



LYDIAN INTERNATIONAL LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

June 30, 2015

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LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

(expressed in US Dollars)

		As of	
	Notes	June 30, 2015	December 31, 2014
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents	4	\$ 13,427,808	\$ 9,448,339
Short-term investments		-	1,600,000
Other current assets	5	581,121	1,059,576
Total current assets		<u>14,008,929</u>	<u>12,107,915</u>
<i>Non-current assets</i>			
Property, plant and equipment, net	6	5,621,705	2,433,329
Exploration and evaluation assets	7	62,780,312	58,921,727
Other non-current assets	8	3,666,536	3,208,310
TOTAL ASSETS		<u>\$ 86,077,482</u>	<u>\$ 76,671,281</u>
LIABILITIES			
<i>Current liabilities</i>			
Accrued liabilities and other payables	9	\$ 1,079,675	\$ 1,577,426
Total current liabilities		<u>1,079,675</u>	<u>1,577,426</u>
<i>Non-current liabilities</i>			
Provisions	10	346,535	344,754
Total liabilities		<u>1,426,210</u>	<u>1,922,180</u>
EQUITY			
Share capital	11	163,865,528	150,199,754
Employee share option plan reserve		3,600,015	3,755,312
Translation of foreign operations		(17,570,573)	(17,847,360)
Accumulated deficit		(65,243,698)	(61,358,605)
Total equity		<u>84,651,272</u>	<u>74,749,101</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 86,077,482</u>	<u>\$ 76,671,281</u>

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

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (Unaudited)

(expressed in US Dollars)

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2015	2014	2015	2014
Interest income		\$ 4,431	\$ 23,886	\$ 14,810	\$ 58,889
Total income		4,431	23,886	14,810	58,889
Employee salaries and benefits expense	13	743,185	1,575,369	1,655,728	2,480,150
General and administrative expense		719,216	766,773	1,441,975	1,726,032
Depreciation and amortization expense		19,519	30,186	42,966	61,418
Other (gains) losses, net	14	635,572	487,162	759,234	275,467
Total expenses		2,117,492	2,859,490	3,899,903	4,543,067
Loss before taxes		(2,113,061)	(2,835,604)	(3,885,093)	(4,484,178)
Income taxes		-	-	-	-
Net loss		\$ (2,113,061)	\$ (2,835,604)	\$ (3,885,093)	\$ (4,484,178)
Net loss per share (basic and diluted)	15	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.03)
Other comprehensive loss:					
Net loss		\$ (2,113,061)	\$ (2,835,604)	\$ (3,885,093)	\$ (4,484,178)
Other comprehensive loss:					
Exchange differences arising on translation of foreign operations		(146,136)	1,760,825	\$ 276,787	112,646
Total comprehensive loss		\$ (2,259,197)	\$ (1,074,779)	\$ (3,608,306)	\$ (4,371,532)

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

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(expressed in US Dollars)

		For the six months ended June 30,	
		2015	2014
	Notes		<i>Restated (Note 3)</i>
Cash flows from operating activities			
Loss for the period		\$ (3,885,093)	\$ (4,484,178)
<i>Adjustments for:</i>			
Depreciation and amortization		42,966	61,418
Disposal of property and equipment		-	(22,563)
Interest income		(14,810)	(58,889)
Share-based compensation payments	13	368,370	898,892
Operating loss before working capital changes		(3,488,567)	(3,605,320)
Change in other current assets		45,477	(219,703)
Change in accrued liabilities and other payables		(420,732)	176,857
Cash used in operations		(3,863,822)	(3,648,166)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,585,770)	(34,982)
Expenditures for exploration and evaluation assets		(3,323,348)	(3,612,757)
Proceeds from maturity of short term investment		1,600,420	
Deposit		-	100,000
Proceeds from disposal of property and equipment		-	33,283
Interest income received		14,810	46,657
Cash used in investing activities		(5,293,888)	(3,467,799)
Cash flows from financing activities			
Proceeds from issuance of share capital, net	11	13,142,107	18,874,821
Cash generated from financing activities		13,142,107	18,874,821
Net increase in cash and cash equivalents		3,984,397	11,758,856
Foreign exchange effect on cash		(4,928)	339,318
Cash and cash equivalents, beginning of period		9,448,339	8,549,127
Cash and cash equivalents, end of the period		\$ 13,427,808	\$ 20,647,301

