LYDIAN INTERNATIONAL LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

Content

Company Particulars 3
Independent AuditorsøReport 4
Consolidated Income Statements 5
Consolidated Statements of Comprehensive Income 6
Consolidated Statements of Financial Position 7
Consolidated Statements of Changes in Equity 8
Consolidated Statements of Cash Flows 10
Notes to the Consolidated Financial Statements 11

COMPANY PARTICULARS

DIRECTORS

Mr Gordon Wylie, Non-Executive Director and Chairman of the Board
Dr Timothy Coughlin, President and Chief Executive Officer
Mr Roderick Corrie, Chief Financial Officer and Executive Director
Mr Marc C Henderson, Non-Executive Director
Mr Peter Mullens, Non-Executive Director
Mr Huw Williams, Non-Executive Director

COMPANY SECRETARY

Mr Eric Lowy

HEAD OFFICE

1st Floor, Capstan House
La Route es Nouaux
St. Helier
Jersey JE2 4ZJ, Channel Islands
Tel: +44 1534 747 890
Fax: +44 1534 758 708
Website: www.lydianinternational.co.uk

BANKERS

Jersey, Channel Islands

Royal Bank of Scotland International Limited
71 Bath Street, Royal Bank House, St. Helier,
Jersey JE4 8PJ

Barclays Wealth
PO Box 82, 39-41 Broad Street
St Helier
Jersey JE4 8PU

Canada

Royal Bank of Canada
20 King Street West,
Main Floor, Toronto,
Ontario M5X 1B1

AUDITORS

Grant Thornton LLP
Suite 401, 350 Burnhamthorpe Road West
Mississauga, Ontario L5B 3J1

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lydian International Limited

We have audited the accompanying consolidated financial statements of Lydian International Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2011 and 2010, and the consolidated income statements, statements of comprehensive income, statements of changes in equity, and statements of cash flows for the year ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditorøs judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entityøs preparation and fair presentation of the consolidated 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 entityøs 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lydian International Limited and its subsidiaries as at December 31, 2011 and 2010, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed õGrant Thornton LLPö
Chartered Accountants
Licensed Public Accountants
March 23, 2012
Mississauga, Canada

Lydian International Limited
Consolidated Income Statements
For years ended December 31, 2011 and 2010

	Notes	**December 31, 2011**	December 31, 2010
		£	£
Interest income	5	**44,297**	25,073
Total income		**44,297**	25,073
Employee salaries and benefits expense	6	**(3,007,019)**	(1,708,707)
Services and consumables used		**(683,957)**	(649,943)
Administrative and other expenses		**(983,015)**	(566,200)
Consulting expenses		**(329,320)**	(367,966)
Depreciation and amortisation expenses		**(102,172)**	(126,034)
Interest expense	21	**(547,743)**	(354,031)
Other gains (losses)	7	**(345,959)**	(2,139,241)
Total expenses		**(5,999,185)**	(5,912,122)
Loss before tax		**(5,954,888)**	(5,887,049)
Income taxes	8	**-**	-
Loss for the year		**(5,954,888)**	(5,887,049)
Loss for the year attributable to:			
Common shareholders		**(5,899,696)**	(5,856,554)
Non-controlling interest		**(55,192)**	(30,495)
		(5,954,888)	(5,887,049)
Loss per share attributable to owners of the parent (basic and diluted)	9	**(0.06)**	(0.08)

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

Lydian International Limited
Consolidated Statements of Comprehensive Income
For years ended December 31, 2011 and 2010

	Notes	**December 31, 2011**	December 31, 2010
		£	£
Loss for the year		**(5,954,888)**	(5,887,049)
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**(640,353)**	102,959
Total comprehensive loss for the year		**(6,595,241)**	(5,784,090)
Comprehensive loss for the year attributable to:			
Common shareholders		**(6,512,381)**	(5,750,878)
Non-controlling interest		**(82,860)**	(33,212)
		(6,595,241)	(5,784,090)

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

Lydian International Limited
Consolidated Statements of Financial Position
As of December 31, 2011 and 2010

	Notes	December 31, 2011	December 31, 2010
		£	£
ASSETS			
Non-current assets			
Property and equipment	10	**476,012**	402,587
Intangible assets	11	**95,522**	59,350
Exploration and evaluation assets	12	**23,739,005**	16,497,640
Other non-current assets	13	**1,371,935**	686,274
Other long-term financial assets	14	**126,600**	-
Total non-current assets		**25,809,074**	17,645,851
Current assets			
Cash and cash equivalents	15	**8,301,907**	17,058,692
Other current assets	16	**410,434**	178,904
Total current assets		**8,712,341**	17,237,596
TOTAL ASSETS		**34,521,415**	34,883,447
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	**43,850,290**	37,778,041
Warrants	18	**345,076**	1,202,829
Equity settled employee benefits reserve	19	**2,079,136**	655,985
Translation of foreign operations		**(164,441)**	448,244
Other reserves ó shares issuable	20	**-**	715,506
Other reserves ó option to purchase non-controlling interest	20	**(1,795,654)**	(1,037,816)
Accumulated deficit		**(17,232,781)**	(11,333,085)
Total equity attributable to the parent		**27,081,626**	28,429,704
Non-controlling interest		**408,496**	491,356
Total equity		**27,490,122**	28,921,060
Non-current liabilities			
Due to Newmont	21	**-**	2,648,561
Provisions	22	**28,800**	-
Total non-current liabilities		**28,800**	2,648,561
Current liabilities			
Accrued liabilities and other payables	23	**858,361**	399,648
Current portion of Due to Newmont	21	**6,144,132**	2,914,178
Total current liabilities		**7,002,493**	3,313,826
TOTAL EQUITY AND LIABILITIES		**34,521,415**	34,883,447

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

Lydian International Limited
Consolidated Statements of Changes in Equity
As of December 31, 2011 and 2010

