LYDIAN INTERNATIONAL LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 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 "Corporation") for the year ended December 31, 2014 and are dated March 31, 2015. This MD&A should be read in conjunction with the Corporation's audited annual consolidated financial statements and the notes thereto as of December 31, 2014. All financial information has been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). All monetary figures are expressed in United States Dollars unless otherwise indicated. Canadian Dollars are referred to as "C$" and Armenian Dram are referred to as "AMD".

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements, as such term is defined under applicable securities laws. These statements relate to future events or future performance and reflect management's expectations and assumptions regarding the growth, results of operations, performances and business prospects and opportunities of the Corporation. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "intend", "will", "project", "could", "believe", "predict", "potential", "should" or the negative of these terms or other similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance, achievements or events to differ materially from those anticipated, discussed or implied in such forward-looking statements. The Corporation believes the expectations reflected in such forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A and should be considered carefully and investors should not place undue reliance on them as the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. These statements speak only as of the date of this MD&A. 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 and other precious metals;
- the timing of the receipt of any outstanding regulatory and governmental approvals for the Corporation's projects;
- the ability to meet social and environmental standards and expectations;
- the availability of financing for the Corporation'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 and development timetables;
- capital expenditure and operating cost estimates;
- market competition; and

- the accuracy of the Corporation's resource estimates (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which they are based.

These forward-looking statements involve risks and uncertainties relating to, among other things, exploration and development risks, changes in commodity and, particularly, gold prices, access to skilled mining personnel, results of exploration and development activities, uninsured risks, regulatory changes, defects in title, availability of materials and equipment, timeliness of government approvals and unanticipated environmental impacts on operations. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors contained in this MD&A. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. The Corporation cautions that the foregoing list of important factors is not exhaustive. The forward looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law. See "Forward- Looking Statements" in the Annual Information Form and other filings available on SEDAR at www.sedar.com.

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 recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission ("SEC") does not recognize 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.

2014 HIGHLIGHTS

Lydian is an emerging gold developer, focusing on its 100% owned Amulsar Gold Project. Amulsar is a compelling opportunity for a large scale, low cost operation utilizing open pit mining and conventional heap leach processing. It will be Armenia's largest gold mine, with estimated mineral resources containing 3 million measured and indicated ounces and 2 million inferred ounces. Gold production is targeted to average 200,000 ounces annually over a 10 year mine life, with additional upside from existing inferred mineral resources and open extensions.

Lydian underwent a transitional process during 2014 as it prepared to move the Amulsar Gold Project toward development. The year was highlighted by a number of important events:

Financings – A private placement was completed early in 2014. Along with follow-on placements to IFC and the EBRD, net proceeds of $18.9 million were received during the year to supplement Lydian's opening cash treasury of $8.5 million. This provided the ability to complete an updated feasibility study and secure the Mining Right.

Board of Directors – Having successfully completed several important years of exploration at Amulsar, the board of directors was realigned to support Lydian's shift toward mine development. The board of six members includes five independent directors and the President and Chief Executive Officer, providing a broad range of technical and financial expertise.

Executive Management – Howard Stevenson joined Lydian as President and Chief Executive Officer in February. He provides significant experience in all phases of gold mine development, start-up and operations. The executive team was also supplemented to strengthen several key leadership areas, including finance and project construction.

Updated Feasibility Study – Since issuing an initial feasibility study in 2012, Lydian advanced the Amulsar Gold Project by completing additional drilling and other test work. Also, an agreement was reached in late 2013 for the location of the heap leach facility. These changes and other recommendations from the earlier feasibility study were incorporated into a positive update, which was announced in September.

Mining Right Approval – Lydian received approval of the Mining Right for the Amulsar Gold Project in November. This represented the final stage of the mining permitting process and granted the right to develop the Amulsar Project in line with the parameters detailed in the updated feasibility study. Granting of the Mining Right followed an extensive application, consultation, and review process, which resulted in approval of the environmental impact assessment and technical safety program.

Environmental and Social Responsibility – Lydian extended its commitment to best practices in all aspects of its operations including production, sustainability, and good corporate citizenry. A number of environmental and social initiatives were advanced, including establishing a performance framework that will be applied throughout all phases of the Amulsar Gold Project.

2015 OUTLOOK

Receipt of the Mining Right in late 2014 allows Lydian to advance a number of initiatives necessary to begin construction. We expect another transformative year, highlighted by:

Cash Position – We ended 2014 with a cash treasury of $11 million, understanding that additional funding would be needed to advance several key objectives. During the first quarter, Lydian successfully raised $13.5 million through Ordinary Share issuances, providing a total of $24.5 million for the anticipated 2015 programs. Additional intermediate funding will be needed, but this marked a strong start during on otherwise difficult period for capital markets.

Project Financing – Project financing represents an important source of funding for the Amulsar Gold Project. We are pursuing a number of options for the leverage portion of the overall financing package. Funding sources appear sufficiently interested, but the condition of the credit market will add to the complexity of this process. Once the leverage component is determined, Lydian will be able to frame the remaining equity component and seek that funding.

Land Acquisition – Lydian needs to acquire certain surface rights that will underlie some of the processing facilities. Planning for this process started in 2014, allowing us to move forward quickly from the start of 2015. Completing this process will be a significant milestone, giving Lydian open access and usage rights needed for construction activities.

Value Engineering – Improving project economics and further de-risking the technical elements of the project are significant opportunities we hope to realize from our value engineering process. Work started in January and will continue through much of the first half of 2015.

Engineering – As findings from value engineering are received, we can begin some of our basic engineering activities. Initially, the engineering will support early works that we intend to start this year, comprised mostly of access and infrastructure. Later in the year, we can begin advancing other design requirements.

Early Works – There are a number of fronts that can be pursued this year that are important to complete before full construction ramp up begins. We have plans to start work on site access and water management, and then may be able to begin site preparation for some of the processing facilities later in the year.

Environmental and Social Responsibility – We have drafted and expect to issue our ESIA during 2015. This is an important component of our project financing plans and part of our commitment to international best practices. We will also be completing several biodiversity and baseline studies during the 2015 field season.

Stakeholder Engagement – We will continue to broaden our dialog with the stakeholders of the Amulsar Gold Project. This is an important opportunity to provide transparency to those who benefit from and are affected by the project.

Lydian's plans for 2015 are robust and represent important pre-construction requirements. The greatest opportunities rest in continuing to de-risk the project while improving economic parameters through value engineering. We believe these activities can increase value in the near term and support our financing plans. Capital and credit markets remain challenging, but with proper focus on the work we can control, we believe Amulsar will be viewed as a project that should be funded and built.

BUSINESS OVERVIEW

The Corporation was incorporated under the Business Corporations Act (Alberta) on February 14, 2006. By articles of amendment dated December 12, 2007, the then outstanding shares of the Corporation were consolidated on the basis of two post-consolidation shares for each three pre-consolidation shares and the Corporation changed its name from "Dawson Creek Capital Corp." to "Lydian International Limited". By certificate of continuance effective December 12, 2007 pursuant to the Companies (Jersey) Law 1991, the Corporation was continued under the laws of

Jersey from the Province of Alberta. The registered office of Lydian is located at Suite 3, 5/6 Esplanade, St. Helier, Jersey, JE2 3QA, Channel Islands. The administrative office, which operates through Lydian U.S. Corporation, is located at 7000 South Yosemite Street, Suite 201, Centennial, Colorado, 80112, USA. The Corporation's ordinary shares ("Ordinary Shares") began trading on the Toronto Stock Exchange ("TSX") on January 10, 2008 under the symbol "LYD".

