LYDIAN INTERNATIONAL LIMITED
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Lydian International Limited ("Lydian" or the "Company") for the three and nine month periods ended September 30, 2013. This discussion should be read in conjunction with the consolidated financial statements and the notes thereto for the period ended September 30, 2013, prepared in accordance with the International Accounting Standards 34 (IAS 34). The information provided herein supplements, but does not form part of, the consolidated financial statements. This discussion covers three and nine month periods to September 30, 2013 as well as the subsequent period up to November 1, 2013, the date of this MD&A. All monetary figures are expressed in United States Dollars unless otherwise indicated and Canadian dollars are referred to as "CAD$".

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to the future price and the estimation of mineral reserves and resources, the realisation of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes", or variations of such words and phrases or that state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any other future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: the actual results of current exploration activities; actual results of current reclamation activities; conclusions of economic evaluations; the ability to obtain permits and other necessary authorizations, mine engineering, planning and mine site design, changes in project parameters as plans continue to be refined; future prices of mineral resources; fluctuations in metal prices, as well as those risk factors discussed or referred to in this MD&A under the heading "Risk and Uncertainties" and other documents filed from time to time with the securities regulatory authorities in all provinces and territories of Canada and Jersey. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. 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;*
- *the timing of the receipt of 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 and on a timely basis;*
- *the ability to attract and retain skilled staff;*
- *exploration timetables;*
- *planned development and production timetables;*
- *market competition; and*
- *the accuracy of the Company's resource estimate (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which it is based.*

The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by securities regulatory requirements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

Cautionary Note to United States Investors Concerning 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 recognised and required by Canadian regulations, the U.S. Securities and Exchange Commission ("SEC") does not recognise 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.

BUSINESS OVERVIEW

The Company is a gold-focused mineral exploration and development company specialising in emerging and transitional environments. Currently the Company is focused on Eastern Europe, primarily in the Caucasus region, exploring and developing precious metal assets. The Company's main project is a gold development project (the "Amulsar Project") located in Armenia. In addition, the Company holds a license covering an early-stage gold prospect (the "Kela Project" formerly the "Zoti Project") in the Guria region of Georgia.

The Company's principal objective is to continue its development and further exploration of the Amulsar Project, including putting the Amulsar Project into production. In this regard, the Company is focused on continuing its ongoing permitting process and, as part of this process, aims to complete the required environmental and social impact assessment ("ESIA") in the second quarter of 2014.

Developing the Amulsar Project into a profitable gold mining operation will depend upon the Company's ability to raise sufficient financing, acquire all permits and complete construction. The Company currently does not have any commercial operations or revenue.

