



LYDIAN INTERNATIONAL LIMITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
June 30, 2017

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LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

(expressed in thousands of US Dollars)

		As of	
	Notes	June 30, 2017	December 31, 2016
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents		\$ 70,836	\$ 137,196
Restricted cash	4	7,020	9,078
Other current assets	5	4,838	1,058
Total current assets		82,694	147,332
<i>Non-current assets</i>			
Mineral property, plant and equipment, net	6	203,249	111,648
Derivative assets	10	2,147	7,592
Deferred financing costs	7	19,476	18,955
Other non-current assets	8	8,667	5,952
TOTAL ASSETS		\$ 316,233	\$ 291,479
LIABILITIES			
<i>Current liabilities</i>			
Accounts payable and accrued liabilities		\$ 11,488	\$ 5,905
Current portion of debt	9	1,075	-
Total current liabilities		12,563	5,905
<i>Non-current liabilities</i>			
Stream liability	9	64,802	60,269
Debt	9	30,982	10,981
Derivative liabilities	10	31,523	25,951
Provisions	11	1,143	452
Total liabilities		141,013	103,558
EQUITY			
Share capital	12	268,615	268,608
Employee share-based plan reserves		4,079	3,294
Translation of foreign operations		(18,472)	(18,472)
Accumulated deficit		(79,002)	(65,509)
Total equity		175,220	187,921
TOTAL LIABILITIES AND EQUITY		\$ 316,233	\$ 291,479
Commitments	17		
Contingencies	18		
Subsequent events	19		

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

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (Unaudited)

(expressed in thousands of US Dollars)

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2017	2016	2017	2016
Interest income		\$ 119	\$ 59	\$ 285	\$ 61
Total income		<u>119</u>	<u>59</u>	<u>285</u>	<u>61</u>
Employee salaries and benefits expense	14	937	924	1,957	1,778
General and administrative expense		840	891	1,691	1,586
Depreciation and amortization expense		8	21	10	37
Loss on financial instruments at fair value, net	10	696	12,645	11,017	12,645
Other income, net		(770)	(516)	(897)	(658)
Total expense		<u>1,711</u>	<u>13,965</u>	<u>13,778</u>	<u>15,388</u>
Loss before income taxes		<u>(1,592)</u>	<u>(13,906)</u>	<u>(13,493)</u>	<u>(15,327)</u>
Income taxes		-	-	-	-
Net loss		<u>\$ (1,592)</u>	<u>\$ (13,906)</u>	<u>\$ (13,493)</u>	<u>\$ (15,327)</u>
Net loss per share (basic and diluted)	15	<u>\$ (0.00)</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>
Other comprehensive loss:					
Net loss		\$ (1,592)	\$ (13,906)	\$ (13,493)	\$ (15,327)
Other comprehensive loss:					
Currency translation adjustment		(1)	409	-	739
Total comprehensive loss		<u>\$ (1,593)</u>	<u>\$ (13,497)</u>	<u>\$ (13,493)</u>	<u>\$ (14,588)</u>

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

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(expressed in thousands of US Dollars)

		For the six months ended June 30,	
	Notes	2017	2016
Cash flows from operating activities			
Net loss		\$ (13,493)	\$ (15,327)
<i>Adjustments for:</i>			
Depreciation and amortization		10	37
Loss on disposal of plant and equipment		-	6
Interest income		(285)	(61)
Loss on financial instruments at fair value, net	10	11,017	12,645
Share-based compensation payments	14	538	131
<i>Working capital changes:</i>			
Change in other operating assets		(2,570)	(1,100)
Change in accounts payable and accrued liabilities		(967)	623
Cash used in operations		(5,750)	(3,046)
Cash flows from investing activities			
Acquisition of mineral property, plant and equipment		(80,673)	(553)
Expenditures exploration and evaluation assets		-	(4,356)
Interest income received		285	61
Deposit to equipment supplier		(4,000)	-
Cash used in investing activities		(84,388)	(4,848)
Cash flows from financing activities			
Proceeds from debt issuance		25,000	-
Deferred financing costs		(3,366)	(6,464)
Proceeds from issuance of share capital		-	109,544
Decrease in restricted cash	4	2,058	-
Other		85	-
Cash provided from financing activities		23,777	103,080
Net decrease in cash and cash equivalents		(66,361)	95,186
Foreign exchange effect on cash		1	(98)
Cash and cash equivalents, beginning of period		137,196	28,554
Cash and cash equivalents, end of the period		\$ 70,836	\$ 123,642

