LYDIAN INTERNATIONAL LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the years ended December 31, 2017 and December 31, 2016

March 28, 2018

Contents

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A of the consolidated financial condition and results of operations of Lydian International Limited ("Lydian" or the "Company") was prepared as of March 28, 2018. It is intended to supplement and complement the Company's audited consolidated financial statements and related notes as of and for the years ended December 31, 2017 and December 31, 2016. Financial information was prepared in accordance with IFRS as issued by the IASB. All monetary figures are expressed in thousands of U.S. Dollars unless otherwise indicated. Refer to the Glossary of Defined Terms for definitions of capitalized terms and acronyms used in this MD&A.

Lydian's business is subject to numerous risks and uncertainties that should be considered when reading this MD&A and other disclosures of the Company. Certain forward-looking statements are included in the MD&A. In addition, measured, indicated and inferred mineral resources are based on terms recognized by Canadian regulations. Therefore, readers are encouraged to read the Risk Factors and Cautionary Statements section of this MD&A.

Additional information about Lydian is included in the AIF available at www.lydianinternational.co.uk and the SEDAR website at www.sedar.com.

HIGHLIGHTS

Lydian advanced all major construction objectives at Amulsar during 2017 and operational readiness activities are underway at its 100%-owned Amulsar Gold Project in Armenia. With estimated average annual production of 225,000 gold ounces over an initial 10-year mine life, Amulsar will be among the most significant new gold mines to start operations this year.

Principal areas of focus have included engineering, procurement and construction. Engineering and procurement are essentially behind us, and construction work is approximately two-thirds complete. Earthworks are largely complete in critical areas, with work on the mine haul road and barren rock storage facility ongoing. Concrete for key areas is nearing completion. Steel work in the crushing and screening area, the overland conveyor corridor, and the ADR facilities is ongoing.

Gold Processing Facilities

Accomplishments and ongoing priorities include:

Project Financing – Lydian signed a third equipment financing facility, the ING Term Facility during Q1 2017. This facility provides up to $50 million to support design, fabrication, and installation of material handling equipment and electrical systems. The Company also received C$18.4 million in cash proceeds from the exercise of the Warrants during Q3 2017. At December 31, 2017, Lydian had drawn $192.8 million in aggregate under its debt facilities. An additional $56.0 million was drawn through the date of this MD&A. Management is assessing various options to provide funding for estimated additional costs identified by the recent capital cost review.

Mine Operations – Lydian's initial mining fleet arrived at Amulsar throughout the second half of 2017. By the end of Q1 2018, the Caterpillar 6040 shovel, the Caterpillar 994 front end loader, and nine Caterpillar 789D haul trucks will be commissioned. Management is currently using its mining fleet to complete construction of the mine haul road from the initial pit area to the primary crusher. Mining within the pit will then begin during Q2 2018.

Materials Handling Systems – Material handling includes the crushing and screening plant, the downhill conveyor, and the truck loadout facility. Earthworks along this six-kilometer route presented several challenges during 2017 due to poor ground conditions. Mitigation required additional time, but was successful and earthworks are substantially behind us. Concrete works are also well advanced and are being turned over for steel erection as completed. Structural steel and pre-fabricated buildings are being installed at the crushing and screening plant. Conveyor galleries have been installed along a distance of 1.5 kilometers. Steel work for the conveyor drive station has started and equipment installation will begin during Q2 2018.


Screening Building

Heap Leach Facility – Bulk earthworks for the HLF are nearing completion, with final slope contouring and clay placement continuing. The ponds at the toe of the HLF are done. Liner placement will begin for the HLF and ponds during Q2 2018.

Gold Processing Facilities – Gold recovery facilities include the ADR plant, refinery, metallurgical lab, and warehouse. These facilities are at the lowest elevation on the site, and construction progressed well during 2017. Earthworks and concrete work are done, and structural steel and pre-fabricated buildings are being erected. Equipment installation has started and will continue throughout Q2 2018.

*Infrastructur*e – Permanent site infrastructure progressed as required during 2017 and will be completed as part of commissioning activities expected to begin during Q2 2018. On-site 35kV electrical distribution towers are installed and power line stringing is continuing. The pre-assembled e-house for the gold processing facilities is on site and the main e-house for the sub-station is being stored off site until required for installation. The water management and storage system design is complete, and structures are being constructed.

Sustainability – Lydian continued its focus on important environmental and social matters throughout 2017. Biodiversity priorities included advancing formation of the Jermuk National Park as a critical habitat offset and continuing studies of the *Potentilla porphyrantha* species. Access to jobs for local communities remained a priority. Lydian is supporting Armenia's implementation of the Extractive Industries Transparency Initiative. The Company also achieved pre-operational certification as being in compliance with the International Cyanide

Management Code.

ABOUT LYDIAN

Lydian is a gold developer focusing on construction at its 100%-owned Amulsar Gold Project, located in south-central Armenia. Amulsar will be a large-scale, low-cost operation with production targeted to begin in the third-quarter of 2018. Gold production is targeted to average approximately 225,000 ounces annually over an initial 10-year mine life, making Lydian one of the largest gold producers to emerge during 2018. Open pit mining and conventional heap leach processing contribute to excellent scale and economic potential. Estimated mineral resources contain 3.5 million measured and indicated gold ounces and 1.3 million inferred gold ounces as outlined in the Q1 2017 Technical Report. Existing mineral resources beyond current reserves and open extensions provide opportunities to improve average annual production and extend the mine life. Lydian is committed to good international industry practices in all aspects of its operations including production, sustainability, and corporate social responsibility.

The Company was incorporated under the Canada Business Corporations Act (Alberta) on February 14, 2006. By articles of amendment dated December 12, 2007, the then outstanding shares of the Company were consolidated on the basis of two post-consolidation shares for each three pre-consolidation shares and the Company changed its name from "Dawson Creek Capital Corp." to "Lydian International Limited". By certificate of continuance effective December 12, 2007 pursuant to the Companies (Jersey) Law 1991, the Company was continued under the laws of Jersey from the Province of Alberta. The registered office of Lydian is located at Bourne House, 1st Floor, Francis Street, St. Helier, Jersey, JE2 4QE, Channel Islands. The Company, through two of its subsidiaries, also maintains offices at 5655 South Yosemite Street, Suite 400, Centennial, Colorado, 80111, USA and Vazgen Sargsyan Street, 26/1, 7th Floor, Yerevan 0010, Republic of Armenia.

The Company's Ordinary Shares began trading under the symbol LYD on January 10, 2008. The Public Offering - Warrants began trading under the symbol LYD.WT on May 26, 2016, and subsequently ceased trading on November 27, 2017.

FOURTH QUARTER AND RECENT DEVELOPMENTS

The Company's Q3 2017 MD&A was dated as of November 9, 2017. More recent developments include:

Amulsar Gold Project Update

On November 9, 2017, the Corporation reported its results for the three and nine months ended September 30, 2017 in its management discussion and analysis and provided an update of construction at the Amulsar Gold Project. The commercial production date set out in the Term Facility was extended three months to September 30, 2018 to adjust for the effects of the prior winter conditions and minor contracting delays that impacted the project schedule. The effect on the Amulsar Gold Project budget had also been assessed, and was estimated to result in estimated costs of approximately $383 million at completion. Management subsequently announced on February 22, 2018 its intentions to reflect an anticipated increase in capital costs by approximately 10-12%.