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

LYDIAN INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)

(expressed in US Dollars)

	Reserves				Total
	Share capital	Share-based compensation	Translation of foreign operations	Accumulated deficit	
Balance at January 1, 2014	\$ 128,388,124	\$ 4,709,655	\$ (6,445,311)	\$ (52,455,393)	\$ 74,197,075
Issue of new shares	20,037,208	-	-	-	20,037,208
Cost of share issue	(1,162,387)	-	-	-	(1,162,387)
Attributable to expired options	885,462	(885,462)	-	-	-
Share based compensation	-	898,892	-	-	898,892
Total comprehensive loss	-	-	112,646	(4,484,178)	\$ (4,371,532)
Balance at June 30, 2014	\$ 148,148,407	\$ 4,723,085	\$ (6,332,665)	\$ (56,939,571)	\$ 89,599,256
Balance January 1, 2015	\$ 150,199,754	\$ 3,755,312	\$ (17,847,360)	\$ (61,358,605)	\$ 74,749,101
Issue of new shares	14,238,570	-	-	-	\$ 14,238,570
Cost of share issue	(1,096,463)	-	-	-	\$ (1,096,463)
Attributable to expired options	523,667	(523,667)	-	-	\$ -
Share based compensation	-	368,370	-	-	\$ 368,370
Total comprehensive loss	-	-	276,787	(3,885,093)	\$ (3,608,306)
Balance at June 30, 2015	\$ 163,865,528	\$ 3,600,015	\$ (17,570,573)	\$ (65,243,698)	\$ 84,651,272

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

LYDIAN INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three and six month periods ended June 30, 2015

(expressed in US Dollars, unless otherwise stated)

1. GENERAL INFORMATION

Lydian International Limited (the "Corporation") 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 Corporation is Suite 3, 5/6 Esplanade, St Helier, Jersey JE2 3QA Channel Islands. The Corporation's ordinary shares ("Ordinary Shares") began trading on the Toronto Stock Exchange ("TSX") on January 10, 2008 under the symbol "LYD".

The Corporation, together with its subsidiaries, (the "Group") is a mineral exploration and development company focusing on emerging and transitional environments, including precious and base metal assets located in Armenia and Georgia under exploration licenses granted by local authorities. The Group's main exploration project is the Amulsar Gold Project, located in Armenia. In conducting operations in Armenia and Georgia, the Corporation 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 emerging markets. The Corporation'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.

These unaudited interim condensed consolidated financial statements as of and for the three and six month periods ended June 30, 2015 are comprised of the Corporation and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Corporation is the ultimate parent.

2. BASIS OF PRESENTATION

These unaudited interim condensed consolidated financial statements were prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The accounting policies applied in these financial statements are consistent with those used in the Corporation's audited consolidated financial statements for the year ended December 31, 2014.

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, equity, income and expense. In management's opinion, all adjustments considered necessary for fair presentation have been included in these financial statements. Interim results are not necessarily indicative of the results expected for the financial year. Actual annual results may differ from interim estimates. The significant judgments made by management applied in the preparation of these financial statements are consistent with those applied and disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2014, except as described in Note 3 with respect to a change in the functional currency of the Corporation. For a description of the Corporation's critical accounting estimates and assumptions, please refer to the Corporation's audited consolidated financial statements for the year ended December 31, 2014.

