**THESE FINANCIAL STATEMENTS HAVE NOT BEEN AUDITED OR REVEIWED BY THE COMPANY'S AUDITORS.**

# LYDIAN INTERNATIONAL LIMITED
# INTERIM CONSOLIDATED FINANCIAL STATEMENTS
# September 30, 2008

**Lydian International Limited**
**(formerly Dawson Creek Capital Corporation)**
**Consolidated Income Statement**

**For the three and nine months ended September 30, 2008 and September 30, 2007**
(unaudited, in British Pounds)

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| Interest income | 5 | **(28,685)** | (8,518) | **(104,769)** | (42,648) |
| Employee benefits expense | | **286,018** | 132,310 | **602,071** | 336,659 |
| Services and consumables used | | **63,308** | 291,669 | **485,084** | 598,799 |
| Depreciation and amortisation expense | 8, 9 | **35,344** | 10,799 | **69,285** | 20,077 |
| **Total expenses** | | **384,670** | 434,778 | **1,156,440** | 955,535 |
| **Loss before tax** | | **355,985** | 426,260 | **1,051,671** | 912,887 |
| Income tax | 6 | **-** | - | **-** | - |
| **Loss for the period** | 12 | **355,985** | 426,260 | **1,051,671** | 912,887 |
| **Loss per share (basic and diluted)** | | **0.01** | 0.01 | **0.03** | 0.03 |

**Lydian International Limited**
**(formerly Dawson Creek Capital Corporation)**
**Interim consolidated Statement of Recognised Income and Expenses**

**For the three and nine months ended September 30, 2008 and September 30, 2007**
(unaudited, in British Pounds)

| | | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | Note | **£** | £ | **£** | £ |
| Exchange difference arising on translation of foreign operations | | **(184,097)** | (27,848) | **(347,284)** | (13,456) |
| **Loss (profit) recognised directly in equity** | | | | | |
| Loss for period | 12 | **355,985** | 426,260 | **1,051,671** | 912,887 |
| **Total recognised income and expense for the period** | | **171,888** | 398,412 | **704,387** | 899,431 |

**Lydian International Limited**
**(formerly Dawson Creek Capital Corporation)**
**Interim consolidated Balance Sheet**

**As of September 30, 2008 and December 31, 2007**
(unaudited, in British Pounds)

| | Notes | **September 30, 2008** | December 31, 2007 |
|---|---|---|---|
| | | **£** | £ |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 8 | **410,857** | 134,013 |
| Intangible assets | 9 | **50,232** | - |
| Exploration and evaluation assets | 10 | **3,098,261** | 900,554 |
| **Total non-current assets** | | **3,559,350** | 1,034,567 |
| **Current assets** | | | |
| Cash and cash equivalents | | **2,835,570** | 6,009,767 |
| Other current assets | 11 | **790,474** | 445,590 |
| **Total current assets** | | **3,626,044** | 6,455,357 |
| **TOTAL ASSETS** | | **7,185,394** | 7,489,924 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 12, 13 | **6,533,848** | 6,457,329 |
| Warrants | 12,13 | **1,924,473** | 1,923,083 |
| Equity settled employee benefits reserve | 12,14 | **213,130** | 150,000 |
| Exchange reserve | 12 | **439,863** | 92,579 |
| Accumulated deficit | 12 | **(2,597,265)** | (1,545,594) |
| **Total equity** | | **6,514,049** | 7,077,397 |
| **Current liabilities** | | | |
| Accrued expenses and other payables | 15 | **671,345** | 412,527 |
| **TOTAL EQUITY AND LIABILITIES** | | **7,185,394** | 7,489,924 |