Financing Transactions

Through December 31, 2017, advances under the Term Facility totaled $80 million. Subsequent to December 31, 2017 through the date hereof, the Corporation received additional advances under the Term Facility totaling $30 million.

Equipment Financing Facilities

Through December 31, 2017, advances under the SEK Term Facility, Cat Term Facility, and Ameriabank Term Facility totaled $40.5 million, $2.3 million and $10 million respectively. Subsequent to December 31, 2017 through the date hereof, the Corporation received additional advances under the:

- SEK Term Facility totaling $7.0 million;
- Cat Term Facility totaling $19.0 million; and
- Ameriabank Term Facility totaling $nil.

Caterpillar 789D Haul Trucks

Equity Financings

On November 29, 2017, the Corporation announced that it received C$18.4 million in cash proceeds from the exercise of 51,124,300 of the Warrants, with each Warrant entitling the holder to purchase one Ordinary Share at a price of C$0.36. The Warrants were issued in connection with the exchange of Subscription Receipts on May 26, 2016. The remaining Warrants that were not exercised expired on November 27, 2017.

Appointments and Resignations

On January 10, 2018, the Corporation announced the appointment of Rodney Stuparyk, P. Eng., as General Manager of the Amulsar Gold Project effective immediately.

Lydian recently promoted Marek Perczuk to Vice President, Project Director to replace John Naisbitt, who left the Corporation in March 2018. Also, effective March 31, 2018, Robert Carreau will have completed his term-contract as Lydian's Vice President of Sustainability and successfully transferred his responsibilities to the local management team. Mr. Carreau will continue on an interim basis in a mentoring and facilitation role.

2018 OUTLOOK

During 2018, Lydian expects to achieve the following significant milestones, all relating to Amulsar:

- Complete construction;
- Hire and train operations personnel for mine, processing facilities, and other areas;
- Commission mining equipment and begin mining operations;
- Commission processing facilities including material handling systems and gold recovery facilities;
- Achieve first gold production;
- Ramp up mining and processing rates to greater than 60% of nameplate capacities; and
- Progress safety, health, environmental initiatives commensurate with the Company's transition to operations.

Conveyor

SELECTED FINANCIAL INFORMATION

The following is selected information for the years and three-month periods ended December 31:

Results of Operations

	For the years ended December 31,			For the three months ended December 31,	
	2017	2016	2015	2017	2016
Interest income	$ 593	$ 313	$ 29	$ 135	$ 155
Employees salaries and benefits expense	4,285	3,805	3,094	1,532	1,229
General and administrative expense	3,242	3,200	2,953	944	780
Loss (gain) on financial instruments at fair value	18,281	(9,854)	-	5,280	(24,688)
Other expenses (income)	(1,062)	899	395	(45)	1,297
Total expenses (income)	24,746	(1,950)	6,442	7,711	(21,382)
Net profit (loss)	$ (24,153)	$ 2,263	$ (6,413)	$ (7,603)	$ 21,537
Net profit (loss) per share (basic and diluted)	$ (0.03)	$ 0.00	$ (0.04)	$ (0.01)	$ 0.03

During the last three years, the Company had no revenues other than interest income from bank deposits. Interest income is directly related to the cash balance on hand and applicable interest rates earned during the respective period.

Employee salaries and benefits expense for the year and three-month period ended December 31, 2017 increased over the same periods for 2016. This expense relates primarily to growth in corporate personnel. The Company's overall growth in employees is primarily related to development at Amulsar, with such costs being capitalized to development assets.

General and administrative costs for the year and three-month period ended December 31, 2017 were largely consistent with the same periods for 2016. Such costs are associated with corporate activities. General and administrative costs incurred directly for Amulsar construction activities are capitalized to development assets.

The Company's financial instruments include derivative assets and liabilities that are recorded at fair value, with changes in fair value recognized as loss (gain) for each reporting period. Such derivatives were first recognized on May 26, 2016 (inception) in connection with the Financing Transactions. The table below summarizes the sources of loss (gain) on financial instruments for the years and three-month periods ended December 31, 2017 and 2016:

	For the year ended December 31,		For the three months ended December 31,	
	2017	2016	2017	2016
Stream prepayment option	$ (1,481)	$ 1,761	$ (590)	$ 3,557
Stream commodity linked repayment	18,353	(6,284)	4,730	(15,100)
Offtake agreement	5,850	(744)	2,162	(5,317)
Warrants	(4,441)	(4,587)	(1,022)	(7,828)
	$ 18,281	$ (9,854)	$ 5,280	$ (24,688)

The stream prepayment option is a derivative asset associated with Lydian's right to reduce its delivery obligation. Exercise of this option is more likely to occur as gold and silver prices trend higher, which would be recognized as an increase in fair value (i.e., a gain). Another variable affecting fair value is the remaining duration of the prepayment option. As the duration decreases, the fair value of the option also decreases. For the year ended December 31, 2017, the gold price per ounce increased from $1,150 to $1,306 while the duration decreased, resulting in a net increase in fair value of $1.5 million. For the period from inception to December 31, 2016, the gold price decreased from $1,224 to $1,150 as did the duration, resulting in a net decrease in fair value of $1.8 million. During Q4 2017, the gold price increased from $1,282 to $1,306 resulting in a net increase in fair value of $0.6 million. For Q4 2016, a decrease in the gold price from $1,313 to $1,150 was the primary driver of the $3.6 million decrease in fair value.

The stream commodity linked repayment derivative is associated with Lydian's obligation to deliver gold and silver under the Stream Agreement. This derivative was deemed to be a swap, which had a zero-fair value at inception as the strike price was deemed to be equal to the market price. An increase in the gold price above the inception-date gold price of $1,224 creates a derivative liability, while a decrease in the gold price below the inception-date price of $1,224 creates a derivative asset. Key drivers of fair value are the gold price and assumptions of future gold prices over the life of the Stream Agreement. For the year ended December 31, 2017, the gold price increased from $1,150 to $1,306 and there was a corresponding increase in the assumptions regarding future gold prices. This resulted in an increase in the fair value of this derivative liability and the recognition of a $18.4 million loss. During 2016, the gold price fell from the inception price of $1,224 to $1,150, which generated a gain of $6.3 million. Similarly, during the Q4 2017 an increase in the gold price resulted in a $4.7 million loss and the decrease in gold price during Q4 2016 caused a $15.1 million gain.

The Offtake Agreement derivative is a liability associated with a quotational period pricing mechanism associated with Lydian's future gold sales. The gold price and gold volatility are key variables affecting fair value. For the year ended December 31, 2017, an increase in the price of gold from $1,150 to $1,306 and the related volatility were the primary causes for the $5.9 million loss compared to the year ended December 31, 2016 where the gold price decreased from $1,224 (at inception) to $1,150, resulting in a $0.7 million gain in fair value. For Q4 2017, the gold price increased while the volatility reduced somewhat, resulting in a loss of $2.2 million. For Q4 2016, the gold price declined from $1,313 to $1,150 resulting in a $5.3 million gain.