	Share capital including, premium and discounts £	*Warrants* £	*Equity settled employee benefits reserve* £	*Translation of foreign operations* £	*Other reserves* £	*Other Reserves Share Issuable* £	*Accumulated deficit* £	*Attributable to owners* £	*Non controlling interest* £	*Total* £
Balance at December 31, 2009	9,265,576	2,870,252	322,682	342,568	-	-	(5,476,531)	7,324,547	-	7,324,547
New equity share capital subscribed	22,852,747	-	-	-	-	-	-	22,852,747	-	22,852,747
Equity share capital issued in Newmont deal (Note 21)	1,954,143	-	-	-	-	-	-	1,954,143	-	1,954,143
Cost of shares issued	(1,419,039)	-	-	-	-	-	-	(1,419,039)	-	(1,419,039)
Proceeds from exercised warrants	2,562,533	-	-	-	-	-	-	2,562,533	-	2,562,533
Proceeds from exercised options	671,066	-	-	-	-	-	-	671,066	-	671,066
Attributable to exercised warrants	1,706,097	(1,706,097)	-	-	-	-	-		-	-
Attributable to exercised options	208,404	-	(208,404)	-	-	-	-		-	-
Attributable to expired warrants	252,402	(252,402)	-	-	-	-	-		-	-
Attributable to expired options	15,188	-	(15,188)	-	-	-	-		-	-
Issue of warrants	(195,167)	195,167	-	-	-	-	-		-	-
Modification of warrants	(95,909)	95,909	-	-	-	-	-		-	-
Employee share options issued during the year	-	-	556,895	-	-	-	-	556,895	-	556,895
Non controlling interest arising from Newmont deal	-	-	-	-	-	-	-	-	524,568	524,568
Prepayment on option and shares issuable to purchase non-controlling interest (Note 20)	-	-	-	-	(1,037,816)	715,506	-	(322,310)	-	(322,310)
Total comprehensive loss for the year	-	-	-	105,676	-	-	(5,856,554)	(5,750,878)	(33,212)	(5,784,090)
Balance at December 31, 2010	**37,778,041**	**1,202,829**	**655,985**	**448,244**	**(1,037,816)**	**715,506**	**(11,333,085)**	**28,429,704**	**491,356**	**28,921,060**

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

Lydian International Limited
Consolidated Statements of Changes in Equity
As of December 31, 2011 and 2010

	Share capital including, premium and discounts £	*Warrants* £	*Equity settled employee benefits reserve* £	*Translation of foreign operations* £	*Other reserves* £	*Other Reserves Share Issuable* £	*Accumulated deficit* £	*Attributable to owners* £	*Non controlling interest* £	*Total* £
Balance at December 31, 2010	37,778,041	1,202,829	655,985	448,244	(1,037,816)	715,506	(11,333,085)	28,429,704	491,356	28,921,060
Proceeds from exercised warrants	3,088,622			-	-	-	-	3,088,622	-	3,088,622
Proceeds from exercised options	451,024			-	-	-	-	451,024	-	451,024
Attributable to exercised warrants	857,753	(857,753)		-	-	-	-	-	-	-
Attributable to exercised options	172,656		(172,656)	-	-	-	-	-	-	-
Attributable to expired options	28,850		(28,850)	-	-	-	-	-	-	-
Employee share options issued during the year			1,624,657	-	-	-	-	1,624,657		1,624,657
Prepayment on option and shares issuable to purchase non-controlling interest (Note 20)	1,473,344	-	-		(757,838)	(715,506)		-		-
Total comprehensive loss for the year	-	-	-	(612,685)			(5,899,696)	(6,512,381)	(82,860)	(6,595,241)
Balance at December 31, 2011	**43,850,290**	**345,076**	**2,079,136**	**(164,441)**	(1,795,654)	**-**	**(17,232,781)**	**27,081,626**	**408,496**	**27,490,122**

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

Lydian International Limited
Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010

	Note	December 31, 2011	December 31, 2010
		£	£
Cash flows from operating activities			
Payments to suppliers and employees		**(4,671,986)**	(2,606,805)
Net cash outflow from operating activities		**(4,671,986)**	(2,606,805)
Cash flows from investing activities			
Interest received		**44,297**	25,073
Payments for property and equipment and intangible assets	10,11	**(413,348)**	(213,678)
Exploration costs paid	12	**(7,082,435)**	(6,278,311)
Long term investment	14	**(129,500)**	-
Deposits made	16	**(64,801)**	-
Net cash used by investing activities		**(7,645,787)**	(6,466,916)
Cash flows from financing activities			
Proceeds from issuance of share capital		**3,539,646**	26,086,346
Payments for share issue costs		**-**	(1,419,039)
Payment for other equity reserves		**-**	(322,310)
Net cash generated in financing activities		**3,539,646**	24,344,997
Net (decrease) increase in cash and cash equivalents		**(8,778,127)**	15,271,276
Cash and cash equivalents, beginning of year		**17,058,692**	2,234,790
Effects of exchange rate changes on the balance of cash held in foreign currencies		**21,342**	(447,374)
Cash and cash equivalents, end of the year		**8,301,907**	17,058,692

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

Lydian International Limited
Notes to the Consolidated Financial Statements
For the years ended December 31, 2011 and December 31, 2010

1. GENERAL INFORMATION

Lydian International Limited (the õCompanyö) is a company continued under the laws of Jersey effective on December 12, 2007 (formerly existing under the laws of Alberta, Canada). The registered office address of the Company is 1st Floor, Capstan House, La Route es Nouaux, St. Helier, Jersey JE2 4ZY, Channel Islands. The Companyøs ordinary shares (õOrdinary Sharesö) began trading on the Toronto Stock Exchange (õTSXö) on January 10, 2008 under the symbol õLYDö.

The Company, together with its subsidiaries, (the ÷Groupø) 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 Georgia under exploration licenses granted by local authorities. The Groupøs main exploration project is gold at Amulsar, Armenia.

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

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

i) Standards and Interpretations effective in the current period

In the current period the Group has adopted the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the õIASBö) and International Financial Reporting Interpretations Committee (the õIFRICö) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2011.

ii) Standards and Interpretations in issue but not yet adopted

Amendment to IAS 1, õFinancial statement presentationö

The main change resulting from these amendments is a requirement for entities to group items presented in Other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

IFRS 9 õFinancial Instrumentsö

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Management have yet to assess the impact of this new standard on the consolidated financial statements. However, they do not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards

A package of consolidation standards are effective for annual periods beginning or after January 1, 2013. Information on these new standards is presented below. The Groupøs management have yet to assess the impact of these new and revised standards on the Groupøs consolidated financial statements.

