

LYDIAN INTERNATIONAL LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lydian International Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Lydian International Limited, which comprise the consolidated balance sheets as at December 31, 2009 and 2008, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated cash flow statements for the years ended December 31, 2009 and 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lydian International Limited as of December 31, 2009 and 2008, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matters – Uncertainty regarding ability to continue planned operations as a going concern and the recoverability of exploration and evaluation assets

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates the requirement for additional financing to be raised by Lydian International Limited to continue planned operations as a going concern.

Additionally, we draw attention to the cost deferred on the balance sheet as exploration and evaluation assets in amount of £4,296,314 (2008 - £3,747,100) in Note 11. As of the date of this report, the directors believe that it is appropriate to continue to carry the exploration costs as an asset. The recoverability of these costs is dependent on financing and key assumptions associated with the development and operations of the underlying projects. These consolidated financial statements do not include any adjustments to the carrying values of exploration and evaluation assets should Lydian International Limited not raise financing and execute on its planned operations.

Signed "Deloitte & Touche LLP"
Chartered Accountants
March 26, 2010
Calgary, Canada

INDEPENDENT AUDITORS' REPORT IN RESPECT OF COMPATABILITY WITH CANADIAN STANDARDS

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

An auditors' report issued in accordance with Canadian GAAS does not require the Emphasis of Matter paragraphs, with respect to going concern and the recoverability of the exploration and evaluation assets as included in the Independent Auditors' report as at and the for the years ended December 31, 2009 and 2008 given above.

Signed "Deloitte & Touche LLP"
Chartered Accountants
March 26, 2010
Calgary, Canada

Lydian International Limited
Consolidated Income Statements

For years ended December 31, 2009 and 2008

		December 31, 2009	December 31, 2008
		£	£
Interest income	5	4,813	119,759
Management fee income	18	86,074	126,670
Total income		90,887	246,429
Employee salaries and benefits expense		(751,536)	(1,123,496)
Services and consumables used		(454,283)	(462,951)
Administrative and other expenses		(468,940)	(342,459)
Consulting expenses		(169,244)	(161,753)
Depreciation and amortisation expenses	9,10	(146,186)	(86,086)
Other gains	6	9,009	16,210
Total expenses		(1,981,180)	(2,160,535)
Loss before tax		(1,890,293)	(1,914,106)
Income taxes	7	-	-
Loss for the year		(1,890,293)	(1,914,106)
Loss per share (basic and diluted)	8	(0.04)	(0.05)

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

Lydian International Limited
Consolidated Statements of Comprehensive Income

For years ended December 31, 2009 and 2008

	December 31, 2009	December 31, 2008
Note	<u>£</u>	<u>£</u>
Loss for the year	(1,890,293)	(1,914,106)
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	(817,257)	1,067,246
Other comprehensive income for the year	(817,257)	1,067,246
Total comprehensive income for the year	<u>(2,707,550)</u>	<u>(846,860)</u>

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

Lydian International Limited
Consolidated Balance Sheet

As of December 31, 2009 and 2008

	Notes	December 31, 2009	December 31, 2008
		£	£
ASSETS			
Non-current assets			
Property and equipment	9	378,028	626,821
Intangible assets	10	33,751	68,438
Exploration and evaluation assets	11	4,296,314	3,747,100
Total non-current assets		4,708,093	4,442,359
Current assets			
Cash and cash equivalents	12	2,234,790	1,761,604
Other current assets	13	616,767	903,207
Total current assets		2,851,557	2,664,811
TOTAL ASSETS		7,559,650	7,107,170
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	9,265,576	6,467,426
Warrants	14	2,870,252	2,134,027
Equity settled employee benefits reserve	15	322,682	321,800
Translation of foreign operations		342,568	1,159,825
Accumulated deficit		(5,476,531)	(3,586,238)
Total equity		7,324,547	6,496,840
Current liabilities			
Accrued expenses and other payables	16	235,103	610,330
TOTAL EQUITY AND LIABILITIES		7,559,650	7,107,170

