LYDIAN INTERNATIONAL LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated interim financial condition and results of operations of Lydian International Limited ("Lydian" or the "Company") for the three and nine month periods ended September 30, 2012. This discussion should be read in conjunction with the interim consolidated financial statements and the notes thereto for the three and nine month periods ended September 30, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS"). The information provided herein supplements, but does not form part of, the consolidated financial statements. This discussion covers three and nine month periods to September 30, 2012 as well as the subsequent period up to the date of this MD&A, November 12, 2012. All monetary figures are expressed in British Pounds unless otherwise indicated. This report and the Company's other public filings, including its most recent Annual Information Form ("AIF"), can be reviewed via the SEDAR website (www.sedar.com).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to the future price and the estimation of mineral reserves and resources, the realisation of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes", or variations of such words and phrases or that state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any other future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: the actual results of current exploration activities; actual results of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of mineral resources; fluctuations in metal prices, as well as those risk factors discussed or referred to in this MD&A under the heading "Risk and Uncertainties" and other documents filed from time to time with the securities regulatory authorities in all provinces and territories of Canada and Jersey. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. 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;*
- *the timing of the receipt of 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 and on a timely basis;*
- *the ability to attract and retain skilled staff;*
- *exploration timetables;*
- *planned production and development timetables;*
- *market competition; and*
- *the accuracy of the Company's mineral resource and mineral reserve estimates (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which it is based.*

The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by securities regulatory requirements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

Cautionary Note to United States Investors Concerning 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 recognised and required by Canadian regulations, the U.S. Securities and Exchange Commission ("SEC") does not recognise 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.

BUSINESS OVERVIEW

The Company is a gold-focused mineral development and exploration company specialising in emerging and transitional environments. Currently the Company is focused on Eastern Europe, primarily in the Caucasus region, exploring and developing precious metal assets. The Company's main project is a gold development and exploration project (the "Amulsar Project") located in Armenia. In addition, the Company holds a license covering an early-stage gold prospect (the "Kela Project", previously known as the "Zoti Project") in the Guria region of Georgia.

The Company's principal objective is to continue its development and exploration of the Amulsar Project. The Company recently entered into a new mining licence agreement with the Government of Armenia, and published a Feasibility Study ("FS") and is continuing its work toward completing a development plan for its Amulsar Project.

Once this work is completed, the Company plans to conduct detailed engineering studies to finalize mine design and complete the permitting process at Amulsar. Developing the Amulsar Project into a profitable gold mining operation will depend upon the Company's ability to raise sufficient project financing, acquire all necessary permits and complete construction. The Company currently does not have any commercial operations or revenue.

The Company expects that its current assets are sufficient to finance the Amulsar Project to and through the necessary detailed engineering stages, carry out the work recommended in the Amulsar Gold Project N143-101 technical report dated March 3, 2012 (the "Technical Report"), continue exploration work on the Kela Project and in the Guria region of Georgia and pay all amounts that become due on or prior to December 31, 2012 (USD$5million) to Newmont Overseas Exploration Limited ("Newmont") pursuant to the purchase agreement dated February 26, 2010 between the Company and Newmont.

The Company continues to carry out its 2012 drilling program at the Amulsar project that commenced in May 2012 and is expected to conclude in November 2012. The drilling is aimed at testing resource extensions along-strike and at depth and at converting inferred category resources to measured and indicated categories. Good progress has been made with this drilling, as demonstrated by the Company's recently released drilling results.

THIRD QUARTER AND RECENT HIGHLIGHTS

- On October 23, 2012, September 24, 2012 and August 21, 2012 the Company released drill results showing the Company's progress in meeting its goal of testing resource extension along-strike and at depth, and providing sufficient evidence to convert inferred category resources to measured and indicated categories.

- On October 7, 2012, the Company announced that Mr. Huw Williams, a director designated by the European Bank for Reconstruction and Development (EBRD), had resigned from the Company's board of directors following his secondment by the EBRD to the European Commission in Brussels.

