LYDIAN INTERNATIONAL LIMITED
Management's Discussion and Analysis
of the Consolidated Financial Condition and Results of Operations
for the three and twelve month periods ended December 31, 2010
(All monetary figures are expressed in British Pounds unless otherwise stated)

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Lydian International Limited ("Lydian" or the "Company") for the three and twelve month periods ended December 31, 2010. This discussion should be read in conjunction with the consolidated financial statements and the notes thereto. The consolidated financial statements have been prepared on the historical cost basis and presented in British Pounds. Additional Company information, including the Company's most recent Financial Statements and Annual Information Form, can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com and the Company's website at www.lydianinternational.co.uk
This information is provided as at March 31, 2011.

REVIEW OF ACTIVITIES

Fourth Quarter and Recent Highlights

- The Company commenced drilling at Amulsar in June 2010 and completed 24,000m of combined diamond and reverse circulation drill holes on October 31 2010. Drilling was a combination of resource up-grade and extension work in the Tigranes and Artavasdes areas as well as exploratory work at Erato and Arshak. A map showing where these zones are relative to each other is available on the Company's website or on SEDAR. Drilling in 2010 returned some highly encouraging results including 84m at 4.9g/t gold (open at depth) from an interpreted higher grade "feeder zone" at Artavasdes, 87m at 2.8g/t gold from resource extension drilling and 186m at 1.1g/t and 85m at 1.2g/t gold in exploratory drilling at Erato. New areas of gold mineralization have been intersected in drilling over a strike distance of at-least 3km from Erato to Arshak. The Company appears to have met its objectives with higher-grade material from within the resource shell now being defined and connected between drill strings, with the resource shell being extended in all directions and new areas including Erato and Arshak being identified and developed.
- On January 17, 2011 the Company reported positive results from further column leach metallurgical tests. The test results concluded that the cost-optimized crush size for Amulsar gold mineralization is probably 19mm and the optimum solvent concentration is 0.05%. Using these parameters composite's A and B recovered 93.5% and 93.1% gold respectively. Initial column leaching was exceptionally rapid for both samples with up to 80% gold being recovered after seven days of leaching.
- On January 18, 2011 the Company announced the establishment of a Development Advisory Board as the Company's Amulsar project moves towards development. The board comprises key individuals with extensive mine project development and regional expertise.
- A resource update is planned at Amulsar in April 2011.
- On October 26, 2010, the Company completed a bought deal offering, pursuant to which it sold 9,315,000 ordinary shares of the Company to a syndicate of investment dealers at a purchase price of CAD $2.13 per share, for aggregate gross proceeds of CAD $19,840,950. The 9,315,000 ordinary shares sold include 1,215,000 ordinary shares sold pursuant to the exercise of an over-allotment option granted to the underwriters, which was exercised in full.
- On November 15, 2010, the Company completed a private placement financing pursuant to which International Finance Corporation ("IFC") purchased 1,527,282 ordinary shares of the Company at a price of CAD $2.13 per share, for gross proceeds of CAD $3,253,111.
- 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. 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 he can require the Company to purchase the Minority Interest from him 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. 500,000 Payment Shares were issued in January 18, 2011 with a further six equal installments of 250,000 ordinary shares issuable half yearly beginning on June 30th, 2011. The Payment Shares will be subject to a four month hold period from the date of issue.

CAUTIONARY NOTE REGARDING FORWARD -LOOKING STATEMENTS

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

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

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

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

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

Exploration activity and results

Amulsar: Armenia

TheAmulsar license areas cover a region of high-sulphidation, epithermal-type gold mineralisation located in central Armenia and discovered by Lydian in 2006.

The Amulsar exploration licences are held 100% by Geoteam, an Armenian registered closed joint stock company. The outstanding shares of Geoteam are held 95% by Lydian Resources Armenia Ltd. (a 100% owned indirect subsidiary of the Company) and 5% by Lydian's local director. In December 2010, the Company acquired an option to purchase this non-controlling interest, as described above.

