Financial Statements and Independent Auditor's Report

Lydian Armenia CJSC

31 December 2023

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Independent auditor's report

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To the shareholders 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 2023, 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 material 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 2023, 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 and provision for reclamation costs per the requirements of IFRSs. Due to the nature of those liabilities and complexities related to the fair value determination of those derivatives 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, 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 and the amount of the reclamation provision as of 31 December 2023 through alternative audit procedures. Accordingly, we were unable to determine whether any adjustments were needed in respect of those items.

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 qualified opinion.

Emphasis of a Matter – Change of accounting basis

We draw attention to note 19 to the financial statements, which describes the change in accounting policy from the liquidation basis to the going concern basis. Management has assessed the Company's ability to continue as a going concern, taking into account, that the Company has signed a framework agreement with the Armenian state authorities to commence exploitation activities at its mining operations. This milestone signifies a pivotal step forward in unlocking the value of the Company's assets and establishing a sustainable revenue stream. The Company has successfully secured new financing opportunities during the reporting year, providing the necessary capital to support ongoing operations, invest in infrastructure enhancements, and pursue growth opportunities. In addition, as part of its strategic initiatives, the Company is negotiating a transfer of portion of its shares to the Government of Armenia, fostering a collaborative partnership aimed at advancing mutual interests and ensuring long-term stability in operations.

Management's assessment is based on the assumption that events described in note 15 will enable the Company to operate as a going concern in the foreseeable future. However, there remain inherent uncertainties and risks, which are described in note 19.

Our audit opinion is not modified in respect to this matter. Our evaluation of the Company's ability to continue as a going concern is based on our audit procedures and does not provide assurance on the Company's future viability.

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

24 June 2024

Statement of financial position

In thousand US dollars	Note	As of 31 December 2023	As of 31 December 2022
ASSETS			
Current assets			
Cash and cash equivalents		273	473
Restricted cash		8	3
Other current assets		204	447
Total current assets		485	923
Non-current assets			
Mineral property, plant and equipment, net	5	379,222	1,795
Restricted reclamation deposit	6	2,802	2,614
Deferred financing costs		1,104	-
Total non-current assets		383,128	4,409
TOTAL ASSETS		383,613	5,332
LIABILITIES			
Current liabilities			
Accounts payable and other current liabilities	7	1,683	2,016
Borrowings from related parties, net	10	12,174	13,237
Stream liability and debt	8	413,354	501,933
Derivative liabilities	9	-	19,931
Current provisions		576	244
Total current liabilities		427,787	537,361
Non-current liabilities			
Reclamation provision	11	5,326	5,024
Stream liability and debt	8	171,692	-
Derivative liabilities	9	19,931	-
Total non-current liabilities		196,949	5,024
Total liabilities		624,736	542,385
EQUITY			
Share capital	12	1,000	1,000
Share premium	12	131,975	131,975
Capital contribution	12	95	95
Translation of foreign operations		(7,851)	(7,851)
Accumulated loss		(366,342)	(662,272)
Total equity		(241,123)	(537,053)
TOTAL LIABILITIES AND EQUITY		383,613	5,332

The financial statements were approved on 21 June 2024 by:

Hayk Aloyan
Director

Armen Martirosyan
Financial Manager

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The accompanying notes from pages 10 to 25 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 2023	Year ended 31 December 2022
Income from reversal of impairment/ (impairment) of mineral property, plant and equipment, net	5	374,068	(2,360)
Interest income		6	3
Dislocation-related expense	13	(78,008)	(59,220)
Loss from sale of fixed assets and materials, net		-	(315)
Other income/(expense), net		(136)	(160)
Profit/(loss) before income taxes		295,930	(62,052)
Income tax expenses	14	-	-
Net profit/(loss)		295,930	(62,052)
Total comprehensive income/(loss)		295,930	(62,052)

The accompanying notes from pages 10 to 25 are an integral part of these financial statements.

