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

LYDIAN INTERNATIONAL LIMITED
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011

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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 4ZY, 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
71 Bath Street, St. Helier

Canada

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

AUDITORS

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

Lydian International Limited
Interim Consolidated Income Statements
For three month period ended March 31, 2011 and 2010
(Unaudited)

	Notes	**March 31, 2011**	March 31, 2010
		£	£
Interest income	5	**14,050**	776
Total income		**14,050**	776
Employee salaries and benefits expense		**(532,976)**	(250,487)
Services and consumables used		**(207,760)**	(145,786)
Administrative and other expenses		**(225,643)**	(105,724)
Consulting expenses		**(58,601)**	(25,945)
Depreciation and amortisation expenses	9,10	**(38,633)**	(32,269)
Interest expense	19	**(126,921)**	-
Other gains (losses)	6	**(176,927)**	91,547
Total expenses		**(1,367,461)**	(468,664)
Loss before tax		**(1,353,411)**	(467,888)
Income taxes	7	**-**	-
Loss for the period		**(1,353,411)**	(467,888)
Loss for the period attributable to:			
Owners of the parent		**(1,341,868)**	(467,888)
Non-controlling interest		**(11,543)**	-
		(1,353,411)	(467,888)
Loss per share attributable to owners of the parent (basic and diluted)	8	**0.01**	0.01

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

Lydian International Limited
Interim Consolidated Statements of Comprehensive Income
For three month period ended March 31, 2011 and 2010
(Unaudited)

	Notes	**March 31, 2011**	March 31, 2010
		£	£
Loss for the period		**(1,353,411)**	(467,888)
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**(613,751)**	(14,993)
Total comprehensive loss for the period		**(1,967,162)**	(482,881)
Comprehensive loss for the year attributable to:			
Owners of the parent		**(1,952,791)**	(482,881)
Non-controlling interest		**(14,371)**	-
		(1,967,162)	(482,881)

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

Lydian International Limited
Interim Consolidated Statements of Financial Position
As of March 31, 2011 and December 31, 2010
(Unaudited)

	Notes	**March 31, 2011**	December 31, 2010
		£	£
ASSETS			
Non-current assets			
Property and equipment	9	**376,933**	402,587
Intangible assets	10	**56,782**	59,350
Exploration and evaluation assets	11	**16,464,670**	16,497,640
Other non-current assets	12	**677,151**	686,274
Total non-current assets		**17,575,536**	17,645,851
Current assets			
Cash and cash equivalents	13	**15,285,485**	17,058,692
Other current assets	14	**457,186**	178,904
Total current assets		**15,742,671**	17,237,596
TOTAL ASSETS		**33,318,207**	34,883,447
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	**38,929,192**	37,778,041
Warrants	16	**1,103,288**	1,202,829
Equity settled employee benefits reserve	17	**881,462**	655,985
Translation of foreign operations		**(162,679)**	448,244
Other reserves – shares issuable	18	**-**	715,506
Other reserves – option to purchase non-controlling interest	18	**(1,037,816)**	(1,037,816)
Accumulated deficit		**(12,674,953)**	(11,333,085)
Total equity attributable to the parent		**27,038,494**	28,429,704
Non-controlling interest		**476,985**	491,356
Total equity		**27,515,479**	28,921,060
Non-current liabilities			
Due to Newmont	19	**2,649,427**	2,648,561
Total non-current liabilities		**2,649,427**	2,648,561
Current liabilities			
Accrued liabilities and other payables	20	**238,171**	399,648
Current portion of Due to Newmont	19	**2,915,130**	2,914,178
Total current liabilities		**3,153,301**	3,313,826
TOTAL EQUITY AND LIABILITIES		**33,318,207**	34,883,447

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

Lydian International Limited
Interim Consolidated Statements of Changes in Equity
As of March 31, 2011 and December 31, 2010
(Unaudited)

