LYDIAN INTERNATIONAL LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2016

March 30, 2017

Contents

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A of the consolidated financial condition and results of operations of Lydian International Limited ("Lydian" or the "Company") was prepared as of March 30, 2017. It is intended to supplement and complement the Company's audited consolidated financial statements and related notes as of and for the year ended December 31, 2016. Financial information was prepared in accordance with IFRS as issued by the IASB. All monetary figures are expressed in U.S. Dollars unless otherwise indicated. Refer to the Glossary of Defined Terms for definitions of capitalized terms and acronyms used in this MD&A.

Lydian's business is subject to numerous risks and uncertainties that should be considered when reading this MD&A and other disclosures of the Company. Certain forward-looking statements are included in the MD&A. In addition, measured, indicated and inferred mineral resources are based on terms recognized by Canadian regulations. Therefore, readers are encouraged to read the Risk Factors and Cautionary Statements section of this MD&A.

Additional information about Lydian is included in the AIF available at www.lydianinternational.co.uk and the SEDAR website at www.sedar.com.

HIGHLIGHTS

Lydian successfully achieved its 2016 objective of starting construction at its 100%-owned Amulsar Gold Project in Armenia. The Company made a formal decision in May 2016 to proceed with construction. After a period for engineering and other preparations, construction activities for access roads and platforms started during Q4 2016. Project activities continue to accelerate and are expected to peak during Q2 and Q3 2017. First gold production is targeted for 2018. Many accomplishments contributed to meeting our construction objective, including:

- *Project Financing Completed* – A comprehensive financing plan was completed, which will provide Lydian with nearly $440 million for project construction costs, interest and financing fees, and corporate costs. At December 31, 2016, the Company had cash on hand of $146 million and will begin drawing on its debt facilities during Q2 2017.

- *Permits Received* – National-level permitting requirements were updated by the Republic of Armenia to align with the optimized Amulsar development plan. This included amendments to the Mining Right and approval of updates to the EIA and the TSP.

- *Land Rights Secured* – All privately-owned land within the Amulsar footprint was acquired by the Company, and the Republic of Armenia and local communities approved conversion of key lands from agricultural to industrial use. These were important prerequisites to beginning construction earthworks.

- *Implementing International Standards* – Lydian continued to strengthen its commitment to good international industry practices. An amended ESIA was disclosed to reflect design improvements realized from Lydian's 2015 value engineering program, and the Company's application to become a signatory to the International Cyanide Management Code was accepted.

- *Equipment Supply Contracts Signed* – The Company recently signed key equipment supply contracts. These contracts, signed ahead of the 2017 construction season, will provide all significant components of the mining fleet, materials handling system, gold-recovery plant, electrical systems, and worker accommodations.

- *Resources and Reserves Growth* – The 2016 drilling program at Amulsar successfully converted a portion of the inferred gold resource within the currently designed pit boundaries. Measured and indicated gold resources increased 16% while contain gold reserves increased 8%. As a second objective, tightly spaced drilling in certain areas of the mine plan provided positive confirmation of the block model.

ABOUT LYDIAN

Lydian is a gold developer focusing on construction at its 100%-owned Amulsar Gold Project, located in south-central Armenia. Amulsar presents an opportunity for a large-scale, low-cost operation with production expected to begin in 2018. Open pit mining and conventional heap leach processing contribute to excellent scale and economic potential. Amulsar will be Armenia's largest gold mine, with estimated mineral resources containing 3.5 million measured and indicated gold ounces and 1.3 million inferred gold ounces. Gold production is targeted to average approximately 225,000 ounces annually over an initial 10-year mine life as outlined in the Q1 2017 Technical Report. Existing mineral resources and open extensions provide opportunities to improve average annual production and extend the mine life. Lydian is committed to good international industry practices in all aspects of its operations including production, sustainability, and corporate social responsibility.

The Company was incorporated under the Business Companys Act (Alberta) on February 14, 2006. By articles of amendment dated December 12, 2007, the then outstanding shares of the Company were consolidated on the basis of two post-consolidation shares for each three pre-consolidation shares and the Company changed its name from "Dawson Creek Capital Corp." to "Lydian International Limited". By certificate of continuance effective December 12, 2007 pursuant to the Companies (Jersey) Law 1991, the Company was continued under the laws of Jersey from the Province of Alberta. The registered office of Lydian is located at Suite 3, 5/6 Esplanade, St. Helier, Jersey, JE2 3QA, Channel Islands. The Company, through two of its subsidiaries, also maintains offices at 7000 South Yosemite Street, Suite 201, Centennial, Colorado, 80112, USA and Republic Square 26/1, V. Sargsyan Street, Yerevan 0010, Republic of Armenia.

The Company's Ordinary Shares began trading under the symbol LYD on January 10, 2008, and the Warrants began trading under the symbol LYD.WT on May 26, 2016.

FOURTH QUARTER AND RECENT DEVELOPMENTS

The Company's Q3 2016 MD&A was dated as of November 14, 2016. More recent developments include:

Equipment Financing

Lydian's financing plan contemplates up to $85 million of funding for equipment financing. Lydian, through its wholly-owned Armenian subsidiary, entered into three credit agreements to support purchases of the mobile mining fleet, material handling systems, and other equipment. These credit agreements provide up to $116 million, although current contractual terms limit the aggregate amount that can be draw to $85 million. The excess availability provides Lydian with flexibility among these lenders to source funding for certain equipment. The equipment financing credit agreements include:

- *Ameriabank Term Facility* – On November 17, 2016, Lydian Armenia entered into a $24 million secured credit facility with Ameriabank. Proceeds will be used for various equipment purchases. The Ameriabank Term Facility is available in multiple tranches; an initial advance of $10 million was drawn during December 2016. Each tranche will be repayable over a 10-year period from the date of advance, including an initial principal grace period of one year. The Ameriabank Term Facility bears an interest at LIBOR plus 8.75%. A commitment fee of 2% (annualized) will apply to any undrawn portion of the Ameriabank Term Facility. The principle security consists of specific equipment financed by Ameriabank. In addition, Lydian has provided an unsecured guarantee in favour of Ameriabank. All advances under the Ameriabank Term Facility are subject to satisfaction of certain conditions.

- *Cat Term Facility* – On December 22, 2016, Lydian Armenia entered into a secured credit facility with Cat Financial for up to $42 million. Proceeds will be used to purchase Cat® mobile mining equipment. The Cat Term Facility is available to be drawn in multiple advances through June 2018. Each advance will be repayable over a 75-month term, inclusive of a six-month initial repayment grace period. The Cat Term Facility bears an interest rate of LIBOR plus 4.5%. Principal security consists of specific equipment financed by Cat Financial. In addition, Lydian has provided an unsecured guarantee in favour of Cat Financial. All advances under the Cat Term Facility are subject to satisfaction of certain conditions.

- *ING Term Facility* –On February 8, 2017, Lydian Armenia entered into a secured credit facility with ING Bank for up to $50 million. Proceeds will be used to purchase crushing, conveying and electrical equipment. The ING Term Facility is available to be drawn in multiple advances through April 2018. Each advance will be repayable over a 51-month term. The ING Term Facility bears an interest rate of LIBOR plus 2.95%. Principal security consists of specific equipment financed by ING Bank and a guarantee covering 85% of principal and interest has been issued by the EKN. The cost of the EKN guarantee shall be financeable using proceeds from the ING Term Facility. In addition, Lydian has provided an unsecured guarantee in favour of ING Bank. All advances under the ING Term Facility are subject to satisfaction of certain conditions.

