

**LYDIAN INTERNATIONAL LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS**

March 31, 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 month period ended March 31, 2013. This discussion should be read in conjunction with the consolidated financial statements and the notes thereto for the period ended March 31, 2013, prepared in accordance with the International Financial Reporting Standards ("IFRS"). The information provided herein supplements, but does not form part of, the consolidated financial statements. This discussion covers three month period to March 31, 2013 as well as the subsequent period up to the date of this MD&A, May 14, 2013. All monetary figures are expressed in United States Dollars unless otherwise indicated.

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; 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 exploration and 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 exploration and development of the Amulsar Project. The Company will continue the ongoing exploration drilling and mine development program at the Amulsar Project. On December 18, 2012, the Company filed the Amulsar Technical Report (as defined below) on Sedar, which amended the previously filed feasibility study. The Company has since engaged the authors of the Amulsar Technical Report to, among other things, further update the report to reflect certain proposed changes in the site layout, production schedule and crusher configurations for the Amulsar Project. The revised feasibility study is expected to be completed in the third quarter of 2013. The Company also plans to conduct detailed engineering studies to finalise mine design and to allow the completion of the construction approval process for the Amulsar Project. In addition, the Company is currently developing a comprehensive environmental and social impact assessment (ESIA) in accordance with applicable requirements.

Developing the Amulsar Project into a profitable gold mining operation will depend upon the Company's ability to raise sufficient project financing, acquire all permits and complete construction. The Company currently does not have any commercial operations or revenue. The Company expects that its current assets are sufficient to finance the Amulsar Project to and through the completion of the revised feasibility study and the necessary detailed engineering stages and pay all amounts that are currently due to Newmont Overseas Exploration Limited ("Newmont") pursuant to the purchase agreement (the "Newmont Purchase Agreement") dated February 26, 2010 between the Company and Newmont on December 31, 2012, and payable by December 31, 2013.

FIRST QUARTER AND RECENT HIGHLIGHTS AND MILESTONES

- On March 25, 2013, the Company announced that Dr. Armen Sarkissian had been appointed as a director of the Company. Dr. Sarkissian was Prime Minister of Armenia from 1996-1997.
- On March 5, 2013, the Company announced an updated mineral resource estimate for its Amulsar project as summarized below.
- On February 19, 2013, the Company released a geological update, including that it is planning to carry out a 40,000 meter drill program in 2013, a significant component of which will be aimed at testing newly identified targets.
- On February 11, 2013, the Company announced that Dr. Geoffrey Cowley, a metallurgical engineer, had been appointed as a non-executive director of the Company replacing Peter Mullens who resigned from the Company's board of directors.
- On January 14, 2013, the Company announced the remaining results from its 2012 drill program for thirty holes, and included 111 meters at 1.1 g/t gold outside the current pit-shell at Arshak and 89 meters at 1 g/t gold below the current pit shell at Erato.

Recent Developments

Update of Mineral Reserves and Resources

On November 19, 2012, the Company announced a corrected mineral reserve estimate as set out in the technical report (the "Amulsar Technical Report") titled "Lydian International Ltd., Amulsar Resource Update and Heap Leach Feasibility Study" dated September 3, 2012, amended November 26, 2012 and prepared by KD Engineering, under the direction of Mr. Joseph M. Keane, P.E; Golder Associates, under the direction of Mr. Richard Kiel, P.E and Mr. Pete Lemke, P.E; Independent Mining Consultants, under the direction of Mr. Herb Welhener; and Wardell Armstrong International, under the guidance of Mr. John Eyre, FRICS MIMMM MIQ CEnv.

The mineral reserve estimate was established by tabulating the undiluted tonnes and grades of proven and probable material within the designed final pit that is scheduled as ore to the crusher over the mine life. A floating cone algorithm (independently verified by Whittle optimisations) was used to determine the final pit design and internal phase designs. The floating cone optimisation algorithm is a commonly used and accepted industry tool for providing guidance to mine design.