	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 11)	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 18)	-	-	-	-	(1,037,816)	715,506	-	(322,310)	-	(322,310)
Total comprehensive income 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
Interim Consolidated Statements of Changes in Equity
As of March 31, 2011 and December 31, 2010
(Unaudited)

	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
Equity share capital issued in purchase of non-controlling interest (Note 18)	715,506	-	-	-	-	(715,506)	-	-	-	-
Proceeds from exercised warrants	304,631	-	-	-	-	-	-	304,631	-	304,631
Proceeds from exercised options	23,642	-	-	-	-	-	-	23,642	-	23,642
Attributable to exercised warrants	99,541	(99,541)	-	-	-	-	-	-	-	-
Attributable to exercised options	7,831	-	(7,831)	-	-	-	-	-	-	-
Employee share options issued during the period	-	-	233,308	-	-	-	-	233,308	-	233,308
Total comprehensive income for the period				(610,923)			(1,341,868)	(1,952,791)	(14,371)	(1,967,162)
Balance at March 31, 2011	**38,929,192**	**1,103,288**	**881,462**	**(162,679)**	**(1,037,816)**	**-**	**(12,674,953)**	**27,038,494**	**476,985**	**27,515,479**

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

Lydian International Limited
Interim Consolidated Statements of Cash Flows
For the three month period ended March 31, 2011 and 2010
(Unaudited)

	Note	**March 31, 2011**	March 31, 2010
		£	£
Cash flows from operating activities			
Payments to suppliers and employees		**(1,338,475)**	(629,450)
Net cash outflow from operating activities		**(1,338,475)**	(629,450)
Cash flows from investing activities			
Interest received		**14,050**	776
Payments for property and equipment and intangible assets	9,10	**(38,919)**	(552)
Exploration costs paid	11	**(436,226)**	(96,016)
Net cash used by investing activities		**(461,095)**	(95,792)
Cash flows from financing activities			
Proceeds from issues of equity shares		**328,273**	879,026
Net cash generated in financing activities		**328,273**	879,026
Net increase in cash and cash equivalents		**(1,471,297)**	153,784
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		**(301,910)**	65,742
Cash and cash equivalent, end of the period		**15,285,485**	2,454,316

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

Lydian International Limited
Notes to the Interim Consolidated Financial Statements
For the three month period ended March 31, 2011 and 2010
(Unaudited)

1. GENERAL INFORMATION

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

The Company, together with its subsidiaries, (the 'Group') is a mineral exploration and development group of companies focused on emerging and transitional environments, and is developing precious and base metal assets located in Armenia and Kosovo under exploration licenses granted by local authorities. The Group's two main exploration projects are gold at Amulsar, Armenia, and zinc, lead, silver and gold at Drazhnje, Kosovo.

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

The accounting policies adopted are consistent with those of the previous financial year, except as described below. Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. In the current period the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2011.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

ii) Standards and Interpretations in issue but not yet adopted

IFRS 9 Financial Instruments

This Standard issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the

liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The 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

This condensed consolidated interim financial information for the three months ended 31 March 2011 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRSs.

Basis of preparation

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

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.

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 Company's direct and indirect subsidiaries at March 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 Island	100%	100%	Intermediate holding company.
Kosovo Resource Company LLC	Kosovo	100%	100%	Mineral exploration
Lydian Resources Armenia (BVI)	British Virgin Islands	100%	100%	Intermediate holding company.
Geoteam CJSC	Armenia	95%	95%	Mineral exploration
Kavkaz Zoloto CJSC	Armenia	95%	95%	Mineral exploration
Lydian Resources Georgia Limited	Jersey	100%	100%	Dormant company
Georgian Resource Company LLC	Georgia	100%	100%	Dormant company
Kosovo Metals Group CJSC	Kosovo	N/A	100%	Dormant company

Interest in joint ventures

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

Foreign currencies

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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies

are retranslated at rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

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

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

Share-based payments

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

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

Taxation

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the 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 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 existing carrying amount of the component written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognised in the income statement as incurred.

