

**LYDIAN INTERNATIONAL LIMITED**  
**INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**March 31, 2014**  
**(Unaudited)**

# Content

Company Particulars.....	3
Interim Condensed Consolidated Income Statements (Unaudited) .....	4
Interim Condensed Consolidated Statements of Comprehensive Loss (Unaudited) .....	5
Interim Condensed Consolidated Statements of Financial Position (Unaudited) .....	6
Interim Condensed Consolidated Statements of Changes in Equity (Unaudited) .....	7
Interim Condensed Consolidated Statements of Cash Flows (Unaudited).....	9
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) .....	10

## **COMPANY PARTICULARS**

### **DIRECTORS**

Mr Gordon Wylie, Non-Executive Director and Chairman of the Board  
Mr Bill Abel, Non-Executive Director  
Mr Timothy Read, Non-Executive Director  
Mr Howard Stevenson, Director

### **OFFICERS**

Mr Howard Stevenson, President and Chief Executive Officer  
Mr. Douglas Tobler, Chief Financial Officer  
Mr Marc Leduc, Chief Operating Officer  
Mr Eric Lowy, Company Secretary

### **HEAD OFFICE**

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### **BANKERS**

#### **Jersey, Channel Islands**

Royal Bank of Scotland International Limited  
71 Bath Street, Royal Bank House, St. Helier,  
Jersey JE4 8PJ

Barclays Wealth  
PO Box 82, 39-41 Broad Street  
St Helier  
Jersey JE4 8PU

#### **Canada**

Royal Bank of Canada  
20 King Street West, Main Floor  
Toronto, Ontario M5X 1B1

### **AUDITORS**

Grant Thornton LLP  
Suite 401, 350 Burnhamthorpe Road West  
Mississauga, Ontario L5B 3J1  
Canada

**Lydian International Limited**  
**Interim Condensed Consolidated Income Statements (Unaudited)**  
**For three month periods ended March 31, 2014 and 2013**  
**(Presented in United States Dollars, except where indicated)**

		March 31, 2014	March 31, 2013
	Notes	\$	\$
Interest income		35,003	38,081
<b>Total income</b>		<u>35,003</u>	<u>38,081</u>
Employee salaries and benefits expenses	6	(904,781)	(1,680,602)
Services and consumables used		(317,689)	(298,286)
Administrative and other expenses		(641,570)	(634,131)
Depreciation and amortisation expenses		(31,232)	(40,370)
Interest expense		-	(124,214)
Other gains	7	211,695	164,984
<b>Total expenses</b>		<u>(1,683,577)</u>	<u>(2,612,619)</u>
<b>Loss before tax</b>		(1,648,574)	(2,574,538)
Income taxes		-	-
<b>Loss for the period</b>		<u>(1,648,574)</u>	<u>(2,574,538)</u>
<b>Loss per share (basic and diluted)</b>	8	<u>(0.01)</u>	<u>(0.02)</u>

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

**Lydian International Limited**  
**Interim Condensed Consolidated Statements of Comprehensive Loss (Unaudited)**  
**For three month periods ended March 31, 2014 and 2013**  
**(Presented in United States Dollars, except where indicated)**

	March 31, 2014	March 31, 2013
	\$	\$
Loss for the period	(1,648,574)	(2,574,538)
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	(1,648,179)	(2,455,843)
<b>Total comprehensive loss for the period</b>	<b>(3,296,753)</b>	<b>(5,030,381)</b>

*The accompanying notes are an integral part of these interim condensed consolidated financial statements*  
**Lydian International Limited**  
**Interim Condensed Consolidated Statements of Financial Position (Unaudited)**

# LYDIAN INTERNATIONAL LIMITED

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THREE MONTH PERIOD ENDED MARCH 31, 2014

