LYDIAN INTERNATIONAL LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and nine month periods ended September 30, 2014

MANAGEMENT'S 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 three and nine month periods ended September 30, 2014 and are dated November 11, 2014. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes thereto as of September 30, 2014, prepared in accordance with the International Accounting Standard 34, (IAS 34), "Interim Financial Reporting". The latest complete set of financial statements were for the year ended December 31, 2013, which were prepared in accordance with IFRS.

All monetary figures are expressed in United States Dollars unless otherwise indicated. 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 estimation of mineral reserves and resources, the realization of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of mineral 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 any pending litigation.

Often, but not always, forward-looking statements can be identified by the use of words such as or similar to "plans", "expects", "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "does not anticipate", "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 that 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 "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 may 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 ability to meet social and environmental standards and expectations;*
- *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;*
- *the accuracy of mineral resource and reserve estimates;*
- *capital expenditure and operating cost estimates.*

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

BUSINESS OVERVIEW

Lydian is a company continued under the laws of Jersey effective on December 12, 2007 (formerly existing under the laws of Alberta, Canada). The registered office address of the Company is Suite 3, 5-6 Esplanade, St Helier, Jersey JE2 3QA Channel Islands. The Company's ordinary shares ("Ordinary Shares") began trading on the Toronto Stock Exchange ("TSX") on January 10, 2008 under the symbol "LYD".

The Company is a gold-focused mineral development company pursuing large, high-quality resources in emerging and transitional geopolitical regions. Currently, Lydian is focused on Eastern Europe, primarily in the Caucasus region. The Company's main project is a gold development project (the "Amulsar Gold 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 Amulsar Gold Project was discovered by the Company in 2006. Following several years of exploration, Lydian published an initial feasibility study (September 2012) and began early-stage permitting and development activities. Management's current priorities are to receive required permits and secure funding necessary to commence construction and ultimately bring the Amulsar Gold Project into production. In particular, the Company is continuing its ongoing permitting process and, as part of this process, has completed a mine plan and an environmental impact assessment ("EIA"). The updated feasibility study (the "Updated FS") was completed in October 2014. Additionally, an environmental and social impact assessment (the "ESIA") is under final review, and detailed engineering studies are yet to commence. Initial activities to arrange project financing are also ongoing.

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

THIRD QUARTER AND RECENT DEVELOPMENTS

Amulsar Gold Project - Project Update

The results of the updated FS were released on September 11, 2014 (See News Release: Lydian Announces Positive Results from Updated Feasibility Study for the Amulsar Gold Project). In addition to the heap leach, barren rock storage and mining operation, the Company also presented an update to the project's mineral reserves and resources that included the most recent exploration drilling and updated project economics. The highlights of the study are found below:

- Total recoverable gold of 2.1 million ounces over a 10.4 year mine life;
- Gold production averaging over 200,000 ounces per year;
- Initial capital costs of $426 million;
- Low all-in sustaining costs of $701 per ounce of gold;
- 84% gold recoveries and 2.8:1 strip ratio;
- Accelerated after tax-cash flows in first five years to support early payback and project financing;
- After-tax unleveraged IRR of 20.2% and NPV of $306 million based on a discount rate of 5% and a gold price of $1,250 per ounce.

The Updated FS was prepared by a group of international independent engineering companies, and was led by SGS who were also the lead engineers for the previous feasibility study. The NI 43-101 Technical Report was filed on SEDAR on October 22, 2014.

In the last week of July the Company submitted the Mining Permit Application to the Armenian regulatory Authorities (Ministry of Energy and Natural Resources – "MENR"), consisting of i) a Mining Plan; ii) an Environmental Impact Assessment ("EIA"); iii) the Technical Safety Program ("TSP"); and iv) a Mine Closure Plan. On August 25, 2014, in the nearby town of Gndevaz the first public hearing on the EIA required by the Ministry of Nature Protection ("MNP") took place. It was well attended by local residents and NGOs, and the outcome was positive with the required support letters sent to MNP by the heads of the 3 local communities (Gorayk, Saravan and Gndevaz). The second public hearing required by the MNP took place on September 27, 2014 in the local town of Gorayk. The local technical experts reviewed the Company's submissions and provided positive opinions on the EIA documentation, leading to the MNP approving the

Company's EIA submission on October 17, 2014. In parallel the Ministry of Emergency Situations ("MES") approved on August 28, 2014 the TSP. Based on the Mining Permit application which documents the commitments made by the Company, the next two steps to completing the mining permitting process are i) to apply for and receive a Rock Allocation Area ("RAA"), which is the area within which operating activities may take place and ii) to complete a Mining Agreement ("MA") both with the MENR. The signature of the MA with an RAA allows the Government to grant the Mining Right. The Company has started the process on these final two steps and expects the completion by Q1 2015 with an approved Mining Right.

