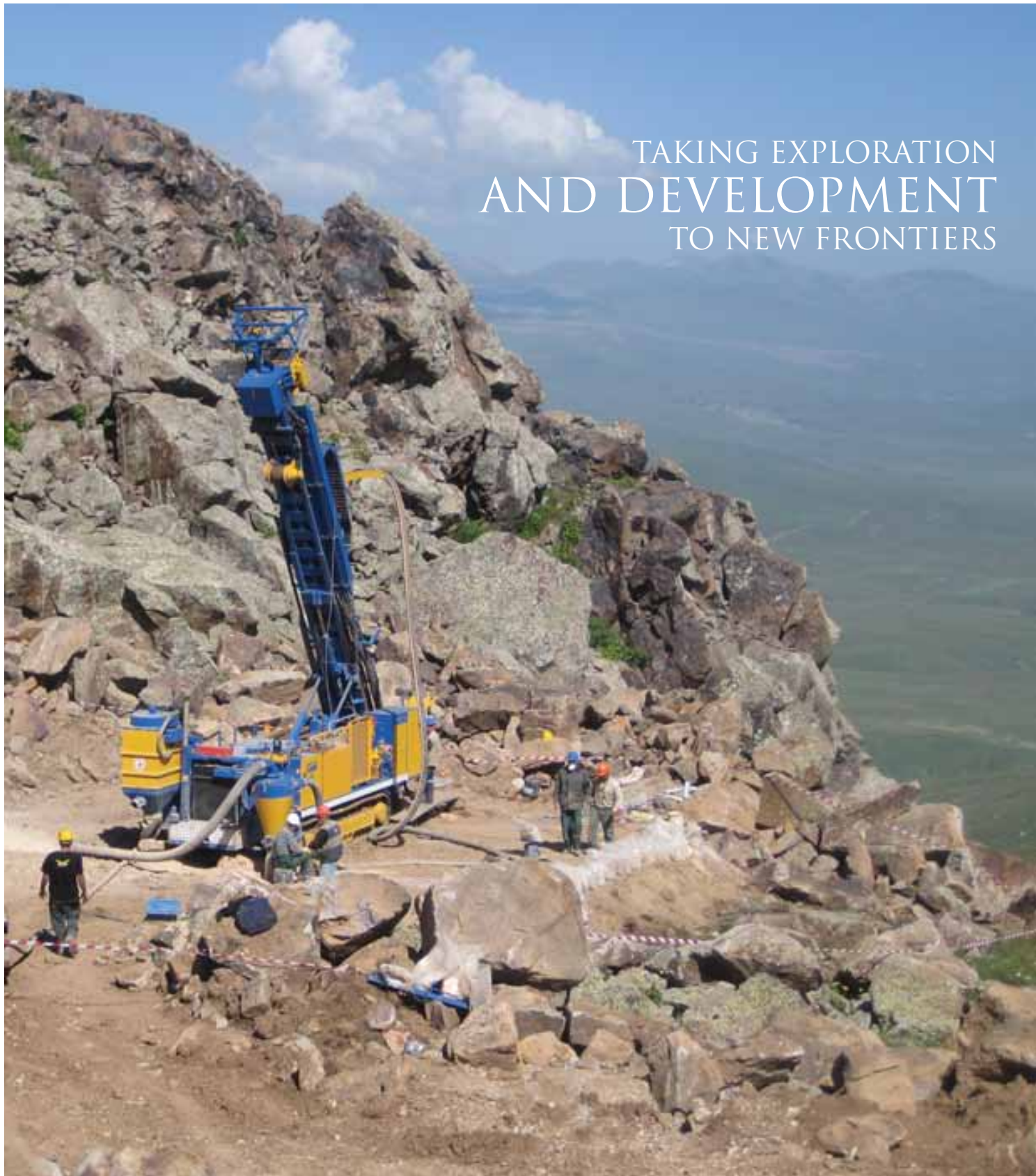


TAKING EXPLORATION  
AND DEVELOPMENT  
TO NEW FRONTIERS





## WELCOME

**T**he probability of discovering large, world class projects is higher in prospective newly emergent environments. Lydian is a diversified mineral exploration and development company with expertise and a proven track record employing “first mover” strategies in such environments.

Lydian has illustrated this unequivocally with its discovery of the Amulsar gold project in Armenia. After one full season of drilling this project already has an inferred resource of 1M ounces and remains open and untested in all directions. Through its experience and by working closely with its major shareholders Lydian has a

unique competitive advantage in highly prospective emerging environments. Lydian’s joint venture partner is Newmont. Its major investors include Newmont and the International Finance Corporation (part of the World Bank). These relationships help bolster the Company’s competitive advantage whilst mitigating geopolitical risk.

Lydian benefits from the leadership of an experienced and renowned management team and board, with sound backgrounds in operations, finance and in building companies.

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The first one million ounces at Amulsar is clearly a great start, more so when one considers that it was only some two and a half years ago that the first gold was found at the project. This preliminary resource was defined in one field season of drilling and has not been closed off with potential to define additional extensions in all directions”, *Tim Coughlin, President and CEO*



## CHIEF EXECUTIVE OFFICER'S STATEMENT



**Tim Coughlin**  
CEO and President

“

It is clear now that Amulsar in Armenia has the potential to develop into a major new gold discovery.

It goes without saying that 2008 was a tumultuous time for global markets and for the resource sector as a whole. One measure of a good company has to be that whilst dealing with the pressures and accommodating elementary change at a global scale it still achieves what it set out to do; despite the challenges. Add to that a solid asset base including a potentially world-class new gold discovery with a just announced initial inferred resource of 1M ounces drilled out during one field season; a healthy treasury; and strong partners including the International Finance Corporation (equity investment arm of the World Bank) Newmont Mining Corporation and you have Lydian.

It is clear now that Amulsar in Armenia has the potential to develop into a major new gold discovery. This should be put in context, true grass-roots discoveries with tangible plus 1 million-ounce gold potential are uncommon. The previous metals boom has seen a few notable large gold discoveries, some small discoveries, and a lot of previously known marginal gold deposits attract financing. Some of these have been brought into production. In the first half of 2008 for example, 22-gold projects were brought on-line. However, it is important to note that the total combined annual

capacity of these mines is just some 2 million ounces of gold. To draw a comparison, the global average annual production for “Amulsar-style” projects (high-sulphidation epithermal, open-pit, heap leach-gold mines) in the year 2007 was approximately 650 thousand ounces of gold per deposit, so that production from three of these deposits accounts for the entire annual capacity of the new projects that came on-line in the first half of 2008.

Then of course there are “good ounces” and “bad ounces”. Bad gold ounces are those that whilst on paper may appear attractive but for various reasons are expensive to produce. In an environment where mining costs have increased significantly and the gold price is volatile, mines that produce gold cheaply are considered at a premium. Significant influencing factors in terms of cost of production are mining method, metallurgy and existing infrastructure. Amulsar scores well in all aspects; a mine at Amulsar would be open-pit, resource ounces are so far entirely oxide with preliminary metallurgical tests suggesting recoveries in excess of 90%.

In terms of infrastructure the fact that the project occurs by the main road and on the mountain pass between northern





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With what we believe is a superior asset base with Amulsar at its core, strong institutional support and a good treasury, Lydian is well positioned for an exciting 2009.

and southern Armenia means that high-tension power lines, an electricity substation, gas and water pipelines all occur on the licence and within close reach of any potential operation. The average cash cost for 2007 (production cost) of “Amulsar-style” projects around the world was in the order of USD\$ 290/ounce, meaning they represent some of the cheapest major gold mines in the world. With the exceptional infrastructure it is likely that Amulsar will at least match and possibly better the production costs of some of these projects. For 2009 Lydian’s intention is to focus its efforts primarily on developing the Amulsar project and on increasing the existing resource.

At the more advanced base metal projects in Kosovo, work will continue on underground testing and converting former Yugoslav resources to NI-43101 compliance. These projects benefit significantly from access to existing infrastructure such as transport facilities and concentrators, so even a small increase in the lead and zinc prices can mean a lot in terms of profitability.

Virgin discoveries such as Amulsar are becoming progressively fewer and farther between, even though exploration expenditure has risen significantly over recent years. One reason for this is increasing exploration

maturity in many search terrains, particularly those in the traditional regions of North America and Australasia. To succeed cost-effectively in this new commercial environment and in an environment where large economically significant discoveries are progressively fewer and farther between requires a focus on non-traditional regions, experience, innovation, and technical skill coupled with good commercial discipline. This underlines Lydian’s exploration focus and highlights its strengths.

With what we believe is a superior asset base with Amulsar at its core, strong institutional support and a good treasury, Lydian is well positioned for an exciting 2009.

**Tim Coughlin**  
CEO and President







## OVERVIEW

Lydian International, formerly Dawson Creek Capital Corp., was incorporated under the Business Corporations Act (Alberta) on February 14, 2006 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange. On December 12, 2007, the Company consolidated its outstanding share capital on the basis of two post-consolidation shares for each three post-consolidation shares, continued from the Province of Alberta to Jersey, Channel Islands, 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 is currently focused on projects in Eastern Europe, exploring in the Balkan and Caucasus regions.

The Company's two main projects are gold at Amulsar in Armenia and zinc, lead, silver and gold at Drazhnje in Kosovo. In the Caucasus the Company operates a 50/50 gold and copper exploration joint venture (the "Newmont Venture") with Newmont Overseas Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation (NSYE & ASX:NEMS, TSX:NMC). The Company's two largest shareholders are Newmont Mineral Holdings B.V., and International Finance Corporation (part of the World Bank Group).

The Company is committed to creating shareholder value through its disciplined, but opportunistic business model. The Company has assembled a pipeline of mining projects at various stages of development. The Company currently has projects in: (1) the resource estimate stage; (2) the scoping and advanced exploration stage; and (3) the early exploration stage. Lydian intends to maximize the potential of and realize value through the exploration and development of its existing properties.