IFRS 10 õConsolidated Financial Statementsö supersedes IAS 27 õConsolidated and Separate Financial Statementsö and SIC 12 õConsolidation ó Special Purpose Entitiesö. It revised the definition of control

together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

IFRS 11 õJoint Arrangementsö supersedes IAS 31 õInterests in Joint Venturesö. It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31øs option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

IFRS 12 õDisclosure of Interests in Other Entitiesö integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

IFRS 13 õFair Value Measurementö does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after January 1, 2013. The Groupøs management have yet to assess the impact of this new standard on the Groupøs consolidated financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (÷IFRSø) as issued by the International Accounting Standards Board as of December 31, 2011.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis and presented in British Pounds.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its ÷subsidiariesø). 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.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Company. The Company attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. Transactions with non-controlling interests that do not result in a loss of control are accounted for as transactions with equity owners of the group. Any difference between the amount of the adjustment to the non-controlling interest and any consideration paid or received is recognised as a separate reserve within equity.

Details of the Companyøs direct and indirect subsidiaries at December 31, 2011 and December 31, 2010 are as follows:

Name of subsidiary	**Place of incorporation or Registration**	**Effective Ownership Interest**		**Principal activity**
		2011	**2010**	
Lydian Holdings Ltd (BVI)	British Virgin Islands	100%	100%	Intermediate holding company
Lydian Resources Kosovo (BVI)	British Virgin Islands	100%	100%	Intermediate holding company
Lydian Resources Armenia (BVI)	British Virgin Islands	100%	100%	Intermediate holding company
Lydian Resources Georgia Limited	Jersey	100%	100%	Intermediate holding company
Geoteam CJSC	Armenia	95%	95%	Mineral exploration
Georgian Resource Company LLC	Georgia	100%	100%	Mineral exploration
Kavkaz Zoloto CJSC	Armenia	95%	95%	Dormant company
Kosovo Resource Company LLC	Kosovo	100%	100%	*No activities, in liquidation process

*Currently Kosovo Resource Company LLC is in Membersø Voluntary Liquidation process.

Interest in joint ventures

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

Foreign currencies

The individual financial statements of each entity in the Group are prepared in the currency of the primary economic environment in which the entity operates (its õfunctional currencyö). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in British Pounds, which is presentation currency for these consolidated financial statements. Although the parent

company has a functional currency of Canadian Dollars, management assesses the Companyøs performance in British Pounds.

In preparing the financial statements of the individual entities, transactions in currencies other than the entityøs functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at rates prevailing at the reporting 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 Groupøs operations are expressed in British Pounds using exchange rates prevailing at the reporting 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 other comprehensive income and transferred to the Groupøs translation of foreign operations reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

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

Share-based payments

Equity-settled awards, including share options and warrants, are measured at fair value at the date of grant and recognised over the vesting period, based on the Groupøs 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 managementøs 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 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 the related asset or liability in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and increased or reduced to the extent that it is probable, or 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 reporting 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 in a 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 for amortisation purposes.

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 capitalised and the existing carrying amount of the component written off. Other subsequent expenditure is capitalised 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 ó 5 years
Equipment	1 ó 5 years

Intangible assets

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

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of the intangible assets, which are estimated to be 3-10 years for computer software.

Impairment of land and intangible assets with indefinite useful lives or not available for use

Assets that have an indefinite useful life that are not subject to amortisation or are not available for use are evaluated for impairment annually. An impairment loss is recognised for the amount by which the assetøs carrying amount exceeds its recoverable amount.

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

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

Impairment of property and equipment and intangible assets with finite lives

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assetøs carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the fair value less costs to sell 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.

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.

Exploration and evaluation assets

Exploration and evaluation expenditures comprise costs incurred directly in exploration and evaluation as well as the cost of mineral licenses. They are capitalised as exploration and evaluation assets subsequent to acquisition of the licenses and pending determination of the feasibility of the project. Borrowing costs attributable to the exploration and evaluation of mineral licences are expensed as incurred.

When the existence of economically recoverable reserves and commercial viability are established, the related exploration and evaluation assets are reclassified as intangible assets or property, plant and equipment as appropriate.

Where a project is abandoned or is determined not to be economically viable, the related costs are written off. Impairment is assessed when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Supplies

Supplies are sample bags, small tools and other similar items stored to support drilling operations. Supplies are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business and selling expenses. The cost of supplies is based on the first-in first-out principle and includes expenditure incurred in acquiring the supplies and bringing them to their existing location and condition.

Financial assets

Financial assets other than hedging instruments are divided into the following categories:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expense is recognised in profit or loss or directly in equity.

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

Other receivables

Other receivables are initially recognised at fair value. Subsequently they are measured at amortised cost less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group may 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 assetøs 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.

Other Investments

Investments in equity securities that are neither subsidiaries nor associates are categorised as available-for-sale instruments. These assets are measured at fair value, both initially and subsequently, with changes in fair value, except for impairment losses and certain foreign exchange gains and losses, recognised in other comprehensive income until the asset is sold. Impairment losses are recognised in the consolidated income statement as incurred, as are foreign exchange gains and losses arising on monetary items. Foreign exchange gains and losses arising on non-monetary items, such as an investment in an equity instrument, are recognised in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in accumulated other comprehensive income is reclassified to the consolidated income statement.

Impairment of financial assets

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

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

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

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

Financial liabilities

The Groupøs financial liabilities include accrued liabilities and other payables and the amount due to Newmont, which are initially recognised at fair value and subsequently stated at amortised cost. Trade payables are classified as current liabilities unless the Group has an unconditional right to defer settlement

of the liability for at least 12 months after reporting date.

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.

Restoration and rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration and development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of dismantling and removal of facilities, restoration and monitoring of the affected areas. The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of the restoration and rehabilitation provision relating to exploration and development activities is capitalised into the cost of the related asset and amortised on the same basis as the related asset. Changes in the estimate of the provision of restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

Interest income

Interest income and expenses are reported on an accrual basis using the effective interest method.

