THE COMPANY`S INDEPENDENT AUDITORS HAVE NOT PERFORMED A REVIEW OF THESE UNAUDITED FINANCIAL STATEMENTS.

LYDIAN INTERNATIONAL LIMITED
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009

Lydian International Limited
Interim Consolidated Income Statements

For three and six month periods ended June 30, 2009 and 2008
(Unaudited)

	Note	Three month period ended June 30,		Six month period ended June 30,	
		2009	2008	**2009**	2008
		£	£	**£**	£
Interest income	5	**682**	36,249	**3,671**	76,084
Total income		**682**	36,249	**3,671**	76,084
Employee benefits expense		**(259,255)**	(124,175)	**(463,780)**	(316,053)
Services and consumables used		**(30,910)**	(68,490)	**(75,600)**	(120,409)
Consulting expenses		**(41,373)**	(35,660)	**(61,139)**	(65,930)
Depreciation and amortisation expense	9,10	**(38,111)**	(12,174)	**(78,284)**	(27,839)
Administrative and other expenses		**(118,276)**	-	**(311,751)**	(241,539)
Other gains (losses)		**(14,809)**	-	**23,724**	-
Total expenses		**(502,734)**	(240,499)	**(966,830)**	(771,770)
Loss before tax		**(502,052)**	(204,250)	**(963,159)**	(695,686)
Income tax	7	**-**	-	**-**	-
Loss for the period		**(502,052)**	(204,250)	**(963,159)**	(695,686)
Loss per share (basic and diluted)	8	**0.01**	0.01	**0.02**	0.02

Lydian International Limited
Interim Consolidated Statements of Recognised Income and Expenses

For three and six month periods ended June 30, 2009 and 2008
(Unaudited)

	Note	Three month period ended June 30, **2009**	2008	Six month period ended June 30, **2009**	2008
		£	£	**£**	£
Exchange difference arising on translation of foreign operations		**(304,599)**	261,307	**(834,216)**	163,187
Loss recognised directly in equity					
Loss for period		**(502,052)**	(204,250)	**(963,159)**	(695,686)
Total recognised income and (expense) for the period		**(806,651)**	57,057	**(1,797,375)**	(532,499)

Lydian International Limited
Interim Consolidated Balance Sheet

As of June 30, 2009 and December 31, 2008
(Unaudited)

	Notes	**June 30, 2009**	December 31, 2008
		£	£
ASSETS			
Non-current assets			
Property and equipment	9	**431,238**	626,821
Intangible assets	10	**40,014**	68,438
Exploration and evaluation assets	11	**3,364,705**	3,747,100
Total non-current assets		**3,835,957**	4,442,359
Current assets			
Cash and cash equivalents	12	**1,954,388**	1,761,604
Other current assets	13	**726,886**	903,207
Total current assets		**2,681,274**	2,664,811
TOTAL ASSETS		**6,517,231**	7,107,170
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	**7,083,823**	6,467,426
Warrants	14	**3,136,398**	2,134,027
Equity settled employee benefits reserve	15	**321,800**	321,800
Exchange reserve		**325,609**	1,159,825
Accumulated deficit		**(4,549,397)**	(3,586,238)
Total equity		**6,318,233**	6,496,840
Current liabilities			
Accrued expenses and other payables	16	**198,998**	610,330
TOTAL EQUITY AND LIABILITIES		**6,517,231**	7,107,170

Lydian International Limited
Interim Consolidated Statements of Changes in Equity

As of June 30, 2009 and December 31, 2008
(Unaudited)

	Share capital including premium and discounts £	Warrants £	Equity settled employee benefits reserve £	Exchange reserve £	Accumulated deficit £	Total £
Balance at December 31, 2007 – attributable to equity holders of the parent	6,356,036	2,078,519	222,395	92,579	(1,672,132)	7,077,397
New equity share capital subscribed	111,390	-	-	-	-	111,390
Issue of warrants	-	55,508	-	-	-	55,508
Loss for the period	-	-	-	-	(1,914,106)	(1,914,106)
Exchange difference arising on the translation of foreign entities	-	-	-	1,067,246	-	1,067,246
Employee share options issued during the year	-	-	99,405	-	-	99,405
Balance at December 31, 2008 attributable to equity holders of the parent	6,467,426	2,134,027	321,800	1,159,825	(3,586,238)	6,496,840
New equity share capital subscribed	**1,675,523**	**-**	**-**	**-**	**-**	**1,675,523**
Cost of share issue	**(56,755)**	**-**	**-**	**-**	**-**	**(56,755)**
Issue of warrants	**(1,002,371)**	**1,002,371**				**-**
Exchange difference arising on the translation of foreign entities	**-**	**-**	**-**	**(834,216)**	**-**	**(834,216)**
Loss for the period	**-**	**-**	**-**	**-**	**(963,159)**	**(963,159)**
Balance at June 30, 2009 attributable to equity holders of the parent	**7,083,823**	**3,136,398**	**321,800**	**325,609**	**(4,549,397)**	**6,318,233**