Statement of changes in equity

In thousand US dollars	Share capital	Share premium	Capital contri-bution	Translation of foreign operations	Accumulated loss	Total
Balance as of 1 January 2022	1,000	131,975	95	(7,851)	(600,220)	(475,001)
Loss for the year	-	-	-	-	(62,052)	(62,052)
Total comprehensive loss for the year	-	-	-	-	(62,052)	(62,052)
Balance as of 31 December 2022	1,000	131,975	95	(7,851)	(662,272)	(537,053)
Profit for the year	-	-	-	-	295,930	295,930
Total comprehensive profit for the year	-	-	-	-	295,930	295,930
Balance as of 31 December 2023	1,000	131,975	95	(7,851)	(366,342)	(241,123)

The accompanying notes from pages 10 to 25 are an integral part of these financial statements.

Statement of cash flows

In thousand US dollars	Year ended 31 December 2023	Year ended 31 December 2022
Cash from operating activities		
Net profit/(loss)	295,930	(62,052)
Adjustments for:		
Interest and other financing costs	77,272	58,671
(Income from reversal of)/ loss from impairment of mineral property, plant and equipment	(374,068)	2,360
Other operating adjustments	119	(471)
(Gain)/loss on disposal	-	315
Interest income	(6)	(3)
Other expenses	300	223
Working capital changes:		
Change in other current assets	221	72
Change in accounts payable and accrued liabilities	(308)	(534)
Change in asset retirement obligations	454	1,337
Cash used in operating activities	(86)	(82)
Cash flows from investing activities		
Acquisition of mineral property, plant and equipment	(3,359)	(2,746)
Payments for rehabilitation deposit	(384)	(289)
Interest income received	6	3
Cash used in investing activities	(3,737)	(3,032)
Cash flows from financing activities		
Intercompany borrowings, net	(1,063)	3,924
Proceeds from/ (repayments of) debt, net	4,732	(1,000)
Cash from financing activities	3,669	2,924
Net decrease in cash and cash equivalents	(154)	(190)
Foreign exchange effect on cash	(46)	(18)
Cash and cash equivalents, beginning of year	473	681
Cash and cash equivalents, end of year	273	473

The accompanying notes from pages 10 to 25 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 mining 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.

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. In September 2020, the illegal blockades at the Amulsar Site had dispersed and the Company gained access to site.

As a result of the blockade, financing for development of the project was discontinued and funding from the senior lenders was provided only for site care and maintenance activities and to support the licensing requirements. The Company management was uncertain when, if ever, the project will be restarted. Given these circumstances the Company has fully written off the carrying value of its investment in development assets at Amulsar. Considering the positive developments the impairment of development assets was reversed in the financial statements as of and for the year ended 31 December 2023, see notes 5, 15 and 19 for additional information.

The Company was 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 Lydian International Limited entered into liquidation. As a result, the Company was restructured under CCAA process and the ultimate parent of the Company became Lydian Canada Ventures Corporation, of which the senior lenders own 100% of the Company shares.

Discussions with the Government of Armenia commenced at higher levels with the new Owners (previous Senior Lenders) of the Company which included the signing a Framework Agreement (FA) with the Minister of Economy in 2021. The FA outlined a path forward for Amulsar to ensure the smooth implementation of the project, highlight commitments of both parties and reiterate the full rights established by the legislation of the Republic of Armenia. After the FA was signed, the Company began receiving the necessary permits to complete the construction of the Amulsar mine and commence production. On March 30, 2022, the Company received approval and signature the RA Minister of Environment for the Operational Water Permit. On September 19, 2022, the Ministry of Territorial Administration and Infrastructure extended the Mining License of Lydian Armenia until March 25, 2039.

In 2022 the Company commenced discussions with international and Armenian banks in refinancing of the project to complete its development. In February 2023 a Memorandum of Understanding was signed between the Company, the Government of Armenia and the Eurasian Development Bank for the implementation of the Amuslar Project. An external legal and technical due diligence process by third party consultants is currently underway.

The changes in the political and economic environment and the development of the legal, tax, and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depend on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability.

The situation in the Republic of Armenia has intensified due to the war unleashed by the Republic of Azerbaijan. Despite the ceasefire agreement, the consequences of the war on Armenia's economy, both in the short and long term, are still uncertain.

