LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014

Contents

DIRECTORS
Mr Gordon Wylie, Non-Executive Director and Chairman of the Board
Mr Willan Abel, Non-Executive Director
Mr Stephen J. Altmann, Non-Executive Director
Mr Vahan Kololian, Non-Executive Director
Mr Timothy Read, Non-Executive Director
Mr Howard Stevenson, Director

OFFICERS
Mr Howard Stevenson, President and Chief Executive Officer
Mr Douglas Tobler, Chief Financial Officer

REGISTERED OFFICE
Suite 3
5/6 Esplanade
St Helier, Jersey, JE2 3QA
Channel Islands
Tel: +44 1534 747 890
Website: www.lydianinternational.co.uk

AUDITORS
Grant Thornton LLP
Suite 501, 201 City Centre Drive, Mississauga,
Ontario, L5B 2T4
Canada

LEGAL COUNSEL
Stikeman Elliott
5300 Commerce Court West
199 Bay Street
Toronto, ON M5L 1B9
Canada

BANKERS

Jersey, Channel Islands
Royal Bank of Scotland International Limited
71 Bath Street, Royal Bank House, St. Helier,
Jersey JE4 8PJ

North America
Royal Bank of Canada
20 King Street West, Main Floor
Toronto, Ontario M5X 181
Canada

The accompanying consolidated financial statements, the notes thereto, and other information in Management's Discussion and Analysis of Lydian International Limited (the "Corporation"), are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect Management's best estimates, judgments and policies that it believes appropriate in the circumstances.

The Corporation maintains a system of internal accounting controls which provide on a reasonable basis, assurance that the financial information is relevant, reliable, accurate and that the Corporation's assets are appropriately accounted for and safeguarded.

The Board of Directors, principally through the Audit Committee, is responsible for ensuring Management fulfills its responsibilities for financial reporting and internal control. The Audit Committee is composed of three directors, all of which are independent, and meets periodically with Management and the external auditors to review accounting, auditing, internal control and financial reporting matters.

The consolidated financial statements have been audited by Grant Thornton LLP, Chartered Professional Accountants, Licensed Public Accountants who were appointed by the shareholders. The auditor's report outlines the scope of their examination and their opinion on the consolidated financial statements.

Signed "Howard Stevenson"
President and CEO

Signed "Douglas Tobler"
Chief Financial Officer

March 30, 2016

To the Shareholders of Lydian International Limited:

We have audited the accompanying consolidated financial statements of Lydian International Limited, and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2015 and December 31, 2014, and the consolidated statements of loss and comprehensive loss, statements of cash flows and statements of changes in equity, for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lydian International Limited, and its subsidiaries as of December 31, 2015 and December 31, 2014, and their financial performance and cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Signed "Grant Thornton LLP"
Chartered Professional Accountants
Licensed Public Accountants
March 30, 2016
Mississauga, Canada

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in US Dollars)

	Notes	As of December 31, 2015	As of December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents	5	$ 28,553,813	$ 9,448,339
Short-term investments		-	1,600,000
Other current assets	6	518,012	1,059,576
Total current assets		29,071,825	12,107,915
Non-current assets			
Property, plant and equipment, net	7	5,508,488	2,433,329
Exploration and evaluation assets	8	67,197,151	58,921,727
Other non-current assets	9	6,171,506	3,208,310
TOTAL ASSETS		$ 107,948,970	$ 76,671,281
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10	$ 2,010,337	$ 1,577,426
Advances under stream agreement, net	11	24,925,588	-
Total current liabilities		26,935,925	1,577,426
Non-current liabilities			
Provisions	12	338,498	344,754
Total liabilities		27,274,423	1,922,180
EQUITY			
Share capital	13	164,137,851	150,199,754
Employee share option plan reserve		3,573,967	3,755,312
Translation of foreign operations		(19,265,294)	(17,847,360)
Accumulated deficit		(67,771,977)	(61,358,605)
Total equity		80,674,547	74,749,101
TOTAL LIABILITIES AND EQUITY		$ 107,948,970	$ 76,671,281

Commitments	22
Contingencies	23
Subsequent events	24

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

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(expressed in US Dollars)

	Notes	For the year ended December 31, 2015	2014
Interest income		$ 28,901	$ 75,871
Total income		**28,901**	**75,871**
Employee salaries and benefits expense	15	3,094,030	5,580,790
General and administrative expense	16	2,952,602	3,907,803
Depreciation and amortization expense	7	78,752	114,686
Other expense (income), net	17	316,889	(624,196)
Total expenses		**6,442,273**	**8,979,083**
Loss before income taxes		(6,413,372)	(8,903,212)
Income taxes	18	-	-
Net loss		**$ (6,413,372)**	**$ (8,903,212)**
Net loss per share (basic and diluted)	19	**$ (0.04)**	**$ (0.06)**
Other comprehensive loss:			
Net loss		$ (6,413,372)	$ (8,903,212)
Other comprehensive loss:			
Exchange differences arising on translation of foreign operations		(1,417,934)	(11,402,049)
Total comprehensive loss		**$ (7,831,306)**	**$ (20,305,261)**

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

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in US Dollars)

