its debt obligations, it was decided to dispose of the assets pledged under the equipment financing agreements (refer to note 10). The legal title of these assets has passed to the Caterpillar Inc. ("CAT"), in accordance with the equipment financing agreement terms. Directors have a defined plan for the disposal and the Company management believe that the disposal will take place within 12 months after the reporting date.

7 Mineral property, plant and equipment

In thousand US dollars	Development assets	Equipment	Right of use	Total
as of 1 January 2019	385,787	60,939	-	446,726
Additions	52,014	-	294	52,308
Disposals	(58,585)	(46)	-	(58,631)
Internal movement	(450)	450	-	-
as of 31 December 2019	378,766	61,343	294	440,403
Additions	6,239	-	-	6,239
Disposal	-	(4,265)	-	(4,265)
Internal movement	(9)	9	-	-
Transfer to non-current assets classified as held for sale	-	(30,932)	-	(30,932)
as of 31 December 2020	384,996	26,155	294	411,445
<i>Accumulated depreciation and impairment</i>				
as of 1 January 2019	92,700	9,671	-	102,371
Charge for the year	-	6,101	120	6,221
Impairment	286,066	17,888	-	303,954
as of 31 December 2019	378,766	33,660	120	412,546
Charge for the year	-	3,404	120	3,524
Impairment	6,230	-	-	6,230
Eliminated on disposal	-	(1,149)	-	(1,149)
Transfer to non-current assets classified as held for sale	-	(11,401)	-	(11,401)
as of 31 December 2020	384,996	24,514	240	409,750
<i>Carrying amount</i>				
as of 31 December 2019	-	27,683	174	27,857
as of 31 December 2020	-	1,641	54	1,695

See Note 16 for details on the impairment of mineral property, plant and equipment.

8 Other non-current assets

In thousand US dollars	As of 31 December 2020	As of 31 December 2019
Deferred VAT receivable	-	723
Refundable VAT	-	3,096
Restricted reclamation deposit	1,470	1,348
	<u>1,470</u>	<u>5,167</u>

According to the Mining Right, the Company was required to make instalment payments to the Armenian government as a guarantee for post mining rehabilitation and government monitoring. These reclamation deposits will be refunded to the Company after the Armenian government accepts the post mine closure rehabilitation work.

9 Accounts payable and other current liabilities

In thousand US dollars	As of 31 December 2020	As of 31 December 2019
Accounts payable to lenders	1,226	-
Accounts payable and accrued liabilities	237	474
Wage accruals	77	86
Current lease obligations	-	110
	<u>1,540</u>	<u>670</u>

As a result of the liquidation of the former ultimate parent of the Company - Lydian International Limited, accounts payable to the senior lenders of the Company of US dollars 1,226 thousand have been accrued, of which US dollars 433 thousand relate to Orion Co IV Limited, US dollars 469 thousand to Resource Capital Fund VI L.P. and US dollars 324 thousand to Osisko Bermuda Limited.

10 Stream liability and debt

	Stream Liability	Term Facilities	Equipment Financing	Total
Balance at 1 January 2019	78,473	141,366	77,191	297,030
Proceeds from borrowings	-	9,074	-	9,074
Financing Costs	-	(300)	-	(300)
Accrued interest	8,872	19,244	7,407	35,523
Amortization of financing costs	295	11,404	4,352	16,051
Debt payments	-	-	(3,000)	(3,000)
As of 31 December 2019	87,640	180,788	85,950	354,378
Proceeds from borrowings	-	7,503	-	7,503
Accrued interest	23,661	21,612	6,029	51,302
Amortization of financing costs	295	7,620	2,193	10,108
Debt payments	-	-	(3,188)	(3,188)
As of 31 December 2020	<u>111,596</u>	<u>217,523</u>	<u>90,984</u>	<u>420,103</u>

As of 31 December 2020 the Company was in default of certain loan provisions contained in the Stream Agreement, the Term Facility and Equipment Financing facilities. As such those are classified as current.