## MANAGEMENT DISCUSSION AND ANALYSIS



The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Lydian International Limited ("Lydian" or the "Company") for the period ended December 31, 2008. This discussion should be read in conjunction with the consolidated financial statements and the notes thereto. The consolidated financial statements have been prepared on the historical cost basis and presented in British Pounds. Additional Company information, including the Company's most recent Financial Statements and Information Form, can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.lydianinternational.com](http://www.lydianinternational.com).

This report includes certain forward-looking statements. Please read cautionary note at the end of the report, Appendix 1.

### Highlights 2008

- Initial inferred resource of one million ounces – open in all directions – defined at Amulsar
- Heap leach simulation tests at Amulsar indicate recoveries of 94% to 97%
- Underground redevelopment and channel sampling commences at Drazhnje

“

Lydian continues to produce good results from its drilling program,” said William Bulmer, Global Head for mining at IFC (Equity investment arm of the World Bank). “We are pleased to provide continued support for this company, even when the markets are difficult.”



Pic 1.  
Exploration at Amulsar

Pic 2.  
Night shift drilling at Amulsar, Armenia

Pic 3.  
View looking south over yet untested parts of the Amulsar ridge



## MANAGEMENT DISCUSSION AND ANALYSIS CONTINUED

- Lydian entered into a Subscription Agreement dated February 25, 2009 between the Company and European Bank for Reconstruction and Development (“EBRD”) for an investment of CAD 1.6m and on 18th March 2009, the Company announced that the International Finance Corporation (“IFC”) had approved an additional equity investment in Lydian of CAD 1.4 million.

### Exploration activity and results

#### Amulsar: Armenia

The Amulsar license areas, discovered by Lydian in 2006, cover a region of high-sulphidation, epithermal-type gold mineralisation located in central Armenia. The Amulsar project forms part of the Newmont Joint Venture.

A preliminary CIM-compliant inferred resource of one million oxide ounces at 1g/t gold has now been reported from the Tigranes to Artavasdes prospect areas comprising just 20% of the surface area currently known to carry gold mineralisation at Amulsar. The resource has not been closed off and potential exists to define additional resource extensions of the known deposit in all directions. The Company’s goal for 2009 is to drill-for-size and extend the current limits to reveal the true potential of the system.

The Amulsar exploration licences are held 100% by Geoteam JSC (“Geoteam”), an Armenian registered closed joint stock company. The outstanding shares of Geoteam are held 95% by Lydian Resources Armenia Ltd. (an indirect subsidiary of the Company) and 5% by a local director.

In 2007, Lydian advanced the Amulsar project to scout drilling stage by conducting mapping, soil sampling, trenching and rock-chip sampling. The Company identified a 3.5 km long zone of anomalous gold mineralization following a northwesterly oriented high ridge top. More detailed work identified three discrete prospect areas located along and parallel to this northwesterly ridge. These prospect areas are known from north to south as Erato, Tigranes and Artavasdes. Five scout diamond drill holes totaling 591m were drilled in the late summer of 2007 and represented the very first subsurface test of the gold potential at Amulsar. Drilling intersected oxidized mineralization to down-hole depths of approximately 150m. The Company did





not encounter sulphide mineralization in any of these drill holes. In light of the results (which included DDA-004; 53m at 2.6g/t gold), the Company determined to carry out further drill testing and consequently a 13,000m drill program was completed for the field season 2008.

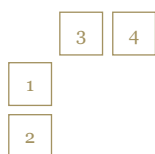
During 2008 a gold recovery test program was completed by Lakefield Laboratories on half drill-core from drill hole DDA-004. The entire drill hole assayed 1.07g/t and returned recoveries of 94% to 97% in heap leach simulation tests. These results are in the top percentile of gold deposit recoveries.

Drill results returned for the year 2008 have been consistent and highly encouraging. Complete drill results are presented in Appendix 2. Some drill holes have intersected locally higher-grade intervals at greater than 3g/t gold and containing significant amounts of silver. To-date, drilling has defined a 1000m long and approximately 400m wide zone of gold mineralization at Art the Tigranes-avasdes area and the system remains open in all directions.

On March 18th, 2009, the Company released a National Instrument 43-101 compliant mineral resource estimate for the Amulsar project. The resource is in inferred category, was estimated from data gathered during the 2008 drilling program and totals one million ounces at 1g/t (using a 0.4 g/t cut off). The resource estimate was conducted by Galen White, as the qualified person at CSA Global Pty Ltd. Details of this resource can be viewed on SEDAR.

Step-out drilling and further surface sampling on targets to the north and south has been conducted and results have been highly encouraging, suggesting that an area of approximately 6km<sup>2</sup> carries anomalous gold mineralization.

Planning is now underway for a 10,000-15,000m drill program to be conducted during 2009 with the aim being to at-least double the current inferred resource.



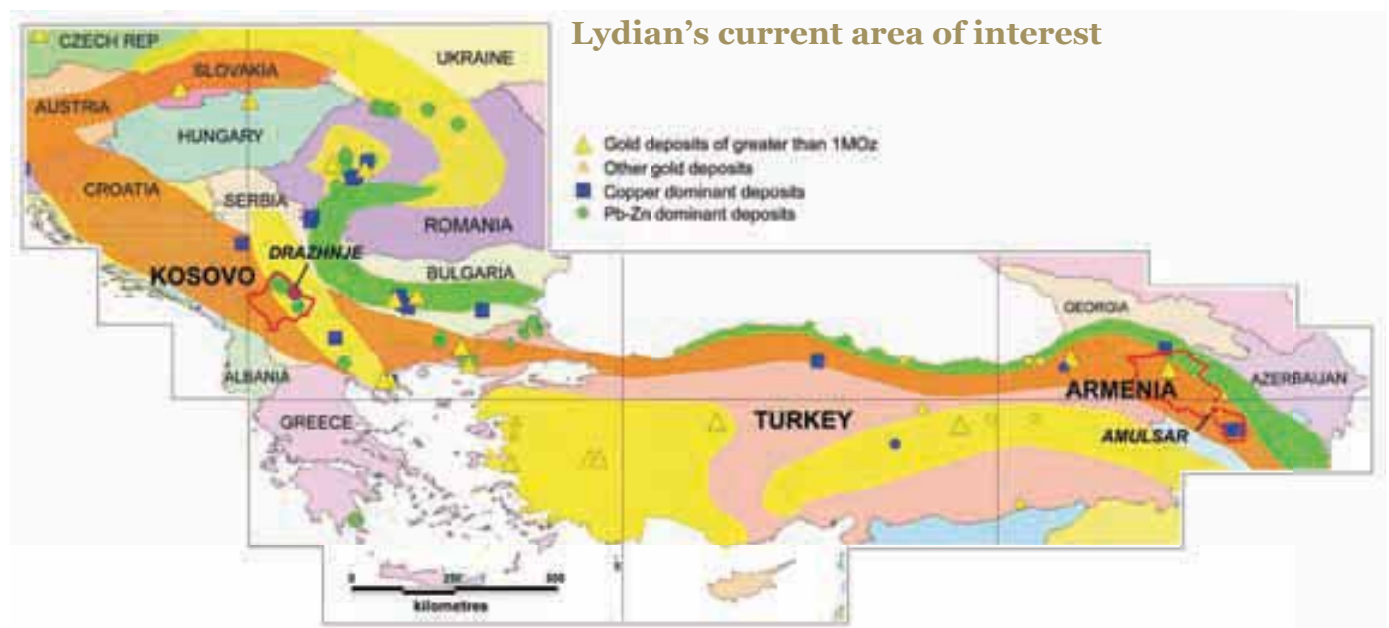
*Pic 1. Lydian and Newmont Management and technical staff at Amulsar*

*Pic 2. View looking west up at the eastern extent of the Tigranes prospect area, Amulsar*

*Pic 3. Diamond drilling at Amulsar*

*Pic 4. View looking northeast from Artavasdes towards Tigranes*

## MANAGEMENT DISCUSSION AND ANALYSIS CONTINUED



The Amulsar project is currently being explored as part of a joint venture with Newmont Overseas Exploration Limited, a wholly owned subsidiary of Newmont Mining Corporation (NYSE & ASX: NEM; TSX: NMC). The joint venture is a 50%-50% contribution. Newmont has two options to increase its interest. The first is an option to earn a further 20% by funding the project through to feasibility; the second option allows Newmont to earn a further 10% by funding through to commercial production.

### **Drazhnje: Kosovo**

Drazhnje is a historic zinc, lead, silver exploration project with former Yugoslav resources (not JORC compliant) of 4.7Mt at 4.9% Zn, 2.4% Pb and 45ppm Ag in categories A + B + C1 and a further 2Mt at 5.8% Zn, 3.2% Pb and 45ppm Ag in category C2. The project was explored by surface drilling and two levels of underground exploration development but was abandoned in 1989 due to ethnic unrest and was never put into production.

Lydian completed a 2500m drilling programme at Drazhnje in 2007. The drilling program confirmed the presence of the former Yugoslav resource and identified extensions of base metal and gold mineralisation located along-strike and outside of this resource at the St George and Trpeza prospect areas.

Drilling during 2008 has developed the mineralised extensions discovered during 2007 and uncovered further base-metal and gold mineralisation additional to the existing historical resource particularly in the St Barbara-St George areas. Drill testing during Q3 has intersected some of the best grades yet from the St. Barbara area. Drill hole DDZ-048 was an infill hole (between previously reported holes DDZ-032 and DDZ-033) and intersected 13m at 21.0% Zn, 7.1% Pb, 25.3 g/t Ag and 0.5 g/t Au. Results from hole DDZ-54 located 120m to the northwest of DDZ-048 returned 9m at 5.81% Zn, 1.32% Pb, 6.5 g/t silver and 0.5 g/t gold.



