LYDIAN INTERNATIONAL LIMITED
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2013

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COMPANY PARTICULARS

DIRECTORS

Mr Gordon Wylie, Non-Executive Director and Chairman of the Board
Dr Timothy Coughlin, President and Chief Executive Officer
Mr Roderick Corrie, Chief Financial Officer and Executive Director
Mr Marc C Henderson, Non-Executive Director
Dr Geoffrey Cowley, Non-Executive Director
Mr Armen Sarkissian, Non-Executive Director

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Lydian International Limited
Interim Consolidated Income Statements
For three month period ended March 31, 2013 and 2012
(Unaudited)

	Notes	March 31, 2013 $	March 31, 2012 $
Interest income		38,081	30,646
Total income		38,081	30,646
Employee salaries and benefits expenses	6	(1,680,602)	(1,471,345)
Services and consumables used	7	(298,286)	(393,204)
Administrative and other expenses	8	(634,131)	(584,003)
Depreciation and amortisation expenses	5	(40,370)	(19,497)
Interest expense	23	(124,214)	(207,716)
Other gains	9	164,984	143,943
Total expenses		(2,612,619)	(2,531,822)
Loss before tax		(2,574,538)	(2,501,176)
Income taxes	10	-	-
Loss for the period		(2,574,538)	(2,501,176)
Loss for the period attributable to:			
Common shareholders		(2,574,538)	(2,472,483)
Non-controlling interest		-	(28,693)
		(2,574,538)	(2,501,176)
Loss per share attributable to owners of the parent (basic and diluted)	11	(0.02)	(0.02)

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

Lydian International Limited
Interim Consolidated Statements of Comprehensive Income
For three month period ended March 31, 2013 and 2012
(Unaudited)

	Notes	March 31, 2013 $	March 31, 2012 $
Loss for the period		(2,574,538)	(2,501,176)
Other comprehensive loss:			
Exchange differences arising on translation of foreign operations		(2,455,843)	(667,721)
Total comprehensive loss for the period		(5,030,381)	(3,168,897)
Comprehensive loss for the period attributable to:			
Common shareholders		(5,030,381)	(3,140,204)
Non-controlling interest		-	(28,693)
		(5,030,381)	(3,168,897)

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

Lydian International Limited
Interim Consolidated Statements of Financial Position
As of March 31, 2013, December 31, 2012 and January 1, 2012
(Unaudited)

	Notes	March 31, 2013	December 31, 2012	January 1, 2012
		$	$	$
ASSETS				
Non-current assets				
Property and equipment	12	3,613,515	3,799,086	734,338
Intangible assets	13	176,039	198,694	147,718
Exploration and evaluation assets	14	47,334,914	47,684,080	36,610,222
Other non-current assets	15	3,286,136	3,387,771	2,115,783
Other long-term financial assets		-	-	196,660
Total non-current assets		54,410,604	55,069,631	39,804,721
Current assets				
Cash and cash equivalents	16	30,890,078	32,705,731	12,895,564
Other current assets	17	791,630	688,211	634,803
Total current assets		31,681,708	33,393,942	13,530,367
TOTAL ASSETS		86,092,312	88,463,573	53,335,088
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	18	127,887,954	125,315,924	72,275,730
Warrants	19	-	549,706	549,706
Equity settled employee benefits reserve	20	4,340,583	3,822,613	3,336,966
Translation of foreign operations		(7,519,778)	(5,063,935)	(3,326,796)
Other reserves – option to purchase non-controlling interest	21	-	-	(2,792,767)
Accumulated deficit		(45,509,212)	(42,934,674)	(28,253,178)
Total equity attributable to the parent		79,199,547	81,689,634	41,789,661
Non-controlling interest		-	-	626,279
Total equity		79,199,547	81,689,634	42,415,940
Non-current liabilities				
Due to Newmont		-	-	4,544,268
Other non-current liability	23	568,278	589,400	-
Provisions	24	241,966	250,959	44,415
Total non-current liabilities		810,244	840,359	4,588,683
Current liabilities				
Accrued liabilities and other payables	25	960,794	933,580	1,330,465
Current portion of Due to Newmont	22	5,121,727	5,000,000	5,000,000
Total current liabilities		6,082,521	5,933,580	6,330,465
TOTAL EQUITY AND LIABILITIES		86,092,312	88,463,573	53,335,088

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

Lydian International Limited
Interim Consolidated Statements of Changes in Equity
As of March 31, 2013 and 2012
(Unaudited)

	Share capital including, premium and discounts $	*Warrants* $	*Equity settled employee benefits reserve* $	*Translation of foreign operations* $	*Other reserves* $	*Accumulated deficit* $	*Attributable to owners* $	*Non controlling interest* $	*Total* $
Balance at January 1, 2012	72,275,730	549,706	3,336,966	(3,326,796)	(2,792,767)	(28,253,178)	41,789,661	626,279	42,415,940
New shares issued	50,057,546						50,057,546		50,057,546
Cost of shares issued	(2,946,699)						(2,946,699)		(2,946,699)
Attributable to expired options	23,691		(23,691)				-		-
Employee share options issued during the period			707,234				707,234		707,234
Total comprehensive loss for the period				(667,721)		(2,472,483)	(3,140,204)	(28,693)	(3,168,897)
Balance at March 31, 2012	119,410,268	549,706	4,020,509	(3,994,517)	(2,792,767)	(30,725,661)	86,467,538	597,586	87,065,124
Equity share capital issued in purchase of non-controlling interest (Note 21)	2,218,883				(2,218,883)		-		-
Proceeds from exercised options	2,448,175						2,448,175		2,448,175
Attributable to exercised options	942,453		(942,453)				-		-
Attributable to expired options	296,145		(296,145)				-		-
Employee share options issued during the period			1,040,702				1,040,702		1,040,702
Purchase of non-controlling interest					5,011,650	(4,538,340)	473,310	(473,310)	-
Total comprehensive loss for the period				(1,069,418)		(7,670,673)	(8,740,091)	(124,276)	(8,864,367)
Balance at December 31, 2012	125,315,924	549,706	3,822,613	(5,063,935)	-	(42,934,674)	81,689,634	-	81,689,634