The Corporation is a gold-focused mineral development Corporation pursuing large, high-quality resources in emerging and transitional geopolitical regions. The Corporation's main project is the Amulsar Gold Project (**"Amulsar Gold Project"**), a gold development-stage project located in the Republic of Armenia. The 2014 Amulsar National Instrument 43-101(**"NI 43-101"**) Feasibility Study' dated October 22, 2014 (the "**2014 Technical Report**") for the Amulsar Gold Project outlines a mine development and construction plan designed at achieving average production of approximately 200,000 ounces of gold per year.

The Corporation's strategy is to carry out the mine development and construction plans for the Amulsar Gold Project as described in the 2014 Technical Report and to transition to a gold producer. To this end, the Corporation is focussed on obtaining additional funds to carry out its near-term planned work programs, as described below, and the project financing necessary to fully complete its mine development and construction plans for the Amulsar Gold Project.

In addition, the Corporation holds a combined exploration-mining license covering an early-stage gold prospect known as the "**Kela Project**" (previously referred to by the Corporation as the "Zoti Project") in the Guri region of the Ozurgeti province in Georgia. At the present time, the Kela Project does not comprise a material aspect of the Corporation's business operations.

FOURTH QUARTER AND RECENT DEVELOPMENTS

Financings

The Corporation entered into agreements (**the "2014 Transaction Agreements**") dated March 21, 2014 with International Finance Corporation ("**IFC**"), a member of the World Bank Group, and the European Bank for Reconstruction and Development ("**EBRD**" and together with IFC, the "**Strategic Investors**"). The 2014 Transaction Agreements provide each Strategic Investor with the right to maintain its then existing aggregate percentage ownership interest in the Corporation in the event that the Corporation issues additional equity securities or securities convertible into equity ("the Pre-Emptive Rights").

On February 4, 2015 the Corporation completed its previously announced "bought deal" offering (the "**2015 Offering**") of an aggregate of 30,000,000 ordinary shares ("**Ordinary Shares**") in the capital of the Corporation, at a price of C$0.55 per Ordinary Share Aggregate gross proceeds to the Corporation were C$16,500,000. Scotia Capital Inc., GMP Securities L.P., BMO Nesbitt Burns Inc. and National Bank Financial Inc. were the underwriters for the 2015 Offering.

In connection with the 2015 Offering, IFC exercised its Pre-Emptive Right to purchase Ordinary Shares of the Corporation on a private placement basis, which included an aggregate of 2,478,661 Ordinary Shares at a purchase price of C$0.55 per Share, for aggregate gross proceeds of C$1,363,264. The private placement to IFC closed on March 25, 2015. An agreement (the "**2015 Transaction Agreement**") was entered into between the Corporation and IFC in connection with this transaction. The 2015 Transaction Agreement is substantially on similar terms to the 2014 Tranaction Agreeements with respect of IFC. The Corporation will use the proceeds of the IFC private placement to advance the Amulsar Gold Project. The EBRD elected not to exercise its Pre-Emptive Right with respect to the 2015 Offering. The Pre-Emptive Rights of IFC and the EBRD continue to be effective in the event that the Corporation issues additional equity securities.

Amulsar Gold Project - Project Update

On November 27, 2014, the Corporation announced that, as part of the permitting process for the development of the Amulsar Gold Project, the Armenian Ministry of Energy and Natural Resources granted Geoteam CJSC ("**Geoteam**"), a wholly-owned, indirectly controlled subsidiary of Lydian, the mining right for the Amulsar Gold Project (the "**Mining Right**").

The Environmental Impact Assessment was approved by the Ministry of Nature Protection of Armenia and the Technical Safety Program was approved by the Ministry of Emergency Situations.

On September 11, 2014, the Corporation announced the results of the 2014 Technical Report for the Amulsar Gold Project. The 2014 Technical Report was filed on SEDAR on October 22, 2014.

Highlights of the Technical Report included the following:

- Total recoverable gold of 2.1 million ounces over a 10.4 year mine life;
- Gold production averaging over 200,000 ounces per year;
- Initial capital costs of $426 million;
- Low all-in sustaining costs of $701 per ounce of gold;
- 84% gold recoveries and 2.8:1 strip ratio;
- Accelerated after tax-cash flows in first five years to support early payback and project financing and;
- After-tax unleveraged IRR of 20.2% and NPV of $306 million based on a discount rate of 5% and a gold price of $1,250 per ounce.

The scientific and technical information contained under this subheading "Amulsar Gold Project - Project Update" and "Business Overview" has been reviewed, approved and verified by Marc Leduc, P.Eng, a consultant to, and former Chief Operating Officer of, the Corporation, who is a "qualified person" for the purposes of National Instrument 43-101.

SELECTED FINANCIAL INFORMATION

	Year ended December 31,			Quarter ended December 31,	
	2014	2013	2012	2014	2013
Interest income	$75,871	$114,359	$348,640	$3,124	$11,433
Total expenses	$8,979,083	$9,635,078	$10,644,765	$2,735,657	$2,463,096
Net loss	$8,903,212	$9,520,719	$10,296,125	$2,732,533	$2,451,663
Net loss per share (basic and diluted)	$0.06	$0.07	$0.08	$0.02	$0.02

Results of Operations

During the quarter and year ended December 31, 2014, the Corporation had no revenues other than interest income from bank deposits.

For year ended December 31, 2014, the Corporation recorded a net loss of $8,903,212 ($0.06 per share) compared to $9,520,719 ($0.07 per share) during the corresponding period in 2013, or a 6% reduction. The reduction in net loss for the year ended December 31, 2014 is related to the Corporation's efforts to reduce overall general and administrative costs in support of focusing its activities on furthering the development of the Amulsar Gold Project. Administrative costs were reduced by $550,000, and consumables by $310,000. Interest expense was eliminated in 2014 as the final payment to Newmont occurred in 2013 ($410,000 of interest). These reductions in costs were offset by an increase in salaries and benefits of $500,000 related primarily to increased share-based compensation. Additionally, other gains, comprised primarily of foreign exchange gains decreased $172,000 over the prior year.

For year ended December 31, 2013, the Corporation recorded a net loss of $9,520,719 ($0.07 per share) compared to $10,644,765 ($0.08 per share) during the corresponding period in 2012, or an 11% reduction. The change is mainly the result of foreign exchange rate fluctuations.

During the quarter and year ended December, 2014, there were fluctuations between the British Pound, Canadian Dollar, Euro, Armenian Dram, Georgian Lari and the US Dollar. This resulted in changes to the value of the Corporation's exploration and evaluation assets as reported in US Dollars. Details of these changes are set out below under the caption "Exploration and evaluation assets."

There were no extraordinary transactions or significant end of reporting period adjustments during the quarter and year ended December 31, 2014.

Fourth Quarter Results

For the quarter ended December 31, 2014, the Corporation recorded a net loss of $2,732,533 ($0.02 per share) compared to $2,451,663 ($0.02 per share) during the corresponding period in 2013. The increase in net loss in Q4 2014 relates primarily to accrued bonus payments to management upon achievement of milestones related to advancing the Amulsar Gold Project.

Income Tax Expense

There was no income tax payable by the Corporation for the quarters and years ended December 31, 2014 and 2013.