Amulsar hosts a CIM-compliant inferred resource of 1.4 million ounces at 0.9g/t gold –see press release dated 1st March 2010. This resource remains open in all directions (with ~20% of drill holes open at depth) and is entirely oxide. Metallurgical test work – see press release date January 17, 2011 -has returned good gold extractions on coarse-sized ore fractions to over 89% with recoveries still increasing when the test work was stopped at 70-days. Drilling during 2009 and 2010 identified new prospect areas within the immediate vicinity of the resource including Erato and Arshak.

The resource occurs just 4km from Armenia's principal highway connecting the capital Yerevan with population centers in the south of the country and is within easy reach of high tension power lines, a gas pipeline, water and a commercial airstrip. The resource occurs along a ridge top and consequently stripping ratio is minimized.

Amulsar:Exploration History

Amulsar was first identified as an area of potential interest by Lydian geologists in 2005. In March 2006 Geoteam was awarded an exploration licence across the prospect. The first gold at the Amulsar project was discovered by Lydian geologists in rock chip samples collected during June 2006. No previous exploration for gold had occurred on this site or in this area. It is thus a Greenfield not a brown field advanced exploration project.

In 2007, Lydian advanced the Amulsar project to scout drilling stage by conducting mapping, soil sampling, trenching and rock-chip sampling. The Company identified a 3.5 km long zone of anomalous gold mineralization following a northwesterly oriented high ridge top. More detailed work identified five discrete prospect areas located along and parallel to this northwesterly ridge. These prospect areas were known from north to south as Erato North, Erato, Tigranes,Artavasdes and Arshak. During 2010 it was shown that Tigranes and Artivasdes were joined so we now have four main prospect areas: Erato North, Erato, Tigranes-Artavasdes and Arshak. In addition, during 2010, further new areas of gold mineralization have been intersected in drilling over a strike distance of at-least 3km from Erato to Arshak.

In 2007 five scout diamond drill holes totaling 591m were drilled; these represented the very first subsurface test of the gold potential atAmulsar. Four of these holes (Holes DDA-001 through 004) tested the Tigranes zone while one hole (DDA-005) was a step out to test the Erato zone located some 2km to the northwest. Drilling intersected oxidized mineralization to down-hole depths of approximately 150m. The Company did not encounter sulphide mineralization in any of these drill holes. In light of the results (which included DDA-004; 53m at 2.6g/t gold), the Company determined to carry out further drill testing and consequently a 13,000m drill program was completed for the field season 2008.

Drill results returned for the year 2008 were consistent and highly encouraging. Some drill holes intersected locally higher-grade intervals at greater than 3g/t gold and containing significant amounts of silver. Drilling defined a 1000m long and approximately 400m wide zone of gold mineralization at the Tigranes-Artavasdes area which was open in all directions (including depth). Step-out drilling and further surface sampling on targets to the north and south was also conducted with results suggesting that an area of approximately $6km^2$ carried anomalous gold mineralization.

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

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

At this time the Company also submitted an application to convert an area of the Amulsar exploration license to mining license category. The Mining License was awarded over an area (Tigranes) equating to approximately 600,000 ounces of gold in April of 2009.

The Company commenced drilling on the project again in July 2009. The drill program was completed for a total of approximately 14,000m in October 2009. Results in 2007, 2008, 2009 and 2010 have been highly encouraging (drilling results are available at www.lydianinternational.co.uk website in Operations, Armenia, Amulsar Project page). Extensions to the resource have been discovered to the immediate southwest in the Artavasdes area and new gold mineralization has been encountered 1.5km to the north at Erato and some 500m to the southeast at Arshak. This has opened up new areas for further infill and exploratory drilling.

At the end of the 2009 drilling program, the Company contracted CSA Global Pty Ltd to update the resource calculation for the Tigranes-Artavasdes area. Wireframes were constructed based on the latest geological model and a block model utilizing a 0.2 gram per tonne gold resource shell was generated with a parent cell size of 20m (x) by 20m (y) by 5m (z). Reliable variograms were generated honoring the data density and the observed continuity of the mineralized zones in an overall shallow dipping domal geometry. The resulting output model estimates a current inferred resource of 49.6Mt containing 1.4 Moz gold at 0.9g/t with a 0.4 g/t cut-off.