- On October 2, 2012, the Company announced that it had entered into a new mining licence agreement with the Government of Armenia.

- On September 26, 2012, the Company announced that it acquired the remaining 5% in Geoteam CJSC, its Armenian subsidiary, and, as a result, now has 100% indirect ownership of its Amulsar Project.

- On September 5, 2012, the Company reported the results from its resource update and feasibility study for its Amulsar Project. The study included a NPV of $646.0m at a 5% discount rate and an IRR of 27.7% (at $1,200/oz gold).

- On September 5, 2012, the Company reported its first mineral reserve estimate of 2.26 million ounces of proven and probable mineral reserves gold and 9.63 million ounces silver.

- On August 7, 2012, the Company announced that it received Environmental Impact Assessment (EIA) approval for open-pit mining and for the location of the waste dump facility at Amulsar.

Recent Developments

Update of Mineral Resource

On the September 5, 2012, the Company announced its first mineral reserve estimate. The mineral reserve estimate was established by tabulating the undiluted tonnes and grades of proven and probable material within the designed final pit that is scheduled as ore to the crusher over the mine life. A floating cone algorithm (independently verified by Whittle optimisations) was used to determine the final pit design and internal phase designs. The floating cone optimisation algorithm is a commonly used and accepted industry tool for providing guidance to mine design. The estimated proven and probable reserves total approximately 2.26 million ounces of gold, as described in the table below.

Amulsar Mineral Reserves at $1,200/oz and a variable cut-off grade by year

Reserve category	Tonnes ('000s)	Gold Grade (g/t)	Silver Grade (g/t)	Gold oz	Silver oz
Proven	51,143	0.801	3.37	1,317,000	5,541,000
Probable	37,106	0.789	3.43	941,000	4,092,000
Total (P&P)	88,249	0.796	3.40	2,258,000	9,633,000

The table below shows the estimated mineral resources at various cut-off grades:

Amulsar Mineral Resource Estimate

Resource Category	Cut-off Grade	Tonnes (millions)	Grade (g/t Au)	Gold Ounces ('000)	Grade (g/t Ag)	Silver Ounces ('000)
Measured (M)	0.75	15.4	1.64	812	4.97	2,459
	0.5	27.7	1.18	1,053	4.18	3,720
	0.4	**36.5**	**1.00**	**1,180**	**3.82**	**4,489**
	0.3	50.2	0.83	1,332	3.45	5,574
	0.2	70.7	0.66	1,496	3.11	7,065
Indicated (I)	0.75	13.0	1.57	655	4.78	1,995
	0.5	23.9	1.13	866	4.14	3,178
	0.4	**32.2**	**0.95**	**986**	**3.84**	**3,977**
	0.3	46.4	0.77	1,143	3.48	5,189
	0.2	71.1	0.59	1,339	3.13	7,155
Total (M&I)	0.75	28.4	1.61	1,467	4.88	4,454
	0.5	51.6	1.16	1,919	4.16	6,898
	0.4	**68.8**	**0.98**	**2,166**	**3.83**	**8,466**
	0.3	96.6	0.8	2,475	3.47	10,763
	0.2	141.9	0.62	2,835	3.12	14,220
Inferred	0.75	15.0	1.45	696	4.56	2,196
	0.5	26.8	1.08	927	4.39	3,779
	0.4	**35.5**	**0.92**	**1,052**	**4.01**	**4,580**
	0.3	48.1	0.77	1,192	3.65	5,645
	0.2	73.9	0.59	1,395	3.12	7,410

The mineral reserves and mineral resources have been prepared in accordance with Canadian Securities Administrators National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining ("CIM") definitions for mineral resources.

The mineral resource estimate for the Amulsar Project was calculated under the supervision of Gary Anthony Patrick, BSc (Chemistry/Extractive Metallurgy), MAusIMM CP, the Company's Development Manager, a Qualified Person as defined by NI 43-101, Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mineral resource estimates do not account for mineability, selectivity, mining loss and dilution. These mineral resource estimates include inferred mineral resources that are normally considered too speculative geologically to have economic considerations applied to them that would enable them to be categorised as mineral reserves. There is also no certainty that these inferred mineral resources will be converted to measured and indicated categories through further drilling, or into mineral reserves, once economic considerations are applied.

