

## **LYDIAN INTERNATIONAL LIMITED**

### **Management's Discussion and Analysis**

of the Consolidated Financial Condition and Results of Operations  
for the twelve months ended December 31, 2009

(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 period ended December 31, 2009. 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](http://www.sedar.com) and the Company's website at [www.lydianinternational.com](http://www.lydianinternational.com).

This information is provided as at March 26, 2010.

### **OVERVIEW**

The Company, formerly Dawson Creek Capital Corp., was incorporated under the Business Corporations Act (Alberta) on February 14, 2006 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange. On December 12, 2007, the Company consolidated its outstanding share capital on the basis of two post-consolidation shares for each three post-consolidation shares, continued from the Province of Alberta to Jersey, Channel Islands, 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 is a diversified Jersey based mineral exploration and development company operating in emerging exploration environments. The Company is currently focused on projects in Eastern Europe, exploring in the Balkan and Caucasus regions and exploring a precious metal asset in Armenia and an advanced base metal asset in Kosovo.

The Company's two main projects are a "grass roots" gold discovery at Amulsar in Armenia and zinc, lead, silver and gold at Drazhnje in Kosovo. As of December 31<sup>st</sup>, 2009, the Amulsar gold project hosted a CIM compliant Inferred Category Resource of 1 million ounces gold at a grade of 1g/t. On March 1<sup>st</sup> 2010 after incorporating the results of the 2009 drilling program the Company published an increased CIM compliant inferred resource of 1.4 million ounces gold at a grade of 0.9g/t. This resource remains open and untested in all directions with further potential at newly identified prospect areas within the immediate vicinity. On September 22<sup>nd</sup> 2009 the Company announced a CIM compliant resource of 3.2Mt at 5.1% Zinc and 2.5% Lead at its Drazhnje project in Kosovo. This resource also remains open and untested in all directions. Lydian also has a pipeline of gold and base metal exploration projects in the Balkans and Caucasus regions. As of December 31, 2009, in the Caucasus, the Company operated a 50/50 gold and copper exploration joint venture (the "Venture") with Newmont Overseas Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation (NSYE & ASX:NEMS, TSX:NMC). The Company entered into a purchase agreement (the "Purchase Agreement") dated as of February 26, 2010 between the Company, Lydian Resources Armenia Limited, Geoteam C.J.S.C. ("Geoteam") and Newmont pursuant to which the Company's 95% owned subsidiary, Geoteam, agreed to purchase all of Newmont's interest in the Venture, including all of Newmont's interest in the Amulsar gold property in Armenia. In accordance with the Purchase Agreement, the Venture will terminate, Geoteam will acquire 100% of the Amulsar gold discovery, and Lydian and Newmont will jointly own all regional prospecting data collected by the Venture across Armenia. 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 TSX.

In consideration for the purchase of Newmont's interest in the Venture and the related termination of the Venture, Lydian agreed to (i) issue three million Ordinary Shares to Newmont, and (ii) make certain pre-

production and post-production payments to Newmont. The post production payments are dependent on production occurring. Lydian agreed to pay Newmont prior to production USD\$15 million in three USD\$5 million installments, 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 report 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, (ii) pay twenty quarterly installment payments, each of USD\$1 million over the first five years of commercial production, or (iii) buy out Newmont's interest in the quarterly payments for an amount equal to the present value of such unpaid amounts calculated using a 10 percent discount rate.

The Company is committed to creating shareholder value through its disciplined, but opportunistic business model. The Company has assembled a pipeline of mining projects at various stages of development. The Company currently has projects in: (1) the resource estimate stage; (2) the scoping and advanced exploration stage; and (3) the early exploration stage. Lydian intends to maximize the potential of and realize value through the exploration and development of its existing properties.

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.

### **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.

## **REVIEW OF ACTIVITIES**

### **Highlight Q4 2009**

- Drilling extends the one million ounce resource to 1.4 million ounces and identifies new gold mineralization at Amulsar
- In Q1 2010, Agreement signed with Newmont to acquire Newmont's interest in Amulsar

### **Q4 2009 Financing**

On 6<sup>th</sup> November 2009 the Company announce that it had completed a non-brokered private placement with prominent financial investor and resource sector specialists Macquarie Bank Limited of 3,333,333 ordinary shares at a price of \$0.60 per ordinary share for aggregate gross proceeds of \$2,000,000. Lydian paid a finder's fee equal to 1.5% of the gross proceeds of this part of the private placement. In addition, Lydian placed a further 330,000 ordinary shares at a price of \$0.60 per ordinary share for aggregate gross proceeds of approximately \$200,000. Lydian paid a fee equal to 6% of this part of the placement and issue 19,800 two year broker warrants at \$0.64. All the ordinary shares and broker warrants issued are subject to a four month hold period.