During 2010 the Company completed 24,000m of combined diamond and reverse circulation drill holes on October 31st 2010. Drilling was a combination of resource up-grade and extension work in the Tigranes and Artavasdes areas as well as exploratory work at Erato and Arshak. A map showing where these zones are relative to each other is available on the Company's website or on SEDAR. Drilling in 2010 returned some highly encouraging results including 84m at 4.9g/t gold (open at depth) from an interpreted higher grade "feeder zone" at Artavasdes, 87m at 2.8g/t gold from resource extension drilling and 186m at 1.1g/t and 85m at 1.2g/t gold in exploratory drilling at Erato. New areas of gold mineralization have been intersected in drilling over a strike distance of at-least 3km from Erato to Arshak.

The Company met its objectives for 2010 with higher-grade material from within the resource shell now being defined and connected between drill strings, with the resource shell being extended in all directions and new areas including Erato and Arshak being identified and developed.

During 2010 further column leach metallurgical tests were conducted. The test results concluded that the cost-optimized crush size for Amulsar gold mineralization is probably 19mm and the optimum solvent concentration is 0.05%. Using these parameters composite's A and B recovered 93.5% and 93.1% gold respectively. Initial column leaching was exceptionally rapid for both samples with up to 80% gold being recovered after seven days of leaching.

A new resource update for Amulsar is expected in April 2011

In 2011 the company intends to conduct a further 30,000 meters of drilling of which roughly half will be within the new resource shell and the rest testing further exploration potential. In addition the company will undertake the remaining work required to put together a bankable feasibility study.

Drazhnje: Kosovo

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

Lydian completed a 2,500m drilling programme at Drazhnje in 2007. The drilling program confirmed the presence of the former Yugoslav resource and identified extensions of base metal and gold mineralisation located along-strike and outside of this resource at the St George and Trpeza prospect areas.

Drilling during 2008 developed the mineralised extensions discovered during 2007 and uncovered further base-metal and gold mineralisation additional to the existing historical resource particularly in the St Barbara and St George areas.Drill testing during Q3 of 2008 intersected some of the best grades yet from the St. Barbara area.

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

Drilling was stopped at the Drazhnje project in August of 2008 and work was focused on accessing the underground exploration development for the purpose of channel sampling and then resource calculation.

Underground exploration development was suspended in 2009 it became obvious that further development required underground drill and blasting. At that point the Company chose to calculate a NI-43101 compliant inferred resource before committing to any further expenditure.

The resource estimate was completed by CSA Consultants UK using a total of 1,182m of assayed interval from drill core (50% Lydian and 50% historic drill core), together with 116m of Lydian underground channel sampling and 441m of historic channel sampling collected from the mineralized area beyond Lydian's progress point of underground rehabilitation. A preliminary inferred category resource of 3.2Mt at 5.2% Zinc and 2.5% Lead open at depth and along-strike was reported. Silver grades of 45ppm were reported in the former Yugoslav resource. Economically significant quantities of silver and gold both exist in assayed intervals of Lydian drill core (total assayed interval down-hole weighted average of 16.8ppm for silver and 0.3g/t gold) but assaying of historic core and channel samples was insufficient enough for their inclusion in the NI-43101 resource estimate. Details of this resource can be viewed on SEDAR.

A substantially higher tonnage estimate was reported in the former Yugoslav resources. This historical resource estimate was undertaken using a crude sectional polygonal method of determining ore volumes from sectional interpretations. This method can result in an overestimation of lead and zinc grade and can overstate resource tonnage as compared to modern resource estimation techniques which utilize 3D wireframe volumes to provide more reliable estimates. The reduction in contained tonnes as compared to historical Yugoslav resources is attributed principally to a change in structural interpretation at the project.

This resource estimate is preliminary only and remains open immediately at depth in the Main Zone and with additional tonnage highly likely at depth and along strike in the Eastern Zone and at the St George and St Barbara areas. Further lead-zinc and oxide gold exploration potential is also evident at surface.

Further work at Drazhnje requires underground development and drilling to test continuity immediately below the resource envelope at depth, to test a faulted repeat of the sulphide mineralisation to the south and to reveal the geometry of mineralisation at the St. Barbara and St. George areas. Surface geophysics (IP) is also required to delineate the depth extension of untested surface targets.

