LYDIAN INTERNATIONAL LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three month period ended March 31, 2014

MANAGEMENT'S 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, 2014 and is dated May 15, 2014. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes thereto as of March 31, 2014, prepared in accordance with the International Accounting Standard 34, (IAS 34), "Interim Financial Reporting". The latest complete set of financial statements were for the year ended December 31, 2013, which were prepared in accordance with IFRS.

All monetary figures are expressed in United States Dollars unless otherwise indicated; 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 or similar to "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 that 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 and the Company's Annual Information Form under the heading under the heading "Risk Factors" and in 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 receipt of regulatory and governmental approvals for the Company's projects and the timing thereof;*
- *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

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

The Company is a gold-focused mineral development company pursuing large, high-quality resources in emerging and transitional geopolitical regions. Currently, Lydian is focused on Eastern Europe, primarily in the Caucasus region. The Company's main project is a gold development project (the "Amulsar Gold Project") located in Armenia. In addition, the Company holds a license covering an early-stage gold prospect (the "Kela Project") in the Guria region of Georgia.

The Amulsar Gold Project was discovered by the Company in 2006. Following several years of exploration, Lydian published an initial feasibility study (September 2012) and began early-stage permitting and development activities. Management's current priorities are to receive required permits and secure funding necessary to commence construction and ultimately to bring the Amulsar Gold Project into production. In particular, the Company is continuing its ongoing permitting process and, as part of this process, is working to complete an updated feasibility study (the "Updated FS") and mine plan, the environmental impact assessment (the "EIA"), an environmental and social impact assessment (the "ESIA"), and detailed engineering studies. Initial activities to arrange project financing are also ongoing.

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

QUARTER ONE AND RECENT DEVELOPMENTS

Resignation of Director

On January 31, 2014, Marc Henderson resigned as a director of the Company.

Appointment of Director, President and Chief Executive Officer

On February 24, 2014, Howard H.J. Stevenson was appointed as a director and as President and Chief Executive Officer of the Company, succeeding Dr. Timothy Coughlin, who retired from these executive offices on such date, and continued to serve as a director of the Company until April 17, 2014, when he resigned as a director of the Company.

Appointment of Director

On April 15, 2014 Mr. Timothy Philip Read was appointed as director of the Company. Mr. Read has joined the Company's board of directors as a nominee of International Finance Corporation, a significant shareholder of the Company.

Appointment of Chief Financial Officer

Effective April 22, 2014, Mr. Douglas L. Tobler was appointed as Chief Financial Officer of Company, succeeding Mr. Roderick Corrie, who resigned from executive office and as a director of the Company on April 14, 2014.

Financings

On February 18, 2014, the Company completed its previously announced brokered "bought deal" offering, pursuant to which it sold an aggregate of 17,250,000 Ordinary Shares ("Ordinary Shares") in the capital of the Company, at a price of CAD1.00 per Ordinary Share, for aggregate gross proceeds to the Company of CAD17,250,000. Net proceeds from this private placement totaled $14,609,417.

On March 21, 2014, the Company entered into agreements (collectively, the "Transaction Agreements") with two of its current strategic investors (collectively, the "Strategic Investors"): International Finance Corporation ("IFC"), a member of the World Bank Group, and the European Bank for Reconstruction and Development ("EBRD"). Pursuant to the terms of the applicable Transaction Agreements, the IFC subscribed for 1,731,000 Ordinary Shares and the EBRD subscribed for 3,000,000 Ordinary Shares (together, the "Private Placement Offerings") for an aggregate of 4,731,000 Ordinary Shares of the Company at a purchase price of CAD1.00 per Share. Aggregate gross proceeds totaled CAD4,731,000. The IFC also agreed to waive, to the extent applicable, any pre-emptive rights held by it with respect to the above-noted recently completed "bought deal" offering. Gross proceeds totaling CAD1,731,000 were received from the IFC on March 26, 2014. The EBRD gross proceeds of CAD3,000,000 were received on April 16, 2014. Aggregate net proceeds from the Private Placement Offerings totaled $4,265,404.