### **Exploration activity and results**

#### ***Amulsar: Armenia***

The Amulsar license areas cover a region of high-sulphidation, epithermal-type gold mineralisation located in central Armenia and discovered by Lydian in 2006. The Amulsar project forms part of the Venture.

A preliminary CIM-compliant inferred resource of one million oxide ounces at 1g/t gold has now been reported from the Tigranes to Artavasdes prospect areas comprising just 20% of the surface area currently known to carry gold mineralisation at Amulsar. Drilling is currently underway to extend the limits of this resource and to outline new and further occurrences of gold mineralisation.

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.

Amulsar hosts a CIM-compliant inferred resource of 1.4 million ounces at 0.9g/t gold. This resource is open in all directions (with 20% of drill holes open at depth) and is entirely oxide material. Metallurgical test work has returned good gold extractions on coarse-sized ore fractions to over 89% with recoveries still increasing when the experiment was stopped at 70-days. Drilling during 2009 identified new prospect areas within the immediate vicinity of the resource including the Erato area where the company intersected 229m at 1.0g/t gold in the last drill hole of the season.

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 from surface along a ridge top such that stripping ratio should not present a significant problem.

### *Amulsar: Exploration History*

The first gold at the Amulsar project was discovered by Lydian geologists in rock chips collected during the field season of 2006.

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 three discrete prospect areas located along and parallel to this northwesterly ridge. These prospect areas are known from north to south as Erato, Tigranes and Artavasdes. Five scout diamond drill holes totaling 591m were drilled in the late summer of 2007 and represented the very first subsurface test of the gold potential at Amulsar. 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<sup>2</sup> carries 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 equating to approximately 600,000 inferred ounces of gold in April of 2009.

The Company commenced drilling on the project again in July 2009. The drill programme was completed for a total of approximately 14,000m in October 2009. Results in 2007, 2008 and 2009 have been highly encouraging (see Appendix 1 and Appendix 2). 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.

### *Drazhnje: Kosovo*

Drazhnje is a 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 2500m 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 has intersected some of the best grades yet from the St. Barbara area. Drill hole DDZ-048 was an infill hole (between previously reported holes DDZ-032 and DDZ-033) and intersected 13m at 21.0% Zn, 7.1% Pb, 25.3 g/t Ag and 0.5 g/t Au. Results from hole DDZ-54 located 120m to the northwest of DDZ-048 returned 9m at 5.81% Zn, 1.32% Pb, 6.5 g/t silver and 0.5 g/t gold.

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 planned 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 when it became obvious that further development required underground drill and blasting. At that point the Company chose to calculate a NI-43 101 compliant inferred resource before committing to any further expenditure.

The resource estimate was completed by CSA Consultants UK using a total of 1182m 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 likely at depth and along strike in the Eastern Zone and at the St George and St Barbara adit 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.

### ***Crepulje: Kosovo***

Crepulje is a high-grade zinc-lead oxide project of approximately 5km strike-extent in northern Kosovo. During 2007, reconnaissance rock-chip and soil sampling was conducted and returned very high-grades for zinc.

Work to-date has included the cleaning and re-sampling of historic trenches and scout diamond drilling. Trench results were significantly higher and more consistent than historic sampling. The most encouraging result was from Trench 2, which assayed 32 metres at 25.89% zinc, and 3.86% lead along its entire length. Other highly significant results include: Trench 1; 25 metres at 14.74% zinc and 1.82% lead; Trench 3; 23 metres at 12.53% zinc and 1.10% lead; and Trench 6; 15 metres at 21.53% zinc and 1.53% lead (all using 1% zinc cut-off and maximum internal dilution of two metres).

Details of the scout-drilling program and further work at Crepulje are pending a full interpretation of the project geology and acquisition of country-wide airborne geophysics which was flown over the area in 2007. The geophysical survey was commissioned by the Independent Commission for Mines and Minerals and completed in December of 2007. This data has now been received and reveals some very interesting targets worthy of drill testing with a view to extending the oxide resource and identifying a sulphide source body.

### **Outlook**

Management continues to focus on developing the Amulsar discovery 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 the Caucasus 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, in Perth Australia, or 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, 2009 and the year ended December 31, 2008 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,		
	2009 £	2008 £	2007 £	2009 £	2008 £	2007 £
Interest income	419	14,990	47,959	4,813	119,759	90,607
Joint partner contributions	86,074	126,670	-	86,074	126,670	-
Total expenses	362,667	1,004,095	378,549	1,981,180	2,160,535	1,334,084
Net income (deficit)	(276,174)	(862,435)	(330,590)	(1,890,293)	(1,914,106)	(1,243,477)
Loss per share (basic and diluted)	0.01	0.02	0.01	0.04	0.05	0.05

During the three and twelve month periods ended December 31, 2009 and 2008, the Company had no revenues. Its only income was bank interest and contributions received from Newmont in connection with the Venture. In these periods, the Company recorded a loss of GBP 276,174 (1 pence per share) and GBP 1,890,293 (4 pence per share), respectively, compared to GBP 862,435 (2 pence per share) and GBP 1,914,106 (5 pence per share) during the corresponding periods in 2008.