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

Lydian International Limited
Interim Consolidated Statements of Changes in Equity
As of March 31, 2013 and 2012
(Unaudited)

	Share capital including, premium and discounts	*Warrants*	*Equity settled employee benefits reserve*	*Translation of foreign operations*	*Other reserves*	*Accumulated deficit*	*Attributable to owners*	*Non controlling interest*	*Total*
	$	$	$	$	$	$	$	$	$
Balance at December 31, 2012	125,315,924	549,706	3,822,613	(5,063,935)	-	(42,934,674)	81,689,634	-	81,689,634
Proceeds from exercised warrants	1,907,629						1,907,629		1,907,629
Attributable to exercised warrants	549,706	(549,706)					-		-
Attributable to expired options	114,695		(114,695)				-		-
Employee share options vested during the period			632,665				632,665		632,665
Total comprehensive loss for the period				(2,455,843)		(2,574,538)	(5,030,381)		(5,030,381)
Balance at March 31, 2013	127,887,954	-	4,340,583	(7,519,778)	-	(45,509,212)	79,199,547	-	79,199,547

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

Lydian International Limited
Interim Consolidated Statements of Cash Flows
For the period ended March 31, 2013 and 2012
(Unaudited)

	Note	March 31, 2013 $	March 31, 2012 $
Cash flows from operating activities			
Payments to suppliers and employees		(2,660,425)	(2,830,579)
Net cash outflow from operating activities		(2,660,425)	(2,830,579)
Cash flows from investing activities			
Interest received		38,081	30,646
Payments for property and equipment and intangible assets	12,13	(48,577)	(141,657)
Exploration costs paid	14	(1,289,520)	(1,206,350)
Newmont payment	22	-	(5,100,000)
Net cash used by investing activities		(1,300,016)	(6,417,361)
Cash flows from financing activities			
Proceeds from issuance of share capital, net		1,907,629	47,110,847
Net cash generated in financing activities		1,907,629	47,110,847
Net increase (decrease) in cash and cash equivalents		(2,052,812)	37,862,907
Cash and cash equivalents, beginning of year		32,705,731	12,895,564
Effects of exchange rate changes on the balance of cash held in foreign currencies		237,159	(69,468)
Cash and cash equivalents, end of the period		30,890,078	50,689,003

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

Lydian International Limited
Notes to the Interim Consolidated Financial Statements
For the three month period ended March 31, 2013 and 2012
(Unaudited)

1. GENERAL INFORMATION

Lydian International Limited (the "Company") is a company continued under the laws of Jersey effective on December 12, 2007 (formerly existing under the laws of Alberta, Canada). The registered office address of the Company is Ground Floor, Charles House, Charles Street, St Helier, JE2 4SF Channel Islands. The Company's ordinary shares ("Ordinary Shares") began trading on the Toronto Stock Exchange ("TSX") on January 10, 2008 under the symbol "LYD".

The Company, together with its subsidiaries, (the 'Group') is a mineral exploration and development group of companies focused on emerging and transitional environments, and is developing precious and base metal assets located in Armenia and Georgia under exploration licenses granted by local authorities. The Group's main exploration project is gold at Amulsar, Armenia.

The principal accounting policies of the Group are further described in Note 3.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

i) Standards and Interpretations effective in the current period

The accounting policies adopted are consistent with those of the previous financial year, except for the application of the following standards as of January 1, 2013:

- IFRS 10, 'Consolidated financial statements'
- IFRS 12, 'Disclosure of interests in other entities'
- IFRS 13, 'Fair value measurement'
- IAS 19 (revised), 'Employee benefits'
- Annual improvements (2009-2011)

IFRS 10, together with disclosure requirements in IFRS 12, supersedes IAS 27, 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation-Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged. Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after January 1, 2013. IAS 34 requires particular IFRS 13's disclosures in the interim financial statements. Since the Company's financial instruments consist of receivables and other liabilities, there has been no significant impact on disclosures.

IAS 19R makes a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. IAS 19R including elimination of the 'corridor method' and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income, changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest cost based on the net defined benefit asset or liability and enhances disclosures, including more information about the characteristics of defined benefit plans and related risks. IAS 19R has been applied retrospectively in

accordance with its transitional provisions. The application of IAS 19R did not have a material effect on the statement of cash flows and on the earnings per share for the year ended December 31, 2012 and for the three months ended March 31, 2013.

The Annual Improvements made minor amendments to a number of IFRSs. The amendments that affects these financial statements clarifies the presentation requirements when a third balance sheet is presented and that the total assets and liabilities for a particular reportable segment are required to be disclosed in interim financial statements if this information is regularly provided to the chief operating decision maker and there has been a material change since the most recent annual financial statements. The Company has always reported this information in its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financials are set out below. These policies have been consistently applied to all the financial periods presented unless otherwise stated.

Statement of compliance

These consolidated interim financial statements for the three month period ended March 31, 2013 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRSs.

Basis of preparation

The consolidated interim financial statements have been prepared on the historical cost basis and presented in United States Dollars (US).

Change of presentation currency

The management of the Company has elected to change the financial statements' presentation currency from British Pounds to United States Dollars ('US Dollar' or 'US') for reporting periods after January 1, 2013. Management believes the US Dollar better reflects the manner in which management assesses the Company's performance and is preferred in the Company's industry and to the users of the financial statements. All historical amounts have been restated to US Dollar to reflect the change in presentation currency. There were no changes to the functional currencies of the Company or its subsidiaries.

Basis of consolidation

The consolidated interim financial statements incorporate the financial statements of the Company and entities controlled by the Company (its 'subsidiaries'). Control is achieved where the Company is exposed to variable returns and has the ability to affect those returns through power to direct the relevant activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Company. The Company attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. Transactions with non-controlling interests that do not result in a loss of

control are accounted for as transactions with equity owners of the Group. Any difference between the amount of the adjustment to the non-controlling interest and any consideration paid or received is recognised as a separate reserve within equity.