Lydian International Limited
Interim Consolidated Cash Flow Statements

For three and six month periods ended June 30, 2009 and 2008
(Unaudited)

	Note	Three month period ended June 30, **2009** £	Three month period ended June 30, 2008 £	Six month period ended June 30, **2009** £	Six month period ended June 30, 2008 £
Cash flows from operating activities					
Payments to suppliers and employees		**(634,971)**	(79,490)	**(1,144,597)**	(1,056,872)
Net cash outflow from operating activities		**(634,971)**	(79,490)	**(1,144,597)**	(1,056,872)
Cash flows from investing activities					
Interest received		**682**	36,249	**3,671**	76,084
Payments for property and equipment and intangible assets	9,10	**(15,773)**	(170,611)	**(29,431)**	(179,813)
Proceeds from the disposal of plants and equipment		**-**	3,177	**11,883**	3,177
Exploration costs paid	11	**(144,245)**	(933,731)	**(404,245)**	(1,275,036)
Receipts from joint venture partner		**-**	173,303	**112,325**	302,616
Net cash used by investing activities		**(159,336)**	(891,613)	**(305,797)**	(1,072,972)
Cash flows from financing activities					
Proceeds from issues of equity shares		**1,618,768**	59,600	**1,618,768**	137,509
Net cash generated in financing activities		**1,618,768**	59,600	**1,618,768**	137,509
Net (decrease)/increase in cash and cash equivalents		**824,461**	(911,503)	**168,374**	(1,992,335)
Cash and cash equivalents, beginning of the period		**1,144,736**	4,778,987	**1,761,604**	6,009,767
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(14,809)**	27,420	**24,410**	(122,528)
Cash and cash equivalent, end of the period		**1,954,388**	3,894,904	**1,954,388**	3,894,904

Lydian International Limited
Notes to the Interim Consolidated Financial Statements

For six month periods ended June 30, 2009 and 2008
(Unaudited)

1. GENERAL INFORMATION

Lydian International Limited (formerly Dawson Creek Capital Corporation) (the "Company") 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 PO BOX 87, 22 Grenville Street, St Helier, Jersey, JE4 8PX, Channel Islands.

On December 27, 2007, Lydian International Limited acquired Lydian Resource Company Limited ("Lydian Resource Company") in a reverse takeover transaction. Dawson Creek Capital Corporation was a capital pool company listed on the TSX Venture Exchange. All share references in these financial statements have been adjusted to reflect the stock consolidation as described below.

On December 27, 2007, the Company acquired from the shareholders of Lydian Resource Company, 30,132,161 ordinary shares, representing approximately 98% of the issued and outstanding shares. Subsequently, the Company acquired the remaining outstanding shares of Lydian Resource Company Limited. As part of the transaction, the Company also completed a consolidation of its outstanding share capital on the basis of two post-consolidation shares for each three pre-consolidation shares. For every Lydian Resource Company share purchased by the Company, the Company issued one post consolidation ordinary share. The transaction also involved the exchange of all Lydian Resource Company Limited warrants and options for equivalent post consolidation equivalent securities of the Company. The Company also completed its announced continuance from Alberta to the jurisdiction of Jersey and changed its name to Lydian International Limited.

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, together with its subsidiaries, (the 'Group') is a mineral exploration and development Group of companies focused on emerging and transitional environments, and is developing precious and base metal assets located in Armenia and Kosovo under exploration license granted by local authorities. The Group's two main exploration projects are gold at Armulsar, Armenia, and zinc, lead, silver and gold at Drazhnje, Kosovo. The Group currently operates a gold and copper exploration joint venture with Newmont Overseas Exploration Limited ("Newmont"), in the Caucsus. Each joint venture partner has a 50% interest.

The principal accounting policies of the Group are further described in note 3.

The consolidated financial statements for the period ended June 30, 2009 have been approved for issue by the board of directors on August 12, 2009.

Going concern

The consolidated financial statements have been prepared on a going concern basis which presumes the realisation of assets and liabilities in the normal course of business. The Group has no operating revenues during period ended June 30, 2009 and incurred a net loss of £963,159 (June 30, 2008: £659,686). The Group incurred net expenditures on exploration and evaluation activities in six month period ended June 30, 2009 amounting to £291,920 (June 30, 2008: £972,419).