Drill testing of the Trpeza prospect at the northern extent of the Drazhnje project area identified low-grade base-metal sulphides in a shallow northeast-dipping strata-bound body. Further geophysics and drilling is planned in this area in order to identify higher grade and possibly feeder-type structures.

Drilling has now stopped at the Drazhnje project and work is focused on accessing the underground exploration development for the purpose of channel sampling and then resource calculation. Re-opening and making safe of the underground workings has now extended for a distance of some 450m on the lower (695)-level.

#### **Crepulje: Kosovo**

Crepulje is a high-grade zinc-lead oxide project of approximately 5km strike-extent in northern Kosovo. During 2007, reconnaissance rock-chip and soil sampling was conducted and returned very high-grades for zinc.

Work to-date for 2008 has included the cleaning and re-sampling of historic trenches and scout diamond drilling. Trench results were significantly higher and more consistent than historic sampling. The most encouraging result was from Trench 2, which assayed 32 metres at 25.89% zinc, and 3.86% lead along its entire length. Other highly significant results include: Trench 1; 25 metres at 14.74% zinc and 1.82% lead; Trench 3; 23 metres at 12.53% zinc and

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*Pic 1.  
View of exploration camp at Amulsar, Armenia*



## MANAGEMENT DISCUSSION AND ANALYSIS CONTINUED

1.10% lead; and Trench 6; 15 metres at 21.53% zinc and 1.53% lead (all using 1% zinc cut-off and maximum internal dilution of 2 metres).

Details of the scout-drilling programme are pending a full interpretation of the project geology.

### **Rahovec: Kosovo**

In view of the current outlook for Nickel and a requisite focus on key assets Lydian elected to relinquish the Rahovec license in December 2008.

### **Muratdag: Turkey**

As part of the Newmont Joint Venture, Lydian acquired a 50% interest in Newmont's Muratdag gold-nickel project in Western Turkey. The Muratdag project is extensive, comprising 23 individual exploration licence areas and totalling approximately 66.22 square kilometres.

Muratdag was discovered by Newmont during a regional BLEG survey in 2004. Since then, grid soil sampling and reconnaissance rock-chip sampling as identified two zones of gold and nickel mineralisation extending over a strike length of more than 2km with soil samples of greater than 1ppm Au and .6% Ni and rock-chip highs of 2ppm Au and .6% Ni. Work conducted during 2007 revealed that mineralisation is related to peridotitic bodies and is hosted in through-going faults and overlying coarse clastic sediments.

Lydian and Newmont are currently seeking a joint-venture partner to help develop this project.

### **Outlook**

Management continues to focus on developing the Amulsar discovery and on revealing the project's full potential. Regional exploration work aimed at securing new gold assets will continue in Armenia as part of the Newmont Joint Venture. In Kosovo and in view of the current base-metal markets, efforts have been streamlined and work is focused entirely at Drazhnje and on converting Yugoslav resources to National Instrument 43-101 compliant resources. The Company plans to raise further capital to support current and new ventures, subject to market conditions. Shareholder outreach will be a major focus in an effort to increase and diversify exposure, increase investor awareness and improve liquidity.

### **Qualified Person**

Dr Tim Coughlin, MAusIMM; is the Qualified Person overseeing Lydian's exploration programmes for purposes of National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*. Dr. Coughlin has supervised the preparation of the technical information contained in this MD&A.

Lydian employees are instructed to follow standard operating and quality assurance procedures intended to ensure that all sampling techniques and sample results meet international reporting standards. All assay work for the released results was carried out by ALS Chemex analytical laboratory in Rosia Montana, Romania, in Perth Australia, or in Vancouver, BC. Please see Lydian's web site for more information.





## FINANCIAL RESULTS OF OPERATIONS

### SELECTED FINANCIAL INFORMATION

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

### Statement of Operations

The following is a summary of selected information for the three and twelve month period ended December 31, 2008 and the year ended December 31, 2007 and comparative financial information for the corresponding interim periods in the Company's previous financial year.

	Three months ended December 31,		Twelve months ended December 31,		
	2008	2007	2008	2007	2006
British Pounds	£	£	£	£	£
Interest income	<b>14,990</b>	47,959	<b>119,759</b>	90,607	12,734
Joint partner contributions	<b>24,300</b>	–	<b>126,670</b>	–	–
Total expenses	<b>1,169,370</b>	378,549	<b>2,325,812</b>	1,334,084	441,389
Net income (deficit)	<b>(1,027,712)</b>	(330,590)	<b>(2,079,383)</b>	(1,243,477)	(428,655)
Loss per share (basic and diluted)	<b>0.02</b>	0.01	<b>0.05</b>	0.05	0.03

During the three and twelve month periods ended December 31, 2008 and 2007 the Company had no revenues. Its only income was bank interest and contributions received from Newmont in connection with the Newmont Joint Venture. In these periods, the Company recorded a loss of GBP 1,027,672 (2 pence per share) and GBP 2,079,383 (5 pence per share), respectively, compared to GBP 330,590 (1 pence per share) and GBP 1,243,477 (5 pence per share) during the corresponding periods in 2007.

The increase of losses mainly relates to increase of commodity prices and operation expansion.

### Income Tax Expense

There was no tax payable for the Group in the three and twelve month periods ended December 31, 2008 and during the same periods in 2007. As at December 31, 2008, the Company had taxation losses of £2,207,474 (December 31, 2007 £1,103,010) that had not been recognised as there is insufficient evidence of taxable profit in the near future.

### Summary of Operating Cash Flows, Investing and Financing Activities

The following table summarises the Company's cash flow for the three and twelve month periods ended December 31, 2008 and December 31, 2007:

	Three months ended December 31,		Twelve months ended December 31,		
	2008	2007	2008	2007	2006
British Pounds	£	£	£	£	£
Receipts from joint venture partner	–	–	<b>261,537</b>	48,246	–
Net cash provided (used) by operating activities	<b>(603,643)</b>	(259,287)	<b>(1,775,864)</b>	(1,102,189)	(410,541)
Net cash used by investing activities	<b>(484,864)</b>	(213,556)	<b>(2,584,772)</b>	(625,636)	(86,019)
Net cash provided (used) by financing activities	–	4,307,281	<b>111,390</b>	6,178,856	2,237,408



## FINANCIAL RESULTS OF OPERATIONS CONTINUED

### Summary of Balance sheet data

The following table summarises the Company's balance sheet data as at the dates indicated:

	<b>As at December 31, 2008</b>	As at December 31, 2007	As at December 31, 2006
GBP	£	£	£
Current assets	<b>2,554,815</b>	6,455,357	1,921,051
Property and equipment	<b>578,166</b>	134,013	15,573
Intangible assets	<b>64,667</b>	–	–
Exploration and evaluation assets	<b>3,342,905</b>	900,554	79,629
<b>Total Assets</b>	<b>6,540,553</b>	7,489,924	2,016,253
Current Liabilities	<b>582,699</b>	412,527	98,376
Shareholders' Funds	<b>5,957,854</b>	7,077,397	1,917,877

The expenditures incurred by the Company in the three and twelve month periods ended December 31, 2008 were comprised primarily of remuneration for its employees, contractors and directors, costs relating to the Company's offices in Kosovo and Armenia and exploration site overheads. Deferred exploration expenditures incurred during these periods were GBP 601,798 and GBP 2,442,351 for the three and twelve month periods ended December 31, 2008 compared to deferred expenditures of GBP 223,165 and GBP 820,925 in the corresponding periods in 2007. These deferred exploration expenditures were related to exploration work on the Company's exploration projects as follows:

### Deferred Exploration expenses by projects

The following table summarises the Company's deferred exploration expenses as at the dates indicated:

	<b>Commulative as at December 31, 2008</b>	Commulative as at December 31, 2007
GBP	£	£
Kosovo		
● Draznja	<b>1,715,099</b>	585,958
● Rahovec	<b>57,667</b>	15,325
● Crepulja	<b>71,582</b>	9,013
Armenia		
● Amulsar	<b>1,498,557</b>	290,258
<b>Total</b>	<b>3,342,905</b>	900,554

### Outstanding share data

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

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

	As at March 28, 2009	As at December 31, 2008	As at December 31, 2007
	Number	Number	Number
Ordinary shares	39,982,929	39,982,929	39,165,763
Rolling stock option plan	550,000	550,000	400,000
Other, Warrants/Options	14,967,146	14,967,146	15,104,816



## MANAGEMENT AND STAFFING

During the three and twelve month period ended December 31, 2008, there was one change in management of the Company. On November 12, 2008, Mr. Hugh Devlin, Executive Director Operations, resigned from his position with the Company in order to pursue other business interests. In addition, the employment of Mr. Jason Wilkinson, Vice President of Exploration, with the Company will terminate on March 31, 2009.

## LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of GBP 2,554,815 as at December 31, 2008, compared to GBP 7,489,924 on December 31, 2007. The Company had total assets of GBP 6,540,553 at December 31, 2008, compared to GBP 6,455,357 on December 31, 2007, which included deferred exploration expenditures amounting to GBP 3,342,905 (GBP 900,554 on December 31, 2007). The Company's principal source of liquidity as at December 31, 2008 was cash amounting to GBP 1,751,349 compared to GBP 6,009,767 on December 31, 2007. Cash surplus to the Company's requirements was invested in money market deposits.

The Company's sole source of funds is presently equity finance. The Company has entered into the EBRD Subscription Agreement and the IFC Subscription Agreement. If the transactions under such agreements are completed, the company will issue an aggregate of (i) 7,121,282 Ordinary Shares at an issue price of \$0.42 per share, (ii) 1,904,762 Ordinary Share purchase warrants exercisable at an exercise price of \$0.53 per Ordinary Share for a period of three years, and (iii) 5,216,520 Ordinary Share purchase warrants exercisable at an exercise price of \$0.59 per Ordinary Share for a period of five years. Once these financings are closed, The Company will have sufficient funds to carry out its planned exploration activities until the end of the year.