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

Motor vehicles	3 – 5 years
Equipment	1 – 5 years

Intangible assets

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

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

Impairment of 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 asset's carrying amount exceeds its recoverable amount.

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

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

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 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.

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

Impairment of financial assets

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

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

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

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

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 pending determination of the feasibility of the project.

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 required.

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, less the estimated costs of completion and selling expenses. The cost of supplies is based on the first-in first-out principle and includes expenditure incurred

in acquiring the inventories and bringing them to their existing location and condition.

Financial assets

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

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

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

Financial liabilities

The Group's 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 balance sheet 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.

Interest income

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

Employee benefits

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

Provisions

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

Operating leases

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

Loss per share

Basic loss per 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, Kosovo and head offices in the Jersey (Channel Islands), existed as at March 31, 2011 and December 31, 2010.

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 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 most significant critical judgment that members of management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts 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 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 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 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 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 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.

5. GEOGRAPHICAL SEGMENTS

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

The Group has no discontinued operations.

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

There are the following differences in segments accounting policies:

The estimated useful life of Motor Vehicles and Equipment in Kosovo is 3 years. The estimated useful life of Motor Vehicles and Equipment in Armenia is 5 years. The useful life of computers and accessories in head office is determined to be 3 years.

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

	As of and for three month period ended	
	March 31, 2011	**March 31, 2010**
	£	£
Interest income		
Armenia	**-**	-
Kosovo	**-**	-
Head office activities	**14,050**	776
	14,050	776
Loss for the period		
Armenia	**230,858**	105,334
Kosovo	**84,015**	88,326
Head office activities	**1,038,538**	274,228
	1,353,411	467,888
Depreciation and amortisation		
Armenia	**7,107**	6,052
Kosovo	**28,022**	26,217
Head office activities	**3,504**	-
	38,633	32,269
Property, equipment and intangible asset expenditures		
Armenia	**31,818**	552
Kosovo	**-**	-
Head office activities	**7,102**	-
	38,920	552

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

	As of March 31, 2011	As of December 31, 2010
	£	£
Exploration and evaluation assets		
Armenia	**16,464,670**	16,497,640
Kosovo	**-**	-
Head office activities	**-**	-
	16,464,670	16,497,640
Property and equipment		
Armenia	**245,932**	250,142
Kosovo	**118,484**	142,000
Head office activities	**12,517**	10,445
	376,933	402,587
Intangible assets		
Armenia	**17,245**	19,912
Kosovo	**2,296**	3,503
Head office activities	**37,241**	35,935
	56,782	59,350

			March 31, 2011		
	Armenia	Kosovo	Head office activities	Eliminations	***Consolidated***
	£	£	£	£	**£**
Total assets	17,725,567	290,958	32,552,225	(17,250,543)	**33,318,207**
Total liabilities	11,778,461	5,580,700	5,637,171	(17,193,604)	**(5,802,728)**

			December 31, 2010		
	Armenia	Kosovo	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. OTHER GAINS (LOSSES)

	3 months to March 31, 2011	3 months to March 31, 2010
	£	£
Disposal of property and equipment	**(2,181)**	-
Exploration and evaluation assets write-off (Note 11)	**(8,936)**	-
Income (loss) from foreign currency translation	**(165,810)**	91,547
	(176,927)	91,547

7. TAXATION

There was no taxes payable by the Group in the three month period ended March 31, 2011 and corresponding period in 2010.

	3 months to March 31, 2011	3 months to March 31, 2010
	£	£
Loss before taxation	**(1,353,411)**	(467,888)
Tax at 17.0% (2010, 14.0 %)	**(230,080)**	(65,504)
Items which are not deductible for tax purposes	**188,067**	47,456
Losses not recognized	**42,013**	18,048
Income tax expense	-	-

The Group had taxation losses under jurisdiction of Jersey, Channel Islands, Armenia and Kosovo (subject to confirmation with the tax authorities) as at March 31, 2011 amounting to approximately £5,205,695 (December 31, 2010: £4,956,551) that has not been recognised as there is insufficient evidence of taxable profits.