The Group's ability to continue as a going concern is dependent on its ability to obtain additional sources of financing to successfully explore, evaluate and develop its mineral properties and

ultimately, to achieve profitable operations. While the Company has demonstrated its ability to raise additional equity during 2009, its ability to raise further funds as and when required cannot be predicted.

The Company has sufficient funds for its planned 2009 activities and the directors believe that it will be able to raise additional equity in the future so the consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern, and such adjustments if made, may be material.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Standards and Interpretations effective in the current period

Three interpretations issued by the International Financial Reporting Interpretations Committee are effective for the period ended December 31, 2008. These are: IFRIC 11 IFRS 2: Group and Treasury Share; IFRIC 12 Service Concession Arrangements; and IFRIC 14 IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The following new standards and amendments have been accepted by Group's companies: IFRS 8 Segment reporting, IAS 23 Borrowing costs, IAS 1 Presentation of financial statements, IFRS 2 Share-based payment: Vesting conditions and cancellations, IAS 32 & IAS 1 Puttable financial instruments and obligations arising on liquidation, IFRS 1 & IAS 27 Cost of an investment in a subsidiary, jointly controlled entity or associate, IFRIC 15 Agreements for the construction of real estate.
The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Standards and Interpretations in issue not yet adopted

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations with an effective date after the date of these financial statements:

		Effective for Annual Periods Beginning on or After
IFRS 1	(Amendment) First time adoption of financial reporting standards	July 1, 2009
IFRS 3	(Amendment) Business combinations	July 1, 2009
IAS 27	(Amendment) Consolidated and separate financial statements	July 1, 2009
IAS 39	(Amendment) Eligible hedging items	July 1, 2009
IAS 39 & IFRS 7	(Amendment) Reclassification of financial assets	July 1, 2009
IFRIC 17	(New Interpretation) Distribution of non-cash assets to owners	July 1, 2009
IFRIC 18	(New Interpretation) Transfer of Assets from customers	July 1, 2009

Management anticipates that these standards and interpretations will be adopted in the Group's consolidated financial statements on future periods as they become effective and anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group other than additional disclosure requirements.

Early adoption of Standards and Interpretations

The Group has not elected to adopt any standards or interpretations in advance their effective date.

3. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these consolidated financials are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of preparation

The interim consolidated financial statements for the six month period ended 30 June 2009 have been prepared in accordance with IAS 34 Interim Financial Reporting.
The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Consolidated annual financial statements as at 31 December 2008.

The interim consolidated financial statements have been prepared on the historical cost basis and presented in Sterling. The principal accounting policies are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its 'subsidiaries'). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Details of the Company's direct and indirect subsidiaries at June 30, 2009 and December 31, 2008 are as follows:

Name of subsidiary	Place of incorporation or registration	Effective Ownership Interest		Principal activity
		2009	2008	
Lydian Resource Company Limited	United Kingdom	100 %	100%	Parent company until December 27, 2007
Lydian Holdings Ltd (BVI)	British Virgin Islands	100%	100%	Intermediate holding company.
Lydian Resources Kosovo (BVI)	British Virgin Island	100%	100%	Intermediate holding company.
Kosovo Resource Company LLC	Kosovo	100%	100%	Mineral exploration
Lydian Resources Armenia (BVI)	British Virgin Islands	100%	100%	Intermediate holding company.
Geoteam CJSC	Armenia	95%	95%	Mineral exploration

Interest in Joint Ventures

Where a consolidated member of the Group participates in unincorporated joint ventures, that member accounts directly for its proportionate share of the jointly controlled assets, liabilities and related income and expenses which are then similarly included in the consolidated financial statements of the Group.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its "functional currency"). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at rates prevailing at the balance sheet date. Non – monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Sterling using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transaction are used. Exchange differences arising, if any, are recognised directly into

equity and transferred to the Group's exchange reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rates prevailing at the acquisition date.

Share based payments

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

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

Taxation

The Group has no taxable profit and no current income tax.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period in which the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised as an expense or income in the profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Expenditure to replace a component of an item of property equipment that is accounted for separately is capitalized with the carrying amount of the component written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognised in the income statement as incurred.

Depreciation is charged to the income statement based on the cost, less estimated residual value, of the asset on a straight line basis over the estimated useful life. Depreciation commences when the assets are available for use. The estimated useful lives are as follows:

Motor vehicles	3 – 5 years
Office equipment and fixtures	1 – 5 years

Intangible assets

Intangible assets, which are acquired by the Companies and which have finite useful lives are stated at costs less accumulated amortization and impairment losses.