**Lydian International Limited**
**(formerly Dawson Creek Capital Corporation)**
**Consolidated Cash Flow Statement**

**For the three and nine months ended September 30, 2008 and September 30, 2007**
(unaudited, in British Pounds)

| | Note | Three months ended September 30, **2008** | Three months ended September 30, 2007 | Nine months ended September 30, **2008** | Nine months ended September 30, 2007 |
|---|---|---|---|---|---|
| | | **£** | £ | **£** | £ |
| **Cash flows from operating activities** | | | | | |
| Changes of cash position from operational activities | | **(116,349)** | (847,795) | **(1,173,221)** | (806,902) |
| **Net cash outflow from operating activities** | | **(116,349)** | (847,795) | **(1,173,221)** | (806,902) |
| **Cash flows from investing activities** | | | | | |
| Interest received | | **(28,685)** | (8,518) | **(104,769)** | (42,648) |
| Payments for plant and equipment | | **193,166** | 24,599 | **372,979** | 110,366 |
| Proceeds from the disposal of plants and equipment | | **(5,679)** | - | **(8,856)** | - |
| Exploration costs paid | | **1,442,382** | 254,653 | **2,717,418** | 690,268 |
| Receipts from joint venture partner | | **(574,248)** | (57,178) | **(876,864)** | (132,350) |
| **Net cash used by investing activities** | | **1,026,936** | 213,556 | **2,099,908** | 625,636 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issues of equity shares | | **3,530** | 1,546,992 | **141,039** | 1,871,575 |
| **Net cash generated in financing activities** | | **3,530** | 1,546,992 | **141,039** | 1,871,575 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1,139,755)** | 485,641 | **(3,132,090)** | 439,037 |
| **Cash and cash equivalents, beginning of period** | | **3,894,904** | 1,694,244 | **6,009,767** | 1,740,848 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | **(80,421)** | - | **42,107** | - |
| **Cash and cash equivalent, end of the period** | | **2,835,570** | 2,179,885 | **2,835,570** | 2,179,885 |

**Lydian International Limited**
**(formerly Dawson Creek Capital Corporation)**
**Notes to the Interim Consolidated Financial Statements**
**For nine months ended September 30, 2008**
(unaudited, in British Pounds)

## 1. GENERAL INFORMATION

Lydian International Limited (formerly Dawson Creek Capital Corporation) (the "Company") is a company continued under the laws of Jersey effective on December 12, 2007 (formerly existing under the laws of Alberta, Canada). The registered office address of the Company is PO BOX 87, 22 Grenville Street, St Helier, Jersey, JE4 8PX, Channel Islands.
On December 27, 2007, Lydian International Limited acquired Lydian Resource Company Limited ("Lydian Resource Company") in a reverse takeover transaction. Dawson Creek Capital Corporation was a capital pool company listed on the TSX Venture Exchange. Accordingly, the comparatives disclosed in these consolidated financial statements are those of Lydian Resource Company Limited. All share references in these financial statements have been adjusted to reflect the stock consolidation as described below.

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

The Company, 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. The Group's two main projects are gold at Armulsar, Armenia, and zinc, lead, silver and gold at Drazhnje, Kosovo. The Group currently operates a 50/50 gold and copper exploration joint venture with Newmont Overseas Exploration Limited ("Newmont"), in the Caucsus.

## 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

***Standards and Interpretations effective in the current period***
On January 1, 2007, the Group adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements.* The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Group's financial instruments and management of capital.
Four interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') were effective for the period ended December 31, 2007. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29*, *Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

***Early adoption of Standards and Interpretations***
The Group has not elected to adopt any standards or interpretations in advance their effective date.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

These interim consolidated financial statements for the nine months ended September 30, 2008 have been prepared in accordance with IAS 34 “ Interim financial reporting” These interim financial statements should be read in conjunction with the financial statements as of and for the year ended December 31, 2007 prepared in accordance with International Reporting Standards ( IFRS) as issued by the IASB .

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis and presented in Sterling. The principal accounting policies are set out below. As September 30, 2007 Lydian International Limited was a stand alone capital pool company and called Dawson Creek Capital Corporation; the acquisition of Lydian Resource Company was not completed until December 27, 2007. However for comparison purposes the information for the nine months to September 30, 2007 is presented as the consolidated statements.

### 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 results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.
Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group’s equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Details of the Company's direct and indirect subsidiaries at September 30, 2008 and December 31, 2007 are as follows

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

**Interest in Joint Ventures**

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

**Foreign currencies**

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

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

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

Goodwill and 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 closing rate.

**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 tax.

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

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

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

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

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

**Property and equipment**

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

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

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

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

Motor vehicles 3 – 5 years

Office equipment and fixtures 1 – 5 years

**Intangible assets**

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

Amortization is charged to the income statement on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 10 years for rights and licenses and 3 years for software's.

