LYDIAN INTERNATIONAL LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

The following is 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 year ended December 31, 2013 and is dated March 25, 2014. This discussion should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2013, prepared in accordance with the International Financial Reporting Standards ("IFRS"). 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 and the Company's Annual Information Form under the heading under the heading "Risk Factors" and in 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 receipt of regulatory and governmental approvals for the Company's projects and the timing thereof;*

- *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 development project (the "Amulsar Project") located in Armenia. In addition, the Company holds a license covering an early-stage gold prospect (the "Kela Project") in the Guria region of Georgia.

The Company's main project is the Amulsar Project, a gold exploration and development project located in Armenia, which has been explored since discovered by the Company in 2006. The Company's primary focus is to continue its development, and carry out further exploration of the Amulsar Project. In particular, the Company is continuing its ongoing permitting process and, as part of this process, is currently working to complete an environmental and social impact assessment (the "ESIA"), detailed engineering studies, an updated feasibility study (the "Updated FS") and mine planning. These activities are all being carried out, or intended to be commenced, by the Company in furtherance of achieving its primary goals of obtaining all necessary permitting and financing for the construction of a mine and heap leach operation at the Amulsar Project and, ultimately, commencing production at the mine.

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

FOURTH QUARTER AND RECENT DEVELOPMENTS

Appointment of Director, President and Chief Executive Officer

On February 24, 2014, Howard H.J. Stevenson was appointed as a director and as President and Chief Executive Officer of the Company, succeeding Dr. Timothy Coughlin, who retired from these executive offices on such date, and continues to serve as a director of the Company.

Resignation of Director

On January 31, 2014, Marc Henderson resigned as a director of the Company.

Financings

On February 18, 2014, the Company completed its previously announced "bought deal" offering, pursuant to which it sold an aggregate of 17,250,000 ordinary shares ("Ordinary Shares") in the capital of the Company, at a price of $1.00 per Ordinary Share, for aggregate gross proceeds to the Company of CAD$17,250,000. GMP Securities L.P., Scotia Capital Inc., BMO Nesbitt Burns Inc. and National Bank Financial Inc. were the underwriters for the offering.

On March 21, 2014, the Company entered into agreements (collectively, the "Transaction Agreements") with two of its current strategic investors (collectively, the "Strategic Investors"), International Finance Corporation ("IFC"), a member of the World Bank Group, and the European Bank for Reconstruction and Development ("EBRD"), pursuant to which the Strategic Investors have separately agreed to purchase on a private placement basis (together, the "Private Placement Offerings") an aggregate of 4,731,000 Ordinary Shares of the Company at a purchase price of $1.00 per Share, for aggregate gross proceeds of CAD$4,731,000. Pursuant to the terms of the applicable Transaction Agreements, IFC has agreed to subscribe for 1,731,000 Shares and EBRD has agreed to subscribe for 3,000,000 Shares. IFC has also agreed to waive, to the extent applicable, any pre-emptive rights held by it with respect to the above-noted recently completed "bought deal" offering.

Each of the respective Transaction Agreements includes certain rights and obligations for the benefit of the respective Strategic Investors, as applicable, including: (i) affirmative and restrictive covenants of the Company that relate to the specific business of each Strategic Investor as an international financial institution (for example, provisions relating to various environmental and labour protection standards), (ii) pre-emptive rights allowing each Strategic Investor to maintain its then existing aggregate percentage ownership interest in the Company in the case of future issuances of equity securities or securities convertible into equity, and (iii) Company information reporting obligations.

In addition, the applicable Transaction Agreements provide that each Strategic Investor shall be entitled to designate its own respective nominee to be included among the Company's nominees for election to the Company's board of directors at each meeting of shareholders of the Company at which directors of the Company are to be elected. IFC also has the initial right to have an individual designated by it appointed to the Company's board of directors, which currently includes a director nominated by EBRD. Such respective nominee rights shall terminate, in the case of (i) IFC, after the first continuous 90 day period during which IFC ceases to hold or control 10 million Ordinary Shares, or at least 5% of its share capital, and

(ii) EBRD, when it is no longer the beneficial owner of Ordinary Shares representing 5% or more of the Company's issued and outstanding capital, on a non-diluted basis.

In connection with the Private Placement Offering to IFC, the investor rights and shareholders' agreement dated July 27, 2007 and the related deed of novation dated December 2007 between the Company and IFC has been terminated. Upon completion of EBRD's subscription for 3,000,000 Shares pursuant to its Private Placement Offering, the subscription agreement dated February 25, 2009 between the Company and EBRD will terminate, subject to certain exceptions.