**As of March 31, 2014 and December 31, 2013**  
**(Presented in United States Dollars, except where indicated)**

	Notes	March 31, 2014	December 31, 2013
		\$	\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	9	3,351,912	3,652,596
Intangible assets		118,723	127,873
Exploration and evaluation assets	10	59,204,059	58,731,741
Other non-current assets		3,881,701	3,932,492
<b>Total non-current assets</b>		<u>66,556,395</u>	<u>66,444,702</u>
<b>Current assets</b>			
Cash and cash equivalents		21,445,197	8,549,127
Other current assets		801,598	804,538
<b>Total current assets</b>		<u>22,246,795</u>	<u>9,353,665</u>
<b>TOTAL ASSETS</b>		<u>88,803,190</u>	<u>75,798,367</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	11	145,016,248	128,388,124
Employee share option plan reserve	12	4,485,650	4,709,655
Translation of foreign operations		(8,093,490)	(6,445,311)
Accumulated deficit		(54,103,967)	(52,455,393)
<b>Total equity</b>		<u>87,304,441</u>	<u>74,197,075</u>
<b>Non-current liabilities</b>			
Non-current accrued liabilities		575,524	586,407
Provisions		65,706	66,949
<b>Total non-current liabilities</b>		<u>641,230</u>	<u>653,356</u>
<b>Current liabilities</b>			
Accrued liabilities and other payables	13	857,519	947,936
<b>Total current liabilities</b>		<u>857,519</u>	<u>947,936</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>88,803,190</u>	<u>75,798,367</u>

## Subsequent Events (Note 15)

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

**Lydian International Limited**  
**Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)**  
**For three month periods ended March 31, 2014 and 2013**  
**(Presented in United States Dollars, except where indicated)**

	<i>Share capital</i>	<i>Warrants</i>	<i>Employee share option plan reserve</i>	<i>Translation of foreign operations</i>	<i>Accumulated deficit</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2012	125,315,924	549,706	3,822,613	(5,063,935)	(42,934,674)	81,689,634
Proceeds from exercised warrants	1,907,629	-	-	-	-	1,907,629
Attributable to exercised warrants	549,706	(549,706)	-	-	-	-
Attributable to expired options	114,695	-	(114,695)	-	-	-
Employee share options vested during the period	-	-	632,665	-	-	632,665
Total comprehensive loss for the period				(2,455,843)	(2,574,538)	(5,030,381)
Balance at March 31, 2013	127,887,954	-	4,340,583	(7,519,778)	(45,509,212)	79,199,547

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

**Lydian International Limited**  
**Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)**  
**For three month periods ended March 31, 2014 and 2013**  
**(Presented in United States Dollars, except where indicated)**

	<i>Share capital</i>	<i>Warrants</i>	<i>Employee share option plan reserve</i>	<i>Translation of foreign operations</i>	<i>Accumulated deficit</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2013	128,388,124	-	4,709,655	(6,445,311)	(52,455,393)	74,197,075
New share issue	17,314,408	-	-	-	-	17,314,408
Cost of share issue	(1,162,387)	-	-	-	-	(1,162,387)
Attributable to expired options	476,103	-	(476,103)	-	-	-
Employee share options vested during the period	-	-	252,098	-	-	252,098
Total comprehensive loss for the period	-	-	-	(1,648,179)	(1,648,574)	(3,296,753)
Balance at March 31, 2014	145,016,248	-	4,485,650	(8,093,490)	(54,103,967)	87,304,441

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



**Lydian International Limited**  
**Interim Condensed Consolidated Statements of Cash Flows (Unaudited)**  
**For three month periods ended March 31, 2014 and 2013**  
**(Presented in United States Dollars, except where indicated)**

	March 31, 2014	March 31, 2013
	\$	\$
<b>Cash flows for operating activities</b>		
Payments to suppliers and employees	(2,257,291)	(2,660,425)
Net cash used in operating activities	<u>(2,257,291)</u>	<u>(2,660,425)</u>
<b>Cash flows for investing activities</b>		
Interest received	35,003	38,081
Payments for property and equipment and intangible assets	(16,798)	(48,577)
Exploration and evaluation amounts paid	(1,346,524)	(1,289,520)
Proceeds from disposal of property and equipment	26,200	-
Refund from deposits	100,000	-
Net cash used in investing activities	<u>(1,202,119)</u>	<u>(1,300,016)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital, net	16,152,021	1,907,629
Net cash generated from financing activities	<u>16,152,021</u>	<u>1,907,629</u>
Net increase (decrease) in cash and cash equivalents	<u>12,692,611</u>	<u>(2,052,812)</u>
Cash and cash equivalents, beginning of the period	<u>8,549,127</u>	<u>32,705,731</u>
Effects of exchange rate changes on the balance of cash held in foreign currencies	203,459	237,159
<b>Cash and cash equivalents, end of the period</b>	<u><u>21,445,197</u></u>	<u><u>30,890,078</u></u>