**Impairment**

***Impairment of property and equipment***

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

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

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

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

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

***Impairment of financial assets***

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

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

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

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

**Exploration and evaluation costs**
Exploration and evaluation expenditures comprise of costs incurred directly in exploration and evaluation as well as the cost of mineral licenses. They are capitalised as intangible assets pending determination of the feasibility of the project. When the existence of economically recoverable reserves and commercial viability are established, the related intangible assets are transferred to property and equipment and are depleted on a unit of production basis.
Where a project is abandoned or is determined not to be economically viable, the related costs are written off.
Impairment is assessed when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

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

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

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity.
Generally, the Group recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognised in the income statement except for income or loss on any available-for-sale financial assets which are recognised in equity.

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

The balance of the allowance is adjusted by recording a charge or income to the statement of income of the reporting period.
Any amount written-off with respect to other receivable balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

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

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

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

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

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

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

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

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

**Business and geographic segments**

***Business Segments***
The Group operates in one business segment, mineral exploration.

***Geographical Segments***
The directors of the Group are of the opinion that two geographical segments, Kosovo and Armenia, existed as at September 30, 2008 and 2007.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The significant critical judgment that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements is the policy on exploration and evaluation costs.
In particular, management is required to assess exploration and evaluation assets for impairment with reference to the indicators provided in IFRS 6. Note 9 discloses the carrying values of such assets. As part of this assessment, management has carried out an impairment test on the major assets within this balance.
The recoverability of exploration and evaluation costs is dependent on a number of factors common to the natural resource sector. These include the extent to which the Group can 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.

The estimate of significance in the consolidated financial statements relates to the joint venture arrangement with Newmont.
In accordance with the terms of the joint venture arrangement, costs with respect to the Armenian project are shared equally between the two parties.

## 5. GEOGRAPHICAL AND BUSINESS SEGMENTS

The Group is engaged in one business activity, mineral exploration. The two key geographical segments are Kosovo and Armenia.

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

The Group has no discontinued operations.

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

| For the period ended September 30, | Three months | | Nine months | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **£** | £ | **£** | £ |
| **Interest income** | | | | |
| Kosovo | **-** | **-** | **-** | - |
| Armenia | **-** | **-** | **-** | - |
| Head office activities | **28,685** | 8,518 | **104,769** | 42,648 |
| | | | | |
| **Loss for the period** | | | | |
| Kosovo | **149,647** | 203,321 | **459,583** | 438,186 |
| Armenia | **162,478** | 49,665 | **180,314** | 109,546 |
| Head office activities | **43,860** | 173,274 | **411,774** | 365,155 |
| | | | | |
| **Depreciation and amortisation** | | | | |
| Kosovo | **22,290** | 8,185 | **40,792** | 14,115 |
| Armenia | **13,054** | 2,614 | **28,493** | 2,880 |
| Head office activities | **-** | - | **-** | 3,082 |

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

| | September 30, 2008 | | | | |
|---|---|---|---|---|---|
| | Kosovo | Armenia | Head office activities | Eliminations | ***Consolidated*** |
| | £ | £ | £ | £ | £ |
| Property and equipment | 187,060 | 274,029 | | | 461,089 |
| Exploration and evaluation expenditures | 1,619,515 | 1,478,746 | | | 3,098,261 |
| Total assets | 507,774 | 545,593 | 9,005,247 | (6,432,570) | 3,626,044 |
| Total liabilities | 3,788,195 | 3,194,749 | 120,971 | (6,432,570) | 671,345 |

| | December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Kosovo | Armenia | Head office activities | Eliminations | ***Consolidated*** |
| | £ | £ | £ | £ | £ |
| Property and equipment | 65,181 | 66,132 | - | - | 134,013 |
| Exploration and evaluation expenditures | 610,297 | 290,257 | - | - | 900,554 |
| Total assets | 880,775 | 755,641 | 8,046,824 | (2,193,316) | 7,489,924 |
| Total liabilities | 1,715,721 | 430,423 | 459,699 | (2,193,316) | 412,527 |

## 6. TAXATION

There was no tax payable for the Group in nine months ended September 30, 2008 or for the corresponding period in 2007.
The Group had taxation losses (subject to confirmation with the tax authorities) as at September 30, 2008 amounting to approximately £2,031,859 (September 30, 2007: £ 978,567) that has not been recognised as there is insufficient evidence of taxable profits. These losses start to expire in 2011.