Summary of Balance Sheet Data

The following table summarises the Corporation's financial position as of:

	December 31, 2014	December 31, 2013
Cash and cash equivalents	$9,448,339	$8,549,127
Short term investments	1,600,000	-
Other current assets	1,059,576	804,538
Property and equipment	2,433,329	3,780,469
Exploration and evaluation assets	58,921,727	58,731,741
Other non-current assets	3,208,310	3,932,492
Total assets	$76,671,281	475,798,367
Current liabilities	1,577,426	947,936
Non-current liabilities	344,754	653,356
Equity	74,749,101	74,197,075
Total liabilities and equity	$76,671,281	$75,798,367

During the year ended December 31, 2014, cash and cash equivalents of the Corporation increased by $899,212, or 11% primarily as a result from the net proceeds of the February 2014 offering, offset by operating and investing payments throughout the year.

During the year ended December 31, 2014, the net balance in property, plant and equipment decreased by $1,347,140 as a result of depreciation of $959,496 and the effect of foreign currency translation to presentation currency of $431,660.

The Corporation's exploration and evaluation assets ("EEA") increased by $189,986 (net) during the year ended December 31, 2014. Additions of $9,932,095 to EEA incurred during 2014 were offset by $9,742,109 of foreign currency translation loss as the USD strengthened against the Armenian Dram and the Georgian Lari, in which currencies the EEA is denominated. This foreign currency translation loss was recorded directly to other comprehensive loss.

Summary of Cash Flows

The following table is a summary of cash flows for the years ended December 31:

	2014	2013 (Restated)
Cash used in operations	$ (6,895,418)	$ (7,986,505)
Net cash used in investing activities	(10,311,172)	(16,509,713)
Net cash generated from financing activities	18,874,821	1,907,629
Net increase (decrease) in cash and cash equivalents	1,668,231	(22,588,589)
Foreign exchange effect on cash	(769,019)	(1,568,015)
Cash and cash equivalents, beginning of year	8,549,127	32,705,731
Cash and cash equivalents, end of the year	$ 9,448,339	$ 8,549,127

Cash used in operations decreased by approximately $1 million year over year, consistent with the Corporation's focus on reducing overall general and administrative costs.

Cash used in investing activities decreased $6.2 million over prior year. Purchase of the Newmont joint venture interest in 2013 represented $5.4 million of this decrease. Exploration and evaluation activities decreased by $1.8 million in 2014. The 2014 expenditures were for work necessary to complete the updated feasibility study, while the 2013 expenditures related to drilling and other Amulsar technical programs. Offsetting these decreases in cash used in investing activities was the purchase of a $1.6 million short term investment during 2014 with a maturity greater than 90 days and other net increases.

Cash from financing activities in 2014 related to the February 18, 2014 bought deal transaction and the March 21, 2014 private placements, with two of the Corporation's strategic partners.

For the year ended December 31, 2014, the Corporation has elected to change the presentation in the Statement of Cash Flows to reflect the more widely used "indirect method" of reporting cash flows. Accordingly, the cash flow statement for the year ended December 31, 2013 was restated to provide comparability with the Statement of Cash Flow for the year ended December 31, 2014. In addition to restating 2013 cash flows for comparability, an error in allocation between operating cash flow and the foreign exchange effect on cash was corrected. Cash used in operations was decreased by $2,702,637 and foreign exchange effect on cash was decreased by $2,702,637. These changes had no impact on financial position, net loss, comprehensive loss or financing and investing cash flows previously presented.

Exploration and evaluation assets

Exploration and evaluation assets include the cost of mineral licenses as well as costs incurred directly in exploration and evaluation.

Exploration, evaluation and project development costs incurred during the year ended December 31, 2014 were $9,932,095 compared to $11,209,639 year ended December 31, 2013. The cumulative amount of such costs as of December 31, 2014 and December 31, 2013 were:

Project	December 31, 2014	December 31, 2013
Amulsar Gold Project - Armenia	$58,376,135	$58,146,148
Kela Project – Georgia	545,592	585,593
Total	$58,921,727	$58,731,741

Expenditures for exploration and evaluation assets are recorded in the Corporation's accounts in Armenian Drams for the Amulsar Gold Project and in Georgian Lari for the Kela Project. Both currencies are translated to US Dollars for financial statement presentation purposes. During the year ended December 31, 2014, investments in the Amulsar Gold Project totaled to $9,932,095 but were offset by $9,702,108 as result of translation exchange rate differences. During the year ended December 31, 2014 the Armenian Dram lost value towards other currencies including US Dollar, primarily during the fourth quarter of 2014. The Central Bank of Armenia announced the USD/AMD exchange rate as of December 31, 2014, as 475:1 while during the year, it averaged 416:1. During the year ended December 31, 2014, the Corporation did not invest in the Kela Project and US Dollar strengthened against the Georgian Lari, resulting in a reduction in the EEA balance of $40,001. There was no impact on the Corporation's working capital resulting from these translations for reporting purposes.

The following table represents expenditures capitalized at the Amulsar Gold Project during the year ended December 31, 2014 and the corresponding period in 2013:

	For the year ended December 31, 2014	2013
Project development[1]	$5,427,981	$5,072,947
Capitalized salaries	668,453	1,497,335
Professional studies	357,766	402,264
Laboratory analyses	113,096	392,206
Supplies and materials	146,489	398,385
Exploration drilling[2]	82,964	1,599,486
Capitalized depreciation and amortization	844,810	677,266
Land rents	1,069,855	493,780
Equipment rental	126,622	267,890
State duties and fees	24,520	24,805
Field food and accommodation	74,912	118,140
Fixed assets refurbishment	46,539	47,740
Rehabilitation reserves	328,013	-
Discount of rehabilitation guaranty prepayment	581,295	-
Other	38,780	133,953
Total	$9,932,095	$11,126,197

[1]Project development expenditures incurred for engineering design, feasibility study preparation, environmental studies and reports, and other consulting.
[2]Drilling in 2014 was limited to geotechnical drilling associated with the engineering design.

SUMMARY OF QUARTERLY RESULTS

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

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net loss	$2,732,533	$1,686,501	$2,835,604	$1,648,574
Net loss per share basic and diluted	$0.02	$0.01	$0.02	$0.01

	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net loss	$2,451,663	$1,988,296	$2,506,222	$2,574,538
Net loss per share basic and diluted	$0.02	$0.01	$0.02	$0.02

The Corporation's financial results are not significantly impacted by seasonality. Expenses vary primarily due to timing of foreign currency gains and losses.

USE OF PROCEEDS FROM FINANCING

On February 18, 2014, the Corporation completed a bought deal financing (the "**2014 Offering**"). In the final prospectus related to the 2014 Offering, the Corporation estimated that the net proceeds, assuming the exercise of the over-allotment option, would be C$16,215,000. The following comparative table summarizes the disclosure made by the Corporation in the final prospectus for the 2014 Offering about the use of net proceeds and includes a description of the variances, if any, followed by an explanation of the impact of any such variances on Corporation's ability to achieve its business objectives.