Amortization is charged to the income statement on a straight line basis over the estimated useful lives of the intangible assets, which is estimated 10 years for computer software.

Impairment of property and equipment

Assets that have an indefinite useful life that are not subject to amortisation are evaluated for impairment annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the net selling price and value in use. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years.

A reversal of an impairment loss is recognised as income immediately.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the property and equipment at the date the impairment is reversed does not exceed what the cost less accumulated depreciation would have been had the impairment not been recognised.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Exploration and evaluation costs

Exploration and evaluation expenditures comprise of costs incurred directly in exploration and evaluation as well as the cost of mineral licenses. They are capitalised as exploration and evaluation assets in accordance with *IFRS 6: Exploration and Evaluation of Mineral Resources* pending determination of the feasibility of the project.

When the existence of economically recoverable reserves and commercial viability are established, the related intangible assets are transferred to property and equipment and are depleted on a unit of production basis.

Where a project is abandoned or is determined not to be economically viable, the related costs are written off.

Impairment is assessed when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Financial Assets

Financial assets other than hedging instruments are divided into the following categories:
loans and receivables
financial assets at fair value through profit or loss
available-for-sale financial assets
held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the

characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity.

Generally, the Group recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognised in the income statement except for income or loss on any available-for-sale financial assets which are recognised in equity.

Other Receivables

Other receivables are initially recognised at fair value. Subsequently they are measured at amortised cost less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to the statement of income of the reporting period.

Any amount written-off with respect to other receivable balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances. Cash and cash equivalents are classified as a financial asset at fair value through profit or loss and are initially recognised at fair value. At each balance sheet date, the fair value is reviewed and any gain or loss is recognised in the income statement.

Financial liabilities

The Group's financial liabilities include accrued expenses and trade payables, which are initially recognised at fair value and subsequently stated at amortised cost.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Management fee income

Management fee income is recognized as it is earned in accordance with the joint venture agreement with Newmont Overseas Exploration Limited.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Employee benefits

The Group makes contributions for the benefit of employees to the Armenian and Kosovo State pension fund. The contributions are expensed as incurred.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Operating leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

Business Segments

The Group operates in one business segment, mineral exploration.

Geographical Segments

The directors of the Group are of the opinion that three geographical segments, Kosovo, Armenia and head offices in the United Kingdom, existed as at June 30, 2009 and 2008.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments in applying the Group's accounting policies

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 recognised in the consolidated financial statements is the policy on exploration and evaluation costs.

In particular, management is required to assess exploration and evaluation assets for impairment with reference to the indicators provided in IFRS 6. Note 11 discloses the carrying values of such assets. As part of this assessment, management has carried out an impairment test on the major assets within this balance.

The recoverability of exploration and evaluation costs is dependent on a number of factors common to the natural resource sector. These include the extent to which the Group can continue to renew their

exploration and future development licenses with local authorities, establish economically recoverable reserves on its properties, the availability of the Group to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Group 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.

Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Amounts recorded as due from joint venture partners are based on the Group's interpretation of underlying agreements and may be subject to joint approval. The Group has recorded balances due from its joint venture partners based on costs incurred and its interpretation of allowable expenditures. Any adjustments required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

5. GEOGRAPHICAL SEGMENTS

The Group is engaged in one business activity, mineral exploration. The two key geographical segments for these activities are located in Kosovo and Armenia. Lydian's head office activities are located in the United Kingdom which relate to administrative matters.

The Company acquired Lydian Resource Company in a reverse takeover business combination on December 27, 2007.

The Group has no discontinued operations.

The geographical segmented information on income statement items is given below:

	Three month period ended June 30,		Six month period ended June 30,	
	2009	2008	**2009**	2008
	£	£	**£**	£
Interest income				
Kosovo	**-**	-	**-**	-
Armenia	**-**	-	**-**	-
Head office activities	**682**	36,249	**3,671**	76,084
	682	36,249	**3,671**	76,084
Loss for the period				
Kosovo	**216,505**	155,265	**385,737**	309,936
Armenia	**42,416**	15,453	**80,267**	17,836
Head office activities	**243,131**	33,532	**497,155**	367,914
	502,052	204,250	**963,159**	695,686
Depreciation and amortisation				
Kosovo	**34,703**	7,482	**69,955**	14,821
Armenia	**3,408**	4,692	**8,329**	13,018
Head office activities	**-**	-	**-**	-
	38,111	12,174	**78,284**	27,839
Property and equipment and intangible asset expenditures				
Kosovo	**8,169**	16,854	**18,864**	20,043
Armenia	**7,604**	125,472	**10,567**	131,485
Head office activities	**-**	-	**-**	-
	15,773	142,326	**29,431**	151,528