The draft international ESIA was completed in September 2014, and is currently under final review by a team of international independent experts. The company expects to release this ESIA during Q4 2014. The purpose of this international ESIA is to meet the Equator Principles requirements so the Company can pursue international financing for construction of the project.

The project site remained open during Q3 2014. There was minimal technical work performed at the site during Q3 2014, which was limited to additional environmental baseline data collection. Additionally, continuing reclamation work is ongoing as part of a program undertaken by the Company to reclaim disturbed areas outside the footprint of the future mining infrastructure.

Also during Q3 2014, the Company continued with its broader stakeholder consultation program to develop greater support within the Armenian government, local communities, the business environment, the Armenia diaspora and across a broad base of civil society. The Company's focus with the Armenian government and other national constituents is to foster broader working relationships and constructive dialogues so the permitting process can advance smoothly. The company continued to engage with the local communities surrounding the project site and worked to explain the reasons behind the project delay and to present the proposed changes in the locations of the various facilities. The studies required to start the land acquisition process continued in Q3 2014.

IFC, through the Office of the Compliance Advisor Ombudsman ("CAO"), continued an internal assessment of the two complaints received in connection with IFC's investment in Amulsar. The assessment phase of the first complaint continued in Q3 2014 by a team from the CAO Office. For the second complaint filed in August 2014, the CAO Office conducted a site visit and interviews with affected stakeholders and Company staff in October, 2014. The EBRD has received in August 2014 a similar complaint to the first one to the CAO from essentially the same complainants and is following its project complaint mechanism process. The Company continues to cooperate with IFC and the EBRD.

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 license 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. Management intends to complete a third-party geologic assessment of the findings from previous exploration activities during Q4 2014. The results of this assessment will be used to establish the nature of additional exploration activities to be carried out, if any. As discussed above, the Company's primary focus is on development of the Amulsar Gold

Project. Accordingly, management is completing an evaluation of exploration results to date and will determine future programs based on findings of this assessment.

FINANCIAL RESULTS OF OPERATIONS

SELECTED FINANCIAL INFORMATION
Statement of Operations

The following is a summary of selected information for the three and nine month periods ended September 30, 2014 and comparative financial information for the corresponding periods in the Company's previous financial year.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	$	$	$	$
Interest income	13,858	19,925	72,747	102,926
Total expenses	(1,700,359)	(2,008,221)	(6,243,426)	(7,171,982)
Net loss	(1,686,501)	(1,988,296)	(6,170,679)	(7,069,056)
Loss per share (basic and diluted)	(0.01)	(0.02)	(0.04)	(0.05)

During the three and nine month periods ended September 30, 2014 and 2013, the Company had no revenues other than interest income from the bank. In the three month period ended September 30, 2014, the Company recorded a loss of $1,686,501 ($0.01 per share) compared to $1,988,296 ($0.02 per share) during the corresponding period in 2013. In the nine month period ended September 30, 2014, the Company recorded a loss of $6,170,679 ($0.04 per share) compared to $7,069,056 ($0.05 per share) during the corresponding period in 2013. The reduction of loss incurred in nine month period ended September 30, 2014 compared with the same period in 2013 mainly resulted from a $154,391 reduction of expenses relating to employee salaries and benefit, reduction of administrative expenses by $564,367, interest expenses reduced by $377,258, reduction of services and consumables used by $174,433, offset by a decrease of other income of $385,712 mainly resulting from foreign exchange rate differences. Employee salaries and benefits decreased because of staffing reductions made as Company resources were shifted to external consultants to complete the Updated FS and pending completion of the additional financings discussed above. Allocation to an "Equity settled employee benefits reserve" within the nine month period ended September 30, 2014 was higher by $67,218 compared with the same period in 2013. During the nine month period ended September 30, 2014, the Company's comprehensive loss was $811,169 resulting from the translation of the financial statements of the Company and its subsidiaries from their functional currencies to United States dollars, which is the reporting currency for the Company.