Tax losses incurred by Armenian companies expire in the fifth year subsequent to when they are incurred. Tax losses will begin to expire in 2011.

The tax rate in Armenia is 20% and in Kosovo is 10%. Expenses incurred at the head office are treated to be non-deductible. The effective tax rate for these Consolidated Financial Statements is calculated as percentage ratio of tax losses to deductible expenses.

8. LOSS PER SHARE

Loss per share of £0.01 for the three month period ended March 31, 2011 (March 31, 2010-£0.01) has been calculated on the basis of the net loss of £1,341,868 (March 31, 20010 loss: £467,888) on 94,190,866 (March 31, 2010: 54,209,367) shares being the weighted average number of shares in issue.

As a result of the losses incurred during the three month period ended March 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.

9. PROPERTY AND EQUIPMENT

COST	Motor Vehicles	Equipment	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	**26,680**	**8,082**	**34,762**
Disposal	**-**	**(4,596)**	**(4,596)**
Exchange difference	**(5,916)**	**(5,474)**	**(11,390)**
As at March 31, 2011	**166,253**	**678,426**	**844,679**

ACCUMULATED DEPRECIATION	Motor Vehicles	Equipment	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 period	**6,199**	**41,256**	**47,455**
Disposal	**-**	**(2,415)**	**(2,415)**
Exchange difference	**(1,769)**	**1,159**	**(610)**
As at March 31, 2011	**78,710**	**389,036**	**467,746**

CARRYING AMOUNT

	Motor Vehicles	Equipment	Total
	£	£	£
At March 31, 2011	**87,543**	**289,390**	**376,933**
At December 31, 2010	71,209	331,378	402,587

In the three month period ended March 31, 2011, depreciation of £12,773 has been capitalized to exploration and evaluation costs (2010: £9,973).

10. INTANGIBLE ASSETS

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

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	**4,157**
Exchange difference	**(1,375)**
As at March 31, 2011	**103,499**
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 period	**5,552**
Exchange difference	**(202)**
As at March 31, 2011	**46,717**
CARRYING AMOUNT	
At March 31, 2011	**56,782**
At December 31, 2010	59,350

In the three month period ended March 31, 2011, amortisation of £1,601 has been capitalized to exploration and evaluation costs (2010: nil).

11. EXPLORATION AND EVALUATION ASSETS ("EEA")

Cost	Armenia project Amulsar	Armenia project Nor Arevik	Kosovo project	Total
	£	£	£	£
At 1 January 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	**356,754**	**84,910**	**8,936**	**450,600**
EEA write off	**-**	**-**	**(8,936)**	**(8,936)**
Exchange difference	**(470,168)**	**(4,466)**	**-**	**(474,634)**
At March 31, 2011	**16,338,369**	**126,301**	**-**	**16,464,670**

During the three month period ended March 31, 2011 the Armenian Dram and Canadian dollar devalued against the British Pound resulting to net decrease of Exploration and Evaluation Assets of Amulsar

project despite the £ 356,754 expenditure incurred. Expenditures incurred within three month period ended March 31, 2011 for Amulsar project mainly relates to development of the project, payments of concession fees and other duties, cost of samples laboratory assays, costs of environmental studies of the project etc. The cost of deferred exploration expenditures in Nor Arevik project mainly consist of exploration drilling costs and concession fee payment.

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 March 31, 2011 and are satisfied that on the basis of the current plans and status of operations, there are no indications of impairment.

On September 16, 2010 the Company had made application to the Independent Commission for Mines and Minerals (ICMM) in Kosovo to convert its exploration license over Drazhnje to a "retention license". The Regulation on Mines and Minerals in Kosovo allows the holder of an exploration license to apply to the ICMM for the grant of a retention license over an existing resource, if the resource cannot be developed immediately due to adverse market conditions or other economic factors that are reasonably believed to be of a temporary character.