Details of the Company's direct and indirect subsidiaries at March 31, 2013 and December 31, 2012 are as follows:

Name of subsidiary	Place of incorporation or Registration	Effective Ownership Interest		Principal activity
		2013	2012	
Lydian Holdings Ltd (BVI)	British Virgin Islands	100%	100%	Intermediate holding company
Lydian Resources Kosovo (BVI)	British Virgin Islands	100%	100%	Intermediate holding company
Lydian Resources Armenia (BVI)	British Virgin Islands	100%	100%	Intermediate holding company
Lydian Resources Georgia Limited	Jersey	100%	100%	Intermediate holding company
Geoteam CJSC	Armenia	100%	100%	Mineral exploration
Georgian Resource Company LLC	Georgia	100%	100%	Mineral exploration
Kavkaz Zoloto CJSC	Armenia	95%	95%	Dormant company

Interest in joint ventures

Where a consolidated member of the Group participates in unincorporated joint ventures, that member accounts directly for its proportionate share of the jointly controlled assets, liabilities and related income and expenses which are then similarly included in the consolidated financial statements of the Group.

Foreign currencies

The individual financial statements of each entity in the Group are prepared in the currency of the primary economic environment in which the entity operates (its "functional currency"). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in US Dollars, which is presentation currency for these consolidated financial statements. Although the parent company has a functional currency of Canadian Dollars, management assesses the Company's performance in US Dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's operations are expressed in US Dollars using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transaction are used. Exchange differences arising, if any, are recognised directly into other comprehensive income and transferred to the Group's translation of foreign operations reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rates prevailing at the acquisition date.

Share-based payments

Equity-settled awards, including share options and warrants, are measured at fair value at the date of grant and recognised over the vesting period, based on the Group's estimate of equity-settled awards that will eventually vest, along with a corresponding increase in equity.

Fair value is measured using the Black-Scholes Option Pricing Model taking into consideration management's best estimate of the expected life of the option, the expected share price volatility, the risk free rate, the expected dividend yield and the estimated number of shares that will eventually vest.

Taxation

The Group has no taxable profit and no current income tax.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised 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 utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the related asset or liability in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and increased or reduced to the extent that it is probable, or 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 tax rates that are expected to apply in the period in which the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised as an expense or income in the profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting in a business combination.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected

total annual profit or loss.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment for amortisation purposes.

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

Expenditure to replace a component of an item of property equipment that is accounted for separately is capitalised and the existing carrying amount of the component written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognised in the income statement as incurred.

Depreciation is charged to the income statement based on the cost, less estimated residual value, of the asset on a straight-line basis over the estimated useful life. Depreciation commences when the assets are available for use. The estimated useful lives are as follows:

Machinery	5 years
Equipment	1 – 5 years
Motor vehicles	3 – 5 years
Structures	5 years
Fixtures, fittings and other	1-5 years

Intangible assets

Intangible assets, which are acquired by the Group entities and which have finite useful lives are stated at costs less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of the intangible assets, which are estimated to be 3-10 years for computer software.

Impairment of land and intangible assets with indefinite useful lives or not available for use

Assets that have an indefinite useful life that are not subject to amortisation or are not available for use are evaluated for impairment annually. An impairment loss is recognised 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. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

Impairment of property and equipment and intangible assets with finite lives

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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. Impairment losses are recognised as an expense immediately.

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 recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the property 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 recognised.

Exploration and evaluation assets

Exploration and evaluation expenditures comprise costs incurred directly in exploration and evaluation as well as the cost of mineral licenses. They are capitalised as exploration and evaluation assets subsequent to acquisition of the licenses and pending determination of the feasibility of the project. Borrowing costs attributable to the exploration and evaluation of mineral licences are expensed as incurred.

When the existence of economically recoverable reserves and commercial viability are established, the related exploration and evaluation assets are reclassified as intangible assets or property, plant and equipment as appropriate.

Where a project is abandoned or is determined not to be economically viable, the related costs are written off. Impairment is assessed when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Supplies

Supplies are sample bags, small tools and other similar items stored to support drilling operations. Supplies are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business and selling expenses. The cost of supplies is based on the first-in first-out principle and includes expenditure incurred in acquiring the supplies and bringing them to their existing location and condition.

Financial assets

Financial assets other than hedging instruments are divided into the following categories:

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

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expense is recognised in profit or loss or directly in equity.

Generally, the Group recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognised in the income statement except for income or loss on any available-for-sale financial assets which are recognised in equity.

Other receivables

Other receivables are initially recognised at fair value. Subsequently they are measured at amortised cost less provision for impairment. A provision for impairment of receivables is established when there is

objective evidence that the Group may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to the statement of income of the reporting period.

Any amount written-off with respect to other receivable balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

Other Investments

Investments in equity securities that are neither subsidiaries nor associates are categorised as available-for-sale instruments. These assets are measured at fair value, both initially and subsequently, with changes in fair value, except for impairment losses and certain foreign exchange gains and losses, recognised in other comprehensive income until the asset is sold. Impairment losses are recognised in the consolidated income statement as incurred, as are foreign exchange gains and losses arising on monetary items. Foreign exchange gains and losses arising on non-monetary items, such as an investment in an equity instrument, are recognised in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in accumulated other comprehensive income is reclassified to the consolidated income statement.

Impairment of financial assets

Financial assets, other than those carried at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account.

With the exception of available-for-sale equity instruments, 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 recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Financial liabilities

The Group's financial liabilities include accrued liabilities and other payables and the amount due to Newmont, which are initially recognised at fair value and subsequently stated at amortised cost. Trade payables are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after reporting date.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group after

deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Restoration and rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration and development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of dismantling and removal of facilities, restoration and monitoring of the affected areas. The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of the restoration and rehabilitation provision relating to exploration and development activities is capitalised into the cost of the related asset and amortised on the same basis as the related asset. Changes in the estimate of the provision of restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

Interest income

Interest income and expenses are reported on an accrual basis using the effective interest method.

Employee benefits

The Group makes contributions for the benefit of employees to the Jersey, Armenian and Georgia State pension funds. The contributions are expensed as incurred.