There were no extraordinary transactions or significant end of reporting period adjustments during the three and nine month periods ended September 30, 2014.

During the three and nine month periods ended September 30, 2014, there were fluctuations between the British Pound, Canadian Dollar, Euro, Armenian Dram, Georgian Lari and the US

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 under the caption "Exploration and evaluation assets."

Income Tax Expense

There was no income tax payable by the Company in the three and nine month periods ended September 30, 2014 and the same periods in 2013.

Summary of Operating, Investing and Financing Cash Flows

The following table summarizes the Company's cash flows for the nine month period ended September 30, 2014 and comparative financial information for the corresponding period in 2013.

	Nine months ended September 30, 2014 $	Nine months ended September 30, 2013 $
Cash & cash equivalents, beginning of period	8,549,127	32,705,731
Net cash used by operating activities	(5,810,055)	(7,455,069)
Net cash used by investing activities	(5,323,933)	(9,828,742)
Net cash provided by financing activities	18,874,821	1,907,629
Effects of exchange rate changes	241,662	730,871
Cash & cash equivalents, end of period	16,531,622	18,060,420

The reduction of net cash outflows pertaining to operating activities within the nine month period ended September 30, 2014, compared with the same period in 2013 resulted primarily from a reduction of operating expenses in the first nine months of 2014. Declines in employee salaries and benefit expenses and administrative and other expenses account for the majority of the change.

The reduction of net cash outflows pertaining to investing activities within the nine month period ended September 30, 2014, compared with the same period in 2013 resulted mainly from a reduction of capitalized exploration expenditures in Amulsar Gold Project. Project development expenditures such as technical studies were generally comparable between periods. However, reduction of exploration drilling and related expenditures decreased because there was a very limited drilling during the nine month period ended September 30, 2014.

As discussed above, the Company completed a brokered "bought deal" private placement in February 2014 for net proceeds of $14,609,417. Through this private placement the Company issued 17,250,000 Ordinary Shares at CAD1.00 per share. Also, the Company completed private placements with IFC and the EBRD which contributed correspondingly $1,542,604 and $2,722,800 net proceeds for issuance of 1,731,000 and 3,000,000 Ordinary Shares. Cash inflows of $2,457,335 from financing activities in the nine month period ended September 30, 2013 relate to proceeds received by the Company from the exercise of 3,311,758 warrants.

Summary of Balance Sheet Data

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

	September 30, 2014 $	December 31, 2013 $
Propertyand equipment	2,964,465	3,652,596
Intangible assets	94,369	127,873
Exploration and evaluation assets	65,589,127	58,731,741
Other non-current assets	4,011,487	3,932,492
Cash and cash equivalents	16,531,622	8,549,127
Other current assets	717,291	804,538
Total assets	89,908,361	75,798,367
Equity	87,474,609	74,197,075
Non-current liabilities	650,214	653,356
Current liabilities	1,783,538	947,936
Total liabilities and equity	89,908,361	75,798,367

During the nine month period ended September 30, 2014, the net amount of property, plant and equipment decreased by $688,131. This resulted mainly as a result of depreciation charges of $698,106.

The Company's net amount of exploration and evaluation assets ("EEA") increased by $6,857,386 during the nine month period ended September 30, 2014. The net increase of EEA incurred within this period was offset by $229,811 as the USD strengthened against the Armenian Dram and the Georgian Lari, in which currencies EEA is denominated.

During the nine month period ended September 30, 2014, cash and cash equivalents of the Company increased by $7,740,833 mainly as a result of net proceeds from new share issue totaling $18,874,821, offset by operating payments of $5,810,055 and investing payments of $5,323,933.

Exploration and evaluation assets

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

Exploration, evaluation and project development costs incurred during the nine month period ended September 30, 2014 were $7,087,197 compared to $11,209,639 during the twelve month period ended December 31, 2013. The cumulative amount of such costs as at September 30, 2014 and December 31, 2013 were:

Project	Cumulative as at September 30, 2014 $	Cumulative as at December 31, 2013 $
Amulsar Gold Project - Armenia	65,008,914	58,146,148
Kela Project – Georgia	580,213	585,593
Total	65,589,127	58,731,741

Expenditures for exploration and evaluation assets are recorded in the Company's accounts in Armenian Drams for the Amulsar Gold Project and in Georgian Laries for the Kela Project. Both currencies are translated to US Dollars for presentation purposes. Amulsar-related EEA increased by $7,087,197 during the nine month period ended September 30, 2014, but was partially offset by translation exchange rate differences. During the nine month period ended September 30, 2014 the US Dollar strengthened against the Armenian Dram, which resulted in a reduction of the EEA balances for Amulsar by $224,431. During the nine month period ended September 30, 2014 the US Dollar strengthened slightly against the Georgian Lari, which resulted in a reduction of the EEA balances for Kela by $5,380. During the nine month period ended September 30, 2014 there was no investment in the Kela Project. There was no impact on the Company's working capital resulting from these translations for reporting purposes.