	Proposed Use of Proceeds[1]	**Actual Use of Proceeds**	**Variance**	**Explanation**
Engineering and Environmental Studies	C$3,600,000	C$3,600,000	-	-
Land Acquisition	C$2,000,000	C$90,000	C$1,910,000	Surveys and planning for land acquisition were completed in 2014 however the land was not acquired.
Armenian Office Overhead Costs	C$4,200,000	C$4,200,000	-	-
Jersey Office Overhead Costs	C$3,000,000	C$3,000,000	-	-
Deep Exploration Drilling	C$1,250,000	-	C$1,250,000	Additional deep drilling was determined to be unnecessary during 2014. The existing mine plan provides sufficient ore for the capacity of the permitted heap leach facility.
Community Development Projects	C$300,000	C$300,000	-	-
Regulator Engagement Education Program	C$250,000	C$250,000	-	-
Capacity Training in Local Communities	C$315,000	-	C$315,000	In addition to the expenditures in the Community Development Projects row above, the Corporation provided a donation of approximately C$320,000 to support scholarships for Armenian students which was used to set-off the requirement to fund capacity training.
Down Payment on Equipment	C$1,000,000	-	C$1,000,000	The timing of completing the 2014 Technical Report did not warrant down payments in 2014.
Site Accommodation Improvements	C$300,000	-	C$300,000	The timing of completing the 2014 Technical Report did not warrant improving site accommodations in 2014.
Total 2014 Costs	C$16,215,000	C$11,440,000	C$4,775,000	

Note:
(1) Proposed use of proceeds from the 2014 Offering including those received from the exercise of the over-allotment option in connection therewith.

The variance of C$4,775,000 of proceeds not allocated to the above items were used by the Corporation to further prepare the Amulsar Gold Project for construction which predominantly consisted of funding engineering and environmental studies and general corporate purposes. The variances in the allocation of proceeds did not have a material impact on the Corporation's ability to achieve its business objectives and the Corporation reached its objectives of receiving the 2014 Technical Report, substantially completing the drafting of the ESIA and obtaining the Mining Right.

The Corporation's private placement offerings that closed on March 27, 2014 and April 17, 2014 were as a result of the pre-emptive rights of IFC and EBRD that were triggered by the 2014 Offering. The disclosed uses of proceeds from these private placements were to fund technical studies, operating expenses and costs associated with the 2014 Technical Report. The proceeds from these private placements were used for the disclosed purposes and for general working capital purposes.

OUTSTANDING SHARE DATA

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

		As of December 31,	
	As of March 31, 2015	2014	2013
Ordinary Shares	184,632,587	152,153,926	130,172,926
Stock options	5,540,000	5,650,000	4,555,000

The Corporation has one class of shares, being Ordinary Shares.

MANAGEMENT AND STAFFING

During the quarter ended December 31, 2014 and through the date of this MD&A, the following changes in the key management and staffing of the Corporation occurred:

- John Naisbitt assumed the role of Project Execution Lead
- Marc Leduc resigned as chief operating officer effective December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of $10.5 million as of December 31, 2014 compared to $8.4 million on December 31, 2013. The Corporation's principal source of liquidity as of December 31, 2014 was cash and cash equivalents and short term investments of $11.0 million compared to $8.5 million on December 31, 2013. This increase in the cash, cash equivalents and short term investments was primarily the result of net proceeds received totaling $18.9 million from the securities offerings in the first and second quarters of 2014, reduced by payments for operating activities and cash used in the development of the Amulsar Gold Project. Cash surplus to the Corporation's immediate requirements is invested in short-term bank money market deposits.

Historically, the Corporation has used net proceeds from issuances of Ordinary Shares to provide sufficient funds to meet its near-term exploration and development plans and other contractual obligations when due. However, construction of the Amulsar Gold Project will require substantial additional capital resources. This includes near-term funding and, ultimately, funding for project construction and other costs.

Following completion of the 2014 Technical Report, management developed pre-construction work programs to be completed during 2015. The intent of these near-term programs is to prepare the Corporation for construction and financing activities. Estimated costs for 2015 are:

	(In Millions)
Planning, engineering and early works	$ 8.8
Drilling	1.4
Land acquisition	5.6
Land access and rental	1.2
Environmental & social	2.0
Debt financing	2.0
General corporate purposes	7.0
	$ 28.0

Given the plans outlined above, the Corporation's $10.5 million working capital balance at December 31, 2014 was considered insufficient. Therefore, it was necessary to source additional funding to advance the 2015 work programs at a moderate pace. As a result, the following additional financings were undertaken during the first quarter of 2015:

- On February 4, 2015 the Corporation completed a previously announced "bought deal" offering of an aggregate of 30,000,000 ordinary shares ("**Ordinary Shares**") in the capital of the Corporation, at a price of C$0.55 per Ordinary Share Aggregate gross proceeds to the Corporation were C$16.5 million. Net proceeds of this offering were $12.4 million.

- In connection with the 2015 Offering, IFC exercised its Pre-Emptive Right to purchase Ordinary Shares of the Corporation on a private placement basis, which included an aggregate of 2,478,661 Ordinary Shares at a purchase price of C$0.55 per Share, for aggregate gross proceeds of C$1.4 million. Net proceeds of this offering were $1.1 million. The private placement to IFC closed on March 25, 2015.

Existing working capital and the proceeds of the financings completed during the first quarter of 2015 provide available working capital of approximately $24.0 million. As such, additional working capital will be required to fully complete the 2015 work plans at the desired pace, support general corporate purposes, fund financing costs and provide a sufficient working capital reserve. Available sources may include issuances of additional Ordinary Shares, an alternative form of equity-linked security, streaming or royalty transactions, or bridge debt financing. Should additional sources of working capital not be available, management will be required to curtail certain investment activities.

Proceeding with construction of the Amulsar Gold Project will require substantial additional capital. This will include estimated initial capital costs of $426 million, debt financing fees and interest expense during construction, working capital and other reserves, cost overrun funding and general corporate purposes until sustainable positive cash flows from operations can be achieved. These requirements are currently beyond the Corporation's available working capital or its ability to source additional working capital solely through issuances of Ordinary Shares.

Management is presently pursuing a number of potential long-term sources of funding to supplement the equity component of the anticipated project financing. Generally, these come in the form of leverage to the project. This may include senior secured project financing, subordinated debt, equipment-vendor financing, debentures, streaming or royalty transactions, use of a contract miner and several other alternative funding sources. Management is targeting a financing package in the order of $300 million. Significant costs and other considerations to these potential sources of financing will include fees, interest rates, potential hedging requirements or offtake agreements, ongoing commitments beyond initial repayment, performance conditions, and the underlying security package to be charged against the assets of the Corporation. The balance of the funding will need to be sourced as equity, generally in the form of issuances of additional Ordinary Shares or other equity-link securities. Furthermore, it may also be possible to seek a joint venture partner, which in principle would provide a payment to the Corporation to acquire the interest, and then proportionate participation in the leverage funding and remaining equity component.

The time periods and the Corporation's costs related to the milestones as set out above and other estimates contained in studies or estimates or prepared by or for the Corporation may differ significantly from those currently expected by the Corporation. There can be no assurance that the actual time periods, access to sufficient funding and the Corporation's actual costs with respect these objectives will not be higher than currently expected. See "Risk Factors".

While the Corporation believes it can accomplish its stated business objectives, participation in the exploration for and development of mineral properties has a number of inherent risks. See "Risk Factors" herein for factors that may impact the timing and success of the Corporation's planned activities in connection with the Amulsar Gold Project.

The Corporation has made certain expenditure and timing commitments to the licensing authorities for the Corporation'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 governments[2]

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 Corporation payments to agencies and representatives of those governments as a first step towards a more accountable system for the management of natural resources.

	For the year ended December 31, 2014	2013
State duty on mining and exploration license	$24,520	$24,805
Income tax paid on behalf of employees	427,306	875,394
Land rentals in local communities	1,076,651	445,933
Rehabilitation guarantee payments and prepayments for post mining monitoring(1)	763,263	-
Other taxes and duties	141,063	144,514
Total	$2,432,803	$1,490,646

(1) As explained below in the mining agreement, Geoteam paid a deposit to Government of Armenia as guarantee for post mining environmental rehabilitation and for ongoing monitoring.