Provisions

A provision is recognised in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Loss per share

Basic loss per ordinary share is calculated by dividing the loss attributed to shareholders of the parent for the period by the weighted average number of ordinary shares outstanding during the period. Diluted loss per ordinary share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Business segments

The Group operates in one business segment, mineral exploration.

Geographical segments

The directors of the Group are of the opinion that three geographical segments, Armenia, Georgia and

head offices in Jersey (Channel Islands), existed as at March 31, 2013 and December 31, 2012. At December 31, 2010, Kosovo represented a geographical segment which was wound down in 2011.

Other reserves

Other reserves are equity instruments of the Company for purchase of non-controlling interests in its subsidiaries.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments in applying the Group's accounting policies

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The most significant critical judgment that members of management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements is the policy on exploration and evaluation assets.

In particular, management is required to assess exploration and evaluation assets for impairment. Note 14 discloses the carrying values of such assets. As part of this assessment, management must make an assessment as to whether there are indicators of impairment. If there are indicators, management performs an impairment test on the major assets within this balance.

The recoverability of exploration and evaluation assets is dependent on a number of factors common to the natural resource sector. These include the extent to which the Group can continue to renew its exploration and future development licenses with local authorities, establish economically recoverable reserves on its properties, the availability of the Group to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Group will use the evaluation work of professional geologists, geophysicists and engineers for estimates in determining whether to commence or continue mining and processing. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralisation.

Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

There are tax matters that have not yet been confirmed by taxation authorities. While management believes the provision for income taxes is adequate, these amounts are subject to measurement uncertainty. Adjustments required, if any, to these provisions will be reflected in the period where it is determined that adjustments are warranted.

The Black-Scholes Option Pricing Model was developed for use in estimating the fair value of traded options which are fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair

value, such value is subject to measurement uncertainty.

5. GEOGRAPHICAL SEGMENTS

The Group is engaged in one business activity, mineral exploration. The two key geographical segments for these activities are located in Armenia and Georgia. The Group's head office activities are located in Jersey (Channel Islands) which relate to administrative matters.

All transactions between segments are measured at fair value. All balances, income and expenses between segments are eliminated in full on consolidation.

The geographical segmented information on income statement items is given below:

	As of and for three month period ended	
	March 31, 2013 $	March 31, 2012 $
Interest income		
Armenia	1,111	-
Georgia	-	-
Head office activities	36,970	30,646
	38,081	30,646
Loss for the period		
Armenia	357,440	362,280
Georgia	89,579	25,762
Head office activities	2,127,519	2,113,134
	2,574,538	2,501,176
Depreciation and amortisation		
Armenia	11,997	10,606
Georgia	6,094	-
Head office activities	22,279	8,891
	40,370	19,497
Property, equipment and intangible asset expenditures		
Armenia	43,210	32,508
Georgia	-	92,219
Head office activities	5,367	16,930
	48,577	141,657

The geographical segmented information on certain Statement of Financial Position items is given below:

	As of March 31, 2013 $	As of December 31, 2012 $
Exploration and evaluation assets		
Armenia	46,805,284	47,154,131
Georgia	529,630	529,949
Head office activities	-	-
	47,334,914	47,684,080

Property and equipment		
Armenia	3,438,865	3,609,611
Georgia	96,032	102,188
Head office activities	78,618	87,287
	3,613,515	3,799,086
Intangible assets		
Armenia	93,870	104,661
Georgia	-	-
Head office activities	82,169	94,033
	176,039	198,694

March 31, 2013

	Armenia	Georgia	Head office activities	Eliminations	*Consolidated*
	$	$	$	$	$
Total assets	54,253,322	841,080	84,538,610	(53,540,700)	86,092,312
Total liabilities	53,188,642	1,650,484	5,598,949	(53,545,310)	6,892,765

December 31, 2012

	Armenia	Georgia	Head office activities	Eliminations	*Consolidated*
	$	$	$	$	$
Total assets	54,570,840	833,215	84,660,348	(51,600,830)	88,463,573
Total liabilities	51,306,541	1,560,533	5,507,902	(51,601,037)	6,773,939

6. EMPLOYEE SALARIES AND BENEFIT EXPENSES

	Three month period ended	
	March 31, 2013	March 31, 2012
	$	$
Salaries and other compensation	(1,047,937)	(764,111)
Share based compensation	(632,665)	(707,234)
	(1,680,602)	(1,471,345)

7. SERVICES AND CONSUMABLES USED

	Three month period ended	
	March 31, 2013	March 31, 2012
	$	$
Consulting and experts' fees	(81,620)	(115,798)
Insurance	(38,951)	(27,505)
Professional fees	(121,158)	(194,465)
Conference participation expenses	(26,549)	(35,665)
Other	(30,008)	(19,771)
	(298,286)	(393,204)

8. ADMINISTRATIVE AND OTHER EXPENSES

	Three month period ended	
	March 31, 2013	March 31, 2012
	$	$
Office operating	(125,513)	(64,939)
Travel	(192,127)	(216,121)
Representative expenses	(27,613)	(26,064)
Research and development	(36,147)	(22,628)
Audit and legal fees	(116,420)	(106,817)
Donations and sponsorship	(23,919)	(67,641)
Investor relations department expenses	(44,532)	(51,414)
Other	(67,860)	(28,379)
	(634,131)	(584,003)

9. OTHER GAINS

	Three month period ended	
	March 31, 2013	March 31, 2012
	$	$
Foreign currency gains	130,813	143,943
Other gains	34,171	-
	164,984	143,943

10. TAXATION

There was no taxes payable by the Group in the three month period ended March 31, 2013 and corresponding period in 2012.

	Three month period ended	
	March 31, 2013	March 31, 2012
	$	$
Loss before taxation	(2,574,538)	(2,501,176)
Tax at 19.0% (2012: 20.0 %)	(489,162)	(500,235)
Items which are not deductible for tax purposes	411,158	400,255
Losses not recognised	78,004	99,980
Income tax expense	-	-

The Group had taxation losses under jurisdiction of Jersey (Channel Islands), Armenia and Georgia (subject to confirmation with the tax authorities) as at March 31, 2013 amounting to approximately $3,837,449 (December 31, 2012, $3,426,898) that have not been recognised as there is insufficient evidence of taxable profits.