THIRD QUARTER AND RECENT EVENTS AND MILESTONES

- On October 30, 2013, the Company announced that Dr. Tim Coughlin, will step down as the Company's President and Chief Executive Officer on December 31, 2013, or when his successor is appointed. Dr. Coughlin will continue to serve as a director of the Company in a non-executive capacity.
- On October 22, 2013, the Company announced the results of cyanide bottle roll tests and column leach tests on sample composites from the Erato pit at its Amulsar Project in Armenia. The results returned gold recoveries ranging from 88% to 95%. In addition, the results from a cold climate test showed only a minor reduction in the rate of recovery and that overall gold recovery was not affected by cold temperatures.
- On October 15, 2013, the Company announced that the working group formed by the Government of the Republic of Armenia concluded its assessment of the Company's latest proposed location for a heap leach processing facility at its Amulsar Project and the Armenian Government has given the Company its preliminary endorsement for the proposed location (also see the Company's press releases dated July 24, 2013, July 26, 2013 and September 18, 2013). In addition, the Company announced that the Ministry of Energy and Natural Resources (MENR) extended the deadline for the completion of the Company's open pit construction and capital mining works to September 26, 2018 (Order 156-A of the MENR on September 25, 2013, and the validity has been extended until April 3, 2040) and executed an official geotechnical exploration agreement (Licence provided on September 20, 2013 for two years by Order 154-A of the MENR) for the new heap leach processing facility site.
- The announcement above followed the update on the Amulsar Project that the Company provided on July 24, 2013. This update advised that during a Government session on July 18, 2013, the Armenian Government passed a resolution that modifies the area defined as the "catchment basin" to Lake Sevan, Armenia's largest freshwater resource. According to the text of the Resolution, the borders of the catchment basin have been expanded to include the horizontal zone 3000 meters on each side of the "axis" to the Vorotan-Sevan tunnel. Based on the Company's understanding of the Resolution, if projected to surface, the modified catchment basin includes the Company's currently proposed location for its heap leach processing facility. The Resolution also states that this part of the "catchment basin" is to be classified as the "Immediate Impact Zone" to Lake Sevan, where mineral processing activities are not permitted. When the Company informed the Government of Armenia of the potential effect on the current project design, the Government invited Lydian to participate in a joint working group with its technical experts. The working group met with the Company for the first time on August 1, 2013, with a view to reaching a satisfactory conclusion in an expeditious manner. The impact of the Resolution is causing and, subject to the outcome of the process with the working group and other factors, may continue to cause a delay in the delivery and publication of the Company's updated feasibility study, the permitting process and the development and commencement of production at the Amulsar Project (see *Exploration Update and Activities - Amulsar Project* below).
- On September 25, 2013, the Company announced that Dr. Armen Sarkissian resigned as a director of the Company. Dr. Sarkissian advised the Company that he resigned from his position in view of his appointment as the ambassador of Armenia to the United Kingdom.
- On September 19, 2013, the Company announced results from its 2013 drilling program.
- On September 18, 2013 the Company announced that Mr. Marc Leduc was appointed as Chief Operating Officer of the Company.
- On September 4, 2013, the Company announced that Mr. Bill Abel was appointed as a director of the Company as a nominee of the European Bank for Reconstruction and Development, a significant shareholder of the Company. Mr. Abel replaced David

Woodall who resigned as a director to serve his full time career commitments in Australia.

- On July 16, 2013, the Company announced that on July 11, 2013 it conducted a public hearing on the concept design and environmental impact of its proposed gold heap leach processing facility at its Amulsar Project. At the hearing, the Gndevaz community approved the concept and environmental impact assessment of the proposed Amulsar heap leach and processing facility. The public hearing was announced in the Armenian print-media, 30 days prior to the hearing date, on June 11, 2013 and was held in the village of Gndevaz, Armenia, which is the community located closest to the Company's proposed heap leach processing facility. The hearing was attended by the Governor of Vayots Dzor Region, the Head of Gndevaz Community, members of the village administration and residents of the local community and greater region, among others.

Update and Activities

Amulsar Project

The Company's Amulsar Project area covers a region of high-sulphidation, epithermal-type gold mineralisation located in Southern Armenia and was discovered by Lydian in 2006. The exploration licences for the Amulsar Project are held 100% by Geoteam CJSC, a wholly-owned indirect subsidiary of the Company.

The main focus for 2013 has been the continued development of the Amulsar Project. In this regard, the Company experienced challenges in the permitting process that caused the Company to cease work on a revised feasibility study that had been scheduled for completion in the second quarter of 2013. With the conclusion of the activities of the working group formed by the Government of the Republic of Armenia, as discussed above, a potential new site for the Company's planned heap leach processing facility has been identified and the permitting process for this new site has been initiated along with preliminary work on a further feasibility study. The Company also expects to produce a revised ESIA and feasibility study in 2014.

On September 19, 2013, the Company announced results from its 2013 drilling program. The deeper holes that were successful returned impressive consistent grades and supported management's view that additional resource potential still remains untested at depth.

Kela Project

The Kela Project (previously referred to by the Company as the "Zoti Project") is an early-stage gold prospect located in the Guria region of the Ozurgeti province in Georgia. On October 11, 2011, the Company announced that its 100% owned subsidiary, Georgian Resource Company LLC, acquired a 40 year combined exploration-mining licence over the Kela Project.

In 2012, the Company carried out surface exploration activities at the Kela Project. The Company is focussed on the continued exploration and development of the Amulsar Project and is seeking a joint venture participant for Kela.