The Company intends to use the aggregate net proceeds of $18,874,821 from the "bought deal" offering and the Private Placement Offerings to fund the costs of technical studies, project related operating expenses and to complete a feasibility study in respect of the Company's Amulsar Project in Armenia. The Ordinary Shares issued on closing of the Private Placement Offerings are subject to a hold period of four months and one day from the respective issue dates thereof.

Amulsar Project - Project Update

During the fourth quarter of 2013, the Company resumed full efforts to prepare the Updated FS and mining permit application.

The Updated FS is being prepared by a group of international independent engineering companies, and is being led by SGS who were the lead engineers for the past two studies. Following successful completion of the 2013 Working Group, where the Company and the Government of Armenia confirmed the suitability of the new Site 28 heap leach site, the Company completed field engineering, environmental and social evaluations and is currently completing the design of a conventional heap leach operation at that site.

Management plans to complete the Updated FS by mid-2014. In addition to the heap leach and mining operation, the Company will also be presenting an update to the project's mineral reserves and resources that will include the most recent exploration drilling and updated project economics.

In addition to the engineering and geological work, the Company is also advancing the environmental and social studies and impact assessments. These studies will form the basis for Lydian's mining permit application and also an international ESIA that will be required for financing construction of the project. The company anticipates filing the application for mining permits with the Armenian government mid-2014. The permit application will include a project description of the mining operation, the heap leach and the ancillary facilities. The permit application will also include a mine plan, an EIA, a preliminary closure plan and a technical safety assessment. The international ESIA will be completed approximately 2 months after the completion of the Updated FS. The purpose of this international ESIA is to meet the Equator Principles requirements so that the Company can pursue international financing for construction of the project.

During Q1 2014, the site was on a care and maintenance status as winter conditions did not permit any site work. With the end of winter, the Company will be restarting some minor engineering and environmental studies that will be needed to complete the Updated FS and the

ESIA. Additionally, there will be a continuation of reclamation work that has been an ongoing program undertaken by the Company.

The Company has also been active with its stakeholder consultation efforts to develop greater support within the Armenian government, local communities and across a broad base of civil society. The Company's focus with the Armenian government and other national constituents is to foster broader working relationships and constructive dialogues so the permitting process can advance smoothly. With regards to local communities, the company continued to engage with the communities and worked to explain the reasons for the project delay. The local communities continue to indicate support for advancing the project.

Recently, Lydian was advised by IFC that IFC is conducting an internal assessment of a complaint received in connection with IFC's investment in Amulsar.

Kela Project, Georgia

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 and in 2013, detailed exploration and drill site definition work at the Kela Project. Based on the limited exploration carried out by the Company as of the date of this MD&A, the Company does not consider the Kela Project to be material to it. In addition, as discussed above, the Company is focused primarily on the continuing development and further exploration of the Amulsar Gold Project. Accordingly, as of the date of this MD&A, the Company does not currently plan to allocate any material amount of its available funds and other resources to the Kela Project in the near term.

FINANCIAL RESULTS OF OPERATIONS
SELECTED FINANCIAL INFORMATION

Statement of Operations

The following is a summary of selected information for the three month period ended March 31, 2014 and comparative financial information for the corresponding period in the Company's previous financial year.

	Three months ended March 31, 2014 $	Three months ended March 31, 2013 $
Interest income	35,003	38,081
Total expenses	(1,683,577)	(2,612,619)
Net loss	(1,648,574)	(2,574,538)
Loss per share (basic and diluted)	(0.01)	(0.02)

During the three month periods ended March 31, 2014 and 2013, the Company had no revenues. Its only income was bank interest. In the three month period ended March 31, 2014, the Company recorded a loss of $1,648,574 ($0.01 per share) compared to $2,574,538 ($0.02 per share) during the corresponding period in 2013. The reduction of loss incurred in three month periods ended

March 31, 2014 compared with the same period in 2013 mainly resulted from a $775,821 reduction of expenses relating to employee salaries and benefits and interest expenses reduced by $124,214. Employee salaries and benefits decreased because of staffing reductions made as Company directed resources to external consultants needed to complete the Updated FS and pending completion of the additional financings discussed above. Allocation to an "Equity settled employee benefits reserve" within the three month period ended March 31, 2014 was less by $380,567 compared with the same period in 2013. During the three month period ended March 31, 2014, the Company's comprehensive loss included a loss of $1,648,179 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 not any extraordinary transactions or significant end of reporting period adjustments during the three month period ended March 31, 2014.