On June 22, 2010, the Company executed a heads of agreement with British company IMM Marketing Limited (“IMM”) over its Drazhnje lead-zinc-silver project in Kosovo. The Company and IMM later elected to cease any further expenditure on the project and apply for a retention license. This decision was made as a result of the findings of an independent pre-scoping study conducted by CSA Global (UK) Ltd, which concluded that the project (which hosts a CIM compliant inferred category resource of 3.2Mt at 5.2% Zinc and 2.5% Lead) would require additional reserves to be viable at then current base metal prices, coupled with local economic factors that currently preclude development and access to nearby ore treatment facilities.

On September 16th, 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 nature. The Company has received no response as to the progress of its retention license application over Drazhnje.

In March 2011, Lydian received an extension to its Exploration License over Drazhnje and executed a new Heads of Agreement with Kosovo Metals Group JSC (KMG). The terms of this Heads of Agreement require full transfer of Lydian’s Drazhnje licenses and in-country assets to KMG in exchange for a one off payment of CAD$ 2 million at Commercial Production and a perpetual 3% Net Smelter Return Royalty over all metals produced at the project.

Outlook

Management continues to focus on developing the Amulsar discovery on to production and on revealing the project’s full potential. Regional exploration work aimed at securing new gold assets will continue in Armenia and opportunities from throughout that region will be reviewed.

Qualified Person

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

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

FINANCIAL RESULTS OF OPERATIONS
SELECTED FINANCIAL INFORMATION

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

Statement of Operations

The following is a summary of selected information for the three and twelve month period ended December 31, 2010 and the year ended December 31, 2009 and comparative financial information for the corresponding interim periods in the Company's previous financial year.

British Pounds	Three months ended December 31,			Twelve months ended December 31,		
	2010 £	2009 £	2008 £	2010 £	2009 £	2008 £
Interest income	14,566	419	14,990	25,073	4,813	119,759
Joint partner contributions	-	86,074	126,670	-	86,074	126,670
Total expenses	3,652,009	362,667	1,004,095	5,912,122	1,981,180	2,160,535
Net income (deficit)	(3,637,443)	(276,174)	(862,435)	(5,887,049)	(1,890,293)	(1,914,106)
Loss per share (basic and diluted)	0.04	0.01	0.02	0.08	0.04	0.05

The Company had revenue from provision of services £3,633 compared to nil revenue for the same period in 2009. During these periods, the Company's only income was bank interest. In the three and twelve month period ended December 31, 2010, the Company recorded a loss of £3,637,443 (4 pence per share) and £5,887,049 (8 pence per share), respectively, compared to £ 276,174 (1 pence per share) and £1,890,293 (4 pence per share) during the corresponding periods in 2009. The main reason for increase of losses incurred in 2010 compared with 2009 it is write off Drazhnje and Crepulja projects' balance value totaling to £2,113,572 and non-cash interest expenses incurred pursuant to the purchase transaction with Newmont of £354,031. Within 2010 £ 556,895 were allocated to employees benefit reserves versus £62,697 in 2009.

In 2010 and 2009, banks significantly dropped interest payable on deposits resulting in a reduction of interest income of the Company.

As at December 31, 2010, the cash and cash equivalents of the Company was £17,058,692 compared to £2,234,790 on December 31, 2009. During the fourth quarter of 2010, the cash and cash equivalents of the Company increased by £ 11,573,140 as a result of new shares issue. During three month period ended December 31, 2010 balance value of exploration and evaluation assets were decreased by £ 1,060,775 as result of write of balance value of two projects in Kosovo totaling to £2,113,572 and increase of balance value of Armenian projects by £ 1,052,797. The increase of exploration and evaluation assets is mainly related to capitalized expenditure incurred in Armenia. During the three month period ended December 31, 2010 equity capital of the Company increased by £ 10,989,953.

Within twelve month ended December 31, 2010 the Company's 95% owned Armenian subsidiary, Geoteam C.J.S.C., purchased all of the interest of Newmont Overseas Exploration Limited ("Newmont") in the 50/50 gold and copper exploration joint venture (the "Venture") formerly existing with Newmont, resulting in an increase of exploration and evaluation assets as described below.

