LYDIAN INTERNATIONAL LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and six months ended June 30, 2013
(Amended and restated)

The following management's discussion and analysis ("MD&A") of the consolidated financial condition and results of operations of Lydian International Limited ("Lydian" or the "Company") for the three and six month periods ended June 30, 2013 has been restated. This discussion should be read in conjunction with the restated consolidated financial statements and the notes thereto for the period ended June 30, 2013, prepared in accordance with the 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 six month periods to June 30, 2013 as well as the subsequent period up to August 13, 2013. All monetary figures are expressed in United States Dollars unless otherwise indicated and Canadian dollars are referred to as "CAD$".

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; the ability to obtain permits and other necessary authorizations, mine engineering, planning and mine site design, 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 development and production timetables;*
- *market competition; and*
- *the accuracy of the Company's resource estimate (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 exploration and development 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 exploration and development project (the "Amulsar Project") located in Armenia. In addition, the Company holds a license covering an early-stage gold prospect (the "Kela Project" formerly the "Zoti Project") in the Guria region of Georgia.

The Company's principal objective is to continue its exploration and development of the Amulsar Project, including putting the Amulsar Project into production. The Company will also continue the ongoing exploration drilling at the Amulsar Project in an effort to increase resources and to extend the current assumed mine life of the planned mine. On December 18, 2012, the Company filed the Amulsar Technical Report (as defined below) on Sedar, which amended the previously filed feasibility study. The Company has since engaged the authors of the Amulsar Technical Report to, among other things, further update the report to reflect certain proposed changes in the site layout, production schedule and crusher configurations for the Amulsar Project. The revised feasibility study was expected to be completed in the third quarter of 2013 along with a comprehensive environmental and social impact assessment (the “ESIA”) in accordance with applicable requirements. On July 24 2013, the Company provided an update on the Amulsar project, which included a discussion of a recent resolution (the “Resolution”) passed by the Armenian Government and that the Company will participate in a joint working group with the Government. Pending further clarity on the impact of the Resolution and the conclusions of the working group, the timing for obtaining the necessary permits to continue its development of the planned mining facilities and infrastructure at the Amulsar Project and the completion of the revised feasibility study has been delayed and is not known at this time. In the meantime, the Company is continuing its efforts to advance its exploration and development activities and permitting efforts in Armenia.

Developing the Amulsar Project into a profitable gold mining operation will depend upon the Company’s ability to raise sufficient financing, acquire all permits and complete construction. The Company currently does not have any commercial operations or revenue.

SECOND QUARTER AND RECENT EVENTS AND MILESTONES

- On July 24, 2013, the Company provided an update on the Amulsar Project. During a Government session on July 18, 2013, the Armenian Government passed the Resolution that modifies the area defined as the “catchment basin” to Lake Sevan, Armenia's largest freshwater resource. According to the text of the Resolution, the borders of the catchment basin have been expanded to include the horizontal zone 3000 meters on each side of the “axis” to the Vorotan-Sevan tunnel. Based on the Company’s understanding of the Resolution, if projected to surface, the modified catchment basin includes the Company’s currently proposed location for its heap leach processing facility. The Resolution also states that this part of the “catchment basin” is to be classified as the “Immediate Impact Zone” to Lake Sevan. This may impact the Company’s current mine layout plans as mineral processing activities are not permitted in this “Immediate Impact Zone”. When the Company informed the Government of Armenia of the potential effect on the current project design, the Government invited Lydian to participate in a joint working group with its technical experts. The working group met with the Company for the first time on August 1, 2013, with a view to reaching a satisfactory conclusion in an expeditious manner. However, the apparent impact of the Resolution is causing and, subject to the outcome of the process with the working group and other factors, may continue to cause a delay in the delivery and publication of the Company’s updated feasibility study, the permitting process and the development and commencement of production at the Amulsar Project (see *Exploration Update and Activities - Amulsar Project* below).
- On July 16, 2013, the Company announced that on July 11, 2013 it conducted a public hearing on the concept design and environmental impact of its proposed gold heap leach processing facility at its Amulsar Project. At the hearing, the Gndevaz community approved the concept and environmental impact assessment of the proposed Amulsar heap leach and processing facility. The public hearing was announced in the Armenian print-media, 30 days prior to the hearing date, on June 11, 2013 and was held in the village of Gndevaz, Armenia, which is the community located closest to the Company’s proposed heap leach processing facility. The hearing was attended by the Governor of Vayots Dzor Region, the Head of Gndevaz Community, members of the village administration and residents of the local community and greater region, among others.
- On the May 22, 2013, the Company announced the appointment of David Woodall to the board of directors of the Company and the resignation of Dr. Geoffrey Cowley.