Lydian's liquidity is affected by a number of key factors and risks. Reference is made to the "Risks and Uncertainties" section of the MD&A for a discussion of these factors and their impact on the Company's liquidity.

The Company has made certain expenditure commitments to the licensing authorities for the Company's projects. Should these expenditure targets not be met, the applicable licences will not be forfeited, but any shortfall will be considered by the applicable regulatory authority as a factor on whether to renew such licences.

The above cost includes exploration costs directly attributable to the Company's projects and directly attributable overheads including the estimated contribution from Newmont, the Company's joint venture partner, in respect of the Newmont Joint Venture property at Amulsar in Armenia. It does not include costs relating to head office corporate activities or any new potential projects.

The Company has contractual obligations due within the next five years as follows:

### Contractual Obligations

GBP	Total	Up to 1 year	1-3 years	4-5 years
Operating lease obligations	89,118	83,701	5,417	–
Purchase obligations	–	–	–	–
<b>Total contractual obligations</b>	<b>89,118</b>	<b>83,701</b>	<b>5,417</b>	<b>–</b>



## FINANCIAL RESULTS OF OPERATIONS CONTINUED

### TAXES PAID IN ARMENIA AND KOSOVO

#### Lydian International Limited in Armenia and Kosovo

##### Summary of payments to the Armenian and Kosovo State Budgets

The following information is provided as part of an initiative by Publish What You Pay (a global civil society coalition) to achieve transparency of oil, gas and mining company payments to agencies and representatives of those governments as a first step towards a more accountable system for the management of natural resources.

Item	Amounts paid in Armenian Drams to Armenian Government			Amounts paid in euros to Kosovo Government		
	2007	2008	Including Q4 2008	2007	2008	Including Q4 2008
Corporate tax	–	1,185,500	860,000	–	–	–
Concession fee	2,940,000	520,100	–	–	11,600	–
Social Insurance Funds Employer	5,887,000	20,857,713	6,651,950	13,455	19,832	4,256
Social Insurance Funds Individual	1,951,395	3,903,562	1,333,600	–	19,832	4,256
Environmental fees	–	350,909	32,398	–	–	–
Penalties	–	150,000	–	–	–	–
Customs duty	–	5,765,880	521,421	10,678	10,890	1,031
Land fee	–	–	–	600	4,600	1,600
Property tax	24,300	169,550	56,500	–	–	–
Income tax	23,473,000	55,440,000	11,450,000	78,893	72,708	11,702
Non resident withholding tax	–	24,300,000	13,800,000	–	–	–
VAT	3,351,000	51,496,223	–	–	–	–
<b>Total</b>	<b>37,627,295</b>	<b>164,139,437</b>	<b>41,189,111</b>	<b>141,149</b>	<b>346,672</b>	<b>72,292</b>
<b>Equivalent GBP</b>	<b>55,225</b>	<b>290,014</b>	<b>72,776</b>	<b>96,856</b>	<b>276,020</b>	<b>57,559</b>

### FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The net fair value of the financial assets and financial liabilities approximates their carrying value. The Company's exposure to changes in market interest rates, relates primarily to the Company's cash deposits. The Company maintains a balance between the liquidity of cash assets and the interest rate return thereon. The carrying amount of financial assets, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

### OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements, and management does not anticipate entering into any such arrangements in the near future.

### RISKS AND UNCERTAINTIES

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

#### Metal Prices

The Company is in exploration of gold, zinc, lead and silver metals resources and realisation of its discoveries and developments will depend on metals' international prices.





### Foreign Exchange

The Company operates internationally and is therefore exposed to foreign exchange risks arising from foreign currency fluctuations. The Company raises finance in Canadian Dollars, accounts in British Pounds and incurs expenses in mainly five currencies – the Euro, the British Pound, the U.S. dollar, the Canadian dollar and the Armenia Dram. The Company's risk management policy is to hold cash in the Euro, British Pound, the U.S. dollar and the Canadian dollar, broadly in line with its currency expenditure forecasts. The Company does not currently hedge its foreign exchange exposure.

### Counterparty Risk

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics other than to Newmont (see *Related Party Transactions* below). We do not anticipate a loss for non-performance by any counterparty with whom we have a commercial relationship.

### Taxation Risk

The Armenia and Kosovo tax systems could impose substantial burdens on the Company. The Company is subject to a broad range of taxes imposed at federal, regional and local levels. Laws related to these taxes have been in force for a relatively short period relative to tax laws in more developed market economies and few precedents with regard to the interpretation of these laws have been established. No assurances can be made that any new tax laws introduced by the Governments of these countries will not result in the Company having to pay significantly higher taxes, which could have a materially adverse effect on the Company's business.

### Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulations in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulations, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties in which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses.

### Exploration

Exploration is highly speculative in nature and exploration projects involve many risks that even a combination of careful evaluation, experience and knowledge may not eliminate. If a site with gold or other precious metal mineralization is discovered (and this may not happen), it may take several years from the initial phases of drilling until production is possible, if at all. Substantial expenditures are normally required to locate and establish mineral reserves and to construct mining and processing facilities. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines.



## FINANCIAL RESULTS OF OPERATIONS CONTINUED

### Political

The majority of the Company's operations are carried out in Eastern Europe and Eurasia and, as such, the Company's operations are exposed to various levels of political risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, terrorism; corruption; crime; hostage taking or detainment of personnel; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; absence of reliable regulatory and judiciary process; changes in taxation policies; restrictions on foreign exchange and repatriation; changing political conditions; currency controls; and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Any changes in mining or investment policies or shifts in political attitude in Eastern Europe and Eurasia may adversely affect the Company's operations and financial condition. Failure to comply with applicable laws, regulations and local practices relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements.

### Insurance

The Company's business is subject to a number of other risks and hazards, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, hurricanes and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with Company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### Government Laws and Regulations

The activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, toxic substances, land use, water use, land claims of local people and other matters. Although the Company currently carries out its operations in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development. The Company's operations and development activities are subject to receiving and maintaining permits from appropriate governmental authorities. There is no assurance that the Company will be successful in obtaining or maintaining the necessary licences and permits to continue its exploration and development activities in the future.

### Financing

The only source of future funds presently available to the Company for further exploration programs or, if such exploration programs are successful, for the development of economic ore bodies and commencement of commercial production thereon, is the sale of equity capital. It may also be necessary, in some circumstances for the Company to offer an interest in its properties to be earned by another party carrying out further exploration or development.

There is no assurance that funds will be available on acceptable terms in the future. Failure to obtain sufficient financing may result in delay or indefinite postponement of development on any or all of the Company's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.





### Labour Relations

While the Company has good relations with both its unionized and non-unionized employees, there can be no assurance that it will be able to maintain positive relationships with its employees or that new collective agreements will be entered into without work interruptions. In addition, relations between the Company and its employees may be impacted by regulatory or governmental changes introduced by the relevant authorities in whose jurisdictions the Company carries on business. Adverse changes in such legislations or in the relationship between the Company and its employees may have a material adverse impact on the Company's business, results of operations and financial condition.

### Mineral Resources

The Company's mineral resources are estimates, and no assurance can be given that the estimated resources are accurate or that the indicated level of gold will be produced. Such estimates are, in large part, based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralization or formations may be different from those predicted. Further, it may take many years from the initial phase of drilling before production is possible, if at all, and during that time the economic feasibility of exploiting a discovery may change. Mineral resource estimates for properties that have not commenced production are based, in many instances, on limited and widely spaced drill hole information, which is not necessarily indicative of the conditions between and around drill holes. Accordingly, such mineral resource estimates may require revision as more drilling information becomes available or as actual production experience is gained. You should not assume that all or any part of the Company's mineral resources constitute or will be converted into reserves.

### Joint Venture Risk

The Company operates certain of its properties through joint ventures and is subject to the risks normally associated with the conduct of joint ventures. Certain of the properties in which the Company has an interest are operated through joint ventures with other mining companies and are subject to the risks normally associated with the conduct of joint ventures. Such risks include: inability to exert control over strategic decisions made in respect of such properties; disagreement with partners on how to develop and operate mines efficiently; inability of partners to meet their obligations to the joint venture or third parties; and litigation between partners regarding joint venture matters. Any failure of such other companies to meet their obligations to the Company or to third parties, or any disputes with respect to the parties' respective rights and obligations, could have a material adverse effect on the joint ventures or their respective properties, which could have a material adverse effect on the Company.

### RELATED PARTY TRANSACTIONS

The Company operates the Newmont Joint Venture with Newmont, the holder of approximately 13% of the Company's issued and outstanding shares. The Newmont Joint Venture agreement relates to, among other things, the Amulsar exploration project in Armenia. The Newmont Joint Venture agreement currently requires that costs incurred on the project are to be shared equally between the Company and Newmont with the future option of a carried interest available to either party once the project goes to the feasibility or development stage. Newmont paid the Company GBP 1,846,213 during the twelve months ended December 31, 2008 for its share of the costs relating to a drilling contract and for JV manager fee compensation.

The Company entered into the IFC Subscription Agreement with respect to a proposed issuance of 3,311,758 Ordinary Shares and warrants to acquire 3,311,758 Ordinary Shares, subject to the approval of the proposed issuance by the Company's shareholders and other conditions. IFC is an insider of the Company by virtue of its ownership of 5,149,999 Ordinary Shares, representing approximately 12.86% of the currently issued and outstanding Ordinary Shares. Upon completion of the proposed issuance, IFC would hold approximately 8,461,757 Ordinary Shares, which would represent 17.94% of the 47,161,877 Ordinary Shares which would be outstanding if all of proposed shares to be offered under the IFC Subscription Agreement and the EBRD Subscription Agreement are subscribed for and issued. IFC also currently holds 4,649,000 Ordinary Share purchase warrants of the Company.



## FINANCIAL RESULTS OF OPERATIONS CONTINUED

The remuneration of directors and key management during the twelve months ended December 31, 2008 and December 31, 2007 is as follows. The directors and key management are the directors of the Company and the sole director and country manager of Geoteam CJSC. The director of Geoteam CJSC holds 5% of the shares in Geoteam CJSC.