The following table represents expenditures capitalized at the Amulsar Gold Project during the nine month period ended September 30, 2014 and the corresponding period in 2013.

	Nine months ended September 30, 2014 $	Nine months ended September 30, 2013 $
Project development	3,842,119	4,575,618
Capitalized salaries	556,124	1,360,664
Professional studies	727,460	346,839
Laboratory analyses	94,672	321,674
Supplies and materials	107,600	510,561
Exploration drilling	84,099	1,326,814
Capitalized depreciation and amortization	646,269	449,079
Land rents	795,789	309,921
Equipment rental	92,267	245,581
State duties and fees	24,733	24,328
Field food and accommodation	51,362	91,264
Fixed assets refurbishment	37,666	36,701
Other	27,037	85,223
Total	7,087,197	9,684,267

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Project development expenditures incurred for engineering design, feasibility study preparation, environmental studies and reports, and other consulting. Drilling in 2014 was limited to geotechnical drilling associated with the engineering design.

Capitalized exploration expenditures for Amulsar are recorded in Armenian Dram, which is the functional currency for the Company's Armenian subsidiary. Upon translation to US Dollars for reporting purposes, the cumulative totals presented above are affected by currency fluctuations between US Dollars and Armenian Drams. As a result, the expenditures shown above differ from the actual historical expenditures made in USD.

SUMMARY OF QUARTERLY RESULTS

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

	Q3 2014 $	Q2 2014 $	Q1 2014 $	Q4 2013 $
Net sales or total revenues	-	-	-	-
Net loss attributable to owners of equity capital	(1,686,501)	(2,835,604)	(1,648,574)	(2,451,663)
Loss per share (basic and diluted)	(0.01)	(0.02)	(0.01)	(0.02)

	Q3 2013 $	Q2 2013 $	Q1 2013 $	Q4 2012 $
Net sales or total revenues	-	-	-	-
Net loss attributable to owners of equity capital	(1,988,296)	(2,506,222)	(2,574,538)	(2,551,372)
Loss per share (basic and diluted)	(0.01)	(0.02)	(0.02)	(0.02)

OUTSTANDING SHARE DATA

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

	As at November 11, 2014	As at September 30, 2014	As at December 31, 2013
Ordinary Shares	152,153,926	152,153,926	130,172,926
Stock options	5,680,000	5,680,000	4,555,000

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

MANAGEMENT AND STAFFING

During the three month period ended September 30, 2014 and subsequently prior to the date of this MD&A, John Naisbitt assumed the role of Project Execution Lead, and Marc LeDuc, COO will be providing transition support services until the end of 2014, at which time he will leave Lydian.

LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of $15,465,375 as at September 30, 2014 compared to $8,405,729 on December 31, 2013. The Company’s principal source of liquidity as at September 30, 2014 was cash and cash equivalents of $16,531,622 compared to $8,549,127 on December 31, 2013. This increase in the cash and cash equivalents was primarily the result of net proceeds received totaling $18,874,821 from the private placements including IFC and EBRD subscriptions in the first and second quarters of 2014, and reduced by payments for operating activities and cash used in the development of the Amulsar Gold Project. Cash surplus to the Company’s immediate requirements is invested in short-term bank money market deposits.

Historically, the Company has used net proceeds from issuances of Ordinary Shares to provide sufficient cash and cash equivalents to meet its near-term development plans and other contractual obligations when due. However, objectives associated with construction of the Amulsar mine will require substantial additional capital resources. This will require coverage of ongoing near-term funding requirements and, ultimately, funding for project and other costs until sustainable positive cash flow from mining operations is achieved. Management is presently pursuing senior secured project financing to fund a portion of its estimated long-term project funding requirements. A number of other options are under consideration to meet near-term requirements and the remainder of long-term project costs. Potential options include issuances of additional Ordinary Shares, a streaming or royalty transaction, participation in the project by a third-party, and several other alternative funding sources.