The Warrants derivative is a liability linked, in part, to Lydian's share price relative to the C$0.36 strike price for the Public Offering – Warrants and the C$0.39 strike price for the Loan - Fee Warrants. Other key factors affecting fair value are the expected volatility of Lydian's stock price and the time remaining until expiry. The fair value of this derivative liability generally increases as Lydian's share price increases, resulting in a loss. The reverse is also true. On November 27, 2017 the Public Offering – Warrants expired, with the liability reduced to $nil. This resulted in a gain of $4. million for 2017. For the year ended December 31, 2016, Lydian's share price decreased from C$0.35 at inception to C$0.33. The decrease in the share price and the reduction in the remaining term of the Warrants drove the gain of $4.7 million. Similarly, for Q4 2016, the share price decreased from C$0.44 to C$0.33 causing the gain of $7.8 million.

There were no extraordinary transactions, nor any significant end of reporting period adjustments during the periods presented.

Summary of Balance Sheet Data

The following table summarizes the Company's financial position:

	As of			
	December 31, 2017		December 31, 2016	
Cash & restricted cash	$	54,573	$	146,274
Other current assets		1,391		1,058
Mineral property, plant & equipment, net		360,789		111,648
Derivative assets		2,789		7,592
Deferred financing costs		12,054		18,955
Other non-current assets		35,387		5,952
Total assets	$	466,983	$	291,479
Current liabilities	$	53,150	$	5,905
Stream liability		67,712		60,269
Debt		105,318		10,981
Derivative liabilities		39,429		25,951
Other non-current liabilities		21,747		452
Total equity		179,627		187,921
Total liabilities and equity	$	466,983	$	291,479

Cash and restricted cash decreased by $91.7 million since December 31, 2016. In 2017, cash was provided by debt financing and exercise of the Public – Offering Warrants. Cash was utilized to fund the construction expenditures at Amulsar and to fund corporate activities. See Summary of Cash Flows for additional detail.

The increase in other current assets of $0.3 million related to increases in construction related supplies and insurance.

Mineral property, plant and equipment, net of depreciation increased $249.1 million during 2017. Additions to Mineral property, plant and equipment are described below:

	For the year ended December 31, 2017	For the year ended December 31, 2016
General Project Costs	$ 12.5	$ 7.2
Infrastructure	7.6	0.9
Material Handling Systems	57.1	0.8
Heap Leach, ADR and Process Facilities	25.4	1.4
Site Services & Utilities	8.0	-
Indirect Costs	55.6	13.2
Owner's Costs	17.2	6.6
Mine Fleet	37.9	-
Other	6.3	-
Non-cash additions	23.1	7.2
	$ 250.7	$ 37.3

In connection with the Financing Transactions, several derivatives were recognized as of May 26, 2016. These derivatives are carried at fair value, with adjustment made after initial recognition recorded as gains or losses in the current period as discussed above. The carrying value of derivative asset and liabilities as of December 31, 2017 and 2016 consisted of:

	Derivative Assets (Liabilities)					
Summary of Derivative Assets/(Liabilities)	Stream Prepayment Option	Offtake Agreement	Stream Commodity Linked Repayment	Public Offering Warrants	Loan Fee Warrants	Gain (Loss)
Fair Value Hierarchy Level[1]	3	3	3	2	2	
Fair value at May 26, 2016	$ 3,069	$ (21,922)	$ -	$ (8,695)	$ (665)	
Change in fair value	(1,761)	744	6,284	4,434	153	$ 9,854
Fair value at December 31, 2016	1,308	(21,178)	6,284	(4,261)	(512)	
Change in fair value	1,481	(5,850)	(18,353)	4,261	180	$ (18,281)
Fair value at December 31, 2017:	$ 2,789	$ (27,028)	$ (12,069)	$ -	$ (332)	

[1] The levels of 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.

Deferred financing costs decreased by $6.9 million during the year ended December 31, 2017. This included expenditures incurred of $11.5 million, offset by allocations to the associated debt facilities of $18.4 million as funds were advanced to the Corporation.

The increase in current liabilities of $47.2 million was due to a $31.5 million increase in payables and a $15.7 million reclassification of portions of non-current obligations that are now due within one year. Payables increased largely due to accruals for mine fleet equipment that had arrived at Amulsar and was being assembled prior to payments being made. Payables for earthworks and other contractors also contributed to the increase. Scheduled payments on non-current liability balances as of December 31, 2017 that are due within one year for the Term Facility, certain equipment financings, and estimated reductions of the stream liability comprise the current portion of debt.

The increase in long-term stream liability relates to interest accretion, amortization of financing costs, offset by the portion that was classified as current related to gold deliveries expected within one year.

Debt increased by $94.3 million during the year ended December 31, 2017. Borrowings under debt agreements during the period were $122.8 million, consisting of $80 million under the Term Facility and $42.8 million of equipment financing. Also included were accrued interest and fees of $4.9 million. Offsetting these increases were $18.4 million of costs reclassified from financing costs, $14.0 million reclassified to current portion of debt and $1.0 million of interest payments.

Other non-current liabilities increased by $21.3 million. Of this, $13.7 million related to deferred value added tax applicable to certain goods imported to Armenia. Payments for deferred value tax will be due up to 3 years following the dates of import. The balance of the increase in other non-current liabilities resulted from a $7.6 million increase in the provision for reclamation at Amulsar as key construction activities progressed during 2017.

Total equity decreased by $8.3 million as a result of the $24.2 million comprehensive loss recognized for the year, 2017, offset by $14.5 million of proceeds from the exercise of the Public Offering – Warrants, and a $1.4 million increase in the reserve for share-based compensation. Of the comprehensive loss, $18.3 million related to non-cash loss from changes in fair value of derivative financial instruments.

The increase in other non-current assets of $29.4 million is due to increased refundable and deferred VAT associated with expenditures for local Armenian contractors and imported goods.

Summary of Cash Flows

The following table summarizes cash flows:

	For the year ended December 31, 2017	2016
Cash and cash equivalents, beginning of period	$ 137,196	$ 28,554
Cash used in operations	(6,264)	(6,853)
Cash used in investing activities	(209,835)	(30,957)
Cash provided from financing activities	131,746	147,486
Foreign exchange effect on cash	1,094	(1,034)
Cash and cash equivalents, end of period	$ 53,937	$ 137,196

Cash (used in) operations during 2017 decreased from the prior year slightly as the operating costs associated with the construction of Amulsar are capitalized and considered investing in nature. The remaining cash used in operations relates to corporate expenditures.

Cash (used in) investing activities increased $178.9 million over the same period in 2016. This increase is due to construction related expenditures at Amulsar.

Cash from financing activities decreased $15.7 million over the prior year. In 2017, cash from financing activities was comprised of $122.9 million from draws under the Term Facility and equipment financings, $14.5 million from exercise of the Public Offering – Warrants, and an $8.4 million decrease in restricted cash. These amounts were partially offset by finance costs associated with establishing the debt facilities and interest payments thereon.