In 2023 the political situation in Armenia continued to remain relatively unstable, the consequences of the 44-day Artsakh War continue to have a significant impact on the country's overall economy. In September 2023 the forced deportation of around 120,000 ethnic Armenians living in Artsakh to the Republic of Armenia, caused further economic and political disruptions. As a result of the unstable political situation, the periodic closure of international roads, and short-term ceasefire violations, it is difficult to clearly predict the economic impact on the Company's operations.

The conflict broken out on 24 February 2022 in Ukraine continues evolving rapidly with significant impact on the economy of the whole world. The Russian Federation is a significant trading partner of the Republic of Armenia, and the United States and the European countries have imposed severe sanctions against the Russian Federation during the reporting year and as of the date of these financial statements, which had a radical effect on the economy and financial markets of the Republic of Armenia as well. Main macroeconomic factors affected were higher inflation rates and instable foreign exchange rates.

The conflict in Ukraine caused thousands of Russians and Ukrainians to relocate to the Republic of Armenia. The above applied to both individuals and businesses that were established and operated in those countries. This resulted in increased inflows of foreign currency into the Armenian market, which led to a significant appreciation of the Armenian dram relative to the US dollar and Euro. On the other hand, the Central Bank of Armenia did not take any measures to weaken the Armenian national currency.

Management does not expect that there will be any further appreciation of the Armenian dram relative to the US dollar and Euro. However, the continuing conflict in Ukraine may result in inflows of still more foreign currency into Armenia, which may have a negative impact on the financial sustainability of the Company.

Despite management's efforts, future economic and political uncertainties may still pose challenges to the Company's operations and actual financial performance of the Company in upcoming periods may differ from the management's current expectations. As a result, these financial statements do not reflect the potential future impact of the above on the Company's operations.

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 ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption that the Company operates on a going concern basis.

Management has determined that the going concern basis is the appropriate basis for preparing and presenting the financial statements of the Company as of and for the year ended 31 December 2023 considering the changes, as described in note 19 to the financial statements.

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.

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

2.3 Critical accounting 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 assets, liabilities, income, and expense during the reporting period. 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

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

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.

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 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.

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 a going 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.

2.4 Climate-related matters

Risks induced by climate changes may have future adverse effects on the Company’s business activities. These risks include transition risks (eg regulatory changes and reputational risks) and physical risks (even if the risk of physical damage is low due to the company activities and geographical locations). The Company is currently implementing new technology solutions to reduce the level of energy needed, particularly including initiatives to reduce greenhouse gas emissions, improve energy efficiency, optimize water usage, and implement climate-resilient infrastructure.

The long-term consequences of climate changes on financial statements are difficult to predict and require entities to make significant assumptions and develop estimates. Assumptions used by the Company are subject to uncertainties relating to regulatory changes (eg green taxes adopted by governments), new environmental commitments made by the Company to meet its carbon reduction goals, development of new technologies, depletion of natural resources used etc.

Currently there are no legislative requirements in force for climate-related matters in Armenia and as such these financial statements do not reflect the potential future impact of these matters on the Company's operations.

3 Accounting policies

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 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.

3.9 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, and its carrying value has previously been fully impaired. In the reporting year the Company has reassessed their estimated and judgements based on which the Company has recovered the carrying value of the development asset due to changing conditions based on which the Company is now considered to be operating on a going concern basis (refer to note 15).

3.10 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.

3.11 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.

Development assets are tested for impairment at least annually or when there is an indication of impairment. The recoverable amount is determined based on value in use calculations, which involve discounting future cash flow projections at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

3.12 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.

3.13 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.

3.14 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.

3.15 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.

3.16 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 2023.

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 2023

New standards and amendments described below and applied for the first time in 2023 did not have a material impact on the annual financial statements of the Company:

Standard	Title of Standard or Interpretation
IFRS 17	*Amendments to IFRS 17 Insurance Contracts including the Extension of the Temporary Exemption from Applying IRFS 9 (Amendments to IFRS 4)*
IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*
IFRS 17	*Initial application of IFRS 17 and IFRS 9 – Comparative information (Amendment to IFRS 17)*
IAS 8	*Definition of Accounting Estimates (Amendments to IAS 8)*
IAS 1	*Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)*
IAS 12	*International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)*
IFRS for SMEs	*International Tax Reform – Pillar Two Model Rules (Amendments to the IFRS for SMEs Standard)*

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 on or after the effective date of the pronouncement.