Employee benefits

The Group makes contributions for the benefit of employees to the Jersey, Armenian and Georgia State pension funds. The contributions are expensed as incurred.

Provisions

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

Operating leases

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

Loss per share

Basic loss per ordinary share is calculated by dividing the loss attributed to shareholders of the parent for the period by the weighted average number of ordinary shares outstanding during the period. Diluted loss per ordinary share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary 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, Armenia, Georgia and head offices in Jersey (Channel Islands), existed as at December 31, 2011 and December 31, 2010. At December 31, 2010, Kosovo represented a geographical segment which was wound down in 2011.

Other reserves

Other reserves are equity instruments of the Company for purchase of non-controlling interests in its subsidiaries.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments in applying the Group's accounting policies

In the application of the Groupøs 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 most significant critical judgment that members of management have made in the process of applying the entityøs 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 assets.

In particular, management is required to assess exploration and evaluation assets for impairment. Note 12 discloses the carrying values of such assets. As part of this assessment, management has carried out an assessment whether there are indicators of impairment. If there are indicators, management performs an impairment test on the major assets within this balance.

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

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 Pricing 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 Companyøs 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.

5. GEOGRAPHICAL SEGMENTS

The Group is engaged in one business activity, mineral exploration. The three key geographical segments for these activities are located in Armenia, Kosovo and Georgia. The Groupøs head office activities are located in Jersey (Channel Islands) which relate to administrative matters.

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

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

	As of and for year ended December 31, 2011	As of and for year ended December 31, 2010
	£	£
Interest income		
Armenia	-	-
Georgia	-	-
Kosovo	-	-
Head office activities	44,297	25,073
	44,297	25,073
Loss for the year		
Armenia	1,103,851	665,230
Georgia	9,372	-
Kosovo	292,712	2,496,815
Head office activities	4,548,953	2,725,004
	5,954,888	5,887,049
Loss from disposal of property and equipment		
Armenia	8,715	-
Georgia	-	-
Kosovo	90,600	-
Head office activities	-	-
	99,315	-
Depreciation and amortisation		
Armenia	28,393	26,175
Georgia	-	-
Kosovo	56,483	96,604
Head office activities	17,296	3,255
	102,172	126,034
Property, equipment and intangible asset expenditures		
Armenia	384,192	75,370
Georgia	-	-
Kosovo	-	89,853

Head office activities	**29,156**	48,455
	413,348	213,678

The geographical segmented information on certain Statement of Financial Position items is given below:

	As of December 31, 2011	As of December 31, 2010
	£	£
Exploration and evaluation assets		
Armenia	**23,535,396**	16,497,640
Georgia	**203,609**	-
Kosovo	**-**	-
Head office activities	**-**	-
	23,739,005	16,497,640
Property and equipment		
Armenia	**454,800**	250,142
Georgia	**-**	-
Kosovo	**-**	142,000
Head office activities	**21,212**	10,445
	476,012	402,587
Intangible assets		
Armenia	**59,283**	19,912
Georgia	**-**	-
Kosovo	**-**	3,503
Head office activities	**36,239**	35,935
	95,522	59,350

December 31, 2011

	Armenia	Kosovo	Georgia	Head office activities	Eliminations	***Consolidated***
	£	£	£	£	£	**£**
Total assets	25,662,197	-	268,609	34,995,611	(26,405,002)	**34,521,415**
Total liabilities	21,360,459	5,197,678	279,783	6,742,717	(26,549,344)	**7,031,293**

December 31, 2010

	Armenia	Kosovo	Georgia	Head office activities	Eliminations	*Consolidated*
	£	£	£	£	£	£
Total assets	17,505,160	375,305	-	33,505,501	(16,502,519)	34,883,447
Total liabilities	11,305,236	5,384,814	-	5,798,857	(16,526,520)	5,962,387

6. EMPLOYEE SALARIES AND BENEFIT EXPENSES

	Year ended December 31, 2011	Year ended December 31, 2010
	£	£

Salaries and other compensation	**(1,382,362)**	(1,151,812)
Allocation to equity settled employee benefits reserve	**(1,624,657)**	(556,895)
	(3,007,019)	(1,708,707)

7. OTHER GAINS (LOSSES)

	Year ended December 31, 2011 £	Year ended December 31, 2010 £
Disposal of property and equipment	**(99,315)**	-
Other (loss) gain	**(14,026)**	3,633
Exploration and evaluation assets write-off (Note 11)	**(165,215)**	(2,113,572)
Foreign currency losses	**(67,403)**	(29,302)
	(345,959)	(2,139,241)

8. TAXATION

There was no taxes payable by the Group in the year ended December 31, 2011 and corresponding period in 2010.

	Year ended December31, 2011 £	Year ended December 31, 2010 £
Loss before taxation	**(5,954,888)**	(5,887,049)
Tax at 17.0% (2010, 16.0 %)	**(1,012,331)**	(941,928)
Items which are not deductible for tax purposes	**837,161**	338,340
Losses not recognised	**175,170**	603,588
Income tax expense	-	-

The Group had taxation losses under jurisdiction of Jersey (Channel Islands), Armenia, Georgia and Kosovo (subject to confirmation with the tax authorities) as at December 31, 2011 amounting to approximately £5,986,965 (December 31, 2010: £4,956,551) that have not been recognised as there is insufficient evidence of taxable profits.

Tax losses incurred by Armenian and Georgian companies expire in the fifth year subsequent to when they are incurred.

The tax rate in Armenia is 20%, in Kosovo is 10% and in Georgia is 15%. Expenses incurred at the head office are non-deductible. The effective tax rate for these Consolidated Financial Statements is calculated as weighted average of tax losses to deductible expenses in each jurisdiction.

9. LOSS PER SHARE

Loss per share of £0.06 for the year ended December 31, 2011 (December 31, 2010-£0.08) has been calculated on the basis of the net loss of £5,899,696 (December 31, 2010 loss: £5,856,554) on 97,130,280 (December 31, 2010: 75,128,582) shares being the weighted average number of shares in issue.