Update and Activities

Amulsar Project

The Company's Amulsar Project area covers a region of high-sulphidation, epithermal-type gold mineralisation located in Southern Armenia and was discovered by Lydian in 2006. The exploration licences for the Amulsar Project are held 100% by Geoteam CJSC, a wholly-owned indirect subsidiary of the Company.

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

The main focus for 2013 is the continued development of the Amulsar Project. In this regard, the Company is now experiencing challenges in the permitting process, which are causing and, subject to the outcome of the activities of the working group and other factors, may continue to cause delays in the delivery and publication of the Company's revised feasibility study, the permitting process and the ongoing development of the Amulsar Project necessary to achieve the Company's objective of commencing production in a timely manner.

As described above, in an unexpected development, a Resolution was recently passed by the Armenian Government that appears to impact the Company's current mine layout plans. In response to this development, at the invitation of the Armenian Government, the Company has begun to participate in a working group with the Armenian Government, which was established to help identify an acceptable location for the Company's proposed heap leach facility at the Amulsar Project. The Company continues to work to resolve the issues raised by the Resolution, including attempting to reach agreement with the Armenian Government on the location of the proposed heap leach facility, so that the necessary permitting and approvals for the development of the proposed mine and related processing facilities and infrastructure at the Amulsar Project can be obtained. Because of the apparent impact of the Resolution on the Company's current proposed Amulsar mine layout, the above-noted delays, the ongoing activities with the working group and resultant uncertainties, the timing of the preparation of the Company's updated feasibility study, the permitting process and the overall development of the Amulsar Project is uncertain and cannot be accurately predicted by management as at the date of this MD&A. The length of any delays will depend on, among other things, the outcome of discussions with authorities and the nature of required changes to the Company's current mine plans, if any.

In addition, to the forgoing activities, the Company plans to continue its ongoing drill program consisting of a total 20,000 meters of planned drilling with the aim of testing resource extensions along-strike and at depth (70% of the drilling is aimed at areas below the current pit designs) and providing sufficient evidence to convert current inferred category resources to measured and indicated categories. About 30% of this revised drilling program has been completed as of the date of this MD&A.

Kela Project

The Kela Project (previously referred to by the Company as the "Zoti Project") is an early-stage gold prospect known in the Guri region of the Ozurgeti province in Georgia. 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 the Kela Project.

In 2012, the Company carried out surface exploration activities at the Kela Project. The Company is focussed on the continued exploration and development of the Amulsar Project and, as a result, will only complete a ground magnetic and field mapping survey at Kela this year.

RESTATEMENT

On August 13, 2013, the Company issued its interim consolidated financial statements for the three and six month period ended June 30, 2013. Subsequently, an error was discovered related to the Company's translation of certain monetary assets denominated in a currency other than the functional currency. The adjustment has an influence on comprehensive income and cash flows as well. Below are details and results of the adjustment:

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 US Dollars unless otherwise indicated.

Effects of restatement

The following is a summary of the key effects of the restatement on the Company's interim consolidated income statements for the three and six month periods ended June 30, 2013:

	Three month period ended June 30, 2013			Six month period ended June 30, 2013		
	$	$	$	$	$	$
	Original	**Restated**	**Difference**	**Original**	**Restated**	**Difference**
Other gains (loss)	2,233,676	155,166	(2,078,510)	2,398,660	320,150	(2,078,510)
Loss for period	(427,712)	(2,506,222)	(2,078,510)	(3,002,250)	(5,080,760)	(2,078,510)
Loss per share	-	(0.02)	(0.02)	(0.02)	(0.04)	(0.02)

The following is a summary of the key effects of the restatement on the Company's interim consolidated statements of comprehensive loss for the three and six month periods ended June 30, 2013:

	Three month period ended June 30, 2013			Six month period ended June 30, 2013		
	$	$	$	$	$	$
	Original	**Restated**	**Difference**	**Original**	**Restated**	**Difference**
Exchange differences arising on translation of foreign operations	389,841	459,730	69,889	(2,066,002)	(1,996,113)	69,889
Total comprehensive loss	(37,871)	(2,046,492)	(2,008,621)	(5,068,252)	(7,076,873)	(2,008,621)