Forbearance Agreements

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

The Company entered into four successive forbearance agreements with its senior lenders, stream financing providers and equipment financiers (as detailed below). The ultimate agreement being the Fourth Amended and Restated Forbearance Agreement dated 14 October 2019, which expired on 20 December 2019. On 20 December 2019 the Company was unable to reach a consensus on terms with all of its lenders to extend the forbearance period, so the lenders' obligation to forbear from declaring or acting upon, or exercising default related rights or remedies under each creditor's financing agreement with respect to certain events of default came to an end. To protect the assets and interests of the Company and its stakeholders, Lydian International Limited filed for protection under the CCAA on 23 December 2019. The Company operated under the Court protection until 30 June 2020.

Stream Agreement

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

The Stream Agreement was signed between Lydian Armenia (the Seller), Lydian International Limited (the Guarantor), Orion Co IV Limited and Resource Capital Fund (the Purchasers), under which financing at the amount of 60 million US dollars in two instalments have been received. The balances of the principal amount are 37.5 million US dollars from Orion Co IV Limited and 22.5 million US dollars from Resource Capital Fund.

Amended and Restated Purchase and Sale Agreement (“A&R Stream Agreement”)

On 15 January 2019, the Company entered into the A&R Stream Agreement with Osisko Bermuda Limited (“Osisko”) and Resource Capital Fund VI L.P. (“RCF” or the “Purchasers”). This agreement amends and restates the purchase and sale agreement (gold and silver) that was originally entered on 30 November 2015 (the “Stream Agreement”).

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

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

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

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

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

Equipment Financing

The Company entered into three secured credit facilities for the purpose of purchasing equipment associated with the Amulsar Gold Project. The maximum aggregate borrowings under these term facilities is limited to \$90.0 million.

The equipment financing per debtor has the following movement in 2020:

In thousand US dollars	Ameriabank CJSC	Caterpillar Inc	ING Bank N.V.	Total
Balance as of 1 January 2020	11,054	24,585	50,311	85,950
Accrued interest	1,014	1,865	3,150	6,029
Amortization of financing costs	200	690	1,303	2,193
Debt payments	(1,518)	(1,670)	-	(3,188)
Balance as of 31 December 2020	10,750	25,470	54,764	90,984

The equipment financing per debtor has the following movement in 2019:

In thousand US dollars	Ameriabank CJSC	Caterpillar Inc	ING Bank N.V.	Total
Balance as of 1 January 2019	9,695	24,003	43,494	77,192
Accrued interest	1,314	2,328	3,764	7,406
Amortization of financing costs	45	1,254	3,053	4,352
Debt payments	-	(3,000)	-	(3,000)
Balance as of 31 December 2019	11,054	24,585	50,311	85,950

A brief summary of each equipment financing term facility is below:

- The Ameriabank Term Facility has a maximum principal amount of \$24.0 million and is secured by certain equipment. As of 31 December 2019, \$10.0 million was drawn on this facility. As of January 8, 2020, the 2% forbearance premium ceased and the default rate of Libor plus 12.25% commenced.
- The CAT Term Facility has a maximum principal amount of \$42.0 million and is secured by certain mobile mining equipment. Starting from 21 December 2019 the Company began using the default rate of LIBOR plus 6.5%.
- The ING Term Facility has a maximum principal amount of \$50.0 million and is secured by material handling and electrical equipment. Starting from 21 December 2019 the Company began using the default rate of LIBOR plus 4.95%.

Term Facilities

The Company's Term Facility agreement provided for \$160.0 million on a senior secured basis for purposes of construction of Amulsar. Interest was based on the 3-month US dollar LIBOR rate, subject to a minimum of 1%, plus a 6.5% margin (8.5% margin during the forbearance period). In January 2019, as part of the Thirteenth Amending Agreement, all unutilized capacity under the Term Facility and the \$14.0 million Cost Overrun Facility, were cancelled and replaced with a new Term Facility B ("Term Facility B"). However, the Forbearance period ended on 20 December 2019. The 2% premium over the rates which would otherwise have been payable also ceased. As a result, and pursuant to individual loan agreement terms, on 21 December 2019 the Company began using the default rates as follows.

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

In total fifteen amendment agreements have been signed between the parties in relation to the Company's Term Facilities, the last Fifteenth Amendment Agreement expired on 20 December 2019.