During three month period ended December 31, 2010, there were not significant fluctuations between the British Pound, Canadian dollar, Euro and Armenian Dram. The Company protects itself from some of the potential variations in exchange rates by roughly holding its cash in currencies in proportion to the expected expenditure going forward.

Income Tax Expense

There was no tax payable for the Company in the twelve month period ended December 31, 2010 and during the same period in 2009. As at December 31, 2010, the Company had taxation losses of £4,956,000 (December 31, 2009 - £2,745,000) that had not been recognised as there is insufficient evidence of taxable profit in the near future. As a result of winding up of Company's subsidiary Lydian Resource Company £856,600 tax loss was written off in the fourth quarter.

Summary of Operating Cash Flows, Investing and Financing Activities

The following table summarises the Company's cash flow for the three and twelve month periods ended December 31, 2010 and comparative financial information for the corresponding interim periods in the Company's previous financial year.

British Pounds	Three months ended December 31,			Twelve months ended December 31,		
	2010	2009	2008	2010	2009	2008
	£	£	£	£	£	£
Net cash provided (used) by operating activities	(122,589)	(317,349)	(822,511)	(2,606,805)	(1,719,714)	(1,995,732)
Net cash used by investing activities	(1,129,301)	(541,901)	(184,906)	(6,466,916)	(1,258,171)	(2,284,814)
Net cash provided (used) by financing activities	13,187,581	1,778,792	(29,649)	24,344,997	3,412,560	111,390

Summary of Balance sheet data

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

British Pounds	As at December 31, 2010 £	As at December 31, 2009 £	As at December 31, 2008 £
Current assets	17,237,596	2,851,557	2,664,811
Property and equipment	402,587	378,028	626,821
Intangible assets	59,350	33,751	68,438
Exploration and evaluation assets	16,497,640	4,296,314	3,747,100
Total Assets	34,883,447	7,559,650	7,107,170
Current liabilities	3,313,826	235,103	610,330
Non-current liabilities	2,648,561	-	-
Shareholders` Equity	28,921,060	7,324,547	6,496,840

Deferred exploration expenditures

The expenditures incurred by the Company in the three and twelve month periods ended December 31, 2010 were comprised of purchase of Newmont`s interest in the Venture, primarily of remuneration for its employees, contractors and directors, acquisition of a new license, costs relating to the Company's offices in Armenia and Kosovo and exploration site overheads. Deferred exploration expenditures incurred during these periods were £621,910 and £14,046,352 respectively (of which the Newmont deal was £11,015,916) for the three and twelve month periods ended December 31, 2010 compared to deferred expenditures of £534,098 and £1,253,926 in the corresponding periods in 2009. These deferred exploration expenditures were related to exploration work on the Company's exploration projects as follows:

British Pounds	Cumulative as at December 31, 2010	Cumulative as at December 31, 2009
Armenia		
• Amulsar	16,451,783	1,977,063
• Nor Arevik	45,857	-
Kosovo		
• Drazhnje	-	2,237,340
• Crepulje	-	81,911
Total	16,497,640	4,296,314

The increase of deferred exploration expenditures in the twelve month period ended December 31, 2010 in Armenia Amulsar project was mainly a result of a purchase of Newmont`s interest in the Venture, exploration drilling cost, mining license state duty and exploration license concession fee payments, capitalized salaries of employees engaged in exploration, rentals for areas under exploration, costs of environmental studies, and costs pertaining to exploration camp maintenance. The cost of deferred exploration expenditure in Nor Arevik project consist of license acquisition price paid to the Government of Armenia.

Due to uncertainties regarding Drazhnje project, explained above, the Directors of the Company have decided it is prudent to consider the exploration and evaluation assets attributable to Drazhnje to be impaired. An impairment loss in amount of £2,031,365 has been recognized in the Income Statement as loss from EEA write off.

Also the Company decided not to continue with one of its projects in Kosovo called Crepulje and dropped the corresponding license, expenditures incurred for that project totaling to £82,207 were written off as of December 31, 2010.