The table below details the mineral reserves as per the feasibility schedule, with a dilution factor of 7%. The average grade of the dilution material is assumed to be 0.15 g/t gold head grade and 1.5 g/t silver head grade. These dilution grades are significantly below the average grades of blocks surrounding scheduled undiluted ore, which are 0.21 g/t gold and 2.2 g/t

silver (when surrounding inferred material is zeroed).The estimated proven and probable reserves total approximately 2.26 million ounces of gold, as described in the table below.

| Diluted Ore Reserves | | | | | | | | | |
|----------------------|----------------|-------------|---------------|-------------|---------------|-----------------|---------------|-------------------|---------------|
| Category | Ore ktonnes | Contained | | Recoverable | | Contained Metal | | Recoverable Metal | |
| | | Gold g/t | Silver g/t | Gold g/t | Silver g/t | Gold oz. | Silver oz. | Gold oz. | Silver oz. |
| Proven | 51,143 | 0.801 | 3.37 | 0.713 | 1.31 | 1,317,000 | 5,541,000 | 1,172,000 | 2,154,000 |
| Probable | 43,751 | 0.692 | 3.15 | 0.609 | 1.08 | 973,000 | 4,435,000 | 857,000 | 1,526,000 |
| Proven+Probable | 94,894 | 0.750 | 3.27 | 0.665 | 1.21 | 2,290,000 | 9,976,000 | 2,029,000 | 3,680,000 |

Note: The above numbers may not calculate exactly due to rounding.

On March 5, 2013, the Company announced an updated independent mineral resource estimate for the Amulsar Project, as summarized below. At a cut-off grade of 0.35 g/t Au, the mineral resources are estimated at 52.4 Mt at 1.05 g/t Au (1.77 million ounces) of Measured category resources, 18.1 Mt at 1.02 g/t Au (0.59 million ounces) of Indicated category resources and 58.0 Mt at 0.93 g/t Au (1.73 million ounces) of Inferred category resources from the contiguous Tigranes, Artavasdes, Arshak areas and from the Erato area.

| MEASURED | | | |
|----------------------------|--------------------|---------------|----------------------------|
| Gold Cutoff Grade (g/t) | Tonnes (x 1000) | Gold (g/t) | Contained Gold (Ounces) |
| 0.30 | 59,600 | 0.96 | 1,838,000 |
| 0.35 | 52,400 | 1.05 | 1,769,000 |
| 0.40 | 46,200 | 1.14 | 1,693,000 |

| INDICATED | | | |
|----------------------------|--------------------|---------------|----------------------------|
| Gold Cutoff Grade (g/t) | Tonnes (x 1000) | Gold (g/t) | Contained Gold (Ounces) |
| 0.30 | 21,500 | 0.91 | 629,000 |
| 0.35 | 18,100 | 1.02 | 593,000 |
| 0.40 | 15,400 | 1.14 | 565,000 |

| INFERRED | | | |
|----------------------------|--------------------|---------------|----------------------------|
| Gold Cutoff Grade (g/t) | Tonnes (x 1000) | Gold (g/t) | Contained Gold (Ounces) |
| 0.30 | 70,100 | 0.82 | 1,847,000 |
| 0.35 | 58,000 | 0.93 | 1,734,000 |
| 0.40 | 49,900 | 1.02 | 1,636,000 |

The mineral reserve and mineral resource estimates were prepared in accordance with Canadian Securities Administrators National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining ("CIM") definitions for mineral resources.

The independent updated mineral resource estimate for the Amulsar Project was prepared by AMC Consultants (UK) Limited ("AMC"), under the supervision of Mr. G. David Keller, P.Geo. (APGO#1235) of AMC, a "qualified person", as defined in National Instrument 43-101, and was developed from an additional 19,867 meters of combined diamond and reverse circulation drilling, which was completed in 2012 (for a total of 109,650 meters). Resource estimation has been completed using the geostatistical technique, Localised Multiple Indicator Kriging ("Localised MIK"). Localised MIK is a form of Multiple Indicator Kriging ("MIK")

where the grades are ‘mapped’ directly into selective mining unit (“SMU”) sized blocks from a MIK estimate. Specific gravity measurements were averaged, with average values applied to appropriate block model units for the estimation of mineral resources.

The CIM requirement for “reasonable prospects for economic extraction” generally implies that quantity and grade estimates meet certain economic thresholds and that mineral resources are reported at an appropriate cut-off grade, taking into account extraction scenarios and processing recovery. AMC concluded that the Amulsar gold project is amenable to open pit extraction. To assist with determining a reasonable reporting cut-off grade, AMC considered economic parameters , including a gold price assumption of US\$1200/oz gold, based on which AMC considers that resource blocks above a grade of 0.30g/t Au show reasonable prospects for economic extraction from an open pit mine, and can therefore be reported as a mineral resource.