3. ACCOUNTING CHANGES

Statements of cash flows presentation

For reporting periods commencing from the year ended December 31, 2014, the Corporation elected to change the presentation in the Statements of Cash Flows to reflect the more widely used "indirect method" of reporting cash flows. Accordingly, the Statement of Cash Flows for the six month period ended June 30, 2014

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(expressed in US Dollars, unless otherwise stated)

was restated to provide comparability with the Statement of Cash Flow for the year ended December 31, 2014. In addition to restating cash flows for comparability, an error in allocation between operating cash flows and the foreign exchange effect on cash was corrected. Cash used in operations was increased by \$618,423 and loss from foreign exchange effect on cash decreased by \$618,423. These changes had no impact on financial position, net loss, comprehensive loss or financing and investing cash flows previously presented.

Change in functional currency

Effective January 1, 2015, the Corporation determined that a change to its functional currency was appropriate from the Canadian Dollar to the U.S. Dollar as it became evident that the underlying transactions and events are predominantly denominated in U.S. Dollars. This shift occurred as a greater percentage of expenditures for technical and administrative services are denominated in U.S. Dollars. No other Group entities were affected by this change in functional currency. This change in judgement has been accounted for prospectively in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, in banks and investments in money market instruments. Components of cash and cash equivalents are as follows:

	As of	
	June 30, 2015	December 31, 2014
Cash	<u>\$ 13,427,808</u>	<u>\$ 9,448,339</u>
	<u>\$ 13,427,808</u>	<u>\$ 9,448,339</u>

5. OTHER CURRENT ASSETS

	As of	
	June 30, 2015	December 31, 2014
Supplies	\$ 160,214	\$ 152,197
Refundable VAT	60,996	492,521
Deposits	129,727	154,707
Other receivables and prepayments	230,184	260,151
	<u>\$ 581,121</u>	<u>\$ 1,059,576</u>

LYDIAN INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three and six month periods ended June 30, 2015

(expressed in US Dollars, unless otherwise stated)

6. PROPERTY PLANT AND EQUIPMENT

	Machinery, equipment and vehicles	Land and fixtures	Office equipment and other	Total
Cost				
As of December 31, 2014	\$ 3,782,721	\$ 54,374	\$ 721,895	\$ 4,558,990
Additions	29,234	3,528,806	-	3,558,040
Disposal	(5,938)	-	-	(5,938)
Exchange differences	1,338	32,770	2,999	37,107
As of June 30, 2015	<u>\$ 3,807,355</u>	<u>\$ 3,615,950</u>	<u>\$ 724,894</u>	<u>\$ 8,148,199</u>
Accumulated Depreciation				
As of December 31, 2014	\$ 1,669,974	\$ 8,066	\$ 447,621	\$ 2,125,661
Additions	349,254	1,206	53,598	404,058
Disposal	(5,938)	-	-	(5,938)
Exchange differences	590	52	2,071	2,713
As of June 30, 2015	<u>\$ 2,013,880</u>	<u>\$ 9,324</u>	<u>\$ 503,290</u>	<u>\$ 2,526,494</u>
Carrying Amount				
As of December 31, 2014	\$ 2,112,747	\$ 46,308	\$ 274,274	\$ 2,433,329
As of June 30, 2015	<u>\$ 1,793,475</u>	<u>\$ 3,606,626</u>	<u>\$ 221,604</u>	<u>\$ 5,621,705</u>

Depreciation expense for the periods presented was capitalized to the exploration and evaluation asset balance, with the exception of \$42,966 (2014: \$61,418) which was charged to net loss.

7. EXPLORATION AND EVALUATION ASSETS

During the six month period ended June 30, 2015, exploration and evaluation costs were incurred at the Amulsar Gold Project for technical services (feasibility study review, value engineering and optimization, project execution plan development), Environmental and Social Impact Assessment ("ESIA") studies, salaries, land and equipment rentals, and other related expenditures.