Management estimates working capital requirements for the remaining three months of 2014 to be $3.5 million. This is primarily associated with completion of the Updated FS and other ongoing objectives such as permitting, stakeholder engagement, completing the ESIA, advancing toward a senior project debt facility, and planning next steps toward project execution. Management believes capital resources at September 30, 2014 will be sufficient to fund 2014 programs, along with a portion of additional pre-construction activities expected to begin in early 2015. These early 2015 activities may include such priorities as value engineering based on findings of the Updated FS, preparing the project execution plan, front end engineering design, seeking other follow-on permits, acquiring surface rights, environmental and community programs, meeting initial bonding requirements, and advancing the project debt facility. Completing these activities, funding other general requirements, and ultimately constructing the Amulsar mine and facilities will require additional capital resources.

Management may seek intermediate funding to ensure the early 2015 priority activities can be advanced to completion and provide sufficient funding to continue until financial closing of the longer-term debt and equity funding components needed for construction. Access to additional capital resources on commercially reasonable terms will depend upon a number of factors. Most significantly, the Updated FS outlines the anticipated capital and operating costs for the Amulsar Gold Project and may be supplemented by the findings of value engineering. The outlook for future gold prices, conditions within the equity and debt capital markets, and receiving all required permits will also influence the availability, timing and cost of obtaining additional capital resources. Due to these and other factors, there are no assurances that funding will be available as required. This may require management to delay or alter its present strategy to bring the Amulsar mine into commercial production.

While the Company believes it has access to 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, many affecting the Company's liquidity and access to additional capital resources. Additionally, the Company has no source of operating cash flows and a history of losses resulting in an accumulated deficit of $58.6 million as at September 30, 2014. To the extent the Company has negative cash flows in future periods, additional external sources of capital resources will be required. 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 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.

TAXES PAID IN ARMENIA

LYDIAN INTERNATIONAL LIMITED IN ARMENIA

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

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

	Nine month period to September 30, 2014	Nine month period to September 30, 2013
	$	$
State duty on mining and exploration license	24,733	24,328
Income tax paid on behalf of employees	294,605	659,369
Land rent to local communities	783,131	242,355
Other taxes and duties	25,542	121,389
Total	1,128,011	1,047,441

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The 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 earned interest income on cash deposits. The Company maintains a balance between the liquidity of cash assets and the interest rate return thereon. The carrying amount of financial assets, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

SIGNIFICANT TRANSACTIONS, CONTRACTS AND OFF BALANCE SHEET ARRANGEMENTS

Significant contracts existing as of September 30, 2014 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 Project in Armenia. The consideration was a mixture of committed and contingent payments. The committed payments included issuance by Lydian of 3,000,000 Ordinary Shares to Newmont on the closing of the transaction and three payments of $5million, 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 $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 accrued as liabilities in the Statements of Financial Conditions.

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.

Difficulty in Obtaining Future Financing

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, commodity-based 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 ability to hold and develop its mineral resource assets and its future cash flows, earnings, results of operations, and financial condition.

Negative Operating Cash Flow

The Company is a development stage company and has not yet commenced commercial production on the Amulsar Gold Project or any other property and, accordingly, has not generated cash flow from operations. The Company is devoting significant resources to the evaluation and 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 cash flows and losses until such time as it enters into commercial production and will not generate consolidated revenues sufficient to fund the continuing development of the Amulsar Project. The Company has had negative operating cash flows from operations to date, and reported a total comprehensive loss of approximately $7 million for the nine month period ended September 30, 2014. To the extent the Company has negative cash flows in future periods, the Company may need to deploy a portion of its cash reserves to fund such negative cash flows and seek addition sources of financing, which cannot be assured to be available on reasonably commercial terms.

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

The success of the Amulsar Gold 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 Gold Project. For the mining operations at Amulsar to proceed the Company will need to address the presence of endangered flora and fauna species, some of which are listed in the Armenia Red Book. This includes the existence of the *Potentilla Porphyrantha* plant present at the site. The Company is actively working with members of the Armenian regulatory agencies and foreign experts to resolve this matter but there is no certainty that this issue will be resolved in a timely manner, or that other issues relating to flora and fauna within the project area will not exist.