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

Standard	**Title of Standard or Interpretation**	**Effective for reporting periods beginning on or after**
IAS 1	*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*	*1 January 2024*
IFRS 16	*Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*	*1 January 2024*
IAS 1	*Non-current Liabilities with Covenants (Amendments to IAS 1)*	*1 January 2024*
IAS 7 and IFRS 7	*Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*	*1 January 2024*
IAS 21	*Lack of Exchangeability (Amendments to IAS 21)*	*1 January 2025*

5 Mineral property, plant and equipment, net

As a result of change in basis of preparation of the financial statements to going concern basis, during the year, an impairment loss of 374,068 thousand has been reversed on mineral property, plant and equipment previously considered as fully impaired and recognized as income in the statement of profit or loss and other comprehensive income.

The impairment loss was primarily due to political reasons that cast doubt on the Company's ability to operate as a going concern. The carrying amount of this impaired development assets was 378,766 thousand US dollars before the impairment, and 370,339 thousand US dollars after the impairment.

The carrying amount of the impaired equipment assets was 17,888 thousand US dollars before the impairment, and 8,883 thousand US dollars after the impairment.

The recoverable amount of the impaired assets, determined based on their value in use, is estimated at around 1 million US dollars, using planned annual revenue projections, operating and capital expenditures and remaining project life of 11 years and the discount rate of 8%. This amount exceeds recovered balance value of the mineral property, plant and equipment. Management has additionally estimated that expenditure of around 250 million US dollars will be required to accomplish the mine construction and recover damages caused during the blockade.

6 Restricted reclamation deposit

According to the terms of the Mining license, the Company is 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.

7 Accounts payable and other current liabilities

In thousand US dollars	As of 31 December 2023	As of 31 December 2022
Accounts payable to lenders	1,325	1,319
Other payable and accrued liabilities	323	572
Wage accruals	35	125
	1,683	2,016

8 Stream liability and debt

In thousand US dollars	As of 31 December 2023	As of 31 December 2022
Stream Liability	171,692	148,846
Term Facilities	335,404	279,508
Equipment Financing	77,950	73,579
	585,046	501,933

Stream Agreement

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.

In 2017 Osisko Bermuda Limited acquired from Orion Co IV Limited its streaming rights.

Equipment Financing

The Company was entered into three secured credit facilities for the purpose of purchasing equipment associated with the Amulsar Gold Project. Loan agreement with Caterpillar Financial Services (one of three financial institutions) is fully settled as of 31 December 2023. The interest rate of borrowings from ING Bank is 4.95% plus LIBOUR, which is the default rate. Commencing from May 2023 interest rate for borrowings from Ameriabank CJSC is 9% per annum. The principal amount of the Equipment Financing as of 31 December 2023 is 59 million US dollars.

Term Facilities

The Company's Term Facility agreement provided for 160 million US dollars on a senior secured basis for the purposes of the construction of Amulsar. 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%.
- For Facility C 18.5%.

As of 31 December 2023, under Term Facility, Term Facility B and Term Facility C draws totalling 168 million US dollars had been received.

9 Derivative liabilities

The Company recognized certain financial instruments relating to the Financing Agreements including the stream liability, debt and derivatives as discussed in note 8. The classification of the derivative is defined by 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)	
In thousand US dollars	Offtake Agreement	Stream Commodity Linked Repayment
Fair Value Hierarchy Level	3	3
Fair value at 31 December 2022	(10,136)	(9,795)
Fair value at 31 December 2023	(10,136)	(9,795)

10 Borrowings from related parties, net

The payables are denominated in US dollars and no interest was charged on these payables.

The borrowings from related parties are unsecured interest-free borrowings payable to the Lydian Canada Ventures Corporation, the ultimate parent of the Company, from which during the reporting year the Company has received additional financing at the amount of 400 thousand US dollars and repaid borrowings at the amount of US dollars 1,463 thousand (in 2022: US dollars 5,194 thousand and 1,270 thousand US dollars, respectively).