The Company intends to use the aggregate proceeds of the Private Placement Offerings to fund the costs of technical studies, project related operating expenses and to complete a feasibility study in respect of the Company's Amulsar Project in Armenia. The Private Placement Offerings are subject to typical closing conditions. Closing is expected to occur on one or more dates not later than April 18, 2014, as may be agreed to by the Company and the respective Strategic Investors. The Ordinary Shares issued on closing of the Private Placement Offerings will be subject to a hold period of four months and one day from the respective issue dates thereof.

Amulsar Project - Project Update

Regulatory

On July 18, 2013, the Armenian Government passed a resolution (the "Resolution") that modified 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 then proposed location for its heap leach processing facility at the Amulsar Project. The Resolution also states that this part of the "catchment basin" is to be classified as the "Immediate Impact Zone" to Lake Sevan, where mineral processing activities are not permitted. 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 to address the matter. The impact of the Resolution has resulted in a delay in the planned delivery and publication of the Updated FS, the permitting process and the development and commencement of production at the Amulsar Project.

On October 15, 2013, the Company announced that the working group had completed its assessment of the Company's latest proposed location for a heap leach processing facility at its Amulsar Project and concluded that this location was suitable and does not conflict with national laws and regulations. As a result, the Government of the Republic of Armenia and the Company agreed that the site is acceptable for both parties, with specific regulatory requirements stated in the final protocol of the working group.

On October 15, 2013, the Company also announced that the Ministry of Energy and Natural Resources (MENR) extended the deadline for the completion of the Company's open pit construction and capital mining works to September 26, 2018 (Order 156-A of the MENR on September 25, 2013, and the validity has been extended until April 3, 2040) and executed an official geotechnical exploration agreement (Licence provided on September 20, 2013 for two years by Order 154-A of the MENR) for the Company's new heap leach processing facility site.

In the fourth quarter of 2013, the Company resumed its permitting process and, as part of this process, is focused on completing the required ESIA.

Drilling Update

The scientific and technical information contained under this subheading Amulsar Project - Project Update - Drilling Update" has been reviewed and approved by Marc Leduc, P.Eng, Chief Operating Officer of the Company, who is a "qualified person" for the purposes of NI 43-101.

The Company commenced geotechnical drilling and trenching of the proposed valley-fill site and at an alternative waste dump site on September 30, 2013. This geotechnical field program completed in October, 2013 was performed to support the engineering design to be completed as part of the Updated FS for the new proposed location of its valley-fill site and potential alternative waste dump site. Additional evaluation of the Amulsar Project was conducted in the fourth quarter of 2013 with the assistance of Golder Associates Inc. ("Golder") and Samuels Engineering ("Samuels"). Scoping Studies and conceptual level designs were prepared by Golder for the proposed valley-fill site and the alternative waste dump site. In addition, Samuels carried out trade-off studies, examining alternatives for crushing, conveying and waste rock placement and handling.

The 2013 drill program was focused on in-fill and step-out drilling at Tigranes and Erato. The results confirmed the current geological model and potential for resource extensions in all directions and particularly at depth. A complete list of significant intersections of greater than 1g/t gold is set out below.