The FS database includes drilling data from the 2007 to 2011 drilling programmes. The mineral resource is based on drilling completed through the 2011 drill season and includes a total of 665 core and reserve circulation holes. The FS is available on SEDAR (September 7, 2012) and on the Company's website.

The Company continues to carry out its planned drilling programme for 2012. On October 23, 2012, September 24, 2012 and August 21, 2012, the Company announced drill results from this ongoing drilling programme.

Exploration Update and Activities

Amulsar Project

The Company's Amulsar Project area covers a region of high-sulphidation, epithermal-type gold mineralisation located in central Armenia and was discovered by Lydian in 2006. The exploration licences for the Amulsar Project are held 100% by Geoteam CJSC, an Armenian registered closed joint stock company. All of the outstanding shares of Geoteam are now held by Lydian Resources Armenia Ltd, a 100% owned indirect subsidiary of the Company.

On September 5, 2012, the Company announced the FS. The FS showed a NPV of $646.0m at 5% discount rate and an IRR of 27.7% (at $1,200/oz gold). As part of the work undertaken for the feasibility study, the Company was able to report its first mineral reserve estimate, with proven and probable open pit mineral reserves of 2.26 million ounces Gold and 9.63 million ounces Silver. The Company contracted KD Engineering to conduct the FS at the Amulsar Project. The study team comprised of KD Engineering (USA; process design), Golder Associates (USA; leach pads and geotechnical work), Independent Mining Consultants, INC (USA; resources and pits) and Wardell Armstrong International (UK; environment and social). The FS is available on SEDAR (September 7, 2012) and on the Company's website.

During 2012, the company intends to complete 20,000 metres of further drilling with the aim being to test resource extensions along-strike and at depth and to provide sufficient evidence to convert current inferred category resources to measured and indicated categories.

On March 12, 2012, the Company announced that as part of the permitting process for the development of its Amulsar project, it has received approval for the Company's planned processing of Gold and Silver using heap leach technology. On August 7, 2012, the Company announced that it had received Environmental Impact Assessment (EIA) approval for open-pit mining and for the location of the waste dump facility at Amulsar. The Company received the EIA after agreeing to terms pertaining to Lake Sevan, the township of Jermuk and the identification of any Red-Book species of flora and fauna in the area.

On October 2, 2012, the Company announced the signing of a new mining licence with the Government of Armenia.

Kela Project (previously known as the "Zoti Project")

On October 11, 2011, the Company announced that its 100% owned subsidiary, Georgian Resource Company LLC, acquired a 40 year combined exploration-mining licence over a new Gold project in Georgia known as the Kela Project. The Company is currently delineating drill targets at the Kela Project and conducting further exploration throughout the region.

FINANCIAL RESULTS OF OPERATIONS
SELECTED FINANCIAL INFORMATION

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS). All monetary amount references in this document are to British Pounds unless otherwise indicated.

Statement of Operations

The following is a summary of selected information for the three and nine month periods ended September 30, 2012 and comparative financial information for the corresponding periods in the Company's previous financial period.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	£	£	£	£
Interest income	51,626	8,154	184,112	30,071
Total expenses	1,968,218	1,410,343	5,062,465	4,383,977
Net loss	(1,916,592)	(1,402,189)	(4,878,353)	(4,353,906)
Loss per share (basic and diluted)	0.02	0.01	0.04	0.05

During the three and nine month periods ended September 30, 2012 and corresponding periods in 2011 the Company had no revenues. Its only income was bank interest and income from disposal of shares of Tigris Resource Limited in September 2012. In the three and nine month periods ended September 30, 2012, the Company recorded a loss of £1,916,592 (2 pence per share) and £4,878,353 (4 pence per share) compared to £1,402,189 (1 pence per share) and £4,353,906 (5 pence per share) during the corresponding periods in 2011.