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

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)

(expressed in thousands of US Dollars)

	Share capital	Reserves			Accumulated deficit	Total
		Employee share option plan reserve	Restricted stock unit plan reserve	Translation of foreign operations		
Balance at December 31, 2015	\$ 164,138	\$ 3,574	\$ -	\$ (19,265)	\$ (67,772)	\$ 80,675
Issue of new shares	109,544	-	-	-	-	109,544
Cost of share issue	(6,229)	-	-	-	-	(6,229)
Issue of warrants	(8,695)	-	-	-	-	(8,695)
Attributable to expired options	1,021	(1,021)	-	-	-	-
Share based compensation	-	131	-	-	-	131
Total comprehensive loss	-	-	-	739	(15,327)	(14,588)
Balance at June 30, 2016	<u>\$ 259,779</u>	<u>\$ 2,684</u>	<u>\$ -</u>	<u>\$ (18,526)</u>	<u>\$ (83,099)</u>	<u>\$ 160,838</u>
Balance at December 31, 2016	\$ 268,608	\$ 2,625	\$ 669	\$ (18,472)	\$ (65,509)	\$ 187,921
Issue of new shares	-	-	-	-	-	-
Cost of share issue	-	-	-	-	-	-
Issue of warrants	-	-	-	-	-	-
Attributable to expired options	7	(7)	-	-	-	-
Share based compensation	-	51	741	-	-	792
Total comprehensive loss	-	-	-	-	(13,493)	(13,493)
Balance at June 30, 2017	<u>\$ 268,615</u>	<u>\$ 2,669</u>	<u>\$ 1,410</u>	<u>\$ (18,472)</u>	<u>\$ (79,002)</u>	<u>\$ 175,220</u>

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

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

1. GENERAL INFORMATION

Lydian International Limited (“Lydian”) is a corporation continued under the laws of Jersey effective on December 12, 2007 (formerly existing under the laws of Alberta, Canada). The registered office address of Lydian is Suite 3, 5/6 Esplanade, St Helier, Jersey JE2 3QA Channel Islands. Lydian has two securities listed on the Toronto Stock Exchange (“TSX”). Its ordinary shares (“Ordinary Shares”) began trading under the symbol LYD on January 10, 2008, and certain warrants (“Public Offering - Warrants”) began trading under the symbol LYD.WT on May 26, 2016.

Lydian, together with its subsidiaries (the “Company”), is a gold development company, focusing on construction at its 100%-owned Amulsar Gold Project (“Amulsar”), located in south-central Armenia. Development at Amulsar is being conducted under the Mining Right issued by the Republic of Armenia in May 2016.

In conducting development activities in Armenia, the Company is subject to considerations and risks not typically associated with companies operating in Jersey or Canada. These include but are not limited to risks such as political, economic and legal environments in emerging markets. The Company’s results may be adversely affected by changes in political and social conditions and by changes in governmental policies with respect to mining laws and regulations, currency conversion, remittance abroad, rates and methods of taxation, and other factors.

2. BASIS OF PRESENTATION, CRITICAL ACCOUNTING JUDGMENTS AND KEY ESTIMATION UNCERTAINTIES

Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standard Board (“IASB”). The accounting policies and methods of application in these interim condensed consolidated financial statements are consistent with those applied by the Company for its most recent annual consolidated financial statements. Accordingly, these financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2016. In management’s opinion, all adjustments considered necessary for fair presentation have been included in these financial statements.