Significant drill intersections greater than 1g/t gold

Drill Hole	Dip	Azimuth	Total Depth (m)	From (m)	To (m)	Intersection (m)	Gold (g/t)
DDA-375	-60	120	256.2	40.0	42.0	2.0	1.2
DDA-376	-60	140	200.0	**NO SIGNIFICANT INTERSECTIONS >1G/T GOLD**			
DDA-377	-60	110	272.2	**NO SIGNIFICANT INTERSECTIONS >1G/T GOLD**			
DDA-378	-60	300	160.0	23.0	28.0	5.0	1.0
				30.0	33.0	3.0	1.0
				95.0	101.0	6.0	1.0
DDA-379	-60	105	83.0	**NO SIGNIFICANT INTERSECTIONS >1G/T GOLD**			
DDA-380	-60	100	170.0	26.0	30.0	4.0	1.1
DDA-381	-60	210	146.4	12.0	34.0	22.0	1.0
				82.0	86.0	4.0	1.4
				115.0	146.4 (EOH)	31.4	1.3
DDA-382	-60	110	270.0	23.0	27.0	4.0	1.0
				70.0	77.0	7.0	1.8
				214.0	216.0	2.0	1.3
RCA-501	-60	230	240.0	65.0	67.0	2.0	1.0
				80.0	95.0	15.0	1.0
				122.0	127.0	5.0	1.0
				132.0	139.0	7.0	1.0
RCA-502	-60	305	100.0	11.0	21.0	10.0	1.0
				40.0	44.0	4.0	1.0
RCA-503	-90	0	257.0	**NO SIGNIFICANT INTERSECTIONS >1G/T GOLD**			
RCA-504	-90	0	257.0	**NO SIGNIFICANT INTERSECTIONS >1G/T GOLD**			
RCA-505	-60	115	257.0	36.0	257.0 (EOH)	221.0	1.2
RCA-506	-60	100	32.0	2.0	4.0	2.0	1.0
				5.0	7.0	2.0	1.0
				9.0	11.0	2.0	1.0
				29.0	32.0 (EOH)	3.0	1.3
RCA-507	-60	120	257.0	1.0	28.0	27.0	1.0
				56.0	106.0	50.0	1.0
				135.0	156.0	21.0	1.0
				171.0	173.0	2.0	1.2
RCA-508	-60	120	11.0	9.0	11.0 (EOH)	2.0	1.6

Drill Hole	Dip	Azimuth	Total Depth (m)	From (m)	To (m)	Intersection (m)	Gold (g/t)
RCA-509	-60	120	197.0	76.0	83.0	7.0	1.0
				110.0	115.0	5.0	1.0
RCA-510	-60	210	257.0	56.0	58.0	2.0	1.1
RCA-511	-60	30	179.0	60.0	62.0	2.0	1.8
RCA-512	-60	225	197.0	116.0	118.0	2.0	1.1
RCA-513	-60	210	137.0	80.0	91.0	11.0	1.1
RCA-514	-60	305	400.0	170.0	185.0	15.0	1.0
				186.0	188.0	2.0	1.0
				221.0	228.0	7.0	1.0
				268.0	302.0	34.0	1.0
RCA-515	-60	290	155.0	122.0	133.0	11.0	1.0
RCA-516	-60	110	285.0	81.0	101.0	20.0	1.1
				126.0	144.0	18.0	1.0
				228.0	230.0	2.0	1.2
RCA-517	-60	105	359.0	1.0	13.0	12.0	1.0
				46.0	114.0	68.0	1.0
RCA-518	-60	300	269.0	73.0	75.0	2.0	1.0
				110.0	112.0	2.0	1.0
				117.0	133.0	16.0	1.0
				168.0	178.0	10.0	1.0
				186.0	188.0	2.0	1.0
				262.0	268.0	6.0	1.0
RCA-519	-60	295	377.0	20.0	24.0	4.0	1.2
RCA-520	-60	295	311.0	68.0	159.0	91.0	1.0
				188.0	191.0	3.0	1.0
RCA-521	-60	105	197.0	**NO SIGNIFICANT INTERSECTIONS >1G/T GOLD**			
RCA-522	-60	290	287.0	12.0	20.0	8.0	1.0
				64.0	66.0	2.0	1.3
				107.0	287(EOH)	180.0	1.3
RCA-523	-60	120	240.0	**NO SIGNIFICANT INTERSECTIONS >1G/T GOLD**			

Notes:

(1) Cut-off 0.2g/t gold, maximum down-hole internal dilution 10m

(2) All intersections are oxide gold, No true widths

(3) DDAG indicates assayed geotechnical drill hole

The Company's employees are instructed to follow standard operating and quality assurance procedures intended to ensure that all sampling techniques and sample results meet international reporting standards. Drill core is cut on-site and rock-chips are split to ensure representative sampling. Half core and remaining rock-chips are stored on-site. On-site personnel log and track all samples prior to sealing and shipping. Quality control is monitored by the insertion of blind certified standard reference materials and blanks into each sample shipment. All resource sample shipments are sealed and shipped to ALS Chemex, an independent third party. All assay work for the released results was carried out by ALS Chemex at its analytical laboratory in Rosia Montana, Romania. ALS Chemex's quality system complies with the requirements for the International Standards ISO 9001:2000 and ISO 17025:1999. Analytical accuracy and precision are monitored by the analysis of reagent blanks, reference material and replicate samples. More information can be found on Lydian's website at www.lydianinternational.co.uk.

