

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

**LYDIAN INTERNATIONAL LIMITED
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010**

Lydian International Limited
Interim Consolidated Income Statements

For three and nine month periods ended September 30, 2010 and 2009
(Unaudited)

		Three month period ended September 30,		Nine month period ended September 30,	
		2010	2009	2010	2009
		£	£	£	£
Interest income	5	7,056	723	10,507	4,394
Total income		7,056	723	10,507	4,394
Employee salaries and benefits expenses		(408,898)	(235,862)	(1,002,067)	(699,642)
Administrative expenses and services used		(251,531)	(224,290)	(792,354)	(611,641)
Consulting expenses		(70,489)	(31,816)	(203,390)	(92,955)
Depreciation and amortisation expenses	9,10	(31,579)	(47,869)	(95,314)	(126,153)
Other gains (loss)	6	(185,385)	(111,846)	(166,988)	(88,122)
Total expenses		(947,882)	(651,683)	(2,260,113)	(1,618,513)
Loss before tax		(940,826)	(650,960)	(2,249,606)	(1,614,119)
Income taxes	7	-	-	-	-
Loss for the period		(940,826)	(650,960)	(2,249,606)	(1,614,119)
Loss per share (basic and diluted)	8	0.01	0.01	0.03	0.04

The accompanying notes are an integral part of these interim consolidated financial statements

Lydian International Limited
Interim Consolidated Statements of Comprehensive Income

For three and nine month periods ended September 30, 2010 and 2009
(Unaudited)

	Three month period ended September 30,		Nine month period ended September 30,	
	2010	2009	2010	2009
Note	£	£	£	£
Loss for the period	(940,826)	(650,960)	(2,249,606)	(1,614,119)
Other comprehensive income:				
Exchange differences arising on translation of foreign operations	(330,872)	196,795	(403,731)	(637,421)
Other comprehensive income (loss) for the period	(330,872)	196,795	(403,731)	(637,421)
Total comprehensive income for the period	(1,271,698)	(454,165)	(2,653,337)	(2,225,540)

The accompanying notes are an integral part of these interim consolidated financial statements

Lydian International Limited
Interim Consolidated Balance Sheet

As of September 30, 2010 and December 31, 2009
(Unaudited)

	Notes	<u>September 30, 2010</u>	<u>December 31, 2009</u>
		£	£
ASSETS			
Non-current assets			
Property and equipment	9	335,440	378,028
Intangible assets	10	28,107	33,751
Exploration and evaluation assets	11	17,558,415	4,296,314
Total non-current assets		<u>17,921,962</u>	<u>4,708,093</u>
Current assets			
Cash and cash equivalents	12	5,485,552	2,234,790
Other current assets	13	995,702	616,767
Total current assets		<u>6,481,254</u>	<u>2,851,557</u>
TOTAL ASSETS		<u>24,403,216</u>	<u>7,559,650</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	24,318,782	9,265,576
Warrants	14	1,053,970	2,870,252
Equity settled employee benefits reserve	15	345,655	322,682
Translation of foreign operations		(61,163)	342,568
Accumulated deficit		(7,726,137)	(5,476,531)
Total equity		<u>17,931,107</u>	<u>7,324,547</u>
Non-current liabilities			
Long term payables	16	5,360,481	-
Deferred income	17	420,072	-
Total non-current liabilities		<u>5,780,553</u>	<u>-</u>
Current liabilities			
Accrued liabilities and other payables	18	691,556	235,103
TOTAL EQUITY AND LIABILITIES		<u>24,403,216</u>	<u>7,559,650</u>

The accompanying notes are an integral part of these interim consolidated financial statements

Lydian International Limited
Interim Consolidated Statements of Changes in Equity

As of September 30, 2010 and December 31, 2009
(Unaudited)