Exploration 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.

On October 2, 2012, the Company announced that it had entered into a new mining licence agreement with the Government of Armenia.

The main focus for 2013 is the continued development of the Project. This includes obtaining the final major permit for a new proposed heap leach site, undertaking a revised feasibility study, commissioning detailed engineering designs and undertaking development works on the ground such as haul roads and starting work on the waste dump.

During 2013, the Company now intends to complete 25,000 meters of further drilling with the aim of testing resource extensions along-strike and at depth (70% of the drilling is aimed at areas below the current pit designs) with a view to providing sufficient evidence to convert current inferred category resources to measured and indicated categories.

Kela Project

The Kela Project (previously referred to by the Company as the “Zoti Project”) is an early-stage gold prospect known in the Guri 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, as a result, will only complete a ground magnetic and field mapping survey at Kela this year.

FINANCIAL RESULTS OF OPERATIONS SELECTED FINANCIAL INFORMATION

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS). All monetary amount references in this document are to US Dollars unless otherwise indicated.

Statement of Operations

The following is a summary of selected information for the three month period ended March 31, 2013 and comparative financial information for the corresponding periods in the Company's previous financial year.

| | Three months ended March 31, | |
|------------------------------------|------------------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Interest income | 38,081 | 30,646 |
| Total expenses | (2,612,619) | (2,531,822) |
| Net loss | (2,574,538) | (2,501,176) |
| Loss per share (basic and diluted) | (0.02) | (0.02) |

During the three month periods ended March 31, 2013 and 2012, the Company had no revenues. Its only income was bank interest. In the three month period ended March 31, 2013, the Company recorded a loss of \$2,574,538 (2 cents per share) compared to \$2,501,176 (2 cents per share) during the corresponding period in 2012. There were several changes in the Company's cost structure in quarter one of 2013 compared with the same period in 2012, the most significant of which were: a \$283,826 increase in salaries and other compensations to employees; a \$74,569 decrease in expenses relating to funds allocated to employee benefit reserves in respect of option vesting; a \$50,128 increase in administrative expenses; and a \$94,918 decrease in expenses relating to services and consumable used.

There were no extraordinary transactions or significant end of reporting period adjustments during the three month period ended March 31, 2013.

During the three month period ended March 31, 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 three month period ended March 31, 2013 and the same period in 2012. As at March 31, 2013, the Company had taxation losses of \$3,837,449 (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 summarises the Company's cash flow for the three month period ended March 31, 2013 and comparative financial information for the corresponding interim period in the Company's previous financial year.

| | Three months ended March 31, | |
|---|------------------------------|-------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Net cash used by operating activities | (2,660,425) | (2,830,579) |
| Net cash used by investing activities | (1,300,016) | (6,417,361) |
| Net cash provided by financing activities | 1,907,629 | 47,110,847 |

Difference in cash outflows relating to investing activities incurred in quarter one of 2012 compared with the same period in 2013 mainly relates to USD 5,100,000 payment to Newmont as second installment for the Newmont Purchase Agreement and accrued interest for its deferral. Cash inflows from financing activities incurred in quarter one of 2013 relates to proceeds from exercise of 3,311,758 warrants, cash inflows in quarter one of 2012 relates to net proceeds from issuance of 19,388,482 ordinary shares of the Company.

Summary of Balance sheet data

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

| | As at March 31, 2012 | As at December 31, 2012 | As at January 1, 2012 |
|-----------------------------------|-------------------------|----------------------------|--------------------------|
| | \$ | \$ | \$ |
| Current assets | 31,681,708 | 33,393,942 | 13,530,367 |
| Property and equipment | 3,613,515 | 3,799,086 | 734,388 |
| Intangible assets | 176,039 | 198,694 | 147,718 |
| Exploration and evaluation assets | 47,334,914 | 47,684,080 | 36,610,222 |
| Other non-current assets | 3,286,136 | 3,387,771 | 2,115,783 |
| Other long-term financial assets | - | - | 196,660 |
| Total assets | 86,092,312 | 88,463,573 | 53,335,088 |
| Current liabilities | 6,082,521 | 5,933,580 | 6,330,465 |
| Non-current liabilities | 810,244 | 840,359 | 4,588,683 |
| Equity | 79,199,547 | 81,689,634 | 42,415,940 |
| Total liabilities and equity | 86,092,312 | 88,463,573 | 53,335,088 |

During the first quarter of 2013, the cash and cash equivalents of the Company decreased by \$1,815,653 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 March 31, 2013, the Company's cash and cash equivalents was \$30,890,078 compared to \$32,705,731 on December 31, 2012.