In Armenia the exploration activities are financed mainly in US dollars which are then converted into Armenian drams in the Company's Armenian subsidiary and then into British Pounds for the group accounts. The cumulative totals are therefore affected by currency fluctuations between GBP, USD and Armenian dram. There was significant dram devaluation during 2009 and strengthening in 2010, so the cumulative expenditure in Armenia shown above can differ from the actual expenditure made in US dollars. There was a similar but not so significant currency distortion with the Kosovo expenditure which is financed in Euros.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of results from the Company's eight most recently completed quarters:

	Q1 2009	Q2 2009	Q3 2009	Q4 2009
	£	£	£	£
Net sales or total revenues	-	-	-	-
Net income (loss)	(461,107)	(502,052)	(650,960)	(276,174)
Loss per share (basic and diluted)	0.01	0.01	0.01	0.01

	Q1 2010	Q2 2010	Q3 2010	Q4 2010
	£	£	£	£
Net sales or total revenues	-	-	-	
Net income (loss)	(467,888)	(840,892)	(940,826)	(3,637,443)

Loss per share (basic and diluted)	0.01	0.01	0.01	0.04

OUTSTANDING SHARE DATA

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

	As at March 23th, 2011	As at December 31, 2010	As at December 31, 2009
	Number	Number	Number
Ordinary shares	94,641,903	93,659,798	52,891,191
Stock option plan	3,432,500	3,512,500	1,230,000
Other,Warrants/Options	11,685,041	12,087,146	19,984,581

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

MANAGEMENT AND STAFFING

During the twelve month period ended December 31, 2010, there were no changes in directors and the key management of the Company.

On January 18, 2011 a press release were announced that an Advisory Board has been established to provide technical expertise and advice on developing the Amulsar project through feasibility stage to production. The Chairman of the Advisory Board is Mr. Nerses Karamanukyan, who also on March 15, 2011 took the position of General Manager Caucasus of the Company. Mr. Karamanukyan was the Chairman of the Management Board (CEO) of Ardshininvestbank, one of the three largest private banks in Armenia. Prior to this he was Head of the International Finance Corporation’s (IFC’s) offices in Armenia, a position he held for 8 years. Previous career positions have notably included; Diplomatic Counsellor to the Armenian Embassy in the United Kingdom and Chief of Staff for two Armenian Prime Ministers. The other two members of Advisory Board are Mr. Patrick Gorman, mining engineer and Ms. Liz Wall, environmental specialist.

LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of £13,923,770 as at December 31, 2010, compared to £2,616,454 on December 31, 2009. The Company had total assets of £34,883,447 at December 31, 2010, compared to £7,559,650 on December 31, 2009, which included deferred exploration expenditures amounting to £16,497,640 (£4,296,314 on December 31, 2009). The Company’s principal source of liquidity as at December 31, 2010 was cash & cash equivalents amounting to £17,058,692 compared to £2,234,790 on December 31, 2009. Cash surplus to the Company’s requirements was invested in money market deposits.

The Company believes it has sufficient cash and liquidity to sustain its planned activities through to beyond the end of 2011. The future exploration and development of the Amulsar and other projects may require the Company to raise additional capital through a combination of equity financings and project debt. The Company’s strategy will be to use equity financing to fund exploration activities and the maximum amount of project debt available to build mining infrastructure until sufficient cash flow is generated from mining operations.

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

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

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

On November 16, 2010 the Company also completed another private placement with International Finance Corporation, a member of the World Bank Group. International Finance Corporation purchased 1,527,282 ordinary shares at a price of CAN$ 2.13 for gross proceeds of CAN$ 3,253,111.

For the twelve months to December 31, 2010 8,734,750 warrants and options were exercised providing approximately £3 million of additional funding for the Company.