Kela Project, Georgia

The Kela Project (previously referred to by the Company as the "Zoti Project") is an early-stage gold prospect located in the Guria 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 and in 2013, detailed exploration and drill site definition work at the Kela Project. Based on the limited exploration carried out by the Company as of the date of this MD&A, the Company does not consider the Kela Project to be material to it. In addition, as discussed above, the Company is focused primarily on the continued development and further exploration of the Amulsar Project. Accordingly, as of the date of this MD&A, the Company does not currently plan to allocate any material amount of its available funds and other resources to the Kela Project in the near or long term.

FINANCIAL RESULTS OF OPERATIONS
SELECTED FINANCIAL INFORMATION

Statement of Operations

The following is a summary of selected information for the three and twelve month periods ended December 31, 2013 and comparative financial information for the corresponding periods in the Company's previous financial year.

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
	$	$	$	$
Interest income	11,433	58,177	114,359	348,640
Total expenses	(2,463,096)	(2,704,798)	(9,635,078)	(10,644,765)
Net loss	(2,451,663)	(2,646,621)	(9,520,719)	(10,296,125)
Loss per share (basic and diluted)	(0.02)	(0.02)	(0.07)	(0.08)

During the three and twelve month periods ended December 31, 2013 and 2012, the Company had no revenues. Its only income was bank interest. In the three and twelve month periods ended December 31, 2013, the Company recorded a loss of $2,451,663 (2 cents per share) and $9,520,719 (7 cents per share) compared to $2,551,372 (2 cents per share) and $10,143,156 (8 cents per share) during the corresponding periods in 2012. The reduction of loss incurred in twelve month periods ended December 31, 2013 compared with the same period in 2012 mainly is result of foreign exchange rate differences from CAD to other monetary assets held by the Company in respect to which within 2013 were recorded income $790,256 and in 2012 loss $739,934. There were several changes in the Company's costs in the twelve month period ended December 31 of 2013 compared with the same period in 2012, the most significant include: $424,695 increase in administrative expenses which mainly result of increase in donations and sponsorship and increase of financing advisory expenses; $87,313 decrease in expenses relating to services and consumable used; $144,412 decrease in interest expenses; $234,281 decrease in interest income. During the three month period ended December 31, 2013, the Company recorded a loss of $376,938, resulting from the translation of the financial statements of the Company and its subsidiaries from their functional currencies to United States dollars, which is now the reporting currency for the Company. In the three month period ended December 31, 2013 compared to the same period in 2012, salary expenses in the Company increased by $253,270 and in Georgian Resource Company and Geoteam CJSC ("Geoteam"), decreased by $182,418 and by $156,459, respectively.

Except what is disclosed in "Disclosure controls and internal controls over financial reporting" note below there were no extraordinary transactions or significant end of reporting period adjustments during the three and twelve month periods ended December 31, 2013.

During the twelve month period ended December 31, 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 three and twelve month periods ended December 31, 2013 and the same period in 2012. As at December 31, 2013, the Company had taxation losses approximately $4,861,047 (December 31, 2012, $3,263,779) 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 summarizes the Company's cash flow for the three and twelve month periods ended December 31, 2013 and comparative financial information for the corresponding periods in the Company's previous financial year.

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
	$	$	$	$
Net cash used by operating activities	(3,234,073)	(1,778,346)	(10,689,142)	(8,737,633)
Net cash used by investing activities	(6,680,971)	(5,537,586)	(16,509,713)	(20,355,036)
Net cash provided by financing activities	-	1,872,650	1,907,629	49,559,022

During the period commencing on October 1, 2013 and ending on the date hereof, the Company made a payment of US$5,408,220 to Newmont Overseas Exploration Limited ("Newmont"). This payment was made in full satisfaction of the third and final installment payment of $5 million, together with interest of $408,219 thereon that was owing to Newmont in connection with the Company's acquisition of all of Newmont's former interest in the now terminated joint venture between the parties. The increase of cash outflow relating to investing activities during the three month period ended December 31, 2013 compared to the same period in 2012, related to this payment to Newmont. Cash inflows from financing activities in the twelve month period ended December 31, 2013, related to the proceeds received by the Company from the exercise of 3,311,758 warrants. Cash inflows from financing activities in the twelve month period ended December 31, 2012, related to proceeds from new share issue for net amount of $47,110,847 and share options exercise $2,448,175.