Tax losses incurred by Armenian and Georgian companies expire in the fifth year subsequent to when they are incurred.

The tax rate in Armenia is 20% and in Georgia is 15%. Expenses incurred at the head office are non-deductible. The effective tax rate for these Consolidated Financial Statements is calculated as weighted average of tax losses to deductible expenses in each jurisdiction.

11. LOSS PER SHARE

Loss per share of $0.02 for the three month period ended March 31, 2013 (March 31, 2012-$0.02) has been calculated on the basis of the net loss of $2,574,538 (March 31, 2012 loss: $2,472,483) on 127,854,695 (March 31, 2012: 108,312,051) shares being the weighted average number of shares in issue. As a result of the losses incurred during the three month period ended March 31, 2013 and 2012, the potential shares to be issued from the exercise of options and warrants are not included in the computation of diluted per share amounts since the result would be anti-dilutive. Accordingly, the diluted loss per share and the basic loss per share for all periods presented are the same.

12. PROPERTY AND EQUIPMENT

Cost	Machinery	Equipment	Vehicles	Lands and structures	Fixtures and fittings, other	Constructions	Total
	$	$	$	$	$	$	$
At January 1, 2012	-	512,283	372,336	66,353	176,561	-	1,127,533
Additions	2,964,080	236,706	114,302	-	52,425	36,265	3,403,778
Disposal		(5,760)	(18,393)	-	(3,698)	-	(27,851)
Exchange difference	(10,726)	(19,975)	(16,747)	(2,928)	(7,968)	(131)	(58,475)
As at December 31, 2012	2,953,354	723,254	451,498	63,425	217,320	36,134	4,444,985
Additions	-	36,642	-	-	5,025	5,496	47,163
Disposal	-	(1,780)	-	-	-	-	(1,780)
Exchange difference	(105,835)	(23,604)	(13,216)	(2,273)	(7,896)	(1,413)	(154,237)
As at March 31, 2013	2,847,519	734,512	438,282	61,152	214,449	40,217	4,336,131

ACCUMULATED DEPRECIATION	Machinery	Equipment	Vehicles	Lands and structures	Fixtures and fittings, other	Constructions	Total
	$	$	$	$	$	$	$
At January 1, 2012	-	168,187	124,458	993	99,557	-	393,195
Charge for the year	25,763	133,200	80,097	2,857	46,071	-	287,988
Disposal	-	(1,175)	(15,555)	-	(1,059)	-	(17,789)
Exchange difference	(93)	(7,069)	(5,722)	(54)	(4,557)	-	(17,495)
As at December 31, 2012	25,670	293,143	183,278	3,796	140,012	-	645,899
Charge for the period	25,313	44,511	20,120	701	11,826	-	102,471
Disposal	-	(1,780)	-	-	-	-	(1,780)
Exchange difference	(1,463)	(10,515)	(6,574)	(151)	(5,271)	-	(23,974)
As at March 31, 2013	49,520	325,359	196,824	4,346	146,567	-	722,616

CARRYING AMOUNT

	Machinery	Equipment	Vehicles	Lands and structures	Fixtures and fittings, other	Constructions	Total
	$	$	$	$	$	$	$
At March 31, 2013	2,797,999	409,153	241,458	56,806	67,882	40,217	3,613,515
At December 31, 2012	2,927,684	430,111	268,220	59,629	77,308	36,134	3,799,086
At January 1, 2012	-	344,096	247,878	65,360	77,004	-	734,338

In the three month period ended March 31, 2013, depreciation of $74,494 has been capitalised to exploration and evaluation costs (2012: $40,738).

13. INTANGIBLE ASSETS

COST	Computer Software
	$
As at January 1, 2012	212,110
Additions	114,334
Disposal	(1,492)
Exchange difference	(3,955)
As at December 31, 2012	320,997
Additions	1,414
Disposal	-
Exchange difference	(9,251)
As at March 31, 2013	313,160

ACCUMULATED AMORTISATION	$
As at January 1, 2012	64,392
Charge for the year	59,384
Disposal	(196)
Exchange difference	(1,277)
As at December 31, 2012	122,303
Charge for the period	18,605
Disposal	-
Exchange difference	(3,787)
As at March 31, 2013	137,121

CARRYING AMOUNT	
At March 31, 2013	176,039
At December 31, 2012	198,694
At January 1, 2012	147,718

In the three month period ended March 31, 2013, amortisation of $6,212 has been capitalised to exploration and evaluation costs (2012: $7,417).

14. EXPLORATION AND EVALUATION ASSETS ("EEA")

Cost	Armenia project Amulsar	Georgia project Kela (previously known as the "Zoti project"	Total
	$	$	$
At January 1, 2012	36,296,014	314,208	36,610,222
Additions	12,504,345	213,858	12,718,203
Exchange difference	(1,646,228)	1,883	(1,644,345)
At December 31, 2012	47,154,131	529,949	47,684,080
Additions	1,370,226	-	1,370,226
Exchange difference	(1,719,073)	(319)	(1,719,392)
At March 31, 2013	46,805,284	529,630	47,334,914

The net balance of Exploration and Evaluation assets as of March 31, 2013 compared to December 31, 2012 decreased by $349,166 as a result of strengthening of US Dollars against Armenian Drams and Georgian Laries resulting in a reduction of $1,719,392. During three month period ended March 31, 2013 $1,370,226 was invested in the Amulsar project through development, maintenance, lease payments, environmental studies etc. During the three month period ended March 31, 2013 there were no exploration activities at the Kela project.

IFRS 6 requires that regular impairment assessments are made. The directors carried out a review as of March 31, 2013 and are satisfied that on the basis of the current plans and status of operations, there are no indications of impairment on the Amulsar or Kela assets.