The geographical segmented information on balance sheet items is given below:

	June 30, 2009				
	Kosovo	Armenia	Head office activities	Eliminations	Consolidated
	£	£	£	£	£
Total assets	2,809,150	2,107,128	9,151,127	(7,550,174)	**6,517,231**
Total liabilities	4,920,653	2,765,595	29,918	(7,550,174)	**165,992**

	December 31, 2008				
	Kosovo	Armenia	Head office activities	Eliminations	Consolidated
	£	£	£	£	£
Total assets	3,152,084	2,249,843	9,066,823	(7,361,580)	7,107,170
Total liabilities	5,140,369	2,831,355	112,028	(7,473,422)	610,330

6. OTHER GAINS (LOSSES)

	3 months to June 30,		6 months to June 30,	
	2009	2008	**2009**	2008
	£	£	**£**	£
Disposal of property and equipment	**-**		**(686)**	-
Foreign exchange and other gains (losses)	**(14,809)**		**24,410**	-
	(14,809)		**23,724**	-

7. TAXATION

There was no tax payable for the Group in the six month period ended June 30, 2009 or for the corresponding period in 2008.

	6 months to June 30, 2009	6 months to June 30, 2008
	£	£
Loss before taxation	**(963,159)**	(204,250)
Tax at 20.0% (2008: 20.0%)	**(192,632)**	(40,850)
Items which are not deductible for tax	**111,114**	25,678
Losses not recognised	**81,517**	15,172
Income tax expense	**-**	-

The Group had taxation losses (subject to confirmation with the tax authorities) as at June 30, 2009 amounting to approximately £2,615,059 (December 31, 2008: £ 2,207,474) that has not been recognised as there is insufficient evidence of taxable profits. These losses start to expire in 2011.

8. LOSS PER SHARE

Loss per share of £0.02 as at June 30, 2009 (June 30, 2008 – £0.02) have been calculated on the basis of the net loss of £963,159 (June 30, 2008 loss: £695,686) on 47,104,211 (June 30, 2008: 39,574,346) shares being the weighted average of shares in issue.

As a result of the losses incurred during the periods ended June 30, 2009 and 2008, the potential shares to be issued from the exercise of options and warrants are not included in the computation of diluted per share amounts since the result would be anti-dilutive. Accordingly, the diluted loss per share and the basic loss per share for these periods being presented are the same.

9. PROPERTY AND EQUIPMENT

COST	**Motor Vehicles**	**Equipment**	**Total**
	£	**£**	**£**
At January 1, 2008	79,075	82,834	161,909
Additions	52,200	527,202	579,402
Disposal	(9,223)	(115,362)	(124,585)
Exchange difference	38,559	118,780	157,339
As at December 31, 2008	160,611	613,454	774,065
Additions	**10,643**	**18,204**	**28,847**
Disposal	**(19,913)**	**-**	**(19,913)**
Exchange difference	**(34,581)**	**(117,564)**	**(152,145)**
As at June 30, 2009	**116,760**	**514,094**	**630,854**

ACCUMULATED DEPRECIATION	**Motor Vehicles**	**Equipment**	**Total**
	£	**£**	**£**
At January 1, 2008	12,782	15,114	27,896
Charge for the period	22,537	61,079	83,616
Disposals	(2,747)	(8,113)	(10,860)
Exchange difference	12,173	34,419	46,592
As at December 31, 2008	44,745	102,499	147,244
Charge for the period	**13,141**	**61,073**	**74,214**
Disposals	**(7,744)**	**-**	**(7,744)**
Exchange difference	**(6,256)**	**(7,842)**	**(14,098)**
As at June 30, 2009	**43,886**	**155,730**	**199,616**

In 2009, depreciation of £3,084 has been capitalized to mine development costs (2008: £875).

CARRYING AMOUNT

	Motor Vehicles £	Equipment £	Total £
At June 30, 2009	**72,874**	**358,364**	**431,238**
At December 31, 2008	115,866	510,955	626,821

10. INTANGIBLE ASSETS

Intangible assets, which are acquired by the Companies and which have finite useful lives are stated at costs less accumulated amortization and impairment losses.