FINANCIAL RESULTS OF OPERATIONS
SELECTED FINANCIAL INFORMATION

The financial information has been prepared in accordance with IAS 34, Interim Financial Reporting. All monetary amount references in this document are to United States dollars unless otherwise indicated.

Statement of Operations

The following is a summary of selected information for the three and nine month periods ended September 30, 2013 and comparative financial information for the corresponding periods in the Company's previous financial year.

	Three months ended September 30,		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Interest income	19,925	81,545	102,926	290,463
Total expenses	(2,008,221)	(3,060,687)	(7,171,982)	(7,939,967)
Net loss	(1,988,296)	(2,979,142)	(7,069,056)	(7,649,504)
Loss per share (basic and diluted)	(0.01)	(0.02)	(0.05)	(0.06)

During the three and nine month periods ended September 30, 2013 and 2012, the Company had no revenues. Its only income was bank interest. In the three and nine month periods ended September 30, 2013, the Company recorded a loss of $1,988,296 (1 cents per share) and $7,069,056 (5 cents per share) compared to $2,979,142 (2 cents per share) and $7,649,504 (6 cents per share) during the corresponding periods in 2012. The reduction of loss incurred in three month periods ended September 30, 2013 compared with the same period in 2012 mainly is result of foreign exchange rate differences from CAD to other monetary assets held by the Company. There were several changes in the Company's costs in the nine month period ended September 30 of 2013 compared with the same period in 2012, the most significant include: a $589,804 increase in salaries and other compensations to employees; $181,487 increase in administrative expenses; $126,920 decrease in expenses relating to services and consumable used. During three month period ended September 30, 2013 the Company recorded a loss of $983,532, resulting from the translation of the financial statements of the Company and its subsidiaries from their functional currencies to United States dollars, which is now the reporting currency for the Company.

There were no extraordinary transactions or significant end of reporting period adjustments during the three and nine month periods ended September 30, 2013.

During the nine month period ended September 30, 2013, there were fluctuations between the British Pound, Canadian Dollar, Euro, Armenian Dram, Georgian Lari and the U.S. Dollar. This resulted in changes to the value of the Company's exploration assets as reported in US Dollars. Details of these changes are set out below. The Company attempts to protect itself from variations in exchange rates by holding its cash in currencies roughly in proportion to the Company's anticipated expenditures in those currencies.

Income Tax Expense

There was no tax payable by the Company in the nine month period ended September 30, 2013 and the same period in 2012. As at September 30, 2013, the Company had taxation losses of $4,712,462 (December 31, 2012, $3,426,898) that had not been recognised, as there is insufficient evidence of taxable profit in the near future.

Summary of Operating Cash Flows, Investing and Financing Activities

The following table summarizes the Company's cash flow for the three and nine month periods ended September 30, 2013 and comparative financial information for the corresponding interim periods in the Company's previous financial year.

	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $	Nine months ended September 30, 2013 $	Nine months ended September 30, 2012 $
Net cash used by operating activities	(2,153,925)	(1,296,404)	(7,455,069)	(6,959,287)
Net cash used by investing activities	(4,582,960)	(5,898,909)	(9,828,742)	(14,817,450)
Net cash provided by financing activities	-	336,042	1,907,629	47,686,372

The decrease of cash outflow relating to investing activities during the nine month period ended September 30, 2013 compared with the same period in 2012 relate to the $5,100,000 payment to Newmont Overseas Exploration Limited ("Newmont") as second installment in connection with the Company's acquisition of all of Newmont's interest in the former joint venture between the Company and Newmont known as the Caucasus Venture and interest accrued for deferred payment. Cash inflows from financing activities in the nine month period ended September 30, 2013 relate to the proceeds received by the Company from the exercise of 3,311,758 warrants.