(2) The amounts above were paid in Armenian drams, and converted to US$ using the annual average exchange rate for this report.

FINANCIAL AND OTHER INSTRUMENTS

The Corporation's financial instruments consist of cash and cash equivalents, short-term investments, other receivables, the rehabilitation prepayment, and accrued liabilities and accounts payable. The fair value of the financial assets and financial liabilities approximates their carrying value. The Corporation's exposure to changes in market interest rates, relates primarily to the Corporation's earned interest income on cash deposits and short term investments. The Corporation 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 Corporation's maximum exposure to credit risk.

SIGNIFICANT TRANSACTIONS, CONTRACTS AND OFF BALANCE SHEET ARRANGEMENTS

Significant contracts existing as of December 31, 2014 are described below:

On April 23, 2010, the Corporation purchased from Newmont all of Newmont's interest in the former joint venture between the Corporation 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 and three payments of $5million, 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 $409,669 of that was owing thereon. In addition, the Corporation agreed to pay Newmont, following the start of commercial production at the Amulsar Gold Project, a 3% Net Smelter Royalty (NSR). However, at any time prior to the date that is 20 days following commencement of commercial production, the Corporation 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 Corporation 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 $15.7 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 and is not determinable at this time. Therefore, these potential payments are not accrued as liabilities in the Consolidated Statement of Financial Condition.

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

RISK FACTORS

The Corporation faces significant risks and uncertainties causing the mineral resource sector to be highly speculative in nature. Many of these can have material and adverse effects on the valuation of our securities, cash flows, financial condition, results of operations, existing business activities, plans and prospects.

This section describes risk factors identified as being potentially significant to the Corporation and its material property, the Amulsar Gold Project. Additional risk factors may be included in technical reports or other documents previously disclosed by the Corporation. In addition, other risks and uncertainties not discussed to date or not known to management could have material and adverse effects on the valuation of our securities, existing business activities, financial condition, results operations, plans and prospects.

Gold Prices

The Corporation’s ability to finance exploration and development activities and ultimately realize positive cash flows from operations is and will be significantly affected by the market price of gold. Gold prices are subject to significant fluctuation resulting from a number of factors beyond the control of the Corporation. Availability of additional financing is affected by current and forecasted gold prices. Reserve calculations and mine plans using lower gold prices may result in significant reductions in mineral reserve estimates and revisions to mine plans. Continuing or further gold price declines could delay or indefinitely postpone exploration and development plans and result in material write-downs of the Corporation’s investment. This may cause the Corporation to sell its mineral interests on unfavorable terms or ultimately result in loss of its properties.

Negative Cash Flows

The Corporation is a development stage entity that has not yet commenced commercial production at any of its properties. As such, it has not generated positive cash flows to date and has no reasonable prospects of doing so unless successful commercial production can be achieved at the Amulsar Gold Project. The Corporation expects to continue to incur negative investing and operating cash flows until such time as it enters into commercial production. This will require the Corporation to deploy its working capital to fund such negative cash flow and to seek additional sources of financing. There is no assurance that any such financing sources will be available or sufficient to meet the Corporations requirements.

Financing Corporate Activities

The Corporation’s activities will require substantial additional financing from external sources. Failure to obtain sufficient financing could delay or indefinitely postpone further exploration, development and production on any and all of the Corporation’s mineral properties. As a result, the Corporation is dependent on management’s ability to obtain financing through debt, royalties, streams, equity issuances, joint ventures or other means. Such sources may require security interests in material assets, corporate guarantees, payment priorities and other conditions that may be prejudicial to holders of the Corporation’s Ordinary Shares. Contractual terms may include conditions precedent that may delay or prevent the Corporation from accessing funds when needed. Restrictive covenants may impose significant operating and financial restrictions that may limit the Corporation’s flexibility, including its ability to engage in actions that may be in the Corporation’s long-term best interest. The cost of capital associated with third-party financing sources or issuances of addition equity may result in substantial dilution to existing holders of

Ordinary Shares. There is no assurance that management will be successful in obtaining required financings at all, when needed, or on acceptable terms.

Dilution of Existing Shareholders

The Corporation will require substantial additional working capital to achieve its objectives. All or a portion of this may be raised through issuances of equity or equity-linked securities. Issuing more equity securities of any nature may substantially dilute the interests of existing shareholders. Issuing substantial amounts of additional securities, or making them available for sale, may adversely affect the market price of the Corporation's Ordinary Shares. Other factors also impact the market value of Ordinary Shares. There is no assurance that future equity issuances will be at times when the market price is not adversely affected by any of these conditions. This could hamper the Corporation's ability to raise additional capital and result in greater dilution to shareholders.

Dilution of existing shareholders may result from equity-linked incentive programs. Presently, the Corporation maintains a stock option plan for its directors, officers and employees. Other equity-linked incentive programs may also be utilized in the future. Stock options are typically exercised when the market price of Ordinary Shares exceeds the exercise price of such options. The effect of this is dilutive to existing shareholders at the time of exercise. Other forms of incentive programs that may be utilized in the future will also be dilutive to existing shareholders.

Hedging

The Corporation has no current hedging or other derivative transactions in place. However, management may elect to use such instruments in the future or be required to enter into such transactions as a condition of certain financing transactions. Derivative instruments may be used to manage changes in gold prices, silver prices, interest rates, foreign currency exchange rates, energy costs and the costs other consumable commodities. Common inherent risks associated with derivative transactions include (a) credit risk resulting from a counterparty failing to meet its obligation, (b) market risk associated with changes in market factors that affect fair value of the derivative instrument, (c) basic risk resulting from ineffective hedging activities and (d) legal risk associated with an action that invalidates performance by one or both parties. There is no assurance that any hedging or other derivative program will be successful. Furthermore, such programs may prevent the Corporation from benefiting fully from favorable price and cost changes.

Financing Commitments

The Corporation currently has no off-take or similar agreements in place. However, certain financing arrangements that could be utilized in the future may require the Corporation to enter into this type of arrangement. An off-take or similar agreement typically results in reduced payments to the Corporation for outturned precious metals. Such agreements may extend beyond repayment of the associated source of financing, including up to the entire life of mine. The result of an off-take agreement is to increase the cost of financing, which may include a permanent adverse effect on the Corporation's realized sales price for gold and silver.

Foreign Currency Exchange Rates

The Corporation is subject to fluctuations in foreign currency exchange rates. Currently, equity issuances are conducted in Canadian dollars. Additional financing in the future may also include U.S. dollar denominated instruments. The majority of expenditures are U.S. dollar denominated. Exposures also exist to the Armenian dram, British pound, Euro and other currencies. Each of these currencies fluctuate in value and are subject to their own jurisdictions' political and economic conditions. This can have a material effect on our future cash flows, results of operations and financial condition and lead to higher than anticipated development, construction and other costs. The Corporation does not currently use any derivative products to mitigate its exposure to changes in foreign currency exchange rates.

Conflicts of Interest

Certain directors of the Corporation may also be shareholders, directors, officers or affiliates of other companies that engage in mineral resource activities. This may give rise to conflicts of interest from time to time. Directors have a duty and obligation to deal fairly and in good faith with a view to the best interests of the Corporation and its shareholders. If a conflict of interest arises, a director is to disclose the interest and abstain from voting on such matter in accordance with the procedures set forth in the Canadian Business Corporations Act and other applicable laws.