Summary of Balance Sheet Data

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

	As at December 31, 2013	As at December 31, 2012	As at January 1, 2012
	$	$	$
Current assets	9,353,665	33,393,942	13,530,367
Property and equipment	3,652,596	3,799,086	734,338
Intangible assets	127,873	198,694	147,718
Exploration and evaluation assets	58,731,741	47,684,080	36,610,222
Other non-current assets	3,932,492	3,387,771	2,115,783
Other long-term financial assets	-	-	196,660
Total assets	75,798,367	88,463,573	53,335,088
Current liabilities	947,936	5,933,580	6,330,465
Non-current liabilities	653,356	840,359	4,588,683
Equity	74,197,075	81,689,634	42,415,940
Total liabilities and equity	75,798,367	88,463,573	53,335,088

During the fourth quarter of 2013, the cash and cash equivalents of the Company decreased by $9,511,293 as a result of the above-mentioned payment to Newmont, payments to vendors in respect of Amulsar Project development costs, payments to vendors for the supply of services and goods, and payments to employees. As at December 31, 2013, the Company's cash and cash equivalents was $8,549,127 compared to $32,705,731 on December 31, 2012.

The Company's net amount of exploration and evaluation assets (EEA) increased by $1,354,723 and $11,047,661 in the three and twelve months periods ended December 31, 2013, respectively compared to 2012 where the increase was $5,508,851 and $11,073,858. Cash investment in EEA incurred in the twelve month period ended December 31, 2013 was $10,716,298 (2012: $12,274,589).

In the three month period ended December 31, 2013, the net amount of property, plant and equipment decreased by $221,664 compared to same period in 2012. During three month period ended December 31, 2013 the cash investment in plant and equipment totaled $32,601, compared to $304,487 for same period in 2012.

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 twelve month period ended December 31, 2013 were $11,209,639 compared to $12,718,203 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 December 31, 2013 and December 31, 2012 are as follows:

Project	Cumulative as at December 31, 2013 $	Cumulative as at December 31, 2012 $
Amulsar Project - Armenia	58,146,148	47,154,131
Kela Project - Georgia	585,593	529,949
Total	58,731,741	47,684,080

Exploration and evaluation assets of the Amulsar Project in the Company's accounts is denominated in Armenian Drams and of the Kela Project in Georgian Laries and for presentation purposes is translated in to US Dollars. During the twelve month period ended December 31, 2013, the US Dollar strengthened against the Armenian Dram and Georgian Laries, which resulted in a reduction of the EEA balance for the Amulsar Project by $134,180 and Kela Project by $27,798.

The following table represents expenditures capitalised at the Amulsar Project during the twelve month period ended December 31, 2013 and the corresponding period in 2012.

	Twelve months ended December 31, 2013 $	Twelve months ended December 31, 2012 $
Project development(1)	5,072,947	4,704,289
Capitalised salaries	1,497,335	1,197,662
Professional studies	402,264	460,017
Laboratory analyses	392,206	822,416
Supplies and materials	398,385	858,182
Exploration drilling	1,599,486	2,725,049
Capitalized depreciation and amortization	677,266	243,204
Land rents	493,780	186,948
Plant hiring	267,890	697,926
State duties and fees	24,805	25,846
Field food and accommodation	118,140	120,684
Fixed assets refurbishment	47,740	26,661
Consultants fees	-	115,537

Rehabilitation reserves	-	166,651
Other	133,953	153,273
Total	11,126,197	12,504,345

Note:
(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 twelve month period ended December 31, 2013. As a result, the cumulative expenditures in Armenia shown above differ from the actual historical expenditures made in United States dollars.

SUMMARY OF QUARTERLY RESULTS

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

	Q4 2013 $	Q3 2013 $	Q2 2013 $	Q1 2013 $
Net sales or total revenues	-	-	-	-
Net loss attributable to owner of equity capital	(2,451,663)	(1,988,296)	(2,506,222)	(2,574,538)
Loss per share (basic and diluted)	(0.02)	(0.01)	(0.02)	(0.02)

	Q4 2012 $	Q3 2012 $	Q2 2012 $	Q1 2012 $
Net sales or total revenues	-	-	-	-
Net loss attributable to owners of equity capital	(2,551,372)	(2,960,050)	(2,159,251)	(2,472,483)
Loss per share (basic and diluted)	(0.02)	(0.02)	(0.02)	(0.02)