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

Lydian International Limited
Consolidated Statements of Changes in Equity

As of December 31, 2009 and 2008

	<i>Share capital including, premium and discounts</i>	<i>Warrants</i>	<i>Equity settled employee benefits reserve</i>	<i>Translation of foreign operations</i>	<i>Accumulated deficit</i>	<i>Total</i>
	£	£	£	£	£	£
Balance at December 31, 2007 – attributable to equity holders of the parent	6,356,036	2,078,519	222,395	92,579	(1,672,132)	7,077,397
New equity share capital subscribed	111,390	-	-	-	-	111,390
Issue of warrants	-	55,508	-	-	-	55,508
Total comprehensive income for the year	-	-	-	1,067,246	(1,914,106)	(846,860)
Employee share options issued during the year	-	-	99,405	-	-	99,405
Balance at December 31, 2008 attributable to equity holders of the parent	6,467,426	2,134,027	321,800	1,159,825	(3,586,238)	6,496,840
New equity share capital subscribed	2,919,586	-	-	-	-	2,919,586
Cost of shares issued	(80,973)	-	-	-	-	(80,973)
Issue of warrants	(703,942)	703,942	-	-	-	-
Proceeds from exercised warrants	464,586	-	-	-	-	464,586
Proceeds from exercised options	169,361	-	-	-	-	169,361
Attributable to exercised warrants	186,731	(186,731)	-	-	-	-
Attributable to exercised options	61,815	-	(61,815)	-	-	-
Employee share options issued during the year	-	-	62,697	-	-	62,697
Modification of warrants	(219,014)	219,014	-	-	-	-
Total comprehensive income for the year	-	-	-	(817,257)	(1,890,293)	(2,707,550)
Balance at December 31, 2009 attributable to equity holders of the parent	9,265,576	2,870,252	322,682	342,568	(5,476,531)	7,324,547

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

Lydian International Limited
Consolidated Cash Flow Statements

For the years ended December 31, 2009 and 2008

		December 31, 2009	December 31, 2008
	Note	<u>£</u>	<u>£</u>
Cash flows from operating activities			
Receipts for management fee income		86,074	102,370
Receipts from joint venture partner		-	261,537
Payments to suppliers and employees		<u>(1,805,788)</u>	<u>(2,359,639)</u>
Net cash outflow from operating activities		<u>(1,719,714)</u>	<u>(1,995,732)</u>
Cash flows from investing activities			
Interest received		4,813	119,759
Payments for property and equipment and intangible assets	9,10	<u>(50,694)</u>	<u>(635,686)</u>
Proceeds from the disposal of plants and equipment		15,172	56,776
Exploration costs paid	11	<u>(2,224,138)</u>	<u>(3,307,969)</u>
Receipts from joint venture partner	11	<u>996,676</u>	<u>1,482,306</u>
Net cash used by investing activities		<u>(1,258,171)</u>	<u>(2,284,814)</u>
Cash flows from financing activities			
Proceeds from issues of equity shares		3,553,533	111,390
Payments for share issue costs		<u>(80,973)</u>	-
Deposits made		<u>(60,000)</u>	-
Net cash generated in financing activities		<u>3,412,560</u>	<u>111,390</u>
Net (decrease)/increase in cash and cash equivalents		<u>434,675</u>	<u>(4,169,156)</u>
Cash and cash equivalents, beginning of year		<u>1,761,604</u>	<u>6,009,767</u>
Effects of exchange rate changes on the balance of cash held in foreign currencies		38,511	(79,007)
Cash and cash equivalent, end of the year		<u>2,234,790</u>	<u>1,761,604</u>

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

Lydian International Limited
Notes to the Consolidated Financial Statements

For the year ended December 31, 2009 and December 31, 2008

1. GENERAL INFORMATION

Lydian International Limited (formerly Dawson Creek Capital Corporation) (the “Company”) is a company continued under the laws of Jersey effective on December 12, 2007 (formerly existing under the laws of Alberta, Canada). The registered office address of the Company is 1st Floor, Capstan House, La Route es Nouaux, St. Helier, Jersey JE2 4ZY, Channel Islands.

On December 27, 2007, Lydian International Limited acquired Lydian Resource Company Limited (“Lydian Resource Company”) in a reverse takeover transaction. Dawson Creek Capital Corporation was a capital pool company listed on the TSX Venture Exchange. All share references in these financial statements have been adjusted to reflect the stock consolidation as described below.

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

The Company’s ordinary shares (“Ordinary Shares”) began trading on the Toronto Stock Exchange (“TSX”) on January 10, 2008 under the symbol “LYD”.

The Company, together with its subsidiaries, (the ‘Group’) is a mineral exploration and development group of companies focused on emerging and transitional environments, and is developing precious and base metal assets located in Armenia and Kosovo under exploration license granted by local authorities. The Group’s two main exploration projects are gold at Armulsar, Armenia, and zinc, lead, silver and gold at Drazhnje, Kosovo. As of December 31, 2009 the Group operated a gold and copper exploration joint venture with Newmont Overseas Exploration Limited (“Newmont”), in the Caucasus. Each joint venture partner had a 50% interest. The venture was terminated on February 26, 2010 (note 21).