	<i>Share capital including, premium and discounts</i>	<i>Warrants</i>	<i>Equity settled employee benefits reserve</i>	<i>Translation of foreign operations</i>	<i>Accumulated deficit</i>	<i>Total</i>
	£	£	£	£	£	£
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	2,919,586	-	-	-	-	2,919,586
Cost of shares issued	(80,973)	-	-	-	-	(80,973)
Issue of warrants	(703,942)	703,942	-	-	-	-
Proceeds from exercised warrants	464,586	-	-	-	-	464,586
Proceeds from exercised options	169,361	-	-	-	-	169,361
Attributable to exercised warrants	186,731	(186,731)	-	-	-	-
Attributable to exercised options	61,815	-	(61,815)	-	-	-
Employee share options issued during the year	-	-	62,697	-	-	62,697
Modification of warrants	(219,014)	219,014	-	-	-	-
Total comprehensive income for the year	-	-	-	(817,257)	(1,890,293)	(2,707,550)
Balance at December 31, 2009 attributable to equity holders of the parent	9,265,576	2,870,252	322,682	342,568	(5,476,531)	7,324,547
New equity share capital subscribed	10,564,562	-	-	-	-	10,564,562
Cost of shares issued	(583,491)	-	-	-	-	(583,491)
Proceeds from exercised warrants	2,526,087	-	-	-	-	2,526,087
Proceeds from exercised options	538,476	-	-	-	-	538,476
Attributable to exercised warrants	1,689,696	(1,689,696)	-	-	-	-
Attributable to exercised options	176,102	-	(176,102)	-	-	-
Attributable to expired warrants	252,402	(252,402)	-	-	-	-
Attributable to expired options	15,188	-	(15,188)	-	-	-
Issue of warrants	(41,152)	41,152	-	-	-	-
Modification of warrants	(84,664)	84,664	-	-	-	-
Employee share options issued during the period	-	-	214,263	-	-	214,263
Total comprehensive income for the period	-	-	-	(403,731)	(2,249,606)	(2,653,337)
Balance at September 30, 2010 attributable to equity holders of the parent	24,318,782	1,053,970	345,655	(61,163)	(7,726,137)	17,931,107

The accompanying notes are an integral part of these interim consolidated financial statements

Lydian International Limited
Interim Consolidated Cash Flow Statements

For the three and nine month periods ended September 30, 2010 and 2009
(Unaudited)

	Note	Three month period ended September 30,		Nine month period ended September 30,	
		2010 £	2009 £	2010 £	2009 £
Cash flows from operating activities					
Payments to suppliers and employees		(946,180)	(257,768)	(2,484,216)	(1,402,365)
Net cash outflow from operating activities		(946,180)	(257,768)	(2,484,216)	(1,402,365)
Cash flows from investing activities					
Interest received		7,056	723	10,507	4,394
Payments for property and equipment and intangible assets	9,10	(33,206)	(11,723)	(73,758)	(41,154)
Proceeds from the disposal of plants and equipment		-	4,239	-	16,122
Exploration costs paid	11	(2,016,006)	(406,720)	(5,274,364)	(698,640)
Receipts from joint venture partner	11	-	3,008	-	3,008
Net cash used by investing activities		(2,042,156)	(410,473)	(5,337,615)	(716,270)
Cash flows from financing activities					
Proceeds from issues of equity shares		1,691,184	15,000	11,157,416	1,633,768
Net cash generated in financing activities		1,691,184	15,000	11,157,416	1,633,768
Net (decrease)/increase in cash and cash equivalents		(1,297,152)	(653,241)	3,335,585	(484,867)
Cash and cash equivalents, beginning of the period		6,885,924	1,954,388	2,234,790	1,761,604
Effects of exchange rate changes on the balance of cash held in foreign currencies		(103,220)	72,244	(84,823)	96,654
Cash and cash equivalent, end of the period		5,485,552	1,373,391	5,485,552	1,373,391

The accompanying notes are an integral part of these interim consolidated financial statements

Lydian International Limited
Notes to the Interim Consolidated Financial Statements

For the nine month periods ended September 30, 2010 and 2009
(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 1st Floor, Capstan House, La Route es Nouaux, St. Helier, Jersey JE2 4ZY, Channel Islands.

The Company’s ordinary shares (“Ordinary Shares”) began trading on the Toronto Stock Exchange (“TSX”) on January 10, 2008 under the symbol “LYD”.

The Company, 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 Amulsar, Armenia, and zinc, lead, silver and gold at Drazhnje, Kosovo. As of April 22, 2010 the Group operated a gold and copper exploration joint venture with Newmont Overseas Exploration Limited (“Newmont”), in the Caucasus. Each joint venture partner had a 50% interest. On February 26, 2010, the Company entered into an agreement (the “Purchase Agreement”) with Newmont pursuant to which Company’s 95% owned subsidiary, Geoteam C.J.S.C., purchased all of Newmont’s interest in the joint venture known as the Caucasus Venture (the “Venture”) between the Company and Newmont. On April 23, 2010 the Company announced the closing (the “Closing”) of the transactions under the Purchase Agreement, Lydian issued three million ordinary shares to Newmont and made the first instalment payment of US\$5 million.