During the nine month period ended September 30, 2012, there were some fluctuations between the British Pound, Canadian Dollar, Euro, Georgian Lari and the US Dollar. The Armenian Dram significantly decreased against freely convertible currencies. The exchange rate against the British Pound as of January 1, 2012 was GBP 1=AMD 594.93, whereas as of September 30, 2012, GBP 1=AMD 658.73. This resulted in changes to the value of the Company's exploration assets as reported in British Pounds. Details of these changes are set out below. The Company attempts to protect itself from variations in exchange rates by holding its cash in currencies roughly in proportion to the Company's anticipated expenditures in those currencies.

Income Tax Expense

There was no tax payable by the Company in the nine month period ended September 30, 2012 and the same period in 2011. As at September 30, 2012, the Company had taxation losses of £6,681,242 (December 31, 2011; £5,986,965) that had not been recognised, as there is insufficient evidence of taxable profit in the near future.

Summary of Operating Cash Flows, Investing and Financing Activities

The following table summarises the Company's cash flow for the three and nine month period ended September 30, 2012 and comparative financial information for the corresponding interim periods in the Company's previous financial period.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	£	£	£	£
Net cash used by operating activities	(1,131,016)	(688,852)	(4,953,687)	(3,482,816)
Net cash used by investing activities	(3,988,101)	(3,757,600)	(9,585,281)	(5,226,319)
Net cash provided by financing activities	207,813	1,663,319	30,418,302	2,057,112

Cash outflow incurred during the nine months ended September 30, 2012 was significantly higher than cash outflow for the corresponding period in 2011 as a result of a £3,245,307 (USD$5.1 million) payment made to Newmont in respect of amounts owing to it and a prepayment of £1,343,210 (USD$2.2 million) in connection with the purchase of two bulldozers.

Summary of Balance sheet data

The following table summarises the Company's financial position as at the dates indicated:

	As at September 30, 2012	As at December 31, 2011
	£	£
Current assets	24,339,405	8,712,341
Propertyand equipment	2,200,739	476,012
Intangible assets	126,392	95,522
Exploration and evaluation assets	26,046,217	23,739,005
Other non-current assets	1,512,758	1,371,935
Other long-term financial assets	-	126,600
Total assets	54,225,511	34,521,415
Current liabilities	3,622,251	7,002,493
Non-current liabilities	26,011	28,800
Equity	50,577,249	27,490,122
Total liabilities and equity	54,225,511	34,521,415

During the third quarter of 2012 the cash and cash equivalents of the Company decreased by £5,590,279. During the reportable period there were payments for exploration drilling services, payments to vendors for Amulsar Project development costs, payments to vendors for supply of services and goods, and payments to employees.

The net balance of exploration and evaluation assets as of September 30, 2012 increased by £2,307,212 compared to December 31, 2011. During the reportable period, total investment in exploration and evaluation assets were £4,794,915 but the increase was off-set by exchange differences of £2,487,703. This was due to the strengthening of the British Pound against the Armenian Dram resulting in a reduction of assets by £2,470,892.During the nine month period ended September 30, 2012, £4,685,697 was invested in exploration and evaluation assets in the development of the Amulsar project. During the nine month period ended September 30, 2012 costs of exploration studies at the Kela project totaled to £109,218.

In the nine month period ended September 30, 2012, investment in property, plant and equipment totaled £1,900,718 which was mainly aimed at supporting the exploration and development of the Amulsar and Kela projects.

Exploration and evaluation assets

Exploration and evaluation costs are costs incurred directly in exploration and evaluation as well as the purchase cost of mineral licences as per IFRS 6.

