



LYDIAN INTERNATIONAL LIMITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
MARCH 31, 2018

Contents

Condensed Consolidated Statements of Financial Position	1
Condensed Consolidated Statements of Loss and Comprehensive Loss	2
Condensed Consolidated Statements of Cash Flows	3
Condensed Consolidated Statements of Changes in Equity	4
Notes to Condensed Consolidated Financial Statements	5-15

LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

(expressed in thousands of US Dollars)

	Notes	As of	
		March 31, 2018	December 31, 2017
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents		\$ 48,726	\$ 53,937
Restricted cash		655	636
Other current assets	4	1,547	1,391
Total current assets		<u>50,928</u>	<u>55,964</u>
<i>Non-current assets</i>			
Mineral property, plant and equipment, net	5	404,412	360,789
Deferred financing costs	6	8,433	12,054
Other non-current assets	7	40,217	34,153
Derivative assets	9	2,822	2,789
Restricted reclamation deposit	10	1,234	1,234
Total non-current assets		<u>457,118</u>	<u>411,019</u>
TOTAL ASSETS		<u>\$ 508,046</u>	<u>\$ 466,983</u>
LIABILITIES			
<i>Current liabilities</i>			
Accounts payable and accrued liabilities		\$ 24,831	\$ 37,466
Current portion of debt	8	39,135	15,684
Total current liabilities		63,966	53,150
<i>Non-current liabilities</i>			
Stream liability	8	65,311	67,712
Debt	8	138,477	105,318
Provisions	10	8,319	8,086
Deferred VAT tax payable		14,354	13,661
Derivative liabilities	9	41,663	39,429
Total liabilities		<u>332,090</u>	<u>287,356</u>
EQUITY			
Share capital	11	284,458	283,594
Employee share-based plan reserves		3,867	4,223
Translation of foreign operations		(18,511)	(18,528)
Accumulated deficit		(93,858)	(89,662)
Total equity		<u>175,956</u>	<u>179,627</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 508,046</u>	<u>\$ 466,983</u>
Commitments	16		
Contingencies	17		
Subsequent events	18		

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)

		For the three months ended March 31,	
		2018	2017
Interest income	Notes	\$ 208	\$ 166
Total income		<u>208</u>	<u>166</u>
Employee salaries and benefits expense	13	1,124	1,020
General and administrative expense		956	851
Depreciation and amortization expense		16	2
Loss on financial instruments at fair value, net	9	2,201	10,321
Other (income) expense, net		105	(127)
Total expense		<u>4,402</u>	<u>12,067</u>
Loss before income taxes		(4,194)	(11,901)
Income taxes		2	-
Net loss		<u>\$ (4,196)</u>	<u>\$ (11,901)</u>
Net loss per share (basic and diluted)	14	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Other comprehensive loss:			
Net loss		\$ (4,196)	\$ (11,901)
Other comprehensive loss:			
Currency translation adjustment		17	1
Total comprehensive loss		<u>\$ (4,179)</u>	<u>\$ (11,900)</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 three months ended March 31,	
	Notes	2018	2017
Cash flows from operating activities			
Net loss		\$ (4,196)	\$ (11,901)
<i>Adjustments for:</i>			
Depreciation and amortization		16	2
Interest income		(208)	(166)
Loss on financial instruments at fair value, net	9	2,201	10,321
Share-based compensation	13	383	312
Unrealized (gain) loss on foreign exchange		(169)	14
Loss on disposal of plant and equipment		-	1
<i>Working capital changes:</i>			
Change in other current assets		35	(595)
Change in accounts payable and accrued liabilities		(362)	(319)
Cash used in operations		(2,300)	(2,331)
Cash flows from investing activities			
Acquisition of mineral property, plant and equipment		(49,492)	(49,611)
Change in other non current assets		(6,095)	-
Interest income received		208	166
Cash used in investing activities		(55,379)	(49,445)
Cash flows (from) used in financing activities			
Proceeds from borrowings		56,447	-
Financing costs		(2,578)	(1,760)
Debt payments		(1,393)	-
Decrease (increase) in restricted cash		(18)	300
Other financing		-	85
Cash (from) used in financing activities		52,458	(1,375)
Net decrease in cash and cash equivalents		(5,221)	(53,151)
Foreign exchange effect on cash		10	(2)
Cash and cash equivalents, beginning of period		53,937	137,196
Cash and cash equivalents, end of the period		\$ 48,726	\$ 84,043