The following is a summary of the key effects of the restatement on the Company's interim consolidated statements of financial position as at June 30, 2013:

	June 30, 2013	June 30, 2013	June 30, 2013
	$	$	$
	Original	**Restated**	**Difference**
Cash and cash equivalents	26,950,155	24,941,534	(2,008,621)
Translation of foreign operations	(7,129,937)	(7,060,048)	(69,889)
Accumulated deficit	(45,936,924)	(48,015,434)	2,078,510

The following is a summary of the key effects of the restatement on the Company's interim consolidated statements of cash flows for the three and six month periods ended June 30, 2013:

	Three month period ended June 30, 2013			Six month period ended June 30, 2013		
	$	$	$	$	$	$
	Original	**Restated**	**Difference**	**Original**	**Restated**	**Difference**
Payments to suppliers and employees	(1,632,098)	(2,640,719)	(1,008,621)	(4,292,523)	(5,301,144)	(1,008,621)
Exploration and development costs paid	(2,814,893)	(3,814,893)	(1,000,000)	(4,104,413)	(5,104,413)	(1,000,000)

Statement of Operations

The following is a summary of selected information for the three and six month periods ended June 30, 2013 and comparative financial information for the corresponding periods in the Company's previous financial year.

	Three months ended June 30,		Six months ended June 30,	
	2013	**2012**	**2013**	**2012**
	(Restated)		**(Restated)**	
	$	$	$	$
Interest income	44,920	178,272	83,001	208,918
Total expenses	(2,551,142)	(2,347,458)	(5,163,761)	(4,879,280)
Net loss	(2,506,222)	(2,169,186)	(5,080,760)	(4,670,362)
Loss per share (basic and diluted)	(0.02)	(0.02)	(0.04)	(0.04)

During the three and six month periods ended June 30, 2013 and 2012, the Company had no revenues. Its only income was bank interest. In the three and six month periods ended June 30, 2013, the Company recorded a loss of $2,506,222 (2 cents per share) and $5,080,760 (4 cents per share) compared to $2,169,186 (2 cents per share) and $4,670,362 (4 cents per share) during the corresponding periods in 2012. There were several changes in the Company's cost structure in quarter two of 2013 compared with the same period in 2012, the most significant of which were: a $175,266 increase in salaries and other compensations to employees; a $103,862 increase in expenses relating to funds allocated to employee benefit reserves in respect of option vesting; a $139,754 increase in administrative expenses; and a $68,614 decrease in expenses relating to services and consumable used.

There were no extraordinary transactions or significant end of reporting period adjustments during the three and six month periods ended June 30, 2013.

During the six month period ended June 30, 2013, there were fluctuations between the British Pound, Canadian Dollar, Euro, Armenian Dram, Georgian Lari and the U.S. Dollar. This resulted in changes to the value of the Company's exploration assets as reported in US Dollars. 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 six month period ended June 30, 2013 and the same period in 2012. As at June 30, 2013, the Company had taxation losses of $4,309,849 (December 31, 2012, $3,426,898) 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 six month periods ended June 30, 2013 and comparative financial information for the corresponding interim periods in the Company's previous financial year.

	Three months ended June 30,		Six months ended June 30,	
	2013 (Restated)	2012	2013 (Restated)	2012
	$	$	$	$
Net cash used by operating activities	(2,640,719)	(2,832,304)	(5,301,144)	(5,662,883)
Net cash used by investing activities	(3,945,766)	(2,501,180)	(5,245,782)	(8,918,541)
Net cash provided by financing activities	-	239,483	1,907,629	47,350,330

The difference in cash outflows relating to investing activities incurred in six month period ended June 30, 2013 compared with the same period in 2012 is primarily due to the payment by the Company in March 2012 of interest incurred in connection with the deferment of payment of the second installment of $5,000,000 payable to Newmont Overseas Exploration Limited ("Newmont") in connection with the Company's acquisition of all of Newmont's interest in the former joint venture between the Company and Newmont known as the Caucasus Venture. Payment for development and exploration of Amulas and Kela project incurred within quarter two of 2013 compared with the same period in 2012 increased by $1,541,236. Cash inflows from financing activities incurred in six month period ended June 30, 2013 relates to proceeds from exercise of 3,311,758 warrants.