	<b>Twelve months ended December 31, 2008</b>	Twelve months ended December 31, 2007
Aggregate emoluments	<b>260,788</b>	245,344
Share based payments	–	222,395

### CRITICAL ACCOUNTING ESTIMATES AND POLICIES

#### Critical judgments in applying the Group's accounting policies

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

The significant critical judgment that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements is the policy on exploration and evaluation costs.

In particular, management is required to assess exploration and evaluation assets for impairment with reference to the indicators provided in IFRS 6. Note 9 to the Company's 2008 annual financial statements 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 Company can establish economically recoverable reserves on its properties, the availability of the Company to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Company will use the evaluation work of professional geologists, geophysicists, and engineers for estimates in determining whether to commence or continue mining and processing. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralization.

#### Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The estimate of significance in the consolidated financial statements relates to the joint venture arrangement with Newmont. In accordance with the terms of the joint venture arrangement, costs with respect to the Armenian project are shared equally between the two parties.

### DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including The Company's President and Chief Executive Officer and Chief Financial Officer, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management evaluated the effectiveness of the Corporation's disclosure controls and procedures as required by Canadian securities laws.





Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management including the President and Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

#### **INTERNAL CONTROLS AND PROCEDURES**

The Company evaluated the design of its internal controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended December 31, 2008. Based on this evaluation, the President and Chief Executive Officer and Chief Financial Officer have concluded that the design of these internal controls and procedures over financial reporting was effective.

There have been no material changes in the Company's internal control over financial reporting during the Company's reporting period ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

We, Timothy Coughlin (CEO) and Roderick Corrie (CFO) certify that we are responsible for establishing and maintaining disclosure controls and procedures (DC&P) as well as internal controls over financial reporting (ICFR). We also certify that we have designed such internal controls over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The CEO and CFO have evaluated the effectiveness of the company's disclosure controls and procedures and assessed the design of its internal control over financial reporting as of December 31, 2008, pursuant to the requirements of Multilateral Instrument 52-109. The CEO and CFO have concluded, based on this evaluation, that the company's disclosure controls and procedures are effective, and that the design of internal control over financial reporting provides reasonable assurance regarding the reliability of the company's financial reporting and the preparation of the company's financial statements for external purposes in accordance with (Canadian) GAAP.

Furthermore, there were no changes in internal control in the fourth quarter that we considered should be disclosed.

#### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates are based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.



## FINANCIAL RESULTS OF OPERATIONS CONTINUED

### INFORMATION ON INCURRED EXPENSES

Material costs incurred in 2008 were the follows:

Cost type	<b>12 months to December 31, 2008</b>	12 months to December 31, 2007
	<b>£</b>	£
Exploration and evaluation deferred expenditures	<b>2,065,233</b>	944,920
Employees benefit and expenses	<b>1,212,410</b>	738,791
Services and consumables used	<b>501,412</b>	447,771
Administrative and other expenses	<b>349,014</b>	43,026
Consulting expenses	<b>163,766</b>	66,015
Depreciation and amortization	<b>101,364</b>	24,175
Disposal of fixed assets	<b>68,705</b>	3,373

### SUMMARY OF QUARTERLY RESULTS

The summary of eight most recently completed quarters is as follows:

	Q1 2007	Q2 2007	Q3 2007	Q4 2007
	£	£	£	£
Net sales or total revenues	–	–	–	–
Net income (loss)*	(317,002)	(169,625)	(426,260)	(330,590)
Loss per share (basic and diluted)	0.01	0.01	0.01	0.01

	Q1 2008	Q2 2008	Q3 2008	Q4 2008
	£	£	£	£
<b>Net sales or total revenues</b>	–	–	–	–
<b>Net income (loss)*</b>	<b>(491,436)</b>	<b>(204,250)</b>	<b>(355,985)</b>	<b>(1,027,712)</b>
<b>Loss per share (basic and diluted)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.02</b>

\*The company has not any discontinued operations within eight reportable quarters.

### OTHER INFORMATION

Additional information is available on the Company's website at [www.lydianinternational.com](http://www.lydianinternational.com) or on the SEDAR at [www.sedar.com](http://www.sedar.com).

### CAUTION REGARDING FORWARD LOOKING STATEMENTS

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates or other opinions or other circumstances should change. Investors are cautioned against attributing undue certainty to forward-looking statements.





## APPENDIX 1

### Cautionary note regarding forward-looking statements

This MD&A contains “forward-looking statements” that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to the future price and the estimation of mineral reserves and resources, the realization of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation.

Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “does not anticipate”, or “believes”, or variations of such words and phrases or that state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any other future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: the actual results of current exploration activities; actual results of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of mineral resources; fluctuations in metal prices, as well as those risk factors discussed or referred to in this MD&A under the heading “Risk and Uncertainties” and other documents filed from time to time with the securities regulatory authorities in all provinces and territories of Canada and Jersey. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- the supply and demand for, deliveries of, and the level and volatility of prices of gold;
- the timing of the receipt of regulatory and governmental approvals for the Company’s projects;
- the availability of financing for the Company’s development of its properties on reasonable terms;
- the ability to procure equipment and operating supplies in sufficient quantities and on a timely basis;
- the ability to attract and retain skilled staff;
- exploration timetables;
- market competition; and
- the accuracy of the Company’s resource estimate (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which it is based.

The Company undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change except as required by securities regulatory requirements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

Cautionary note to United States investors concerning estimates of Measured, Indicated and Inferred Resources: This MD&A uses the terms “Measured”, “Indicated” and “Inferred” Resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission (“SEC”) does not recognize them. “Inferred Mineral Resources” have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. United States investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of an Inferred Mineral Resource exists, or is economically or legally mineable.



## APPENDIX 2

Table of drill results (intersections greater than 1g/t gold) from 2007 and 2008 drilling programmes at Amulsar

Year	Drill Hole	Dip	Azimuth	Total Depth (m)	From (m)	To (m)	Intersection (m)	Gold (g/t)	
2007	DDA-001	-45	270	127.25	50.40	57.20	6.80	1.15	
	DDA-002	-90	0	69.00	14.00	17.00	3.00	1.40	
					63.00	69.00	6.00	1.13	
	DDA-003	-45	100	111.00	1.00	52.00	51.00	1.02	
					98.75	107.00	8.25	1.21	
	DDA-004	-45	270	145.00	0.00	53.00	53.00	2.60	
109.00					133.00	24.00	1.02		
<i>Including</i>					3.00	27.00	24.00	5.95	
DDA-005	-80	110	140.00	107.00	112.00	5.00	1.03		
2008	DDA-006	-60	300	163.30	0.00	46.00	46.00	1.67	
					<i>Including</i>				
	DDA-007	-60	290	125.80	2.00	65.00	63.00	1.06	
	DDA-008	-60	300	169.70	17.00	21.00	4.00	1.04	
					40.00	62.00	22.00	1.55	
	<i>Including</i>					40.00	55.00	15.00	2.65
	DDA-009	-60	120	199.70	30.00	122.00	92.00	1.36	
					<i>Including</i>				
	DDA-010	-60	300	237.90	5.60	8.00	2.40	1.89	
					25.00	33.00	8.00	1.10	
					46.70	53.00	5.30	1.09	
	DDA-011	-60	115	133.40	28.00	34.00	6.00	1.26	
					46.00	70.00	24.00	1.01	
					83.00	90.00	7.00	1.07	
	DDA-012	-60	300	180.70	138.00	141.00	3.00	1.18	
					157.00	164.50	7.50	1.10	
DDA-017	-60	300	150.50	19.00	63.00	44.00	1.00		
DDA-018	-60	120	130.00	61.00	66.00	5.00	1.08		
				114.00	129.00	15.00	1.11		
DDA-019	-60	120	142.00	63.00	66.00	3.00	1.05		
DDA-020	-60	120	140.00	20.00	23.00	3.00	1.18		
				32.00	34.00	2.00	1.33		
				79.00	81.00	2.00	1.38		
				120.00	122.00	2.00	1.07		
RCA-001	-60	300	64.00*	1.00	38.00	37.00	1.38		
				<i>Including</i>					2.00



Year	Drill Hole	Dip	Azimuth	Total Depth (m)	From (m)	To (m)	Intersection (m)	Gold (g/t)
<b>2008</b>	RCA-002	-60	300	150.00	0.00	2.00	2.00	2.27
					23.00	28.00	5.00	0.96
					41.00	45.00	4.00	1.00
					66.00	71.00	5.00	1.00
					<i>Or</i>			
	RCA-003	-60	300	22.00*	Bogged at 22m & nothing greater than 1g/t gold			
	RCA-004	-60	300	142.00	3.00	4.00	1.00	1.20
					27.00	67.00	40.00	1.07
					110.00	112.00	2.00	1.08
					133.00	142.00	9.00	3.45
	RCA-005	-60	300	118.00	46.00	66.00	20.00	1.00
					99.00	100.00	1.00	2.03
	RCA-006	-60	300	154.00	Nothing greater than 1g/t gold			
	RCA-007	-60	300	150.00	92.00	98.00	6.00	1.20
					122.00	128.00	6.00	1.00
	RCA-008	-70	120	106.00	64.00	68.00	4.00	1.22
	RCA-009	-60	120	150.00	80.00	89.00	9.00	1.22
					97.00	104.00	7.00	1.45
	RCA-010	-70	120	100.00	23.00	100.00	77.00	2.30
					<i>Including</i>			
	RCA-011	-70	120	150.00	0.00	12.00	12.00	1.77
					126.00	144.00	18.00	2.03
	RCA-012	-80	120	150.00	58.00	61.00	3.00	2.68
					92.00	114.00	22.00	1.00
					126.00	128.00	2.00	1.44
	RCA-013	-60	300	150.00	No Significant Intersections greater than 1g/t Gold			
	RCA-014	-60	300	150.00	54.00	60.00	6.00	1.00
RCA-015	-60	300	154.00	33.00	49.00	16.00	1.02	
				51.00	53.00	2.00	1.10	
				93.00	108.00	15.00	1.02	
RCA-016	-60	300	130.00	No Significant Intersections greater than 1g/t Gold				
RCA-017	-60	300	182.00	8.00	17.00	9.00	1.18	
				27.00	66.00	39.00	1.28	
				<i>Including</i>				29.00
RCA-018	-60	300	189.00	94.00	96.00	2.00	1.21	
				101.00	106.00	5.00	1.08	
				137.00	141.00	4.00	1.11	
				145.00	152.00	7.00	1.12	