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

The consolidated financial statements for the year ended December 31, 2009 have been approved for issue by the board of directors on March 26, 2010.

The consolidated financial statements have been prepared on a going concern basis which presumes the realisation of assets and liabilities in the normal course of business. The Group has no operating revenues during the year ended December 31, 2009 and incurred a net loss of £1,890,293 (December 31, 2008: £1,914,106). The group incurred net expenditures on exploration and evaluation activities in the year ended December 31, 2009 amounting to £1,253,926 (December 31, 2008: £1,825,663).

The Group’s ability to continue its planned operations is dependent on its ability to obtain additional sources of financing, to successfully, evaluate, exploit and develop its mineral properties and ultimately, to achieve profitable operations.

The Group expects to incur substantial expenditures in the future to assume 100% ownership and develop its Amulsar gold resource in Armenia. In Kosovo, the Group’s intention is to find a joint venture partner to take over funding responsibilities there.

Management of the Group is expecting to address its current funding requirements by raising equity financing, subject to the required regulatory and shareholder approval. Since December 31, 2009, the Group has received funds from the exercise of 1,616,352 warrants and 1,020,000 options totalling £882,000.

These consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Group be unable to continue its planned operations.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

i) Standards and Interpretations effective in the current period

In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2009.

The adoption of the new standards and interpretations did not lead to any significant changes in the Company’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.

ii) Standards and Interpretations in issue not yet adopted as at December 31, 2009

The IASB and International Financial Reporting Interpretations Committee (“IFRIC”) have issued the following standards and interpretations with an effective date after the date of these financial statements:

		Effective for Annual Periods Beginning on or after
IFRS 9	New Standards Financial Instruments – classification and measurement	January 1, 2013
IFRS1	Amendments to Standards First time adoption of International financial reporting standards	January 1, 2010
IFRS 2	Share-based payment- Group cash-settled share based payment transactions	January 1, 2010
IFRS 3 & IAS 27	Business combinations and Consolidated and separate financial statements	July 1, 2009
IAS 1 & IAS 27	Presentation of financial statements and Consolidated and separate financial statements - Cost of an investment in a subsidiary, jointly controlled entity or associate	July 1, 2009
IAS 24	Related party disclosures	January 1, 2011
IAS 32	Financial Instruments: presentation	February 1, 2010
IAS 39	Financial instruments: recognition and measurement	January 1, 2009
Various	Improvements to IFRSs	January 1, 2010
IFRIC 17	New Interpretations Distributions of Non-cash assets to owners	July 1, 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments	July 1, 2010
IFRIC 14	Amendments to Interpretations Prepayments of a Minimum Funding Requirement	January 1, 2011

Standards and Interpretations in issue not yet adopted as at December 31, 2009 (Continued)

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board as of December 31, 2009. The applicable IFRS standards should be read in conjunction with the financial statements as of and for the year ended December 31, 2009 prepared in accordance with International Reporting Standards (IFRS) as issued by the IASB.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis and presented in Sterling. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its 'subsidiaries'). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Details of the Company's direct and indirect subsidiaries at December 31, 2009 and December 31, 2008 are as follows:

Name of subsidiary	Place of incorporation or Registration	Effective Ownership Interest		Principal activity
		2009	2008	

Lydian Resource Company Limited	United Kingdom	100 %	100%	Parent company until December 27, 2007
Lydian Holdings Ltd (BVI)	British Virgin Islands	100%	100%	Intermediate holding company.
Lydian Resources Kosovo (BVI)	British Virgin Island	100%	100%	Intermediate holding company.
Kosovo Resource Company LLC	Kosovo	100%	100%	Mineral exploration
Lydian Resources Armenia (BVI)	British Virgin Islands	100%	100%	Intermediate holding company.
Geoteam CJSC	Armenia	95%	95%	Mineral exploration
Kavkaz Zoloto CJSC	Armenia	95%	N/A	Dormant company

Interest in joint ventures

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

Foreign currencies

The individual financial statements of each entity in the group are 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 presentation currency for these consolidated financial statements.

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s 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 translation of foreign operations reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

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

Share based payments

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

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

Taxation

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the 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
Equipment	1 – 5 years

Intangible assets

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

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

Impairment of property and equipment

Assets that have an indefinite useful life that are not subject to amortisation are evaluated 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 carried at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

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

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

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

Exploration and evaluation costs

Exploration and evaluation expenditures comprise of costs incurred directly in exploration and evaluation as well as the cost of mineral licenses. They are capitalised as exploration and evaluation assets in accordance with *IFRS 6: Exploration and Evaluation of Mineral Resources* pending determination of the feasibility of the project.