## 7. LOSS PER SHARE

Loss per share of £0.03 as at September 30, 2008 (September 30, 2007 – £0.03) have been calculated on the basis of the net loss of £1,051,671 (September 30, 2007 loss: £912,887) on 39,882,929 (September 30, 2007: 32,604,328) shares being the weighted average of shares in issue.
As a result of the losses incurred during the periods ended September 30, 2008 and 2007, the potential shares to be issued from the exercise of options and warrants are not included in the computation of diluted per share amounts since the result would be anti-dilutive. Accordingly, the diluted loss per share and the basic loss per share for these periods being presented are the same.

## 8. PROPERTY, PLANT AND EQUIPMENT

| **COST** | **Motor Vehicles** | **Equipment** | **Total** |
|---|---|---|---|
| | **£** | **£** | **£** |
| At January 1, 2007 | 10,484 | 8,640 | 19,124 |
| Additions | 63,501 | 71,463 | 134,964 |
| Disposal | (2,747) | (4,028) | (6,775) |
| Exchange difference | 7,837 | 6,759 | 14,596 |
| As at December 31, 2007 | 79,075 | 82,834 | 161,909 |
| Adjustment | | **(7,294)** | **(7,294)** |
| Additions | **45,391** | **284,512** | **329,903** |
| Disposal | **-** | **(10,807)** | **(10,807)** |
| Transfer | **25,337** | **(30,332)** | **(4,995)** |
| Exchange difference | **20,208** | **6,387** | **26,595** |
| As at September 30, 2008 | **170,011** | **325,300** | **495,311** |

| **ACCUMULATED DEPREICIATION** | **Motor Vehicles** | **Equipment** | **Total** |
|---|---|---|---|
| | **£** | **£** | **£** |
| At January 1, 2007 | 2,097 | 1,454 | 3,551 |
| Charge for the period | 11,086 | 13,089 | 24,175 |
| Disposals | (1,464) | (624) | (2,088) |
| Exchange difference | 1,063 | 1,195 | 2,258 |
| As at December 31, 2007 | 12,782 | 15,114 | 27,896 |
| Adjustment | - | **(1,648)** | **(1,648)** |
| Charge for the period | **23,150** | **39,659** | **62,808** |
| Disposals | **-** | **(1,951)** | **(1,951)** |
| Exchange difference | **(1,176)** | **(1,476)** | **(2,652)** |
| As at September 30, 2008 | **34,756** | **49,698** | **84,454** |

**CARRYING AMOUNT**

| | Motor Vehicles | Equipment | Total |
|---|---|---|---|
| | £ | £ | £ |
| **At September 30, 2008** | **135,255** | **275,602** | **410,857** |
| At December 31, 2007 | 66,293 | 67,720 | 134,013 |

## 9. INTANGIBLE ASSETS

| **COST** | **Software** |
|---|---|
| | **£** |
| As at December 31, 2007 | **-** |
| Adjustment | **7,294** |
| Additions | **43,077** |
| Transfer | **4,995** |
| Exchange difference | **3,412** |
| As at September 30, 2008 | **58,778** |

| **ACCUMULATED AMORTISATION** | |
|---|---|
| | **£** |
| As at December 31, 2007 | **-** |
| Adjustment | **1,648** |
| Charge for the period | **6,477** |
| Exchange difference | **421** |
| As at September 30, 2008 | **8,546** |
| | |
| Balance value | **50,232** |

## 10. EXPLORATION AND EVALUATION ASSETS

| **Cost** | Kosovo projects | Armenia projects | Total |
|---|---|---|---|
| | **£** | **£** | **£** |
| At 1 January 2007 | 27,868 | 25,362 | 53,230 |
| Additions | 539,550 | 215,843 | 755,393 |
| Exchange difference | 42,879 | 49,052 | 91,931 |
| At December 31, 2007 | 610,297 | 290,257 | 900,554 |
| | | | |
| Additions | **950,138** | **890,416** | **1,840,554** |
| Exchange difference | **59,080** | **298,073** | **357,153** |
| **At September 30, 2008** | **1,619,515** | **1,478,746** | **3,098,261** |

The Group's accounting policy is to capitalise exploration and evaluation costs as permitted by IFRS 6. IFRS 6 requires that regular impairment assessments are made. The directors carried out a review as of September 30, 2008 and are satisfied that on the basis of the current plans and status of operations, there are no indications of impairment.