	Notes	For the year ended December 31, 2015	2014
Cash flows from operating activities			
Loss for the period		$ (6,413,372)	$ (8,903,212)
Adjustments for:			
Depreciation and amortization	7	78,752	114,686
Loss (gain) on disposal of property, plant and equipment	17	20,638	(25,851)
Interest income		(28,901)	(75,871)
Share-based compensation payments	14	614,645	1,982,466
Operating loss before working capital changes		(5,728,238)	(6,907,782)
Change in other current assets		(218,973)	(204,409)
Change in accrued liabilities and other payables		(850,283)	216,773
Cash used in operations		(6,797,494)	(6,895,418)
Cash flows from investing activities			
Acquisition of property, plant and equipment	7	(3,965,316)	(56,276)
Expenditures for exploration and evaluation assets		(8,313,168)	(8,759,272)
Proceeds (purchase) of short term investments		1,600,000	(1,600,000)
Deposit paid		-	(9,606)
Proceeds from disposal of property and equipment		-	38,111
Interest income received		17,628	75,871
Cash used in investing activities		(10,660,856)	(10,311,172)
Cash flows from financing activities			
Advances under stream agreement	11	25,000,000	-
Financing cost		(2,260,943)	-
Proceeds from issuance of share capital, net	13	13,142,107	18,874,821
Cash generated from financing activities		35,881,164	18,874,821
Net increase in cash and cash equivalents		18,422,814	1,668,231
Foreign exchange effect on cash		682,660	(769,019)
Cash and cash equivalents, beginning of period		9,448,339	8,549,127
Cash and cash equivalents, end of the period		$ 28,553,813	$ 9,448,339

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

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(expressed in US Dollars)

		Reserves			
	Share capital	Employee share option plsn reserve	Translation of foreign operations	Accumulated deficit	Total
Balance at January 1, 2014	$ 128,388,124	$ 4,709,655	$ (6,445,311)	$ (52,455,393)	$ 74,197,075
Issue of new shares	20,037,208	-	-	-	20,037,208
Cost of share issue	(1,162,387)	-	-	-	(1,162,387)
Attributable to expired options	2,936,809	(2,936,809)	-	-	-
Share based compensation	-	1,982,466	-	-	1,982,466
Total comprehensive loss	-	-	(11,402,049)	(8,903,212)	(20,305,261)
Balance at December 31, 2014	$ 150,199,754	$ 3,755,312	$(17,847,360)	$ (61,358,605)	$ 74,749,101
Issue of new shares	14,238,570	-	-	-	14,238,570
Cost of share issue	(1,096,463)	-	-	-	(1,096,463)
Attributable to expired options	795,990	(795,990)	-	-	-
Share based compensation	-	614,645	-	-	614,645
Total comprehensive loss	-		(1,417,934)	(6,413,372)	(7,831,306)
Balance at December 31, 2015	$ 164,137,851	$ 3,573,967	$(19,265,294)	$ (67,771,977)	$ 80,674,547

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

1. GENERAL INFORMATION

Lydian International Limited (the "Corporation") 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 Corporation is Suite 3, 5/6 Esplanade, St Helier, Jersey JE2 3QA Channel Islands. The Corporation's ordinary shares ("Ordinary Shares") began trading on the Toronto Stock Exchange ("TSX") on January 10, 2008 under the symbol "LYD".

The Corporation, together with its subsidiaries, (the "Group") is a mineral exploration and development company focused on emerging and transitional environments, including precious and base metal assets located in Armenia and Georgia under exploration licenses granted by local authorities. The Group's main project is the Amulsar Gold Project, located in Armenia. In conducting operations in Armenia and Georgia, the Corporation is subject to considerations and risks not typically associated with companies operating in Jersey or Canada. These include risks such as political, economic and legal environments in emerging markets. The Corporation's results may be adversely affected by changes in political and social conditions and by changes in governmental policies with respect to mining laws and regulations, currency conversion and remittance abroad and rates and methods of taxation.

The principal accounting policies of the Group are further described in Note 2.

2. 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 financial periods presented unless otherwise stated.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board as of December 31, 2015.

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

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Corporation and entities controlled by the Corporation (its "subsidiaries"). Control is achieved where the Corporation 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. Subsidiaries will be deconsolidated from the date that control ceases.

The results of any subsidiaries acquired or disposed of during a period are included in the consolidated statement of profit and loss 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.

Details of the Corporation's direct and indirect subsidiaries as of December 31, 2015 and 2014 are as follows:

Name of subsidiary	Place of incorporation or registration	Functional currency	Effective ownership interest 2015	2014	Principal activity
Lydian International Holdings Ltd.	British Virgin Islands	CAD	100%	100%	Intermediate holding company
Lydian Resources Kosovo	British Virgin Islands	CAD	100%	100%	Intermediate holding company
Lydian Resources Armenia	British Virgin Islands	CAD	100%	100%	Intermediate holding company
Lydian Resources Georgia Limited	Jersey	CAD	100%	100%	Intermediate holding company
Lydian U.S. Corporation	U.S.A.	USD	100%	100%	Management company
Geoteam CJSC ("Geoteam")	Armenia	AMD	100%	100%	Mineral exploration and development
Georgian Resource Company LLC	Georgia	GEL	100%	100%	Mineral exploration
Kavkaz Zoloto CJSC	Armenia	AMD	95%	95%	Dormant company

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"). The consolidated financial statements are expressed in US Dollars, which is the presentation currency.