When the existence of economically recoverable reserves and commercial viability are established, the related intangible assets are transferred to property and equipment and will be 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.

Supplies

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

Financial assets

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

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

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

Management fee income

Management fee income is recognized as it is earned in accordance with the joint venture agreement with Newmont Overseas Exploration Limited.

Interest income

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

Employee benefits

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

Provisions

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

Operating leases

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

Loss per share

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

Business segments

The Group operates in one business segment, mineral exploration.

Geographical segments

The directors of the Group are of the opinion that three geographical segments, Kosovo, Armenia and head offices in the Jersey (Channel Islands), existed as at December 31, 2009 and 2008.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments in applying the Group's accounting policies

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

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

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

The recoverability of exploration and evaluation costs is dependent on a number of factors common to the natural resource sector. These include the extent to which the Group can continue to renew their exploration and future development licenses with local authorities, establish economically recoverable reserves on its properties, the availability of the Group to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof. The Group will use the evaluation work of professional geologists, geophysicists, and engineers for estimates in determining whether to commence or continue mining and processing.

These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralization.

Key sources of estimation uncertainty

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

There are tax matters that have not yet been confirmed by taxation authorities. While management believes the provision for income taxes is adequate, these amounts are subject to measurement uncertainty. Adjustments required, if any, to these provisions will be reflected in the period where it is determined that adjustments are warranted.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Amounts recorded as due from joint venture partners are based on the Group's interpretation of underlying agreements and may be subject to joint approval. The Group has recorded balances due from its joint venture partners based on costs incurred and its interpretation of allowable expenditures. Any adjustments required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

5. GEOGRAPHICAL SEGMENTS

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

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

The Group has no discontinued operations. As part of an internal reorganization, the Company placed its subsidiary, Lydian Resource Company Limited in members' voluntary liquidation and all of its assets and liabilities were transferred to the Company. As of this report day the liquidation process was in progress.

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

There are the following differences in segments accounting policies:

The estimated useful life of Motor Vehicles and Equipment in Kosovo is 3 years. The estimated useful life of Motor Vehicles and Equipment in Armenia is 5 years, computers and accessories 1 year.

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

	As of and for year ended December 31, 2009	As of and for year ended December 31, 2008
	£	£
Interest income		
Kosovo	-	-
Armenia	-	-
Head office activities	4,813	119,759
	4,813	119,759
Management fee income		
Kosovo	-	-
Armenia	-	-
Head office activities	86,074	126,670
	86,074	126,670
Loss for the year		
Kosovo	590,494	727,316
Armenia	232,912	326,893
Head office activities	1,066,887	859,897
	1,890,293	1,914,106
Loss from disposal of property and equipment		
Kosovo	2,265	55,656
Armenia	10,362	1,293
Head office activities	-	-
	12,627	56,949
Depreciation and amortisation		
Kosovo	110,421	67,229
Armenia	35,765	18,857
Head office activities	-	-
	146,186	86,086
Property and equipment and intangible asset expenditures		
Kosovo	13,082	338,646
Armenia	37,612	297,040
Head office activities	-	-
	50,694	635,686

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

Exploration and evaluation assets		
Kosovo	2,319,251	2,248,533
Armenia	1,977,063	1,498,567
Head office activities	-	-
	4,296,314	3,747,100
Property and equipment		
Kosovo	146,466	270,667
Armenia	231,562	356,154
Head office activities	-	-
	378,028	626,821
Intangible assets		
Kosovo	10,758	26,841
Armenia	22,993	41,597
Head office activities	-	-
	33,571	68,438

December 31, 2009					
	Kosovo	Armenia	Head office activities	Eliminations	<i>Consolidated</i>
	£	£	£	£	£
Total assets	2,839,624	2,625,405	10,976,655	(8,882,034)	7,559,650
Total liabilities	5,243,232	3,782,943	145,015	(8,936,087)	235,103

December 31, 2008					
	Kosovo	Armenia	Head office activities	Eliminations	<i>Consolidated</i>
	£	£	£	£	£
Total assets	3,152,084	2,249,843	9,066,823	(7,361,580)	7,107,170
Total liabilities	5,140,369	2,831,355	112,028	(7,473,422)	610,330

6. OTHER GAINS (LOSSES)

	12 months to December 31, 2009	12 months to December 31, 2008
	£	£
Disposal of property and equipment	(12,627)	(56,949)
Other gains	-	73,159
Exploration and evaluation assets write off	(64,820)	-
Income from drilling equipment *	86,456	-
	9,009	16,210

* The exploration drilling contractor to Kosovo Resource Company LLC (KRC), after partial performance of its contracted obligations, refused to recommence works in territory of Kosovo. To compensate for amounts owed to KRC, the contractor turned over ownership of its drilling equipment to KRC.