Equipment Supply Contracts

During February 2017, Lydian announced that Lydian Armenia had signed key equipment supply contracts for the Amulsar Gold Project. These contracts, signed ahead of the 2017 construction season, will provide all significant components of the mining fleet, materials handling system, gold-recovery plant, electrical systems, and worker accommodations. These contracts include:

- Zepplin International AG has been contracted to supply Cat® mobile mining equipment, including haul trucks, shovels, tractors, loaders, dozers and other units of mining support equipment. Zeppelin International AG has committed to initial deliveries starting Q3 2017.

- The materials handling system will be supplied by Sandvik. Major components to be supplied by Sandvik include the crushing and screening plant by Sandvik SRP AB Sweden, and the overland conveyor, storage reclaim, and truck loadout feeding system by Sandvik Mining and Construction Oy Finland.

- AZMET Technology & Projects (PTY) Ltd has been contracted for design and supply of the ADR Plant.

- ABB AB, Substations and ABB Switzerland Ltd. are under contract for design and supply of equipment and materials for complete plant electrification. This will include the main substation and distribution grid, integrated automation and process control by optimized solutions, motors and drive systems, as well as premanufactured electrical rooms to house the whole plant electrical infrastructure.

- Renco SpA and Renco Armestate was contracted for design, supply, construction and assembly of a 680-bed residence camp immediately adjacent to Amulsar.

Mineral Resource and Reserve Update

During February 2017, the Company announced a positive update to its mineral resource and mineral reserve estimates resulting from the 2016 drilling program at Amulsar. The objectives of the program were the conversion of inferred mineral resource within the currently designed pit boundaries and an increase in drill density in certain areas for mine planning purposes. The measured and indicated mineral resource estimate increased by 19.8 million tonnes to 142.2 million tonnes while the gold grade decreased from 0.77 g/t to 0.76 g/t. The mineral reserve estimate increased by 184,000 contained gold ounces to 2,606,000 contained gold ounces with an increase in the gold grade from 0.78 g/t to 0.79 g/t.

2017 OUTLOOK

During 2017, Lydian expects to achieve the following significant milestones:

- Complete major earthworks for the heap leach facility, mine haul road, and barren rock storage facility;
- Complete civils for all components of site infrastructure and equipment;
- Erect buildings for the material handling system and for ADR plant;
- Fabrication by vendors and delivery to site of major components of mechanical and electrical equipment;
- Commence installation of mechanical and electrical equipment;
- Fabrication, delivery to site, and assembly of the mine mobile fleet;
- Finalize biodiversity offset boundaries and establish an independent sustainability advisory panel; and
- Hiring and training of staff for the operation of the mine and process plant.

SELECTED FINANCIAL INFORMATION

The following is selected information for the years and three month periods ended December 31.

Results of Operations

	For the years ended December 31,			For the three months ended December 31,	
	2016	2015	2014	2016	2015
Interest income	$ 313,360	$ 28,901	$ 75,871	$ 155,203	$ 12,839
Salaries, general and administrative expense	7,004,527	6,046,632	9,488,593	2,008,320	1,485,375
Loss (gain) on financial instruments at fair value	(9,853,933)	-	-	(24,687,663)	-
Other expenses (income)	900,107	395,641	(509,510)	1,298,332	298,329
Total expenses (income)	(1,949,299)	6,442,273	8,979,083	(21,381,011)	1,783,704
Net income (loss)	2,262,659	(6,413,372)	(8,903,212)	21,536,214	(1,770,865)
Net income (loss) per share (basic and diluted)	$ 0.00	$ (0.04)	$ (0.06)	$ 0.03	$ 0.01

During the last three years, the Company had no revenues other than interest income from bank deposits. The increase in interest income for the year ended December 31, 2016 is due to interest on funds received in connection with the Financing Transactions throughout 2016. Sources of funds in 2016 include the second deposit from the Stream Agreement, the Offering, the Private Placements, the EBRD Private Placement and proceeds from the Ameriabank Term Facility.

Salaries, general and administrative expenses in 2016 increased over 2015 largely due to third party costs associated with the Financing Transactions and performance based compensation awarded upon attainment of key business objectives.

Financial instruments include derivative assets and derivative liabilities recorded at fair value, with changes in fair value being recorded as loss (gain) on financial instruments at fair value in the statement of profit and loss. Such derivatives were first recognized on May 26, 2016 (inception), therefore, no comparable amounts existed for the 2015 periods. The table below summarizes the sources of loss on financial instruments at fair value YTD 2016 and for Q4 2016.

	For the year ended December 31,		For the three months ended December 31,	
	2016	2015	2016	2015
Loss (gain) on financial instruments at fair value				
Stream prepayment option	$ 1,760,630	$ -	$ 3,556,599	$ -
Stream commodity linked repayment	(6,283,628)	-	(15,100,295)	-
Offtake agreement derivative	(744,009)	-	(5,315,834)	-
Warrants	(4,586,926)	-	(7,828,133)	-
Loss (gain) on financial instruments at fair value	$ (9,853,933)	$ -	$ (24,687,663)	$ -

The stream prepayment option is a derivative asset associated with Lydian's right to reduce its delivery obligation by up to 50% under the Stream Agreement upon payment of up to $55 million on various anniversary dates. Exercise of this option is more likely to occur as the gold or silver price trends higher, which would be recognized as an increase in fair value. During 2016, the gold and silver price was volatile, resulting in swings in gains and losses in each quarter. Since inception, the gold price has declined from $1,224 to $1,150 at year-end resulting in a decrease in the fair value of prepayment option in the amount of $1.8 million YTD 2016. For Q4 2016, the decrease in gold price from $1,313 to $1,150 was the primary cause for a $3.6 million loss in fair value.

The stream commodity linked repayment is a derivative associated with Lydian's obligation to deliver gold and silver under the Stream Agreement. This derivative was deemed to be a swap, which had a zero fair value at inception as the strike price was deemed to be equal to the market price. Therefore, the carrying value of this derivative was nil at its inception on May 26, 2016. An increase in the gold or silver price above the inception price causes the fair value to increase resulting in a derivative liability, which was recognized as a loss during Q2 and Q3 2016 as the gold price increased from $1,224 to $1,313. In Q4 2016, the gold price decreased from $1,313 to $1,150, falling below the inception price of $1,224 resulting in a Q4 2016 gain of $15.1 million, a YTD 2016 gain of $6.3 million and resulted in a derivative asset at year-end.

The Offtake Agreement derivative is a liability associated with the quotational period pricing mechanism. Gold price volatility is the key variable that affects fair value. Gold price volatility was the primary cause of the $5.3 million gain recognized during Q4 2016 with a YTD 2016 gain of $0.7 million.

The outstanding warrants represent derivative liabilities that are linked, in part, to Lydian's share price relative to the strike price of the warrants. The fair value of this derivative liability generally increases as Lydian's share price increases, therefore, losses in fair value were recognized through Q3 2016 as Lydian's share price increased from C$0.35 at inception to C$0.44 at September 30, 2016. In Q4 2016, a gain of $7.8 million was recognized due to

Lydian's share price falling from C$0.44 at September 30, 2016 to C$0.33 at December 31, 2016 below the strike prices of both the Warrants(C$0.36) and the Initial Warrants(C$0.39). Additionally, a reduction in the remaining term of the warrants also drove the gain.

Other expense increased in 2016 compared to 2015 due to a one-time impairment charge related to the Company's exploration and evaluation asset and a write-off of certain deferred financing costs.

There was no income tax expense, no extraordinary transactions, nor any significant end of reporting period adjustments during the periods presented.