## 11. OTHER CURRENT ASSETS

| | **September 30, 2008** | December 31, 2007 |
|---|---|---|
| | **£** | £ |
| Inventories | **49,041** | 7,569 |
| Payment in advance | **348,745** | 157,659 |
| Prepayments and accrued income | **30,298** | 35,690 |
| Other receivables | **362,390** | 244,672 |
| | **790,474** | 445,590 |

## 12. SHARE CAPITAL AND RESERVES

| | *Share capital including, premium and discounts* | *Warrants* | *Equity settled employee benefits reserve* | *Other reserves* | *Exchange reserve* | *Accumulated deficit* | *Total* |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ |
| **Balance at December 31, 2006** | 1,665,833 | | - | 517,425 | - | (428,655) | 1,754,603 |
| New equity share capital subscribed | 7,070,395 | - | - | (517,425) | - | - | 6,552,970 |
| Issuance of shares on reverse acquisition (note 20) | 114,654 | - | - | - | - | - | 114,654 |
| Issue of broker warrants | (132,416) | 132,416 | - | - | - | - | - |
| Issue of warrants | (1,790,667) | 1,790,667 | - | - | - | - | - |
| Loss for the period | - | - | - | - | - | (1,116,939) | (1,116,939) |
| Exchange difference arising on the translation of foreign entities | - | - | - | - | 92,579 | - | 92,579 |
| Employee share options issued during the Year | - | - | 150,000 | - | - | - | 150,000 |
| Share transaction costs | (360,485) | - | - | - | - | - | (360,485) |
| Transaction costs relating to reverse acquisition (note 20) | (109,985) | - | - | - | - | - | (109,985) |
| **Balance at December 31, 2007 – attributable to equity holders of the parent** | 6,457,329 | 1,923,083 | 150,000 | - | 92,579 | (1,545,594) | 7,077,397 |
| New equity share capital subscribed | **77,909** | | | | | | **77,909** |
| Issue of warrants | **(1,390)** | **1,390** | | | | | **-** |
| Loss for the period | | | | | | **(1,051,671)** | **(1,051,671)** |
| Exchange difference arising on the Translation of foreign entities | | | | | **347,284** | | **347,284** |
| Employee share options issued during the period | | | **63,130** | | | | **63,130** |
| **Balance at September 30, 2008 attributable to equity holders of the parent** | **6,533,848** | **1,924,473** | **213,130** | **-** | **439,863** | **(2,597,265)** | **6,514,049** |

Details of share capital are set out in note 13.

The 'Warrants' relate to future shares expected to be issued for warrants issued by the Group. Refer to note 13 for a summary of the assumptions used to compute the recorded amount.

The 'Equity settled employee benefits reserve' relates to the future shares expected to be issued under the Group's employee share option plan. Refer to note 13 for a summary of the assumptions used to compute the recorded amount.

**13. SHARE CAPITAL**

At September 30, 2008, the Company had 39,882,929 (December 31, 2007, 39,165,763) shares outstanding, comprising of the existing post consolidation shares (2,000,002) , the shares issued during December 2007 and subsequently (30,754,327) in exchange for 100% of the Lydian Resource Company Limited shares and the concurrent offering on December 27, 2007 of (7,028,600) shares. In March 2008 and in July 2008 respectively 15,000 and 347,330 warrants were issued each time.
At September 30, 2008 the Company had 12,992,146 outstanding investor and broker warrants to subscribe for ordinary shares at a price ranging from 20 pence to CDN $1.55 (approximately 80 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 362,330 warrants were granted during the nine months ended September 30, 2008.