OUTSTANDING SHARE DATA

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

	As at March 25, 2014	As at December 31, 2013	As at December 31, 2012
Ordinary Shares	147,422,926	130,172,926	126,861,168
Stock options	5,605,000	4,555,000	4,780,000
Warrants	-	-	3,311,758

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

MANAGEMENT AND STAFFING

During the three month period ended December 31, 2013 and subsequently prior to the date of this MD&A, the following changes in the key management and staffing of the Company occurred:

- On February 24, 2014, Howard H.J. Stevenson was appointed as a director and as President and Chief Executive Officer of the Company, succeeding Dr. Timothy Coughlin, who retired from these executive offices on such date, and continues to serve as a director of the Company.
- On January 31, 2014, Marc Henderson resigned as a director of the Company.
- On November 15, 2013, Tim Richards resigned as the Company's Senior Mine Manager.

LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of $8,405,729 as at December 31, 2013 compared to $27,460,362 on December 31, 2012. The Company had total assets of $75,798,367 at December 31, 2013 compared to $88,463,573 on December 31, 2012, which include deferred exploration expenditures of $58,731,741 ($47,684,080 on December 31, 2012).

The Company's principal source of liquidity as at December 31, 2013 was cash and cash equivalents of $8,549,127 compared to $32,705,731 on December 31, 2012. This decrease in the cash and cash equivalents balance was primarily the result of payment to Newmont as noted above, and operating activities and cash used in the development of the Amulsar Project, capital expenditures, property, equipment and intangible assets, exploration costs. Cash surplus to the Company's requirements is invested in bank money market deposits.

On February 18, 2014, the Company completed a "bought deal" financing, pursuant to which it issued and sold an aggregate of 17,250,000 Ordinary Shares for aggregate gross proceeds of CAD$17,250,000. In addition, after giving effect to the Private Placement Offerings, the Company anticipates an increase in the share capital of the Company of approximately CAD$4,731,000 (4,731,000 Ordinary Shares).

In order for the near term business objectives of the Company to be accomplished, it will have to receive delivery of the Updated FS study that is currently being prepared by independent third-party consultants and scheduled for completion in or around month of July 2014. The most significant events or milestones that must occur for the business objectives of the Company to be accomplished are to receive the Updated FS, complete the ESIA and obtain all permits required to commence construction of a mine and initial production at the Amulsar Project. Set out below is a summary of the time period in which each of these milestones is currently expected to occur, the Company's costs expected in achieving these milestones, and the source of funds to be allocated to these costs.

Objective		Time Period	Costs (Canadian Dollars)		Source of Funds
1.	Receiving Updated FS	July 2014	Historic	$300,000	-
			Costs to Complete	$1,800,000	Existing available funds
			Total Costs	**$2,100,000**	Existing available funds
2.	Complete the ESIA	August 2014	Historic	$100,000	-
			Costs to Complete	$800,000	Existing available funds
			Total Costs	**$900,000**	Existing available funds
3.	Obtain permits required to commence construction of a mine and initial production at Amulsar Project	December 2014	Historic	$0	-
			Costs to Complete	$300,000	Existing available funds
			Total Costs	**$300,000**	Existing available funds

Based on the estimate contained in the technical report entitled "Amulsar Gold Project Armenia Technical Report Mineral Resource Update and Reserve Estimate Update" filed by the Company on SEDAR on May 23, 2013, the Company expects to incur an aggregate of approximately $9,450,000 (CAD$10,395,000) of costs with respect to detailed engineering studies. Set out below is a summary of the time period in which these planned detailed engineering studies is currently expected to occur, the Company's expected related costs and the expected source of funds to be allocated to these costs.

Objective	Time Period	Costs (Canadian Dollars)		Source of Funds
1. Initial Detailed Engineering	October 2013- June 2015	Costs to Complete - Permitting	$300,000	Existing available funds
		Costs to Complete - Other	$3,300,000	Existing available funds
		Total Costs	**$3,600,000**	Existing available funds
2. Remaining Detailed Engineering	July 2015 - April 2016	Historic	$0	-
		Costs to Complete	$7,095,000	Additional Financing Required
		Total Costs	**$7,095,000**	Additional Financing Required
Total Estimated Detailed Engineering Costs:			**$10,395,000 (US$9,450,000)**	Additional Financing Required

The time periods and the Company's costs related to the milestones as set out above and other estimates contained in studies or estimates or prepared by or for the Company may differ significantly from those currently expected by the Company or set out in such studies and estimates, and there can be no assurance that the actual time periods and the Company's actual costs with respect these objectives will not be higher than currently expected. See "Risk Factors".