As a result of the losses incurred during the years ended December 31, 2011 and 2010, the potential shares to be issued from the exercise of options and warrants are not included in the computation of diluted per share amounts since the result would be anti-dilutive. Accordingly, the diluted loss per share and the basic loss per share for all periods presented are the same.

10. PROPERTY AND EQUIPMENT

COST	Motor Vehicles	Equipment	Land	Total
	£	£	£	£
At January 1, 2010	107,387	533,380	-	640,767
Additions	33,567	139,383	-	172,950
Exchange difference	4,535	7,651	-	12,186
As at December 31, 2010	145,489	680,414	-	825,903
Additions	**133,269**	**214,989**	**159**	**348,417**
Disposal	**(32,364)**	**(395,697)**	**-**	**(428,061)**
Exchange difference	**(4,962)**	**(10,864)**	**1**	**(15,825)**
As at December 31, 2011	**241,432**	**488,842**	**160**	**730,434**

ACCUMULATED DEPRECIATION	Motor Vehicles	Equipment	Land	Total
	£	£	£	£
At January 1, 2010	48,829	213,910	-	262,739
Charge for the year	24,233	134,819	-	159,052
Exchange difference	1,218	307	-	1,525
As at December 31, 2010	74,280	349,036	-	423,316
Charge for the year	**38,810**	**127,133**	**-**	**165,943**
Disposals	**(30,433)**	**(299,282)**	**-**	**(329,715)**
Exchange difference	**(1,905)**	**(3,217)**	**-**	**(5,122)**
As at December 31, 2011	**80,752**	**173,670**	**-**	**254,422**

CARRYING AMOUNT

	Motor Vehicles	Equipment	Land	Total
	£	£	£	£
At December 31, 2011	**160,680**	**315,172**	**160**	**476,012**
At December 31, 2010	71,209	331,378	-	402,587

In the year ended December 31, 2011, depreciation of £78,749 has been capitalised to exploration and evaluation costs (2010: £45,213).

11. INTANGIBLE ASSETS

COST	Computer Software
	£
As at January 1, 2010	57,806
Additions	40,728
Exchange difference	2,183
As at December 31, 2010	100,717
Additions	**64,931**
Disposal	**(26,481)**

Exchange difference	**(1,998)**
As at December 31, 2011	**137,169**

ACCUMULATED AMORTISATION	**£**
As at January 1, 2010	24,055
Charge for the year	17,078
Exchange difference	234
As at December 31, 2010	41,367
Charge for the year	**26,341**
Disposal	**(25,512)**
Exchange difference	**(549)**
As at December 31, 2011	**41,647**
CARRYING AMOUNT	
At December 31, 2011	**95,522**
At December 31, 2010	59,350

In year ended December 31, 2011, amortisation of £11,363 has been capitalised to exploration and evaluation costs (2010: £4,883).

12. EXPLORATION AND EVALUATION ASSETS ("EEA")

Cost	Armenia project Amulsar	Georgia project Zoti	Armenia project Nor Arevik	Kosovo projects	Total
	£	**£**	**£**	**£**	**£**
At January 1, 2010	1,977,063	-	-	2,319,251	4,296,314
Additions	13,904,136	-	44,808	97,408	14,046,352
EEA write off	-	-	-	(2,113,572)	(2,113,572)
Exchange difference	570,584	-	1,049	(303,087)	268,546
At December 31, 2010	16,451,783	-	45,857	-	16,497,640
Additions	**7,331,629**	**194,170**	**97,655**	**24,356**	**7,647,810**
EEA write off	**-**	**-**	**(140,859)**	**(24,356)**	**(165,215)**
Exchange difference	**(248,016)**	**9,439**	**(2,653)**	**-**	**(241,230)**
At December 31, 2011	**23,535,396**	**203,609**	**-**	**-**	**23,739,005**

The increase of deferred exploration expenditures in the twelve month period ended December 31, 2011 in the Armenia Amulsar project was mainly a result of exploration drilling and studies costs, development cost of the project, mining license state duty and exploration license concession fee payments, capitalised salaries of employees engaged in exploration, rentals for areas under exploration, costs of environmental studies, and costs pertaining to exploration camp maintenance.

The Management of the Company decided to relinquish one of its early stage exploration license called Nor Arevik located in southern Armenia. The decision was taken after receiving and analysing results of laboratory assays from exploration drilling holes drilled earlier in 2011. Due to low mineralisation the Company lost its interest in further exploration in the area. Capitalised costs pertaining to that project in amount of £140,859 were charged to income as of December 31, 2011.

During September 2011 the Companyøs 100% owned subsidiary Georgian Resource Company LLC acquired a combined exploration mining license over Zoti, an early-stage gold project in Georgia. The balance of EEA at the Georgian project Zoti represents the cost of the license and cost of exploration studies.

IFRS 6 requires that regular impairment assessments are made. The directors carried out a review as of December 31, 2011 and are satisfied that on the basis of the current plans and status of operations, there are no indications of impairment on the Amulsar or Zoti assets.

In 2011, the Company decided not to continue with its projects in Kosovo and relinquished the corresponding licenses. As of December 31, 2011 the carrying value of these projects totaling £165,215 (December 31, 2010: £2,113,572 was written off in the income statement (Note 7). On July 29, 2011 the Company transferred one of the licenses õDrazhnje licenseö and relevant in-country exploration assets to Kosovo Metals Group (õKMGö).

Non-cash transactions that increased EEA are as follows:

	Year ended December 31, 2011 £	Year ended December 31, 2010 £
Purchase of Newmont interest	-	7,687,418
Payable to suppliers of drilling services and project development	446,463	30,527
Capitalised amortisation and depreciation	90,112	50,096
Mine rehabilitation reserve	28,800	-
	565,375	7,768,041

13. OTHER NON-CURRENT ASSETS

Other non-current assets at December 31, 2011 and 2010 relate to Geoteam CJSC and Kavkaz Zoloto CJSC long-term receivables from the State input VAT and borrowings provided to persons who provide regular services to Geoteam CJSC. VAT input will be refunded by the Tax Authorities or offset with other tax liabilities through future sales of product or services. Borrowings are refunded on a regular basis from income received from provision of services. Management believes that the receivables from the State and borrowings are fully recoverable.