11 Reclamation provision

Reclamation provision 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 2023 and 31 December 2022 relates only to the rehabilitation of Amulsar mine areas affected by exploration and development activities.

In thousand US dollars	2023	2022
Balance at the beginning of year	5,024	3,777
Accreting and unwinding of discount	454	390
Foreign currency translation differences	(152)	857
Balance at the end of year	5,326	5,024

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.

The estimate as of 31 December 2023 was prepared based on management and third-party estimates. The estimates for 2023 were based on the Armenia inflation rate and the Central Bank of Armenia treasury bond rate.

12 Capital and reserves

Share capital

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

	As of 31 December 2023	As of 31 December 2022
Number of ordinary shares outstanding (at 5,000 Armenian dram each)	100,020	100,020

Share premium

In September 2021 the Company has issued 10 convertible bonds at a nominal value of 6,648,750,000 Armenian drams each to Lydian Resources Armenia Limited. Conversion ratio was 10,000 shares per a bond. The annual interest rate on the bonds was 3%. The Company was supposed to redeem the convertible bonds in five equal semi-annual installments. The term of circulation of the bonds was 30 months, with the maturity date of 15 March 2024. On 23 September 2021, Lydian Resources Armenia Limited has exercised its right to convert and the sole shareholder of the Company has approved the conversion of the bonds into 100,000 nominal shares of the Company. The difference between the issue price and the nominal value of the ordinary shares has been recognized as a share premium in the statement of the changes in equity.

Capital contribution

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

13 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.

Since September 2020 the Company's access to the Amulsar was fully recovered. However, the Company still incurring dislocation-related expenses before the restart of the Amulsar Gold Project construction.

The dislocation-related expenses consisted of the following:

In thousand US dollars	Year ended 31 December 2023	Year ended 31 December 2022
Interest and financing costs	77,627	59,142
Other (Indirect costs/Site G&A)	381	78
	78,008	59,220

14 Income tax expense

The Company reported current income tax expense of nil for the years ended 31 December 2023 and 31 December 2022 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 2023	Year ended 31 December 2022
Profit/(loss) for the year	295,930	(62,052)
Applicable tax rate	18%	18%
Income tax expense/(benefit) at statutory rate	53,267	(11,169)
Increase/(decrease) attributable to:		
Tax-exempt and non-deductible items	27,941	(6,061)
Change in deferred tax assets not recognized	(81,208)	17,230
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.

15 Subsequent events

Considering the completed framework agreement for mine exploitation and the confirmed access to new financing opportunities, in 2024 the management of the Company continues negotiations with the Government of Armenia over a long-term continuous strategic partnership, including a transfer of a noncontrolling portion of the Company's shares to the Government of Armenia. This collaboration underscores the commitment to mutually beneficial objectives and supports the sustainability of operations and the Company's commitment to delivering long-term value to stakeholders. In 2023 the Company has started environmental and financial due diligence process engaged with the Eurasian Development Bank (the "EDB") continued in 2024, which is expected to be completed soon. By completion of due diligence study, it is expected that the Company will sign long-term loan agreement with the EDB. The Company has initial agreement with one of the leading Armenian banks over receiving a borrowing up to 50 million US dollars. Intensive negotiations are continuing with the Asset Integrity Engineering (the "AIE"), United Gold's Engineering & Construction Affiliate companies for the start of the mine development process immediately following the completion of financing.

16 Financial risk management

As of 31 December 2023 and 31 December 2022 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 2023 and 31 December 2022.

The ultimate owner company 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 2023	Year ended 31 December 2022
Armenian dram	(9)	(36)
	(9)	(36)

(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 8.

As of 31 December 2023 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 rehabilitation pre-payments are with the Republic of Armenia.

The below table shows the Company's balances:

In thousand US dollars	Year ended 31 December 2023	Year ended 31 December 2022
Cash and restricted cash	270	476
Restricted reclamation deposit	2,802	2,614
	3,072	3,090

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 has been in default of certain provisions of its financing agreements as of 31 December 2023, and although the basis of preparation of the financial statements has changed in the reporting year based on new conditions and economic factors there can be no assurance that the Company will be able to settle the borrowings and other 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 2023 the Company was in default of certain loan provisions contained in the Stream Agreement, the Term Facility and equipment financing facilities.