As of 31 December 2020, Term Facility and Term Facility B draws totalling \$160 million had been received.

The term facilities per debtor have the following movement in 2020:

In thousand US dollars	Orion Co IV Limited	Resource Capital Fund VI L.P.	Osisko Bermuda Limited	Total
Opening balance as of 1 January	151,700	25,526	3,562	180,788
Accrued interest	17,679	2,872	1,060	21,611
Amortization of financing costs	6,276	1,345	-	7,621
Proceeds from borrowings	3,667	1,020	2,816	7,503
Closing balance as of 31 December	179,322	30,763	7,438	217,523

11 Derivative liabilities

The Company recognized certain financial instruments relating to the Financing Agreements including the stream liability, debt and derivatives as discussed in note 10. The classification of the derivative follows the Financing Agreements. None of these financial instruments are held for trading and the Company does not currently engage in hedge activities.

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

	Derivative Assets (Liabilities)				
	Stream Prepay- ment Option	Offtake Agreement	Stream Commodi- ty Linked Repayment	Warrants	Gain/ (Loss)
In thousand US dollars					
Fair Value Hierarchy Level ¹	3	3	3	2	
Fair value at 1 January 2019	2,290	(21,976)	(8,300)	-	
Fair value at issuance	-	-	-	(1,973)	
Change in fair value	(2,290)	11,840	(1,495)	1,973	10,028
Fair value at 31 December 2019	-	(10,136)	(9,795)	-	
Fair value at 31 December 2020	-	(10,136)	(9,795)	-	

12 Borrowings from related parties, net

In thousand US dollars	As of 31 December 2020	As of 31 December 2019
Payables to related parties	-	49,685
Borrowings from related party	148,600	140,525
	<u>148,600</u>	<u>190,210</u>

The payables are denominated in US dollars and no interest was charged on these payables. During the reporting year the Company has written off the remaining balance of the payables to the related parties at the amount of US dollars 43,352 thousand based on the mutual agreements between the parties.

The borrowings as of 31 December 2020 from related parties are unsecured interest free borrowings payable to the Lydian Canada Ventures Corporation, the ultimate parent of the Company.

13 Provisions

Noncurrent – Reclamation provision

The provision for reclamation represents the present value of estimated future outflow of economic benefits that will be required to restore and rehabilitate Amulsar. The provision recognized as of 31 December 2020 relates only to the rehabilitation of Amulsar mine areas affected by exploration and development activities.

In thousand US dollars	2020	2019
Balance at the beginning of year	3,180	8,137
Change in estimate	-	(3,301)
Change in inflation rate	-	(1,272)
Accreting and unwinding of discount	272	716
Change in timing of cash flows	-	(1,161)
Foreign currency translation differences	(269)	61
Balance at the end of year	<u>3,183</u>	<u>3,180</u>

At the end of each year the Company reviews cost estimates and assumptions used in the valuation of environmental provisions. Changes in these cost estimates and assumptions have a corresponding impact on the carrying value of the obligation. The environmental provision established for reclamation and closure cost obligations represents the present value of rehabilitation costs for Amulsar.

For the year ended 31 December 2020 the Company has not updated the reclamation and closure cost obligation estimates for Amulsar. The update as of 31 December 2019 was prepared based on management and third-party estimates. The estimates for 2019 were based on the Armenia inflation rate and the Central Bank of Armenia treasury bond rate. See Note 8 for required rehabilitation prepayments to the Government of Armenia.

14 Capital and reserves

14.1 Share capital

The Company has one class of ordinary shares, which carry no right to fixed income. The share capital of \$208 dollars was not reflected in the statement of financial position as a result of rounding balances to the nearest thousand US dollars.