	December 31, 2011 £	December 31, 2010 £
VAT input Geoteam CJSC	**1,356,726**	682,394
VAT input Kavkaz Zoloto CJSC	**12,760**	3,880
Long term borrowings	**2,449**	-
	1,371,935	686,274

14. OTHER LONG-TERM FINANCIAL ASSETS

Other long-term financial assets relate to purchase of 1,000,000 ordinary shares of Tigris Resources Limited which represents approximately 3.9% of its share capital. Tigris Resources Limited is focused on discovering, acquiring and developing gold and copper projects in Turkey and is not a listed company. At December 31, 2011, the carrying value approximates its fair value.

15. 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, 2011 and 2010, the money market investments had a one month maturity period.

16. OTHER CURRENT ASSETS

The Group as at December 31, 2011 and 2010 holds the following other current assets:

	December 31, 2011	December 31, 2010
	£	£
Supplies	**10,531**	8,153
VAT and HST refundable	**25,304**	27,716
Deposits	**124,801**	60,000
Other receivables and prepayments	**249,798**	83,035
	410,434	178,904

17. SHARE CAPITAL

Share capital of the Company consists of fully paid ordinary shares. The Company has one class of shares, being ordinary shares. The Company is authorised to issue an unlimited number of ordinary shares. The Companyøs ordinary shares have no par value. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the shareholdersø meeting of the Company.

	2011	2010
Number of ordinary shares issued and fully paid:		
Total outstanding number of shares, January 1	**93,659,798**	52,891,191
Issued under share based payment	**1,000,000**	3,000,000
Shares issued for cash	**-**	29,033,857
Shares issued on exercise of warrants and share options	**9,415,888**	8,734,750
Total outstanding number of shares, December 31	**104,075,686**	93,659,798

During the year ended December 31, 2011 the Company issued a total of 1,000,000 shares for payment of õGeoteam Option Agreementö (Note 20).

During the year ended December 31, 2011 the Company issued 8,675,388 and 740,500 ordinary shares pursuant to the exercise of warrants and share options, respectively.

18. WARRANTS

At December 31, 2011 the Company had 3,311,758 (December 31, 2010: 11,987,146) outstanding investor and broker warrants to subscribe for ordinary shares at a price CAD$0.59 (approximately 37 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 8,675,388 warrants were exercised to ordinary shares of the Company during the year ended December 31, 2011 (December 31, 2010: 6,887,250).

No warrants were granted in the year ended December 31, 2011. A total of 945,300 investor warrants were granted during the year ended December 31, 2010. The fair value of warrants granted in 2010 was £195,167 and was recorded in the statement of changes in equity.

The incremental fair value of warrants modified in 2010 was £95,909 and was allocated in the statement of changes in equity. The fair value was determined using the Black Scholes Option Pricing Model using assumptions as disclosed below. On May 14, 2010, the Company amended the terms of 4,000,000 outstanding warrants (the õIFC Warrantsö) held by International Finance Corporation, an insider of the Company by virtue of it holding more than 14% of the issued and outstanding ordinary shares, to extend the expiry date of the IFC Warrants from January 10, 2011 to January 10, 2012.

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

	Number of Warrants	Weighted average exercise price
Balance at December 31, 2009	18,739,581	36 pence
Investor warrants granted	945,300	47 pence
Warrants exercised	(6,887,250)	37 pence
Warrants expired	(810,485)	44 pence
Balance at December 31, 2010	11,987,146	36 pence
Warrants exercised	(8,675,388)	36 pence
Balance at December 31, 2011	**3,311,758**	**37 pence**

The warrants outstanding and exercisable at the end of the reporting period can be exercised any time before May 22, 2014.

Weighted average exercise price of outstanding warrants are adjusted to their equivalents in British Pounds.

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

	2011	2010
Expected volatility	-	66%
Expected option life	-	2-3.5 years
Risk free rate	-	1.6%
Dividend yield	-	0%

19. SHARE BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company's employee share option plan grants options to employees, directors and service providers of the Company to purchase ordinary shares of the Company. In accordance with terms of the employee share option plan, the exercise price of the granted options shall be determined at the time the option is granted provided that such price shall be not less than the market price of the ordinary shares. Share options granted under the plan carry no rights to dividends and no voting rights.

Each of the Company's share options are convertible into one ordinary share of the Company. Share options may be exercised at any time from the date of vesting to the date of their expiry.

Charges in relation to equity settled share-based payments are credited to an 'Equity settled employee benefits reserve', therefore no liabilities have been recorded in respect to these plans.

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

	Number of options	Weighted average exercise price
Balance at December 31, 2009	2,475,000	27 pence
Granted	3,110,000	79 pence
Expired	(125,000)	36 pence
Exercised	(1,847,500)	38 pence
Balance at December 31, 2010	3,612,500	67 pence
Granted	2,290,000	1.58 pounds

Expired	(175,000)	69 pence
Exercised	(740,500)	61 pence
Balance at December 31, 2011	**4,987,000**	**1.12 pounds**

Outstanding options				Exercisable options	
Range of exercise price	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
		years	£		£
Less than £0.63 (CAD $1)	345,000	0.6	0.28	345,000	0.28
£0.63-£1.26 (CAD$1-$1.99)	1,962,000	0.8	0.67	1,962,000	0.67
£1.27-£1.90 (CAD$2-$3)	2,680,000	3.8	1.56	1,467,500	1.54
	4,987,000	2.3	1.12	3,774,500	0.97

The weighted average share price during the year ended December 31, 2011 was £1.54 (December 31, 2010: 93 pence).

Weighted average exercise price of outstanding share options are adjusted to their equivalents in British Pounds.

The weighted average fair value per share options granted during the year ended December 31, 2011 was 81 pence (year ended December 31, 2009: 31 pence). Options were priced using the Black Scholes Option Pricing Model using the following assumptions:

	2011	**2010**
Expected volatility	63%	66%
Expected option life	5 years	2 years
Risk free rate	1.7%	1.6%
Dividend yield	0%	0%

During the year ended December 31, 2011 £1,624,657 (December 31, 2010: £556,895) was included in employee benefits expense in the consolidated income statement.
The share options outstanding and exercisable at December 31, 2011 had a weighted average remaining contractual life of 2.3 years (December 31, 2010: 1.7 years).