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 recognized 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. Translation differences arising are recognized in other comprehensive income and recorded in the Translation of foreign operations reserve.

Cash and cash equivalents and short-term investments

Cash and cash equivalents comprise cash on hand, at banks and other highly liquid short-term instruments with initial maturities of 90 days or less. Short-term investments include money market based investments where initial maturity is between 91 days and one year.

Supplies
Supplies include sample bags, small tools and other similar items stored to support drilling operations. Supplies are stated at the lower of cost and net realizable value.

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

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

Expenditure to replace a component of an item of property, plant or equipment that is accounted for separately is capitalized and the existing carrying amount of the component written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditures, including repair and maintenance, are recognized in the statement of income (loss) 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
Fixtures	5 years
Office equipment and other	1 – 9 years

Impairment of property, plant and equipment
Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the property, plant and equipment at the date the impairment is reversed does not exceed what the cost less accumulated depreciation would have been had the impairment not been recognized.

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 capitalized as exploration and evaluation assets subsequent to

acquisition of the licenses and pending determination of the feasibility of the project and an affirmative production decision by the Corporation.

Expenditures are considered to be development costs when the work completed supports the future development of the property through the issuance of a National Instrument 43-101 technical report, and such development receives appropriate Board approvals. In addition to economic viability, the Board also considers the ability to obtain commercial financing and the Corporation's ability to execute within time and cost limitations. Once achieved, property-specific exploration and evaluation costs shall be reclassified as assets under construction, and future development costs are capitalized.

The Corporation reviews and evaluates the carrying value of its Exploration and Evaluations assets for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. The identification of such events or changes and the performance of the assessment requires significant judgment. Furthermore, management's estimates of many of the factors relevant to completing this assessment, including commodity prices, foreign currency exchange rates, mineral resources, and operating, capital and reclamation costs, are subject to risks and uncertainties that may further affect the determination of the recoverability of the carrying amount.

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

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

Restoration and rehabilitation

A provision for restoration and rehabilitation is recognized 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 capitalized into the cost of the related asset and amortized 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 recognized as a finance cost rather than being capitalized into the cost of the related asset.

Share-based compensation
Equity-settled awards, including share options and warrants, are measured at fair value at the date of grant and recognized 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. Amounts related to expired and exercised options are transferred from share-based compensation reserve to share capital when the related expiration or exercise takes place.

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

Taxation
The Group has no taxable profit and no current income tax. Deferred tax is recognized 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 recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 realized 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 recognized as 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 recognized directly in equity, or where they arise from the initial accounting in a business combination.

Financial assets
The Group's financial assets include cash and cash equivalents, accounts receivables (classified as 'loans and receivables' and measured at the amount receivable less adjustment for the time value of money).

Financial liabilities
The Group's financial liabilities include accrued liabilities and other payables, which are initially recognized at fair value and subsequently stated at amortized 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.

Upon initial recognition, the fair value of the advance under the stream agreement is determined by cash received. The Corporation has delivery obligations under the stream which are contingent upon satisfactory completion of conditions precedent. Until these conditions precedent are satisfied, the advance is treated as a financial liability, and is carried at amortized cost. Transaction costs directly attributable to the acquisition of the stream are netted against the liability and interest is accrued at an effective interest rate.

Interest income and expense
Interest income and expense are reported on an accrual basis using the effective interest method. Interest associated with the construction of a qualifying asset is capitalized.

Provisions
A provision is recognized 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 recognized 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.

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.

Net loss per share
Basic net loss per ordinary share is calculated by dividing the net loss attributed to shareholders of the parent for the period by the weighted average number of Ordinary Shares outstanding during the period. Diluted net 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.

Segment information
The Corporation has identified its operating segments based on the internal reports that are reviewed and used by executive management (collectively, the Chief Operating Decision Maker, or "CODM") in assessing performance and in determining the allocation of resources. The CODM considers the business from a geographic perspective and assesses the performance of geographic segments based on measures of profit and loss as well as assets and liabilities. These measures include operating expenditures, expenditures on exploration, property and equipment, non-current assets and total debt, if any.

The Corporation operates under a single geographic segment engaged in mineral exploration and development in the Caucasus region. Financial information about each of these operating segments is reported to the CODM on at least a monthly basis. As the operations comprise a single segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

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, 2015:

IFRS 7 'Amendments on application of IFRS 9'
The IASB issued Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7), which
- amends the effective date of IFRS 9 Financial Instruments to annual periods beginning on or January 1, 2015
- modifies the relief from restating comparative periods and the associated disclosures in IFRS 7 Financial Instruments: Disclosures.

The amendments to IFRS 7 apply when an entity first applies the requirements of IFRS 9 and so apply to annual periods beginning on or after January 1, 2015 (or such other date as when an entity applies IFRS 9).