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

The interim consolidated financial statements for the period ended September 30, 2010 have been approved for issue by the board of directors on November 10th, 2010.

These 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 the nine month period ended September 30, 2010 and incurred a net loss of £2,249,606 (year ended December 31, 2009: £1,890,293).

The Group’s ability to continue its planned operations is dependent on its ability to obtain additional sources of financing, to successfully, evaluate, exploit and develop its mineral properties and ultimately, to achieve profitable operations.

On April 14, 2010 the Company has completed marketed public offering of 13,700,000 ordinary shares at a price of CAN\$ 0.73 per share for gross proceeds of CAN\$ 10,001,000. The ordinary shares were sold through a syndicate of underwriters co-led by Cormark Securities Inc. and Dundee Securities Corporation and included Canaccord Capital Corporation and Dahlman Rose & Company, LLC (who participated only with respect to sales on an exempt basis in the United States). The underwriters also exercised an over-allotment option and purchased an additional 2,055,000 ordinary shares at a price of CAN\$ 0.73 per share for additional aggregate gross proceeds of CAN\$ 1,500,150.

On April 14, 2010 the Company also completed private placement with International Finance Corporation, a

member of the World Bank Group. International Finance Corporation purchased 2,436,575 ordinary shares at a price of CAN\$ 0.73 for gross proceeds of CAN\$ 1,778,699.

On October 26, 2010, the Company completed a marketed public offering of 8,100,000 ordinary shares at a price of CAN\$ 2.13 per share for gross proceeds of CAN\$ 17,253,000. The underwriters of this offering also exercised an over-allotment option and purchased an additional 1,215,000 ordinary shares at a price of CAN\$ 2.13 per share for additional aggregate gross proceeds of CAN\$ 2,587,950.

Management of the Group is confident that the Group has sufficient funds to carry out its projected operations to beyond the end of 2011.

These 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 its planned operations.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

i) Standards and Interpretations effective in the current period

In the current period the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2010.

The adoption of the new standards and interpretations did not lead to any significant changes in the Company’s accounting policies.

Early adoption of Standards and Interpretations

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

ii) Standards and Interpretations in issue not yet adopted as at September 30, 2010

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 reporting Periods Beginning on or after
	New Standards	
IFRS 9	Financial Instruments – classification and measurement	January 1, 2013
	Amendments to Standards	
IFRS1	First time adoption of International financial reporting standards	July 1, 2009
IFRS 2	Share-based payment- Group cash-settled share based payment transactions	January 1, 2010
IFRS 3	Business combinations	July 1, 2009
IAS 27	Consolidated and separate financial statements	July 1, 2009
IAS 1	Presentation of financial statements	January 1, 2009
IFRS 8	Operating segments	January 1, 2009
IAS 32	Financial Instruments: presentation	February 1, 2010
Various	Improvements to IFRSs	January 1, 2010

	New Interpretations	
IFRIC 17	Distributions of Non-cash assets to owners	July 1, 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments	July 1, 2010
IFRIC 14	Amendments to Interpretations Prepayments of a Minimum Funding Requirement	January 1, 2011

Standards and Interpretations in issue not yet adopted as at September 30, 2010 (Continued)

Management anticipates that those standards and interpretations deemed applicable to the Company's business will be adopted in the Company's financial statements of future periods as they become effective and that the adoption will have no material impact on the financial statements of the Company in the periods of initial application other than for additional disclosures.

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 financial periods presented unless otherwise stated.

Statement of compliance

The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board as of September 30, 2010. The applicable IFRS standards should be read in conjunction with the financial statements as of and for the period ended September 30, 2010 prepared in accordance with International Reporting Standards (IFRS) as issued by the IASB.

Basis of preparation

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 interim 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 September 30, 2010 and December 31, 2009 are as follows:

Name of subsidiary	Place of incorporation or Registration	Effective Ownership Interest		Principal activity
		2010	2009	
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
Kavkaz Zoloto CJSC	Armenia	95%	95%	Mineral exploration
Lydian Resources Georgia Limited	Jersey	100%	N/A	Dormant company
Georgian Resource Company LLC	Georgia	100%	N/A	Dormant company
Kosovo Metals Group CJSC	Kosovo	100%	N/A	Dormant company

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 entity in the group 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 presentation currency for these 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 translation of foreign operations reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

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
Equipment	1 – 5 years

Intangible assets

Intangible assets, which are acquired by the Group entities 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 carried 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 will be 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.