As of December 31, 2010, there was uncertainty as to how this matter would be resolved and when or if the license at Drazhnje would be extended or compensation paid. As the ultimate amount of recovery relating to these assets was uncertain, the Directors of the Company decided it prudent to consider the EEA assets attributable to Drazhnje to be impaired. Also the Company decided not to continue with one of its projects in Kosovo called Crepulje and dropped the corresponding license. The carrying value of these two projects totaling £ 2,113,572 is written off in the income statement.

On March 31, 2011 the Company was awarded an extension to its Exploration License at Drazhnje and announced the execution of a binding Heads of Agreement over the project with Kosovo Metals Group CJSC. The terms of the agreement require the Company to transfer the Drazhnje licenses (the "Property") and relevant in-country exploration assets to Kosovo Metals Group ("KMG"). KMG will then assume all ongoing costs relating to the Property and to work on the Property from the date of execution of a Definitive Agreement. KMG undertakes to develop exploration and mining in respect of the Property and agrees 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 3% - later reduced to 2% - on all metals produced at the Property. Commercial Production means that the first payment is to be received from KMG no later than 30 days – later increased to 60 days - after either on-site production of metal or metal concentrate or the delivery of ore from the Property to one of the operating off-site concentrating facilities in Kosovo or any other off-site facility.

Notwithstanding that the Company as of March 31, 2011 possessed Exploration License at Drazhnje the Directors of the Company decided not reverse the impairment losses attributable to the project due to uncertainties of future economic benefits relating to the project. Expenditures incurred during three month period ended March 31, 2011 were therefore charged to expenses.

Non-cash transactions that increased EEA are as follows:

	2011	2010
	£	£
Purchase of Newmont interest	-	7,687,418
Payable to supplier of drilling services	-	30,527
Capitalised amortisation and depreciation	14,374	50,096
	14,374	7,768,041

12. OTHER NON-CURRENT ASSETS

Other non-current assets at March 31, 2011 relate to Geoteam CJSC long-term receivables from the State input VAT which will be refunded by the Tax Authorities or offset with other tax liabilities when Geoteam CJSC commences mining operations. Management believes that the receivables from the State

are fully recoverable.

13. 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 March 31, 2011, the money market investments had a one month maturity period.

14. OTHER CURRENT ASSETS

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

	March 31, 2011	December 31, 2010
	£	£
Supplies	**63,155**	8,153
VAT and HST refundable	**37,784**	27,716
Other receivables, prepayments and deposits	**356,247**	143,035
	457,186	178,904

15. SHARE CAPITAL

Share capital of the Company consists of fully paid ordinary shares. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the shareholders' meeting of the Company.

	For 3 month period ended March 31, 2011	For 12 month period ended December 31, 2010
Number of ordinary shares issued and fully paid:		
Beginning of the year	**93,659,798**	52,891,191
Issued under share based payment	**500,000**	3,000,000
Shares issued for cash	**562,135**	37,768,607
Total shares issued at the end of period	**94,721,933**	93,659,798

During the three month period ended March 31, 2011 the Company issued 482,135 and 80,000 ordinary shares pursuant to the exercise of warrants and share options, respectively.

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

16. WARRANTS

At March 31, 2011 the Company had 11,505,011 (December 31, 2010, 11,987,146) outstanding investor and broker warrants to subscribe for ordinary shares at a price ranging from CAN $0.42 (approximately 27 pence) to CAN $0.80 (approximately 51 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 482,135 warrants were exercised to ordinary shares of the Company during the three month period ended March 31, 2011 (year ended December 31, 2010 - 6,887,250). Average price of ordinary shares of the Company in the three month period ended March 31, 2010 was £1.46 (CAD$ 2.31) (year ended December 31, 2010 £0.93). Number of warrants expired during the three month period ended March 31, 2011 is nil (year ended December 31, 2010, 810,485).