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

**Lydian International Limited****Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)****For three month periods ended March 31, 2014 and 2013****(Presented in United States Dollars, except where indicated)****1. GENERAL INFORMATION**

Lydian International Limited (the “Company”) is a company continued under the laws of Jersey effective on December 12, 2007 (formerly existing under the laws of Alberta, Canada). The registered office address of the Company is Ground Floor, Charles House, Charles Street, St Helier, JE2 4SF Channel Islands. The Company’s ordinary shares (“Ordinary Shares”) began trading on the Toronto Stock Exchange (“TSX”) on January 10, 2008 under the symbol “LYD”.

The Company, together with its subsidiaries, (the ‘Group’) is a gold-focused mineral development company pursuing large, high-quality resources in emerging and transitional geopolitical regions. Currently, Lydian is focused on Eastern Europe, primarily in the Caucasus region. The Company’s main project is a gold development project (the “Amulsar Gold Project”) located in Armenia. In addition, the Company holds a license covering an early-stage gold prospect (the “Kela Project”) in the Guria region of Georgia. In conducting operations in Armenia and Georgia, the Company is subject to considerations and risks not typically associated with companies operating in Canada. These include risks such as political, economic and legal environments in an emerging market. 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 and remittance abroad and rates and methods of taxation.

The recovery of amounts capitalized as exploration and evaluation assets is dependent upon the Company’s ability to arrange appropriate financing and secure and maintain all rights required to complete development of the properties and achieve future profitable production or proceeds from disposition of these assets.

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group’s most recent annual financial statements for the year ended December 31, 2013, except for those newly adopted in Note 2.

**2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS****Standards and Interpretations adopted during the current period****IFRIC 21 ‘Levies’**

IFRIC 21 clarifies that for levies the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by the government’s legislation. If this activity arises on a specific date within an accounting period then the entire obligation is recognised on that date

The Group, through its wholly owned subsidiaries are required to pay levies such as mine duties and property taxes payable and paid on an annual basis. Adoption of IFRIC 21 had no material effect on the interim or annual financial statements.

**IAS 19 ‘Employee benefits’ Defined Benefit Plans: Employee Contributions**

The amendments to IAS 19 clarify the requirements of IAS 19 relating to contributions from employees or third parties and introduce a practical expedient such that contributions that are independent of the number of years of service may be treated as a reduction in the service cost in the period in which the related service is rendered.

The Group has applied the practical expedient as its accounting policy. This treatment is consistent with the Group’s previous practice before the Amendments to IAS 19. Therefore, the initial application of the Amendments to IAS 19 has no effect on the Group’s financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

These consolidated condensed interim financial statements for the three month period ended March 31, 2014 were prepared in accordance with IAS 34, “Interim Financial Reporting”. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS.

**Basis of preparation**

The consolidated interim financial statements were prepared on the historical cost basis and presented in United States Dollars (US).

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

**5. GEOGRAPHICAL SEGMENTS**

The Group is engaged in one business activity, mineral exploration and development. The two key geographical segments for these activities are located in Armenia and Georgia. The Group’s head office activities are located in Jersey (Channel Islands) which relate to administrative matters.

**6. EMPLOYEE SALARIES AND BENEFIT EXPENSES**

	Three month period ended	
	March 31, 2014	March 31, 2013
	\$	\$
Salaries and other compensation	(652,683)	(1,047,937)
Share-based payments	(252,098)	(632,665)
	(904,781)	(1,680,602)

# LYDIAN INTERNATIONAL LIMITED

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THREE MONTH PERIOD ENDED MARCH 31, 2014

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## 7. OTHER GAINS

	Three month period ended	
	March 31, 2014	March 31, 2013
	\$	\$
Disposal of property and equipment	17,696	-
Foreign currency gains	193,099	130,813
Other gains	900	34,171
	<u>211,695</u>	<u>164,984</u>

## 8. LOSS PER SHARE

Loss per share \$0.01 for the three month period ended March 31, 2014 (March 31, 2013- \$0.02) has been calculated on the basis of the net loss of \$1,648,574 (March 31, 2013: 2,574,538) on 138,338,326 (March 31, 2013: 127,854,695) shares, being the weighted average number of shares in issue.