Summary of Balance sheet data

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

	As at June 30, 2013 (Restated)	As at December 31, 2012	As at January 1, 2012
	$	$	$
Current assets	26,014,820	33,393,942	13,530,367
Property and equipment	3,664,158	3,799,086	734,388
Intangible assets	165,088	198,694	147,718
Exploration and evaluation assets	52,329,442	47,684,080	36,610,222
Other non-current assets	3,590,422	3,387,771	2,115,783
Other long-term financial assets	-	-	196,660
Total assets	85,763,930	88,463,573	53,335,088
Current liabilities	7,343,596	5,933,580	6,330,465
Non-current liabilities	827,402	840,359	4,588,683
Equity	77,592,932	81,689,634	42,415,940
Total liabilities and equity	85,763,930	88,463,573	53,335,088

During the second quarter of 2013, the cash and cash equivalents of the Company decreased by $5,948,544 as a result of payments to vendors for Amulsar Project development costs, payments to vendors for supply of services and goods, and payments to employees. As at June 30, 2013, the Company's cash and cash equivalents was $24,941,534 compared to $32,705,731 on December 31, 2012.

The Company's net amount of exploration and evaluation assets (EEA) increased by $4,994,528 and $4,645,362 in the three and six months periods ended June 30, 2013, respectively. The increase of EEA in the three month period ended June 30, 2013 was greater than the increase incurred in the six month period then ended as a result of a devaluation of EEA, due to strengthening of the US Dollar against the Armenian Dram in the first quarter of 2013. Investment in EEA incurred in the six month period ended June 30, 2013 was $5,332,508.

In the three month period ended June 30, 2013, the net amount of property, plant and equipment increased by $50,643. During three month period ended June 30, 2013 the investments in plant and equipment totaled $219,639.

Exploration and evaluation assets

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

Exploration and evaluation and project development costs incurred during the six month period ended June 30, 2013 were $5,332,508 compared to $3,581,643 in the corresponding period in 2012. These exploration and evaluation and development costs were related to exploration work on the Company's exploration projects. The cumulative amount of such costs as at June 30, 2013 and December 31, 2012 are as follows:

Project	**Cumulative as at June 30, 2013**	**Cumulative as at December 31, 2012**
	$	**$**
Amulsar Project - Armenia	51,736,221	47,154,131
Kela Project - Georgia	593,221	529,949
Total	52,329,442	47,684,080

Exploration and evaluation assets of the Amulsar project in the Company's accounts is denominated in Armenian Drams and Kela project in Georgian Laries and for presentation purposes is translated in to US Dollars. During the six month period ended June 30, 2013 the US Dollar strengthened against the Armenian Dram, which resulted in a reduction of the EEA balance for the Amulsar Project of $689,130.

The following table represents expenditures capitalised at the Amulsar Project during the six month period ended June 30, 2013 and the corresponding period in 2012.

	Six Months ended June 30, 2013	**Six Months ended June 30, 2012**
	$	**$**
Project development(1)	2,313,196	2,001,582
Capitalised salaries	839,049	320,057
Professional studies	151,198	230,163
Laboratory analyses	172,844	155,807
Supplies and materials	353,303	205,990
Exploration drilling	788,568	146,586
Capitalised depreciation and amortisation	228,095	101,637
Land rents	165,200	99,213

Plant hiring	126,363	164,032
State duties and fees	24,251	25,305
Field food and accommodation	37,919	19,257
Fixed assets refurbishment	21,190	9,257
Consultants fees	13,098	-
Other	36,946	11,582
Total	5,271,220	3,490,468

(1)Engineering design, ESIA, feasibility study, consulting, etc.

In Armenia, the Company's exploration activities are financed mainly in US dollars, which are converted into Armenian Drams by the Company's Armenian subsidiary and then into US Dollars for the group accounts. The cumulative totals are affected by currency fluctuations between US Dollars and Armenian Drams. There was a devaluation of the Armenian Dram in the six month period ended June 30, 2013. As a result, the cumulative expenditures in Armenia shown above differ from the actual historical expenditures made in U.S. Dollars.