Summary of Balance sheet data

The following table summarises the Company's financial position as at the dates indicated:

	As at September 30, 2013 $	As at December 31, 2012 $	As at January 1, 2012 $
Current assets	19,257,113	33,393,942	13,530,367
Property and equipment	3,874,260	3,799,086	734,388
Intangible assets	140,755	198,694	147,718
Exploration and evaluation assets	57,377,018	47,684,080	36,610,222
Other non-current assets	3,874,788	3,387,771	2,115,783
Other long-term financial assets	-	-	196,660
Total assets	84,523,934	88,463,573	53,335,088
Current liabilities	6,854,152	5,933,580	6,330,465
Non-current liabilities	836,813	840,359	4,588,683
Equity	76,832,969	81,689,634	42,415,940
Total liabilities and equity	84,523,934	88,463,573	53,335,088

During the third quarter of 2013, the cash and cash equivalents of the Company decreased by $8,889,735 as a result of payments to vendors for Amulsar Project development costs, payments to vendors for supply of services and goods, and payments to employees. As at September 30, 2013, the Company's cash and cash equivalents was $18,060,420 compared to $32,705,731 on December 31, 2012.

The Company's net amount of exploration and evaluation assets (EEA) increased by $5,047,576 and $9,692,938 in the three and nine months periods ended September 30, 2013, respectively. Cash investment in EEA incurred in the nine month period ended September 30, 2013 was $9,308,899.

In the three month period ended September 30, 2013, the net amount of property, plant and equipment increased by $210,102. During three month period ended September 30, 2013 the cash investment in plant and equipment totaled $398,413.

Exploration and evaluation assets

Exploration and evaluation costs are costs incurred directly in exploration and evaluation as well as the cost of mineral licenses as per IFRS 6.

Exploration and evaluation and project development costs incurred during the nine month period ended September 30, 2013 were $9,308,899 compared to $7,415,462 in the corresponding period in 2012. These exploration and evaluation and development costs were related to exploration work on the Company's exploration projects. The cumulative amount of such costs as at September 30, 2013 and December 31, 2012 are as follows:

Project	**Cumulative as at September 30, 2013 $**	**Cumulative as at December 31, 2012 $**
Amulsar Project - Armenia	56,776,185	47,154,131
Kela Project - Georgia	600,833	529,949
Total	57,377,018	47,684,080

Exploration and evaluation assets of the Amulsar project in the Company's accounts is denominated in Armenian Drams and Kela project in Georgian Laries and for presentation purposes is translated in to US Dollars. During the nine month period ended September 30, 2013 the US Dollar strengthened against the Armenian Dram and Georgian Laries, which resulted in a reduction of the EEA balance for the Amulsar Project by $62,213 and Kela project by $2,828.

The following table represents expenditures capitalised at the Amulsar Project during the nine month period ended September 30, 2013 and the corresponding period in 2012.

	Nine months ended September 30, 2013 $	**Nine months ended September 30, 2012 $**
Project development[(1)]	4,575,618	3,090,378
Capitalised salaries	1,360,664	763,906
Professional studies	333,699	391,906
Laboratory analyses	321,674	433,260
Supplies and materials	510,561	463,072
Exploration drilling	1,326,814	1,257,340
Capitalized depreciation and amortization	449,079	135,360
Land rents	309,921	132,189
Plant hiring	245,581	458,224
State duties and fees	24,328	24,966
Field food and accommodation	91,264	90,001
Fixed assets refurbishment	36,701	14,236
Consultants fees	13,140	45,768
Other	85,223	90,708
Total	9,684,267	7,391,314

[(1)]Engineering design, ESIA, feasibility study, consulting, etc.

In Armenia, the Company's exploration activities are financed mainly in US dollars, which are converted into Armenian Drams by the Company's Armenian subsidiary and then into US Dollars for the group accounts. The cumulative totals are affected by currency fluctuations between US Dollars and Armenian Drams. There was a devaluation of the Armenian Dram in the nine month period ended September 30, 2013. As a result, the cumulative expenditures in

Armenia shown above differ from the actual historical expenditures made in United States dollars.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of results from the Company's eight most recently completed quarters:

	Q3 2013 $	Q2 2013 $	Q1 2013 $	Q4 2012 $
Net sales or total revenues	-	-	-	-
Net income (loss) attributable to owner of equity capital	(1,988,296)	(2,506,222)	(2,574,538)	(2,551,372)
Loss per share (basic and diluted)	(0.01)	(0.02)	(0.02)	(0.02)

	Q3 2012 $	Q2 2012 $	Q1 2012 $	Q4 2011 $
Net sales or total revenues	-	-	-	-
Net income (loss) attributable to owners of equity capital	(2,960,050)	(2,159,251)	(2,472,483)	(2,493,307)
Loss per share (basic and diluted)	(0.02)	(0.02)	(0.02)	(0.03)

OUTSTANDING SHARE DATA

A summary of outstanding shares, share options and warrants is set out below.