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## APPENDIX 2 CONTINUED

Year	Drill Hole	Dip	Azimuth	Total Depth (m)	From (m)	To (m)	Intersection (m)	Gold (g/t)
<b>2008</b>	RCA-019	-60	120	150.00	19.00	21.00	2.00	1.09
					70.00	74.00	4.00	1.06
					119.00	143.00	24.00	1.66
	<i>Including</i>				<i>129.00</i>	<i>143.00</i>	<i>14.00</i>	<i>2.30</i>
	RCA-020	-60	300	162.00	0.00	17.00	17.00	1.04
					52.00	55.00	3.00	2.35
					131.00	137.00	6.00	1.06
	RCA-021	-60	120	114.00	0.00	72.00	72.00	1.12
					<i>Including</i>			
	RCA-022	-60	300	154.00	45.00	154.00	109.00	1.11
					<i>Including</i>			
	RCA-023	-60	120	160.00	45.00	58.00	13.00	1.04
					65.00	68.00	3.00	1.17
					80.00	107.00	27.00	1.00
	RCA-024	-60	120	196.00	0.00	2.00	2.00	1.27
					128.00	130.00	2.00	1.01
					161.00	169.00	8.00	1.04
	RCA-025	-60	120	22.00	Bogged and abandoned			
	RCA-026	-60	120	196.00	149.00	152.00	3.00	1.16
	RCA-027	-60	120	166.00	0.00	13.00	13.00	1.21
					30.00	75.00	45.00	1.00
	RCA-028	-60	300	150.00	25.00	150.00	125.00	1.57
					<i>Including</i>			
	RCA-029	-60	300	154.00	No Significant Intersections greater than 1g/t Gold			
	RCA-030	-60	300	154.00	0.00	122.00	122.00	1.01
					<i>Including</i>			
	RCA-031	-60	300	108.00	No Significant Intersections greater than 1g/t Gold			
	RCA-032	-60	120	150.00	48.00	51.00	3.00	1.72
					82.00	85.00	3.00	2.00
	RCA-033	-60	120	150.00	92.00	112.00	20.00	1.05
					133.00	148.00	15.00	1.07
	RCA-034	-60	120	160.00	120.00	122.00	2.00	1.18
	RCA-035	-60	120	131.00	51.00	54.00	3.00	3.48
76.00					79.00	3.00	1.04	
80.00					82.00	2.00	1.02	
RCA-036	-60	300	190.00	52.00	57.00	5.00	1.13	
				174.00	189.00	15.00	1.19	



Year	Drill Hole	Dip	Azimuth	Total Depth (m)	From (m)	To (m)	Intersection (m)	Gold (g/t)
<b>2008</b>	RCA-037	-60	120	150.00	24.00	32.00	8.00	1.04
					54.00	56.00	2.00	1.24
					66.00	70.00	4.00	1.13
					81.00	93.00	12.00	1.17
	RCA-038	-60	300	130.00	0.00	5.00	5.00	1.14
					9.00	11.00	2.00	1.17
					24.00	130.00	106.00	2.35
	<i>Including</i>				38.00	59.00	21.00	9.67
	RCA-039	-60	120	130.00	40.00	44.00	4.00	1.12
					50.00	68.00	18.00	1.04
					94.00	119.00	25.00	1.01
	RCA-040	-90	0	70.00	Bogged & abandoned (13m at 0.56 to EOH)			
	RCA-041	-60	120	151.00	1.00	9.00	8.00	1.09
					38.00	56.00	18.00	1.01
					61.00	75.00	14.00	1.05
					110.00	116.00	6.00	1.06
					123.00	126.00	3.00	1.03
	RCA-042	-60	120	150.00	2.00	6.00	4.00	1.13
					23.00	89.00	66.00	1.13
					<i>Including</i>			
	RCA-043	-60	300	130.00	3.00	70.00	67.00	3.62
					<i>Including</i>			
	RCA-044	-60	120	150.00	0.00	2.00	2.00	2.19
					48.00	137.00	89.00	1.03
					<i>Including</i>			
	RCA-045	-60	120	139.00	No Significant Intersections greater than 1g/t Gold			
	RCA-046	-60	120	144.00	No Significant Intersections greater than 1g/t Gold			
	RCA-047	-60	120	156.00	0.00	4.00	4.00	3.04
					18.00	55.00	37.00	1.68
	RCA-048	-60	120	108.00	85.00	94.00	9.00	1.00
	RCA-049	-60	300	150.00	6.00	40.00	34.00	1.02
	RCA-050	-60	120	113.00	No Significant Intersections greater than 1g/t Gold			
RCA-051	-60	120	150.00	20.00	25.00	5.00	1.07	
DDA-021	-60	300	147.20	13.00	15.00	2.00	1.21	
				62.00	68.00	6.00	1.8	
				89.00	92.00	3.00	3.54	
				105.00	125.00	20.00	1.39	



## APPENDIX 2 CONTINUED

Year	Drill Hole	Dip	Azimuth	Total Depth (m)	From (m)	To (m)	Intersection (m)	Gold (g/t)		
2008	DDA-022	-60	210	111.20	45.00	56.00	11.00	2.15		
					71.00	73.00	2.00	1.42		
	DDA-023	-60	50	144.00	46.00	61.00	15.00	1.06		
					79.00	84.00	5.00	1.70		
					91.00	139.00	48.00	1.05		
	RCA-059	-60	120	162.00	12.00	54.00	42.00	1.02		
	RCA-060	-60	120	108.00	No significant intersection greater than 1g/t Gold					
	RCA-061	-60	120	150.00	71.00	74.00	3.00	1.02		
					102.00	105.00	3.00	1.07		
	RCA-062	-60	150	156.00	75.00	78.00	3.00	1.58		
					99.00	115.00	16.00	1.04		
					126.00	130.00	4.00	1.00		
					141.00	144.00	3.00	1.14		
	RCA-063	-60	170	180.00	0.00	111.00	111.00	1.08		
					<i>Including</i>		71.00	98.00	27.00	2.47
	RCA-064	-60	300	126.00	13.00	47.00	34.00	1.02		
					49.00	51.00	2.00	1.12		
	RCA-065	-60	330	108.00	8.00	100.00	92.00	1.00		
					104.00	106.00	2.00	1.01		
	RCA-066	-60	120	132.00	55.00	72.00	17.00	1.18		
					85.00	96.00	11.00	1.00		
	RCA-067	-60	120	140.00	23.00	27.00	4.00	1.00		
					60.00	63.00	3.00	1.08		
					88.00	96.00	8.00	1.02		
					110.00	117.00	7.00	1.02		
	RCA-068	-60	120	150.00	No significant intersection greater than 1g/t gold					
	RCA-069*	-60	210	140.00	3.00	138.00	135.00	2.26		
					<i>Including</i>		3.00	20.00	17.00	5.26
					<i>Including</i>		97.00	114.00	17.00	9.64
	RCA-070	-60	210	100.00	29.00	100.00	71.00	3.05		
	RCA-071	-60	210	154.00	0.00	4.00	4.00	1.02		
52.00					148.00	96.00	1.37			
<i>Including</i>					76.00	96.00	20.00	3.21		
RCA-072	-60	210	88.00	No significant intersection greater than 1g/t gold						
RCA-073	-60	300	124.00	60.00	63.00	3.00	1.18			
				119.00	124.00	5.00	1.05			
RCA-074	-60	300	117.00	No significant intersection greater than 1g/t gold						



# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lydian International Limited

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lydian International Limited, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated income statements, consolidated statements of recognised income and expenses, consolidated statements of changes in equity, and consolidated cash flow statements for the years ended December 31, 2008 and 2007, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinion

In our opinion, the financial statements present fairly, in all material respect, the financial position of Lydian International Limited as of December 31, 2008 and 2007, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Emphasis of matter – Going Concern

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicate the existence of a material uncertainty which may cast doubt about Lydian International Limited and its subsidiaries ability to continue as a going concern.

Deloitte & Touche LLP  
Chartered Accountants  
March 27, 2009  
Calgary, Canada





## INDEPENDENT AUDITORS' REPORT IN RESPECT OF COMPATABILITY WITH CANADIAN GAAS

Reporting standards under Canadian Generally Accepted Auditing Standards ("GAAS") may differ from those under International Standards on Auditing in the form and content of the auditors' report, depending on the circumstances. However, had this auditors' report been prepared in accordance with Canadian Generally Accepted Auditing Standards, there would be no material differences in the form and content of this auditors' report, except as noted below, as compared to an auditors' report prepared in accordance with Canadian GAAS and if this report were prepared in accordance with Canadian GAAS it would not contain a reservation.

An audit report issued in accordance with Canadian GAAS does not require the Emphasis of Matter paragraph that is included in the Independent Auditors' report as at and the for the years ended December 31, 2008 and 2007 given above.