Non-cash transactions that increased EEA are as follows:

	Three month period ended March 31, 2013	Year ended December 31, 2012
	$	$
Capitalised amortisation and depreciation	80,706	234,353
Mine rehabilitation reserve	-	209,261
	80,706	443,614

15. OTHER NON-CURRENT ASSETS

Other non-current assets at March 31, 2013, December 31, 2012 and January 1, 2012 relate to Geoteam CJSC and Kavkaz Zoloto CJSC long-term receivables from the State input VAT. VAT input will be refunded by the Tax Authorities or offset with other tax liabilities through future sales of product or services. Borrowings are refunded on a regular basis from income received from provision of services. Management believes that the receivables from the State and borrowings are fully recoverable.

	March 31, 2013	December 31, 2012	January 1, 2012
	$	$	$
VAT input Geoteam CJSC	3,268,001	3,368,957	2,092,327
VAT input Kavkaz Zoloto CJSC	18,135	18,814	19,679
Long term borrowings	-	-	3,777
	3,286,136	3,387,771	2,115,783

16. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments. As at March 31, 2013, December 31, 2012, and January 1, 2012 the money market investments had a one month maturity period. Components of cash and cash equivalents are as follows:

	March 31, 2013	December 31, 2012	January 1, 2012
	$	$	$
Cash	4,182,394	3,170,360	2,422,070
Money market investments	26,707,684	29,535,371	10,473,494
	30,890,078	32,705,731	12,895,564

17. OTHER CURRENT ASSETS

The Group as at March 31, 2013, December 31, 2012 and January 1, 2012 holds the following other current assets:

	March 31, 2013 $	December 31, 2012 $	January 1, 2012 $
Supplies	20,216	26,083	16,240
VAT and HST refundable	47,669	42,704	39,308
Deposits	223,697	232,513	193,204
Other receivables and prepayments	500,048	386,911	386,051
	791,630	688,211	634,803

18. SHARE CAPITAL

Share capital of the Company consists of fully paid ordinary shares. The Company has one class of shares, being ordinary shares. The Company is authorised to issue an unlimited number of ordinary shares. The Company's ordinary shares have no par value. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the shareholders' meeting of the Company.

	Number of shares
Number of ordinary shares issued and fully paid:	
Total outstanding number of shares, January 1, 2012	104,075,686
Issued under share based payment	1,000,000
Shares issued for cash	19,388,482
Shares issued on exercise of warrants and share options	2,397,000
Total outstanding number of shares, December 31, 2012	126,861,168
Shares issued on exercise of warrants	3,311,758
Total outstanding number of shares, March 31, 2013	130,172,926

On March 9, 2012 the Company issued to GMP Securities L.P. and Scotiabank (underwriters) 15,625,000 ordinary shares at a purchase price of CAD $2.56 per ordinary share. On March 31, 2012 underwriters exercised their option to purchase additional 2,343,750 ordinary shares of the Company at the purchase price per ordinary share. On March 28, 2012 the European Bank of Reconstruction and Development took up its pre-emptive rights on purchase of 1,419,732 ordinary shares at a purchase price of CAD $2.56 per ordinary share.

During three month period ended March 31, 2013 the Company issued 3,311,758 ordinary shares pursuant to exercise of warrants. No warrants or share options were exercised during the three month period ended March 31, 2012.

19. WARRANTS

At March 31, 2013 the Company has no warrants. On March 4, 2013, 3,311,758 warrants were exercised to ordinary shares of the Company, the exercise price per ordinary share was CAD $0.59.

There were no grants of warrants during the three month period ended March 31, 2013 and the year ended December 31, 2012.

The following reconciles the outstanding and exercisable share warrants granted under by the Company:

	Number of Warrants	Weighted average exercise price
Balance at January 1, 2012	3,311,758	59 cent
Balance at December 31, 2012	3,311,758	59 cent
Balance at March 31, 2013	Nil	-

20. SHARE BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company's employee share option plan grants options to employees, directors and service providers of the Company to purchase ordinary shares of the Company. In accordance with terms of the employee share option plan, the exercise price of the granted options shall be determined at the time the option is granted provided that such price shall be not less than the market price of the ordinary shares. Share options granted under the plan carry no rights to dividends and no voting rights.

Each of the Company's share option is convertible into one ordinary share of the Company. Share options may be exercised at any time from the date of vesting to the date of their expiry.

Charges in relation to equity settled share-based payments are credited to an "Equity settled employee benefits reserve", therefore no liabilities have been recorded in respect to these plans.

The following summarises the outstanding share options granted under the employee share option plan:

	Number of options	Weighted average exercise price US Dollar
Balance at January 1, 2012	4,987,000	1.74
Granted	2,610,000	2.20
Expired	(420,000)	2.30
Exercised	(2,397,000)	1.01
Balance at December 31, 2012	4,780,000	2.35
Granted	150,000	2.24
Expired	(235,000)	2.22
Balance at March 31, 2013	4,695,000	2.30

Outstanding options				Exercisable options	
Range of exercise price	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
		years	$		$
$1.97-$2.95 (CAD$2-$3)	4,695,000	2.5	2.30	2,800,000	2.39
	4,695,000	2.5	2.30	2,800,000	2.39

During three month period ended March 31, 2013 150,000 share options were granted. The weighted average fair value per share options granted during the three month period ended March 31, 2013 was 89 cents (2012: 73 cents). Options were priced using the Black Scholes Option Pricing Model using the

following assumptions:

	2013	2012
Expected volatility	60%	39%
Expected option life	3 years	3 years
Risk free rate	1.1%	1.3%
Dividend yield	0%	0%

During the three month period ended March 31, 2013 $632,665 (2012 – $707,234) was included in employee benefits expense in the consolidated income statement.

The share options outstanding and exercisable at March 31, 2013 had a weighted average remaining contractual life of 2.5 years (December 31, 2012 – 2.8 years).

21. OTHER RESERVES - OPTION TO PURCHASE NON-CONTROLLING INTEREST

On December 9, 2010, the Company entered into an option agreement (the "Geoteam Option Agreement") to purchase the remaining 5% non-controlling interest (the "non-controlling interest") of the Company's 95% indirectly owned subsidiary, Geoteam CJSC. In accordance with the terms of the option (the "Call Option"), the Company has the right to purchase the non-controlling interest on the earlier of December 9, 2013 and the occurrence of certain transactions, including a transaction involving a change of control of the Company.