The unaudited condensed consolidated financial statements were authorized for issue by the Board of Directors on August 9, 2017.

Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value as discussed in Note 10 – Financial Instruments.

Basis of consolidation

The condensed consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company is exposed to variable returns and has the ability to affect those returns through power to direct the relevant activities.

Critical accounting judgments and key estimation uncertainties

In applying the Company’s accounting policies, management is required to make judgments, estimates and assumptions that affect the application of accounting principles and reported amounts of certain assets, liabilities, equity, income and expenses. These judgments, estimates and associated assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

Certain events and transactions occurring during the three and six month periods ended June 30, 2017 and 2016 required management to apply judgements or required the use of estimates, including:

Impairment of development assets – Review of impairment indicators included consideration of external and internal sources of information, including factors such as market, geopolitical and economic conditions, metal prices and forecasts, commercial viability, technical feasibility, and availability of permits. Management has assessed impairment indicators of the Company's development assets and found that no impairment indicators exist at the end of each reporting period.

Fair value of financial instruments – Fair value of financial instruments that are not traded on an active market or do not have sufficient trading volumes and embedded derivatives are determined using alternative valuation techniques. Management uses its judgment to select from a variety of valuation methods and utilizes assumptions deemed to be reflective of conditions at the end of each reporting period.

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Standards and interpretations issued but not yet adopted

Management anticipates that those standards and interpretations deemed applicable to the Company's business will be adopted in the Company's financial statements of future periods as they become effective. Standards that management believes are or will be applicable include:

IFRS 9, *Financial Instruments* – The IASB published IFRS 9 in July 2014, effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model, and a substantially reformed approach to hedge accounting. The Company has started evaluating the impact of IFRS 9 on its financial statements and related disclosures.

IFRS 15, *Revenue from Contracts with Customers* – The IASB published IFRS 15 in July 2014, effective for annual periods beginning on or after January 1, 2018. IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. The Company has started evaluating the impact of IFRS 15 on its financial statements and related disclosures. The Company will apply the new standard upon commencement of mine production.

IFRS 16, *Leases* – The IASB published IFRS 16 in January 2016 effective for annual periods beginning on or after January 1, 2019, though a company can choose to apply IFRS 16 before that date but only in conjunction with IFRS 15 Revenue from Contracts with Customers. The standard establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases Standard, IAS 17, *Leases*, and related interpretations. The Company has started evaluating the impact of IFRS 16 on its financial statements and related disclosures.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

4. RESTRICTED CASH

As of June 30, 2017, the Company held certain cash amounts advanced under a credit agreement that are required to be used to purchase equipment for Amulsar. Such cash amounts are restricted for general use until expenditures are made to purchase equipment acceptable to the lender.

5. OTHER CURRENT ASSETS

	As of	
	June 30, 2017	December 31, 2016
Deposits	\$ 4,018	\$ 93
Prepayments and other receivables	530	662
Supplies	256	252
Refundable VAT	34	51
	<u>\$ 4,838</u>	<u>\$ 1,058</u>

6. MINERAL PROPERTY, PLANT AND EQUIPMENT, NET

	Development Assets	Plant and Equipment	Total
Cost			
As of December 31, 2016	\$ 108,843	\$ 6,307	\$ 115,150
Additions	92,574	42	92,616
Disposals	-	(1,053)	(1,053)
Transfers of assets into service	(3,451)	3,451	-
Foreign exchange differences	-	9	9
As of June 30, 2017	<u>\$ 197,966</u>	<u>\$ 8,756</u>	<u>\$ 206,722</u>
Accumulated Depreciation			
As of December 31, 2016	\$ -	\$ 3,502	\$ 3,502
Additions	-	270	270
Disposals	-	(308)	(308)
Foreign exchange differences	-	9	9
As of June 30, 2017	<u>\$ -</u>	<u>\$ 3,473</u>	<u>\$ 3,473</u>
Carrying Amount			
As of December 31, 2016	<u>\$ 108,843</u>	<u>\$ 2,805</u>	<u>\$ 111,648</u>
As of June 30, 2017	<u>\$ 197,966</u>	<u>\$ 5,283</u>	<u>\$ 203,249</u>

The table below summarizes non-cash additions to development assets during the six months ended June 30, 2017.