The Company's net amount of exploration and evaluation assets (EEA) decreased by \$349,166 in the three months period ended March 31, 2013. The decrease of EEA is mainly a result of the strengthening of the US Dollar compared to the Armenian Dram (March 31, 2013 – 1 USD = 418.58 AMD versus 1 USD = 403.87 AMD at January 1, 2013).

In the three month period ended March 31, 2013, the net amount of property, plant and equipment decreased by \$185,571, which was mainly a result of USD/AMD exchange rate differences as explained above and depreciation calculated within the reporting period. During three month period ended March 31, 2013 the investments in plant and equipment totaled \$47,163.

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 costs incurred during the three month period ended March 31, 2013 were \$1,370,226, compared to \$1,253,505 in the corresponding period in 2012. These exploration and evaluation costs were related to exploration work on the Company's exploration projects. The cumulative amount of such costs as at March 31, 2013 and December 31, 2012 are as follows:

| Project | Cumulative as at March 31, 2012 \$ | Cumulative as at December 31, 2012 \$ |
|-----------|--|---|
| Armenia | | |
| • Amulsar | 46,805,284 | 47,154,131 |
| Georgia | | |
| • Kela | 529,630 | 529,949 |
| Total | 47,334,914 | 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 three month period ended March 31, 2013 the US Dollar has strengthened against the Armenian Dram and Georgian Larie resulting a reduction of the EEA balance of the Amulsar and Kela projects by \$1,719,073 and \$319 respectively. During the three month period ended March 31, 2013 the investments in the Amulsar project totaled \$1,370,226.

The following table represents expenditures capitalised at the Amulsar Project during the three month period ended March 31, 2013 and the corresponding period in 2012.

| | 2013 \$ | 2012 \$ |
|---|------------|------------|
| (1) Project development | 645,059 | 813,064 |
| Capitalised salaries | 360,003 | 105,810 |
| Professional studies | 103,267 | 160,955 |
| Laboratory analyses | 94,034 | 32,342 |
| Supplies and materials | 19,931 | 14,089 |
| Capitalised depreciation and amortisation | 79,483 | 51,080 |
| Land rents | 30,507 | 24,350 |
| Plant hiring | 4,771 | 18,194 |
| State duties and fees | - | 25,742 |
| Field food and accommodation | 7,873 | 4,258 |
| Fixed assets refurbishment | 4,317 | 1,635 |
| Consultants fees | 9,180 | - |
| Other | 11,801 | 1,277 |
| | 1,370,226 | 1,252,796 |

⁽¹⁾Engineering design, Bankable 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 significant devaluation of the Armenian Dram in the first three months of 2013. As a result, the cumulative expenditures in Armenia shown above differ from the actual historical expenditures made in U.S. Dollars.

SUMMARY OF QUARTERLY RESULTS

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

| | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 |
|------------------------------------|-------------|-------------|-------------|-------------|
| | \$ | \$ | \$ | \$ |
| Net sales or total revenues | - | - | - | - |
| Net income (loss) | (2,574,538) | (2,551,372) | (2,960,050) | (2,159,251) |
| Loss per share (basic and diluted) | (0.02) | (0.02) | (0.02) | (0.02) |
| | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 |
| | \$ | \$ | \$ | \$ |
| Net sales or total revenues | - | - | - | - |
| Net income (loss) | (2,472,483) | (2,493,307) | (2,242,738) | (2,577,047) |
| Loss per share (basic and diluted) | (0.02) | (0.03) | (0.02) | (0.03) |

OUTSTANDING SHARE DATA

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

| | As at May 14, 2013 | As at March 31, 2013 | As at December 31, 2012 |
|-------------------|-----------------------|-------------------------|----------------------------|
| | Number | Number | Number |
| Ordinary Shares | 130,172,926 | 130,172,926 | 126,861,168 |
| Stock option plan | 4,695,000 | 4,695,000 | 4,780,000 |
| Warrants | - | - | 3,311,758 |

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

MANAGEMENT AND STAFFING

During the three month period ended March 31, 2013 and subsequently prior to the date of this MD&A, the following changes in the key management and staffing of the Company occurred:

- In February 2013 Dr. Geoffrey Cowley was appointed as a director of the Company replacing Mr. Peter Mullens who resigned as a director.
- On March 25, 2013, the Company announced that Dr. Armen Sarkissian had been appointed as a director of the Company.

LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of \$25,599,187 as at March 31, 2013 compared to \$27,460,362 on December 31, 2012. The Company had total assets of \$86,092,312 at March 31, 2013

compared to \$88,463,573 on December 31, 2012, which include deferred exploration expenditures of \$47,334,914 (\$47,684,080 on December 31, 2012).

The Company's principal source of liquidity as at March 31, 2013 was cash and cash equivalents of \$30,890,078 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 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 liabilities and fund the above-noted expenditures in connection with the Amulsar Project and the Kela Project. The future exploration and development 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. The Company is conducting a revised bankable feasibility study, for which the financial numbers are expected to be completed in the third quarter of 2013, and intends to conduct engineering studies to evaluate potential development scenarios for the Amulsar Project, including its 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 | 3,773,534 | 366,513 | 1,275,360 | 2,131,662 |
| Purchase obligations | - | - | - | - |
| Total contractual obligations | <u>3,773,534</u> | <u>366,513</u> | <u>1,275,360</u> | <u>2,131,662</u> |

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 | 3 months to March 31, 2013 | 12 months to December 31, 2012 |
| State duty on mining license | 10,000,000 | 10,000,000 |
| Social Insurance Funds employer | 7,838,530 | 57,799,655 |
| Social Insurance Funds individual | - | 14,887,344 |
| Customs duty | 98,655 | 3,459,798 |
| Property tax | 47,000 | 416,800 |
| Income tax from salaries and related incomes | 68,126,560 | 132,313,366 |
| Non resident withholding tax | 3,500,000 | 13,000,000 |
| VAT | 1,054,384 | 5,957,025 |
| Nature protection fee | 59,570 | 23,590 |
| Total | 90,724,699 | 237,857,578 |
| Equivalent USD | 221,501 | 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 March 31, 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 US\$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 became due on December 31, 2012. The Company has notified Newmont that it has decided to defer making this third installment payment until no later than December 31, 2013. This deferred payment amount of US\$5 million will bear interest at the rate of 10% per annum commencing December 31, 2012 until it is paid.

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 US\$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 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, accounts in British Pounds and incurs expenses mainly in six currencies – 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 citizens 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.

The directors and key management are the directors of Lydian International Limited. The remuneration of directors and key management was as follows:

| | Three months ended March 31,2013 | Three months ended March 31,2012 |
|--|-------------------------------------|-------------------------------------|
| | \$ | \$ |
| Aggregate emoluments | 336,141 | 281,377 |
| Fair value of granted share options vest | 363,569 | 463,372 |

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 three month ended March 31, 2013 and twelve month periods ended December 31, 2012.

| Date of grant | Number of options | Exercise price | Expiry |
|------------------|-------------------|-----------------------|------------------|
| March 21, 2013 | 150,000 | CAD\$2.28 (USD 2.24) | March 21, 2016 |
| December 3, 2012 | 1,200,000 | CAD\$2.12 (USD 2.09) | December 3, 2015 |

There were no other share based payments during reportable 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 March 31, 2013 discloses the carrying values of such assets. As part of this assessment, management considered whether indicators of impairment exist at March 31, 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 three month period ended March 31, 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 March 31, 2013, that disclosure controls and procedures and ICFR were effective.

There were no 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 three month period ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company’s ICFR.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 three month periods ended March 31, 2013 and 2012 were as follows:

| Cost type | Three months to March 31, | |
|---|---------------------------|-----------|
| | 2013 | 2012 |
| | \$ | \$ |
| ⁽¹⁾ Exploration and evaluation deferred expenditures | 1,370,226 | 1,253,505 |
| Employee benefit and expenses | 1,680,602 | 1,471,345 |

| | | |
|-----------------------------------|------------------|------------------|
| Administrative and other expenses | 634,131 | 584,003 |
| Servises and consumables used | 298,286 | 393,204 |
| Interest expenses | 124,214 | 207,716 |
| Depreciation and amortiszation | 40,370 | 19,497 |
| | <u>4,147,829</u> | <u>3,929,270</u> |

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