Summary of Balance Sheet Data

The following table summarises the Company's financial position:

	As of			
		December 31, 2016		December 31, 2015
Cash & cash equivalents	$	137,195,785	$	28,553,813
Other current assets		10,136,251		518,012
Mineral property, plant & equipment, net		111,648,064		72,705,639
Derivative assets		7,591,788		-
Deferred financing costs		18,954,581		2,538,164
Other non-current assets		5,952,019		3,633,342
Total assets	$	291,478,488	$	107,948,970
Current liabilities	$	5,904,983	$	26,935,925
Stream liability		60,268,697		-
Debt		10,981,333		-
Derivative liabilities		25,950,964		-
Provisions		451,782		338,498
Total equity		187,920,729		80,674,547
Total liabilities and equity	$	291,478,488	$	107,948,970

Cash and cash equivalents increased by $108.6 million since December 31, 2015. Financing activities provided proceeds of $154.2 million from the Offering, Private Placements, EBRD Private Placement, the second deposit under the Stream Agreement, and net proceeds from Ameriabank Term Facility, offset by $6.8 million of related financing costs. Operating activities consumed $6.9 million of cashflows, $30.9 million was spent on investing activities which most notably included Amulsar capital expenditures, and $1.0 million of foreign exchange impacts on cash.

The increase in other current assets of $9.6 million is due a $9.1 million increase in restricted cash as a result of net proceeds from the Ameriabank Term Facility which is held for purchase of mining related equipment. The remaining increase relates to prepayments to vendors in the ordinary course of business and increased materials and supplies associated with increased construction activities.

Upon shareholder approval of the financing arrangements in May 2016, the Company formalized its construction decision for Amulsar. Previously capitalized exploration and evaluation costs were reclassified to development as was costs incurred to acquire the surface rights necessary to construct the mine.

	Exploration and Evaluation Assets	Development Assets
Balance as of December 31, 2015	$ 67,197,151	$ -
Additions prior to May 26, 2016	3,943,314	-
Exchange differences	995,420	82,725
Transfer to Development Assets	(71,653,671)	71,653,671
Additions after May 26, 2016	-	32,306,484
Transfer of surface rights	-	4,800,154
Impairment / Disposals	(482,214)	-
Balance as of December 31, 2016	$ -	$ 108,843,034

The project cost of the Amulsar Gold Project is $369.9 million. During 2016, the Company incurred $37.3 million of expenditures for the Amulsar Gold Project, excluding the transfer cost associated with surface rights. The activities throughout the year consisted of pre-construction site infrastructure, continued biodiversity studies, readying accommodations, engineering, permitting, drilling, early works, construction management and owner's costs. The timing of these expenditures supports the stage of project progression in preparation for the upcoming 2017 construction season. Details for the year ended December 31, 2016 are as follows:

	in millions
General Project Costs	7.2
Indirect Project Costs	13.2
Owner's Cost	6.6
Infrastructure (water channel, roads)	0.9
Material Handling Systems	0.8
Heap Leach Facility (HLF and irrigation pipeline)	1.4
Other Project Costs	7.2
	$ 37.3

The Company recognized an impairment associated with its Georgian property during 2016.

In connection with the Financing Transactions, several derivatives were recognized as of May 26, 2016. These derivatives are carried at fair value, with adjustment made after initial recognition recorded as gains or losses in the current period. The carrying value of derivative asset and liabilities as of December 31, 2016 consisted of:

	Derivative Assets (Liabilities)				
Summary of Derivatives	Stream Prepayment Option	Offtake Agreement	Stream Commodity Linked Repayment	Warrants	Gain (Loss)
Fair value at May 26, 2016	$ 3,068,790	$ (21,921,971)	$ -	$ (9,359,928)	
Change in fair value	(1,760,630)	744,009	6,283,628	4,586,926	9,853,933
Fair value at December 31, 2016	$ 1,308,160	$ (21,177,962)	$ 6,283,628	$ (4,773,002)	

Derivative assets at year end consist of the stream prepayment option and the stream commodity linked Repayment. The stream prepayment option represents the fair value of Lydian's option to reduce metal deliveries under the Stream Agreement by 50% upon a cash payment in the future. As gold prices decrease, it is more likely that the Company will not exercise its option, resulting in an reduction of the asset. The stream commodity linked repayment derivative is associated with Lydian's obligation to deliver gold under the Stream Agreement and is considered a swap with an initial fair value of nil. The inception price of gold implied by the market based transaction was $1,224 per ounce. As gold prices rise above the inception price, a liability derivative is recognized and as gold prices fall below the inception price, an asset derivative is recognized. Throughout the first three quarters of 2016, gold prices rose resulting in a derivative liability. However, from inception to year end, gold had fallen to $1,150 below the inception gold price of $1,224 therefore a derivative asset is recognized. Changes in fair are recognized in the statement of profit and loss.

Derivative liabilities consist of the quotational pricing mechanism in the Offtake Agreement and the Warrants and Initial Warrants issued in connection with the Offering and Private Placements, respectively. Increases in volatility of gold prices increase the derivative liability as the offtake purchaser has the right to acquire gold at the lowest price during the quotational period. The reduction in the warrant liability is due to the strike price of the warrants (C$0.39 for the Initial Warrants and C$0.36 for the Warrants) falling below the year end share price of C$0.33 and the reduction in the remaining term of the warrants.

Financing costs increased by a net amount of $16.4 million during 2016. Financing costs included non-cash additions of $17.6 million resulting from the initial recognition of the derivatives associated with the Offtake Agreement, Stream Agreement, and Initial Warrants, and $8.7 million of expenditures for third-party financing related costs. A total of $9.6 million was reclassified as offsets to the proceeds received from the equity financing transactions, the second deposit received under the Stream Agreement. A write-off of $0.3 million was recognized associated with the reduction in value of the cost over-run facility.

The decrease in current liabilities of $21.1 million is due to the de-recognition of a $24.9 million of advances under Stream Agreement, offset by an increase in payables of $3.8 million associated with Amulsar project activities and costs associated with financing activities.

The stream liability represents advance under the Stream Agreement. This liability was first recorded upon de-recognition of the advance under Stream Agreement. In addition to the initially recognized stream liability, the Company received $35 million on September 30, 2016 as the second deposit under the Stream Agreement. Netting against this latter amount was $1.8 million of financing costs.

Total equity increased by a net amount of $107.2 million since December 31, 2015 as a result of issuing Ordinary Shares resulting in net proceeds of $112 million, recognizing $0.9 million of share based compensation, recognition of a comprehensive gain of $3 million, offset by the issuance of Warrants in the amount of $8.7 million.

Summary of Cash Flows

The following table is a summary of cash flows:

	For the year ended December 31, 2016	2015
Cash used in operations	$ (6,853,341)	$ (6,797,494)
Cash used in investing activities	(30,956,608)	(10,660,856)
Cash generated from financing activities	147,485,702	35,881,164
Increase in cash and cash equivalents	109,675,753	18,422,814
Foreign exchange effect on cash	(1,033,781)	682,660
Cash and cash equivalents, beginning of period	28,553,813	9,448,339
Cash and cash equivalents, end of period	$ 137,195,785	$ 28,553,813

Cash (used in) operations during 2016 remained flat over the prior year and relates primarily to corporate purposes.

Cash (used in) investing activities increased $20.3 million over the same period in 2015. The increase is due to expenditures for the development of Amulsar, including environmental and biodiversity studies, engineering, earthworks, site infrastructure, land conversion and permitting, construction activities, project management and the purchase of construction equipment.