During the three month period ended March 31, 2014, 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, 2014 and the same period in 2013.

Summary of Operating Cash Flows, Investing and Financing Activities

The following table summarizes the Company's cash flows for the three month period ended March 31, 2014 and comparative financial information for the corresponding period in 2013.

	Three months ended March 31, 2014	Three months ended March 31,2013
	$	$
Net cash used by operating activities	(2,257,291)	(2,660,425)
Net cash used by investing activities	(1,202,119)	(1,300,016)
Net cash provided by financing activities	16,152,021	1,907,629

During the three month period ended March 31, 2014 the Company completed a brokered "bought deal" private placement discussed above. Net proceeds from this private placement was $14,609,417. Net proceeds from a private placement with the IFC also completed during three month period ended March 31, 2014 was $1,542,604. Cash inflows from financing activities in the three month period ended March 31, 2013 related to 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 at:

	As at March 31, 2014 $	As at December 31, 2013 $
Property and equipment	3,351,912	3,652,596
Intangible assets	118,723	127,873
Exploration and evaluation assets	59,204,059	58,731,741
Other non-current assets	3,881,701	3,932,492
Current assets	22,246,795	9,353,665
Total assets	88,803,190	75,798,367
Equity	87,304,441	74,197,075
Non-current liabilities	641,230	653,356
Current liabilities	857,519	947,936
Total liabilities and equity	88,803,190	75,798,367

During Q1 2014, cash and cash equivalents of the Company increased by $12,896,070 mainly as a result of the above-mentioned public offering and private placement.

The Company's net amount of exploration and evaluation assets ("EEA") increased by $472,318 during the three month period ended March 31, 2014. The net increase of EEA incurred within this period was offset by $1,090,923 as a result of strengthening of USD against Armenian Dram and Georgian Lari in which currencies EEA is denominated.

During the three month period ended March 31, 2014, the net amount of property, plant and equipment decreased by $300,684 mainly as a result of depreciation charges of $234,864 and strengthening of USD against CAD, Armenian Dram and Georgian Lari totaled to $67,005.

Exploration and evaluation assets

Exploration and evaluation assets include 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 three month period ended March 31, 2014 were $1,563,241 compared to $11,209,639 during the twelve month period ended December 31, 2013. The cumulative amount of such costs as at March 31, 2014 and December 31, 2013 were:

Project	Cumulative as at March 31, 2014 $	Cumulative as at December 31, 2013 $
Amulsar Gold Project - Armenia	58,622,286	58,146,148
Kela Project - Georgia	581,773	585,593
Total	59,204,059	58,731,741

Expenditures for exploration and evaluation assets are recorded in the Company's accounts in Armenian Drams for the Amulsar Gold Project and in Georgian Laries for the Kela Project. Both currencies are translated to US Dollars for presentation purposes. During the three month period ended March 31, 2014, the US Dollar strengthened against the Armenian Dram and Georgian Laries, which resulted in a reduction of the EEA balances for the Amulsar Gold Project by

$1,087,103 and the Kela Project by $3,820. There was no impact on the Company's working capital resulting from these translations for presentation purposes.

The following table represents expenditures capitalised at the Amulsar Project during the three month period ended March 31, 2014 and the corresponding period in 2013.