| Investor and Broker Warrants and Options identifier | Number | Grant date | Expiry date | Exercise price | Fair value at grant date 2007 £ | Fair value at grant date 2008 £ |
|---|---|---|---|---|---|---|
| 1 | 474,833 | Dec-07 | Sep 2010 | 20 pence | 44,587 | |
| 2 | 321,099 | Dec-07 | Nov 2010 | 20 pence | 30,151 | |
| 3 | 934,500 | Dec-07 | Jan 2012 | 22 pence | 97,375 | |
| 4 | 150,000 | Dec-07 | Jan 2010 | 31.25 pence | 10,860 | |
| 5 | 4,149,999 | Dec-07 | Jan 2009 | 31.25 pence | 300,460 | |
| 6 | 2,000,000 | Dec-07 | Jan 2010 | 31.25 pence | 144,800 | |
| 7 | 1,000,000 | Dec-07 | Jan 2010 | 31.25 pence | 72,400 | |
| 8 | 3,414,400 | Dec-07 | Jan 2010 | 80 pence* | 1,160,258 | |
| 9 | 104,227 | Dec-07 | Jan 2010 | 80 pence* | 35,041 | |
| 10 | 80,758 | Dec-07 | Jan 2010 | 80 pence* | 27,151 | |
| 11 | 15,000 | Mar-08 | Jan 2010 | 63 pence* | | 883 |
| 12 | 347,330 | Jul-08 | Aug 2010 | 25 pence* | | 507 |
| | **12,992,146** | | | | **1, 923,083** | **1,390** |

*These warrants are issued in Canadian dollars and shown her in the equivalent sterling price.

The fair value of warrants granted for 2008 were allocated as: other warrants 2008 - £1,390 (2007- £1,790,667) and broker warrants £nil (2007 - £132,416).

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

| Warrant identifier | Grant date share price | Exercise price | Expected volatility | Warrant and investor option life | Dividend yield | Risk free interest rate |
|---|---|---|---|---|---|---|
| 1 | 18.75 pence | 20 pence | 100% | 2 years | 0% | 5% |
| 2 | 18.75 pence | 20 pence | 100% | 2 years | 0% | 5% |
| 3 | 18.75 pence | 22 pence | 100% | 4 years | 0% | 5% |
| 4 | 18.75 pence | 31.25 pence | 100% | 2 years | 0% | 5% |
| 5 | 18.75 pence | 31.25 pence | 100% | 2 years | 0% | 5% |
| 6 | 18.75 pence | 31.25 pence | 100% | 2 years | 0% | 5% |
| 7 | 18.75 pence | 31.25 pence | 100% | 2 years | 0% | 5% |
| 8 | 80 pence | 80 pence* | 75% | 2 years | 0% | 5% |
| 9 | 80 pence | 80 pence* | 75% | 2 years | 0% | 5% |
| 10 | 80 pence | 80 pence* | 75% | 2 years | 0% | 5% |
| 11 | 28 pence | 63 pence* | 75% | 2 years | 0% | 5% |
| 12 | 17 pence | 25 pence* | 75% | 2 years | 0% | 5% |

*These warrants are issued in Canadian dollars and shown her in the equivalent sterling price.

The expected volatility was determined by calculating the volatility of a sample of publicly quoted companies in an operational phase similar to that of the Group. The expected volatility used was based on the director's best estimate of expected future volatility.

## 14. SHARE BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

As at September 30, 2008, the following equity-settled share based payment arrangements were in existence. Each share option converts into one ordinary share of the Company. Options may be exercised at any time from the date of vesting to the date of their expiry.

| Option identifier | Number | Grant date | Expiry date | Exercise price | Fair value apportioned to | |
|---|---|---|---|---|---|---|
| | | | | | 2007 £ | 2008 £ |
| 1 | 100,000 | Dec-07 | Jan-10 | 15 pence | 9,390 | |
| 2 | 100,000 | Dec-07 | Jan-10 | 20 pence | 7,780 | |
| 3 | 100,000 | Dec-07 | Jan-12 | 20 pence | 10,820 | |
| 4 | 100,000 | Dec-07 | Jan-10 | 25 pence | 6,540 | |
| 5 | 200,000 | Dec-07 | Jan-10 | 25 pence | 13,080 | |
| 6 | 100,000 | Dec-07 | Jan-10 | 28 pence | 5,940 | |
| 7 | 1,675,000 | Dec-07 | Jan-10 | 28 pence | 99,495 | |
| 8 | 300,000 | Mar-08 | Jan-10 | 28 pence* | | 66,400 |
| 9 | 100,000 | Apr-08 | Jan-10 | 26 pence* | | 12,800 |
| 10 | (50,000) | - | Apr-08 | 28 pence* | | (3,270) |
| 11 | (100,000) | - | Sep-08 | 26 pence* | | (12,800) |
| | 2,625,000 | | | | 150,000 | 63,130 |

*These warrants are issued in Canadian dollars and shown her in the equivalent sterling price.