Cash from financing activities increased $111.6 million over the prior year due to net proceeds from the financing activities associated with the Offering, the EBRD Private Placement and the Private Placements of $112 million (net of share issuance costs), $35 million received as the second deposit on the Stream Agreement, $0.9 million net from the Ameriabank Term Facility, offset by $0.4 million for other financing costs, versus $35.9 million of financing related proceeds in 2015.

SUMMARY OF QUARTERLY RESULTS

A summary of the Company’s results of operations for the eight most recently completed quarters is:

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net sales	$ -	$ -	$ -	$ -
Net income (loss)	$ 21,536,214	$ (3,946,734)	$ (13,905,671)	$ (1,421,150)
Net income (loss) per share (basic and diluted)	$ 0.03	$ (0.01)	$ (0.04)	$ (0.01)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net sales	$ -	$ -	$ -	$ -
Net income (loss)	$ (1,770,865)	$ (757,414)	$ (2,113,061)	$ (1,772,032)
Net income (loss) per share (basic and diluted)	$ (0.01)	$ -	$ (0.01)	$ (0.01)

The Company’s financial results are not significantly impacted by seasonality.

OUTSTANDING SHARE DATA

A summary of the Company's share capital is:

	As of March 30, 2017	As of December 31, 2016	2015
Ordinary shares	699,449,253	699,449,253	184,632,587
Warrants	104,187,500	104,187,500	-
Stock options	5,760,000	5,760,000	6,900,000
Restricted stock units	13,112,472	5,428,972	-

LIQUIDITY AND CAPITAL RESOURCES

Working capital as of December 31, 2016 was $141.4 million compared to $2.1 million as of December 31, 2015. This increase of $139.3 million resulted primarily from gross proceeds of $163.3 million received from various financing transactions, offset by expenditures incurred in connection with Lydian's development activities at Amulsar, corporate expenses, and financing-related costs. In total, the Company has now received gross proceeds of $188.4 million towards its Amulsar financing plan and has arranged other sources of financing that have not yet been utilized.

The current level of working capital is sufficient to advance all anticipated work programs until approximately mid-2017. However, funding from the balance of the financing plan discussed below is necessary to meet all project and corporate requirements through completion of Amulsar's construction. Management's financing plan is intended to provide up to $437.4 million for the initial estimated Amulsar capital costs of $370 million and an additional $14 million in the form of the COF beyond the contingency included in initial capital costs. Currently, the Company's ability to draw under the equipment financing agreements is capped at $85 million. The balance of funds required is for corporate expenses, financing transaction costs, and interest payable on various credit facilities once drawn.

Management has completed the following sources of funds in connection with its financing plan:

	In Millions
Gross proceeds received to date:	
Initial deposits under the Stream Agreement	$ 60.0
Private Placements to RCF and Orion	80.0
Public offering	29.6
EBRD private placement[1]	8.8
AmeriaBank equipment financing	10.0
Sub-total: Gross proceeds received to date	$ 188.4
Other arranged Financing Transactions[2]	
Term Loan	$ 160.0
COF[3]	14.0
Equipment financing (limited to $85m):	75.0
Sub-total: Other arranged Financing Transactions	$ 249.0
Total financing plan	$ 437.4

[1] The terms of the EBRD Private Placement designate the use the net proceeds to be for the financing of environmental and social mitigation measures and related activities in connection with development of Amulsar.

[2] Advances under the Term Loan, COF and equipment financings are subject to satisfaction or waiver of applicable conditions. In addition, use of proceeds under the COF are limited to, if any, project cost overruns in excess of the $38 million contingency included as part of the initial capital cost estimate.

[3] Availability of funds under the COF was amended October 21, 2016.

[4] The Company has arranged equipment financing facilities with Ameriabank, Cat Financial, and ING. The principal security for such facilities is anticipated to include the mining fleet, material handling equipment and other ancillary equipment and camp facilities. All facilities closed in 2016, with the exception of the ING arrangement that closed in February 2017. Advances under the equipment financing arrangements are subject to satisfaction or waiver of applicable conditions. The Company has arranged up to $116 million of equipment financing but is limited to $85 million under the terms of the Term Loan. There can be no assurance that the Company will be able to access funds from equipment financing above the $85 million cap.

In addition to the amounts set out in the financing plan, the Company may receive additional equity proceeds in the event outstanding warrants are exercised prior to expiration. While there can be no assurances such warrants will be exercised, in part or in full, the table below summarizes the gross proceeds receivable by the Company in the event of full exercise of the respective classes of warrants:

	Expiration Date	Exercise Price	Warrants Outstanding	Gross Proceeds (in Millions)
Warrants	November 25, 2017	C$0.36	99,187,500	C$35,707,500
Loan Fee - Warrants	May 25, 2019	C$0.39	5,000,000	C$1,950,000

In addition to project financing requirements for Amulsar, the Company will require additional sources of working capital for near-term exploration opportunities, corporate purposes, and other contractual obligations when due. The Company is subject to certain reimbursement limitations under the terms of the Financing Transactions. While the Company has provided for an estimate of such costs, actual costs may exceed these estimates. As a result, the financing plan may be insufficient and require the Company to issue additional Ordinary Shares or seek other funding sources to meet its construction and non-Amulsar related expenditures.

The ability to and satisfactorily fulfill the conditions of the Financing Transactions and other potential financing arrangements, draw upon such sources when needed, and meet other obligations of the Company when due is uncertain.

The time periods and the Company’s costs relating to the construction-related milestones for Amulsar and other estimates contained in studies or estimates prepared by or for the Company may differ significantly from those currently expected by the Company. There can be no assurance that the actual time periods, access to sufficient funding and the Company’s actual costs with respect to these objectives will not be higher than currently expected.

While the Company believes it can accomplish its stated business exploration for and development of mineral properties has a number of inherent risks. See Risk Factors in the Company's AIF for factors that may impact the timing and success of the Company's planned activities in connection with Amulsar.

The Company has made certain expenditure, performance and timing commitments to the licensing authorities for the Company's projects. Should these expenditure targets not be met or amended, the applicable licenses are not expected to automatically be forfeited, but any shortfall will be considered by the applicable regulatory authority as a factor in whether to renew such licenses.

Use of Proceeds

The following table presents the anticipated use of proceeds from the Financing Transactions, the equipment financing facilities with Ameriabank, Cat Financial, ING Bank and EBRD Private Placement (1).

	Assumed	Actual use of proceeds at December 31,2016
Direct costs	$ 161.8	$ 8.1
Construction indirect costs	32.5	1.5
Engineering, procurement, construction management	32.9	13.9
Owner's Cost	35.2	4.7
Pre-production working capital	10.0	0.1
Mine fleet and mobile equipment	49.8	-
Freight	8.3	-
Contingency	37.6	-
Drilling	1.8	1.8
Total construction costs	$ 369.9	$ 30.1

Any other funds available to the Company from the Financing Transactions or otherwise will be used for working capital purposes and possible cost overruns. The Project expenditures are in line with the scheduled construction activities in 2017.

(1) The proceeds from the EBRD Private Placement are to be used solely for the environmental and social mitigation measures and related activities in connection with development of Amulsar.

TAXES PAID IN ARMENIA

Summary of payments to the Armenian State Budgets and local community governments

The following information is provided as part of an initiative by Publish What You Pay (a global civil society coalition) to achieve transparency of oil, gas and mining Company payments to agencies and representatives of those governments as a first step towards a more accountable system for the management of natural resources.