SUMMARY OF QUARTERLY RESULTS

A summary of the Company's results of operations for the eight most recently completed quarters is:

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net sales	$ -	$ -	$ -	$ -
Net income (loss)	$ (7,602)	$ (3,058)	$ (1,592)	$ (11,901)
Net income (loss) per share (basic and diluted)	$ (0.01)	$ (0.00)	$ (0.00)	$ (0.02)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net sales	$ -	$ -	$ -	$ -
Net income (loss)	$ 21,536	$ (3,947)	$ (13,906)	$ (1,421)
Net income (loss) per share (basic and diluted)	$ 0.03	$ (0.01)	$ (0.04)	$ (0.01)

The Company's financial results are not significantly impacted by seasonality.

OUTSTANDING SHARE DATA

	As of March 28, 2018	As of December 31, 2017	As of December 31, 2016
Ordinary shares	754,849,326	751,964,633	699,449,253
Warrants	5,000,000	5,000,000	104,187,500
Stock options	5,570,000	5,570,000	5,760,000
Restricted stock units	14,848,601	10,131,764	5,428,972

LIQUIDITY AND CAPITAL RESOURCES

Working capital as of December 31, 2017 was $2.8 million compared to $141.4 million as of December 31, 2016. This net decrease of $138.6 million resulted primarily from utilization of cash for investing activities of $209.8 million, with construction at Amulsar representing most of this amount, and $6.3 million of cash expended for operating activities. Offsetting these uses of cash were net cash proceeds from financing activities totaling $131.7 million. Changes in other current assets and liabilities accounted for an additional use of working capital totaling $39.1 million. Primary components of these other changes in working capital were an increase in accounts payable and accrued liabilities of $31.5 million, a $15.7 million increase in the current portion of debt, and utilization of $8.4 million of restricted cash for certain designated asset costs at Amulsar.

To meet its working capital requirements throughout the remaining duration of construction at Amulsar and until Lydian becomes net cash flow positive, the Corporation will be required to rely on continuing inflows of funds from its current financing plan as set out below. Management also anticipates that the revised estimate of $425 million for pre-operational costs at Amulsar will require a minimum of an additional $40 million beyond the currently arranged financing plan. To mitigate significant risks in the event of a funding shortfall resulting from a delay in start-up or during commissioning and ramp-up, management believes it would be prudent to consider up to an additional $25 million beyond this minimum as additional headroom. Construction at Amulsar is continuing without interruption while management seeks additional sources of funds. Options under consideration include issuing additional equity, increasing leveraged financing, restructuring terms of the Stream Agreement, and requesting deferrals of scheduled debt repayments. There can be no assurance that the Company will be able to provide for such additional funding requirements to the level required or within the time periods necessary to continue construction as planned.

Management has completed the following sources of funds in connection with its current financing plan through the date of this report:

		In Millions
Gross proceeds received to date:		
Deposits under the Stream Agreement	$	60.0
Private Placements to RCF and Orion		80.0
Public offering		29.6
Exercise of Public Offering Warrants		14.5
EBRD private placement[1]		8.8
Equipment financing[3]		78.8
Term Faciltiy		110.0
Sub-total: Gross proceeds received to date	$	381.7
Other arranged Financing Transactions[2]		
Term Faciltiy	$	50.0
COF		14.0
Equipment financing[3]		37.2
Sub-total: Other arranged Financing Transactions	$	101.2
Total financing plan	$	482.9

1 The terms of the EBRD Private Placement designate the use of the net proceeds to be for the financing of environmental and social mitigation measures and related activities in connection with development of Amulsar.

2 Advances under the Term Facility, COF and equipment financings are subject to satisfaction or waiver of applicable conditions. In addition, use of proceeds under the COF are limited to, if any, project cost overruns in excess of the $38 million contingency included as part of the initial capital cost estimate.

3 The Company has arranged equipment financing facilities with Ameriabank, Cat Financial, and ING. The principal security for such facilities is anticipated to include the mining fleet, material handling equipment and other ancillary equipment and camp facilities. All facilities closed in 2016, with the exception of the ING arrangement that closed in February 2017. Advances under the equipment financing arrangements are subject to satisfaction or waiver of applicable conditions. The Company has arranged up to $116 million of equipment financing but is limited to $90 million under the terms of the Term Facility. There can be no assurance that the Company will be able to access funds from equipment financing above the $90 million cap.

In addition to the amounts set out in the financing plan, the Company may receive additional equity proceeds in the event outstanding Loan Fee - Warrants are exercised prior to expiration. While there can be no assurances such Loan Fee - Warrants will be exercised, in part or in full, the table below summarizes the gross proceeds receivable by the Company in the event of full exercise:

	Expiration Date	Exercise Price	Warrants Outstanding	Gross Proceeds
Loan Fee - Warrants	May 25, 2019	C$0.39	5,000,000	C$1,950,000

In addition to the revised project financing requirements for Amulsar, the Company will require additional sources of working capital for near-term exploration opportunities, corporate purposes, and other contractual obligations when due. The Company is subject to certain reimbursement limitations under the terms of the Financing Transactions. While the Company has provided for an estimate of such costs in its current financing plan and estimated additional requirements, actual costs may exceed these estimates. As a result, sources of funds may be insufficient and require the Company to issue additional Ordinary Shares or seek other funding sources to meet its construction and non-Amulsar related expenditures.

The ability to and satisfactorily fulfill the conditions of the Financing Transactions, equipment financing facilities, and other potential financing arrangements, draw upon such sources when needed, and meet other obligations of the Company when due is uncertain.

The time periods and the Company's costs relating to the construction-related milestones for Amulsar and other estimates contained in studies or estimates prepared by or for the Company may differ significantly from those currently expected by the Company. There can be no assurance that the actual time periods, access to sufficient funding and the Company's actual costs with respect to these objectives will not be higher than currently expected.

While the Company believes it can accomplish its stated business objectives to explore for and develop mineral properties, there are a number of inherent risks. See Risk Factors in the Company's AIF for factors that may impact the timing and success of the Company's planned activities in connection with Amulsar.

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

Use of Proceeds

The following table presents the anticipated use of proceeds from the Financing Transactions, the equipment financing facilities with Ameriabank, Cat Financial, ING Bank and EBRD Private Placement.

In Millions	Original Estimated Use of Proceeds	Actual use of proceeds for through December 31, 2017
Direct costs	$ 161.8	$ 127.5
Construction indirect costs	32.5	30.3
Engineering, procurement, construction management	32.9	38.1
Owner's cost	35.2	14.7
Pre-production working capital	10.0	12.7
Mine fleet and mobile equipment	49.8	40.6
Freight	8.3	4.9
Contingency	37.6	-
Drilling	1.8	2.4
Total construction costs	$ 369.9	$ 271.2

Any other funds available to the Company from the Financing Transactions or otherwise will be used for cost overruns, working capital purposes, and other general corporate purposes.

TAXES PAID IN ARMENIA

Summary of payments to the Armenian State Budgets and local community governments (1)

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.

	For the year ended December 31,	
	2017	2016
State duty on mining and exploration license	$ 21	$ 20
Income tax paid on behalf of employees	1,857	726
Land rentals in local communities	937	614
Other taxes and duties	7,422	780
Land status change	3	554
	$ 10,240	$ 2,694

(1) The amounts above were paid in Armenian drams, and converted to US$ using the annual average exchange rate for this report period.