While the Company believes that it has the skills and resources necessary to accomplish its stated business objectives, participation in the exploration for and development of mineral properties has a number of inherent risks. See the risk factors described under "Risk Factors" herein and in the Company's most recent annual information form filed on SEDAR for factors that may impact the timing and success of the Company's planned activities in connection with the Amulsar Project.

The Company has had negative operating cash flows from operations to date, and reported a total comprehensive loss of approximately $10.9 million for the year ended December 31, 2013. To the extent that the Company has negative cash flow in future periods, the Company may need to deploy a portion of its cash reserves to fund such negative cash flow. See "Risk Factors".

Set out below is a summary of the Company's estimated working capital requirements for 2014:

	Costs ($)
Corporate salary expenses	1,712,000
Corporate general expenses	2,661,000
Engineering & Environmental studies Amulsar Project	3,389,000
Geoteam CSJC salary expenses	1,452,000
Geoteam CJSC general expenses	2,751,000
Kela Project maintenance expenses	142,000
Total	**12,107,000**

It is management's opinion, based on the Company's current liquidity position following the recent financing and estimates of project expenses, that the Company's liquid assets will be sufficient to discharge its liabilities in connection with the Amulsar Project and the Kela Project in 2014. The future development and exploration 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's liquidity is affected by a number of key factors and risks. Reference is made to the "Risk Factors" 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	15,897,957	970,139	4,349,329	10,578,489
Purchase obligations	-	-	-	-
Total contractual obligations	15,897,957	970,139	4,349,329	10,578,489

TAXES PAID IN ARMENIA

LYDIAN INTERNATIONAL LIMITED IN ARMENIA

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

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

	Twelve month period to December 31, 2013 $	Twelve month period to December 31, 2012 $
State duty on mining and exploration license	24,805	25,846
Income tax paid on behalf of employees	875,394(1)	278,275(1)
Social Insurance Funds employer	19,119(1)	99,112(1)
Social Insurance Funds individual	-	34,646(1)
Land rent	445,933(2)	185,825(2)
Customs duty	2,325	2,206
Property tax	779	1,037
Nonresident withholding tax	32,960	32,329
VAT on import	89,254	12,327
Nature protection fee	77	59
Concession fees	-	65,877(3)
Total	1,490,646	737,539

Note:

(1) As a result of legislation changes in Armenia affective January 1, 2013 the Social Insurance payments were eliminated. Social Insurance payments attributable to the employer were added to the individuals' salary and income tax rates were increased accordingly.

(2) Increase of land rents is result of increase of rented industrial category of lands; of December 31, 2013, there were approximately 1,673 hectares of rented industrial lands compared to approximately 393 hectares as of December 31, 2012.

(3) Concession fees were eliminated affective January 1, 2012. The amount relates to fees accrued during 2011 fiscal year.

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 December 31, 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 was due on December 31, 2012 and paid on October 25, 2013, together with interest in the amount $408,219 of that was owing thereon. 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 US$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 significant or off-balance sheet type arrangements.

RISKS FACTORS

The following risks and uncertainties, among others, should be considered when evaluating the Company and its outlook.

Negative Operating Cash Flow

The Company is an exploration and development stage company and has not yet commenced commercial production on the Amulsar Project or any other property and, accordingly, has not generated cash flow from operations. The Company is devoting significant resources to the development of the Amulsar Project, however there can be no assurance that it will generate positive cash flow from operations in the future. The Company expects to continue to incur negative consolidated operating cash flow and losses until such time as it enters into commercial production and will not generate consolidated revenues sufficient to fund the continuing operation of the Amulsar Project. The Company has had negative operating cash flows from operations to date, and reported a total comprehensive loss of approximately $10.9 million for the year ended December 31, 2013. To the extent that the Company has negative cash flow in future periods, the Company may need to deploy a portion of its cash reserves to fund such negative cash flow.

Permits, Key Personnel and Construction and Start-up of the Amulsar mine.

The success of the Amulsar Project and the Company's planned construction and start up of a mine at the Amulsar Project is subject to a number of risk factors, including the timely receipt of required governmental approvals, licenses and permits in connection with the planned construction of mining facilities and conduct of mining operations (including environmental approvals), and the availability and performance of the key management personnel of the Company, engineering, environmental and construction contractors, mining contractors, suppliers and consultants.