As a result of the losses incurred during the three month periods ended March 31, 2014 and 2013, the potential shares to be issued from the exercise of options and 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 all periods presented are the same.

9. PROPERTY AND EQUIPMENT

Cost	Machinery	Equipment	Vehicles	Lands and structures	Fixtures and fittings, other	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$
At January 1, 2013	2,953,354	723,254	451,498	63,425	217,320	36,134	4,444,985
Additions	-	267,928	143,566	-	239,164	-	650,658
Disposal	-	(14,693)	(21,824)	-	(2,639)	-	(39,156)
Exchange difference	(14,995)	(10,661)	(4,538)	(322)	1,199	(183)	(29,500)
At December 31, 2013	2,938,359	965,828	568,702	63,103	455,044	35,951	5,026,987
Additions	-	9,689					9,689
Disposal	-	(17,675)	(38,291)				(55,966)
Exchange difference	(54,527)	(20,152)	(9,406)	(1,171)	(8,445)	(668)	(94,369)
At March 31, 2014	2,883,832	937,690	521,005	61,932	446,599	35,283	4,886,341
<b>ACCUMULATED DEPRECIATION</b>	<b>Machine ry</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>Lands and structures</b>	<b>Fixtures and fittings, other</b>	<b>Construction in progress</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$
At January 1, 2013	25,670	293,143	183,278	3,796	140,012	-	645,899
Depreciation	427,916	194,904	84,023	2,808	55,099	-	764,750
Disposal	-	(12,991)	(19,939)	-	(1,228)	-	(34,158)
Exchange difference	4,038	(4,384)	(1,575)	8	(187)	-	(2,100)
At December 31, 2013	457,624	470,672	245,787	6,612	193,696	-	1,374,391
Depreciation	144,877	48,650	22,353	698	18,286	-	234,864
Disposal	-	(9,171)	(38,291)	-	-	-	(47,462)
Exchange difference	(9,181)	(10,218)	(4,157)	(127)	(3,681)	-	(27,364)
At March 31, 2014	593,320	499,933	225,692	7,183	208,301	-	1,534,429

**CARRYING AMOUNT**

	<b>Machinery</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>Lands and structures</b>	<b>Fixtures and fittings, other</b>	<b>Construction in progress</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$
<b>At March 31, 2014</b>	2,290,512	437,757	295,313	54,749	238,298	35,283	3,351,912
At December 31, 2013	2,480,735	495,156	322,915	56,491	261,348	35,951	3,652,596

During the three month period ended March 31, 2014, depreciation of \$212,367 was capitalised to exploration and evaluation costs (2013: \$74,494).

**10. EXPLORATION AND EVALUATION ASSETS (“EEA”)**

Cost	Armenia project	Georgia project	Total
	Amulsar	Kela	
	\$	\$	\$
At January 1, 2013	47,154,131	529,949	47,684,080
Additions	11,126,197	83,442	11,209,639
Exchange difference	(134,180)	(27,798)	(161,978)
At December 31, 2013	58,146,148	585,593	58,731,741
Additions	1,563,241	-	1,563,241
Exchange difference	(1,087,103)	(3,820)	(1,090,923)
<b>At March 31, 2014</b>	<b>58,622,286</b>	<b>581,773</b>	<b>59,204,059</b>

The net balance of exploration and evaluation assets at March 31, 2014 compared to December 31, 2013 increased by \$472,318. During the three month period ended March 31, 2014, \$1,563,241 was incurred at the Amulsar Gold Project for development activities, environmental and social impact studies, maintenance, lease payments, and other. There were no amounts incurred at Kela Project during the three month period ended March 31, 2014.