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

The weighted average fair value per share options granted during the period was 0.20 pence (Year ended December 31, 2007 – 0.10 pence). Options were priced using the Black Scholes Option Pricing Model using the following assumptions:

| **Option identifier** | **Grant date share price** | **Exercise price** | **Expected volatility** | **Option life** | **Dividend yield** | **Risk free interest rate** |
|---|---|---|---|---|---|---|
| 1 | 18.75 pence | 15 pence | 75% | 2 years | 0% | 5% |
| 2 | 18.75 pence | 20 pence | 75% | 2 years | 0% | 5% |
| 3 | 18.75 pence | 20 pence | 75% | 4 years | 0% | 5% |
| 4 | 18.75 pence | 25 pence | 75% | 2 years | 0% | 5% |
| 5 | 18.75 pence | 25 pence | 75% | 2 years | 0% | 5% |
| 6 | 18.75 pence | 28 pence | 75% | 2 years | 0% | 5% |
| 7 | 18.75 pence | 28 pence | 75% | 2 years | 0% | 5% |
| 8 | 30 pence | 29 pence | 75% | 2 years | 0% | 5% |
| 9 | 26 pence | 26 pence | 75% | 2 years | 0% | 5% |
| 10 | 18.75 pence | 25 pence | 75% | 2 years | 0% | 5% |
| 11 | 26 pence | 26 pence | 75% | 2 years | 0% | 5% |

The expected volatility was determined by calculating the volatility of a sample of publicly quoted companies in an operational phase similar to that of the Group. The expected volatility used was based on the director's best estimate of expected future volatility.

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

| | **Number of options** | **Weighted average exercise price** |
|---|---|---|
| Balance at 31 December 2006 | - | - |
| Granted during the year | 2,375,000 | 26 pence |
| Balance at December 31, 2007 | 2,375,000 | 26 pence |
| Granted (expired) during the nine month period to 30 September 2008 | 400,000<br>(150,000) | 28 pence |
| **Balance at 30 September 2008** | **2,625,000** | **27 pence** |

The share options outstanding at the end of the year had a weighted average remaining contractual life of 2 years.

## 15. ACCRUED EXPENSES AND OTHER PAYABLES

| | **September 30, 2008** | December 31, 2007 |
|---|---|---|
| | **£** | £ |
| Accrued expenses and trade payables | **610,015** | 396,966 |
| Wage accruals | **44,570** | 9,767 |
| Payroll tax and pension accruals | **16,760** | 5,794 |
| | **671,345** | 412,527 |

## 16. FINANCIAL RISK MANAGEMENT

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

### Capital risk management

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

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

Management reviews its capital management approach on an interim basis. Management believes that its approach, given the relative size of the Group, is reasonable. The Group is not subject to externally imposed capital requirements.
The Group defines capital as total equity plus cash and cash equivalents. Total equity is comprised of share capital, warrants, reserves and accumulated deficit as disclosed in note 12.

### 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, 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.

### Currency rate risk

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

The Group's expenses include amounts incurred in Euros, the Armenian Dram, the US dollar and Canadian dollar. The Group's exchange risk is therefore related to movements between these currencies. The Group has a downside risk to strengthening of the Euro, Armenian Dram or US and Canadian dollar as this increases expenses in British Pounds terms. Additionally, any such movements would affect the Consolidated Balance Sheet when the assets of the subsidiaries are translated into British Pounds.
The Group's currency risk policy is to invest its cash resources in the British Pound (30%), the US Dollar (30%), the Canadian Dollar (15%) and the Euro (25%). This is broadly in line with the ratio of expected currency expenditures.

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

***Currency risk sensitivity***
The Group's net assets and liabilities are predominately held in British Pounds, the USD, the Canadian Dollars, Euros and Armenians Drams.
It is estimated that a 10% strengthening of the British Pound would decrease the loss by £280,000 and reduce shareholder funds by approximately £250,000.