	For the year ended December 31, 2016	2015
State duty on mining and exploration license	$ 20,452	$ 21,132
Income tax paid on behalf of employees	725,797	853,749
Land rentals in local communities	614,040	992,705
Other taxes and duties	779,850	-
Land status change	554,214	430,053
	$ 2,694,353	$ 2,297,639

(1) The amounts above were paid in Armenian drams, and converted to US$ using the annual average exchange rate for this report period.

FINANCIAL AND OTHER INSTRUMENTS

Financial instruments (assets)

The Company's financial assets include cash and cash equivalents, restricted cash, accounts receivable measured at the amount receivable less adjustment for the time value of money, and derivative assets which are carried at fair value.

Financial instruments (liabilities)

The Company's financial liabilities include accounts payable and accrued liabilities, other payables, and debt which are initially recognized at fair value and subsequently stated at amortized cost and derivative liabilities carried at fair value. Accounts payables are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the reporting date.

Capital Management

The Amulsar Gold Project is in the development stage, as such, the Company is dependent on external financing to fund its activities. The Company manages its capital structure and adjusts it based on changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, incur, repay or restructure debt, and acquire or dispose of assets to facilitate the management of its capital requirements. The Company prepares annual expenditure budgets that are updated as necessary depending upon various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the board of directors. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Capital is comprised of the aggregate of total equity attributable to owners, accounts payable and accrued liabilities, stream liability and debt. As of December 31, 2016, the Company's share capital was $187,920,729

(2015: $80,674,547), it had accounts payable and accrued liabilities of $5,904,893 (2015: $2,010,337), a stream liability and debt, net of unamortized debt issuance costs of $71,250,030 (2015: $24,925,588).

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

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 discussion presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk.

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

(a) Market risk

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

(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 primarily has exposure to three currencies: Armenian drams, Canadian dollars and the Euro. Any impact from changes in currency values, to the US dollar are recognized as foreign currency gains or losses in the consolidated statement of profit and loss. The Company's currency risk policy is to hold funds primarily in the US Dollar, with funds held in the Armenian dram, the Canadian Dollar and the Euro roughly in proportion to expected future expenditure over the next quarter. See Note 21.

(ii) Interest rate risk

Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and assets. The Company's exposure to interest rate fluctuations is due primarily to its long-term debt which have interest rates based on LIBOR. The Company has not entered into any agreements to hedge against unfavorable changes in the LIBOR rate. Currently the Company's risk exposure is limited to the drawn portion of the Ameriabank Term Facility. Fluctuations in the LIBOR rate impacts capitalized interest in Mineral Properties. See Summary of Balance Sheet table above for capitalized interest. The Company evaluates, on an ongoing basis, opportunities to hedge its interest rate exposure on long-term debt.

Advances from the Term Loan bear interest at LIBOR plus 6.5% (subject to a minimum of 1%) and advances from Ameriabank Term Facility bear interest at LIBOR plus 8.75%. Advances under the ING Credit Facility bear interest at LIBOR plus 2.85% and advances under the Cat Credit Facility bear interest at LIBOR plus 4.5%.

The Company deposits cash into fully liquid bank business accounts. As such, the Company does not consider its interest rate risk exposure to be significant as of December 31, 2016 with respect to its cash and cash equivalent and restricted cash positions. Fluctuations in interest rates on cash impact interest income.

Sensitivity to a plus or minus 1% change in interest rates with all other variables held constant as at December 31, 2016, would affect the consolidated statements of profit and loss by an de minimus amount in both 2016 and 2015.

(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 Company has not hedged the price of any commodity at this time.

The financial instruments impacted by commodity prices are the embedded derivatives related to the Stream Agreement and the Offtake Agreement, see Note 12.

As of December 31, 2016, no ounces had been delivered under these contacts. See Note 12 for the impact of a 10% appreciation or depreciation of gold or silver prices on the embedded derivatives.

(b) 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. The Company limits its exposure to credit risk on financial assets by investing cash with financial institutions of high credit quality.

As the Company has no revenue or trade receivables, management considers credit risk as low. Advances are on occasion paid to major suppliers primarily relating to construction. Payment of these deposits is considered by the management on a case by case basis. The VAT receivable and rehabilitation payments are with the Republic of Armenia.

The carrying amount of financial assets recorded in the consolidated financial statements represents the Company's maximum exposure to credit risk. See Note 21.

(c) 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 approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, to the extent the Company does not believe it has sufficient liquidity to meet obligations, it will consider securing additional equity or debt funding. The Company's liquidity may be adversely affected if its access to the capital and debt markets are hindered, whether as a result of a downturn in market conditions generally, or as a result of conditions specific to the company. To date, the Company has relied on shareholder and debt funding to finance its operations and development of the Amulsar Gold Project. The Company's ability to settle borrowings and other long term liabilities when due is dependent upon future liquidity from capital sources or positive cash flows from commercial operations.

Though the Company currently has financing arrangements in place to meet its development obligations, access to these funds is subject to meeting certain conditions. There is no assurance that the Company will be able to meet the conditions at the time funds are required, therefore, liquidity risk is present until such a time as the conditions are satisfied.

The ultimate responsibility for liquidity risk rests with the board of directors, which has designed an appropriate risk management framework for the management of the Company's short, medium and long-term funding requirements. See Note 21.

(d) Fair value of financial assets and liabilities

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). See Note 12.

SIGNIFICANT TRANSACTIONS, CONTRACTS AND OFF-BALANCE SHEET ARRANGEMENTS

Significant Transactions and Contracts

Significant transactions and contracts for the years ended December 31, 2015 and 2016 include:

- $60 million Stream Agreement, of which the funds have been received;
- $160 million undrawn Term Loan, as amended, and issuance of 5,000,000 Initial Warrants on May 26, 2016;
- $25 million undrawn COF, subsequently amended to $14 million;
- Offtake Agreement associated with the Financing Transactions, calling for the sale of all gold from Amulsar not delivered through the Stream Agreement;
- $80 million Private Placements, which closed May 26, 2016;
- $29.5 million Offering, which released funds from escrow to the Company on May 26, 2016;
- $8.8 million private placement with the EBRD;
- $24 million equipment financing arrangement with Ameriabank on November 22, 2106, of which $10 million was drawn;
- $42 million Cat Financial equipment financing arrangement on December 22, 2016, of which no amounts have been drawn.

Off-Balance Sheet Arrangements

On April 23, 2010, the Company purchased from Newmont all of Newmont's interest in the former joint venture between the Company and Newmont known as the Caucasus Venture, including all of Newmont's interest in Amulsar. As partial consideration, the Company agreed to pay Newmont, following the start of commercial production at Amulsar, a 3% Net Smelter Royalty ("NSR"). However, at any time prior to the date that is 20 days following commencement of commercial production, the Company may at its option elect to buy out the 3% NSR and instead pay to Newmont the aggregate sum of $20 million, without interest, in 20 equal quarterly installments of $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 $15.7 million.

These potential post production payment(s) do not constitute an "obligation or a constructive obligation", as the triggering event of commercial production has not yet occurred and is not determinable at this time. Therefore, these potential payments are not accrued as a liability as of December, 2016.

The Company does not have any other significant or off-balance sheet arrangements.