Non-cash transactions that increased EEA are as follows:

	Three month period ended March 31, 2014	Year ended December 31, 2013
	\$	\$
Capitalised amortisation and depreciation	216,717	677,351
	<u>216,717</u>	<u>677,351</u>

**11. SHARE CAPITAL**

Share capital of the Company consists of fully paid ordinary shares. The Company has one class of shares, being ordinary shares. The Company is authorised to issue an unlimited number of ordinary shares. The Company’s ordinary shares have no par value. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the shareholders’ meeting of the Company.

	Number of shares	\$
Number of ordinary shares issued and fully paid: Total outstanding number of shares, January 1, 2013	126,861,168	125,315,924
Shares issued on exercise of warrants	3,311,758	2,457,335
Amount attributable to expired options	-	614,865
Total outstanding number of shares, December 31, 2013	130,172,926	128,388,124
Shares issued for cash, net of shares issue costs (i)	17,250,000	14,609,417
Shares issued for cash, net of shares issue costs (ii)	1,731,000	1,542,604
Amount attributable to expired options	-	476,103
Total outstanding number of shares, March 31, 2014	149,153,926	145,016,248

- i) On February 18, 2014, the Company completed a bought deal transaction with a syndicate of underwriters co-led by GMP Securities L.P. and Scotia Capital and including BMO Capital Markets and National Bank Financial (Underwriters) for 15,000,000 ordinary shares at a price CAD1.00 per ordinary share. The Underwriters also exercised their over-allotment option in full and purchased an additional 2,250,000 ordinary shares at the offering price. As a result, the Company issued 17,250,000 ordinary shares at a price CAD1.00 per ordinary share.
- ii) On March 21, 2014, the Company entered into agreements with two of its current strategic investors: International Finance Corporation (“IFC”), a member of the World Bank Group, and the European Bank for Reconstruction and Development (“EBRD”), pursuant to these agreements, EBRD subscribed for 3,000,000 ordinary shares and IFC subscribed for 1,731,000 ordinary shares of the Company, both at CAD1.00 per ordinary share. The agreement with IFC closed on March 26, 2014, in result the Company issued and sold to IFC 1,731,000 ordinary shares for gross proceeds CAD \$ 1,731,000. See Note 15, Subsequent Events, regarding the closing of the agreement with EBRD.

## 12. SHARE BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

	Number of options	Weighted average exercise price US Dollar
Balance at January 1, 2013	4,780,000	2.35
Granted	600,000	1.19
Expired	(825,000)	2.12
Balance at December 31, 2013	4,555,000	2.09
Granted	1,500,000	0.94
Expired	(630,000)	2.01
Balance at March 31, 2014	5,425,000	1.72

During the three month period ended March 31, 2014, 1,500,000 share options were granted to a director and officer of the Company. The weighted average fair value per share options granted during the three month period ended March 31, 2014 was \$0.62. Options were priced using the Black Scholes Option Pricing Model using the following assumptions:



	<u>2014</u>
Expected volatility	83%
Expected option life	5 years
Risk free rate	1.62%
Dividend yield	0%
Forfeiture rate	0%

During the three month period ended March 31, 2014, \$252,098 (2013: \$632,665) was included in employee benefits expense in the consolidated income statement.

**13. ACCRUED LIABILITIES AND OTHER PAYABLES**

	March 31, 2014 \$	December 31, 2013 \$
Accrued liabilities and trade payables	676,679	581,991
Wage accruals	180,840	365,945
	857,519	947,936

**14. RELATED PARTY TRANSACTIONS**

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

	Three month period ended March 31, 2014 \$	Three month period ended March 31, 2013 \$
Salaries and benefits	311,194	336,141
Share-based payments	246,755	363,569

**15. SUBSEQUENT EVENTS**

On April 16, 2014, the Company issued and sold to EBRD 3,000,000 ordinary shares at price of CAD1.00 per ordinary share. A share subscription agreement with EBRD for this private placement was signed on March 21, 2014.

The consolidated interim financial statements for the three month period ended March 31, 2014 were approved for issue by the Board of Directors on May 14, 2014 and subsequent events have been reviewed through the date of approval.