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, 2016	\$ 268,608	\$ 2,625	\$ 669	\$ (18,472)	\$ (65,509)	\$ 187,921
Share based compensation	-	34	459	-	-	493
Total comprehensive loss	-	-	-	1	(11,901)	(11,900)
Balance at March 31, 2017	<u>\$ 268,608</u>	<u>\$ 2,659</u>	<u>\$ 1,128</u>	<u>\$ (18,471)</u>	<u>\$ (77,410)</u>	<u>\$ 176,514</u>
Balance at December 31, 2017	\$ 283,594	\$ 2,635	\$ 1,588	\$ (18,528)	\$ (89,662)	\$ 179,627
Issue of new shares	864	-	(864)	-	-	-
Share based compensation	-	15	493	-	-	508
Total comprehensive loss	-	-	-	17	(4,196)	(4,179)
Balance at March 31, 2018	<u>\$ 284,458</u>	<u>\$ 2,650</u>	<u>\$ 1,217</u>	<u>\$ (18,511)</u>	<u>\$ (93,858)</u>	<u>\$ 175,956</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)

Three months ended March 31, 2018 and 2017

(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 Bourne House, 1st Floor, St Heller, Jersey JE2 4QE Channel Islands. Lydian had two securities listed on the Toronto Stock Exchange (“TSX”). Its ordinary shares (“Ordinary Shares”) began trading under the symbol LYD on January 10, 2008. Certain warrants (“Public Offering - Warrants”) began trading under the symbol LYD.WT on May 26, 2016 and ceased trading following their expiration on November 27, 2017.

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 (“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 were prepared in accordance with IAS 34, “*Interim Financial Reporting*” as issued by the International Accounting Standards Board (“IASB”) and should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended December 31, 2017.

The unaudited condensed consolidation financial statements were authorized for issue by the Board of Directors on May 11, 2018.

Basis of accounting

These consolidated financial statements were prepared on a going concern basis that assumes the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business. To meet its working capital requirements throughout the remaining duration of construction at Amulsar and until Lydian becomes net cash flow positive, the Company is reliant upon continuing inflows of funds from its current financing plan, deferrals of certain debt repayments, and inflows of funds from new sources. Should funds not be available when needed or for less than required, Lydian may be forced to curtail or suspend construction. 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.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to obtain adequate financing. Changes in future conditions could require material write downs of the carrying values of certain assets.

Use of judgements and estimates

Preparation of these condensed consolidated financial statements required management to make judgements, estimates and assumptions that affected the basis of accounting, application of policies, and reported amounts of assets, liabilities, contingent liabilities and expenses. Estimates and assumptions are continually evaluated and are based on management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ materially from these estimates.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

Significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty are the same as those that applied to the annual audited consolidated financial statements for the year ended December 31, 2017.

In management's opinion, all adjustments considered necessary for fair presentation were included in these condensed consolidated financial statements.

3. ACCOUNTING POLICIES

The accounting policies followed in these condensed consolidated financial statements were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2017.

The following new standards, interpretations and amendments to standards and interpretations were issued and effective for the current reporting period:

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 evaluated this change in the standard and there was no material impact from the adoption.

IFRS 2, Share based payments – In June 2016 the IASB issued an amendment clarifying the accounting treatment 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 were effective for annual periods beginning on or after January 1, 2018. The Company evaluated the change in this standard and there was no material impact from the adoption.

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 not covered under existing IFRS, 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, IFRS 15 has no material effect because the Company had no revenue from operations. The Company will apply the new standard upon commencement of production.

The following new standards, interpretations and amendments to standards and interpretations have been issued but are not effective until financial years beginning after January 1, 2019, and have not been early adopted. Pronouncements that are not applicable have been excluded from those described below.

IFRS 16, Leases – The IASB published IFRS 16 in January 2016 effective for annual periods beginning on or after January 1, 2019. IFRS 16 may be applied before that date but only in conjunction with IFRS 15. The standard establishes principles to determine recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces IAS 17, and related interpretations. The Company is evaluating the effect of the standard on its financial statements.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

4. OTHER CURRENT ASSETS

	As of	
	March 31, 2018	December 31, 2017
Prepayments and other receivables	\$ 1,123	\$ 985
Refundable VAT	60	57
Supplies	344	329
Deposits	20	20
	<u>\$ 1,547</u>	<u>\$ 1,391</u>