The Company also granted an option (the "Put Option") to the holder of the non-controlling interest, whereby the holder of the non-controlling interest can require the Company to purchase the non-controlling interest at any time during the period of the Call Option if the Company is in default of its obligations under the call option or at the end of the option period, December 9, 2013. The aggregate purchase price payable by the Company in connection with any exercise of the Call Option or the Put Option will be CAD $500,000 in cash and 2,000,000 ordinary shares (the "Payment Shares") in the capital of the Company. Under the Geoteam Option Agreement during year 2011 the Company issued 1,000,000 ordinary shares. On June 25, 2012 the Company issued 250,000 shares and on September 24, 2012, the Company issued the remaining 750,000 shares resulting in the extinguishment of the non-controlling interest in Geoteam CJSC.

22. DUE TO NEWMONT

On February 26, 2010, the Company entered into an agreement (the "Purchase Agreement") with Newmont pursuant to which the Company's 95% owned subsidiary, Geoteam CJSC, purchased all of Newmont's interest in the joint venture known as the Caucasus Venture (the "Venture") between the Company and Newmont. In consideration for the purchase of Newmont's interest in the Venture and the related termination of the Venture, the Company was to; (i) issue to Newmont three million ordinary shares and (ii) make certain pre-production and then post-production payments to Newmont. The post production payments are dependent on production occurring and this allows Lydian to fund the required payments out of direct revenue from the Amulsar gold project or through alternate available funds. See Note 29.

Prior to production, the Company is obligated to pay Newmont US$15 million in three US$5 million installments. The first was paid on the Closing, the second was due on or before January 1, 2012 and paid on March 13, 2012 with interest accrued for deferred payment from January 1, 2012 to actual date of payment and the third on or before the earlier of December 31, 2012 and the date that is 90 days after a bankable feasibility on any portion of the Amulsar property is complete and the Company has received all the necessary material permits to move into production. Pursuant to the terms of the agreement with Newmont, in December 2012 the Company notified Newmont of its intention to defer the third US$5 million payment to no later than December 31, 2013, the deferred payment bears interest at the rate of 10% per annum commencing December 31, 2012 until it is paid.

	$
Undiscounted amount payable at January 1, 2012	10,000,000
Interest accrued	100,000
Cash payment	(5,100,000)
Amortised cost as of December 31, 2012	5,000,000
Interest accrued	121,727
Payable as of March 31, 2013	5,121,727

23. NON-CURRENT ACCRUED LIABILITIES

Non-current accrued liabilities are VAT payable for import of certain equipment into Armenia, whereby VAT payments are deferred up to three years given that property is not sold, whereby the VAT is payable immediately.

24. PROVISIONS

The provision for restoration and rehabilitation represents the present value of future outflow of economic benefits that will be required by the concession agreement signed between Geoteam CJSC and Government of the Republic of Armenia. The provision recognised as of March 31, 2013 relates only to rehabilitation of Amulsar mine areas affected by exploration activities as development of the mine has not commenced.

	$
Balance at January 1, 2012	44,415
Additions	206,544
Balance at December 31, 2012	250,959
Exchange difference	(8,993)
Balance at March 31, 2013	241,966

25. ACCRUED LIABILITIES AND OTHER PAYABLES

	March 31, 2013	December 31, 2012	January 1, 2012
	$	$	$
Accrued liabilities and trade payables	194,440	740,589	1,163,918
Wage accruals	766,354	192,991	166,547
	960,794	933,580	1,330,465

26. FINANCIAL RISK MANAGEMENT

The Group manages its exposure to financial risks by operating in a manner that minimises its exposure to the extent practical. The main financial risks affecting the Group are discussed below:

Capital risk management

The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group, in order to support the acquisition, exploration, and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Group's management to sustain future development of the business.

The properties in which the Group currently has an interest are in the exploration stage, as such, the Group is dependent on external financing to fund its activities. The Group intends to raise additional finance by issuing new share capital, debt or entering into joint arrangements to carry out planned exploration and to pay for administrative costs. The Group will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient geologic or economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

Management reviews its capital management approach on an interim basis. Management believes that its approach, given the relative size of the Group, is reasonable. The Group is not subject to externally imposed capital requirements.

The Group defines capital as the aggregate of total equity, excluding non-controlling interest, which totals $79,199,547 (December 31, 2012: $81,689,634). Total equity comprises share capital, warrants, and reserves and accumulated deficit as disclosed in the consolidated statements of changes in equity.

Liquidity risk

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

The Group’s cash requirements and balances are projected for the Group as a whole and for each country in which operations and capital expenditures are conducted. The Group plans to meet these requirements through the mix of available funds, equity financing on a required basis, project debt financing, if available, entering into joint arrangements and cash to be provided by the exercise of warrants and share options in the future.

To date the Group has relied on shareholder funding to finance its operations. As the Group has finite cash resources and no material income, the liquidity risk is significant and is managed by controls over timing of expenditures.

All short-term financial liabilities which relate to accrued liabilities and other payables and due to Newmont as disclosed in Notes 22 and 25 mature within one year of March 31, 2013.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's measurement currency. The Group’s management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Group’s expenses include amounts incurred in British Pounds, Armenian Dram, Canadian Dollar, Euros, Georgian laries and the US Dollar. The Group’s exchange risk is therefore related to movements between these currencies. The Group has a downside risk to strengthening of the British Pound, Euro, Armenian Dram, Georgian lari or Canadian Dollar as this increases expenses in US Dollars terms.

The Group’s currency risk policy is to diversify its cash resources in the British Pound, the US Dollar, the Canadian Dollar and the Euro roughly in proportion to expected future expenditure over the following twelve months. This is done to reduce the risk of the Group holding virtually all of its monetary assets in a single currency when the expenditure base is spread over five main currencies.