	Armenia Amulsar Gold Project	Georgia Kela Project	Total
Cost			
As of December 31, 2014	\$ 58,376,135	\$ 545,592	\$ 58,921,727
Additions	3,616,701	-	3,616,701
Exchange difference	335,239	(93,355)	241,884
As of June 30, 2015	<u>\$ 62,328,075</u>	<u>\$ 452,237</u>	<u>\$ 62,780,312</u>

LYDIAN INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three and six month periods ended June 30, 2015

(expressed in US Dollars, unless otherwise stated)

Additions to exploration and evaluation assets for the six month period ended June 30, 2015 included non-cash charges for depreciation totaling \$361,092 (2014: \$432,219).

8. OTHER NON-CURRENT ASSETS

	As of	
	June 30, 2015	December 31, 2014
Refundable VAT	\$ 3,493,444	\$ 3,036,108
Rehabilitation prepayment	92,462	90,471
Monitoring prepayment	80,630	81,731
	<u>\$ 3,666,536</u>	<u>\$ 3,208,310</u>

9. ACCRUED LIABILITIES AND OTHER PAYABLES

	As of	
	June 30, 2015	December 31, 2014
Accrued liabilities and trade payables	\$ 891,764	\$ 589,498
VAT payable	-	415,125
Wage accruals	187,911	572,803
	<u>\$ 1,079,675</u>	<u>\$ 1,577,426</u>

10. PROVISIONS

The provision for restoration and rehabilitation represents the present value of future outflows of economic benefits that will be required by the mining agreement signed between Geoteam and the Republic of Armenia. The provision recognized as of June 30, 2015 and December 31, 2014 relates only to the rehabilitation of Amulsar mine areas affected by exploration activities as physical development of the mine has not commenced.

	<u>Provisions</u>
Balance as of December 31, 2014	\$ 344,754
Additions, net	-
Exchange difference	1,781
Balance as of June 30, 2015	<u>\$ 346,535</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three and six month periods ended June 30, 2015

(expressed in US Dollars, unless otherwise stated)

11. SHARE CAPITAL

Share capital consists of one class of fully paid Ordinary Shares, with no par value. The Corporation 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 Corporation's shareholders' meetings.

	Number	Value
Shares outstanding, December 31, 2014	152,153,926	\$ 150,199,754
Shares issued for cash, net of issuance costs	32,478,661	13,142,107
Amount attributable to expired options	-	523,667
Shares outstanding, June 30, 2015	<u>184,632,587</u>	<u>\$ 163,865,528</u>

On February 4, 2015, the Corporation completed a bought deal transaction with a syndicate of underwriters (the "2015 Offering"). The Corporation issued and sold 30,000,000 ordinary shares at a price C\$0.55 (\$0.44) per ordinary share. Proceeds net of issuance costs were \$12,056,188.

In connection with the 2015 Offering, International Finance Corporation ("IFC") exercised its pre-emptive right to purchase Ordinary Shares of the Corporation on a private placement basis, which included an aggregate of 2,478,661 Ordinary Shares at a purchase price of C\$0.55 (\$0.44) per Share, for aggregate gross proceeds of \$1,085,920. The private placement to IFC closed on March 25, 2015.

12. SHARE-BASED COMPENSATION

	Number of Options	Weighted Average Exercise Price
Balance as of December 31, 2014	5,650,000	\$ 1.15
Granted	2,400,000	0.45
Expired	(850,000)	1.10
Balance as of June 30, 2015	<u>7,200,000</u>	<u>\$ 0.87</u>

During the six months period ended June 30, 2015, 2,400,000 share options were granted to directors, officers and employees of the Company. The weighted average fair value per share option granted during the six month period was \$0.24. Options were priced using the Black Scholes Option Pricing Model using the following assumptions:

LYDIAN INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three and six month periods ended June 30, 2015

(expressed in US Dollars, unless otherwise stated)

	<u>2015</u>
Expected Volatility	75%
Expected option life	5 years
Risk free rate	0.60%
Dividend yield	0%
Forfeiture rate	0%

The following table summarizes outstanding and exercisable options as of June 30, 2015:

Range of exercise price	Outstanding options			Exercisable options		
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average remaining life (years)	Weighted average exercise price
\$0 to \$0.81 (CAD\$0-\$1)	3,705,000	4.51	\$ 0.54	908,750	3.95	\$ 0.74
\$0.82 to \$1.62 (CAD\$1.01-\$2)	2,490,000	3.76	0.91	2,057,500	3.74	0.91
\$1.63 to \$2.43 (CAD\$2.01-\$3)	1,005,000	0.62	1.94	1,005,000	0.62	1.94
	7,200,000	3.70	\$ 0.87	3,971,250	3.00	\$ 1.13

13. EMPLOYEE SALARIES AND BENEFITS EXPENSES

	For the three months ended June 30,		For the six months ended June 30,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Salaries and other compensation	\$ 551,855	\$ 928,575	\$ 1,287,358	\$ 1,581,258
Share-based compensation	191,330	646,794	368,370	898,892
	<u>\$ 743,185</u>	<u>\$ 1,575,369</u>	<u>\$ 1,655,728</u>	<u>\$ 2,480,150</u>

LYDIAN INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three and six month periods ended June 30, 2015

(expressed in US Dollars, unless otherwise stated)

14. OTHER (GAINS) LOSSES, NET

	For the three months ended June 30,		For the six months ended June 30,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Disposal of equipment (gain)	\$ -	\$ (4,867)	\$ -	\$ (22,563)
Foreign currency loss (gain)	(333,347)	478,289	(183,955)	285,190
Other (gains) losses, net	<u>968,919</u>	<u>13,740</u>	<u>943,189</u>	<u>12,840</u>
	<u>\$ 635,572</u>	<u>\$ 487,162</u>	<u>\$ 759,234</u>	<u>\$ 275,467</u>

During Q2 2015, a breach of internet banking security at one of the Corporation's banks resulted in a series of unauthorized cash withdrawals occurring from one of the Corporation's accounts. A portion of the funds were recovered and returned to the Corporation, but \$970,000 remained unaccounted for as of June 30, 2015 and is recorded as other losses. This amount represents a contingent asset, which is not recognized as an asset under IFRS (the "Contingent Asset"). Recoveries of the Contingent Asset will be recognized and credited to other (gains) losses, net when recovery is deemed virtually certain. Some such recoveries have been achieved.

15. NET LOSS PER SHARE

Weighted average shares outstanding are as follows for the periods ended:

	For the three months ended June		For the six months ended June 30,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net loss	\$ (2,113,061)	\$ (2,835,604)	\$ (3,885,093)	\$ (4,484,178)
Weighted average shares outstanding	184,632,587	151,687,259	177,860,604	145,035,672
Net loss per share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.03)

As a result of the losses incurred during the three and six month periods ended June 30, 2015 and 2014, the potential shares to be issued from the exercise of options are not included in the computation of diluted per share amounts since the result would be anti-dilutive. Accordingly, the diluted loss per share and the basic loss per share for the periods presented are the same.

16. RELATED PARTY TRANSACTIONS

The parent and ultimate controlling party of the Group is Lydian International Limited. No individual party had overall control of the Corporation or Group during the periods being presented. Transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on

LYDIAN INTERNATIONAL LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three and six month periods ended June 30, 2015

(expressed in US Dollars, unless otherwise stated)

consolidation and are not disclosed in this note. Details of transactions between the Group 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 related parties for the periods indicated below was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Salaries and benefits	\$ 319,408	\$ 576,619	\$ 612,626	\$ 887,813
Share-based compensation	126,864	540,774	248,721	787,529
	<u>\$ 446,272</u>	<u>\$ 1,117,393</u>	<u>\$ 861,347</u>	<u>\$ 1,675,342</u>

17. SUBSEQUENT EVENTS

These unaudited interim condensed consolidated financial statements were approved for issue by the Board of Directors on August 12, 2015 and subsequent events have been reviewed through the date of approval.