5. MINERAL PROPERTY, PLANT AND EQUIPMENT, NET

	Development Assets	Plant and Equipment	Total
Cost			
As of December 31, 2017	\$ 351,454	\$ 13,376	\$ 364,830
Additions	43,987	-	43,987
Disposals	-	-	-
Transfers of assets into service	(26,557)	26,557	-
Foreign exchange differences	-	-	-
As of March 31, 2018	<u>\$ 368,884</u>	<u>\$ 39,933</u>	<u>\$ 408,817</u>
Accumulated Depreciation			
As of December 31, 2017	\$ -	\$ 4,041	\$ 4,041
Additions	-	364	364
Disposals	-	-	-
Foreign exchange differences	-	-	-
As of March 31, 2018	<u>\$ -</u>	<u>\$ 4,405</u>	<u>\$ 4,405</u>
Carrying Amount			
As of December 31, 2017	<u>\$ 351,454</u>	<u>\$ 9,335</u>	<u>\$ 360,789</u>
As of March 31, 2018	<u>\$ 368,884</u>	<u>\$ 35,528</u>	<u>\$ 404,412</u>

The table below summarizes non-cash additions to exploration and development assets.

	For the three months ended March 31, 2018
Interest	\$ 6,911
Depreciation	348
Reclamation	216
Share-based compensation	124
	<u>\$ 7,599</u>

6. DEFERRED FINANCING COSTS

	Financing Costs
As of December 31, 2017	\$ 12,054
Additions	4,128
Reclassified to debt	(7,749)
As of March 31, 2018	<u>\$ 8,433</u>

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

7. OTHER NON-CURRENT ASSETS

	As of	
	March 31, 2018	December 31, 2017
Refundable VAT	\$ 25,151	\$ 19,748
Deferred VAT receivable	14,354	13,661
Other	712	744
	<u>\$ 40,217</u>	<u>\$ 34,153</u>

Value added tax ("VAT") is generally paid on the provision of goods and services to the Armenian Government. Refundable VAT is recoverable through future export sales. Effective January 1, 2018, the Armenian Government changed the legislation to allow for the early refund of certain VAT for semi-annual periods from July 1, 2017 forward.

Deferred VAT is associated with the import of equipment, the Company can defer payments for up to three years from the date of import. The deferred VAT receivable and deferred payable of \$14.4 million will become recoverable upon the Company's export of a finished product.

8. STREAM LIABILITY AND DEBT

	Debt			
	Stream Liability	Term Loan	Equipment Financing	Total
As of December 31, 2017	\$ 69,407	\$ 71,436	\$ 47,871	\$ 119,307
Proceeds from borrowings	-	30,000	26,447	56,447
Reclassified from financing costs	-	(3,781)	(3,968)	(7,749)
Accrued interest	2,209	2,043	1,431	3,474
Amortization of financing costs	73	895	260	1,155
Interest payments	-	-	(1,400)	(1,400)
As of March 31, 2018	\$ 71,689	\$ 100,593	\$ 70,641	\$ 171,234
Less: current portion	(6,378)	(20,532)	(12,225)	(32,757)
Long term portion	<u>\$ 65,311</u>	<u>\$ 80,061</u>	<u>\$ 58,416</u>	<u>\$ 138,477</u>

Stream Agreement

The Company received advances of \$60.0 million during 2015 and 2016 under the Stream Agreement. 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 or 40 years.

Term Loan and Cost Overrun Facility

In 2016, the Company entered into the Term Loan agreement, which provides \$160.0 million on a senior secured basis for purposes of construction of Amulsar. Interest is 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 \$14.0 million cost overrun facility ("COF") was also established as part of the Term Loan. Interest will be 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.

On June 30, 2017, the Company entered into a fifth amending agreement to the Term Loan that modified the availability period of the second advance to August 15, 2017, extended commercial production date to September 30, 2018 and

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

provided for certain changes to other conditions precedent. As of March 31, 2018, Term Loan draws totaling \$110.0 million had been received. Availability of funds under the Term Loan and COF are subject to satisfaction or waiver of certain conditions.

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 term facilities is limited to \$90.0 million. A summary of each term facility is below:

- The Ameriabank Term Facility has a maximum principal amount of \$24.0 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. As of March 31, 2018, \$10.0 million was drawn on this facility and interest of \$1.4 million has been paid during the quarter. Availability of additional funds is subject to satisfaction or waiver of certain conditions.
- The Cat Term Facility has a maximum principal amount of \$42.0 million and will be secured by certain mobile mining equipment. Interest is calculated based on LIBOR plus 4.5% and there is a 1.5% commitment fee on any undrawn portion. Each advance is repayable over a 72-month term, inclusive of a six-month initial repayment grace period. As of March 31, 2018, \$21.3 million was drawn on this facility. Availability of funds is subject to satisfaction or waiver of certain conditions.
- The ING Term Facility has a maximum principal amount of \$50.0 million and will be secured by material handling and electrical equipment. Interest is calculated based on LIBOR plus 2.95% and there is a 2% commitment fee on any undrawn portion. Each advance is repayable over a 51-month term. As of March 31, 2018, \$48.0 million was drawn on this facility. Availability of additional funds is subject to satisfaction or waiver of certain conditions.