7. TAXATION

There was no taxes payable by the Group in the year ended December 31, 2009 and 2008.

	12 months to December 31, 2009	12 months to December 31, 2008
	£	£
Loss before taxation	(1,890,293)	(1,914,106)
Tax at 11.0% (2008, 20.0 %)	(207,932)	(382,821)
Items which are not deductible for tax purposes	148,784	105,622
Losses not recognized	59,148	277,199
Income tax expense	-	-

The Group had taxation losses under jurisdiction of United Kingdom, Armenia and Kosovo (subject to confirmation with the tax authorities) as at December 31, 2009 amounting to approximately £2,745,000 (December 31, 2008: £ 2,207,000) that has not been recognised as there is insufficient evidence of taxable profits. These losses start to expire in 2011.

8. LOSS PER SHARE

Loss per share of £0.04 for the year ended December 31, 2009 (December 31, 2008 – £0.05) has been calculated on the basis of the net loss of £1,890,293 (December 31, 2008 loss: £1,914,106) on 46,437,060 (December 31, 2008: 39,543,013) shares being the weighted average number of shares in issue.

As a result of the losses incurred during the years ended December 31, 2009 and 2008, the potential shares to be issued from the exercise of options and warrants are not included in the computation of diluted per share amounts since the result would be anti-dilutive. Accordingly, the diluted loss per share and the basic loss per share for all periods being presented are the same.

9. PROPERTY AND EQUIPMENT

COST	Motor Vehicles £	Equipment £	Total £
At January 1, 2008	79,075	82,834	161,909
Additions	52,200	527,202	579,402
Disposal	(9,223)	(115,362)	(124,585)
Exchange difference	38,559	118,780	157,339
As at December 31, 2008	160,611	613,454	774,065
Additions	23,377	26,729	50,106
Disposal	(44,175)	(911)	(45,086)
Exchange difference	(32,426)	(105,892)	(138,318)
As at December 31, 2009	107,387	533,380	640,767

ACCUMULATED DEPRECIATION	Motor Vehicles	Equipment	Total
	£	£	£
At January 1, 2008	12,782	15,114	27,896
Charge for the year	22,537	61,079	83,616
Disposals	(2,747)	(8,113)	(10,860)
Exchange difference	12,173	34,419	46,592
As at December 31, 2008	44,745	102,499	147,244
Charge for the year	26,116	132,541	158,657
Disposals	(17,287)	-	(17,287)
Exchange difference	(4,745)	(21,130)	(25,875)
As at December 31, 2009	48,829	213,910	262,739

CARRYING AMOUNT

	Motor Vehicles	Equipment	Total
	£	£	£
At December 31, 2009	58,558	319,470	378,028
At December 31, 2008	115,866	510,955	626,821

In year ended December 31, 2009, depreciation of £25,228 has been capitalized to mine development costs (2008: £7,403).

10. INTANGIBLE ASSETS

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

COST	Computer Software
	£
As at January 01, 2008	-
Additions	56,285
Exchange difference	14,141
As at December 31, 2008	70,426
Additions	588
Exchange difference	(13,208)
As at December 31, 2009	57,806

ACCUMULATED AMORTISATION

	£
As at January 01, 2008	-
Charge for the year	9,873
Exchange difference	(7,885)
As at December 31, 2008	1,988
Charge for the year	13,993
Exchange difference	8,074
As at December 31, 2008	24,055
CARRYING AMOUNT	
At December 31, 2009	33,751
At December 31, 2008	68,438

In 2009, amortisation of £1,236 has been capitalized to mine development costs (2008 £nil).

11. EXPLORATION AND EVALUATION ASSETS (“EEA”)

Cost	Kosovo project £	Armenia project £	Total £
At 1 January 2008	610,297	290,257	900,554
Additions	1,181,680	643,983	1,825,663
Exchange difference	456,556	564,327	1,020,883
At December 31, 2008	2,248,533	1,498,567	3,747,100
Additions	331,885	922,041	1,253,926
EEA write off	(64,820)	-	(64,820)
Exchange difference	(196,347)	(443,545)	(639,892)
At December 31, 2009	2,319,251	1,977,063	4,296,314

The Group’s accounting policy is to capitalise exploration and evaluation costs as permitted by IFRS 6. IFRS 6 requires that regular impairment assessments are made. The directors carried out a review as of December 31, 2009 and are satisfied that on the basis of the current plans and status of operations, there are no indications of impairment.