	As at November 11, 2013	As at September 30, 2013	As at December 31, 2012
Ordinary Shares	130,172,926	130,172,926	126,861,168
Stock options	4,865,000	4,865,000	4,780,000
Warrants	-	-	3,311,758

The Company has one class of issued equity shares, being Ordinary Shares.

MANAGEMENT AND STAFFING

During the nine month period ended September 30, 2013 and subsequently prior to the date of this MD&A, the following changes in the key management and staffing of the Company occurred:

- On September 4, 2013, the Company announced the appointment of Mr. Bill Abel and the resignation of David Woodall as a director as a director of the Company.
- On September 18, 2013 the Company announced that Mr. Marc Leduc was appointed as Chief Operating Officer of the Company.
- On the September 25, 2013, the Company announced that Dr. Armen Sarkissian resigned as a director of the Company.
- On October 30, 2013, the Company announced that Dr. Tim Coughlin will step down as the Company's President and Chief Executive Officer on December 31, 2013, or when his successor is appointed. Dr Coughlin will remain on the Board as a. Non-Executive Director.

LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of $12,402,961 as at September 30, 2013 compared to $27,460,362 on December 31, 2012. The Company had total assets of $84,523,934 at September 30, 2013 compared to $88,463,573 on December 31, 2012, which include deferred exploration expenditures of $57,377,018 ($47,684,080 on December 31, 2012).

The Company's principal source of liquidity as at September 30, 2013 was cash and cash equivalents of $18,060,420 compared to $32,705,731 on December 31, 2012. This decrease in the cash and cash equivalents balance was primarily the result of an operating activities and cash used in the development of the Amulsar Project, capital expenditures, property, equipment and intangible assets, exploration costs. Cash surplus to the Company's requirements is invested in bank money market deposits.

It is management's opinion, based on the Company's current liquidity position and estimates of project expenses, that the Company's liquid assets will be sufficient to discharge its liabilities in connection with the Amulsar Project and the Kela Project. The future development and exploration of the Amulsar Project and the Kela Project will require the Company to raise additional capital through a combination of equity and debt or other financing options. Following the completion of the working group's activities, the Company is conducting further technical work on the proposed new heap leach processing facility site with a view to permitting and a feasibility study, which will identify the Company's most significant future capital requirements.

The Company's liquidity is affected by a number of key factors and risks. Reference is made to the "Risks and Uncertainties" section of the MD&A for a discussion of these factors and their impact on the Company's liquidity.

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

CONTRACTUAL OBLIGATIONS

The Company has contractual obligations as follows:

	Total **$**	**Up to 1 year** **$**	**1-5 years** **$**	**More than 5 years** **$**
Operating lease obligations	16,125,493	973,720	4,368,418	10,783,354
Purchase obligations	-	-	-	-
Total contractual obligations	16,125,493	973,720	4,368,418	10,783,354

TAXES PAID IN ARMENIA

LYDIAN INTERNATIONAL LIMITED IN ARMENIA
Summary of payments to the Armenian State Budgets

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.