Standards and interpretations issued but not yet adopted
Management anticipates that those standards and interpretations deemed applicable to the Corporation's business will be adopted in the Corporation's financial statements of future periods as they become effective and that the adoption will have no material impact on the financial statements of the Corporation in the periods of initial application other than for additional disclosures. Those which management currently believes are or will be applicable are as follows:

IFRS 9 'Financial Instruments' (2014)
The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive

changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Group's management has yet to assess the impact of IFRS 9 on the consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

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

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Group's management has not yet assessed the impact of IFRS 15 on the consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements
These amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance.

The amendments are effective for reporting periods beginning on or after January 1, 2016 and are not expected to have a material impact on the consolidated financial statements at adoption.

IFRS 16 'Leases'
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.

IFRS 16 is effective from 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 Corporation is currently assessing the impact of this standard.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, 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.

Critical judgments in applying the Group's accounting policies

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 recognized 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 8 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 mineralization.

The functional currency of the subsidiaries through which the Corporation conducts its operations varies depending upon the primary economic environment in which they operate. Management exercises judgement in determining the appropriateness of its functional currency. The primary factors assessed in determining functional currency include the currency of revenues, expenditures and inter-company arrangements as well as the currency in which cash and cash equivalents are held.

Key sources of estimation uncertainty

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 Corporation's accounting policy for assessing impairment of exploration and evaluation expenditures requires judgment. In completing an impairment test as of December 31, 2015, the Corporation utilized assumptions and results included in the National Instrument 43-101 Technical Report issued in November 2015. These assumptions include resource estimates, recovery rates, metal prices, operating costs, capital costs among others and represent a key source of estimation uncertainty.

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. In countries where the Corporation has paid Value Added Tax ("VAT") and where there is uncertainty of its recoverability, the Corporation has assessed the recoverability of VAT payments by reference to status of the related exploration property which may be sold or developed in the future. Adjustments required, if any, to these provisions are reflected in the period where it is determined that adjustments are warranted.

(expressed in US Dollars, unless otherwise stated)

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 Corporation'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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, in banks and investments in money market instruments. Components of cash and cash equivalents are as follows:

	As of	
	December 31, 2015	December 31, 2014
Cash and cash equivalents	$ 28,553,813	$ 9,448,339
	$ 28,553,813	$ 9,448,339

6. OTHER CURRENT ASSETS

	As of	
	December 31, 2015	December 31, 2014
Supplies	$ 128,366	$ 152,197
Refundable VAT	58,638	492,521
Deposits	110,467	154,707
Other receivables and prepayments	220,541	260,151
	$ 518,012	$ 1,059,576

(expressed in US Dollars, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Machinery, equipment and vehicles	Land and fixtures	Office equipment and other	Total
Cost				
As of January 1, 2014	$ 4,472,889	$ 63,103	$ 813,287	$ 5,349,279
Additions	35,123	550	20,604	56,277
Disposal	(94,519)	-	(485)	(95,004)
Exchange difference	(630,772)	(9,279)	(111,511)	(751,562)
As of December 31, 2014	$ 3,782,721	$ 54,374	$ 721,895	$ 4,558,990
Additions	39,139	3,686,591	239,586	3,965,316
Disposal	(14,267)	-	(2,035)	(16,302)
Exchange differences	(88,357)	(45,187)	52,435	(81,109)
As of December 31, 2015	$ 3,719,236	$ 3,695,778	$ 1,011,881	$ 8,426,895
Accumulated Depreciation				
As of January 1, 2014	$ 1,174,083	$ 6,612	$ 388,115	$ 1,568,810
Additions	833,555	2,759	123,182	959,496
Disposal	(82,258)	-	(485)	(82,743)
Exchange difference	(255,406)	(1,305)	(63,191)	(319,902)
As of December 31, 2014	$ 1,669,974	$ 8,066	$ 447,621	$ 2,125,661
Additions	696,626	2,404	98,872	797,902
Disposal	(5,938)	-	-	(5,938)
Exchange differences	(56,437)	(175)	57,394	782
As of December 31, 2015	$ 2,304,225	$ 10,295	$ 603,887	$ 2,918,407
Carrying Amount				
As of December 31, 2014	$ 2,112,747	$ 46,308	$ 274,274	$ 2,433,329
As of December 31, 2015	$ 1,415,011	$ 3,685,483	$ 407,994	$ 5,508,488

All of the depreciation expense for the periods presented was allocated to the exploration and evaluation asset balance, with the exception of $78,752 (2014: $114,686) which was charged to net loss.

8. EXPLORATION AND EVALUATION ASSETS

The net balance of exploration and evaluation assets as of December 31, 2015 increased by $8,275,424. During the year ended December 31, 2015, $9,555,503 was invested in the Amulsar project through technical and ESIA studies and report preparation, drilling, maintenance, land rental payments, capitalized salaries, capitalized interest and other related expenditures. Management completed an impairment test as of December 31, 2015, utilizing the assumptions and results included in the National Instrument 43-101 Technical Report issued in November 2015 and concluded that on the basis of the current plans and status of operations, there are no indications of impairment on the Amulsar asset. Additionally, management carried out an impairment review on the Kela asset and concluded that there was no indication of impairment as of December 31, 2015.