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) and the lowest priority to unobservable inputs (Level 3).

17 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.

During the most recent tax inspections held by tax authorities, which have covered up to the end of 2022, the relevant authorities applied differing interpretations resulting to fines and penalties. Although the Company management has expressed strong disagreements with the findings of the tax authorities and challenged them at the Administrative Court of the Republic of Armenia, it has still calculated and accrued a liability in respect of these fines and penalties in these financial statements. The Company management believes that there are no other aspects with possible interpretations of the ongoing tax legislation which may have significant effects on the financial statements.

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.

18 Related parties

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

18.1 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.

18.2 Transactions with related parties

During the reporting year the Company had the following transactions with the related parties;

In thousand US dollars	Year ended 31 December 2023	Year ended 31 December 2022
Parent		
Borrowings received (repaid)	(1,063)	3,924
Owner entities		
Services received	-	25
Interest expense accrued	41,163	28,877
Proceeds from borrowings	6,788	-
Key management		
Salaries and other compensation	34	32

As of the reporting date had the following outstanding balances;

In thousand US dollars	Year ended 31 December 2023	Year ended 31 December 2022
Parent		
Borrowings received	12,174	13,237
Services received	-	-
Owner entities		
Borrowings received and accrued interest	288,093	239,920
Stream liabilities and accrued interest	108,054	93,960
Services received	850	850
Key management		
Salaries and other compensation	-	-

19 Change in accounting policies – Transition from liquidation basis to going concern basis

Background and nature of the change

As disclosed in note 1 to the financial statements, for the years ended 31 December 2020, 31 December 2021 and 31 December 2022 the Company has prepared its financial statements on the liquidation basis of accounting due to imminent liquidation resulting from the events described in note 1. However, subsequent to securing a commitment from the government for specific support and assistance, which will bolster financial stability and enable the Company to continue its operations without interruption, the Company has transitioned to the going concern basis of accounting in preparing its financial statements for the year ended 31 December 2023. This change in accounting policy is based on management's assessment that the Company will be able to continue its operations for the foreseeable future.

Impact on the financial statements

The adoption of the going concern basis of accounting has resulted in significant changes to the financial statements for the year ended 31 December 2023. The key impacts on the financial statements include:

- Recognition of assets and liabilities based on their recoverable amounts rather than liquidation values;
- Measurement of revenue and expenses on the assumption of continuing operations;
- Disclosure of contingent liabilities and commitments based on the Company's ability to fulfil them in the ordinary course of business.

Comparative information

The financial statements for the prior year have not been restated to reflect the going concern basis of accounting. However, had the going concern basis been applied in the prior periods, the main adjustments and/or reclassifications should have been made:

- Carrying value of the mine would have been increased by 388,956 thousand US dollars,
- impairment loss for the year would have been eliminated by 2,360 thousand US dollars, and
- depreciation expense would have been incurred by 2,217 thousand US dollars.

Management assessment

Management has conducted a comprehensive assessment of the Company's financial position, cash flow projections, and strategic initiatives in determining the transition to the going concern basis of accounting. Key factors considered in this assessment include:

- Successful negotiations with the Armenian Government officials and assumptions that the public sentiments will not enforce the Company back into the liquidation process;
- Successful renegotiation of credit facilities and financing arrangements;
- Implementation of cost-cutting measures to improve operational efficiency;
- Strengthening of growth prospects;
- Forecasted cash flows and liquidity positions over the foreseeable future.

Based on this assessment, management believes that the Company has adequate financial resources and operational capability to continue its operations as a going concern for the foreseeable future. However, there remain inherent uncertainties and risks associated with the Company's ability to continue as a going concern, including:

- Changing political situation and changing public sentiments;
- Continued economic and market uncertainties affecting industry conditions;
- Potential impact of unforeseen events or disruptions on business operations;
- Ability to renegotiate stream liabilities and debts with the borrowers; as well as ability to maintain adequate levels of liquidity and access to financing;
- Risks related to regulatory changes or compliance requirements:
- Risks related to ability to get adequate financing for completion of the mine construction and commencing of commercial production.