	Three months ended March 31, 2014 $	Three months ended March 31, 2013 $
Project development[(1)]	855,418	645,059
Capitalised salaries	156,960	360,003
Professional studies	-	103,267
Laboratory analyses	5,989	94,034
Supplies and materials	8,586	19,931
Capitalized depreciation and amortization	216,717	79,483
Land rents	220,943	30,507
Plant hiring	10,578	4,771
State duties and fees	24,457	-
Field food and accommodation	2,717	7,873
Fixed assets refurbishment	8,816	4,317
Consultants fees	47,420	9,180
Other	4,640	11,801
Total	1,563,241	1,370,226

Note:
(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 during the three month period ended March 31, 2014. 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:

	Q1 2014 $	Q4 2013 $	Q3 2013 $	Q2 2013 $
Net sales or total revenues	-	-	-	-
Net loss attributable to owner of equity capital	(1,648,574)	(2,451,663)	(1,988,296)	(2,506,222)
Loss per share (basic and diluted)	(0.01)	(0.02)	(0.01)	(0.02)

	Q1 2013 $	Q4 2012 $	Q3 2012 $	Q2 2012 $
Net sales or total revenues	-	-	-	-
Net loss attributable to owners of equity capital	(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)

OUTSTANDING SHARE DATA

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

	As at May 15, 2014	As at March 31, 2014	As at December 31, 2013
Ordinary Shares	152,153,926	149,153,926	130,172,926
Stock options	5,575,000	5,425,000	4,555,000

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

MANAGEMENT AND STAFFING

During the three month period ended March 31, 2014 and subsequently prior to the date of this MD&A, the following changes in the key management and staffing of the Company occurred:

- On January 31, 2014, Marc Henderson resigned as a director of the Company.
- On February 24, 2014, Howard H.J. Stevenson was appointed as a director and as President and Chief Executive Officer of the Company, succeeding Dr. Timothy Coughlin, who retired from these executive offices on such date.
- On April 17, 2014, Dr. Timothy Coughlin resigned as a director of the Company.
- On April 15, 2014 Mr. Timothy Philip Read was appointed as director of the Company. Mr. Read has joined the Company's board of directors as a nominee of the IFC, a significant shareholder of the Company.
- On April 14, 2014, Mr. Roderick Corrie resigned as Chief Financial Officer and a director of the Company.
- Effective April 22, 2014, Mr. Douglas L. Tobler was appointed as Chief Financial Officer of Company.

LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of $21,389,276 as at March 31, 2014 compared to $8,405,729 on December 31, 2013. The Company’s principal source of liquidity as at March 31, 2014 was cash and cash equivalents of $21,445,197 compared to $8,549,127 on December 31, 2013. This increase in the cash and cash equivalents was primarily the result net proceeds received totaling $16,152,021 from the private placements noted above which do not include EBRD subscription completed on April 16, 2014, reduced by payments for operating activities and cash used in the development of the Amulsar Gold Project and other capital expenditures. Cash surplus to the Company’s immediate requirements is invested in short-term bank money market deposits.

The Company manages its liquidity and capital resources to provide sufficient cash and cash equivalents to meet near-term development plans and other contractual obligations when due. Historically, the Corporation has used net proceeds from issuances of Ordinary Shares as its primary source of liquidity. To fund long-term objectives including completing development and construction of the Amulsar mine, Lydian will be required to seek substantial additional capital resources. This may include issuances of additional Ordinary Shares, incurring debt, and other potentially available financing sources.

The Company originally estimated working capital requirements for 2014 to be $12.1 million. With completion of the private placements undertaken during Q1 2014, management plans to accelerate certain activities and augment other programs associated with the Company’s objectives. As a result, estimated working capital requirements are expected to increase by approximately $3 million for 2014.

Management believes capital resources at March 31, 2014, along with additional net proceeds received during April 2014 from the EBRD portion of the Private Placement Offerings, will be sufficient to fund 2014 programs and a portion of additional pre-construction development activities expected to continue into 2015. This includes but may not be limited to meeting general corporate obligations, completing the Updated FS, preparing and submitting the EIA, preparing the mining right application and the ESIA, obtaining permits required to commence construction, arranging additional sources of capital resources, funding sustainability programs, and initiating detailed engineering. Completing detailed engineering, procuring long-lead construction components, and ultimately constructing the Amulsar mine and facilities will require additional capital resources.