As of December 31, 2009, the Group had a jointly controlled operation with Newmont. The agreement related to the Armulsar exploration project in Armenia. The agreement required 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 and Lydian International Limited £1,177,253 (2008 – £1,846,213) during the year ended December 31, 2009, representing its share of exploration costs, overhead recoveries and within the same period Newmont charged the Company £64,897 (2008 – £20,948) as its expenditures relating to joint venture activities. Management fee income charged to Newmont amounted to £86,074 (2008 – £126,670).

Newmont Mineral Holdings BV, a related party to Newmont, held 5,150,000 shares of the Company as at December 31, 2009 and 2008.

12. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments. As at December 31, 2009, the money market investments had a one month maturity period.

13. OTHER CURRENT ASSETS

The Group as at December 31, 2009 and December 31, 2008 holds the following other current assets:

	December 31, 2009	December 31, 2008
	£	£
Supplies	3,995	2,051
VAT and GST refundable	313,206	494,288
Other receivables, prepayments and deposits	299,566	406,868
	616,767	903,207

14. SHARE CAPITAL

At December 31, 2009, the Company had 52,891,191 (December 31, 2008, 39,982,929) ordinary shares outstanding. On May 22, 2009, the Company issued 7,121,282 ordinary shares pursuant to a private placement at a price of CAD \$0.42 per share. On November 06, 2009, the Company issued 3,663,333 ordinary shares at a price of CAD \$0.60 per share. In September and December 2009, the Company issued 100,000 and 530,000 ordinary shares, respectively, pursuant to the exercise of stock options. In October, November and December of 2009, the Company issued ordinary shares of 60,000, 500,000 and 933,647, respectively, pursuant to the exercise of warrants.

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

At December 31, 2009 the Company had 18,739,581 (December 31, 2008, 13,092,146) outstanding investor and broker warrants to subscribe for ordinary shares at a price ranging from 20 pence to CAN \$0.80 (approximately 41 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 7,141,082 warrants were granted during the year ended December 31, 2009 (December 31, 2008 462,330). A total of 1,493,647 warrants were exercised to ordinary shares of the Company during the year ended December 31, 2009 (December 31, 2008, nil).

In November, 2009, the Company made certain amendments (the "Amendments") to the terms of up to 3,454,300 outstanding warrants (the "Warrants") of the Company to reduce the exercise price of the Warrants from CAN \$1.55 per share to CAN \$0.80 per share and extend the expiry date of the Warrants from December 27, 2009 to October 27, 2010 (subject to earlier expiry if the closing price of the Company's ordinary shares on the Toronto Stock Exchange (the "TSX") is equal to or greater than CAN \$0.90 for five consecutive trading days and the company provides notice to the holders of an accelerated expiry date).

The fair value of warrants granted for 2009 £703,942 was allocated in the statement of changes in equity.

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

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

	Number of Warrants	Weighted average exercise price
Balance at December 31, 2007	12,629,816	44 pence
Broker warrants granted	462,330	26 pence
Balance at 31 December 2008	13,092,146	43 pence
Investor warrants granted	7,121,282	32 pence
Broker warrants granted	19,800	36 pence
Warrants exercised	(1,493,647)	31 pence
Balance at December 31, 2009 – outstanding and exercisable	18,739,581	40 pence

The share options outstanding and exercisable at the end of the year had a weighted average remaining contractual life of 1.9 years.

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

	2009	2008
Expected volatility	63%	96%
Expected option life	2-5 years	2 years
Risk free rate	0.5%	3%
Dividend yield	0%	0%

15. SHARE BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

During the year ended December 31, 2009, the following equity-settled share based payments, exercises and forfeitures were in existence. Each share option converts into one ordinary share of the Company. Options may be exercised at any time from the date of vesting to the date of their expiry.