Any delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay in the performance of any one or more of the key management personnel of the Company or the contractors, suppliers, consultants or other persons on which the Company is dependent in connection with its permitting activities and activities related to its planned construction, could delay or prevent the construction and start-up of the Amulsar mine as planned. The Company cannot be certain that it will receive the necessary permits, licenses and approvals required to continue its development and planned construction of the mine at Amulsar or that any approvals, licenses or permits, obtained will be on acceptable terms. The failure to obtain such permits, licenses or approvals, delays in obtaining such permits, licenses or approvals, failure to comply with such permits, licenses or approvals, or challenges to their issuance by third parties could increase the Company's costs and delay its activities, and could adversely affect the business or operations of the Company. To the extent such permits, licenses or approvals are required and not obtained, or not obtained on a timely basis, the Company may be curtailed or prohibited from continuing its development of, and its planned construction and commencement of mining operations at, the Amulsar Project.

Time and Cost Estimates

The time periods and the Company's costs related to the milestones as described under "Use of Proceeds" and other estimates contained in studies or estimates or prepared by or for the Company may differ significantly from those currently expected by the Company or set out in such studies and estimates, and there can be no assurance that the actual time periods and the Company's actual costs with respect these objectives will not be higher than currently expected. Actual time periods may vary from estimates for a variety of reasons, including: the availability and performance of the key management personnel of the Company, engineering, environmental and construction contractors, mining contractors, suppliers and consultants, and the risks with respect to permitting described above. The Company's actual costs may vary from estimates for a variety of reasons, including: short-term operating factors; the availability and performance of the key management personnel of the Company, engineering, environmental and construction contractors, mining contractors, suppliers and consultants, revisions to mine plans; risks and hazards associated with mining; natural phenomena, such as inclement weather conditions, water availability, floods, and earthquakes; and unexpected labour shortages or strikes. Operational costs may also be affected by a variety of factors, including: changing waste-to-ore ratios, ore grade metallurgy, labour costs, the cost of commodities, general inflationary pressures and currency exchange rates. Many of these factors are beyond the Company's control. Failure to achieve time estimates or material increases in costs could have an adverse impact on the Company's future cash flows, business, results of operations and financial condition.

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 including 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:

	Twelve month ended December 31, 2013	Twelve months ended December 31, 2012
	$	$
Salaries and benefits	1,431,808	813,287
Share-based payments	1,021,867	799,088

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 months ended December 31, 2013 and the same period ended December 31, 2012.

Date of grant	Number of options	Exercise price	Expiry
March 21, 2013	150,000	CAD$2.28 ($2.21)	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 December 31, 2013 discloses the carrying values of such assets. As part of this assessment, management considered whether indicators of impairment exist at December 31, 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 the provision for income taxes is adequate, these amounts are subject to measurement uncertainty. In countries where the Company has paid Value Added Tax ("VAT") and where there is uncertainty of its recoverability, the Company has assessed the recoverability of VAT payments by reference to status of the related exploration property which may be sold or developed in the future. Adjustments required, if any, to these provisions 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 the twelve month period ended December 31, 2013 there was no changes in the Company's accounting policies, with the exception of the change in presentation currency described below. 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 have concluded, based on their evaluation of the design and operating effectiveness of the Company’s disclosure controls and procedures and ICFR as of December 31, 2013, that disclosure controls and procedures and ICFR were effective. In the preparation of the Q3 financial statements, management discovered an error which resulted in the restatement of the Q2 accounts. As a result of the error management identified a material weakness in the operation of the reconciliation and consolidation processes which it rectified during the close process for preparing the September 30, 2013 results. An additional cross check procedures has been adopted to make sure that accounts denominated in foreign currencies are translated in to functional currencies in proper way using appropriate exchange rates.

There were no other 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.

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 twelve month period ended December 31, 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

Set out below is summary of the capitalized exploration and evaluation and development expenditures, general and administrative expenses and other material costs incurred by the Company in connection with the exploration and development of the Company's mineral properties for the specified periods.

	Twelve months ended December 31, 2013 2013 $	Twelve months ended December 31, 2012 2012 $
Exploration and evaluation and development expenditures - capitalized	11,209,639	12,718,203
Employee benefit and expenses	5,083,534	4,825,366
Administrative and other expenses	3,633,449	3,208,754
Services and consumables used	1,139,602	1,226,915
Interest expenses	409,669	554,081
Depreciation and amortization	164,859	113,019
Total	21,640,752	22,646,338