Currency risk sensitivity

The following table details the Group’s sensitivity to a 10% increase and decrease in the US Dollars against the relevant foreign currencies. A 10% increase or decrease is used when reporting currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes on outstanding foreign

currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes loans to operations within the Group where the denomination of the loan is in currency other than the currency of the lender.

The Group's net assets and liabilities are predominantly held in Armenians Drams, Canadian Dollars, British Pounds, Georgian laries, Euros and US Dollars. The numbers below indicates an influence on equity where the US Dollar strengthens 10% against the relevant currency.

		Armenian Dram	Canadian Dollar	British Pound	Georgian Lari	Euro
Other comprehensive income profit or (loss) in US Dollars	March 31, 2013	(4,839,663)	(1,039,368)	(477,920)	(70,596)	(11,736)
	December 31, 2012	(4,835,641)	(1,147,457)	(139,641)	(61,742)	(12,054)

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Other than the deferred amount due to Newmont, the Group has no other fixed or floating rate borrowings. Cash and cash equivalents also bear interest at floating rates.

Interest rate sensitivity

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. With a 100 basis point increase in interest rates the income would be higher by $98,031 and in case of decrease the loss higher by $36,970 for the three month period ended March 31, 2013.This analysis assumes all other variables are assumed constant.

Credit risk management

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.

As the Group has no revenue or trade receivables, management considers credit risk as low. Up front deposits are on occasion paid to major suppliers primarily relating to exploration drilling contracts. The payment of these deposits is considered by the management on a case by case basis and the progress on the contract carefully reviewed. During the three month period ended March 31, 2013 and year ended December 31, 2012 there were no material impairment provisions required for any of the financial assets. There are no material financial assets that the Group considers past due. At March 31, 2013, the Group did not have any significant credit risk exposure to any counterparty or any group of counterparties having similar characteristics.

The credit risk on cash and cash equivalents is considered by management to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the consolidated financial statements represents the Group's maximum exposure to credit risk.

Financial assets

Fixed rate financial assets are cash held on fixed term deposit. Cash at bank is held to finance the Group's short-term cash requirements. The Group invests its available cash in bank deposits only.

At March 31, 2013 and December 31, 2012, cash and cash equivalents were as follows:

	Fixed rate assets	Cash assets	Total	Average period for which rates are fixed (months)	Average interest rates for fixed rate assets
	$	$	$		
March 31, 2013	26,707,684	4,182,394	30,890,078	One	0.53%
December 31, 2012	29,535,371	3,170,360	32,705,731	One	1.08%

Fair value of financial assets and liabilities

All financial assets and financial liabilities are recorded at amortised cost in the consolidated financial statements. Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature.

27. RELATED PARTY TRANSACTIONS

The parent and ultimate controlling party of the Group is Lydian International Limited. No individual party had overall control of the Company or Group during the periods being presented.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the Group and other related parties are disclosed below.

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The non-executive members of the Board of Directors do not have employment or service contracts with Lydian International Limited and neither are they entitled to any termination benefits. None of the directors are entitled to pension benefits.

The sole director and country manager of Geoteam CJSC and director of Kavkaz Zoloto CJSC previously held 5% of the shares in Geoteam CJSC and continue to hold 5% of the shares in Kavkaz Zoloto CJSC. Within the year ended December 31, 2012 pursuant to "Geoteam Option Agreement" the Company issued to Hayk Aloyan 1,000,000 ordinary shares (Note 21).

The directors and key management are the directors of Lydian International Limited. The remuneration of directors and key management was as follows:

	Three month ended March 31, 2013 $	Three month ended March 31, 2012 $
Aggregate emoluments	336,141	281,377
Share based payments	363,569	463,372

28. OPERATING LEASE AND PURCHASE COMMITMENTS

The Group leases office premises with a lease term of up to 9 years. The group does not have an option to purchase the leased asset at the expiry of the lease period. In 2011 Geoteam CJSC has endorsed long term rent contracts for lands under rock allocations. Non-cancellable operating lease commitments are disclosed below:

	March 31, 2013 $	December 31, 2012 $
Up to one year	366,513	379,889
More than one year and no later than five years	1,275,360	1,376,924
More than five years	2,131,662	2,252,332
	3,773,534	4,009,145

29. CONTINGENCIES

Newmont Transaction

On April 23, 2010 the Group purchased all of Newmont's interests in the Group's joint venture which included Newmont' interests in the Amulsar gold property. The consideration was a combination of committed and contingent payments. The committed payments included 3 million ordinary shares of the Company, which have now been issued and three payments of US$5 million, the first was paid in 2010, the second on March 13, 2012 and the third payment was due by the end of 2012 but has been deferred according to Company's notification (Note 23).

In addition the Group agreed to pay Newmont, following the start of commercial production, a 3% Net Smelter Royalty ("NSR"). However, between April 23, 2010 and the date that is 20 days following commencement of commercial production, Lydian may at its option elect to buy out the 3% NSR and instead pay to Newmont the aggregate sum of US$20 million, without interest, in 20 equal quarterly installments of US$ 1 million commencing on the first day of the third calendar month following the start of commercial production. Furthermore, the Company has a one-time option prior to the commencement of commercial production to prepay these quarterly installments in a single cash payment using an annual discount rate of 10%. This equates to a single payment of approximately US$15.6 million.

These potential post production payment(s) do not meet the definition of an obligation or a constructive obligation as the triggering event, commencement of commercial production, has not happened yet. These potential payments are therefore not recognized on the consolidated Statement of Financial Position at March 31, 2013.

Drazhnje licenses

On July 29, 2011 the Company completed the transfer of Drazhnje licenses (the Property) to KMG as per agreement with it. KMG agreed to commence Commercial Production at a date no later than end 2014. In the event that Commercial Production commences, KMG will pay to Lydian a CAD $2 million cash payment and an overriding perpetual net smelter royalty of 2% on all metals produced at the Property.

Economic benefits attributable to this agreement are contingent and assets from it are not recognised in these financial statements.

30. SUBSEQUENT EVENTS

The consolidated financial statements for the three month period ended March 31, 2013 have been approved for issue by the board of directors on May 14, 2013 and subsequent events have been reviewed through the date of approval.