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

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

	Number of options	Weighted average exercise price
Balance at December 31, 2007	2,375,000	29 pence
Granted	650,000	27 pence
Forfeited	(500,000)	28 pence

Exercised	(100,000)	25 pence
Balance at December 31, 2008	<u>2,425,000</u>	<u>29 pence</u>
Granted	1,130,000	25 pence
Forfeited	(450,000)	32 pence
Exercised	<u>(630,000)</u>	<u>27 pence</u>
Balance at 31 December – outstanding and exercisable	<u>2,475,000</u>	<u>27 pence</u>

The weighted average fair value per share options granted during the year was 0.08 pence (Year ended December 31, 2008 – 0.13 pence). Options were priced using the Black Scholes Option Pricing Model using the following assumptions:

	2009	2008
Expected volatility	63%	96%
Expected option life	2-3 years	2 years
Risk free rate	0.5%	3%
Dividend yield	0%	0%

During the year ended December 31, 2009, £62,697 (2008 – £99,405) was included in employee benefits expense in the consolidated income statement.

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

16. ACCRUED LIABILITIES AND OTHER PAYABLES

	December 31, 2009	December 31, 2008
	£	£
Accrued liabilities and trade payables	<u>190,836</u>	598,043
Wage accruals	<u>44,267</u>	12,287
	<u>235,103</u>	<u>610,330</u>

17. FINANCIAL RISK MANAGEMENT

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

Capital risk management

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

The properties in which the Group currently has an interest in are in the exploration stage, as such, the Group is dependent on external financing to fund its activities. The Group intends to expend existing working capital by raising additional share capital, issuance of debt, if available, or enter into joint

arrangements to carry out planned exploration and to pay for administrative costs. The Group will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

Management reviews its capital management approach on an interim basis. Management believes that its approach, given the relative size of the Group, is reasonable. The Group is not subject to externally imposed capital requirements.

The Group defines capital as the aggregate of total equity plus cash and cash equivalents which totals £9,559,337 (2008: £8,258,444). Total equity is comprised of share capital, warrants, reserves and accumulated deficit as disclosed in the consolidated statements of changes in equity.

Liquidity risk

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

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

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

All financial liabilities which relate to accounts payable and accrued liabilities as disclosed in note 16, mature within one year.

Currency rate risk

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

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

The Group's currency risk policy is to diversify its cash resources in the British Pound, the US Dollar, the Canadian Dollar, the Armenian Dram and the Euro.

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

Currency risk sensitivity

The following table details the Group's sensitivity to a 10% increase and decrease in the British Pound against the relevant foreign currencies. A 10% increase or decrease is used when reporting currency

risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes on outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes loans to operations within the Group where the denomination of the loan is in currency other than the currency of the lender.

The Group's net assets and liabilities are predominately held in British Pounds, the USD, the Canadian Dollars, Euros and Armenians Drams. A positive (negative) number below indicates an increase (decrease) in profit and equity where the British Pound strengthens 10% against the relevant currency.

	Canadian Dollar		Euro		US Dollar		Armenian Dram	
	2009	2008	2009	2008	2009	2008	2009	2008
Loss	(60,573)	(42,465)	(55,188)	(56,807)	(30,021)	(26,455)	(13,669)	(93)
Exchange Reserve	-	-	(225,135)	(230,925)	-	-	(203,238)	(173,112)

Interest rate risk

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

Interest rate sensitivity

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. With a 100 basis point increase or decrease in interest rates, the loss for the year ended December 31, 2009, would be £10,300 lower or higher respectively. This analysis assumes all other variables are assumed constant.

Credit risk management

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

As the Group has no revenue or trade receivables, management considers credit risk as low. Up front deposits are on occasion paid to major suppliers primarily relating to exploration drilling contracts. The payment of these deposits is considered by the management on a case by case basis and the progress on the contract carefully reviewed. During the year ended December 31, 2009 and 2008 there were no material impairment provisions required for any of the financial assets. There are no material financial assets that the Group considers past due. At December 31, 2009, the Group did not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk on cash and cash equivalents is considered by management to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the consolidated financial statements represents the Group's maximum exposure to credit risk.

Financial assets

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

At December 31, 2009 and 2008, cash and cash equivalents were as follows:

	Fixed rate Assets	Cash assets	Total	Average period for which rates are fixed (months)	Average interest rates for fixed rate assets
	£	£	£		
2009	1,152,913	1,081,877	2,234,790	One	0.5%
2008	1,317,535	444,069	1,761,604	One	1.4%

Fair value of financial assets and liabilities

Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature.

18. RELATED PARTY TRANSACTIONS

The parent and ultimate controlling party of the Group is Lydian International Limited. No individual party had overall control of the Company or Group during the periods being presented.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the Group and other related parties are disclosed below.