(expressed in US Dollars, unless otherwise stated)

	Armenia Amulsar Gold Project	Armenia Other Project	Georgia Kela Project	Total
Cost				
As of January 1, 2014	$ 58,146,148	$ -	$ 585,593	$ 58,731,741
Additions	9,932,095	-	-	9,932,095
Exchange difference	(9,702,108)	-	(40,001)	(9,742,109)
As of December 31, 2014	$ 58,376,135	$ -	$ 545,592	$ 58,921,727
Additions	9,555,503	18,182	10,966	9,584,651
Disposals		(18,182)		(18,182)
Exchange difference	(1,169,437)	-	(121,608)	(1,291,045)
As of December 31, 2015	$ 66,762,201	$ -	$ 434,950	$ 67,197,151

Additions to exploration and evaluation assets for the year ended December 31, 2015 include non-cash charges for depreciation totaling $719,150 (2014: $844,810) and mine rehabilitation totaling $nil (2014: $328,013) and capitalized interest of $323,311.

9. OTHER NON-CURRENT ASSETS

	As of December 31, 2015	As of December 31, 2014
Refundable VAT	$ 3,453,125	$ 3,036,108
Financing cost	2,538,164	-
Rehabilitation prepayment	101,455	90,471
Monitoring prepayment	78,762	81,731
	$ 6,171,506	$ 3,208,310

Input VAT will be refunded by the tax authorities or offset with other tax liabilities through future sales of product or services.

Fees paid to establish debt and equity arrangements (“financing cost”) are expenditures directly connected with establishing and finalizing the borrowing arrangements. These costs include legal and accounting fees, fees from independent engineers, printing costs, investment banker or registration fees, agency fees and arrangement fees. As financing arrangements close, the associated costs are reclassified against debt and equity. Amounts will be expensed should the financing be unsuccessful.

According to the updated mining agreement signed with the Armenian Government, Geoteam is required to make payments to the Armenian Government for the amount of determined rehabilitation costs as a guarantee for post-mine rehabilitation. Geoteam is also required to pay advances for post-mining monitoring to be undertaken by the Government. A first installment was paid during December 2014 and the remainder will be paid in 10 equal annual installments throughout of the mine life. The prepayment for rehabilitation will be refunded to the Corporation after mine closure when rehabilitation is completed and accepted by the Armenian Government. The prepayment amount totaled $589,000 and was discounted to $101,455 using a discount rate of 14.3% for 14 years.

(expressed in US Dollars, unless otherwise stated)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As of	
	December 31, 2015	December 31, 2014
Accrued liabilities and trade payables	$ 1,876,332	$ 589,498
VAT payable	-	415,125
Wage accruals	134,005	572,803
	$ 2,010,337	$ 1,577,426

11. ADVANCES UNDER STREAM AGREEMENT

On November 30, 2015, the Corporation entered into definitive agreement for a $325 million construction financing package ("Financing") with Orion Mine Finance ("Orion") and Resource Capital Fund ("RCF"). The financing package includes a $60 million Stream Agreement, $80 million Equity Private Placement, $160 million Term Credit Facility and a $25 million Cost Over-run Facility. Funding under the Financing will occur in various stages and is subject to satisfaction of applicable conditions precedent which include, among other things, completion of the equity private placement by Orion and RCF, a public equity offering of not less than $25 million and approval of the Corporation's shareholders.

Stream Agreement

On December 7, 2015, the Corporation closed on the initial advance of $25 million from the Stream Agreement. A second advance of $35 million will be advanced within three to nine months following the closing of the stream component and upon satisfactory completion of conditions precedent.

The Corporation is obligated to deliver 6.75% of the gold production up to 2.1 million refined ounces (an aggregate of 142,454 gold ounces) and 100% of silver production up to 694,549 refined ounces. Upon delivery of refined precious metal ounces, the Corporation will receive a cash payment of the lower of prevailing market prices or $400/oz for gold and $4/oz for silver, each subject to 1% per annum escalation beginning on the third anniversary of the project achieving commercial production. Any excess of market over the fixed prices above are credited against the advances. The expiration of the contract is the earlier of the date (i) the aggregate stated gold and silver quantities have been delivered and (ii) 40 years.

The Corporation may elect to reduce the remaining amount of refined gold and refined silver to be delivered and sold under the stream agreement by 50% on either the second or the third anniversaries of achieving commercial production by making a payment of $55 million or $50 million, respectively.

(expressed in US Dollars, unless otherwise stated)

In the event that shareholder approval for the equity private placement is not obtained or in the event the public equity offering is not completed within nine months from the date of the stream agreement, the Corporation will, subject to certain conditions, be able to repurchase the stream for the amount of the initial deposit plus interest calculated at a rate of 15% per annum, or leave it in place at a 25% reduction of the deliverable metals.

Security for performance of the obligations under the Stream Agreement include, among other things: guarantees of the Corporation and its subsidiaries, share pledges, and a mortgage over the assets and rights of the Corporation's Armenian operating subsidiary, Geoteam CJSC.

Until certain conditions precedent are satisfied, the stream is carried at amortized cost. Interest has been accrued at an effective interest rate of 16.87%.