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

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

CONTRACTUAL OBLIGATIONS

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

British Pounds	Total	Up to 1 year	1-3 years	4-5 years
Operating lease obligations	123,416	68,137	55,279	-
Purchase obligations	-	-	-	-
Total contractual obligations	123,416	68,137	55,279	-

TAXES PAID IN ARMENIA AND KOSOVO

LYDIAN INTERNATIONAL LIMITED IN ARMENIA AND KOSOVO
Summary of payments to the Armenian and Kosovo State Budgets

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

	AMOUNTS PAID IN ARMENIAN DRAMS TO ARMENIAN GOVERNMENT		AMOUNTS PAID IN EUROs TO KOSOVO GOVERNMENT	
Item	12 months to December 31, 2010	12 months to December 31, 2009	12 months to December 31, 2010	12 months to December 31, 2009
Profit tax prepayment	-	1,000,000	-	-
Fee for licenses area extension	-	28,500,000	-	-
New license acquisition	14,000,000	-	-	-
State duty on mining license	10,000,000	10,000,000	-	-
Concession fee	11,387,500	7,000,000	6,627	4,927
Social Insurance Funds Employer	25,193,100	15,615,950	7,945	13,814
Social Insurance Funds Individual	7,927,000	3,999,600	7,945	13,814
Customs duty	1,436,022	916,998	-	-
Property tax	203,750	517,000	-	-
Income tax	65,523,100	45,652,000	13,165	22,344
Non resident withholding tax	16,500,000	35,100,000	-	-
VAT	8,492,726	54,587,130	-	-
Nature protection fee	123,400	-	-	-
Penalties and fines	4,012,200	-	-	-
Total	**164,798,798**	**202,888,678**	**35,682**	**54,899**
Equivalent GBP	**285,801**	**363,776**	**30,623**	**48,888**

FINANCIAL AND OTHER INSTRUMENTS

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

SIGNIFICANT TRANSACTIONS IN 2010

On April 23rd, 2010 the Group purchased all of Newmont's interests in the Group's JV which included Newmont' interests in the Amulsar gold property. The consideration was a mixture of committed and contingent payments. The committed payments included 3 million new shares, which have now been issued and three payments of US$5,000,000; the first of which has now been made; and the two others due by the end of 2011 and 2012 respectively shown in current and non-current liabilities at a total face value of £5,563,516.

In addition the Group agreed to pay Newmont, following the start of commercial production, a 3% Net Smelter Royalty. However between April 23rd, 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, without interest, in 20 equal quarterly installments of US $1 million commencing on the first day of the third calendar month commencing following the start of commercial production. Furthermore, the Company has a one-time option prior to the Commencement of Commercial Production to prepay these quarterly installments in a single cash payment using an annual discount rate of 10%. This equates to a payment of around US$15.6m.

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

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. 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. 500,000 Payment Shares were issued in January 18, 2011 with a further six equal installments of 250,000 ordinary shares issuable half yearly beginning on June 30th, 2011. The Payment Shares will be subject to a four month hold period from the date of issue.

The Company does not have any other off-balance sheet type arrangements.

RISKS AND UNCERTAINTIES

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

Mineral Resources

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

Metal Prices

Even if the Company's exploration program is successful on its mineral projects, there are many factors beyond the control of the Company that may affect the marketability of any minerals discovered. Metal prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted.

Price Volatility of Other Commodities

The Company's profitability is also affected by the market prices of commodities, which are consumed or otherwise used in connection with the operations, such as diesel fuel, natural gas, electricity and cement.

Prices of such commodities are also subject to volatile price movements over short periods of time and are affected by factors that are beyond the Company's control.

Foreign Operations

The Company's significant exploration and development projects are located in Armenia and Kosovo. Such projects could be adversely affected by exchange controls, currency fluctuations, taxation and laws or policies of Armenia or Kosovo affecting foreign trade, investment or taxation.

Changes in mining or investment policies or shifts in political attitude in Armenia or Kosovo may adversely affect the Company's business. Operations may be affected by governmental regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. The factors cannot be accurately predicted.

Foreign Exchange

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

Counterparty Risk

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. We do not anticipate a loss for non-performance by any counterparty with whom we have a commercial relationship.

Taxation Risk

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

Environmental Risks and Hazards

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

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

Exploration

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

Political

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

Insurance

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

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

Government Laws and Regulations

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

Difficulty in Obtaining Future Financing

The further development and exploration of mineral properties in which the Company holds an interest or which the Company acquires may depend upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that the Company will be successful in obtaining required financing as and when needed, including, without limitation, financing to fund the payments owing to Newmont in connection with the acquisition of its interest in the Venture. Volatile precious metals markets may make it difficult or impossible for the Company to obtain debt financing or equity financing on favourable terms or at all. Failure to obtain additional financings on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on the Company's future cash flows, earnings, results of operations, and financial condition and could result in a default under its agreement with Newmont pursuant to which the Company's subsidiary acquired a 100% interest in the Venture.