Exploration and evaluation costs relating to the Amulsar and Kela projects incurred during the nine month period ended September 30, 2012 were £4,794,915 compared to £4,736,941in the corresponding period in 2011 (the Kela project began in September 2011). These exploration and evaluation costs were related to exploration work on the Company’s exploration projects as follows:

Project	Cumulative as at September 30, 2012 £	Cumulative as at December 31, 2011 £
Armenia		
• Amulsar	25,750,201	23,535,396
Georgia		
• Kela	296,016	203,609
Total	26,046,217	23,739,005

During the nine month period ended September 30, 2012, a total of £4,685,697 was invested in Amulsar Project representing costs of project development, exploration studies, renting licence areas, exploration camp maintenance, environmental studies etc. As a result of exchange rate differences between September 30, 2012 and December 31, 2011, there was a reduction of the exploration and evaluation project balance by £2,470,892.

The following table represents expenditures capitalised at the Amulsar project during the nine month period ended September 30, 2012 and corresponding period in 2011.

	Nine months to September 30,	
	2012	2011
	£	£
Project development	1,959,134	850,314
Drilling costs	791,376	1,892,285
Environmental studies	247,849	86,955
Capitalised salaries	484,283	327,147
Supplies and materials	349,098	485,896
Capitalised depreciation and amortisation	90,265	57,116
Laboratory assay	163,850	524,531
Land rents	78,275	25,040
Plant hiring	325,779	345,215
State duties and fees	15,827	61,584
Other	179,961	161,334
	4,685,697	4,817,417

During the nine month period ended September 30, 2012, £109,218 was invested in the Kela Project, with the project balance value decreased by £16,811 as a result of the strengthening of the British Pound exchange rate against the Georgian Lari.

In Armenia and Georgia the Company's exploration activities are financed mainly in US Dollars, which are converted into Armenian Drams and Georgian Lari respectively by the Company' subsidiaries and then into British Pounds for the group accounts. The cumulative totals are therefore affected by currency fluctuations between British Pounds, US Dollars, Armenian Drams, and Georgian Lari. There has been significant devaluation of the Armenian Dram in 2012 and 2011 and slight fluctuations in Georgian Lari.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of results from the Company's eight most recently completed quarters:

	Q3 2012	Q2 2012	Q1 2012	Q4 2011
	£	£	£	£
Net sales or total revenues	-	-	-	-
Net loss	(1,916,592)	(1,370,306)	(1,591,455)	(1,600,982)
Loss per share (basic and diluted)	0.02	0.01	0.01	0.01

	Q3 2011	Q2 2011	Q1 2011	Q4 2010
	£	£	£	£
Net sales or total revenues	-	-	-	-
Net loss	(1,402,189)	(1,598,306)	(1,353,411)	(3,637,443)
Loss per share (basic and diluted)	0.01	0.02	0.01	0.04

OUTSTANDING SHARE DATA

A summary of outstanding shares options and warrants is set out below.

	As at November 12, 2012	As at September 30, 2012	As at December 31, 2011
	Number	Number	Number
Ordinary Shares	126,765,168	125,090,168	104,075,686
Stock optionplan	3,621,000	5,296,000	4,987,000
Warrants	3,311,758	3,311,758	3,311,758

The Company has one class of issued equity shares, being Ordinary Shares.

MANAGEMENT AND STAFFING

During the three month period ended September 30, 2012, in order to bolster its team during the transition from exploration to pre-production and development, the Company hired experienced personnel in the following roles:

- Logistics and Supply Manager;
- Production Manager;
- Health, Safety and Training Manager; and
- Site Environmental Manager.

The Company also appointed Didier Fohlen, as Vice President Sustainability.

On October 17, 2012, the Company announced the resignation of Mr. Huw Williams from the Company's board of directors following his secondment by the EBRD to the European Commission in Brussels.

LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of £20,717,154 as at September 30, 2012 compared to £1,709,848 on December 31, 2011. The Company has total assets of £54,225,511 at September 30, 2012 compared to £34,521,415 on December 31, 2011, which include deferred exploration expenditures of £26,046,217 (£23,739,005 on December 31, 2011).

The Company's principal source of liquidity as at September 30, 2012 was cash and cash equivalents of £23,507,340 compared to £8,301,907 on December 31, 2011. This increase in the cash and cash equivalents balance was primarily the result of new share issues (described below) which provided net proceeds of £30,059,505 and proceeds from the exercising of share options of £358,797. Within the nine month period ended September 30, 2012, £4,953,687 of cash was used in operating activities and £9,585,281 of capital expenditures on property, equipment and intangible assets, exploration costs and payment to Newmont. Cash surplus to the Company's requirements was invested in money market deposits.