The table below presents the maturities of the stream liability and debt:

	As of March 31, 2018
Up to one year	\$ 39,135
More than one year and not later than five years	200,731
More than five years	3,057
	<u>\$ 242,923</u>

The Company is either in compliance with the provisions of its debt facilities or has received waivers as of March 31, 2018.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

9. FINANCIAL INSTRUMENTS

The Company recognized certain financial instruments relating to the Financing Agreements including the stream liability, debt and derivatives as discussed in Note 8, Stream Liability and Debt. None of these financial instruments are held for trading, and the Company does not currently engage in hedge activities.

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.

Summary of Derivative Assets/(Liabilities) Fair Value Hierarchy Level ¹	Derivative Assets (Liabilities)				Gain (Loss)
	Stream Prepayment Option	Offtake Agreement	Stream Commodity Linked Repayment	Loan Fee Warrants	
	3	3	3	2	
Fair value at December 31, 2017:	\$ 2,789	\$ (27,028)	\$ (12,069)	\$ (332)	
Change in fair value	33	366	(2,463)	(137)	\$ (2,201)
Fair value at March 31, 2018:	\$ 2,822	\$ (26,662)	\$ (14,532)	\$ (469)	

Sensitivity impact upon fair value at March 31, 2018:

10% increase in gold price ²	\$ 1,706	\$ (2,663)	\$ (11,590)	N/A	\$ (12,547)
10% increase in silver price ²	\$ 100	N/A	\$ (722)	N/A	\$ (622)
10% increase in 3-month LIBOR rate ²	\$ 5	\$ 2	\$ (59)	N/A	\$ (52)

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.

Fair Value Measurement

Level 1 Fair Value Estimates - Fair value of the advance under the Stream Agreement and debt were initially estimated using Level 1 criteria, which was the advance amount or proceeds from debt received by the Company. The fair value of the advance under the Stream Agreement was replaced with the fair value of the stream liability on May 26, 2016, thereafter, the stream liability was carried at amortized cost using the effective interest method.

The fair value and carrying value of debt is the same for all reported periods.

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 the 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. As the Public Offering – Warrants expired on November 27, 2017, there is no fair value as of March 31, 2018. 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.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

Inputs used for calculating the fair value of the warrants include:

	Loan Fee - Warrants	
	March 31, 2018	December 31, 2017
Warrants outstanding	5,000,000	5,000,000
Expected remaining life in years	1.16	1.40
Expected volatility	53.9%	48.0%
CAD Stock price per share on valuation date	\$0.43	\$0.38
CAD Exercise price	\$0.39	\$0.39
CAD Risk free interest rate	1.64%	1.47%
CAD/USD Exchange rate	0.7763	0.7977
Expected dividend per share	\$Nil	\$Nil

Level 3 Fair Value Estimates - 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:

	As of	
	March 31, 2018	December 31, 2017
Gold spot price per ounce	\$1,322.80	\$1,306.30
10 year risk free interest rate	2.79%	2.42%
3-month LIBOR rate	2.307%	1.705%

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 NI 43-101, 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.

The offtake agreement was valued using an option pricing model similar to Black-Scholes. The key inputs used include the gold price and 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.

Derivatives associated with the Agreements 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 as shown in the table above.

The fair value of the stream liability was \$86.8 million at March 31, 2018 and \$85.1 million at December 31, 2017.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

10. PROVISIONS

Reclamation provision

The provision for restoration and rehabilitation represents the present value of estimated future outflow of economic benefits that will be required to restore and rehabilitate Amulsar. The provision recognized as of March 31, 2018 relates only to the rehabilitation of Amulsar mine areas affected by exploration and construction development activities.

	Provisions
As of December 31, 2017	\$ 8,086
Accretion of reclamation provision	216
Foreign currency exchange	17
As of March 31, 2018	<u>\$ 8,319</u>

11. 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.