AMOUNTS PAID IN ARMENIAN DRAMS TO ARMENIAN GOVERNMENT		
Item	9 months to September 30, 2013	12 months to December 31, 2012
State duty on mining license	10,000,000	10,000,000
Social Insurance Funds employer	7,831,030	57,799,655
Social Insurance Funds individual	-	14,887,344
Customs duty	9,337,601	3,459,798
Property tax	319,200	416,800
Income tax	263,202,460	132,313,366
Non resident withholding tax	6,000,000	13,000,000
VAT	34,223,786	5,957,025
Nature protection fee	16,470	23,590
Total	330,930,547	237,857,578
Equivalent USD	805,086	591,509

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The net fair value of the financial assets and financial liabilities approximates their carrying value. The Company's exposure to changes in market interest rates, relates primarily to the Company's cash deposits. The Company maintains a balance between the liquidity of cash assets and the interest rate return thereon. The carrying amount of financial assets, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

SIGNIFICANT TRANSACTIONS, CONTRACTS AND OFF BALANCE SHEET ARRANGEMENTS

Significant contracts existing as of September 30, 2013 are described below.

On April 23, 2010, the Company purchased from Newmont all of Newmont's interest in the former joint venture between the Company and Newmont known as the Caucasus Venture, including all of Newmont's interest in the Amulsar gold property in Armenia. The consideration was a mixture of committed and contingent payments. The committed payments included the issuance by Lydian of three million Ordinary Shares to Newmont on the closing of the transaction and three payments of $5 million, of which; the first was paid in 2010, the second was due on December 31, 2011 and paid on March 13, 2012, together with interest owing thereon; and the third was due on December 31, 2012 and paid on October 25, 2013 together with interest in the amount $408,219 of that was owing thereon.

In addition, the Company agreed to pay Newmont, following the start of commercial production at the Amulsar Project, a 3% Net Smelter Royalty (NSR). However, at any time prior to the date that is 20 days following commencement of commercial production, Lydian may at its option elect to buy out the 3% NSR and instead pay to Newmont the aggregate sum of US$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. Furthermore, the Company has a one-time option prior to the commencement of Commercial Production to prepay these quarterly installments in a single cash payment using an annual discount rate of 10%. This equates to a single payment of approximately US$15.6 million.

These potential post production payment(s) do not constitute an "obligation or a constructive obligation", as the triggering event of commercial production has not yet occurred. Therefore, these potential payments are not shown on the balance sheet.

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

RISKS AND UNCERTAINTIES

The following risks and uncertainties, among others, should be considered when evaluating the Company and its outlook.

Mineral Resources

The Company's mineral resources are estimates, and no assurance can be given that the estimated resources are accurate or that the indicated level of gold will be produced. Such estimates are, in large part, based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralisation or formations may be different from those predicted. Further, it may take many years from the initial phase of drilling before production is possible, if at all, and during that time the economic feasibility of exploiting a discovery may change. Mineral resource estimates for properties that have not commenced production are based, in many instances, on limited and widely spaced drill hole information, which is not necessarily indicative of the conditions between and around drill holes. Accordingly, such mineral resource estimates may require revision as more drilling information becomes available or as actual production experience is gained. It should not be assumed that all or any part of the Company's mineral resources constitutes or will be converted into reserves.

Metal Prices

Even if the Company's exploration program is successful on its mineral projects, there are many factors beyond the control of the Company that may affect the marketability of any minerals discovered. Metal prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted.

Price Volatility of Other Commodities

The Company's profitability is also affected by the market prices of commodities, which are consumed or otherwise used in connection with the operations, such as diesel fuel, natural gas, electricity and cement. Prices of such commodities are also subject to volatile price movements over short periods of time and are affected by factors that are beyond the Company's control.

Foreign Operations

The Company's significant exploration and development project is located in Armenia. Such a project could be adversely affected by exchange controls, currency fluctuations, taxation and laws or policies of Armenia affecting foreign trade, investment or taxation.

Changes in mining or investment policies or shifts in political attitude in Armenia may adversely affect the Company's business. Operations may be affected by governmental regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. The factors cannot be accurately predicted.

Foreign Exchange

The Company operates internationally and is therefore exposed to foreign exchange risks arising from foreign currency fluctuations. The Company raises finance in Canadian Dollars and incurs expenses mainly in six currencies including the Euro, the British Pound, the U.S. Dollar, the Canadian Dollar, the Armenian Dram and the Georgian Lari. The Company's risk management policy is to hold cash in the Euro, British Pound, the U.S. Dollar and the Canadian Dollar, broadly in line with its currency expenditure forecasts. The Company does not currently hedge its foreign exchange exposure.