RELATED PARTY TRANSACTIONS

Pursuant to a private placement on April 14, 2010, International Finance Corporation (IFC), an insider of the Company, acquired 2,436,575 ordinary shares at a price of CAD $0.73 per ordinary share. At the time of the completion of the private placement, IFC held 11,048,331 ordinary shares and 7,811,758 ordinary share purchase warrants, representing approximately 14% on a non-diluted basis of the Company's issued and outstanding shares. On November 16, 2010 International Finance Corporation (IFC), acquired 1,527,282ordinary shares at a price of CAD $2.13 per ordinary share. This maintained their ~14% shareholding on a non diluted basis.

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 sole director and country manager of Geoteam holds 5% of the shares in Geoteam and Kavakaz Zoloto CJSC. 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. 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. 500,000 Payment Shares were issued in January 18, 2011 with a further six equal installments of 250,000 ordinary shares issuable half yearly beginning on June 30th, 2011. The Payment Shares will be subject to a four month hold period from the date of issue.

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

	12 months ended December 31,2010	12 months ended December 31,2009
Aggregate emoluments	331,287	190,860
Value of share based payments	285,048	75,017

The directors and key management were awarded the following share options under the employee share option plan during the years ended December 31, 2010 and 2009.

Date of grant	Number of options	Exercise price	Expiry
April 23, 2010	1,550,000	CAD $1.03 (67 pence)	October 23, 2012
July 15, 2009	720,000	CAD $0.41 (22 pence)	July 15, 2012

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Critical judgments in applying the Company's accounting policies

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

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

In particular, management is required to assess exploration and evaluation assets for impairment with reference to the indicators provided in IFRS 6. Note 11 to the Company's Consolidated Financial Statements as of December 31, 2010 discloses the carrying values of such assets. As part of this assessment, management has carried out an impairment test on the major assets within this balance.

The recoverability of exploration and evaluation costs is dependent on a number of factors common to the natural resource sector. These include the extent to which the Company can establish economically recoverable reserves on its properties, the availability of the Company to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Company will use the evaluation work of professional geologists, geophysicists, and engineers for estimates in determining whether to commence or continue mining and processing. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralization.

Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Changes in accounting policies

During the year ended December 31, 2010, the Company adopted IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) that resulted in how the Company accounts for the non-controlling interest. In 2009, there were no changes in the Company's accounting policies.

DISCLOSURE CONTROLS AND PROCEDURES

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

Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were not completely effective due to a weakness relating to the accounting for complex transactions as further discussed under Internal Control over Financial Reporting. Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management including the President and Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company evaluated the design of its internal controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended December 31, 2010. Based on this evaluation, the President and Chief Executive Officer and Chief Financial Officer have concluded that a disclosable weakness exists in the controls relating to accounting for complex transactions. Due to the small size of the Company and the limited number of accounting staff, in-house expertise to address complex accounting matters is limited in certain respects. This control deficiency resulted in certain audit adjustments which were recorded in the financial statements prior to issuance. In order to mitigate the reasonable possibility, resulting from this weakness, that a misstatement of the financial statements would not be prevented or detected in the future, management's plans include obtaining expert advice, as and when warranted for future complex transactions, if any, in advance of finalizing the financial statements.

There have been no material changes in the Company's internal control over financial reporting during the Company's reporting period ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMEMTS

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

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

INFORMATION ON INCURRED EXPENSES

Material costs incurred in twelve month periods ended December 31, 2010 and 2009 were as follows:

Cost type	2010 £	2009 £
Exploration and evaluation deferred expenditures	14,046,352	1,253,926
Employees benefit and expenses	1,708,707	751,536
Administrative and other expenses	566,200	468,940
Servises and consumables used	649,943	454,283
Consulting expenses	367,966	169,244
Interst expenses	354,031	-
Depreciation and amortization	126,034	146,186
Exploration and evaluation assets write off	2,113,572	64,820