Global Financial Markets

Global financial markets have been volatile and unstable at times since the global financial crisis, which started in 2007. Bank failures, the risk of sovereign defaults, other economic conditions and intervention measures have caused significant uncertainties in the markets. The resulting disruptions in credit and capital markets have negatively impacted the availability and terms of credit and capital. High levels of volatility and market turmoil could also adversely impact commodity prices, exchange rates and interest rates. If market conditions continue or worsen, it could have a material adverse effect on the Company's liquidity, ability to raise capital and cost of capital.

Single Property Focus

The Corporation is currently focusing substantially all of its financial resources and efforts on developing the Amulsar Gold Project. As such, any adverse conditions or events affecting the Amulsar Gold Project will have a material adverse effect upon the Corporation.

No History of Mineral Production

The Corporation has never held any interest in a mineral producing property and, as an entity, has no experience with constructing and operating a producing mine. Nonetheless, the Corporation has committed and continues to commit substantially all of its financial resources to developing the Amulsar Gold Project. While certain directors, members of management and employees have prior experience with construction and operations, there can be no assurance that such experience will allow the Corporation to successfully develop the Amulsar Gold Project into a profitable mining operations that generates value to its stakeholders.

Infrastructure

Exploration, development, mining and processing activities depend on access to adequate infrastructure. While certain infrastructure exists within the general region of the Amulsar Gold Project, there is no assurance that the Corporation will be permitted to utilize such resources or that they will be available to the Corporation on commercially reasonable terms. Unusual or infrequent weather phenomena, deterioration over time, sabotage, government or other interference in the maintenance or provision of such infrastructure could also adversely affect the Corporation.

Time and Cost Estimates

Time and cost estimates to develop, operate and close the Amulsar Gold Project were prepared in connection with the 2014 Technical Report. Other estimates of time and costs are made from time to time for exploration and other business activities. Actual time and costs may vary significantly from estimates for a variety of reasons, both within and beyond the control of the Corporation. Failure to achieve time estimates and significant increases in costs may adversely affect the Corporation's ability to continue exploration, develop the Amulsar Gold Project and ultimately generate sufficient cash flows. There is no assurance that the Corporation's estimates of time and costs will be achievable.

Consumables Availability and Costs

The Corporation's activities are affected, and its planned development activities and operations, including the profitability thereof, will continue to be affected by the availability and costs of consumables used in connection with the Corporation's activities. Of significance, this may include concrete, steel, copper, diesel, processing reagents and electricity. Other inputs such as labour, consultant fees and equipment components are also subject to availability and cost volatility. If inputs are unavailable at reasonable costs, this may delay or indefinitely postpone planned activities. Furthermore, many of the consumables used in exploration, development and operating activities are subject to significant volatility. There is no assurance that consumables will be available at all or at reasonable costs.

Mineral Resources Uncertainties

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty which may attach to mineral resources, there can be no assurances that mineral resources will be upgraded to mineral reserves as a result of continued exploration or during the course of operations.

Estimated Mineral Resources and Reserves Uncertainties

There can be no assurances that any of the mineral resources or reserves stated in this MD&A or published technical reports of the Corporation will be realized. Until a deposit is actually mined and processed, the quantity of mineral resources or reserves, grades, recoveries and costs must be considered as estimates only. In addition, the quantity of mineral resources or reserves may vary depending on, among other things, metal prices. Any material change in the quantity of mineral resources or reserves, grades, ore dilution occurring during mining operations, stripping ratios, recoveries, costs or other factors may affect the economic viability of stated mineral resources or reserves. In addition, there is no assurance that gold recoveries or other metal recoveries in limited, small scale laboratory tests will be duplicated by larger scale tests or during production. Fluctuations in gold and silver prices, results of future drilling, metallurgical testing, actual mining and operating results, and other events subsequent to the date of stated mineral resources and reserves estimates may require revision of such estimates. Any material reductions in estimates of mineral resources or reserves could have a material adverse effect on the Corporation.

Replacing Mineral Reserves

Mines have limited lives based on proven and probable mineral reserves and the mining rate. Once a mine initiates production, the Corporation will be required to continually replace mineral reserves to sustain production continuity. This may be at an existing mine or a new mine. The Corporation's ability to maintain or increase its annual rate of gold production in the future will depend on its ability to realize existing mineral reserves, convert mineral resources into reserves, make additional discoveries or acquire additional mineral reserves. Any of these may require significant time and financial resources to accomplish and there is no assurance the Corporation will be successful.

Mine Closure

Mine closure involves long-term management of permanent engineered structures and potential acid rock drainage, achievement of environmental closure standards, orderly termination of employees and contractors and ultimately relinquishment of the site. The successful completion of these and other associated tasks is dependent on sufficient financial resources and the ability to successfully implement negotiated agreements with relevant governmental authorities, community, employees and other stakeholders. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing environmental impacts and corporate reputation damage if desired outcomes cannot be achieved. The Corporation has no experience in managing mine closures and there is no assurance that any future mine closures will be successfully managed to the satisfaction of all stakeholders.

Acquisition of Surface Rights

The Corporation needs to acquire additional surface rights. This process is subject to negotiations with third parties, and only if reasonable commercial terms cannot be attained will the Corporation be able to proceed with expropriation proceedings under Armenian legislation. Associated costs and timing to complete these acquisitions are uncertain.

Title to Properties

Although the Corporation has obtained title opinions with respect to certain of its properties and has taken reasonable measures to ensure proper title to its properties, there is no assurance that title to any of its properties will not be challenged or disputed. Properties may be subject to prior unregistered agreements or transfers, and title may be affected by undetected defects. As such, third parties may ultimately demonstrate valid claims against portions or all of the Corporation's interests. Furthermore, new laws and regulations, or amendments to laws and regulations relating to mineral tenure and land title and usage may affect the Corporation's rights to its properties. There is no assurance that the Corporation will be able to retain, explore, develop and operate its properties as planned.

Mining Right

The Mining Right, as amended in November, 2014 contains a number of conditions including a two year construction period for the Amulsar Gold Project. If construction is in-process but not completed by such deadline, the established practice in Armenia, based on procedural experience, has been an extension of time. However, there is no assurance that any such extension, will be granted to the Corporation. Failure to comply with established timing conditions or other conditions of the Mining Right may have a material adverse effect on the Corporation.

Maintenance of Rights and Interests

The Corporation holds and may acquire certain rights and interests that require it to perform activities or provide compensation to third parties. If the Corporation fails to meet its commitments fully or in a timely manner, the Corporation may lose some or all of its associated rights and interests.

Key Personnel and Skilled Labor

The Corporation's business is dependent on attracting and retaining a number of key personnel. This includes directors, officers, owner's team members and Armenian management. We do not have key man life insurance. Employment contracts are in place with each officer of the Corporation. However, there is no assurance that these officers or others will be retained or additional qualified personnel can be attracted to the Corporation.

Skilled labor will be needed to successfully develop and operate the Amulsar Gold Project. Sufficient skilled labor may not be available in the immediate region. This will require the Corporation to implement more extensive training programs than anticipated and seek additional personnel from other Armenian and possibly international labor pools. The impact on timing and costs to source an appropriate skilled labor force may be significantly different than estimated. There is no assurance that sufficient skilled labor can be attracted or retained.

Workforce Relations

We depend on our workforce to carry out the Corporation's plans to explore, develop and operate mineral properties. Additional resources will be required as the Corporation develops and ultimately operates the Amulsar Gold Project. Programs will be needed for recruitment, training and employee relations to achieve productivity targets and minimize work stoppages. In addition, workforce relations may be affected by changes in relevant labour and employment legislation. Changes in such legislation or a prolonged labour disruption could adversely affect planned business activities. Furthermore, the Corporation may hire contractors and subcontractors from time to time. These parties could experience labour disputes or become insolvent, and this could also have an adverse effect the Corporations ability to execute its plans.