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

***Interest rate sensitivity***
With a 50 basis point increase or decrease in interest rates, the loss for the nine months ended September 30, 2008, would be £ 15,915 lower or higher respectively (£ 45,708 on an annual basis). 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, its credit risk is 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. The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics.
The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.
The credit risk on cash and cash equivalents is considered by the directors to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

**Financial assets**
Fixed rate financial assets are cash held on fixed term deposit. Cash at bank is held to finance the Group's short term cash requirements. The Group invests its available cash and capital in bank deposits only.
At September 30, 2008 and 31 December 2007, cash and cash equivalents were as follows:

| | **Fixed rate Assets** | **Cash assets** | **Solicitor Client Account** | **Total** | **Average period for which rates are fixed Months** | **Average interest rates for fixed rate assets** |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | | |
| 30 September 2008 | 1,910,959 | 924,611 | - | 2,835,570 | One | 3.9% |
| 31 Dec 2007 | 950,000 | 641,323 | 4,418,444 | 6,009,767 | One | 5.1% |

**Fair value of financial assets and liabilities**
The directors believe 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. Fair value has been determined by reference to the market value at the balance sheet date.

## 17. RELATED PARTY TRANSACTIONS

The parent and ultimate controlling party of the Group is Lydian International Limited. No individual party had overall control of the Company or Group during the periods being presented.
Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.
Details of transactions between the Group and other related parties are disclosed below.

The group has a jointly controlled operation with Newmont. The agreement relates to the Armulsar exploration project in Armenia. The agreement currently requires that costs incurred on the project are shared equally with the future option of a carried interest available to either party once the project goes to the feasibility or development stage, Newmont paid to Lydian Resource Company £1,140,982 during the nine months ended September 30, 2008 as a down payment against their share of exploration costs and manager fee. Newmont Mineral Holdings BV, a related party to Newmont, held 5,150,000 shares as at September 30, 2008 and 2,000,000 options at an exercise price of 31.25 pence exercisable within 2 years from January 10, 2008 and is related by virtue of these holdings.

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.
The non-executive members of the Board of Directors do not have employment or service contracts with Lydian International Limited, and did not receive any remuneration for their services and neither are they entitled to any termination benefits. None of the directors are entitled to pension benefits.

The remuneration of directors and key management was as follows. The directors and key management are the directors of Lydian International Limited and the sole director and country manager of Geoteam CJSC. The director of Geoteam CJSC holds 5% of the shares in Geoteam CJSC.

| | **Nine months to September 30, 2008** | Nine months to September 30, 2007 |
|---|---|---|
| | **£** | £ |
| Aggregate emoluments | **286,842** | 184,008 |
| Share based payments | **-** | 222,395 |

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

| Date of grant | Number of options | Exercise price | Expiry |
|---|---|---|---|
| December 2007 | 1,775,000 | 26 pence | January 2012 |

## 18. REVERSE ACQUISITION

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

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

## 19. OPERATING LEASE COMMITMENTS

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

| | **September 30, 2008 £** | December 31, 2007 £ |
|---|---|---|
| Up to one year | **35,031** | 7,473 |
| More than one year and no later than five years | **7,468** | 11,833 |
| More than five years | **-** | - |
| | **42,499** | 19,306 |

## 20. CONTINGENCIES

The Group is pursuing a claim against a former drilling contractor in respect of a deposit paid to the contractor. Full provision against the deposit has been made in the consolidated financial statements. Should the claim be successful, and the Group is able to enforce collection, recovery of £29,000 is expected. The Group is also attempting to recover a bank guarantee deposit paid by the Group, amounting to £22,000 in respect of possible import duties due by the drilling contractor to the Kosovo Customs authority.

**Armenia and Kosovo Country related Risks**

The Group's operations are subject to extensive government laws and regulations, concerning mine safety, subsoil and land use and environmental protection in Armenia and Kosovo. The Group incurs substantial capital and operating costs to comply with increasingly complex laws and regulations covering its operations. Regulation in Armenia and Kosovo governing discharge of materials into the environment is likely to evolve in a manner which will require stricter standards of compliance. Non-compliance with environmental regulations or the increasing cost of compliance with such regulations could have a material adverse effect on the Group's business, operating results and financial condition. The Armenia and Kosovo tax systems could impose substantial burdens on the Group. The Group is subject to a broad range of taxes imposed at federal, regional and local levels. Laws related to these taxes have been in force for a relatively short period relative to tax laws in more developed market economies and few precedents with regard to the interpretation of these laws have been established. New tax laws introduced by the Governments may result in the Group having to pay significantly higher taxes, which could have a materially adverse effect on the Group's business.