Supplies

Supplies are sample bags, small tools and other similar items stored by Geoteam to support drilling operations there. Supplies 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 supplies 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 Jersey, 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 Jersey (Channel Islands), existed as at September 30, 2010 and December 31, 2009.

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. This joint venture terminated on 23 April 2010.

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 Jersey (Channel Islands) which relate to administrative matters.

The Group has no discontinued operations. As part of an internal reorganization, the Company placed its subsidiary, Lydian Resource Company Limited in members' voluntary liquidation and all of its assets and liabilities were transferred to the Company.

All transactions between segments are measured at fair value. All balances, income and expenses between segments are eliminated in full on consolidation.

There are the following differences in segments accounting policies:

The estimated useful life of Motor Vehicles and Equipment in Kosovo is 3 years. The estimated useful life of Motor Vehicles and Equipment in Armenia is 5 years, computers and accessories 1 year.

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

	Three month period ended September 30,		Nine month period ended September 30,	
	2010 £	2009 £	2010 £	2009 £
Interest income				
Kosovo	-	-	-	-
Armenia	-	-	-	-
Head office activities	7,056	723	10,507	4,394
	7,056	723	10,507	4,394
Loss for the period				
Kosovo	179,639	122,394	352,472	508,131
Armenia	17,565	59,879	77,927	140,164
Head office activities	743,622	468,669	1,819,207	965,824
	940,826	650,960	2,249,606	1,614,119
Loss from disposal of property and equipment				
Kosovo	-	-	-	(686)
Armenia	-	-	-	-
Head office activities	-	-	-	-
	-	-	-	(686)
Depreciation and amortisation				
Kosovo	24,000	33,750	75,440	103,705
Armenia	7,579	14,119	19,874	22,448
Head office activities	-	-	-	-
	31,579	47,869	95,314	126,153
Property and equipment and				

Intangible asset expenditures

Kosovo	555	-	555	10,584
Armenia	32,651	11,723	73,203	30,570
Head office activities	-	-	-	-
	33,206	11,723	73,758	41,154

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

	As of September 30, 2010	As of December 31, 2009
	£	£
Exploration and evaluation assets		
Kosovo	2,221,779	2,319,251
Armenia	15,336,636	1,977,063
Head office activities	-	-
	17,558,415	4,296,314
Property and equipment		
Kosovo	72,703	146,466
Armenia	262,737	231,562
Head office activities	-	-
	335,440	378,028
Intangible assets		
Kosovo	5,146	10,758
Armenia	22,961	22,993
Head office activities	-	-
	28,107	33,571

	September 30, 2010				
	Kosovo	Armenia	Head office activities	Eliminations	Consolidated
	£	£	£	£	£
Total assets	2,639,591	9,033,871	25,234,526	(12,504,772)	24,403,216
Total liabilities	5,339,074	10,247,094	2,908,221	(12,442,352)	6,052,037

	December 31, 2009				
	Kosovo	Armenia	Head office activities	Eliminations	Consolidated
	£	£	£	£	£
Total assets	2,839,624	2,625,405	10,976,655	(8,882,034)	7,559,650
Total liabilities	5,243,232	3,782,943	145,015	(8,936,087)	235,103

6. OTHER GAINS (LOSSES)

	3 months to September 30,		9 months to September 30,	
	2010	2009	2010	2009
	£	£	£	£
Disposal of property and equipment	-	(2,084)	-	(2,770)
Exploration and Evaluation Assets write off	(82,165)	-	(82,165)	-
Foreign exchange rate differences	(103,220)	(109,762)	(84,823)	(85,352)
	(185,385)	(111,846)	(166,988)	(88,122)

7. TAXATION

There was no taxes payable by the Group in the nine month periods ended September 30, 2010 and corresponding period in 2009.