Environment

All phases of the Corporation's operations are subject to environmental standards and regulations in the jurisdictions in which it operates. These standards and regulations address, among other things, endangered and protected species, emissions, noise, air and water quality standards, land use and reclamation. They also set out limitations on the generation, transportation, storage and disposal of solid, liquid and hazardous waste.

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. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures. There is no assurance current environmental regulations and any future changes will not adversely affect the Corporation's operations.

Exploration, development and mining operations involve the use of various chemicals, including certain chemicals that are designated as hazardous substances. Contamination from hazardous substances, either at the Corporation's own properties or other locations for which it may be responsible, may subject the Corporation to liability for the investigation or remediation of contamination, as well as for claims seeking to recover for related property damage, personal injury or damage to natural resources. Furthermore, environmental hazards may exist on the properties in which the Corporation holds interests which are unknown to the Corporation at present and which have been caused by previous or existing owners or operators of the properties. The occurrence of any of these adverse events could have a material adverse effect on the Corporation's future growth, results of operations and financial position.

Community and Social

The Corporation's relationship with the communities where it operates is critical to ensuring the future success of project development and future operations. There is an increasing level of public concern relating to the perceived effect of mining activities on the environment and on communities impacted by such activities. There is no assurance that the Corporation will be able to appropriately manage community relations in a manner that will allow the Corporation to proceed with its plans to develop and operate its properties.

Certain non-governmental organizations, some of which oppose globalization and resource development, are often vocal critics of the mining industry and its practices. Actions by such organizations could adversely affect our reputation and financial condition and may impact our relationship with the communities in which we operate. These actions can relate not only to current activities but also historic mining activities by prior owners and could have a material, adverse effect on the Corporation. They may also file complaints with regulators and others. Such complaints, regardless of whether they have any substance or basis in fact or law, may have the effect of undermining the confidence of the public or a regulator and may adversely affect the Corporation.

Health and Safety

All phases of the Corporation's operations are subject to various health and safety laws and regulations that impose various duties on operations relating to, among other things, worker safety and surrounding communities. These laws and regulations also grant the authorities broad powers to, among other things, close unsafe operations and order corrective action relating to health and safety matters. The costs associated with the compliance of such health and safety laws and regulations may be substantial and any amendments to such laws and regulations, or more stringent implementation thereof, could cause additional expenditure or impose restrictions on, or suspensions of, or have other adverse effects on the Corporation and its operations.

Insurance and Uninsured Risks

The business of the Corporation is subject to a number of risks and hazards. Significant losses or liabilities may arise from perils that affect, among others: stakeholders, the environment, property interests, physical assets, timing or use of assets, individuals, and the rights and interests of others. Where insurance is available and practical, a reasonable amount of insurance is maintained.

For certain risks, insurance may not be available at all or is prohibitively expensive. For example, insurance against risks such as loss of title to mineral property, environmental pollution, or other hazards as a result of exploration, development and production activities is often not available to companies in the mining industry on acceptable terms. For other risks, the selected level of coverage may be inadequate to cover the full extent of possible losses or liabilities. Furthermore, insurance may require the Corporation to meet certain conditions for coverage to apply, and there are commonly limitations and exclusions. These and other circumstances may result in all or portions of a loss or liability to be uninsured. There is no assurance that insurance acquired by the Corporation will be adequate to cover any losses or liabilities, or that it will continue to be available at terms we believe are economically acceptable.

Litigation Risks

Normal business activities and dealings with regulatory bodies expose the Corporation to potential legal claims and assessments from time to time. These claims may be deemed to be with or without merit. Defense and settlement costs can be substantial, even for claims that are without merit. There are no assurances that any legal or regulatory proceeding can be avoided and that any that arise will be resolved in a manner that does not result in material expenditures by the Corporation.

Competition

The international mining industry is highly competitive. The Corporation encounters competition from others in its efforts to acquire and retain properties, hire experienced personnel, engage qualified service providers, and purchase equipment and consumables on reasonable economic terms. Competition within Armenia exists from numerous Armenian and international entities, both mining and non-mining in nature. Many competitors possess greater financial resources, capabilities and knowledge of local operating environments than the Corporation. This may have a material adverse effect on the timing, costs and ability of the Corporation to successfully achieve its objectives.

Foreign Operations

The majority of the Corporation's operations are carried out in Armenia and, as such, the Corporation is exposed to various levels of risks and uncertainties. These risks and uncertainties include, but are not limited to, to potential for corruption; crime; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; 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. Similar risks and uncertainties exist in numerous other countries. There is no assurance that the Corporation will be able to successfully manage these and other risks associated with foreign operations.

Laws and Regulations

The Corporation's activities are subject to extensive existing laws and regulations. Interpretation of these laws and regulations is complex and may change over time. New laws and regulations may also be enacted that cannot be reasonably predicted. Failure to comply with laws and regulations at all times could curtail the Corporations planned activities, increase costs to achieve and maintain compliance, and result is assessments and other punitive actions. There is no assurance that the Corporation has been or will be in compliance as required, or that compliance will not be challenged. The cost of complying with current or future laws and regulations may result in material additional expenditures, delays or an inability to proceed with certain activities.

Governmental Approvals

Exploration, construction, operation and ultimate closure of the Corporation's properties are subject to timely receipt and maintenance of required governmental approvals, licenses and permits. In certain instances, financial surety may be required to receive necessary approvals and conduct certain activities. The availability and performance of key management personnel of the Corporation, engineering, environmental and construction contractors, mining contractors, suppliers and consultants may affect the ability to acquire and maintain such government approvals. Failure to comply with applicable provisions of governmental approvals and laws and regulations may delay or prohibit the Corporation from proceeding as planned, result in previously received governmental approvals to be revoked, and other punitive actions to be imposed. Furthermore, unforeseen changes to existing requirements or adverse interpretations by governmental authorities may have a material adverse effect on the Corporation's ability to successfully execute its objectives. There is no assurance that the Corporation will be successful in obtaining or maintaining necessary governmental approvals.

Taxation

The Corporation is affected by the tax regimes of numerous countries and jurisdictions. Revenues, expenditures, income, investments, repatriations, exports, imports, land use, intercompany transactions and all other business conditions can be taxed. Tax regulations, interpretations and enforcement policies may differ from the Corporation's applied methods and may change over time due to circumstances beyond the Corporation's control. The effect of such events could have material adverse effects on the Corporation's anticipated tax consequences. There is no assurance regarding the nature or rate of taxation, assessments and penalties that may be imposed.

Political Violence and Terrorism

The majority of the Corporation's operations are carried out in Armenia and involve global travel by many of its personnel. Regional conflicts have occurred in recent years and continue sporadically between Armenia and Azerbaijan, and in several more distant jurisdictions such as Russia and the Ukraine. Significant recent events of terrorism have also occurred globally in other locations where the Corporation's personnel may have reason to travel. The Corporation does not presently maintain insurance to cover acts of war, political violence and terrorism. There can be no assurance that any such events will not disrupt the Corporation's activities, causing additional costs, delays or an inability to proceed.