Access to additional capital resources on commercially reasonable terms will depend upon a number of factors. Most significantly, the Updated FS will outline anticipated capital and operating costs for the Amulsar Gold Project. The outlook for future gold prices, conditions within the equity and debt capital markets, and receiving all required permits will also influence the availability, timing and cost of obtaining additional capital resources. Due to these and other factors, there are no assurances that funding will be available as required. This may require management to delay or alter its present strategy to bring the Amulsar mine into commercial production.

While the Company believes it has the skills and resources necessary to accomplish its stated business objectives, participation in the exploration for and development of mineral properties has a number of inherent risks, many affecting the Company's liquidity and access to additional capital resources. Additionally, the Company has no source of operating cash flows and a history of losses resulting in an accumulated deficit of $54.1 million as at March 31, 2014. To the extent the Company has negative cash flows in future periods, additional external sources of capital resources will be required. See the risk factors described under "Risk Factors" herein and in the Company's most recent annual information form filed on SEDAR for factors that may impact the timing and success of the Company's planned activities in connection with the Amulsar Project.

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.

TAXES PAID IN ARMENIA

LYDIAN INTERNATIONAL LIMITED IN ARMENIA

Summary of payments to the Armenian State Budgets and local community's governments

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.

	Three month period to March 31, 2014	Twelve month period to December 31, 2013
	$	**$**
State duty on mining and exploration license	24,457	24,805
Income tax paid on behalf of employees	62,185	875,394(1)
Social Insurance Funds employer	-	19,119(1)
Land rent	208,302	445,933
Other taxes and duties	10,934	125,395
Total	305,878	1,490,646

Note:

(1) As a result of legislation changes in Armenia effective January 1, 2013 the Social Insurance payments were eliminated. Social Insurance payments attributable to the employer were added to the individuals' salary and income tax rates were increased accordingly.

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 earned interest income on 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, 2014 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 Project in Armenia. The consideration was a mixture of committed and contingent payments. The committed payments included issuance by Lydian of 3,000,000 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 $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 $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 accrued as liabilities in the Statements of Financial Conditions. The Company does not have any other significant or off-balance sheet type arrangements.

RISKS FACTORS

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

Negative Operating Cash Flow

The Company is a development stage company and has not yet commenced commercial production on the Amulsar Gold Project or any other property and, accordingly, has not generated cash flow from operations. The Company is devoting significant resources to the development of the Amulsar Project; however, there can be no assurance that it will generate positive cash flow from operations in the future. The Company expects to continue to incur negative consolidated cash flows and losses until such time as it enters into commercial production and will not generate consolidated revenues sufficient to fund the continuing development of the Amulsar Project. The Company has had negative operating cash flows from operations to date, and reported a total comprehensive loss of approximately $3.3 million for the three month period ended March 31, 2014. To the extent the Company has negative cash flows in future periods, the Company may need to deploy a portion of its cash reserves to fund such negative cash flows and seek addition sources of financing, which cannot be assured to be available on reasonably commercial terms.

Permits, Key Personnel and Construction and Start-up of the Amulsar mine.

The success of the Amulsar Project and the Company's planned construction and start up of a mine at the Amulsar Project is subject to a number of risk factors, including the timely receipt of required governmental approvals, licenses and permits in connection with the planned construction of mining facilities and conduct of mining operations (including environmental approvals), and the availability and performance of the key management personnel of the Company, engineering, environmental and construction contractors, mining contractors, suppliers and consultants.