Counterparty Risk

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. We do not anticipate a loss for non-performance by any counterparty with whom we have a commercial relationship.

Taxation Risk

The Armenia tax system could impose substantial burdens on the Company. The Company is subject to a broad range of taxes imposed at federal, regional and local levels. Laws related to these taxes have been in force for a relatively short period relative to tax laws in more developed market economies and few precedents with regard to the interpretation of these laws have been established. No assurances can be made that any new tax laws introduced by the Government of Armenia will not result in the Company having to pay significantly higher taxes, which could have a materially adverse effect on the Company's business.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulations in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulations, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties in which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses.

Exploration

Exploration is highly speculative in nature and exploration projects involve many risks that even a combination of careful evaluation, experience and knowledge may not eliminate. If a site with gold or other precious metal mineralisation is discovered (and this may not happen), it may take several years from the initial phases of drilling until production is possible, if at all. Substantial expenditures are normally required to locate and establish mineral resources and to construct mining and processing facilities. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines.

Political

The majority of the Company's operations are carried out in Eurasia and, as such, the Company's operations are exposed to various levels of political risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, terrorism; corruption; crime; hostage taking or detainment of personnel; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalisation; renegotiation or nullification of existing concessions, licenses, permits and contracts; absence of reliable regulatory and judiciary process; changes in taxation policies; restrictions on foreign exchange and repatriation; changing political conditions; currency controls; and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citisens of, or purchase supplies from, a particular jurisdiction. Any changes in mining or investment policies or shifts in political attitude in Eurasia may adversely affect the Company's operations and financial condition. Failure to comply with applicable laws, regulations and local practices relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements.

Insurance

The Company's business is subject to a number of other risks and hazards, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, hurricanes and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with Company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Government Laws and Regulations

The activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards, occupational health and safety requirements, environmental standards including toxic substances, air quality, land use and water quality and use, land claims of local people and other matters. Although the Company currently carries out its operations in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development. The Company's operations and development activities are subject to receiving and maintaining permits from appropriate governmental authorities. There is no assurance that the Company will be successful in obtaining or maintaining the necessary licences and permits to continue its exploration and development activities in the future.

Difficulty in Obtaining Future Financing

The further development and exploration of mineral properties in which the Company holds an interest or which the Company acquires may depend upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that the Company will be successful in obtaining required financing as and when needed. Volatile precious metals markets and/or capital markets may make it difficult or impossible for the Company to obtain debt financing or equity financing on favorable terms or at all. Failure to obtain additional financings on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on the Company's future cash flows, earnings, results of operations, and financial condition and could result in a default under its agreement with Newmont pursuant to which the Company's subsidiary acquired a 100% interest in the Venture.

RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

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

	Nine months ended September 30, 2013 $	Nine months ended September 30, 2012 $
Aggregate emoluments	716,032	577,974
Fair value of granted share options vest	790,434	627,954

The following table sets out the number of stock options awarded to directors of the Company under the Company's stock option plan during the nine months ended September 30, 2013 and twelve months periods ended December 31, 2012.

Date of grant	Number of options	Exercise price	Expiry
March 21, 2013	150,000	CAD$2.28 ($2.21)	March 21, 2016
December 3, 2012	1,200,000	CAD$2.12 ($2.09)	December 3, 2015

There were no other share based payments during such periods.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Critical judgments in applying the Company's accounting policies

In the application of the Company's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The most significant critical judgments that members of management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements are the policies on exploration and evaluation assets and functional currencies.

In particular, management is required to assess exploration and evaluation assets for impairment with reference to the indicators provided in IFRS 6. Note 14 to the Company's Consolidated Financial Statements as of September 30, 2013 discloses the carrying values of such assets. As part of this assessment, management considered whether indicators of impairment exist at September 30, 2013.

The recoverability of exploration and evaluation costs is dependent on a number of factors common to the natural resource sector. These include the extent to which the Company can establish economically recoverable reserves on its properties, the availability of the Company to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Company will use the evaluation work of professional geologists, geophysicists and engineers for estimates in determining whether to commence or continue mining and processing. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralisation.