Corruption and Bribery

Our operations are governed by, and involve interactions with, many levels of government in numerous countries, most notably Armenia. In recent years, Armenia has developed an anti-corruption strategy and implementation action plan. These actions have resulted in improvements, yet Armenia continues to be perceived as having a moderately high level of corruption as measured by Transparency International. The Corruption Perceptions Index of Transparency International classifies countries by the level of perception of corruption in the public sector. A scale of 0 to 100 is used, where 0 means that a country is perceived as highly corrupt. For 2014, Armenia scored 37, ranking it 94 out of 175 countries. By comparison, Armenia scored 34 in 2012, ranking it 105 out of 176 countries.

We are required to comply with anti-corruption and anti-bribery laws, including the *Canadian Corruption of Foreign Public Officials Act* and the U.S. *Foreign Corrupt Practices Act*, as well as similar laws in the countries in which we conduct our business. We also have contractual commitments to comply with the standards and requirements of IFC and the EBRD. There has been a general increase in both the severity of penalties and frequency of enforcement under applicable laws, resulting in greater punishment and scrutiny to companies and individuals convicted of violating anti-bribery laws. Furthermore, a company may be found liable for violations by not only its employees, but also its third party agents. The Corporation has adopted a code of conduct and policies to mitigate such risks. However, such measures are not always effective in ensuring that the Corporation's personnel or third party agents will comply strictly with such laws. If we find ourselves subject to an enforcement action or are found to be in violation of such laws, this may result in significant penalties, fines and sanctions.

Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, receivables, short term investments, accounts payable and accrued liabilities, and other financial instruments may be held from time to time. These financial instruments are exposed to numerous risks, including, among others, liquidity risk, currency risk, interest rate risk, counterparty risk and credit risk. Many of these risks are outside the Corporations control. There is no assurance that the Corporation will realize the carrying value of any of its financial instruments.

Disclosures and Internal Controls

The Corporation prepares its financial reports in accordance with international financial accounting standards ("IFRS"). Financial reports and other disclosures by the Corporation are subject to management's systems for maintaining internal controls over financial reporting and disclosure controls as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. In preparing disclosures, management may make certain interpretations and rely on assumptions and estimates. There is no assurance that management's internal controls, interpretations, assumptions and estimates, or other precautions will completely ensure reliable and timely disclosures are made.

RELATED PARTY TRANSACTIONS

Related parties include the Corporation'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 Corporation's directors and officers. As an incentive mechanism to retain key management, compensation is structured to include salaries, benefits and share-based components. The aggregate compensation awarded to key management personnel for the periods indicated below was as follows:

	For the year ended December 31,	
	2014	2013
Salaries and benefits	$2,042,195	$1,431,808
Share-based compensation	$1,650,504	$1,021,867

The following table sets out the number of stock options awarded to key management of the Corporation under the Corporation's stock option plan during the year ended December 31, 2014.

Date of grant	Number of options	Exercise price	Expiry
January 27, 2014	1,500,000	CAD1.13 ($0.97)	January 27, 2019
April 22, 2014	500,000	CAD 1.01 ($0.87)	April 22, 2019
May 15, 2014	650,000	CAD 0.98 ($0.84)	May 15, 2019
June 26, 2014	400,000	CAD 1.24 ($1.07)	June 26, 2019

There were no other share based awards during the periods issued to key management.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Critical judgments in applying the Corporation's accounting policies

In applying the Corporation's accounting policies, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. Actual results may differ from the judgments, estimates and assumptions made by management and will seldom equal the estimated results.

The most significant critical judgment 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 recognized in the consolidated financial statements is the policy on exploration and evaluation assets.

In particular, management is required to assess exploration and evaluation assets for impairment. Note 8 to the consolidated financial statements discloses the carrying values of such assets. As part of this assessment, management must make an assessment as to whether there are indicators of impairment. If there are indicators, management performs an impairment test on the major assets within this balance.

The recoverability of exploration and evaluation assets is dependent on a number of factors common to the natural resource sector. These include the extent to which the Corporation can continue to renew its exploration and future development licenses with local authorities, establish economically recoverable reserves on its properties, the availability of the Corporation to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Corporation 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 mineralization.

The functional currency of the subsidiaries through which the Corporation conducts its operations varies depending upon the primary economic environment in which they operate. Management exercises judgement in determining the appropriateness of its functional currency. The primary factors assessed in determining functional currency include the currency of revenues, expenditures and inter-company arrangements as well as the currency in which cash and cash equivalents are held.

Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements have been prepared on the basis of all IFRS and interpretations effective as at December 31, 2014. The following standards were applied for periods beginning on or after January 1, 2014 and had no effect on the Company's financial performance:

- the application of IFRIC 21 'Levies' (IFRIC 21)
- the early application of 'Defined Benefit Plans: Employee Contributions' (Amendments to IAS 19), effective for annual periods beginning on or after July 1,2014.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the design of disclosure controls and procedures ("DC&P") to provide reasonable assurance that all relevant information required to be disclosed by the Corporation is accumulated and communicated to senior management as appropriate to allow timely decisions regarding required disclosure. Management is also responsible for the design of internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Corporation's Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework to design the Corporation's DC&P and ICFR as of December 31, 2014. The Corporation's Chief Executive Officer and Chief Financial Officer have each evaluated the design and operating effectiveness of the Corporation's DC&P and ICFR as of December 31, 2014 and have concluded that these controls and procedures are adequately designed and operating to provide reasonable assurance that material information relating to the Corporation is made known to them by others within the Corporation, and to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Management of the Corporation was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. In order to ensure that its disclosure is reported in accordance with applicable requirements, the Corporation 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 Corporation's ICFR that occurred during the year ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the consolidated 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 Corporation's consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Corporation'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 Corporation in connection with the exploration and development of the Corporation's mineral properties for the specified periods.

	For the year ended December 31, 2014	2013
Exploration and evaluation and development expenditures – capitalized	$9,932,095	$11,209,639
Employee benefit and expenses	5,580,790	5,083,534
Administrative and other expenses	3,078,489	3,633,449
Services and consumables used	829,314	1,139,602
Interest expenses	-	409,669
Depreciation and amortization	114,686	164,859
Total	$19,535,374	$21,640,752

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Corporation has contractual obligations as follows:

The Corporation and its subsidiaries leases office space for administrative and operational purposes. In 2011, the Corporation, through its subsidiary Geoteam, entered into long term rental contracts for lands under the planned rock allocation area, and other areas associated with planned mine development. Due to a change in the project design, the rented areas were extended in 2012, 2013 and 2014. Though these operating leases are cancelable, rental obligations are listed below:

	Total	Up to 1 year	1-5 years	More than 5 years
Operating lease obligations	$15,718,081	$1,131,572	$4,147,206	10,439,303

In November 2014, Geoteam signed a mining agreement with the Ministry of Energy and Natural Resources of Armenia. In accordance with the agreement, Geoteam paid a deposit to Government of Armenia on amount of AMD279.7 million, or $589,000, as a guarantee for post mining environmental rehabilitation and AMD38.1 million, or $80,000, for ongoing monitoring. The amounts paid represented 15% of the contractual obligation. The remainder of the rehabilitation guarantee will be paid in equal installments of AMD158.5 million, or $334,000, over 10 years commencing in 2016, and the ongoing monitoring will be paid in equal installments of AMD24.0 million, or $51,000, over 9 years commencing in 2017. In addition, Geoteam is committed to invest annually AMD61.0 million, or $128,000, after mine closure for workforce social mitigation and AMD61.5 million, or $129,000, for adjacent communities' social-economic development.

PUBLIC SECURITIES FILINGS

Additional information about the Corporation, including its most recent Annual Information Form, is available on the Corporation's website at www.lydianinternational.co.uk, or on SEDAR at www.sedar.com.