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For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

	June 30, 2017
Interest	\$ 5,200
Depreciation	224
Rehabilitation obligation	691
Share-based compensation	254
	<u>\$ 6,369</u>

7. DEFERRED FINANCING COSTS

	Financing Costs
As of December 31, 2016	\$ 18,955
Additions	4,486
Reclassified to debt	(3,965)
As of June 30, 2017	<u>\$ 19,476</u>

8. OTHER NON-CURRENT ASSETS

	As of	
	June 30, 2017	December 31, 2016
Refundable VAT	\$ 6,988	\$ 4,278
Rehabilitation and monitoring prepayment	960	955
Other	719	719
	<u>\$ 8,667</u>	<u>\$ 5,952</u>

9. STREAM LIABILITY AND DEBT

The table below summarizes activity of the financing arrangements for the six months ended June 30, 2017:

	Stream Liability	Debt		
		Term Loan	Equipment Financing	Total
Total as of December 31, 2016	\$ 60,269	\$ 981	\$ 10,000	\$ 10,981
Proceeds from borrowings	-	25,000	-	25,000
Reclassified from financing costs	-	(3,838)	(127)	(3,965)
Accrued interest	4,386	36	318	354
Amortization of financing costs	147	-	6	6
Total as of June 30, 2017	<u>\$ 64,802</u>	<u>\$ 22,179</u>	<u>\$ 10,197</u>	<u>\$ 32,376</u>
Less current portion - principal	-	(519)	(556)	(1,075)
Less current portion - interest	-	(1)	(318)	(319)
Long term portion as of June 30, 2017	<u>\$ 64,802</u>	<u>\$ 21,659</u>	<u>\$ 9,323</u>	<u>\$ 30,982</u>

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

Stream Arrangement

The entire \$60 million deposit under the Stream Agreement was received by the Company at December 31, 2016. The Company is obligated to deliver 6.75% of gold production, limited to aggregate deliveries of 142,454 refined ounces and 100% of silver production, limited to aggregate deliveries of 694,549 refined ounces. Upon delivery, the Company will be paid the lower of prevailing market prices or \$400/oz for gold and \$4/oz silver, each subject to escalation provisions. Expiration of the agreement is the earlier of the date the aggregate gold and silver deliveries have been made and 40 years.

Term Loan and Cost Overrun Facility – Credit Agreement

In 2016, the Company entered into the Term Loan agreement, which provides \$160 million on a senior secured basis for purposes of construction of the Amulsar Gold Project. Interest is calculated based on the 3-month US dollar LIBOR rate, subject to a minimum of 1%, plus a 6.5% margin. Principal plus interest will be paid through quarterly scheduled installments and a 30% cash sweep of excess cash flow beginning June 30, 2018 and continuing through maturity on September 30, 2021. A \$14 million cost overrun facility (“COF”) is also available as part of the Term Loan. Interest is calculated based on the 3-month US dollar LIBOR rate, subject to a minimum of 1%, plus a 9.5% margin. A cash sweep of 30% of excess cash flows will be used to repay the COF. Any remaining balance will be due in full on September 30, 2020. Availability of funds under the Term Loan and COF is subject to satisfaction or waiver of certain conditions.

On June 30, 2017, the Company entered into a Fifth Amending Agreement to the Credit Agreement that modified the availability period of the Second Advance to August 15, 2017, extended Commercial Production date to September 30, 2018 and provided for certain changes to other conditions precedent. As of June 30, 2017, the First Advance of \$25 million was received in full and all conditions precedent were either met or waived.