	9 months to September 30, 2010	9 months to September 30, 2009
	£	£
Loss before taxation	(2,249,606)	(1,614,119)
Tax at 15.0% (2009, 20.0 %)	(337,441)	(322,824)
Items which are not deductible for tax purposes	240,690	251,057
Losses not recognized	96,751	71,767
Income tax expense	-	-

The Group had taxation losses under jurisdiction of United Kingdom, Armenia and Kosovo (subject to confirmation with the tax authorities) as at September 30, 2010 amounting to approximately £2,307,500 (December 31, 2009: £ 2,745,000) that has not been recognised as there is insufficient evidence of taxable profits. These losses start to expire in 2011. A subsidiary of the Company Lydian Resource Company Ltd has been liquidated and in result £ 856,600 taxation loss was written off as of September 30, 2010.

8. LOSS PER SHARE

Loss per share of £0.03 for the nine month ended September 30, 2010 (September 30, 2009-£0.04) has been calculated on the basis of the net loss of £2,249,606 (September 30, 2009 loss: £1,614,119) on 80,499,730 (September 30, 2009: 43,593,570) shares being the weighted average number of shares in issue.

As a result of the losses incurred during the nine month periods ended September 30, 2010 and 2009, 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 all periods being presented are the same.

9. PROPERTY AND EQUIPMENT

COST	Motor Vehicles	Equipment	Total
	£	£	£
At January 1, 2009	160,611	613,454	774,065

Additions	23,377	26,729	50,106
Disposal	(44,175)	(911)	(45,086)
Exchange difference	(32,426)	(105,892)	(138,318)
As at December 31, 2009	107,387	533,380	640,767
Additions	33,462	36,894	70,356
Exchange difference	2,818	4,065	6,883
As at September 30, 2010	143,667	574,339	718,006

ACCUMULATED DEPRECIATION	Motor Vehicles	Equipment	Total
	£	£	£
At January 1, 2009	44,745	102,499	147,244
Charge for the year	26,116	132,541	158,657
Disposals	(17,287)	-	(17,287)
Exchange difference	(4,745)	(21,130)	(25,875)
As at December 31, 2009	48,829	213,910	262,739
Charge for the period	17,926	101,491	119,417
Exchange difference	611	(201)	410
As at September 30, 2010	67,366	315,200	382,566

CARRYING AMOUNT

	Motor Vehicles	Equipment	Total
	£	£	£
At September 30, 2010	76,301	259,139	335,440
At December 31, 2009	58,558	319,470	378,028

In nine month period ended September 30, 2010, depreciation of £30,221 has been capitalized to mine development costs (2009: £25,228).

10. INTANGIBLE ASSETS

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

COST

	Computer Software
	£
As at January 01, 2009	70,426
Additions	588

Exchange difference	(13,208)
As at December 31, 2009	<u>57,806</u>
Additions	3,402
Exchange difference	751
As at September 30, 2010	<u>61,959</u>
ACCUMULATED AMORTISATION	£
As at January 01, 2009	<u>1,988</u>
Charge for the year	13,993
Exchange difference	<u>8,074</u>
As at December 31, 2009	<u>24,055</u>
Charge for the period	9,768
Exchange difference	29
As at September 30, 2010	<u>33,852</u>
CARRYING AMOUNT	
At September 30, 2010	<u>28,107</u>
At December 31, 2009	<u>33,751</u>

In nine month period ended September 30, 2010, amortisation of £3,650 has been capitalized to mine development costs (2009: 1,236).

11. EXPLORATION AND EVALUATION ASSETS (“EEA”)

Cost	Kosovo project	Armenia project	Armenia project	Total
		Amulsar	Nor Arevik	
	£	£		£
At 1 January 2009	2,248,533	1,498,567	-	3,747,100
Additions	331,885	922,041	-	1,253,926
EEA write off	(64,820)	-	-	(64,820)
Exchange difference	(196,347)	(443,545)	-	(639,892)
At December 31, 2009	<u>2,319,251</u>	<u>1,977,063</u>	-	<u>4,296,314</u>
Additions	42,358	13,355,542	26,542	13,424,442
EEA write off	(82,165)	-	-	(82,165)
Exchange difference	(57,665)	(22,725)	214	(80,176)
At September 30, 2010	<u>2,221,779</u>	<u>15,309,880</u>	<u>26,756</u>	<u>17,558,415</u>

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 September 30, 2010 and are satisfied that on the basis of the current plans and status of operations, there are no indications of impairment.