Based on the Company's current liquidity position and its estimates of project expenses, management of the Company believes that the Company's liquid assets will be sufficient to discharge its liabilities and its planned expenditures over the next 6 months. The future exploration and development of the Amulsar Project and the Kela Project will require the Company to raise additional capital through equity and/or debt financing.

The Company's liquidity is affected by a number of key factors and risks. Reference is made to the "Risks and Uncertainties" section of the MD&A for a discussion of these factors and their impact on the Company's liquidity.

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

CONTRACTUAL OBLIGATIONS

The Company has contractual obligations as follows:

	Total	Up to 1 year	1-5 years	More than 5 years
	£	£	£	£
Operating lease obligations	2,361,518	202,195	793,026	1,366,297
Purchase obligations	1,499,473	1,499,473	-	-
Total contractual obligations	3,860,991	1,701,668	793,026	1,366,297

TAXES PAID IN ARMENIA

LYDIAN INTERNATIONAL LIMITED IN ARMENIA
Summary of payments to the Armenian State Budgets

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.

AMOUNTS PAID IN ARMENIAN DRAMS TO ARMENIAN GOVERNMENT		
Item	9 months to September 30, 2012	9 months to September 30, 2011
Fee for licenses area extension	-	8,700,000
State duty on mining license	10,000,000	11,200,000
Concession fee	26,490,400	20,097,500
Social Insurance Funds employer	33,655,000	28,870,000
Social Insurance Funds individual	11,232,000	7,679,000
Customs duty	470,354	11,431,179
Property tax	416,800	274,500
Income tax	46,700,000	80,720,000
Non resident withholding tax	10,000,000	14,000,000
VAT	2,939,172	38,989,634
Nature protection fee	23,590	253,935
Total	141,927,316	222,215,748
Equivalent GBP	224,633	371,704

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The net fair value of the financial assets and financial liabilities approximates their carrying value. The Company's exposure to changes in market interest rates, relates primarily to the Company's cash deposits. The Company maintains a balance between the liquidity of cash assets and the interest rate return thereon. The carrying amount of financial assets, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

SIGNIFICANT TRANSACTIONS, CONTRACTS AND OFF BALANCE SHEET ARRANGEMENTS

Significant contracts existing as of September 30, 2012 are described below.

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 the Amulsar gold property in Armenia. The consideration was a mixture of committed and contingent payments. The committed payments included the issuance by Lydian of 3,000,000 Ordinary Shares to Newmont on the closing of the transaction and three payments of US$5million; the first of which was paid in 2010 and the second was due on or before December 31, 2011 and the third on or before the earlier of December 31, 2012 and the date that is 90 days after a FS on any portion of the

Amulsar property is complete and the Company has received all the necessary material permits to move into production. The Company made the US$5million payment that was due on December 31, 2011 on March 13, 2012, together with interest owing thereon, calculated at the rate of 10% per annum commencing on December 31, 2011.

In addition, the Company agreed to pay Newmont, following the start of commercial production at the Amulsar Project, a 3% Net Smelter Royalty (NSR). However, at any time prior to the date that is 20 days following commencement of commercial production, Lydian may at its option elect to buy out the 3% NSR and instead pay to Newmont the aggregate sum of US$20million, without interest, in 20 equal quarterly installments of US$1million 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 payment of approximately US$15.6million.

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. Therefore, these potential payments are not shown on the Statement of Financial Position as of September 30, 2012.

On December 9, 2010, the Company entered into an option agreement to purchase the remaining 5% non-controlling interest (the "non-controlling interest") of the Company's 95% indirectly owned subsidiary. The Company exercised its option in full and on September 24, 2012, the Company completed the acquisition of the non-controlling interest by issuing 750,000 Ordinary Shares to the minority selling shareholder. The aggregate purchase price paid by the Company in connection with its purchase of the non-controlling interest was CAD$500,000 in cash and the issuance of 2,000,000 Ordinary Shares.