COST

	Computer Software £
As at January 01, 2008	-
Additions	56,285
Exchange difference	14,141
As at December 31, 2008	70,426
Additions	**584**
Exchange difference	**(14,209)**
As at June 30, 2009	**56,801**

ACCUMULATED AMORTISATION

As at January 01, 2008	-
Charge for the period	9,873
Exchange difference	(7,885)
As at December 31, 2008	1,988
Charge for the period	7,154
Exchange difference	7,645
As at June 30, 2009	**16,787**
CARRYING AMOUNT	
At June 30, 2009	**40,014**
At December 31, 2008	68,438

11. EXPLORATION AND EVALUATION ASSETS

Cost	Kosovo project £	Armenia project £	Total £
At 1 January 2008	610,297	290,257	900,554
Additions	1,181,680	643,983	1,825,663
Exchange difference	456,556	564,327	1,020,883
At December 31, 2008	2,248,533	1,498,567	3,747,100
Additions	**194,921**	**96,999**	**291,920**
Exchange difference	**(285,118)**	**(389,197)**	**(674,315)**
At June 30, 2009	**2,158,336**	**1,206,369**	**3,364,705**

The Group's accounting policy is to capitalise exploration and evaluation costs as permitted by IFRS 6. IFRS 6 requires that regular impairment assessments are made. The directors carried out a review as of June 30, 2009 and are satisfied that on the basis of the current plans and status of operations, there are no indications of impairment.

12. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments. As at June 30, 2009, the money market investments had a one month maturity period.

13. OTHER CURRENT ASSETS

The Group as at June 30, 2009 and December 31, 2008 holds the following other current assets:

	June 30, 2009 **£**	December 31, 2008 £
Inventories	**30,268**	2,051
VAT and GST receivable	**150,736**	494,288
Other receivables and prepayments	**545,882**	406,868
	726,886	903,207

14. SHARE CAPITAL

At June 30, 2009 the Company had 47,104,211 (December 31, 2008, 39,982,929) shares outstanding.
On May 22, 2009 in total 7,121,282 Company`s ordinary shares were issued and exercised, respectively EBRD subscription of 3,809,524 shares (CAD $0.42 per share) and IFC subscription of 3,311,758 shares (CAD $0.42 per share).

The Company is authorized to issue unlimited number of shares.
At June 30, 2009 the Company had 20,213,428 outstanding investor and broker warrants to subscribe for ordinary shares at a price ranging from 20 pence to CAN $1.55 (approximately 88 pence). Warrants may be exercised at any time from the date of vesting to the date of their expiry converting into one ordinary share of the Company.

On May 22, 2009 in total 7,121,282 three and five years exercise warrants were issued. The exercise price for three years warrants was CAD $ 0.53 (the number 5,216,520) and for five years warrants CAD $ 0.59 (the number 1,904,762) respectively.

The fair value of warrants granted for six month period to June 30, 2009 of £1,002,371 (year ended December 31, 2008 £55,508).

The following reconciles the outstanding share warrants granted under by the Company:

	Number of Warrants	Weighted average exercise price
Balance at December 31, 2007	12,629,816	44 pence
Broker warrants granted	462,330	26 pence
Balance at December 31, 2008	13,092,146	43 pence
Investor warrants granted	7,121,282	31 pence
Balance at June 30, 2009 – outstanding and exercisable	**20,213,428**	**39 pence**

The share options outstanding and exercisable at the end of the year had a weighted average remaining contractual life of 2.2 years.

The warrants were priced using the Black Scholes Option Pricing Model using the following assumptions:

	2009	**2008**
Expected volatility	96%	96%
Expected option life	2 years	2 years
Risk free rate	3%	3%
Dividend yield	0%	0%

15. SHARE BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

During the six month period ended June 30, 2009, there was not equity-settled share based payments.

Each share option converts into one ordinary share of the Company. Options may be exercised at any time from the date of vesting to the date of their expiry.

Under IFRS 2, charges in relation to equity settled share based payments are credited to a 'Equity settled employee benefits reserve', therefore no liabilities have been recorded is respect to these plans.

The following reconciles the outstanding share options granted under the employee share option plan:

	Number of options	Weighted average exercise price
Balance at December 31, 2007	2,375,000	29 pence
Granted	650,000	27 pence
Forfeited	(500,000)	28 pence
Exercised	(100,000)	25 pence
Balance at 31 December 2008	2,425,000	29 pence
Balance at 30 June 2009 – outstanding and exercisable	**2,425,000**	**29 pence**

The weighted average fair value per share options granted during year ended December 31, 2008 was 0.13 pence. Options were priced using the Black Scholes Option Pricing Model using the following assumptions:

	2009	**2008**
Expected volatility	96%	96%
Expected option life	2 years	2 years
Risk free rate	3%	3%
Dividend yield	0%	0%

Expenses incurred as equity-settled payments to employees are includes in employee benefits expense in the consolidated income statement, during the six month period ended June 30, 2009 nil, (year ended December 31, 2008, £99,405).
The share options outstanding and exercisable at the end of the year had a weighted average remaining contractual life of 2.0 years.