Equipment Financing

The Company entered into three secured credit facilities for the purpose of purchasing equipment associated with the Amulsar Gold Project. The maximum aggregate borrowings under these credit agreements is limited to \$90 million. A summary of each credit agreement includes:

- The Ameriabank Term Facility has a maximum principal amount of \$24 million and will be secured by certain equipment. Interest is calculated based on Libor plus 8.75%, and there is a 2% commitment fee on any undrawn portion. Interest and commitment fees are payable quarterly, and principal payments become payable quarterly beginning in January 2018. In December 2016, \$10 million was drawn on this facility. Availability of funds is subject to satisfaction or waiver of certain conditions.
- The Cat Term Facility has a maximum principal amount of \$42 million and will be secured by certain mobile mining equipment. Interest will be calculated based on Libor plus 4.5%. Each advance is repayable over a 75-month term, inclusive of a six-month initial repayment grace period. Availability of funds is subject to satisfaction or waiver of certain conditions.
- The ING Term Facility has a maximum principal amount of \$50 million and will be secured by material handling and electrical equipment. Interest will be calculated based on Libor plus 2.95%. Each advance is repayable over a 51-month term. Availability of funds is subject to satisfaction or waiver of certain conditions.

10. FINANCIAL INSTRUMENTS

Derivatives entered into as part of the Stream Agreement, Offtake Agreement and Warrants in 2016, are measured at fair value on a recurring basis. As such, carrying values are adjusted to fair value as of the end of each reporting period.

The table below sets out the fair value hierarchy levels, fair values of the financial instruments, and the gains and losses recognized for the respective periods.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

Summary of Derivative Assets/(Liabilities)	Stream					Gain (Loss)
	Stream Prepayment Option	Offtake Agreement	Stream Commodity Linked Repayment	Warrants, Public Offering	Warrants, Loan Fee	
Fair Value Hierarchy Level ¹	3	3	3	2	2	
Fair value at December 31, 2016	\$ 1,308	\$ (21,178)	\$ 6,284	\$ (4,261)	\$ (512)	
Change in fair value	983	(2,627)	(8,413)	(323)	59	\$ (10,321)
Fair value at March 31, 2017	\$ 2,291	\$ (23,805)	\$ (2,129)	\$ (4,584)	\$ (453)	
Change in fair value	(144)	(97)	(2,287)	1,769	63	\$ (696)
Fair value at June 30, 2017:	\$ 2,147	\$ (23,902)	\$ (4,416)	\$ (2,815)	\$ (390)	

Sensitivity impact upon Fair Value at June 30, 2017:

10% increase in gold price ²	\$ 1,309	\$ (2,356)	\$ (10,794)	N/A	N/A
10% increase in silver price ²	\$ 177	NA	\$ (408)	N/A	N/A
10% increase in 3-month LIBOR rate ²	\$ 188	\$ 95	\$ 185	N/A	N/A

¹ The levels of the fair value hierarchy are defined as:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable, directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

² The above impacts reflect an increase in the stated variables on the resulting value of the asset and liability; the opposite would occur if the stated variables decreased.

Level 2 Fair Value Estimates

Fair value of the Warrants was estimated using Level 2 criteria. The Company used a Black-Scholes option pricing model to estimate the fair value of Warrants. This method was applied to the Public Offering - Warrants because, in management's opinion, trading volumes were insufficient to support use of the quoted market price. The warrants issued in connection with the Term Loan ("Loan Fee - Warrants") are not trading instruments, therefore, use of a pricing model was deemed appropriate. Inputs used for calculating the fair value of the Warrants include:

	Public Offering - Warrants		Loan Fee - Warrants	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Warrants outstanding	99,187,500	99,187,500	5,000,000	5,000,000
Expected remaining life in years	0.41	0.90	1.90	2.40
Expected volatility	46.0%	61.6%	56.5%	78.4%
CAD Stock price per share on valuation date	\$0.36	\$0.33	\$0.36	\$0.33
CAD Exercise price	\$0.36	\$0.36	\$0.39	\$0.39
CAD Risk free interest rate	0.85%	1.14%	1.11%	1.55%
CAD/USD Exchange rate	0.7706	0.7445	0.7706	0.7445
Expected dividend per share	\$Nil	\$Nil	\$Nil	\$Nil