During the three month period ended March 31, 2011 there was no grant of warrants (945,300 investor warrants were granted during the year ended December 31, 2010). Total fair value of warrants granted and recorded in the statement of changes in equity in the year ended December 31, 2010 was £195,167.

The incremental fair value of warrants modified in 2010 was £95,909 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 "IFC Warrants") 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	40 pence
Investor warrants granted	945,300	47 pence
Warrants exercised	(6,887,250)	37 pence
Warrants expired	(810,485)	44 pence
Balance at 31 December 2010	11,987,146	42 pence
Warrants exercised	(482,135)	63 pence
Balance at March 31, 2011	**11,505,011**	**41 pence**

The warrants outstanding and exercisable at the end of the reporting period had a weighted average remaining contractual life of 1.9 years.

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

	2011	2010	2
Expected volatility	-	66%	6
Expected option life	-	2-3.5 years	2-5 y
Risk free rate	-	1.6%	0
Dividend yield	-	0%	

17. SHARE BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company's employee share option plan grants options to employees, directors and professional services 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 is 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 is respect to these plans.

The following summarizes 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
Exercised	(80,000)	30 pence
Balance at March 31, 2011 – outstanding and exercisable	**3,532,500**	**68 pence**

The weighted average share price during the three month period ended March 31, 2011 was £1.46 weighted average share price during year ended December 31, 2010 was £0.93.

During the three month period ended March 31, 2011 there was no grant of share options. The weighted average fair value per share options granted during the year ended December 31, 2010 was 30 pence. Options were priced using the Black Scholes Option Pricing Model using the following assumptions:

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

During the three month period ended March 31, 2011 £233,308 was included in employee benefits expense in the consolidated income statement pursuant to vested options (year ended December 31, 2010 £556,895).

The share options outstanding and exercisable at March 31, 2011 had a weighted average remaining contractual life of 1.4 years (December 31, 2010 – 1.7 years).

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

On December 9, 2010, the Company entered into an option agreement (the "Geoteam Option Agreement") to purchase the remaining 5% non-controlling interest (the "non-controlling interest") of the Company's 95% indirectly owned subsidiary, Geoteam CJSC. In accordance with the terms of the option (the "Call Option"), 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 "Put Option") 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. 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 "Payment Shares") in the capital of the Company. As per "Geoteam Option Agreement" the first portion of Payment Shares was issuable to Hayk Aloyan on December 9, 2010 however due to some administrative matters they were issued on January 18, 2011.

19. DUE TO NEWMONT

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

Company and Newmont. In consideration for the purchase of Newmont's interest in the Venture and the related termination of the Venture, 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 24.

Prior to production, the Company will pay Newmont US$15 million in three US$5 million installments, the first was paid on the Closing, the second is 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. The second and third installments have been 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.

The current portion of the pre-production payable to Newmont, which is the second settlement of US $5,000,000 payable on or before December 31, 2011 pursuant to Purchase Agreement with Newmont is included in current liabilities. The last US$5,000,000, which is payable 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, is included in non-current liabilities.

Currency	US $	**£**
Undiscounted amount payable at March 31, 2011	10,000,000	**6,264,325**
Discount at 10%	(1,117,068)	**(699,768)**
Amortised cost as of March 31, 2011	8,882,932	**5,564,557**
Current portion	4,653,543	**2,915,130**
Non-current portion	4,229,389	**2,649,427**

During three month period ended March 31, 2011 £126,921 as an effective interest charge relating to unwinding of the discount has been reflected in the income statement (year ended December 31, 2010 £354,031).

20. ACCRUED LIABILITIES AND OTHER PAYABLES

	March 31, 2011 £	December 31, 2010 £
Accrued liabilities and trade payables	**181,025**	302,948
Wage accruals	**57,146**	96,700
	238,171	399,648

21. 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 £27,038,494 (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 Group's short, medium and long-term funding and liquidity management requirements.