16. ACCRUED EXPENSES AND OTHER PAYABLES

	June 30, 2009 £	December 31, 2008 £
Accrued expenses and trade payables	**187,579**	598,043
Wage accruals	**11,419**	12,287
	198,998	610,330

17. FINANCIAL RISK MANAGEMENT

The Group manages its exposure to financial risks by operating in a manner that minimises its exposure to the extent practical. The main financial risks affecting the Group are discussed below:

Capital risk management

The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group, in order to support the acquisition, exploration, and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Group's management to sustain future development of the business.

The properties in which the Group currently has an interest in are in the exploration stage, as such, the Group is dependent on external financing to fund its activities. The Group intends to expend existing working capital by raising additional share capital, issuance of debt, if available, or enter into joint arrangements to carry out planned exploration and to pay for administrative costs. The Group will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

Management reviews its capital management approach on an interim basis. Management believes that its approach, given the relative size of the Group, is reasonable. The Group is not subject to externally imposed capital requirements.

The Group defines capital as the aggregate of total equity plus cash and cash equivalents which totals as of June 30, 2009 £8,272,621 (December 31, 2008: £8,258,444). Total equity is comprised of share capital, warrants, reserves and accumulated deficit as disclosed in the consolidated statements of changes in equity.

Liquidity Risk

The ultimate responsibility for liquidity risk rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group's cash requirements and balances are projected for the Group as a whole and for each country in which operations and capital expenditures are conducted. The Group plans to meet these requirements through the mix of available funds, equity financing on a required basis, project debt financing, if available, entering into joint arrangements and cash to be provided by the exercise of warrants and share options in the future.

To date the Group has relied on shareholder funding and joint venture arrangements to finance its operations. As the Group has finite cash resources and no material income, the liquidity risk is significant and is managed by controls over timing of expenditures.

All financial liabilities which relate to accounts payable and accrued expenditures as disclosed in note 16 mature within one year.

Currency rate risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's measurement currency. The Group’s management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Group’s expenses include amounts incurred in Euros, the Armenian Dram, the US dollar and Canadian dollar. The Group’s exchange risk is therefore related to movements between these currencies. The Group has a downside risk to strengthening of the Euro, Armenian Dram or US and Canadian dollar as this increases expenses in British Pounds terms. Additionally, any such movements would affect the Consolidated Balance Sheet when the assets of the subsidiaries are translated into British Pounds.

The Group’s currency risk policy is to diversify its cash resources in the British Pound, the US Dollar, the Canadian Dollar and the Euro.

This is done to reduce the risk of the Group holding virtually all of its monetary assets in a single currency when the expenditure is spread over five main currencies.

Currency risk sensitivity

The following table details the Group’s sensitivity to a 10% increase and decrease in the British Pound against the relevant foreign currencies. A 10% increase or decrease is used when reporting currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes on outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes loans to operations within the Group where the denomination of the loan is in currency other than the currency of the lender.

The Group’s net assets and liabilities are predominately held in British Pounds, the USD, the Canadian Dollars, Euros and Armenians Drams. A positive (negative) number below indicates an increase (decrease) in profit and equity where the British Pound strengthens 10% against the relevant currency.

	Canadian Dollar	Euro	US Dollar	Armenian Dram
Loss	(13,634)	(78,059)	(91,046)	(42,297)
Exchange Reserve	-	(234,651)	-	(148,945)

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. There are no fixed, floating rate or interest free liabilities by way of borrowings.

Interest rate sensitivity

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates. With a 100 basis point increase or decrease in interest rates, the loss for the six month period ended June 30, 2009, would be £22,178 lower or higher respectively. This analysis assumes all other variables are assumed constant.

Credit risk management

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

As the Group has no revenue or trade receivables, management considers credit risk as low. Up front deposits are on occasion paid to major suppliers primarily relating to exploration drilling contracts. The payment of these deposits is considered by the management on a case by case basis and the progress on the contract carefully reviewed. During the six month period ended June 30, 2009 and year ended December 31, 2008 there were no material impairment provisions required for any of the financial assets. There are no material financial assets that the Group considers past due. At June 30, 2009, the Group did not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk on cash and cash equivalents is considered by management to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the consolidated financial statements represents the Group's maximum exposure to credit risk.

Financial assets

Fixed rate financial assets are cash held on fixed term deposit. Cash at bank is held to finance the Group's short term cash requirements. The Group invests its available cash and capital in bank deposits only.

At June 30, 2009 and December 31, 2008, cash and cash equivalents were as follows:

	Fixed rate Assets	Cash assets	Total	Average period for which rates are fixed (months)	Average interest rates for fixed rate assets
	£	£	£		
2009	1,241,845	712,543	1,954,388	One	0.50%
2008	1,317,534	444,070	1,761,604	One	1.4%

Fair value of financial assets and liabilities

Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature.