FINANCIAL AND OTHER INSTRUMENTS

The Company’s financial instruments include:

- Cash and cash equivalents, and restricted cash which are recorded at amortized cost;
- Accounts receivable which are initially recorded at fair value and subsequently measured at amortized cost less any impairment losses;
- Derivative assets which are recorded at fair value through profit and loss and stated at fair value;
- Accounts payable and accrued liabilities that are initially recorded at fair value and carried at amortized cost;
- Stream and debt which are initially recognized at fair value (net of transaction costs) and subsequently carried at amortized cost using the effective interest method, and;
- Derivative liabilities recorded at fair value through profit and loss and are stated at fair value on the Consolidated Statement of Financial Position.

Capital Management

The Amulsar Gold Project is in the development stage, as such, the Company is dependent on external financing to fund its activities. The Company manages its capital structure and adjusts it based on changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, incur, repay or restructure debt, and acquire or dispose of assets to facilitate the management of its capital requirements. The Company prepares annual expenditure budgets that are updated as necessary depending upon various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Capital is comprised of the aggregate of total equity attributable to owners, accounts payable and accrued liabilities, stream liability and debt. As of December 31, 2017, and December 31, 2016, the Company's equity was $179,627 and $187,921, accounts payable and accrued liabilities was $37,466 and $5,905, a stream liability and debt, net of unamortized debt issuance costs of $188,714 and $71,250, respectively.

The capital required for the development of the Amulsar Gold Project was raised through the issuance of Ordinary Shares and associated warrants, deposits received in connection with the stream liability, and proceeds from debt. The net proceeds raised are used to advance the development of the Amulsar Gold Project and provide sufficient working capital to meet the Company's ongoing obligations. Access to available funds are subject to satisfaction or waiver of certain conditions.

The Company has entered into debt arrangements as discussed in Note 11. Should the Company need additional funds for the completion of the Amulsar Gold Project, the Company may be able to issue additional shares, negotiate additional funding from the stream or debt instruments, or incur additional debt subject to market conditions. However, the Company's Financing Agreements limit the amount of additional indebtedness. Consent of certain lenders would be required to increase the stream liability or the debt limitation.

Financial risk management

The Company has exposure to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk from its use of financial instruments. This discussion presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below.

Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, interest rates or commodity prices, will affect the value of the Company's financial instruments.

(i) Currency risk

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the United States dollar and its primary operations are in Armenia.

The Company's net assets and liabilities are predominately held in US dollars, Armenian drams, Canadian dollars and the Euro. Any impact from changes in currency values to the US dollar are recognized as foreign currency gains or losses in the consolidated statements of profit and loss. The Company's currency risk policy is to hold funds primarily in the US Dollar, with funds held in the Armenian dram, the Canadian Dollar and the Euro roughly in proportion to expected future expenditure over the next quarter. See Note 21.

(ii) Interest rate risk

Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and assets. The Company's exposure to interest rate fluctuations is due primarily to its long-term debt, which have interest rates based on LIBOR. The Company has not entered into any agreements to hedge against unfavorable changes in the LIBOR rate. The Company evaluates, on an ongoing basis, opportunities to hedge its interest rate exposure on long-term debt.

Advances from the Term Facility bear interest at LIBOR plus 6.5% (subject to a minimum of 1%) and advances from Ameriabank Credit Facility bear interest at LIBOR plus 8.75%. Advances under the ING Credit Facility bear interest at LIBOR plus 2.95% and advances under the Cat Credit Facility bear interest at LIBOR plus 4.5%.

Sensitivity to a 1% change in interest rates for debt with all other variables held constant as of December 31, 2017, would affect the Consolidated Statements of Profit and Loss and Comprehensive Profit and Loss by $1,300 in 2017 and $600 in 2016, before capitalization to Mineral Properties.

The Company deposits cash into fully liquid bank business accounts. As such, the Company does not consider its interest rate risk exposure to be significant as of December 31, 2017 with respect to its cash and cash equivalent and restricted cash positions.

(iii) Commodity price risk

The Company is subject to commodity price risk from fluctuations in the market prices for gold and silver. Commodity price risks are affected by many factors that are outside the Company's control including global or regional consumption patterns, the supply of and demand for metals, speculative activities, the availability and costs of metal substitutes, inflation and political and economic conditions. There is no assurance that a profitable market will exist for gold and silver produced by the Company.

The financial instruments impacted by commodity prices are the embedded derivatives related to the Stream Agreement and the Offtake Agreement. See Note 12.

As of December 31, 2017, no gold or silver ounces had been delivered under these contacts. See Note 12 for the impact of a 10% appreciation or depreciation of gold or silver prices on the embedded derivatives.

Credit *risk*

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company's credit risk is primarily liquid financial assets including cash and restricted cash. The Company has a concentration of cash at a major Canadian bank, however management considers its credit risk on cash and cash equivalents to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

As the Company has no revenue or trade receivables, management considers this credit risk as low. Advances are paid to major suppliers primarily relating to local construction companies for the development of the Amulsar project. Payment of these deposits is considered by the management on a case by case basis. The VAT receivables and rehabilitation pre-payments are with the Republic of Armenia. The VAT will be refunded in future periods.

During the years ended December 31, 2017 and 2016, there were no material impairment provisions required for any of the financial assets. There are no material financial assets that the Company considers past due. The carrying amount of financial assets recorded in the consolidated financial statements represents the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet obligations, it will consider securing additional equity or debt funding. The Company's liquidity may be adversely affected if its access to the capital and debt markets are hindered, whether as a result of a downturn in market conditions generally, or as a result of conditions specific to the company. To date, the Company has relied on shareholders, advances under the stream, and debt funding to finance its operations and development of the Amulsar Gold Project. The Company's ability to settle borrowings and other long-term liabilities when due is dependent upon future liquidity from capital sources or positive cash flows from commercial operations.

Access to funds under the current financing arrangements is subject to meeting certain conditions. In addition, the Company will require additional funds from other sources necessary to meet its development obligations. There is no assurance that the Company will be able to meet the conditions at the time funds are required or arrange any additional sources of funding, therefore liquidity risk is present until such a time as the conditions are satisfied and additional funding is arranged.

The ultimate responsibility for liquidity risk rests with the Board of Directors, which has designed an appropriate risk management framework for the management of the Company's short, medium and long-term funding requirements. See Note 21.

The Company's cash and cash equivalents are held in fully liquid bank accounts which are available on demand by the Company.

The Company's financial obligations consist of accounts payable and accrued liabilities, the stream liability, debt, and a provision for restoration and rehabilitation. During 2016, the advance under stream was derecognized and replaced with the stream liability. The stream liability consists of a defined delivery obligation of ounces of gold and silver (6.75% of refined gold ounces up to an aggregate 142,454 ounces and 100% of refined silver ounces, up to an aggregate of 694,549 ounces) over an estimated ten years. See Note 11.

Fair value of financial assets and liabilities

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). See Note 12.