20. OTHER RESERVES - OPTION TO PURCHASE NON-CONTROLLING INTEREST

On December 9, 2010, the Company entered into an option agreement (the õGeoteam Option Agreementö) to purchase the remaining 5% non-controlling interest (the õnon-controlling interestö) of the Companyøs 95% indirectly owned subsidiary, Geoteam CJSC. In accordance with the terms of the option (the õCall Optionö), the Company has the right to purchase the non-controlling interest on the earlier of December 9, 2013 and the occurrence of certain transactions, including a transaction involving a change of control of the Company.

The Company also granted an option (the õPut Optionö) to the holder of the non-controlling interest, whereby the holder of the non-controlling interest can require the Company to purchase the non-controlling interest at any time during the period of the Call Option if the Company is in default of its obligations under the call option or at the end of the option period, December 9, 2013. The aggregate purchase price payable by the Company in connection with any exercise of the Call Option or the Put Option will be CAD$500,000 in cash and 2,000,000 ordinary shares (the õPayment Sharesö) in the capital of the Company. Under the Geoteam Option Agreement during 2011 and 2010 the Company issued

1,000,000 ordinary shares. During the year ended December 31, 2011 the Company has recognised a total of £757,838 pursuant to 500,000 ordinary shares issued (December 31, 2010: £1,037,816 for 500,000 shares issuable and a cash installment of CAD$500,000). During 2011, the Company issued shares for £715,506 (CAD$1,110,000) considered issuable at the end of 2010).

21. DUE TO NEWMONT

On February 26, 2010, the Company entered into an agreement (the õPurchase Agreementö) with Newmont pursuant to which the Companyøs 95% owned subsidiary, Geoteam CJSC, purchased all of Newmont's interest in the joint venture known as the Caucasus Venture (the õVentureö) between the Company and Newmont. In consideration for the purchase of Newmontøs interest in the Venture and the related termination of the Venture, the Company will; (i) issue to Newmont three million ordinary shares and (ii) make certain pre-production and then post-production payments to Newmont. The post production payments are dependent on production occurring and this allows Lydian to fund the required payments out of direct revenue from the Amulsar gold project or through alternate available funds. See Note 27.

Prior to production, the Company is obligated to pay Newmont US$15 million in three US$5 million installments. The first was paid on the Closing, the second was due on or before December 31, 2011 and the third on or before the earlier of December 31, 2012 and the date that is 90 days after a bankable feasibility on any portion of the Amulsar property is complete and the Company has received all the necessary material permits to move into production. Pursuant to the terms of the agreement with Newmont, in December 2011 the Company notified Newmont of its intention to defer the second US$5 million payment to no later than December 31, 2012, the deferred payment was charged interest at the rate of 10% per annum commencing December 31, 2011 until it was paid on March 13, 2012. The third installment is recorded using a discount of 10%, the rate negotiated between the parties for purposes of determining amounts payable should the Company exercise its rights to settle prior to the maturity dates.

	US $	**£**
Undiscounted amount payable at December 31, 2010	10,000,000	**6,411,489**
Discount at 10%	(1,323,392)	**(848,750)**
Amortised cost as of December 31, 2010	8,676,608	**5,562,739**
Undiscounted amount payable at December 31, 2011	10,000,000	**6,437,510**
Discount at 10%	(455,732)	**(293,378)**
Amortised cost as of December 31, 2011	9,544,268	**6,144,132**

Within the year ended December 31, 2011 £547,743 was recorded as an effective interest charge relating to unwinding of the discount and has been reflected in the income statement (year ended December 31, 2010: £354,031).

22. PROVISIONS

The provision for restoration and rehabilitation represents the present value of future outflow of economic benefits that will be required by the concession agreement signed between Geoteam CJSC and Government of the Republic of Armenia. The provision recognised as of December 31, 2011 relates only to rehabilitation of Amulsar mine areas affected by exploration activities as development of the mine has not commenced.

	December 31, 2011 £	December 31, 2010 £
Balance at December 31, 2010	**-**	-
Additions	**28,800**	-
Balance at December 31, 2011	**28,800**	-

23. ACCRUED LIABILITIES AND OTHER PAYABLES

	December 31, 2011 £	December 31, 2010 £
Accrued liabilities and trade payables	**727,197**	302,948
Wage accruals	**131,164**	96,700
	858,361	399,648

24. 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 are in the exploration stage, as such, the Group is dependent on external financing to fund its activities. The Group intends to raise additional finance by issuing new share capital, debt or entering into joint arrangements to carry out planned exploration and to pay for administrative costs. The Group will continue to assess new properties and seek to acquire an interest in additional properties if it believes 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, excluding non-controlling interest, which totals £27,081,626 (December 31, 2010: £28,429,704). Total equity comprises share capital, warrants, and reserves and accumulated deficit as disclosed in the consolidated statements of changes in equity.

Liquidity risk

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

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

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

All short-term financial liabilities which relate to accrued liabilities and other payables and due to Newmont as disclosed in note 21 and 23 mature within one year of December 31, 2011.

Currency 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 Groupøs management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Groupøs expenses include amounts incurred in British Pounds, Armenian Dram, Canadian Dollar, Euros, Georgian Laries and the US Dollar. The Groupøs exchange risk is therefore related to movements between these currencies. The Group has a downside risk to strengthening of the Euro, Armenian Dram, Georgian Lari or US and Canadian Dollar as this increases expenses in British Pound terms.

The Groupøs currency risk policy is to diversify its cash resources in the British Pound, the US Dollar, the Canadian Dollar and the Euro roughly in proportion to expected future expenditure over the following twelve months.

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

Currency risk sensitivity

The following table details the Groupøs 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 managementøs 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 Groupøs net assets and liabilities are predominately held in British Pounds, US Dollars, Canadian Dollars, Euros and Armenians Drams. The numbers below indicate an influence on equity where the British Pound strengthens 10% against the relevant currency.