Any delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay in the performance of any one or more of the key management personnel of the Company or the contractors, suppliers, consultants or other persons on which the Company is dependent in connection with its permitting activities and activities related to its planned construction, could delay or prevent the construction and start-up of the Amulsar mine as planned. The Company cannot be certain that it will receive the necessary permits, licenses and approvals required to continue its development and planned construction of the mine at Amulsar or that any approvals, licenses or permits, obtained will be on acceptable terms. The failure to obtain such permits, licenses or approvals, delays in obtaining such permits, licenses or approvals, failure to comply with such permits, licenses or approvals, or challenges to their issuance by third parties could increase the Company's costs and delay its activities, and could adversely affect the business or operations of the Company. To the extent such permits, licenses or approvals are required and not obtained, or not obtained on a timely basis, the Company may be curtailed or prohibited from continuing its development of, and its planned construction and commencement of mining operations at, the Amulsar Project. For the mining operations at Amulsar to proceed the company will need to resolve the matter of the *Potentilla Porphyrantha* plant being present at the site. This plant is listed as an endangered plant in the Red Data Book of Armenia. The company is actively working with members of the Armenian regulatory agencies and foreign experts to resolve this matter but there is no certainty that this issue will be resolved in a timely manner.

Time and Cost Estimates

The time periods and the Company's costs related to the milestones as described under "Use of Proceeds" and other estimates contained in studies or estimates or prepared by or for the Company may differ significantly from those currently expected by the Company or set out in such studies and estimates, and there can be no assurance that the actual time periods and the Company's actual costs with respect these objectives will not be higher than currently expected. Actual time periods may vary from estimates for a variety of reasons, including: the availability and performance of the key management personnel of the Company, engineering, environmental and construction contractors, mining contractors, suppliers and consultants, and the risks with respect to permitting described above. The Company's actual costs may vary from estimates for a variety of reasons, including: short-term operating factors; the availability and performance of the key management personnel of the Company, engineering, environmental and construction contractors, mining contractors, suppliers and consultants, revisions to mine plans; risks and hazards associated with mining; natural phenomena, such as inclement weather conditions, water availability, floods, and earthquakes; and unexpected labour shortages or strikes. Operational costs may also be affected by a variety of factors, including: changing waste-to-ore ratios, ore grade metallurgy, labour costs, the cost of commodities, general inflationary pressures and currency exchange rates. Many of these factors are beyond the Company's control. Failure to achieve time estimates or material increases in costs could have an adverse impact on the Company's future cash flows, business, results of operations and financial condition.

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 and Costs

The Company's profitability is also affected by the market prices of commodities consumed or otherwise used in connection with the operations. This includes, among others, such items as diesel fuel, natural gas, electricity, steel, copper, cement, and labor costs. 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, inflation, 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 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

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, commodity-based 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 ability to hold and develop its mineral resource assets and its future cash flows, earnings, results of operations, and financial condition.

RELATED PARTY TRANSACTIONS

Related parties include the Company's board of directors, officers, close family members and enterprises controlled by these individuals as well as certain persons performing similar functions. Apart from those transactions detailed in the section, there were no other related party transactions.

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

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

The following table sets out the number of stock options awarded to key management of the Company under the Company's stock option plan during the three month period ended March 31, 2014.

Date of grant	Number of options	Exercise price	Expiry
January 27, 2014	1,500,000	CAD1.04 ($0.94)	January 27, 2019

There were no other share based awards during such periods.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Critical judgments in applying the Company's accounting policies

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

Changes in accounting policies

The accounting policies adopted and computation methods used are consistent with those of the previous financial year, except for the application of the following standards as of January 1, 2014:

- the application of IFRIC 21 'Levies' (IFRIC 21) and
- the early application of 'Defined Benefit Plans: Employee Contributions' (Amendments to IAS 19), effective for annual periods beginning on or after 1 July 2014.

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, 2014, that disclosure controls and procedures and ICFR were effective.

There were not 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, 2014 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 interim 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

Set out below is summary of the capitalized exploration and evaluation and development expenditures, general and administrative expenses and other material costs incurred by the Company in connection with the exploration and development of the Company's mineral properties for the specified periods.

	Three months ended March 31, 2014	Three months ended March 31, 2013
	$	**$**
Exploration and evaluation and development expenditures - capitalized	1,563,241	1,370,226
Employee benefit and expenses	904,781	1,680,602
Administrative and other expenses	641,570	634,131
Services and consumables used	317,689	298,286
Interest expenses	-	124,214
Depreciation and amortization	31,232	40,370
Total	3,458,513	4,147,829