	As of	
	December 31, 2015	December 31, 2014
Advances under stream agreement	$ 25,000,000	$ -
Less: finance cost	(397,723)	-
Accrued effective interest	323,311	-
	$ 24,925,588	$ -

12. PROVISIONS

The provision for restoration and rehabilitation represents the present value of future outflow of economic benefits that will be required by the mining agreement signed between Geoteam and the Armenian Government. The provision recognized as of December 31, 2015 relates only to the rehabilitation of Amulsar mine areas affected by exploration activities as physical development of the mine has not commenced. The balance represents provision for rehabilitation still outstanding.

	Provisions
Balance as of January 1, 2014	$ 66,949
Additions, net	328,013
Exchange difference	(50,208)
Balance as of December 31, 2014	$ 344,754
Exchange difference	(6,256)
Balance as of December 31, 2015	$ 338,498

(expressed in US Dollars, unless otherwise stated)

13. SHARE CAPITAL

Share capital consists of one class of fully paid Ordinary Shares, with no par value. The Corporation is authorized to issue an unlimited number of Ordinary Shares. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the Corporation's shareholders' meetings.

	Number	Value
Number of ordinary shares issued and fully paid:		
Shares outstanding, January 1, 2014	130,172,926	$ 128,388,124
Shares issued on exercise of warrants	21,981,000	18,874,821
Amount attributable to expired options	-	2,936,809
Shares outstanding, December 31, 2014	152,153,926	$ 150,199,754
Shares issued for cash, net of issuance costs	32,478,661	13,142,107
Amount attributable to expired options	-	795,990
Shares outstanding, December 31, 2015	184,632,587	$ 164,137,851

On February 18, 2014, the Corporation completed a bought deal transaction with a syndicate of underwriters co-led by GMP Securities L.P. and Scotia Capital and including BMO Capital Markets and National Bank Financial (Underwriters) for 15,000,000 Ordinary Shares at a price C$1 per ordinary share. The Underwriters also exercised their over-allotment option in full and purchased an additional 2,250,000 Ordinary Shares at the offering price. As a result the Corporation issued 17,250,000 Ordinary Shares at a price C$1 per ordinary share.

On March 21, 2014, the Corporation entered into agreements with two of its current strategic investors, International Finance Corporation ("IFC"), a member of the World Bank Group, and the European Bank for Reconstruction and Development ("EBRD"), pursuant a private placement. EBRD subscribed for 3,000,000 and IFC subscribed for 1,731,000 Ordinary Shares of the Corporation at a price C$1 per ordinary share.

On February 4, 2015, the Corporation completed a bought deal transaction with a syndicate of underwriters (the "2015 Offering"). Scotia Capital Inc. acted as the sole book runner for the Offering with a syndicate that included, GMP Securities L.P., BMO Nesbitt Burns Inc. and National Bank Financial Inc. The Corporation issued and sold 30,000,000 ordinary shares at a price C$0.55 per ordinary share. The net proceeds from share issuance were C$15,460,660.

In connection with the 2015 Offering, IFC exercised its Pre-Emptive Right to purchase Ordinary Shares of the Corporation on a private placement basis, which included an aggregate of 2,478,661 Ordinary Shares at a purchase price of C$0.55 per Share, for aggregate gross proceeds of C$1,363,264. The private placement to IFC closed on March 25, 2015.

See note 24 regarding the 2016 Offering.

(expressed in US Dollars, unless otherwise stated)

14. SHARE-BASED COMPENSATION

The Corporation's employee share option plan grants options to employees, directors and service providers of the Corporation to purchase Ordinary Shares of the Corporation. 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 Corporation's share options is convertible into one ordinary share of the Corporation. 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 compensation are credited to an "Employee share option plan reserve", therefore no liabilities have been recorded in respect of these plans.

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

	Number of Options	Weighted Average Exercise Price
Balance as of January 1, 2014	4,555,000	$ 2.35
Granted	4,055,000	0.94
Expired	(2,960,000)	2.09
Balance as of December 31, 2014	5,650,000	$ 1.15
Granted	2,480,000	0.43
Expired	(1,230,000)	0.78
Balance as of December 31, 2015	6,900,000	$ 0.74

	Outstanding options			Exercisable options		
Range of exercise price	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average remaining life (years)	Weighted average exercise price
$0 to $.78 (CAD$0-$1.00)	3,670,000	4.02	$0.48	1,200,000	3.45	$0.65
$.79 to $1.57 (CAD$1.01-$2.00)	2,490,000	3.26	$0.81	2,480,000	3.25	$0.81
$1.58 to $2.35 (CAD$2.01-$3.00)	740,000	0.17	$1.79	740,000	0.17	$1.79
	6,900,000	3.33	$0.74	4,420,000	2.79	$0.93

(expressed in US Dollars, unless otherwise stated)

During the year ended December 31, 2015, 2,480,000 (2014: 4,055,000) share options were granted. The weighted average fair value per share options granted during the year ended December 31, 2015 was $0.23 (2014: $0.59). Options were priced using the Black-Scholes Option Pricing Model using the following assumptions:

	2015	2014
Expected volatility	74% - 75%	72% - 90%
Expected option life	5 years	5 years
Risk free rate	.59%	1.31% - 1.62%
Dividend yield	0%	0%
Forfeiture rate	0%	0%

During the year ended December 31, 2015, $614,645 (2014: $1,982,466) was included in employee benefits expense in the consolidated income statement.