SUMMARY OF QUARTERLY RESULTS

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

	Q2 2013 (Restated) $	Q1 2013 $	Q4 2012 $	Q3 2012 $
Net sales or total revenues	-	-	-	-
Net income (loss) attributable to owner of equity capital	(2,506,222)	(2,574,538)	(2,551,372)	(2,960,050)
Loss per share (basic and diluted)	(0.02)	(0.02)	(0.02)	(0.02)

	Q2 2012 $	Q1 2012 $	Q4 2011 $	Q3 2011 $
Net sales or total revenues	-	-	-	-
Net income (loss) attributable to owners of equity capital	(2,159,251)	(2,472,483)	(2,493,307)	(2,242,738)
Loss per share (basic and diluted)	(0.02)	(0.02)	(0.03)	(0.02)

OUTSTANDING SHARE DATA

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

	As at August 13, 2013	As at June 30, 2013	As at December 31, 2012
Ordinary Shares	130,172,926	130,172,926	126,861,168
Stock option plan	4,415,000	4,495,000	4,780,000
Warrants	-	-	3,311,758

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

MANAGEMENT AND STAFFING

During the six month period ended June, 2013 and subsequently prior to the date of this MD&A, the following changes in the key management and staffing of the Company occurred:

- In February 2013, Dr. Geoffrey Cowley was appointed as a director of the Company replacing Mr. Peter Mullens who resigned as a director. On May 2013 Dr. Geoffrey

Cowley resigned as a director of the Company but he will continue to provide services to the Company as a contractor.

- On March 25, 2013, the Company announced that Dr. Armen Sarkissian had been appointed as a director of the Company.
- On the May 22, 2013, the Company announced the appointment of David Woodall to the board of directors.

LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of $18,671,224 as at June 30, 2013 compared to $27,460,362 on December 31, 2012. The Company had total assets of $85,763,930 at June 30, 2013 compared to $88,463,573 on December 31, 2012, which include deferred exploration expenditures of $52,329,442 ($47,684,080 on December 31, 2012).

The Company's principal source of liquidity as at June 30, 2013 was cash and cash equivalents of $24,941,534 compared to $32,705,731 on December 31, 2012. This decrease in the cash and cash equivalents balance was primarily the result of an operating activities and cash used in capital expenditures, property, equipment and intangible assets, exploration costs. Cash surplus to the Company's requirements is invested in bank money market deposits.

It is management's opinion, based on the Company's current liquidity position and estimates of project expenses, that the Company's liquid assets will be sufficient to discharge liabilities and fund the above-noted expenditures in connection with the Amulsar Project and the Kela Project. The future exploration and development of the Amulsar Project and the Kela Project will require the Company to raise additional capital through a combination of equity and debt or other financing options. The Company is conducting a revised bankable feasibility study, for which the financial numbers are expected to be completed in the third quarter of 2013, and intends to conduct engineering studies to evaluate potential development scenarios for the Amulsar Project, including its future capital requirements.

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 licensing 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	16,194,295	967,079	4,357,435	10,869,781
Purchase obligations	-	-	-	-
Total contractual obligations	16,194,295	967,079	4,357,435	10,869,781

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	6 months to June 30, 2013	12 months to December 31, 2012
State duty on mining license	10,150,000	10,000,000
Social Insurance Funds employer	7,831,030	57,799,655
Social Insurance Funds individual	-	14,887,344
Customs duty	733,116	3,459,798
Property tax	47,000	416,800
Income tax	187,738,450	132,313,366
Non resident withholding tax	7,500,000	13,000,000
VAT	9,888,492	5,957,025
Nature protection fee	16,470	23,590
Total	223,904,558	237,857,578
Equivalent USD	542,983	591,509

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 June 30, 2013 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 three million Ordinary Shares to Newmont on the closing of the transaction and three payments of $5 million, of which; the first was paid in 2010, the second was due on December 31, 2011 and paid on March 13, 2012, together with interest owing thereon; and the third became due on December 31, 2012. The Company has notified Newmont that it has decided to defer making this third installment payment until no later than December 31, 2013. This deferred payment amount of $5 million bears interest at the rate of 10% per annum commencing December 31, 2012 until it is paid.

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$20 million, without interest, in 20 equal quarterly installments of $1 million commencing on the first day of the third calendar month following the start of commercial production. Furthermore, the Company has a one-time option prior to the commencement of Commercial Production to prepay these quarterly installments in a single cash payment using an annual discount rate of 10%. This equates to a single payment of approximately 15.6 million.