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

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

All short-term financial liabilities which relate to accrued liabilities and other payables and due to Newmont as disclosed in note 19 and 20 mature within one year of March 31, 2011. Long-term liabilities as disclosed in note 19 mature within more than one year period from March 31, 2011. All accrued liabilities and other payables at December 31, 2010 were due within one year and long term payables were disclosed in note 19.

Currency rate risk

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

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

The Group's currency risk policy is to diversify its cash resources in the British Pound, the US Dollar, the Canadian Dollar, the Armenian Dram and the Euro 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 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, United States dollars, Canadian Dollars, Euros and Armenians Drams. A numbers below indicates an influence on equity where the British Pound strengthens 10% against the relevant currency.

		Canadian Dollar	Euro	US Dollar	Armenian Dram
Other comprehensive income (profit or loss)	March 31, 2011	1,097,919	35,112	531,047	934,902
	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. The principal amount due to Newmont is non-interest bearing and 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 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 three month period ended March 31, 2011, would be £37,000 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 three month period ended March 31, 2011 and year ended 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 March 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 Group's maximum exposure to credit risk.

Financial assets

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

At March 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
	£	£	£		
March 31, 2011	14,117,481	1,168,004	15,285,485	One	0.26%
December 31, 2010	16,139,215	919,477	17,058,692	One	0.38%

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 and, as relates to the amount due to Newmont, the estimated market rate of interest applied to discount the liability.

22. 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. On December 9, 2010 the Company signed an agreement with Hayk Aloyan to purchase his 5% shares in Geoteam CJSC. On January 18, 2011, 500,000 ordinary shares of the Company were issued to Hayk Aloyan as partial settlement (Note 18).

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

	Three month period ended March 31, 2011	Three month period ended March 31, 2010
	£	£

Aggregate emoluments	**82,948**	57,394
Share based payments	**102,154**	-

23. OPERATING LEASE AND PURCHASE COMMITMENTS

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

	March 31, 2011 £	December 31, 2010 £
Up to one year	**62,714**	68,137
More than one year and no later than five years	**39,839**	55,279
More than five years	**-**	-
	102,553	123,416

24. CONTINGENCIES

Newmont Deal

On April 23, 2010 the Group purchased all of Newmont's interests in the Group's joint venture which included Newmont's 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, which have now been issued and three payments of US$5,000,000; the first of which has been made; and the two others due by the end of 2011 and 2012 respectively (Note 19).

In addition the Group agreed to pay Newmont, following the start of commercial production, a 3% Net Smelter Royalty ("NSR"). 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 UD $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 statements of financial positions at March 31, 2011.

25. OTHER MATTERS

Decommissioning obligations

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

Armenia and Kosovo Country related risks

The Group's operations are subject to extensive government laws and regulations, concerning mine safety, subsoil and land use and environmental protection in Armenia and Kosovo. The Group incurs substantial capital and operating costs to comply with increasingly complex laws and regulations covering its operations. Regulation in Armenia and Kosovo governing discharge of materials into the environment

is likely to evolve in a manner which will require stricter standards of compliance. Non-compliance with environmental regulations or the increasing cost of compliance with such regulations could have a material adverse effect on the Group's business, operating results and financial condition.
The Armenia and Kosovo tax systems could impose substantial burdens on the Group.

The Group is subject to a broad range of taxes imposed at federal, regional and local levels. Laws related to these taxes have been in force for a 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

Some of 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 Armenia and Kosovo 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 Kosovo are still developing the legal framework required for market economy. Failure to obtain approvals from 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.

26. SUBSEQUENT EVENTS

On May 2th 2011 the Company granted its employees and directors by 2,190,000 share options under the employee share option plan.

The consolidated financial statements for the three month period ended March 31, 2011 have been approved for issue by the board of directors on May 12, 2011.