On February 26, 2010, the Company entered into an agreement (the “Purchase Agreement”) with Newmont pursuant to which Company’s 95% owned subsidiary, Geoteam C.J.S.C., purchased all of Newmont’s interest in the joint venture known as the Caucasus Venture (the “Venture”) between the Company and Newmont. In

consideration for the purchase of Newmont’s interest in the Venture and the related termination of the Venture, Lydian will; (i) issue Newmont three million ordinary shares and (ii) make certain pre-production and then post-production payments to Newmont. The post production payments are dependent on production occurring and this allows Lydian to fund the required payments out of direct revenue from the Amulsar gold project or through alternate available funds. Prior to production, Lydian will pay Newmont US\$15 million in three US\$5 million installments, the first on the Closing, the second on or before December 31, 2011 and the third on or before the earlier of December 31, 2012 and the date that is 90 days after a bankable feasibility on any portion of the Amulsar property is complete and Lydian has received all the necessary material permits to move into production. Following the start of commercial production, Lydian has three options: (i) Pay a 3% net smelter royalty, or; (ii) pay twenty quarterly instalment payments each of US\$1 million over the first five years of commercial production, or (iii) buy out Newmont’s remaining interest in the quarterly payments. On April 23, 2010 the Company announced the Closing of Purchase Agreement by settlement of US\$ 5 million and issuance of three million ordinary shares to Newmont.

The post production payments do not meet the definition of an obligation or a constructive obligation as the triggering event i.e. “commercial production” has not happened yet. These potential payments are not therefore recognised in the balance sheet – see Note 22.

On July 29, 2010, the Company announced that it had executed a Heads of Agreement with IMM Marketing Limited (“IMM”) over its Drazhnje lead-zinc-silver project in Kosovo. Under the terms of the deal, which is subject to the execution of a definitive agreement and regulatory approvals, IMM will fully fund all further exploration and development work at Drazhnje to a point at which a joint Management Committee will decide whether to advance the project through to commercial production; such decision to be made no later than December 31st 2011. At Commercial Production Lydian will have two options; either to jointly develop the project on a 50-50 basis with IMM, or to be paid 50% of all payments, profits, distributions and dividends from production at Drazhnje until such time as a total \$CAD 5 million has been paid to Lydian. Lydian would also retain a 1.5% NSR over the life of the project.

On the 16th of September the Company had made application to the Independent Commission for Mines and Minerals (ICMM) in Kosovo to convert its exploration license over Drazhnje to a “retention license”. The Regulation on Mines and Minerals in Kosovo allows the holder of an exploration license to apply to the ICMM for the grant of a retention license over an existing resource, if the resource cannot be developed immediately due to adverse market conditions or other economic factors that are reasonably believed to be of a temporary character. The Company has so far received no response as to the progress of its retention license application over Drazhnje. Clearly until this is resolved the Heads of Agreement above cannot be formalized in a contract.

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 September 30, 2010, the money market investments had a one month maturity period.

13. OTHER CURRENT ASSETS

The Group as at September 30, 2010 and December 31, 2009 holds the following other current assets:

	September 30, 2010	December 31, 2009
	£	£
Supplies	18,623	3,995

VAT and GST refundable	714,324	313,206
Other receivables, prepayments and deposits	262,755	299,566
	995,702	616,767

14. SHARE CAPITAL

At September 30, 2010, the Company had 82,545,580 (December 31, 2009, 52,891,191) ordinary shares outstanding. In January, March, April, May, July, August and September 2010, the Company respectively issued 845,000, 175,000, 120,000, 25,000, 65,000, 150,000 and 275,00 ordinary shares pursuant to the exercise of stock options. In January, April, May, June, July, August and September 2010, the Company respectively issued 1,616,352, 141,000, 1,268,262, 180,500, 162,500, 1,157,800 and 2,281,400 ordinary shares of pursuant to the exercise of warrants.

On April 14, 2010 the Company has completed marketed public offering of 13,700,000 ordinary shares at a price of CAN\$ 0.73 per share for gross proceeds of CAN\$ 10,001,000. The ordinary shares were sold through a syndicate of underwriters co-led by Cormark Securities Inc. and Dundee Securities Corporation and included Canaccord Capital Corporation and Dahlman Rose & Company, LLC (who participated only with respect to sales on an exempt basis in the United States). The underwriters also exercised an over-allotment option and purchased an additional 2,055,000 ordinary shares at a price of CAN\$ 0.73 per share for additional aggregate gross proceeds of CAN\$ 1,500,150.