Deloitte & Touche LLP  
Chartered Accountants  
March 27, 2009  
Calgary, Canada





## CONSOLIDATED INCOME STATEMENTS

for the year ended 31 December 2008

	Note	December 31, 2008 £	December 31, 2007 £
Interest income	5	119,759	90,607
Management fee income	18	126,670	–
<b>Total income</b>		<b>246,429</b>	90,607
Employee benefits expense		(1,123,496)	(738,791)
Services and consumables used		(462,951)	(447,771)
Consulting expenses		(161,753)	(66,015)
Depreciation and amortization expense	9,10	(86,086)	(24,175)
Administrative and other expenses		(342,459)	(43,026)
Other gains (losses)	6	16,210	(14,306)
<b>Total expenses</b>		<b>(2,160,535)</b>	(1,334,084)
<b>Loss before tax</b>		<b>(1,914,106)</b>	(1,243,477)
Income tax	7	–	–
<b>Loss for the year</b>		<b>(1,914,106)</b>	(1,243,477)
<b>Loss per share (basic and diluted)</b>	8	<b>0.05</b>	0.05

## CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSES

for the year ended 31 December 2008

	Note	December 31, 2008 £	December 31, 2007 £
Exchange difference arising on translation of foreign operations		1,067,246	92,579
<b>Loss recognised directly in equity</b>			
Loss for the year		(1,914,106)	(1,243,477)
<b>Total recognised income and expense for the year</b>		<b>(846,860)</b>	(1,150,898)



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# CONSOLIDATED BALANCE SHEET

as of December 31, 2008

	Note	December 31, 2008 £	December 31, 2007 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	9	626,821	134,013
Intangible assets	10	68,438	–
Exploration and evaluation assets	11	3,747,100	900,554
<b>Total non-current assets</b>		<b>4,442,359</b>	1,034,567
<b>Current assets</b>			
Cash and cash equivalents	12	1,761,604	6,009,767
Other current assets	13	903,207	445,590
<b>Total current assets</b>		<b>2,664,811</b>	6,455,357
<b>TOTAL ASSETS</b>		<b>7,107,170</b>	7,489,924
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	14	6,467,426	6,356,036
Warrants	14	2,134,027	2,078,519
Equity settled employee benefits reserve	15	321,800	222,395
Exchange reserve		1,159,825	92,579
Accumulated deficit		(3,586,238)	(1,672,132)
<b>Total equity</b>		<b>6,496,840</b>	7,077,397
<b>Current liabilities</b>			
Accrued expenses and other payables	16	610,330	412,527
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,107,170</b>	7,489,924





## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

as of 31 December 2008

	<i>Share capital including, premium and discounts</i>	<i>Warrants</i>	<i>Equity settled employee benefits reserve</i>	<i>Other reserves</i>	<i>Exchange reserve</i>	<i>Accum- ulated deficit</i>	<i>Total</i>
	£	£	£	£	£	£	£
<b>Balance at December 31, 2006</b>	1,665,833	54,143	–	517,425	–	(428,655)	1,808,746
New equity share capital subscribed	7,070,395	–	–	(517,425)	–	–	6,552,970
Issuance of shares on reverse acquisition (note 19)	114,654	–	–	–	–	–	114,654
Issue of broker warrants	(111,389)	111,389	–	–	–	–	–
Issue of warrants	(1,912,487)	1,912,487	–	–	–	–	–
Loss for the period	–	–	–	–	–	(1,243,477)	(1,243,477)
Exchange difference arising on the translation of foreign entities	–	–	–	–	92,579	–	92,579
Employee share options issued during the year	–	–	222,395	–	–	–	222,395
Share transaction costs	(360,485)	–	–	–	–	–	(360,485)
Transaction costs relating to reverse acquisition (note 19)	(109,985)	–	–	–	–	–	(109,985)
<b>Balance at December 31, 2007 – attributable to equity holders of the parent</b>	<b>6,356,036</b>	<b>2,078,519</b>	<b>222,395</b>	<b>–</b>	<b>92,579</b>	<b>(1,672,132)</b>	<b>7,077,397</b>
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
<b>Balance at December 31, 2008 attributable to equity holders of the parent</b>	<b>6,467,426</b>	<b>2,134,027</b>	<b>321,800</b>	<b>–</b>	<b>1,159,825</b>	<b>(3,586,238)</b>	<b>6,496,840</b>



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## CONSOLIDATED CASH FLOW STATEMENTS

for the year ended December 31, 2008

	Note	December 31, 2008 £	December 31, 2007 £
<b>Cash flows from operating activities</b>			
Receipts for management fee income		102,370	–
Receipts from joint venture partner		261,537	48,246
Payments to suppliers and employees		(2,359,639)	(1,150,435)
<b>Net cash outflow from operating activities</b>		<b>(1,995,732)</b>	<b>(1,102,189)</b>
<b>Cash flows from investing activities</b>			
Interest received		119,759	90,607
Payments for property and equipment and intangible assets	9,10	(635,686)	(134,964)
Proceeds from the disposal of plants and equipment		56,776	1,493
Exploration costs paid	11	(3,307,969)	(944,920)
Receipts from joint venture partner	11	1,482,306	189,527
<b>Net cash used by investing activities</b>		<b>(2,284,814)</b>	<b>(798,257)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of equity shares		111,390	6,552,970
Reverse acquisition		–	(13,629)
Payments for share issue costs		–	(360,485)
<b>Net cash generated in financing activities</b>		<b>111,390</b>	<b>6,178,856</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,169,156)</b>	<b>4,278,410</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>6,009,767</b>	<b>1,740,848</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(79,007)	(9,491)
<b>Cash and cash equivalent, end of the year</b>		<b>1,761,604</b>	<b>6,009,767</b>





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2008

## 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 Caucasus. 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 year ended December 31, 2008 have been approved for issue by the board of directors on March 27, 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 the year ended December 31, 2008 and incurred a net loss of £1,914,106 (December 31, 2007: £1,243,477). The Group incurred net expenditures on exploration and evaluation activities in the year ended December 31, 2008 amounting to £1,825,663 (December 31, 2007: £755,393).

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. The current market conditions have declined in recent months which limit the availability of external financing. As a result, the outcome of these matters cannot be predicted at this time.

The Group expects to incur substantial expenditures in the future to appraise, explore and develop its current precious and base metal assets located in Armenia, Kosovo and other international locations.

Management of the Group is expecting to address its current funding requirements by raising equity financing. Subject to regulatory and share holder approvals, the Group has;

- On February 25, 2009 management entered into a draft agreement with the European Bank of Reconstruction and Development (“EBRD”) to enter into a strategic equity investment with the Company. The EBRD placement will be for a total subscription of 3,809,523 shares and will be priced at market (CAD \$0.42) amounting to a total investment of approximately CAD \$1.6 million.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2008

## 1. General Information continued

- On March 18, 2009 management entered into a draft agreement with the International Finance Corporation (“IFC”), a member of the World Bank Group to approve an additional equity investment in the Company of CAD \$1.4 million at a price of CAD \$0.42 per share.

In addition, the Group is actively seeking industry partners and continues to be engaged in discussions with potential partners.

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, 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 current period. 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 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:

		<b>Effective for Annual Periods Beginning on or After</b>
IFRS 8	(New Standard) Segment reporting	January 1, 2009
IAS 23	(Amendment) Borrowing costs	January 1, 2009
IAS 1	(Amendment) Presentation of financial statements	January 1, 2009
IFRS 1	(Amendment) First time adoption of financial reporting standards	July 1, 2009
IFRS 2	(Amendment) Share-based payment: Vesting conditions and cancellations	January 1, 2009
IAS 32 & IAS 1	(Amendment) Puttable financial instruments and obligations arising on liquidation	January 1, 2009
IFRS 1 & IAS 27	(Amendment) Cost of an investment in a subsidiary, jointly controlled entity or associate	January 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 13	(New Interpretation) Customer loyalty programs	July 1, 2008
IFRIC 16	(New Interpretation) Hedges of a net investment in a foreign operation	October 1, 2008
IFRIC 15	(New Interpretation) Agreements for the construction of real estate	January 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.

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board as of December 31, 2008. The applicable IFRS standards should be read in conjunction with the financial statements as of and for the year ended December 31, 2008 prepared in accordance with International Reporting Standards (IFRS) as issued by the IASB.

#### Basis of preparation

The 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 December 31, 2008 and December 31, 2007 are as follows:

Name of subsidiary	Place of incorporation or registration	Effective Interest 2008	Ownership 2007	Principal activity
Lydian Resource Company Limited	United Kingdom	100%	98%	Parent company until December 27, 2007
Lydian Holdings Ltd (BVI)	British Virgin Islands	100%	98%	Intermediate holding company
Lydian Resources Kosovo (BVI)	British Virgin Island	100%	98%	Intermediate holding company
Kosovo Resource Company LLC	Kosovo	100%	98%	Mineral exploration
Lydian Resources Armenia (BVI)	British Virgin Islands	100%	98%	Intermediate holding company
Geoteam CJSC	Armenia	95%	93%	Mineral exploration



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2008

### 3. Significant accounting policies continued

#### 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.





### 3. Significant accounting policies continued

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 amortization are evaluated for impairment annually. Assets that are subject to amortization 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2008

### 3. Significant accounting policies continued

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 amortized 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 amortized 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.