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

RISKS AND UNCERTAINTIES

The following risks and uncertainties together with the "Risk Factors" identified in the Company's Annual Information Form dated April 11, 2012 available at www.sedar.com under the Company's name should be considered when evaluating the Company and its outlook.

Mineral Resources

The Company's mineral resources are estimates, and no assurance can be given that the estimated resources are accurate or that the indicated level of gold will be produced. Such estimates are, in large part, based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralisation or formations may be different from those predicted. Further, it may take many years from the initial phase of drilling before production is possible, if at all, and during that time the economic feasibility of exploiting a discovery may change. Mineral resource estimates for properties that have not commenced production are based, in many instances, on limited and widely spaced drill hole information, which is not necessarily indicative of the conditions between and around drill holes. Accordingly, such mineral resource estimates may require revision as more drilling information becomes available or as actual production experience is gained. It should not be assumed that all or any part of the Company's mineral resources constitutes or will be converted into reserves.

Metal Prices

Even if the Company's exploration programme is successful on its mineral projects, there are many factors beyond the control of the Company that may affect the marketability of any minerals discovered. Metal prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted.

Price Volatility of Other Commodities

The Company's profitability is also affected by the market prices of commodities, which are consumed or otherwise used in connection with the operations, such as diesel fuel, natural gas, electricity and cement. Prices of such commodities are also subject to volatile price movements over short periods of time and are affected by factors that are beyond the Company's control.

Foreign Operations

The Company's significant exploration and development project is located in Armenia. Such a project could be adversely affected by exchange controls, currency fluctuations, taxation and laws or policies of Armenia affecting foreign trade, investment or taxation.

Changes in mining or investment policies or shifts in political attitude in Armenia may adversely affect the Company's business. Operations may be affected by governmental regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. The factors cannot be accurately predicted.

Foreign Exchange

The Company operates internationally and is therefore exposed to foreign exchange risks arising from foreign currency fluctuations. The Company raises finance in Canadian Dollars, accounts in British Pounds and incurs expenses mainly in six currencies – the Euro, the British Pound, the US Dollar, the Canadian Dollar, the Armenian Dram and the Georgian Lari. The Company's risk management policy is to hold cash in the Euro, British Pound, the US Dollar and the Canadian Dollar, broadly in line with its currency expenditure forecasts. The Company does not currently hedge its foreign exchange exposure.

Counterparty Risk

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. We do not anticipate a loss for non-performance by any counterparty with whom we have a commercial relationship.

Taxation Risk

The Armenia tax system could impose substantial burdens on the Company. The Company is subject to a broad range of taxes imposed at federal, regional and local levels. Laws related to these taxes have been in force for a relatively short period relative to tax laws in more developed market economies and few precedents with regard to the interpretation of these laws have been established. No assurances can be made that any new tax laws introduced by the Government of Armenia will not result in the Company having to pay significantly higher taxes, which could have a materially adverse effect on the Company's business.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulations in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulations, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties in which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses.

Exploration

Exploration is highly speculative in nature and exploration projects involve many risks that even a combination of careful evaluation, experience and knowledge may not eliminate. If a site with gold or other precious metal mineralisation is discovered (and this may not happen), it may take several years from the initial phases of drilling until production is possible, if at all. Substantial expenditures are normally required to locate and establish mineral reserves and to construct mining and processing facilities. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines.

Political

The majority of the Company's operations are carried out in Eurasia and, as such, the Company's operations are exposed to various levels of political risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, terrorism; corruption; crime; hostage taking or detainment of personnel; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalisation; renegotiation or nullification of existing concessions, licenses, permits and contracts; absence of reliable regulatory and judiciary process; changes in taxation policies; restrictions on foreign exchange and repatriation; changing political conditions; currency controls; and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Any changes in mining or investment policies or shifts in political attitude in Eurasia may adversely affect the Company's operations and financial condition. Failure to comply with applicable laws, regulations and local practices relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements.