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 labor shortages or strikes. Operational costs may also be affected by a variety of factors, including: changing waste-to-ore ratios; ore grade, metallurgy; labor 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 mineralization 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 and evaluation programs are 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 and Costs

The Company's profitability is also affected by the market prices of commodities consumed or otherwise used in connection with the operations. This includes, among others, such items as process reagents, diesel fuel, natural gas, electricity, steel, copper, cement, and labor costs. 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 only significant project is located in Armenia. Such a project could be adversely affected by exchange controls, inflation, 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 financing 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 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. Furthermore, the Company may be subject to additional Armenian taxation as dividends and interest are repatriated from Armenia, and other tax jurisdictions outside Armenia may impose taxes on the Company upon receipt of any such repatriated amounts. Shareholder of the Company may also be affected by withholding taxes on dividends, if any, and there can be no assurances that any tax credits will be realizable by recipients of any such dividends.

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 and Development

Exploration and development are highly speculative in nature. 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 mineralization is discovered (and this may not happen), it is likely to take several years from the initial phases of drilling until development needed to achieve production is possible, if at all. Substantial expenditures are normally required to locate and establish mineral resources and to construct mining and processing facilities. Few properties that are explored are ultimately developed into producing mines. Furthermore, discovery and development of an ore body provides no assurance of financial reward.

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 nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; absence of reliable regulatory and judiciary process; changes in taxation policies; restrictions on foreign exchange and repatriation; changing political conditions; currency controls; and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Any changes in mining or investment policies or shifts in political attitude in Eurasia may adversely affect the Company's operations and financial condition. Failure to comply with applicable laws, regulations and local practices relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements.

Insurance

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

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable and financially affordable, 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.

RELATED PARTY TRANSACTIONS

Related parties include the Company's board of directors, officers, close family members and enterprises controlled by these individuals as well as certain persons performing similar functions. Apart from those transactions detailed in the section, there were no other related party transactions.

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

	Nine month period ended September 30, 2014 $	Nine month period ended September 30, 2013 $
Salaries and benefits	1,288,035	716,032
Share-based payments	1,056,076	790,434

The following table sets out the number of stock options awarded to key management of the Company under the Company's stock option plan during the nine month period ended September 30, 2014.

Date of grant	Number of options	Exercise price	Expiry
January 27, 2014	1,500,000	CAD1.04 ($0.94)	January 27, 2019
April 22, 2014	500,000	CAD 1.01 ($0.92)	April 22, 2019
May 15, 2014	650,000	CAD 0.98 ($0.90)	May 15, 2019
June 26, 2014	400,000	CAD 1.24 ($1.16)	June 26, 2019

There were no other share based awards during the periods.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Critical judgments in applying the Company's accounting policies

In applying the Company's accounting policies, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. Actual results may differ from the judgments, estimates and assumptions made by management and will seldom equal the estimated results. The judgments, estimates and assumptions applied in the interim financial period, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended December 31, 2013.

Changes in accounting policies

The accounting policies adopted and computation methods used are consistent with those of the previous financial year, except for the application of the following standards as of January 1,2014:

- the application of IFRIC 21 'Levies' (IFRIC 21) and
- the early application of 'Defined Benefit Plans: Employee Contributions' (Amendments to IAS 19), effective for annual periods beginning on or after July 1,2014.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of the Company, which includes the CEO and CFO, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings".

The control framework management used to design and assess the effectiveness of ICFR is "The Internal Control Integrated Framework (1992)" published by the Committee of Sponsoring Organizations of the Treadway Commission.

There have been no changes in the Company's ICFR during the period ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR."

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the interim condensed consolidated 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.

	Nine months ended September 30, 2014 **$**	Nine months ended September 30, 2013 **$**
Exploration and evaluation and development expenditures – capitalized	7,087,197	9,684,267
Employee benefit and expenses	3,781,725	3,936,116
Administrative and other expenses	1,958,263	2,522,630
Services and consumables used	647,395	821,828
Interest expenses	-	377,258
Depreciation and amortization	90,313	134,132
Total	13,564,893	17,476,231

CONTRACTUAL OBLIGATIONS

The Company has contractual obligations as follows:

	Total $	Up to 1 year $	1-5 years $	More than 5 years $
Operating lease obligations	18,664,361	1,318,617	4,879,941	12,465,803
Purchase obligations	-	-	-	-
Total contractual obligations	18,664,361	1,318,617	4,879,941	12,465,803