Level 3 Fair Value Estimates

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

Fair value of the derivatives other than the Warrants were estimated using Level 3 criteria. The financial modeling technique applied to these estimates were more complex, require additional inputs such as estimated future production, simulated gold and silver prices, and other inputs based on non-observable market data. Key inputs for Level 3 fair value estimates included:

	June 30, 2017	December 31, 2016
Gold spot price per ounce	\$1,240.70	\$1,150.00
Silver spot price per ounce	\$16.57	\$15.94
10 yr Risk free interest rate	2.32%	2.38%
3-month LIBOR rate	0.935%	0.935%

The initial fair value of the stream liability and of the value of the stream prepayment option, were based on a Monte Carlo Simulation of correlated spot gold, spot silver, and similar debt yields of mining companies. The other key inputs and assumptions to the valuations include the risk-free interest rate, production volumes consistent with the Company's most recent Technical Report, gold and silver prices consistent with forward price curves, the availability of additional financing, and the volatility of gold and silver prices over a 3-year period. For the periods ending June 30, 2017 and December 31, 2016 the carrying value of the stream liability was \$64,802 and \$60,269, respectively, as shown in Note 9 – Stream Liability and Debt. For the periods ending June 30, 2017 and December 31, 2016 the fair value of the stream liability was \$76,172 and \$61,290.

The offtake agreement was valued using an option pricing model similar to Black-Scholes. Key inputs included gold price, volatility, and the quotational period.

The stream commodity linked repayment is modeled as a swap. A swap has a zero fair value at inception because the strike price is equal to the market price. As market prices change, the fair value of the stream commodity linked repayment derivative will change. The key input was the gold price.

11. PROVISIONS

The provision for restoration and rehabilitation represents the present value of future outflow of economic benefits that will be required by the mining agreement signed between Lydian Armenia and the Armenian Government. The provision recognized as of June 30, 2017, relates only to the rehabilitation of Amulsar mine areas affected by exploration and development activities.

	Provisions
As of December 31, 2016	\$ 452
Additions	691
As of June 30, 2017	<u>\$ 1,143</u>

12. SHARE CAPITAL

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

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

	Number		Value
Shares outstanding, December 31, 2016	699,449,253	\$	268,608
Shares issued	-		-
Amount attributable to expired options	-		7
Shares outstanding, June 30, 2017	699,449,253	\$	268,615

13. SHARE-BASED COMPENSATION

Restricted Stock Unit Plan:

The following table summarizes the outstanding restricted share units granted under the RSU Plan for the six months ended June 30, 2017.

	Number of RSU's		Weighted Average Value per RSU
Balance as of December 31, 2016	5,428,972	\$	0.30
Granted	7,683,500		0.28
Balance as of June 30, 2017	13,112,472	\$	0.29

During the three and six months ended June 30, 2017, \$210 and \$488 (2016: \$nil and \$nil) were included in employee benefits expense in the consolidated statement of loss and comprehensive loss, respectively.

Stock Option Plan:

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

	Number of Options		Weighted Average Exercise Price
Balance as of December 31, 2016	5,760,000	\$	0.61
Granted	-		-
Expired	(30,000)		0.41
Balance as of June 30, 2017	5,730,000	\$	0.63

Options were valued using the Black-Scholes Option Pricing Model using the following assumptions.