SIGNIFICANT TRANSACTIONS, CONTRACTS AND OFF-BALANCE SHEET ARRANGEMENTS

Significant Transactions and Contracts

Significant transactions and contracts for the years ended December 31, 2017 and 2016 include:

- $60 million Stream Agreement, of which, the funds have been received in 2016
- $160 million Term Facility, as amended, and issuance of 5,000,000 Loan Fee - Warrants on May 26, 2016, of which $110 million has been drawn as of the date of this report;
- $25 million undrawn COF, subsequently amended to $14 million;
- Offtake Agreement associated with the Financing Transactions, calling for the sale of all gold from Amulsar not delivered through the Stream Agreement;
- $80 million Private Placements, which closed May 26, 2016;
- $29.5 million Offering, which released funds from escrow to the Company on May 26, 2016;
- $8.8 million private placement with the EBRD;
- $24 million equipment Term Facility with Ameriabank dated November 22, 2106, of which $10 million has been drawn;

- $42 million Cat Financial Term Facility dated December 22, 2016, of which $21.3 million has been drawn as of the date of this report;
- $50 million ING/SEK equipment Term Facility dated February 8, 2017, of which $47.5 million has been drawn as of the date of this report;
- The Public Offering - Warrants expired on November 27, 2017. Prior to expiration, 51,124,300 Public Offering – Warrants were exercised and Ordinary Shares issued. The Company received proceeds of $14.5 million.

Off-Balance Sheet Arrangements

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 Project. A portion of the consideration included a 3% net smelter royalty ("NSR"). However, as provided for in the purchase agreement, Lydian has exercised its option to terminate the 3% NSR and in lieu thereof, elected the quarterly payment option to 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.

These potential payments do not meet the definition of an obligation as a triggering event had not occurred as of December 31, 2017 and, therefore, are not recognized in the consolidated Statements of Financial Position.

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

COMMITMENTS

Leases

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

	As of December 31,	
	2017	2016
Up to one year	$ 1,699	$ 1,933
More than one year and not later than five years	6,303	5,597
More than five years	8,735	8,265
	$ 16,737	$ 15,795

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 is 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. Commitments for construction activities as of December 31, 2017 were approximately $50 million.

Rehabilitation Payments

In May 2016, Lydian Armenia signed an amended Mining Right with the Ministry of Energy, Infrastructure and Natural Resources of Armenia. Under the agreement, Lydian Armenia previously paid a deposit to the Armenian Government as a guarantee for post-mining environmental rehabilitation and for ongoing monitoring. The amounts paid represented 15% of the contractual obligation. The remainder of the rehabilitation guarantee will be paid in equal installments of AMD 121.9 million, or $252 thousand over thirteen years commencing in 2016, and the remainder of the monitoring will be paid in equal installments of AMD 16.6 million, or $34 thousand, over thirteen years commencing in 2016. In addition, Lydian Armenia is committed to invest annually AMD 61.0 million, or $126 thousand after mine closure for workforce social mitigation and AMD 61.5 million, or $127 thousand for adjacent communities' social-economic development. The rehabilitation guarantee will be refunded to the Company after mine closure when rehabilitation is completed and accepted by the Armenian Government.

RELATED PARTY TRANSACTIONS

The parent and ultimate controlling party of the Company is Lydian International Limited. No individual party had overall control of the Company during the periods being presented. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this discussion. Details of transactions between the Company and other related parties are disclosed below.

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.

The non-executive members of the Board of Directors do not have employment or service contracts with Lydian International Limited and neither are they entitled to any termination benefits. None of the directors are entitled to pension benefits.

Compensation awarded to related parties for the periods indicated below was as follows:

	For the year ended December 31, 2017	2016
Salaries and other compensation	$ 1,646	$ 1,784
Share-based compensation	648	494
	$ 2,294	$ 2,278

CRITICAL JUDGEMENTS, ESTIMATES AND ACCOUNTING POLICIES

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 in instances when valuation is not readily apparent from other sources. These judgments, estimates and assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates. In management's opinion, all adjustments considered necessary for fair presentation have been included in these financial statements.

Certain events and transactions occurring during the years ended December 31, 2017 and 2016, required management to apply significant judgments or required the use of estimates, including:

Impairment of development assets – The Company had sufficient financial resources and therefore decided to proceed with construction of Amulsar in May 2016. Upon this decision, costs previously recorded as exploration and evaluation assets were reclassified to 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.

The application of the Company's accounting policy for assessing impairment of development assets requires judgment. In completing impairment assessments, the Company utilized certain findings as reported in its Q1 2017 Technical Report which was prepared in accordance with NI 43-101. This included the amount and timing of cash flows, reflecting estimates such as mineral resources, mineral reserves, recovery rates, capital costs, operating costs, and royalty and tax burdens. Management also estimated gold and silver prices for the impairment assessments. Each of these considerations and judgments applied by management in completing the impairment assessments represent key sources of estimation uncertainty.

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.

The Company entered into the Financing Transactions that contained provisions giving rise to financial derivatives. These derivatives are accounted for at fair value and marked to market each reporting period thereafter. In determining fair value, management's judgment is required in respect of input variables of the financial model used for estimation purposes. These variables include such inputs as the Company's stock prices, stock price volatility, trading volumes of its Warrants, risk-free rates of return, the credit-risk-premium, LIBOR terms and associated rates, availability of alternative financing, gold and silver price forward curves, gold and silver price volatilities, timing of future production, timing of draws upon financing facilities, timing of repayments of financing facilities, expected future LIBOR rates, timing of achieving commercial production, availability of positive cash flows from operations, and other factors. 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.

Asset retirement obligation – The Company's calculation of rehabilitation and closure provisions (and corresponding capitalized closure cost assets, if necessary) relies on estimates of costs required to rehabilitate and restore disturbed land to appropriate post-operations' condition. Key assumptions are reviewed regularly and adjusted to reflect current assumptions used to calculate these estimates. Significant judgment is required in determining the provision for mine closure and rehabilitation as there are many transactions and other factors that will affect the ultimate costs required to rehabilitate the mine site. Factors that will affect this liability include future development and operating activity, changes in technology, price, and inflation rate and interest rate changes.

Change in functional currency – Effective May 26, 2016, the Company determined that the functional currency of Lydian Armenia changed from the Armenian Dram to the US Dollar. This change was deemed appropriate as it became evident that Lydian Armenia's underlying transactions, particularly capital spending and financing of Amulsar, are predominantly denominated in US Dollars. In connection with the change in the functional currency of Lydian Armenia, the intermediary holding companies Lydian Resources Armenia and Lydian International Holdings Limited also changed. This change in judgment has been accounted for prospectively in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates.

Stream liability – The Company entered into a Stream Agreement on November 30, 2015 and subsequently received an initial advance of cash. As set out in the consolidated financial statements for the year ended December 31, 2015, management treated the cash received as an advance based on consideration of the characteristics of the cash advance and contractual terms of the agreement. In May 2016, the Company derecognized the advance which was replaced with a financial liability, as it was management's judgment that the financing arrangement was best characterized as a financial liability as the Company met the conditions precedent to the agreement. This determination was based predominantly on conditions of the Stream Agreement permitting cash settlements.

Impairment of exploration and evaluation assets – The assessment of impairment of exploration and evaluation assets requires judgment to determine whether indicators of impairment exist including factors such as, the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resourced properties are budgeted and results of exploration activities up to the reporting date.