	Number	Value
Shares outstanding, December 31, 2017	751,964,633	\$ 283,594
Shares issued under RSU Plan	2,884,693	864
Amount attributable to expired options	-	-
Shares outstanding, March 31, 2018	<u>754,849,326</u>	<u>\$ 284,458</u>

The Company's warrants consist of the Loan Fee – Warrants. The total outstanding is shown below:

	Number of Warrants	Weighted Average Exercise Price (CAD)	Weighted Average Remaining Life (Yrs.)
Balance as of December 31, 2017	5,000,000	\$0.39	1.40
Warrants exercised	-	-	NA
Warrants expired	-	-	NA
Balance as of March 31, 2018	<u>5,000,000</u>	<u>\$0.39</u>	<u>1.16</u>

12. SHARE-BASED COMPENSATION

Restricted Stock Unit Plan

The following table summarizes the outstanding restricted share units under the employee RSU Plan:

	Number of RSUs	Weighted Average Award Price
Balance as of December 31, 2017	10,131,764	\$ 0.29
Granted	7,601,531	0.35
Redeemed	(2,884,693)	0.29
Balance as of March 31, 2018	<u>14,848,602</u>	<u>\$ 0.31</u>

During the three months ended March 31, 2018 and March 31, 2017, \$369 and \$278 were included in employee benefits expense and \$0.1 million and \$0.2 million were capitalized to development assets, respectively.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

Stock Option Plan

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

	Number of Options	Weighted Average Exercise Price
Balance as of December 31, 2017	5,570,000	\$ 0.65
Granted	-	-
Expired	-	-
Balance as of March 31, 2018	5,570,000	\$ 0.65

Outstanding options				Exercisable options			
Range of exercise price	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average remaining life (years)	Weighted average exercise price	
\$0 to \$0.77 (CAD\$0-\$1.00)	3,280,000	1.91	\$ 0.48	2,576,664	1.88	\$ 0.49	
\$0.78 to \$1.55 (CAD\$1.01-\$2.00)	2,290,000	1.06	\$ 0.87	2,290,000	1.06	\$ 0.87	
	5,570,000	1.56	\$ 0.64	4,866,664	1.49	\$ 0.67	

13. EMPLOYEE SALARIES AND BENEFITS EXPENSE

For the three months ended March 31,

	2018	2017
Salaries and other compensation	\$ 741	\$ 708
Share-based compensation	383	312
	\$ 1,124	\$ 1,020

14. NET LOSS PER SHARE

For the three months ended March 31,

	2018	2017
Net loss	\$ (4,196)	\$ (11,901)
Weighted average shares outstanding	754,136,256	699,449,253
Net loss per share	\$ (0.01)	\$ (0.02)
Net loss per share - fully diluted	\$ (0.01)	\$ (0.02)

As a result of the losses incurred during the three months ended March 31, 2018 and 2017, 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.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

15. 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 note. 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.

Compensation awarded to key management for the periods indicated below was as follows:

	For the three months ended March 31,	
	2018	2017
Salaries and other compensation	\$ 386	\$ 274
Share-based compensation	227	217
	<u>\$ 613</u>	<u>\$ 491</u>

16. COMMITMENTS

Leases

	As of March 31,	
	2018	2017
Up to one year	\$ 1,720	\$ 2,100
More than one year and not later than five years	6,221	6,335
More than five years	8,385	8,189
	<u>\$ 16,326</u>	<u>\$ 16,624</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 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 the construction of Amulsar as of March 31, 2018 are approximately \$53.0 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 made payments 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 \$0.3 million over thirteen years commencing in 2016, and the remainder of the monitoring will be paid in equal installments of AMD 16.6 million. In addition, Lydian Armenia is committed to invest annually AMD 61.0 million, or \$0.1 million after mine closure for workforce social mitigation and AMD 61.5 million, or \$0.1 million 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.

LYDIAN INTERNATIONAL LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three months ended March 31, 2018 and 2017

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

17. 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 Project. A portion of the consideration included a 3% net smelter royalty ('NSR'). However, as provided for in the purchase agreement, on March 9, 2018 Lydian exercised its option to terminate the 3% NSR and in lieu thereof, elected the quarterly payment option to pay Newmont the aggregate sum of \$20.0 million, without interest, in 20 equal quarterly installments of \$1.0 million each, 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 the triggering event had not occurred as of March 31, 2018 and, therefore, are not recognized in the condensed consolidated financial statements.

18. SUBSEQUENT EVENTS

The condensed consolidated financial statements for the three months ended March 31, 2018 have been approved for issue by the Board of Directors on May 11, 2018 and subsequent events have been reviewed through May 14, 2018.