The functional currency for the Company and each of the Company's subsidiaries is the currency of the primary economic environment in which each entity operates. The Company has determined the functional currency of the parent company is the Canadian dollar and the functional currencies of its material subsidiaries, Geoteam CJSC and Georgia Resource Company LLC, are the Armenian Dram and Georgian Lari, respectively. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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. The most significant sources of estimation uncertainty that members of management have identified in the application of accounting policies are as follows:

There are tax matters that have not yet been confirmed by taxation authorities. While management believes that VAT input amounts are recoverable and the provision for income taxes is adequate, these amounts are subject to measurement uncertainty. Adjustments required, if any, to these provisions will be reflected in the period where it is determined that adjustments are warranted.

Equity-settled awards, including share options and warrants, are measured at fair value at the date of grant and recognised over the vesting period, based on the Company's estimate of equity-settled awards that will eventually vest, along with a corresponding increase in equity.

Fair value is measured using the Black-Scholes Option Pricing Model taking into consideration management's best estimate of the expected life of the option, the expected share price volatility, the risk free rate, the expected dividend yield and the estimated number of shares that will eventually vest.

Changes in accounting policies

During nine month period ended September 30, 2013 there was no changes in the Company's accounting policies. The accounting policies adopted are consistent with those of the previous financial year, except for the application of the following standards as of January 1, 2013:

- IFRS 10, 'Consolidated financial statements'
- IFRS 12, 'Disclosure of interests in other entities'
- IFRS 13, 'Fair value measurement'
- IAS 19 (revised), 'Employee benefits'
- Annual improvements (2009-2011)

Change of presentation currency

The management of the Company has elected to change the financial statements' presentation currency from British Pounds to United States Dollars ('US Dollar' or 'US') for reporting periods after January 1, 2013. Management believes the US Dollar better reflects the manner in which management assesses the Company's performance and is preferred in the Company's industry and to the users of the financial statements. All historical amounts have been restated to US Dollar to reflect the change in presentation currency. There were no changes to the functional currencies of the Company or its subsidiaries.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure. Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). ICFR is a process designed by or under the supervision of the Chief Executive Officer and Chief Financial Officer, and affected by the Board of Directors, management and other personnel 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 used the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) for the design of the Company's ICFR. All internal control systems have inherent limitations and therefore our ICFR can only provide reasonable assurance and may not prevent or detect misstatements due to error or fraud.

The Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures and ICFR as of September 30, 2013, that disclosure controls and procedures and ICFR were effective. In the preparation of the Q3 financial statements, management discovered an error which resulted in the restatement of the Q2 accounts. As a result of the error management identified a material weakness in the operation of the reconciliation and consolidation processes which it rectified during the close process for preparing the September 30, 2013 results.

There were no other significant changes in the Company’s internal controls or in other factors that could significantly affect those controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation, nor were there any significant deficiencies or material weaknesses in the Company’s internal controls requiring corrective actions.

A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The Company continues to review and document its disclosure controls and procedures, including internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that its systems evolve with its business.

In order to ensure that its disclosure is reported in accordance with applicable requirements, the Company has implemented an internal procedure that requires all of its press releases to be reviewed by counsel. There have been no other significant changes in the Company’s ICFR that occurred during the nine month period ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company’s ICFR.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMEMTS

The information provided in this report, including the financial statements, is the responsibility of management. In the 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 accompanying 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.

INFORMATION ON INCURRED COSTS

Material costs incurred in the nine month periods ended September 30, 2013 and 2012 were as follows:

	Nine months ended September 30,	
	2013	**2012**
	$	**$**
Exploration and evaluation deferred expenditures and Amulsar Project development[1]	9,308,899	7,415,462
Employee benefit and expenses	3,936,116	3,330,147
Administrative and other expenses	2,522,630	2,381,143
Servises and consumables used	821,828	948,748
Interest expenses	377,258	434,773
Depreciation and amortization	134,132	77,025
Total	17,100,863	14,587,298

[(1)]These expenditures are capitalised as exploration and evaluation assets.