On April 14, 2010 the Company also completed private placement with International Finance Corporation, a member of the World Bank Group. International Finance Corporation purchased 2,436,575 ordinary shares at a price of CAN\$ 0.73 for gross proceeds of CAN\$ 1,778,699.

On April 20, 2010 the Company issued 3,000,000 ordinary shares to Newmont pursuant to Purchase Agreement.

The Company is authorised to issue unlimited number of shares. The Company's shares have no par value.

At September 30, 2010 the Company had 12,066,582 (December 31, 2009, 18,739,581) outstanding investor and broker warrants to subscribe for ordinary shares at a price ranging from 31.25 pence to CAN \$0.73 (approximately 45 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.

A total of 6,807,814 warrants were exercised to ordinary shares of the Company during the nine month period ended September 30, 2010 (December 31, 2009, nil). A total of 810,485 warrants were expired during nine month period ended September 30, 2010.

A total of 945,300 investor warrants were granted during nine month period ended September 30, 2010 a total of 7,121,282 investor warrants and 19,800 broker warrants were granted during year 2009.

The fair value of warrants granted and modified in 2010 £125,816 (2009 £703,942) was allocated in the statement of changes in equity.

On May 14, 2010, the Company amended the terms of 4,000,000 outstanding options (the "IFC Options") held by International Finance Corporation, an insider of the Company by virtue of it holding more than 14% of the issued and outstanding shares, to extend the expiry date of the IFC Options from January 10, 2011 to January 10, 2012.

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

	Number of Warrants	Weighted average exercise price
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Balance at December 31, 2008	13,092,146	43 pence
Investor warrants granted	7,121,282	32 pence
Broker warrants granted	19,800	36 pence
Warrants exercised	(1,493,647)	31 pence
Balance at 31 December 2009	18,739,581	40 pence
Investor warrants granted	945,300	45 pence
Warrants exercised	(6,807,814)	37 pence
Warrants expired	(810,485)	44 pence
Balance at September 30, 2010 – outstanding and exercisable	12,066,582	35 pence

The warrants outstanding and exercisable at the end of the reporting period had a weighted average remaining contractual life of 2.6 years.

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

	2010	2009
Expected volatility	37%	63%
Expected option life	2-3.5 years	2-5 years
Risk free rate	1.6%	0.5%
Dividend yield	0%	0%

15. SHARE BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

During the nine month period ended September 30, 2010, the following equity-settled share based payments, exercises and forfeitures were in existence. 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 in 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, 2008	2,425,000	29 pence
Granted	1,130,000	25 pence
Forfeited	(450,000)	32 pence
Exercised	(630,000)	27 pence
Balance at December 31, 2009	2,475,000	27 pence
Granted	2,560,000	67 pence
Expired	(125,000)	38 pence
Exercised	(1,655,000)	33 pence

Balance at September 30, 2010 – outstanding and exercisable	3,255,000	57 pence
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The weighted average fair value per share options granted during the nine month period ended September 30, 2010 was 0.16 pence (Year ended December 31, 2009 – 0.08 pence). Options were priced using the Black Scholes Option Pricing Model using the following assumptions:

	2010	2009
Expected volatility	37%	63%
Expected option life	2 years	2-3 years
Risk free rate	1.6%	0.5%
Dividend yield	0%	0%

During the nine month period ended September 30, 2010 £214,263 (2009 – £62,697) was included in employee benefits expense in the consolidated income statement.

The share options outstanding and exercisable at the end of the reporting period had a weighted average remaining contractual life of 2.0 years.

16. LONG TERM PAYABLES (Due to Newmont)

Long term payables consist of Amulsar project pre-production payable pursuant to purchase of Newmont's interest in Amulsar project in Armenia. The post production payments do not meet the definition of an obligation or a constructive obligation as the triggering event i.e. "commercial production" has not happened yet. These potential payments are not therefore shown on the balance sheet – see Note 22.

The time scale and terms of debt settlement is discussed in Note 11.

Currency	US \$	£
Original amount	10,000,000	6,352,837
Discount at 10%	(1,526,638)	(992,356)
Fair value as of September 30, 2010	8,473,362	5,360,481

17. DEFERRED INCOME

Within the framework of the Caucasus Joint Venture the Company received from Newmont Overseas Exploration some compensation pertaining to capitalised items which is in balance sheet recognised as deferred income. The amounts will be recognised as income on a systematic and rational basis following amortisation, disposal or write-off of related capitalised items.