COMMITMENTS

The Company and its subsidiaries lease office space for administrative and operational purposes. In 2011, the Company, through its subsidiary Lydian Armenia, entered into long term rental contracts for lands under the planned rock allocation area, and other areas associated with planned mine development. Recently, these contracts were changed to reflect the current mine design and rock allocation area. Though these operating leases are cancelable, rental obligations are listed below:

	As of December 31,			
		2016		2015
Up to one year	$	1,933,446	$	762,589
More than one year and not later than five years		5,597,388		2,677,473
More than five years		8,264,996		6,629,799
	$	15,795,830	$	10,069,861

The projected cost of the Amulsar Gold Project is $369.9 million. In May 2016, Lydian Armenia signed an amended mining agreement with the Ministry of Energy, Infrastructure and Natural Resources of Armenia. Under the agreement, Lydian Armenia previously paid a deposit to the Armenian Government in the amount of 279.7 million Armenian Drams ("AMD") or $589,000, as a guarantee for post-mining environmental rehabilitation and AMD38.1 million, or $80,000, for ongoing monitoring. The amounts paid represented 15% of the contractual obligation. The remainder of the rehabilitation guarantee will be paid in equal installments of AMD121.9 million, or $252,000, over thirteen years commencing in 2016, and the remainder of the monitoring will be paid in equal installments of AMD16.6 million, or $34,300, over thirteen years commencing in 2016. In addition, Lydian Armenia is committed to invest annually AMD61.0 million, or $126,300, after mine closure for workforce social mitigation and AMD61.5 million, or $127,300, for adjacent communities' social-economic development. The rehabilitation guarantee will be refunded to the Company after mine closure when rehabilitation is completed and accepted by the Armenian Government.

Environmental, Social and Mine Closure

In May 2016, Lydian Armenia signed an amended mining agreement with the Ministry of Energy and Natural Resources of Armenia. Under the agreement, Lydian Armenia previously paid a deposit to the Armenian Government in the amount of 279.7 million Armenian Drams ("AMD") or $589,000, as a guarantee for post-mining environmental rehabilitation and AMD38.1 million, or $80,000, for ongoing monitoring. The amounts paid represented 18% of the contractual obligation. The remainder of the rehabilitation guarantee will be paid in equal installments of AMD121.9 million, or $252,000, over thirteen years commencing in 2016, and the remainder of the monitoring will be paid in equal installments of AMD16.6 million, or $34,300, over thirteen years commencing in 2016. In addition, Lydian Armenia is committed to invest annually AMD61.0 million, or $126,300, after mine closure for workforce social mitigation and AMD61.5 million, or $127,300, for adjacent communities' social-economic development. The rehabilitation guarantee will be refunded to the Company after mine closure when rehabilitation is completed and accepted by the government of Armenia.

Equipment Supply Contracts

As of the date of this report, the Company has entered into key supply contracts for the mining fleet, material handling systems, gold recovery plant electrical systems, and worker accommodations. The aggregate value of these contracts is $120 million. The contracts provide for termination provisions common to the industry. The provisions generally provide payment for i) the reasonable, direct, documented costs incurred as a result of such early termination, ii) if the contract paid on a cost reimbursable basis, the amount owed for work performed to the termination date; or (iii) if the contract is on a unit price or lump sum basis, an amount that is proportionate to the number of units completed or to the percentage of the work that has been completed as of the termination date as compared to the total work that was to have been completed.

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, officers, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Compensation awarded to related parties for the periods indicated below was as follows:

	For the year ended December 31, 2016	2015
Salaries and other compensation	$ 1,784,053	$ 1,225,409
Share-based compensation	494,360	388,556
	$ 2,278,413	$ 1,613,965

CRITICAL JUDGEMENTS, ESTIMATES AND ACCOUNTING POLICIES

Accounting Judgements

In applying the Company's accounting policies, management is required to make judgments, estimatesand assumptions that affect the application of accounting principles and reported amounts of certain assets, liabilities, equity, income and expenses in instances when valuation is not readily apparent from other sources. These judgments, estimates and assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates. In management's opinion, all adjustments considered necessary for fair presentation have been included in these financial statements.

Significant judgments made by management and applied in preparing these financial statements were consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2015. In addition, certain events and transactions occurring during the year ended December 31, 2016 required management to apply the following additional significant judgments:

Impairment of development assets – The Company decided to proceed with construction of Amulsar in May 2016. Upon this decision, costs previously recorded as exploration and evaluation assets were reclassified to development assets. Evaluation of the recoverability of the Amulsar development asset was required at that time and will be done each reporting period thereafter. This recoverability assessment is dependent on a number of judgments. These include consideration of indications of impairment and, if necessary to proceed with an assessment, such factors as mineral reserves and recoverable mineral products, execution of the development plan as intended, sufficiency of estimated future cash flows from mining operations, potential proceeds from dispositions, maintenance and receipt of necessary authorizations, and adequacy of financing. The Company will use the evaluation work of professional geologists, geophysicists and engineers for estimates in determining whether to continue development. These estimates generally rely on scientific and economic assumptions, which in some instances may not reflect actual outcomes and thereby affect the ultimate recoverability of the carrying value of development assets.

Impairment of exploration and evaluation assets – The assessment of impairment of exploration and evaluation assets requires judgment to determine whether indicators of impairment exist including factors such as, the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resourced properties are budgeted and results of exploration activities up to the reporting date.

Change in functional currency – Effective May 26, 2016, the Company changed the functional currency of Lydian Armenia from the Armenian Dram to the U.S. Dollar. This change was deemed appropriate as it became evident that Lydian Armenia's underlying transactions, particularly capital spending and financing of Amulsar, are predominantly denominated in U.S. Dollars. In connection with the change in functional currency of Lydian Armenia, the intermediary holding companies Lydian Resources Armenia and Lydian International Holdings Limited also changed. This change in judgment has been accounted for prospectively in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Effective January 1, 2015, the Company determined that that a change to its functional currency was appropriate from the Canadian Dollar to the U.S. Dollar as it became evident that the underlying transactions and events are predominantly denominated in U.S. Dollars. This shift occurred as a greater percentage of expenditures for technical and administrative services are denominated in U.S. Dollars. No other consolidated entities were affected by this change in functional currency. This change in judgment has been accounted for prospectively in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates.*

Stream liability – The Company entered into a Stream Agreement on November 30, 2015 and subsequently received an initial advance of cash. As set out in the audited consolidated financial statements for the year ended December 31, 2015, management treated the cash received as an advance, pending satisfaction or waiver of certain conditions. Such conditions were met in May 2016. As a result, it was management's judgment that advances under the Stream Agreement shall be accounted for as a financing arrangement, best characterized as a financial liability. This determination was based predominantly on conditions of the Stream Agreement permitting cash settlements.

Fair value financial instruments – The Company entered into several financing agreements on November 30, 2015 that contained provisions giving rise to financial derivatives. Also, on May 26, 2016 the Company issued two forms of warrants, each representing financial derivatives. These derivatives are accounted for at fair value and marked to market each reporting period thereafter. In determining fair value, management judgment is required in respect of input variables of the financial model used for estimation purposes. These variables include such inputs as the Company's stock prices, stock price volatility, trading volumes of the Warrants, risk-free rates of return, the credit-risk-premium, LIBOR terms and associated rates, availability of alternative financing, gold and silver price forward curves, gold and silver price volatilities, timing of future production, timing of draws upon financing facilities, timing of repayments of financing facilities, expected future LIBOR rates, timing of achieving commercial production, availability of positive cash flows from operations, and other factors.

Accounting Estimates

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

The application of the Company's accounting policy for assessing impairment of development assets requires judgment. In completing impairment assessments, the Company utilized certain findings as reported in the National Instrument 43-101 Technical Report issued in November 2015. This included the amount and timing of cash flows, reflecting findings such as mineral resources, mineral reserves, recovery rates, capital costs, operating costs, and royalty and tax burdens. Management also estimated gold and silver prices for the impairment assessments. Each of these considerations and judgments applied by management in completing the impairment assessments represent key sources of estimation uncertainty.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. Management uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions at the end of each reporting period.