The share options outstanding and exercisable as of December 31, 2015 had a weighted average remaining contractual life of 2.8 years (2014: 2.9 years).

15. EMPLOYEE SALARIES AND BENEFITS EXPENSE

	For the year ended December 31, 2015	2014
Salaries and other compensation	$ 2,479,385	$ 3,598,324
Share-based compensation	614,645	1,982,466
	$ 3,094,030	$ 5,580,790

(expressed in US Dollars, unless otherwise stated)

16. GENERAL AND ADMINISTRATIVE EXPENSE

	For the year ended December 31, 2015	2014
Travel	$ 812,565	$ 798,690
Legal, accounting and audit	599,300	655,096
Office operating	314,709	364,402
Community development	247,708	373,757
Advisory fees	236,479	220,201
Insurance	145,998	222,635
Investor relations	166,580	177,374
Consulting and contractors	124,653	399,862
Charitable donations	83,714	353,726
Taxes	70,371	69,245
Public relations	40,895	45,682
Rentals and fuel	15,246	62,214
Other	94,384	164,919
	$ 2,952,602	$ 3,907,803

Certain of the above amounts have been reclassified to conform to current year presentation.

17. OTHER EXPENSE (INCOME)

	For the year ended December 31, 2015	2014
Loss (gain) on disposal of equipment	$ 20,638	$ (25,851)
Foreign currency loss (gain)	241,173	(502,677)
Other (gains) losses, net	55,078	(95,668)
	$ 316,889	$ (624,196)

(expressed in US Dollars, unless otherwise stated)

18. INCOME TAXES

There were no taxes payable by the Group in the year ended December 31, 2015 and the corresponding period in 2014.

	For the year ended December 31, 2015	2014
Accounting loss for the year	(6,413,372)	(8,903,212)
Statutory tax rate	20%	20%
Income tax recovery based on above rates	(1,282,674)	(1,780,642)
Items which are not deductible for tax purposes	942,544	1,341,239
Difference in foreign tax rates	(260,105)	(193,212)
Losses not recognised	600,235	632,615
Income tax expense (benefit)	$ -	$ -

The Group had taxation losses under jurisdiction of Armenia, US and Georgia of December 31, 2015 amounting to approximately $7,814,889 (2014: $6,392,164) that have not been recognized as there is insufficient evidence of taxable profits at this time. Losses incurred in Jersey (Channel Islands) are considered not deductible for tax calculation purposes. Tax losses incurred by Armenian and Georgian companies expire accordingly in the fifth and sixth year subsequent to when they are incurred.

The tax rate is 20% in Armenia, 40% in the US and 15% in Georgia. The effective tax rate for these consolidated financial statements is considered to be 20%.

19. NET LOSS PER SHARE

	For the year ended December 31, 2015	2014
Net loss	$ (6,413,372)	$ (8,903,212)
Weighted average shares outstanding	181,274,425	148,624,052
Net loss per share	$ (0.04)	$ (0.06)

As a result of the losses incurred during the years ended December 31, 2015 and 2014, 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 the periods presented are the same.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As of December 31, 2015 the Corporation's financial instruments consist of cash and cash equivalents, other receivables, the rehabilitation prepayment discussed in Note 9, and accounts payable and accrued liabilities. The Corporation estimates that the fair values of these items approximate their carrying values at December 31, 2015, and each of these items represents a Level 1 financial instrument within the fair value hierarchy.

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 and development stage, as such, the Group is dependent on external financing to fund its activities. The Group intends to raise additional financing by issuing new share capital, debt or entering into joint arrangements to carry out planned exploration and development 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 attributable to owners which totaled $80,674,547 at December 31, 2015 (2014: $74,749,101). Total equity attributable to owners comprises share capital, 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 share options in the future.

To date the Group has relied on shareholder funding to finance its operations. During November 2015, the Group signed a definitive agreement for a construction financing package totaling $325 million. Access to these funds is subject to meeting certain conditions precedent as well as a shareholder vote. Liquidity risk is significant until such time as the conditions precedent including a shareholder vote are satisfied.

All short-term financial liabilities which relate to accounts payable and accrued liabilities as disclosed in Note 10, mature within one year of December 31, 2015. The Corporation also has commitments under existing leases as disclosed in Note 22.

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 recognized 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 Dollars, 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 the Canadian Dollar as this increases expenses in US Dollar 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 next 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 Dollar 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 Group's net assets and liabilities are predominantly held in US Dollars, Armenian Drams, British Pounds, and Canadian Dollars. The sensitivity analysis below indicates an influence on equity where the US Dollar strengthens 10% against the relevant currency, and includes loans to operations within the Group where the denomination of the loan is in currency other than the currency of the lender.

US Dollar impact on comprehensive loss in:	Armenian Dram	Canadian Dollar	British Pound
December 31, 2015	$ (6,942,611)	$ (95,185)	$ (170,601)
December 31, 2014	$ (5,787,716)	$ (62,756)	$ (225,991)

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. The Group has no fixed or floating rate borrowings. Cash and cash equivalents also bear interest at floating rates.