	As of 31 December 2020	As of 31 December 2019
Number of ordinary shares outstanding (at 5,000 Armenian dram each)	20	20

14.2 Capital contribution

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

15 Dislocation-related expenses

Following the change in the Government of Armenia in May 2018, demonstrations and road blockades have occurred sporadically throughout the country. These protests primarily targeted the mining sector, including the Amulsar Gold Project. Access to Amulsar has been blocked since June 2018. During the years ended 31 December 2020 and 2019 dislocation-related expenses consisted of the following:

In thousand US dollars	Year ended 31 December 2020	Year ended 31 December 2019
Interest and financing costs	62,285	53,598
Depreciation and Accretion	1,570	6,938
Write off VAT	2,733	-
Other (Indirects/Site G&A)	57	5,810
Labor costs	-	3,980
Legal & Consulting	-	1,242
Standby, demobilization & winterization	-	819
	66,645	72,387

16 Impairment of mineral property, plant and equipment

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

At 31 December 2020 the Company determined that the recoverable amount of the Amulsar Gold Project was less than the carrying value. For the impairment, the Company separately evaluated what it considers to be its significant saleable fixed assets, the Mine Fleet and the Mine Camp.

17 Income tax expense

The Company reported current income tax expense of nil for the years ended 31 December 2020 and 31 December 2019 in the statements of profit and loss. The income tax expense differs from that computed by applying the applicable statutory rate before taxes as follows:

In thousand US dollars	Year ended 31 December 2020	Year ended 31 December 2019
Loss for the year	(32,789)	(366,479)
Applicable tax rate	18%	20%
Income tax expense (benefit) at statutory rate	(5,902)	(73,296)
Increase (decrease) attributable to:		
Tax-exempt and non-deductible items	1,272	7,946
Change in deferred tax assets not recognized	8,173	65,350
Other permanent differences	(3,543)	-
Income tax expense	-	-

The Company has not recognized deferred taxes in its statement of financial position due to the fact that those assets will not be recoverable.

18 Financial risk management

As of 31 December 2020 and 31 December 2019 the Company's financial instruments consist of cash and cash equivalents, restricted cash, other receivables, the rehabilitation prepayment, accounts payable, accrued liabilities, debt and derivative contracts. The Company estimates that the fair values of these items approximate their carrying values at 31 December 2020 and 31 December 2019.

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

Financial risk management

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

Market risk

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

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

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

In thousand US dollars	Year ended 31 December 2020	Year ended 31 December 2019
Armenian dram	143	(129)
Canadian dollar	-	51
	143	(78)

(ii) *Interest rate risk* - Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and assets. Due to stoppage of the Company's operations the borrowings have been reclassified into current liabilities.

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

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

As of 31 December 2020 no gold or silver ounces had been delivered under these contacts.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company's credit risk is primarily liquid financial assets including cash and restricted cash.

As the Company has no revenue or trade receivables, management considers this credit risk as low. The VAT receivables and rehabilitation pre-payments are with the Republic of Armenia. The whole amount of the refundable VAT has been received by the Company as of 31 May 2021.

The below table shows the Company's balances:

In thousand US dollars	Year ended 31 December 2020	Year ended 31 December 2019
VAT receivables	3,678	4,163
Restricted reclamation deposit	1,470	1,348
Advances to contractors	-	1,058
	5,148	6,569

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity has been adversely affected by the stoppage of its operations and inability to generate cash flows in the future. The Company is in default of certain provisions of its financing agreements as of 31 December 2020, and as a result, there can be no assurance that the Company will be able to settle borrowings and other long-term liabilities.

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

As of 31 December 2020 the Company was in default of certain loan provisions contained in the Stream Agreement, the Term Facility and equipment financing facilities. As such, the stream, Term Facility and equipment financing facilities are shown as due within one year.

Fair value of financial assets and liabilities

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

19 Contingencies

Taxes

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

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

Environmental matters

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

20 Related parties

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

20.1 Control relationships

The Company is controlled by Lydian Canada Ventures Corporation, which owns 100% of the Company's shares. Lydian Canada Ventures Corporation is located at 2900-200 Bay Street, Toronto, ON, M5J 2J1, Canada and is part of the Gold & Silver Mining Industry.

20.2 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	Year ended 31 December 2020	Year ended 31 December 2019
Parent		
Borrowings received (repaid)	9,519	(10,145)
Services received	452	887
Entities under common control		
Services received	215	345
Key management		
Salaries and other compensation	215	192