Accounting Policies

The accounting policies applied in preparing these consolidated financial statements were based on the applicable IFRS and interpretations effective as of December 31, 2016. Changes in circumstances and significant transactions have occurred during the year. A summary of these matters and the application of the Company's accounting policies follows.

Effective May 26, 2016, the Company changed the functional currency of Lydian Armenia from the Armenian Dram to the U.S. Dollar. This change was deemed appropriate as it became evident that Lydian Armenia's underlying transactions, particularly capital spending and financing of Amulsar, are predominantly denominated in U.S. Dollars. Other intermediary entities were affected by this change in functional currency as well. This change in judgment has been accounted for prospectively in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates.

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 debt is drawn or a financing arrangement closes, the associated costs are allocated to and reclassified against such debt or equity arrangement. Financing costs associated with debt are expensed over time as interest expense using the effective interest rate method. In the event that a financing effort is abandoned or unsuccessful, the allocable financing costs are charged immediately to expense.

The Company classifies financing arrangements giving consideration to cash flow characteristics, contractual terms, and relevant business objectives. Financing agreements, such as the Stream Agreement, shall be classified as debt 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.

The Company's financial assets include cash and cash equivalents, restricted cash, accounts receivables measured at the amount receivable less adjustment for the time value of money, and derivative assets which are carried at fair value.

The Company's financial liabilities include accounts payable and accrued liabilities, other payables, and debt which are initially recognized at fair value and subsequently stated at amortized cost and derivative liabilities carried at fair value. Accounts payables are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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 the adjustment being recognized currently as a gain or loss in the statement of loss.

Recent Accounting Pronouncements

IFRS 9, *Financial Instruments* – The IASB published IFRS 9 in July 2014, effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model, and a substantially reformed approach to hedge accounting. The treatment of financial liabilities was little changed relative to IAS 39. Management has not yet assessed the impact of IFRS 9 on the consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* – The IASB published IFRS 9 in July 2014, effective for annual periods beginning on or after January 1, 2018. IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. Management has not yet assessed the impact of IFRS on the consolidated financial statements.

IFRS 16, *Leases* – The IASB published IFRS 16 in January 13, 2016 effective for annual periods beginning on or after January 1, 2019, though a company can choose to apply IFRS 16 before that date but only in conjunction with IFRS 15 *Revenue from Contracts with Customers*. The standard establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17, *Leases*, and related Interpretations. The Company is currently assessing the impact of this standard.

DISCLOSURES AND INTERNAL CONTROLS

The Company prepares its financial reports in accordance with International Financial Accounting Standards ("IFRS"). Financial reports and other disclosures by the Company are subject to Management's systems for maintaining internal controls over financial reporting and disclosure controls as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. In preparing disclosures, Management makes certain interpretations and relies on assumptions and estimates. There is no assurance that Management's internal controls, interpretations, assumptions and estimates, or other precautions will completely ensure reliable and timely disclosures are made.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the design of disclosure controls and procedures ("DC&P") to provide reasonable assurance that all relevant information required to be disclosed by the Company is accumulated and communicated to senior management as appropriate to allow timely decisions regarding required disclosure. Management is also responsible for the design of internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's Chief Executive Officer and Chief Financial Officer have used the COSO 2013 framework to design the Company's DC&P and ICFR as of December 31, 2016. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's DC&P and ICFR as of December 31, 2016 and have concluded that these controls and procedures are adequately designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company, and to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. There have been no other significant changes in the Company's ICFR that occurred during the year ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the consolidated financial statements, is the responsibility of Management. In preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates are based on careful judgments and have been properly reflected in the Company's consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

RISK FACTORS

The Company faces significant risks and uncertainties causing the mineral resource sector to be highly speculative in nature. Many of these can have material and adverse effects on the valuation of the Company's securities, cash flows, financial condition, results of operations, rights and interests, existing business activities, plans and prospects. Risk factors and additional information relating to the Company are discussed in the Company's most recent AIF and other filings available on SEDAR at www.sedar.com.

CAUTIONARY STATEMENTS

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements, as such term is defined under applicable securities laws. These statements relate to future events or future performance and reflect Management's expectations and assumptions regarding the growth, results of operations, performances and business prospects and opportunities of the Company. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "intend", "will", "would", "project", "budget", "scheduled", "forecast", "could", "believe", "predict", "potential", "should", "might", "occur", "achieve" or the negative of these terms or other similar expressions are intended to identify forward-looking statements. In particular, information regarding: the Company's future operating results and economic performance; the anticipated funding of the equipment financing and the Financing Transactions; the expected use of proceeds from the Offering, the equipment financing , the EBRD Private Placement and the Financing Transactions; the Company's ability to meet its gold and silver delivery obligations under the Stream Agreement; the impact of the Offering, the equipment financing and the Financing Transactions on the Company's operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; the anticipated economic and feasibility parameters of Amulsar; the expected cost and timing of development of Amulsar, including the related key milestone dates; the expected mine life, scale, construction, mining operations and plan, processing methods and rate, grades, recovery rates, total recovery, stripping ratio, average annual tonnes mined/processed, production and other attributes of Amulsar; the anticipated timing for the receipt of permits; the anticipated timing for the development of Amulsar; and the anticipated key design features for the mining operations at Amulsar is forward-looking information.

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance, achievements or events to differ materially from those anticipated, discussed or implied in such forward-looking statements. The Company believes the expectations reflected in such forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should be considered carefully and investors should not place undue reliance on them as the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These statements speak only as of the date of this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- the supply and demand for, deliveries of, and the level and volatility of prices of gold and other precious metals;
- the exchange rate between the Canadian dollar, the Armenian dram, the British pound, and the U.S. dollar;
- the timing of the receipt of any outstanding regulatory and governmental approvals for the Company's projects;
- the availability of financing for the Company's development of its properties on reasonable terms;
- the ability to procure equipment and operating supplies in sufficient quantities, on a timely basis and on reasonable terms;
- there being no significant disruptions affecting the development and operation of Amulsar;
- the receipt of all environmental approvals, required permits, licenses and authorizations and timing thereof;
- tax rates, including the allocation of certain tax attributed to Amulsar;
- mine life, total tonnes mined and processed, and mining operations;
- the operation and economic viability of the development of Amulsar;
- that the 5% discount rate used to complete the Q4 2015 Technical Report is sufficient;
- labour and materials cost increases;
- permitting and arrangements with landholders;
- the ability to attract and retain skilled staff;
- exploration and development timetables;
- market competition;
- the accuracy of the Company's resource and reserve estimates (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which they are based;

- the satisfaction or waiver of all conditions to the completion, effectiveness or availability, as the case may require, of each of the Financing Transactions;
- the receipt of funds under each of the Financing Transactions; and
- the Company's ability to meet its gold and silver delivery obligations under the Stream Agreement.