These potential post production payment(s) do not constitute an “obligation or a constructive obligation”, as the triggering event of commercial production has not yet occurred. Therefore, these potential payments are not shown on the balance sheet.

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

RISKS AND UNCERTAINTIES

The following risks and uncertainties, among others, 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 program 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 and incurs expenses mainly in six currencies – the Euro, the British Pound, the U.S. 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 U.S. 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 resources 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 citisens 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 to be 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, occupational health and safety requirements, environmental standards including toxic substances, air quality, land use and water quality and 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 and/or capital 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.

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

	Six months ended June 30, 2013 $	**Six months ended June 30, 2012 $**
Aggregate emoluments	504,238	437,800
Fair value of granted share options vest	676,133	625,915

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 six month ended June 30, 2013 and twelve month periods ended December 31, 2012.

Date of grant	Number of options	Exercise price	Expiry
March 21, 2013	150,000	CAD$2.28 ($2.24)	March 21, 2016
December 3, 2012	1,200,000	CAD$2.12 ($2.09)	December 3, 2015

There were no other share based payments during such 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 most significant critical judgments that members of management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements are the policies on exploration and evaluation assets and functional currencies.

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 Consolidated Financial Statements as of June 30, 2013 discloses the carrying values of such assets. As part of this assessment, management considered whether indicators of impairment exist at June 30, 2013.

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.

The functional currency for the Company and each of the Company's subsidiaries is the currency of the primary economic environment in which each entity operates. The Company has determined the functional currency of the parent company is the Canadian dollar and the functional currencies of its material subsidiaries, Geoteam CJSC and Georgia Resource Company LLC, are the Armenian Dram and Georgian Lari, respectively. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

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. The most significant sources of estimation uncertainty that members of management have identified in the application of accounting policies are as follows:

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

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

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

Changes in accounting policies

During six month period ended June 30, 2013 there was no changes in the Company's accounting policies. The accounting policies adopted are consistent with those of the previous financial year, except for the application of the following standards as of January 1, 2013:

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

Change of presentation currency

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

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 had concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures and ICFR as of June 30, 2013, that disclosure controls and procedures and ICFR were effective. Since issuing its consolidated interim financial statements and MD&A for the three and six month periods ended June 30, 2013, the Company's management discovered that it had made an error in translating certain monetary assets denominated in a currency other than the Company's functional currency, which resulted in the restatement of these financial statements and this MD&A, as described above. As a result, management re-evaluated its conclusions regarding the effectiveness of its internal control over financial reporting for the affected periods and determined that a material weakness existed in the operation of the Company's reconciliation and consolidation processes.

Specifically, the Company identified an error in the operation of its accounting software by its accounting personnel with respect to the translation, reconciliation and consolidation of assets denominated in a currency other than the Company's functional currency. Accordingly, the Company determined that it did not maintain effective controls over the accurate preparation, recording, and review of foreign exchange translation adjustments.

The Company has taken remedial action related to the above noted error and material weakness in an effort to prevent any reoccurrence. Specifically, the Company has implemented the following processes and controls in its financial statement preparation and reporting processes:

- an additional line by line check in the quarterly reporting process to ensure that the trial balance and the cash balances reconcile;
- all translations of monetary assets denominated in a currency other than the Company's functional currency will be double checked against the actual cash holdings; and
- the Company will undertake weekly foreign exchange reconciliations and monitor more closely any adjusted amounts.

Other than as noted above, 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 other 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.

In order to ensure that its disclosure is reported in accordance with applicable requirements, the Company has implemented an internal procedure that requires all of its press releases to be reviewed by counsel. There have been no other significant changes in the Company's

ICFR that occurred during the six month period ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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 COSTS

Material costs incurred in the six month periods ended June 30, 2013 and 2012 were as follows:

	Six months ending June 30, 2013 $	2012 $
Exploration and evaluation deferred expenditures[1]	5,332,508	3,581,643
Employee benefit and expenses	2,887,836	2,399,451
Administrative and other expenses	1,736,220	1,536,338
Services and consumables used	535,283	698,815
Interest expenses	252,257	321,915
Depreciation and amortiszation	82,315	39,756
Total	10,826,419	8,577,918

[1]These expenditures are capitalised as exploration and evaluation assets.