Pursuant to the private placement on May 22, 2009, International Finance Corporation (IFC), an insider of the Company, acquired 3,311,758 Ordinary Shares at a price of CAD \$0.42 per Ordinary Share and 3,311,758 warrants exercisable at a price of CAD \$0.59 for a period of 5 years. At the time of the completion of the private placement, IFC held 8,461,757 Ordinary Shares, and 7,961,757 Ordinary Share purchase warrants representing approximately 18% on a non diluted basis and 24% on a fully diluted basis of the Ordinary Shares then outstanding.

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

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

The sole director and country manager of Geoteam CJSC holds 5% of the shares in Geoteam CJSC and Kavakaz Zoloto CJSC.

The directors and key management are the directors of Lydian International Limited.

The remuneration of directors and key management was as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
	£	£
Aggregate emoluments	190,860	260,788
Share based payments	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, 2009 and 2008.

Date of grant	Number of options	Exercise price	Expiry
July 15, 2009	720,000	41 CAD cent (22 pence)	July 15, 2012
2008	Nil	Nil	Nil

19. OPERATING LEASE COMMITMENTS

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

	December 31, 2009	December 31, 2008
	£	£
Up to one year	34,454	83,701
More than one year and no later than five years	-	5,417
More than five years	-	-
	34,454	89,118

20. CONTINGENCIES

Decommissioning obligations

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

Armenia and Kosovo Country related risks

The Group's operations are subject to extensive government laws and regulations, concerning mine safety, subsoil and land use and environmental protection in Armenia and Kosovo. The Group incurs substantial capital and operating costs to comply with increasingly complex laws and regulations covering its operations. Regulation in Armenia and Kosovo governing discharge of materials into the environment is likely to evolve in a manner which will require stricter standards of compliance. Non-compliance with environmental regulations or the increasing cost of compliance with such regulations could have a material adverse effect on the Group's business, operating results and financial condition. The Armenia and Kosovo tax systems could impose substantial burdens on the Group.

The Group is subject to a broad range of taxes imposed at federal, regional and local levels. Laws related to these taxes have been in force for a relatively short period relative to tax laws in more developed market economies and few precedents with regard to the interpretation of these laws have

been established. New tax laws introduced by the Governments may result in the Group having to pay significantly higher taxes, which could have a materially adverse effect on the Group's business.

Social risks and business environment

The Group's assets are located in Armenia and Kosovo, countries which are establishing a more western-style business environment. There are still substantial differences between it and the West. Some of these differences and the ongoing process could adversely affect the Group and its operations or disrupt normal business activity. Armenia and Kosovo are still developing the legal framework required by a fully developed market economy. Failure to obtain approvals of Armenia and Kosovo authorities could cause the Group's operations to suffer, or could result in the loss of its mineral rights or its assets. Currently, the Group's licenses all exceed a period beyond the balance sheet date of at least 12 months.

21. POST BALANCE SHEET DATE EVENTS

On February 26, 2010, the Company entered into an agreement (the "Purchase Agreement") with Newmont pursuant to which Lydian's 95% owned subsidiary, Geoteam C.J.S.C. ("Geoteam"), will purchase all of Newmont's interest in the joint venture known as the Caucasus Venture (the "Venture") between the Company and Newmont, including all of Newmont's interest in the Lydian discovered Amulsar gold property in Armenia. In accordance with the Purchase Agreement, the Venture will terminate, Geoteam will own 100% of the Amulsar gold discovery, and Lydian and Newmont will jointly own all regional prospecting data collected by the Venture across Armenia during the last four years. The closing (the "Closing") of the transactions under the Purchase Agreement is expected to occur within 60 days following the date of the Purchase Agreement, subject to Lydian's receipt of all required approvals of the Toronto Stock Exchange.

In consideration for the purchase of Newmont's interest in the Venture and the related termination of the Venture, Lydian will; (i) issue Newmont three million ordinary shares and (ii) make certain pre-production and then post-production payments to Newmont. The post production payments are dependent on production occurring and this allows Lydian to fund the required payments out of direct revenue from the Amulsar gold project or through alternate available funds. Prior to production, Lydian will pay Newmont USD\$15 million in three USD\$5 million instalments, the first on the Closing, the second on or before December 31, 2011 and the third on or before the earlier of December 31, 2012 and the date that is 90 days after a bankable feasibility on any portion of the Amulsar property is complete and Lydian has received all the necessary material permits to move into production. Following the start of commercial production, Lydian has three options: (i) Pay a 3% net smelter royalty, or; (ii) pay twenty quarterly instalment payments each of USD\$1 million over the first five years of commercial production, or (iii) buy out Newmont's remaining interest in the quarterly payments for an amount equal to the present value of such unpaid amounts calculated using a 10 percent discount rate, or approximately USD\$16 million.