Deferred Taxes – Until such time as the Company has certainty as to future profits, deferred tax assets and liabilities are not recognized.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Accounting Policies

The accounting policies applied in preparing the consolidated financial statements were based on the applicable IFRS and interpretations effective as of December 31, 2017. Refer to the Consolidated Financial Statements for the years ended December 31, 2017 and 2016 for the Company's accounting policies.

Recent Accounting Pronouncement

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective until financial years beginning on or after January 1, 2018 and have not been early adopted. Pronouncements that are not applicable have been excluded from those described below

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 model for classification and measurement, a single, forward-looking 'expected loss' impairment model, and a substantially reformed approach to hedge accounting. The Company has made an initial evaluation and does not anticipate any material effect upon adoption of this standard. Management will continue to monitor this conclusion as the adoption date approaches.

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 made an initial evaluation of the impact of IFRS 15 on its financial statements and related disclosures. Presently the adoption would have no material effect because the Company has no revenue. 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 is in the process of evaluating the effect of the standard on it its financial statements, in particular the impact of long term leases of land.

IFRS 2, *Share based payments* - In June 2016 the IASB issued an amendment clarifying how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity- settled. The IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The Company has evaluated the change in the standard and there is no material impact from the adoption.

DISCLOSURES AND INTERNAL CONTROLS

The Company prepares its financial reports in accordance with International Financial Accounting Standards ("IFRS"). Financial reports and other disclosures by the Company are subject to Management's systems for maintaining internal controls over financial reporting and disclosure controls as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. In preparing disclosures, Management makes certain interpretations and relies on assumptions and estimates. There is no assurance that Management's internal controls, interpretations, assumptions and estimates, or other precautions will completely ensure reliable and timely disclosures are made.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the design of disclosure controls and procedures ("DC&P") to provide reasonable assurance that all relevant information required to be disclosed by the Company is accumulated and communicated to senior management as appropriate to allow timely decisions regarding required disclosure. Management is also responsible for the design of internal controls over financial reporting ("ICFR") 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's Chief Executive Officer and Chief Financial Officer have used the COSO 2013 framework to design the Company's DC&P and ICFR as of December 31, 2017. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design and operating effectiveness of the Company's DC&P and ICFR as of December 31, 2017 and have concluded that these controls and procedures are adequately designed and operating effectively to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company, and to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. There have been no other significant changes in the Company's ICFR that occurred during the year ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the consolidated financial statements, is the responsibility of Management. In 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 Company's consolidated 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.

RISK FACTORS

The Company faces significant risks and uncertainties causing the mineral resource sector to be highly speculative in nature. Many of these can have material and adverse effects on the valuation of the Company's securities, cash flows, financial condition, results of operations, rights and interests, existing business activities, plans and prospects. Risk factors and additional information relating to the Company are discussed in the Company's most recent AIF and other filings available on SEDAR at www.sedar.com.

CAUTIONARY STATEMENTS

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements, as such term is defined under applicable securities laws. These statements relate to future events or future performance and reflect Management's expectations and assumptions regarding the growth, results of operations, performances and business prospects and opportunities of the Company. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "intend", "will", "would", "project", "budget", "scheduled", "forecast", "could", "believe", "predict", "potential", "should", "might", "occur", "achieve", "target" or the negative of these terms or other similar expressions are intended to identify forward-looking statements. In particular, information regarding: the Company's development and construction activities at Amulsar; the Company's future operating and production results and economic performance; the anticipated funding of the equipment financing and the Financing Transactions; the Company's capital costs in relation to Amulsar; the Company's transition to operations at Amulsar; the satisfaction or waiver of applicable conditions of certain Financing Transactions; the sufficiency of working capital and debt facilities to advance ongoing activities; the Company's approach to sustainability, including the biodiversity programs; the expenditures, performance and timing commitments made by the Company to licensing authorities for the Company's projects; the exposure to financial risks; the estimated mineral resources of Amulsar; potential future offerings and the expected use of proceeds from such offerings; the expected use of proceeds from the equipment financing, the EBRD Private Placement and the Financing Transactions; the Company's ability to meet its gold and silver delivery obligations under the Stream Agreement; the impact of the Offering, the equipment financing and the Financing Transactions on the Company's operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; the anticipated economic and feasibility parameters of Amulsar; the expected cost and timing of construction and development of Amulsar, including the related key milestone dates and expected timing of first gold production; the expected mine life, scale, construction, mining operations and plan, processing methods and rate, grades, recovery rates, total recovery, stripping ratio, average annual tonnes mined/processed, production and other attributes of Amulsar; the anticipated timing and success for the receipt of permits/licenses from the applicable authorities; the adjustment of the Company's capital structure; the expected timing of delivery of key equipment; the anticipated key design features for the mining operations at Amulsar is forward-looking information; and the application of certain account standards.

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance, achievements or events to differ materially from those anticipated, discussed or implied in such forward-looking statements. The Company believes the expectations reflected in such forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should be considered carefully and investors should not place undue reliance on them as the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These statements speak only as of the date of this MD&A. 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 and other precious metals;
- the exchange rate between the Canadian dollar, the Armenian dram, the British pound, the Euro and the U.S. dollar;
- the timing of the receipt of any outstanding regulatory and governmental approvals for the Company's projects;
- the availability of financing for the Company's development of its properties on reasonable terms;
- the ability to procure equipment and operating supplies in sufficient quantities, on a timely basis and on reasonable terms;
- there being no significant disruptions affecting the development and operation of Amulsar;
- the receipt of all environmental approvals, required permits, licenses and authorizations and timing thereof;
- tax rates, including the allocation of certain tax attributed to Amulsar;
- mine life, total tonnes mined and processed, and mining operations;
- the operation and economic viability of the development of Amulsar;
- that the 5% discount rate used to complete the Q1 2017 Technical Report is sufficient;
- labour and materials cost increases;
- permitting and arrangements with landholders;
- the ability to attract and retain skilled staff;
- exploration and development timetables;
- market competition;
- the accuracy of the Company's resource and reserve estimates (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which they are based;
- the satisfaction or waiver of all conditions to the completion, effectiveness or availability, as the case may require, of each of the Financing Transactions;
- the receipt of funds under each of the Financing Transactions; and
- the Company's ability to meet its gold and silver delivery obligations under the Stream Agreement.