### 3. Significant accounting policies continued

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 amortized 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 amortized 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2008

### 3. Significant accounting policies continued

#### 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 December 31, 2008 and 2007

### 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:

	<b>12 months to December 31, 2008 £</b>	12 months to December 31, 2007 £
<b>Interest income</b>		
Kosovo	–	11,370
Armenia	–	2,588
Head office activities	<b>119,759</b>	76,649
	<b>119,759</b>	90,607
<b>Loss for the year</b>		
Kosovo	<b>727,316</b>	672,020
Armenia	<b>326,893</b>	71,335
Head office activities	<b>859,897</b>	500,122
	<b>1,914,106</b>	1,243,477
<b>Depreciation and amortization</b>		
Kosovo	<b>67,229</b>	18,387
Armenia	<b>18,857</b>	5,791
Head office activities	<b>86,086</b>	24,175
<b>Property and equipment and intangible asset expenditures</b>		
Kosovo	<b>338,646</b>	65,953
Armenia	<b>297,040</b>	69,011
Head office activities	–	–
	<b>635,686</b>	134,964

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

	<b>December 31, 2008</b>				
	Kosovo £	Armenia £	Head office activities £	Eliminations £	Consolidated £
<b>Total assets</b>	<b>3,152,084</b>	<b>2,249,843</b>	<b>9,066,823</b>	<b>(7,361,580)</b>	<b>7,107,170</b>
<b>Total liabilities</b>	<b>5,140,369</b>	<b>2,831,355</b>	<b>112,028</b>	<b>(7,473,422)</b>	<b>610,330</b>
	<b>December 31, 2007</b>				
	Kosovo £	Armenia £	Head office activities £	Eliminations £	Consolidated £
Total assets	880,775	755,641	8,046,824	(2,193,316)	7,489,924
Total liabilities	1,715,721	430,423	459,699	(2,193,149)	412,527



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2008

### 6. Other gains/(losses)

	<b>12 months to December 31, 2008 £</b>	12 months to December 31, 2007 £
Disposal of property and equipment	<b>(56,949)</b>	(3,373)
Foreign exchange and other gains/(losses)	<b>73,159</b>	(10,933)
	<b>16,210</b>	(14,306)

### 7. Taxation

There was no tax payable for the Group in the year ended December 31, 2008, or for the corresponding period in 2007.

	<b>12 months to December 31, 2008 £</b>	12 months to December 31, 2007 £
Loss before taxation	<b>(1,914,106)</b>	(1,243,477)
Tax at 20.0% (2007: 19.9%)	<b>(382,821)</b>	(247,375)
Items which are not deductible for tax	<b>105,622</b>	27,876
Losses not recognised	<b>277,199</b>	219,499
Income tax expense	–	–

The Group had taxation losses (subject to confirmation with the tax authorities) as at December 31, 2008 amounting to approximately £2,207,474 (December 31, 2007: £ 1,103,010) 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 £0.05 as at December 31, 2008 (December 31, 2007 – £0.05) have been calculated on the basis of the net loss of £1,914,106 (December 31, 2007 loss: £1,243,477) on 39,543,013 (December 31, 2007: 25,859,062) shares being the weighted average of shares in issue.

As a result of the losses incurred during the periods ended December 31, 2008 and 2007, 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

<b>Cost</b>	<b>Motor Vehicles</b>	<b>Equipment</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
At January 1, 2007	10,484	8,640	19,124
Additions	63,501	71,463	134,964
Disposal	(2,747)	(4,028)	(6,775)
Exchange difference	7,837	6,759	14,596
As at December 31, 2007	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
<b>As at December 31, 2008</b>	<b>160,611</b>	<b>613,454</b>	<b>774,065</b>

<b>Accumulated depreciation</b>	<b>Motor Vehicles</b>	<b>Equipment</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
At January 1, 2007	2,097	1,454	3,551
Charge for the period	11,086	13,089	24,175
Disposals	(1,464)	(624)	(2,088)
Exchange difference	1,063	1,195	2,258
As at December 31, 2007	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
<b>As at December 31, 2008</b>	<b>44,745</b>	<b>102,499</b>	<b>147,244</b>

In 2008, depreciation of £7,403 has been capitalized to mine development costs (2007: nil).

<b>Carrying amount</b>	<b>Motor Vehicles</b>	<b>Equipment</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>At December 31, 2008</b>	<b>115,866</b>	<b>510,955</b>	<b>626,821</b>
At December 31, 2007	66,293	67,720	134,013



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2008

### 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.

<b>Cost</b>	<b>Computer Software £</b>
As at December 31, 2007	–
Additions	56,285
Exchange difference	14,141
<b>As at December 31, 2008</b>	<b>70,426</b>
<b>Accumulated Amortization</b>	
As at December 31, 2007	
Charge for the period	9,873
Exchange difference	(7,885)
As at December 31, 2008	1,988
<b>Carrying amount At December 31, 2008</b>	<b>68,438</b>

### 11. Exploration and evaluation assets

<b>Cost</b>	Kosovo project £	Armenia project £	Total £
At 1 January 2007	27,868	25,362	53,230
Additions	539,550	215,843	755,393
Exchange difference	42,879	49,052	91,931
At December 31, 2007	610,297	290,257	900,554
Additions	1,181,680	643,983	1,825,663
Exchange difference	456,556	564,327	1,020,883
<b>At December 31, 2008</b>	<b>2,248,533</b>	<b>1,498,567</b>	<b>3,747,100</b>

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 December 31, 2008 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 December 31, 2008, the money market investments had a one month maturity period.



### 13. Other current assets

The Group as at December 31, 2008 and December 31, 2007 holds the following other current assets:

	<b>December 31, 2008</b>	December 31, 2007
	<b>£</b>	<b>£</b>
Inventories	<b>2,051</b>	7,569
VAT and GST receivable	<b>494,288</b>	57,197
Other receivables and prepayments	<b>406,868</b>	380,824
	<b>903,207</b>	445,590

### 14. Share capital

At December 31, 2008, the Company had 39,982,929 (December 31, 2007, 39,035,763) shares outstanding. In March, July and November 2008 respectively 15,000, 347,330 and 100,000 warrants were issued for professional service fees performed on behalf of the Company. The Company is authorized to issue unlimited number of shares. At December 31, 2008 the Company had 13,092,146 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.

A total of 462,330 warrants were granted during the twelve months ended December 31, 2008.

The fair value of warrants granted for 2007 were allocated as: investor warrants £1,912,487 and broker warrants £111,389 in the statement of changes in equity.

The fair value of warrants granted for 2008 of £55,508 were allocated as service and consumable fees on the consolidated income statement.

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

	<b>Number of Warrants</b>	<b>Weighted average exercise price</b>
Balance at December 31, 2006	795,932	20 pence
Broker warrants granted	1,038,727	28 pence
Investor warrants granted	10,795,157	47 pence
Balance at December 31, 2007	12,629,816	44 pence
Broker warrants granted	462,330	26 pence
<b>Balance at 31 December 2008 – outstanding and exercisable</b>	<b>13,092,146</b>	<b>43 pence</b>

The share options outstanding and exercisable at the end of the year had a weighted average remaining contractual life of 1.2 years.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2008

### 14. Share capital continued

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

	<b>2008</b>	2007
Expected volatility	<b>96%</b>	35% to 75%
Expected option life	<b>2 years</b>	2 years
Risk free rate	<b>3%</b>	5%
Dividend yield	<b>0%</b>	0%

### 15. Share-based payments – Employee Share Option Plan

As at December 31, 2008, 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:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
Balance at December 31, 2006	–	–
Granted	2,375,000	29 pence
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
<b>Balance at 31 December 2008 – outstanding and exercisable</b>	<b>2,425,000</b>	<b>29 pence</b>

The weighted average fair value per share options granted during the year was 0.13 pence (Year ended December 31, 2007 – 0.10 pence). Options were priced using the Black Scholes Option Pricing Model using the following assumptions:

	<b>2008</b>	2007
Expected volatility	<b>96%</b>	35% to 75%
Expected option life	<b>2 years</b>	2 years
Risk free rate	<b>3%</b>	5%
Dividend yield	<b>0%</b>	0%

During the year ended December 31, 2008, £99,405 (2007 – £222,395) was included in employee benefits expense in the consolidated income statement.

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

	<b>December 31, 2008</b>	December 31, 2007
	<b>£</b>	£
Accrued expenses and trade payables	<b>598,043</b>	402,760
Wage accruals	<b>12,287</b>	9,767
	<b>610,330</b>	412,527

## 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 £4,735,236 (2007: £1,067,630). 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2008

## 17. Financial risk management continued

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		Amenian Dram	
	2008	2007	2008	2007	2008	2007	2008	2007
Loss	<b>(42,465)</b>	(421,053)	<b>(56,807)</b>	(16,476)	<b>(26,455)</b>	5,178	<b>(93)</b>	(3,414)
Exchange Reserve	–	–	<b>(230,925)</b>	(145,732)	–	4,698	<b>(173,112)</b>	–

### 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 year ended December 31, 2008, would be £17,600 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 year ended December 31, 2008 and 2007 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 December 31, 2008, 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.



**17. Financial risk management** continued**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 December 31, 2008 and 2007, cash and cash equivalents were as follows:

	Fixed rate assets £	Cash assets £	Solicitor client account £	Total £	Average period for which rates are fixed (months)	Average interest rates for fixed rate assets
<b>2008</b>	<b>1,317,535</b>	<b>444,074</b>	–	<b>1,761,609</b>	<b>One</b>	<b>1.4%</b>
2007	950,000	641,323	4,418,444	6,009,767	One	5.1%

**Fair value of financial assets and liabilities**

Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortized 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 Lydian Resource Company £1,846,213 during the year ended December 31, 2008 representing their share of exploration costs, overhead recoveries and management fees. Management fee income charged to Newmont amount to £126,670. Newmont Mineral Holdings BV, a related party to Newmont, held 5,150,000 shares as at December 31, 2008 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.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2008

### 18. Related party transactions continued

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.

	<b>Year ended December 31, 2008</b>	Year ended December 31, 2007
	<b>£</b>	£
Aggregate emoluments	<b>260,788</b>	245,344
Share based payments	–	222,395

The directors and key management were awarded the following share options under the employee share option plan during the years ended December 31, 2008 and 2007.

<b>Date of grant</b>	<b>Number of options</b>	<b>Exercise price</b>	<b>Expiry</b>
<b>2008</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
March 2007	100,000	20 pence	January 2012
September 2007	1,675,000	31 pence	January 2010

### 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:

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

### 20. Operating lease commitments

The group leases office premises with a lease term of 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:

	<b>December 31, 2008</b>	December 31, 2007
	<b>£</b>	£
Up to one year	<b>83,701</b>	7,473
More than one year and no later than five years	<b>5,417</b>	11,833
More than five years	–	–
	<b>89,118</b>	19,306





## 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.





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