18. ACCRUED LIABILITIES AND OTHER PAYABLES

	September 30, 2010	December 31, 2009
	£	£

Accrued liabilities and trade payables	584,929	190,836
Wage accruals	106,627	44,267
	691,556	235,103

19. 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 raise additional finance by issuing new share capital, or debt, or entering 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 £23,416,659 (December 31, 2009: £9,559,337). Total equity is comprised of share capital, warrants, and 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 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 short term financial liabilities which relate to accounts payable and accrued liabilities as disclosed in note 18 mature within one year. All long term payables are disclosed in note 16 mature within more than 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, the Armenian Dram 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
Other comprehensive income	September 30, 2010	(321,441)	(266,302)	(396,944)	(779,797)
	December 31, 2009	(60,573)	(280,323)	(30,021)	(216,907)

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 nine month period ended September 30, 2010, would be £44,700 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 nine month period ended September 30, 2010 and corresponding period 2009 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 September 30, 2010, 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 September 30, 2010 and December 31, 2009, 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
	£	£	£		
September 30, 2010	3,337,444	2,148,108	5,485,552	One	0.4%
December 31, 2009	1,152,913	1,081,877	2,234,790	One	0.5%

Fair value of financial assets and liabilities

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

20. 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.

Pursuant to a private placement on April 14, 2010, International Finance Corporation (IFC), an insider of the Company, acquired 2,436,575 Ordinary Shares at a price of CAD \$0.73 per Ordinary Share. At the time of the completion of the private placement, IFC held 11,048,331 Ordinary Shares and 7,811,758 Ordinary Share purchase warrants, representing approximately 14% on a non-diluted basis and 21% on a fully-diluted basis, of the Company's issued and outstanding shares.

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 neither are they entitled to any termination benefits. None of the directors are entitled to pension benefits.

The sole director and country manager of Geoteam CJSC holds 5% of the shares in Geoteam CJSC and Kavakaz Zoloto CJSC.

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

	Nine month period ended September 30, 2010 £	Nine month period ended September 30, 2009 £
Aggregate emoluments	205,435	142,585
Share based payments	108,994	88,787

21. OPERATING LEASE AND PURCHASE 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 commitments are disclosed below:

September 30, 2010	September 30, 2009 £
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	£	
Up to one year	39,168	93,340
More than one year and no later than five years	5,399,406	681
More than five years	-	-
	<u>5,438,574</u>	<u>94,021</u>

22. CONTINGENCIES

Newmont Deal

On April 23rd 2010 the Group purchased all of Newmont's interests in the Group's JV which included Newmont's interests in the Amulsar gold property. The consideration was a mixture of committed and contingent payments. The committed payments included 3 million new shares, which have now been issued and three payments of US\$5m; the first of which has now been made; and the two others due by the end of 2011 and 2012 respectively. These latter two payments of US\$5m each are subject to a 10% pa discount and so are shown in the accounts for September 2010 at a face value of US\$ 8,473,362 (US\$ 4,438,428 and US\$ 4,034,934 respectively).

In addition the Group agreed to pay Newmont, following the start of commercial production, a 3% Net Smelter Royalty. However between 23rd April 2010 and the date that is 20 days following Commencement of Commercial Production, Lydian may at its option elect buy out the 3% NSR and instead pay to Newmont the aggregate sum of USD \$20 million, without interest, in 20 equal quarterly installments of USD \$1 million commencing on the first day of the third calendar month commencing following the start of commercial production. Furthermore, the Company has a one-time option prior to the Commencement of Commercial Production to prepay these quarterly installments in a single cash payment using an annual discount rate of 10%.

These potential post production payment(s) do not meet the definition of an obligation or a constructive obligation as the triggering event i.e. "commercial production" has not happened yet. These potential payments are not therefore shown on the balance sheet."

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23. OTHER CONTINGENCIES

Decommissioning obligations

Management is of the opinion that the Group has met the regulatory requirements concerning environmental matters and, therefore, 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.

24. SUBSEQUENT EVENTS

On October 26, 2010 Lydian closed its previously announced bought deal offering, pursuant to which it sold 9,315,000 ordinary shares of Lydian at a purchase price of \$2.13 per share, for aggregate gross proceeds of \$19,840,950. The 9,315,000 ordinary shares sold include 1,215,000 ordinary shares sold pursuant to the exercise of an over-allotment option granted to the underwriters, which was exercised in full.