(expressed in US Dollars, unless otherwise stated)

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 change in interest rates would impact interest income by $4,000 for the year ended December 31, 2015.This analysis assumes all other variables remain 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 year ended December 31, 2015 and 2014 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. As of December 31, 2015, 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 money market instruments with 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.

As of December 31, 2015 and 2014, cash and cash equivalents and short-term investments were as follows:

	Fixed rate assets	Cash assets	Total	Average months for which rates are fixed	Average interest rates for fixed rate assets
December 31, 2015	Nil	$ 28,553,813	$ 28,553,813	Nil	Nil
December 31, 2014	$ 1,600,000	$ 9,448,339	$ 11,048,339	Twelve	0.55%

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

21. RELATED PARTY TRANSACTIONS

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

(expressed in US Dollars, unless otherwise stated)

Corporation and its subsidiaries, which are related parties of the Corporation, 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, key management personnel, 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.

Mr. Hayk Aloyan, a director and country manager of Geoteam and a director of Kavkaz Zoloto CJSC, previously held 5% of the shares in Geoteam and continues to hold 5% of the shares in Kavkaz Zoloto CJSC.

Key management includes the Corporation's directors and officers. Compensation awarded to key management for the periods indicated below was as follows:

	For the year ended December 31,	
	2015	2014
Salaries and other compensation	$ 1,225,409	$ 2,042,195
Share-based compensation	388,556	1,650,504
	$ 1,613,965	$ 3,692,699

22. COMMITMENTS

Leases

The Group leases office space for administrative and operational purposes. In 2011, the Corporation, through Geoteam, entered into long term rental contracts for lands under the rock allocation area and other areas associated with planned mine development. Due to a change in the project design, the rented areas were extended. Though these operating leases are cancelable, rental obligations are listed below.

	As of December 31,	
	2015	2014
Up to one year	$ 762,589	$ 1,131,572
More than one year and not later than five years	2,677,473	4,147,206
More than five years	6,629,799	10,439,303
	$ 10,069,861	$ 15,718,081

Environmental, social and mine closure

In November 2014, Geoteam signed a mining agreement with the Ministry of Energy and Natural Resources of Armenia. Under the agreement, Geoteam 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 AMD158.5 million, or $334,000, over ten years commencing in 2016, and the remainder of the monitoring will be paid in equal installments of AMD24.0 million, or $51,000, over nine years commencing in 2017. In addition, Geoteam is committed to invest annually AMD61.0 million, or $128,000, after mine closure for workforce social mitigation and AMD61.5 million, or $129,000, for adjacent communities' social-economic development. The rehabilitation guarantee will be refunded to the Corporation after mine closure when rehabilitation is completed and accepted by the Armenian Government.

23. CONTINGENCIES

Newmont Transaction

On April 23, 2010 the Group purchased all of Newmont's interests in the Group's joint venture which included Newmont's 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 Corporation, which have now been issued and three payments of $5 million, the first was paid in 2010, the second on March 13, 2012 and the third was paid on October 25, 2013. This third and final payment included an additional payment of $409,669 representing accrued interest.

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 $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 Corporation 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 payments do not meet the definition of an obligation or a constructive obligation as the triggering event, commencement of commercial production, has not occurred. These potential payments are therefore not recognized in the consolidated Statement of Financial Position as of December 31, 2015.

24. SUBSEQUENT EVENTS

The consolidated financial statements for the year ended December 31, 2015 have been approved for issue by the Board of Directors on March 30, 2016 and subsequent events have been reviewed through the date of approval.

On March 17, 2016, the Corporation closed on a public offering (the "2016 Offering") of 115,000,000 subscription receipts ("Subscription Receipts") at a price of C$0.29 per Subscription Receipt, for total gross proceeds of C$33,350,000. Each Subscription Receipt entitles the holder to receive, upon satisfaction or waiver of all escrow release conditions, one ordinary share of the Corporation and three-quarters of one ordinary share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will entitle the holder to purchase one ordinary share of the Corporation at a price of C$0.36 for a period of 18 months from their date of issuance.

The Corporation granted the underwriters an over-allotment option to purchase up to an additional 17,250,000 Subscription Receipts, for additional gross proceeds to the Corporation of up to C$5,002,500, to cover over-allotments, if any, and for market stabilization purposes. The over-allotment option is exercisable by the underwriters, in whole or in part, at any time not later than the earlier of (i) the 30th day following the date hereof and (ii) the occurrence of a termination event. The Underwriters exercised the over-allotment in full on March 23, 2016.

In addition, the Corporation has entered into subscription agreements with each of Orion Mine Finance ("Orion") and Resource Capital Fund VI L.P. ("RCF"), pursuant to which the Corporation will issue an aggregate of US$80,000,000 million worth of ordinary shares at a price of C$0.30 per ordinary share on a private placement basis (the "Private Placements"), subject to the applicable exchange rate at closing of the Private Placements. The Private Placements are expected to close upon the satisfaction of the escrow release conditions under the 2016 Offering.

Certain of the Corporation’s pre-existing strategic shareholders have pre-emptive rights which may be exercised in respect of the 2016 Offering and the Private Placements.