These forward-looking statements involve risks and uncertainties relating to, among other things, significant capital requirements and availability of capital resources to fund such requirements; price volatility in the spot and forward markets for commodities; fluctuations in the international currency markets and in the rates of exchange of the currencies of Canada, Armenia, Great Britain and the United States; discrepancies between actual and estimated production, between actual and estimated reserves and resources and between actual and estimated metallurgical recoveries; changes in national and local government legislation in Armenia; taxation; changes to the Company's mine plan or profitability or to the Company's asset profile that might alter the allocation of tax attributes to Amulsar; controls, regulations and political or economic developments in Jersey, Canada or Armenia; the speculative nature of mineral exploration and development; risks associated with obtaining and maintaining the necessary licenses and permits and complying with permitting requirements, including, without limitation, approval of the Armenian Government and receipt of all related permits, authorizations or other rights; the uncertainties inherent to current and future legal challenges the Company is or may become a party to; diminishing quantities or grades of reserves and resources; competition; loss of key employees; adverse general economic, market or business conditions; additional funding requirements; rising costs of labour, supplies, fuel, electricity and equipment; actual results of current exploration activities; uncertainties inherent to mining economic studies such as Q1 2017 Technical Report, including the risk that the assumptions underlying the Q1 2017 Technical Report and its economic parameters will not be realized; changes in project parameters as plans continue to be refined; accidents; labor disputes; defective title to mineral claims or property or contests over claims to mineral properties; delays and costs inherent to consulting and accommodating local stakeholders; and uncertainties with respect to obtaining all necessary surface rights, land use rights and other tenure from the Armenian government and private landowners required for Amulsar. In addition, there are risks and hazards associated with the business of mineral exploration, development and mining, including environmental events and hazards, industrial accidents, unusual or unexpected formations, pressures, cave-ins, flooding and gold bullion losses (and the risk of inadequate insurance or inability to obtain insurance to cover these risks). Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors referenced in this MD&A. Investors should not place undue reliance on forward-looking statements as the plans, assumptions, intentions or expectations upon which they are based might change or not occur. The Company cautions that the foregoing list of important factors is not exhaustive. The forward looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law. See "Forward-Looking Statements" in the AIF and other filings available on SEDAR at www.sedar.com.

Estimates of Measured, Indicated and Inferred Resources

This MD&A uses the terms "Measured", "Indicated" and "Inferred" Resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the SEC does not recognize them. "Inferred Mineral Resources" have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. United States investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of an Inferred Mineral Resource exists, or is economically or legally mineable.

GLOSSARY OF DEFINED TERMS

"*ADR Plant*" means the adsorption, desorption and recovery plant;

"*AIF*" means the annual information form of the Company dated March 30, 2017 for the year ended December 31, 2016;

"*AMD*" means the Armenian dram;

"*Ameriabank*" means Ameriabank CJSC;

"*Ameriabank Term Facility*" means the Term Facility with Ameriabank in the amount of $24 million

"Amulsar" or "*Amulsar Gold Project*" means Lydian's 100% owned gold project at Amulsar, located in south-central Armenia;

"C$" means Canadian dollar;

"Cat Financial" means Caterpillar Financial Services (UK);

"Cat Term Facility" means the secured credit facility dated December 22, 2016 between Lydian Armenia and Caterpillar Financial Services for a maximum principal of $42 million;

"*Company*" or "*Lydian*" or "*we*" or "*us*" or "*our*" means Lydian International Limited and its affiliates;

"*COSO*" means the Committee of Sponsoring Organizations of the Treadway Commission;

"*Cost Overrun Facility*" or *"COF"* means the $25 million cost overrun facility, which was subsequently amended to $14 million;

"*DC&P*" means disclosure controls and procedures;

"*EBRD*" means the European Bank for Reconstruction and Development;

"EBRD Private Placement" means the $8.8 million private placements of Ordinary Shares to the EBRD, which closed August 15, 2016;

"*EKN*" means the Swedish Export Credits Guarantee Board;

"*EIA*" means the Environmental Impact Assessment for the Amulsar Gold Project;

"*Equator Principles*" means the Equator Principles – June 2013, developed by the Equator Principles Association, as amended, supplemented or superseded from time to time;

"*ESIA*" means the Environmental and Social Impact Assessment developed in 2014, as amended in 2016, for Amulsar to conform to the requirements of the 2012 International Finance Company Performance Standards and the 2008 European Bank for Reconstruction and Development Performance Requirements and other financial institutions that may be signatories to the Equator Principles;

"*Financing Transactions*" means, collectively, the series of financing transactions in an aggregate amount of approximately US$325 million, as subsequently amended to $314 million, entered into between the Company, Orion and RCF, to finance the engineering, design and construction of the plant, the acquisition of equipment, mine development and start-up costs, interest during construction, fees and expenses related to the financing transactions, other development costs, working capital requirements of Amulsar, and for corporate and working capital purposes;

"*IASB*" means the International Accounting Standards Board;

"*ICFR*" means internal controls over financial reporting;

"*IFRS*" means the International Financial Reporting Standards as issued by the International Accounting Standards Board;

"*ING Bank*" means ING Bank N.V.;

"*Initial Warrants*" means the 5,000,000 Ordinary Share purchase warrants of the Company issuable to Orion and RCF upon the closing of the Private Placements. Also described as Loan Fee - Warrants;

"*ING Term Facility*" means the secured credit facility entered into by Lydian Armenia on February 8, 2017 in the amount of up to $50 million;

"*Lydian Armenia*" means Lydian Armenia CJSC, formerly Geoteam CJSC, the Company's wholly owned subsidiary which holds Amulsar.

"*Management*" means the management of the Company;

"*MD&A*" means this Management's discussion and analysis;

"*Mining Right*" means the mining right for Amulsar as approval by the Armenian Ministry of Energy and Natural Resources;

"*Newmont*" means Newmont Overseas Exploration Limited;

"*NI 43-101*" means National Instrument 43-101 – Standards of Disclosure for Mineral Projects;

"*Offering*" means the distribution and offering of the Subscription Receipts by the Company pursuant to the Short Form Prospectus and the Ordinary Shares and Warrants issued pursuant to the terms of the Subscription Receipts;

"*Offtake Agreement*" means the offtake agreement dated November 30, 2015 among Lydian Armenia, the Company, Lydian International Holdings Limited, Lydian Resources Armenia Limited, Orion and RCF;

"*Ordinary Shares*" means the ordinary shares of no par value in the capital of the Company;

"*Orion*" means both or either Orion Co IV (ED) Limited and Orion Co IV (SO) Limited;

"*Private Placements*" means the private placements of Ordinary Shares to each of Orion and RCF;

"*Q1 2017 Technical Report*" means the "NI 43-101 Technical Report, Amulsar Updated Resources and Reserves, Armenia, dated March 30, 2017";

"Q2 2016" means the three month period ended June 30, 2016;

"*Q3 2016*" means the three month period ended September 30, 2016;

"Q4 2016" means the three month period ended December 31, 2016;

"*Q4 YTD 2016*" means the twelve month period ended December 31, 2016;

"Q4 2015 Technical Report" means the report titled "NI 43-101 Technical Report, Amulsar Value Engineering and Optimization, Armenia" dated November 20, 2015;

"*RCF*" means Resource Capital Fund VI L.P.;

"*SEC*" means the U.S. Securities and Exchange Commission;

"*SEDAR*" means the System for Electronic Document Analysis and Retrieval administered by the Canadian Securities Administrators;

"*Short Form Prospectus*" means the (final) short form prospectus of the Company dated March 11, 2016 with respect to the Offering;

"*Stream Agreement*" means the purchase and sale agreement dated November 30, 2015 among the Company, Lydian Armenia, Orion and RCF, as amended;

"*Subscription Receipts*" means the subscription receipts of the Company offered pursuant to the Short Form Prospectus, including, for greater certainty, the Over-Allotment Option;

"*Term Loan*" means the $160 million non-revolving credit agreement dated November 30, 2015 among Lydian Armenia, the Company, Orion and RCF, as amended;

"*TSP*" means the Technical Safety Programme for the Amulsar Gold Project that was approved by the Ministry of Emergency Situations; and

"*Warrants*" means the Ordinary Share purchase warrants issued pursuant to the terms of the Subscription Receipts. Also described as Public Offering – Warrants.