Insurance

The Company's business is subject to a number of other risks and hazards, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, hurricanes and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers being reasonable, its insurance will not cover all the potential risks associated with Company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Government Laws and Regulations

The activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, toxic substances, land use, water use, land claims of local people and other matters. Although the Company currently carries out its operations in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development. The Company's operations and development activities are subject to receiving and maintaining permits from appropriate governmental authorities. There is no assurance that the Company will be successful in obtaining or maintaining the necessary licences and permits to continue its exploration and development activities in the future.

Difficulty in Obtaining Future Financing

The further development and exploration of mineral properties in which the Company holds an interest or which the Company acquires may depend upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that the Company will be successful in obtaining required financing as and when needed. Volatile precious metals markets may make it difficult or impossible for the Company to obtain debt financing or equity financing on favorable terms or at all. Failure to obtain additional financings on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on the Company's future cash flows, earnings, results of operations, and financial condition and could result in a default under its agreement with Newmont pursuant to which the Company's subsidiary acquired a 100% interest in the Venture.

RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.
The sole operating directors of Geoteam CJSC and Kavkaz Zoloto CJSC, HaykAloyan, previously held 5% of the shares in Geoteam CJSC and continue to hold 5% of the shares in Kavkaz Zoloto.

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

	Nine monthsended September30,2012	Nine monthsended September 30,2011
	£	£
Aggregate emoluments	366,354	257,097
Fair value of granted share options vested	398,034	650,809

Within the nine month period ended September 30, 2012 there were no grants of stock options to the directors of the Company. The following table sets out the number of stock options awarded to directors of the Company under the Company's stock option plan during the twelve month periods ended December 31, 2011.

Date of grant	Number of options	Exercise price	Expiry
May 2, 2011	1,500,000	CAD$2.52(1.59 pound)	May 2, 2016

There were no other share based payments or share options awards during reportable periods.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Critical judgments in applying the Company's accounting policies

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

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

In particular, management is required to assess exploration and evaluation assets for impairment with reference to the indicators provided in IFRS 6. Note 14 to the Company's Interim Consolidated Financial Statements as of September 30, 2012 discloses the carrying values of such assets. As part of this assessment, management considered whether indicators of impairment exist at September 30, 2012.

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

Key sources of estimation uncertainty

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

Changes in accounting policies

During the nine month period ended September 30, 2012, there were no changes in the Company's accounting policies.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure. Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). ICFR is a process designed by or under the supervision of the Chief Executive Officer and Chief Financial Officer, and affected by the Board of Directors, management and other personnel 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 used the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) for the design of the Company's ICFR. All internal control systems have inherent limitations and therefore our ICFR can only provide reasonable assurance and may not prevent or detect misstatements due to error or fraud.

The Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures and ICFR as of September 30, 2012, that disclosure controls and procedures and ICFR were effective.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls requiring corrective actions.

A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The Company continues to review and document its disclosure controls and procedures, including internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that its systems evolve with its business.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMEMTS

The information provided in this report, including the financial statements, is the responsibility of management. In the 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 accompanying 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.

INFORMATION ON INCURRED EXPENSES

Material costs incurred in the nine month periods ended September 30, 2012 and 2011 were as follows:

Cost type	Nine months to September 30,	
	2012	2011
	£	£
[(1)]Exploration and evaluation deferred expenditures	4,794,915	4,736,941
[(2)]Employees benefit and expenses	2,140,421	2,145,017
Administrative and other expenses	1,451,905	922,719
Services and consumables used	658,845	491,930
Interest expenses	275,584	404,265
EEA write off	-	153,870
Depreciation and amortisation	48,827	91,402
	9,370,497	8,946,144

[(1)]These expenditures are capitalised as exploration and evaluation assets.
[(2)]Within nine month period ended September 30, 2012, the allocation to employee benefit reserves fund (relating to vesting options) totaled £824,762, while the corresponding number in the same period in 2011 was £1,141,740.