	As of June 30, 2017	As of December 31, 2016
Expected volatility	-	77.00%
Expected option life in years	-	5.00
Risk free rate	-	0.72%
Dividend yield	-	0.00%
Forfeiture rate	-	0.00%

During the three and six months ended June 30, 2017, \$16 and \$50 (2016: \$57 and \$131) were included in employee benefits expense in the consolidated statement of loss and comprehensive loss, respectively.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

As of June 30, 2017, share options held by directors, officers, employees and consultants were:

Range of exercise price	Outstanding options			Exercisable options		
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average remaining life (years)	Weighted average exercise price
\$0 to \$.77 (CAD\$0-\$1.00)	3,440,000	2.65	\$ 0.48	2,683,331	2.60	\$ 0.50
\$.78 to \$1.54 (CAD\$1.01-\$2.00)	2,290,000	1.81	\$ 0.86	2,290,000	1.81	\$ 0.86
	5,730,000	2.32	\$ 0.63	4,973,331	2.40	\$ 0.67

14. EMPLOYEE SALARIES AND BENEFITS EXPENSE

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Salaries and other compensation	\$ 711	\$ 866	\$ 1,419	\$ 1,647
Share-based compensation	226	57	538	131
	<u>\$ 937</u>	<u>\$ 923</u>	<u>\$ 1,957</u>	<u>\$ 1,778</u>

15. NET LOSS PER SHARE

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Net loss	\$ (1,592)	\$ (13,906)	\$ (13,493)	\$ (15,327)
Weighted average shares outstanding	699,449,253	369,754,382	699,449,253	277,193,484
Net loss per share	\$ (0.00)	\$ (0.04)	\$ (0.02)	\$ (0.06)

As losses were incurred during the three and six months ended June 30, 2017 and 2016, the potential shares to be issued from the exercise of options, restricted share units and the Warrants are not included in the computation of diluted per share amounts since the result would be anti-dilutive. Accordingly, the diluted loss per share and the basic loss per share for the periods presented are the same.

16. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, key management personnel, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions. Intercompany transactions have been eliminated in consolidation. Compensation awarded to related parties is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Salaries and other compensation	\$ 281	\$ 240	\$ 555	\$ 864
Share-based compensation	147	24	364	66
	<u>\$ 428</u>	<u>\$ 264</u>	<u>\$ 919</u>	<u>\$ 930</u>

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three and six months ended June 30, 2017 and 2016

(expressed in thousands of US Dollars, unless otherwise stated)

17. COMMITMENTS

Leases

The Company leases office space, worker accommodations, and certain lands associated with the Amulsar Gold Project. Inclusive of certain cancelable land leases, rental obligations include:

	As of June 30, 2017
Up to one year	\$ 1,925
More than one year and not later than five years	6,423
More than five years	7,927
	<u>\$ 16,275</u>

Construction Contracts

The Company has entered into key equipment supply and major earthworks contracts for construction of Amulsar. The contracts provide for termination provisions common to the industry. The provisions generally provide payment for i) the reasonable, direct, documented costs incurred as a result of such early termination, ii) if the contract paid on a cost reimbursable basis, the amount owed for work performed to the termination date; or iii) if the contract is on a unit price or lump sum basis, an amount that is proportionate to the number of units completed or to the percentage of the work that has been completed as of the termination date as compared to the total work that was to have been completed. At June 30, 2017, commitments for the construction of Amulsar totaled \$266 million, or 72% of the estimated project cost.

18. CONTINGENCIES

Newmont Transaction

On April 23, 2010, the Company purchased all of Newmont's interests in the Company's joint venture which included Newmont's interests in the Amulsar gold property. A portion of the consideration included a 3% net smelter royalty. However, between April 23, 2010 and the date that is 20 days following commencement of commercial production, Lydian may, at its option, elect to buy out the 3% NSR and instead pay to Newmont the aggregate sum of \$20 million, without interest, in 20 equal quarterly installments of \$1 million commencing on the first day of the third calendar month following the start of commercial production. Alternatively, 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 \$15.7 million.

These potential post-production payments do not meet the definition of an obligation or a constructive obligation as the triggering event, commencement of commercial production, has not occurred. These potential payments are therefore not recognized in the condensed consolidated Statement of Financial Position as of June 30, 2017.

19. SUBSEQUENT EVENTS

The condensed consolidated financial statements for the six months ended June 30, 2017 have been approved for issue by the Board of Directors on August 9, 2017 and subsequent events have been reviewed through the date of approval.