These forward-looking statements involve risks and uncertainties relating to, among other things, significant capital requirements and availability of capital resources to fund such requirements; price volatility in the spot and forward markets for commodities; fluctuations in the international currency markets and in the rates of exchange of the currencies of Canada, Armenia, Great Britain and the United States; discrepancies between actual and estimated production, between actual and estimated reserves and resources and between actual and estimated metallurgical recoveries; changes in national and local government legislation in Armenia; taxation; changes to the Company's mine plan or profitability or to the Company's asset profile that might alter the allocation of tax attributes to Amulsar; controls, regulations and political or economic developments in Jersey, Canada or Armenia; the speculative nature of mineral exploration and development; risks associated with obtaining and maintaining the necessary licenses and permits and complying with permitting requirements, including, without limitation, approval of the Armenian Government and receipt of all related permits, authorizations or other rights; the uncertainties inherent to current and future legal challenges the Company is or may become a party to; diminishing quantities or grades of reserves and resources; competition; loss of key employees; adverse general economic, market or business conditions; additional funding requirements; rising costs of labour, supplies, fuel, electricity and equipment; actual results of current exploration activities; uncertainties inherent to mining economic studies such as Q1 2017 Technical Report, including the risk that the assumptions underlying the Q1 2017 Technical Report and its economic parameters will not be realized; changes in project parameters as plans continue to be refined; accidents; labor disputes; defective title to mineral claims or property or contests over claims to mineral properties; delays and costs inherent to consulting and accommodating local stakeholders; and uncertainties with respect to obtaining all necessary surface rights, land use rights and other tenure from the Armenian government and private landowners required for Amulsar. In addition, there are risks and hazards associated with the business of mineral exploration, development and mining, including environmental events and hazards, industrial accidents, unusual or unexpected formations, pressures, cave-ins, flooding and gold bullion losses (and the risk of inadequate insurance or inability to obtain insurance to cover these risks). Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors referenced in this MD&A. Investors should not place undue reliance on forward-looking statements as the plans, assumptions, intentions or expectations upon which they are based might change or not occur. The Company cautions that the foregoing list of important factors is not exhaustive. The forward looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law. See “Forward-Looking Statements” in the AIF and other filings available on SEDAR at www.sedar.com.

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 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.

GLOSSARY OF DEFINED TERMS

"*ADR Plant*" means the adsorption, desorption and recovery plant;

"*AIF*" means the annual information form of the Company dated March 27, 2018 for the year ended December 31, 2017;

"*AMD*" means the Armenian dram;

"*Ameriabank*" means Ameriabank CJSC;

"*Ameriabank Term Facility*" means the $24 million secured credit facility, dated November 17, 2016, between Lydian Armenia and Ameriabank;

"Amulsar" or "*Amulsar Gold Project*" means Lydian's 100% owned gold project at Amulsar, located in south-central Armenia;

"C$" means Canadian dollar;

"Cat Financial" means Caterpillar Financial Services (UK);

"Cat Term Facility" means the $42 million secured credit facility, dated December 22, 2016, between Lydian Armenia and Cat Financial;

"*Company*" or "*Corporation*" or "*Lydian*" or "*we*" or "*us*" or "*our*" means Lydian International Limited and its affiliates;

"*COSO*" means the Committee of Sponsoring Organizations of the Treadway Commission;

"*Cost Overrun Facility*" or *"COF"* means the $25 million cost overrun facility, which was subsequently amended to $14 million;

"*DC&P*" means disclosure controls and procedures;

"*EBRD*" means the European Bank for Reconstruction and Development;

"EBRD Private Placement" means the private placement closed by the Corporation on August 15, 2016 with the EBRD, for an aggregate of 33,500,000 Ordinary Shares at a price of C$0.34 per share, for aggregate gross proceeds of C$11,390,000;

"*Financing Transactions*" means, collectively, the series of financing transactions in an aggregate amount of approximately US$325 million, as subsequently amended to $314 million, entered into between the Company, Orion and RCF, to finance the engineering, design and construction of the plant, the acquisition of equipment, mine development and start-up costs, interest during construction, fees and expenses related to the financing transactions, other development costs, working capital requirements of Amulsar, and for corporate and working capital purposes;

"*IAS*" means International Accounting Standard;

"*IASB*" means the International Accounting Standards Board;

"*ICFR*" means internal controls over financial reporting;

"*IFRS*" means the International Financial Reporting Standards as issued by the International Accounting Standards Board;

"*ING Bank*" means ING Bank N.V.;

"*ING Term Facility*" means a secured credit facility, dated February 8, 2017, between Lydian Armenia and ING Bank for a maximum principal amount of up to $50 million, which was amended on December 14, 2017;

"*Loan Fee - Warrants*" means the 5,000,000 Ordinary Share purchase of the Company issuable to Orion and RCF upon the closing of the Private Placements. Also described as Initial Warrants;

"*Lydian Armenia*" means Lydian Armenia CJSC, formerly Geoteam CJSC, the Company's wholly-owned subsidiary which holds Amulsar.

"*Management*" means the management of the Company;

"*MD&A*" means this Management's discussion and analysis;

"*Mining Right*" means the mining right for Amulsar as approval by the Armenian Ministry of Energy and Natural Resources;

"*Newmont*" means Newmont Overseas Exploration Limited;

"*NI 43-101*" means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*;

"*NSR*" means net smelter royalty;

"*Offering*" means the offering completed on March 17, 2016, in connection with the Financing Transactions, of an aggregate of 115,000,000 Subscription Receipts in the capital of the Corporation, at a price of C$0.29 per Subscription Receipt, pursuant to the Corporation's final Short Form Prospectus dated March 11, 2016;

"*Offtake Agreement*" means the offtake agreement dated November 30, 2015 among Lydian Armenia, the Company, Lydian International Holdings Limited, Lydian Resources Armenia Limited, Orion and RCF;

"*Ordinary Shares*" means the ordinary shares of no par value in the capital of the Company;

"*Orion*" means both or either Orion Co IV (ED) Limited and Orion Co IV (SO) Limited;

"*Private Placements*" means the private placements of Ordinary Shares to each of Orion and RCF;

"*Q1 2017 Technical Report*" means the "NI 43-101 Technical Report, Amulsar Updated Resources and Reserves, Armenia, dated March 21, 2017";

"Q1 2017" means the three month period ended March 31, 2017;

"Q2 2017" means the three month period ended June 30, 2017;

"*Q3 2017*" means the three month period ended September 30, 2017;

"*Q3 2018"* means the three month period ended September 30, 2018

"*Q4 2016*" means the three month period ended December 31, 2016;

"Q4 2017" means the three month period ended December 31, 2017;

"*RCF*" means Resource Capital Fund VI L.P.;

"*SEC*" means the U.S. Securities and Exchange Commission;

"*SEDAR*" means the System for Electronic Document Analysis and Retrieval administered by the Canadian Securities Administrators;

"*SEK Term Facility*" means the ING Term Facility that, on March 31, 2017, was transferred from ING Bank to Ab Svensk Exportkredit (publ) as the lender;

"*Short Form Prospectus*" means the (final) short form prospectus of the Company dated March 11, 2016 with respect to the Offering;

"*Stream Agreement*" means the purchase and sale agreement (gold and silver) dated November 30, 2015 between the Corporation, Lydian Armenia, Orion and RCF, as may from time to time be amended, restated, replaced, waived or supplemented. The Stream Agreement is a componet of the Financing Transactions.

"*Subscription Receipts*" means the subscription receipts of the Company offered pursuant to the Short Form Prospectus, including, for greater certainty, the Over-Allotment Option;

"*Term Facility*" means the $160 million Term Facility Agreement, dated November 30, 2015 between the Corporation, Lydian Armenia, Orion and RCF, as may from time to time be amended, restated, replaced, waived or supplemented. The Term Facility is a component of the Financing Transactions.

"*Warrants*" means a whole Ordinary Share purchase warrant of the Corporation (subject in each case to adjustment in certain circumstances) resulting from the three-quarters of on Ordinary Share purchase warrant issued in connection with the Subscription Receipts. Also described as Public Offering – Warrants.