18. RELATED PARTY TRANSACTIONS

The parent and ultimate controlling party of the Group is Lydian International Limited. No individual party had overall control of the Company or Group during the periods being presented.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the Group and other related parties are disclosed below.

The Group has a jointly controlled operation with Newmont. The agreement relates to the Armulsar exploration project in Armenia. The agreement currently requires that costs incurred on the project are shared equally with the future option of a carried interest available to either party once the project goes to the feasibility or development stage, Newmont paid to Group £456,456 during the six month period ended June 30, 2009 representing their share of exploration costs. Newmont Mineral Holdings BV, a related party to Newmont, held 5,150,000 shares as at June 30, 2009 and 2,000,000 options at an exercise price of 31.25 pence exercisable within 2 years from January 10, 2008 and is related by virtue of these holdings.

Pursuant to the private placement on May 22, 2009 described above, IFC, an insider of the Company acquired 3,311,758 Ordinary Shares at a price of CAD $0.42 per Ordinary Share and 3,311,758 warrants exercisable at a price of CAD $0.59 for a period of 5 years. At the time of the completion of the private placement, IFC held 8,461,757 Ordinary Shares, and 7,961,757 Ordinary Share purchase warrants representing approximately 18% on a non diluted basis and 24% on a fully diluted basis of the Ordinary Shares then outstanding.

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

The non-executive members of the Board of Directors do not have employment or service contracts with Lydian International Limited, and did not receive any remuneration for their services and neither are they entitled to any termination benefits. None of the directors are entitled to pension benefits.
The remuneration of directors and key management was as follows. The directors and key management are the directors of Lydian International Limited and the sole director and country manager of Geoteam CJSC. The director of Geoteam CJSC holds 5% of the shares in Geoteam CJSC.

	Six months to June 30, 2009 £	Six months to June 30, 2008 £
Aggregate emoluments	85,633	91,456
Share based payments	-	-

The directors and key management were not awarded any share options under the employee share option plan during the six month period ended June 30, 2009 and year ended December 31, 2008.

19. REVERSE ACQUISITION

On the December 27, 2007, the Company acquired Lydian Resource Company in a reverse acquisition (note 1). The reverse acquisition of the Company was effected through the exchange of one share in the capital of the Company for one Lydian Resource Company share resulting in 2,000,002 shares being issued on a post-consolidation basis. Fees directly related to the acquisition amounted to £109,985.
The fair value of the net assets acquired, representing the value attributable to shares issued, is as

follows:

	£
Fair value of net assets acquired	
Cash	96,356
Other receivables	21,968
Other payables	(3,670)
	114,654

20. OPERATING LEASE COMMITMENTS

The Group leases office premises with a lease term of up to 3 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period. Non – cancellable operating lease and purchase commitments are disclosed below:

	June 30, 2009 £	December 31, 2008 £
Up to one year	93,340	83,701
More than one year and no later than five years	681	5,417
More than five years	-	-
	94,021	89,118

21. CONTINGENCIES

Decommissioning obligations

Management is of the opinion that the Group has met the regulatory requirements concerning environmental matters and, therefore, believes that the Group does not have any material environmental liabilities to accrue.

Armenia and Kosovo Country related Risks

The Group's operations are subject to extensive government laws and regulations, concerning mine safety, subsoil and land use and environmental protection in Armenia and Kosovo. The Group incurs substantial capital and operating costs to comply with increasingly complex laws and regulations covering its operations. Regulation in Armenia and Kosovo governing discharge of materials into the environment is likely to evolve in a manner which will require stricter standards of compliance. Non-compliance with environmental regulations or the increasing cost of compliance with such regulations could have a material adverse effect on the Group's business, operating results and financial condition. The Armenia and Kosovo tax systems could impose substantial burdens on the Group.

The Group 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. New tax laws introduced by the Governments may result in the Group having to pay significantly higher taxes, which could have a materially adverse effect on the Group's business.

Social Risks and Business Environment

The Group's assets are located in Armenia and Kosovo, countries which are establishing a more western-style business environment. There are still substantial differences between it and the West. Some of these differences and the ongoing process could adversely affect the Group and its operations or disrupt normal business activity. Armenia and Kosovo are still developing the legal framework required by a fully developed market economy. Failure to obtain approvals of Armenia and Kosovo authorities could cause the Group's operations to suffer, or could result in the loss of its mineral rights or its assets. Currently, the Group's licenses all exceed a period beyond the balance sheet date of at

least 12 months.