		Canadian Dollar	Euro	US Dollar	Armenian Dram	Georgian Lari
Other comprehensive income (profit or loss) £	December 31, 2011	289,801	11,513	284,410	2,311,861	18,402
	December 31, 2010	1,398,277	25,882	361,842	924,902	-

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. Other than the deferred amount due to Newmont, the Group has no other fixed or floating rate borrowings. Cash and cash equivalents also bear interest at floating rates.

Interest rate sensitivity

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents managementøs assessment of the reasonably possible change in interest rates. With a 100 basis point increase in interest rates the income would be higher by £112,350 and in case of decrease the loss higher by £44,297 for the twelve month period ended December 31, 2011. 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 reporting 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 years ended December 31, 2011 and December 31, 2010 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, 2011, the Group did not have any significant credit risk exposure to any 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 Groupøs maximum exposure to credit risk.

Financial assets

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

At December 31, 2011 and December 31, 2010, cash and cash equivalents were as follows:

	Fixed rate assets	Cash assets	Total	Average period for which rates are fixed (months)	Average interest rates for fixed rate assets
	£	£	£		
December 31, 2011	6,742,322	1,559,585	8,301,907	One	0.4%
December 31, 2010	16,139,215	919,477	17,058,692	One	0.4%

Fair value of financial assets and liabilities

All financial assets and financial liabilities are recorded at amortised cost in the consolidated financial statements. Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature. The Newmont liability bears interest at a rate that approximates the estimated market rate of interest.

25. 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.

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

The non-executive members of the Board of Directors do not have employment or service contracts with Lydian International Limited and neither are they entitled to any termination benefits. None of the directors are entitled to pension benefits.

The sole director and country manager of Geoteam CJSC and director of Kavkaz Zoloto CJSC holds 5% of the shares in Geoteam CJSC and 5% of the shares in Kavkaz Zoloto CJSC. Within 2011 pursuant to õGeoteam Option Agreementö the Company issued to Hayk Aloyan 1,000,000 ordinary shares (Note 20).

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

	Year ended December 31, 2011 £	Year ended December 31, 2010 £
Aggregate emoluments	**339,747**	331,287
Share based payments	**926,357**	285,048

26. OPERATING LEASE AND PURCHASE COMMITMENTS

The Group leases office premises with a lease term of up to 3 years. The group does not have an option to purchase the leased asset at the expiry of the lease period. In 2011 Geoteam CJSC has endorsed long term rent contracts for lands under rock allocations. Non-cancellable operating lease commitments are disclosed below:

	December 31, 2011 £	December 31, 2010 £
Up to one year	**146,306**	68,137
More than one year and no later than five years	**497,820**	55,279
More than five years	**1,585,989**	-
	2,230,115	123,416

27. CONTINGENCIES

Newmont Deal

On April 23, 2010 the Group purchased all of Newmontøs interests in the Groupøs joint venture which included Newmontø interests in the Amulsar gold property. The consideration was a combination of committed and contingent payments. The committed payments included 3 million ordinary shares of the Company and one payment of US$5 million, which have now been issued and paid ó the second on March 13, 2012 - and one payment of US$5 million which is due by the end of 2012 (Note 21).

In addition the Group agreed to pay Newmont, following the start of commercial production, a 3% Net Smelter Royalty (õNSRö). However, between April 23, 2010 and the date that is 20 days following commencement of commercial production, Lydian may at its option elect to buy out the 3% NSR and instead pay to Newmont the aggregate sum of US$20 million (approximately £12.8 million), without interest, in 20 equal quarterly installments of US$1 million commencing on the first day of the third calendar month following the start of commercial production. Furthermore, the Company has a one-time option prior to the commencement of commercial production to prepay these quarterly installments in a single cash payment using an annual discount rate of 10%. This equates to a single payment of approximately US$15.6 million (approximately £10.6 million).

These potential post production payment(s) do not meet the definition of an obligation or a constructive obligation as the triggering event, commencement of commercial production, has not happened yet. These potential payments are therefore not recorded on the consolidated Statement of Financial Position at December 31, 2011.

Drazhnje licenses

On July 29, 2011 the Company completed the transfer of Drazhnje licenses (the Property) to KMG as per agreement with it (Note 12). KMG agreed to commence Commercial Production at a date no later than end 2014. In the event that Commercial Production commences, KMG will pay to Lydian a CAD$2 million cash payment and an overriding perpetual net smelter royalty of 2% on all metals produced at the Property.

Economic benefits attributable to this agreement are contingent and assets from it are not recognised in these financial statements.

28. OTHER MATTERS

Armenia and Georgia related risks

The Groupøs operations are subject to extensive government laws and regulations, concerning mine safety, subsoil and land use and environmental protection in Armenia and Georgia. The Group incurs substantial capital and operating costs to comply with increasingly complex laws and regulations covering its operations. Regulation in Armenia and Georgia 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 Groupøs business, operating results and financial condition.

The Armenian and Georgian 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 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 Groupøs business.

Social risks and business environment

Some of the Groupøs assets are located in Armenia and Georgia, countries which are establishing a more western-style business environment. There are still substantial differences between Armenia and Georgia and the developed business environment and the systems in 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 Georgia are still developing the legal framework required for market economy. Failure to obtain approvals from Armenian and Georgian authorities could cause the Groupøs operations to suffer or could result in the loss of its mineral rights or its assets.

29. SUBSEQUENT EVENTS

On February 27, 2012 the Company filed a preliminary short form prospectus in respect of a bought deal offering. The Company entered into an underwriting agreement with GMP Securities L.P. and Scotiabank which have agreed to purchase 15,625,000 ordinary shares of the Company at a purchase price of CAD$2.56 per ordinary share for aggregate gross proceeds to the Company of CAD$40 million which was completed on March 9, 2012. In addition, the Company has granted the underwriters an option to purchase up to an additional 2,343,750 ordinary shares at the offering price. The option was exercised on March 15, 2012. Also the EBRD took up its pre-emptive rights on March 21, 2011and a further 1,419,732 ordinary shares were issued to them at a purchase price of CAD$2.56 per ordinary share.

The consolidated financial statements for the year ended December 31, 2011 have been approved for issue by the board of directors on March 23, 2012.