In 2009 banks significantly dropped interest payable on deposits resulting reduction of Interest income of the Company. Loss per share in 2009 was reduced due to the increase in the number of outstanding shares.

### SUMMARY OF QUARTERLY RESULTS

The summary of eight most recently completed quarters is follows:

	Q1 2008 £	Q2 2008 £	Q3 2008 £	Q4 2008 £
Net sales or total revenues	-	-	-	-
Net income (loss)*	(491,436)	(204,250)	(355,985)	(862,435)
Loss per share (basic and diluted)	0.01	0.01	0.01	0.02

  

	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

\* The company has not any discontinued operations within eight reportable quarters.

During 2009 UK Sterling strengthened against EUR and Armenian Dram correspondingly by 9 and 24 percents causing loss from exchange difference arising on translation of foreign operations by GBP 817,257.

### Fourth Quarter 2009

During the fourth quarter in 2009, the cash and cash equivalents of the Company increased by GBP 861,399 in result of new share issue through private placement, warrants and options exercise the same time resulting of increase of Share capital by GBP 2,166,753. Increase in Exploration and Evaluation assets within Q4 2009 totaled to GBP 514,974. Other Current assets decreased by GBP 69,713 mainly through recovery of

prepayments done to driller company and to others. During Q4 2009 Equity Capital of the Company has increased by GBP 1,312,299.

There was not any extraordinary transaction or yearend significant adjustment during Q4 2009.

Income from the Joint Venture Manager Fee was GBP 86,074.

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. The liquidation of Lydian Resource Company will not result is a discontinued operation.

### Income Tax Expense

There was no tax payable for the Group in the three and twelve month periods ended December 31, 2009 and during the same period in 2008. As at December 31, 2009, the Company had taxation losses of £2,745,000 (December 31, 2008 £2,207,000) that had not been recognised as there is insufficient evidence of taxable profit in the near future.

### 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, 2009 and December 31, 2008:

British Pounds	Three months ended December 31,			Twelve months ended December 31,		
	2009 £	2008 £	2007 £	2009 £	2008 £	2007 £
Net cash provided (used) by operating activities	(317,349)	(822,511)	(259,287)	(1,719,714)	(1,995,732)	(1,102,189)
Net cash used by investing activities	(541,901)	(184,906)	(172,621)	(1,258,171)	(2,284,814)	(625,636)
Net cash provided (used) by financing activities	1,778,792	(29,649)	4,307,281	3,412,560	111,390	6,178,856

### Summary of Balance sheet data

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

GBP	As at December 31, 2009 £	As at December 31, 2008 £	As at December 31, 2007 £
Current assets	2,851,557	2,664,811	6,455,357
Property and equipment	378,028	626,821	134,013
Intangible assets	33,751	68,438	-
Exploration and evaluation assets	4,296,314	3,747,100	900,554
Total Assets	7,559,650	7,107,170	7,489,924
Current Liabilities	235,103	610,330	412,527
Shareholders' Funds	7,324,547	6,496,840	7,077,397

The expenditures incurred by the Company in the three and twelve month periods ended December 31, 2009 were comprised primarily of remuneration for its employees, contractors and directors, costs relating to the Company's offices in Kosovo and Armenia and exploration site overheads. Deferred exploration

expenditures incurred during these periods were GBP 534,098 and GBP 1,253,926 for the three and twelve month periods ended December 31, 2009 compared to deferred expenditures of GBP 648,839 and GBP 2,846,546 in the corresponding periods in 2008. These deferred exploration expenditures were related to exploration work on the Company's exploration projects as follows:

### Deferred Exploration expenses by projects

The following table summarises the Company's deferred exploration expenses as at the dates indicated:

GBP	Commulative as at December 31, 2009	Commulative as at December 31, 2008
Kosovo		
• Draznja	2,237,340	2,119,284
• Rahovec	-	57,667
• Crepulja	81,911	71,582
Armenia		
• Amulsar	1,977,063	1,498,567
Total	4,296,314	3,747,100

### Outstanding share data

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

	As at March 26, 2010	As at December 31, 2009	As at December 31, 2008
	Number	Number	Number
Ordinary shares	55,527,543	52,891,191	39,982,929
Rolling stock optionplan	1,230,000	1,230,000	550,000
Other, Warrants/Options	16,933,144	19,984,581	14,967,146

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

### MANAGEMENT AND STAFFING

During twelve month period ended December 31, 2009, there were the following changes in the directors and management of the Company. On March 31, 2009, Mr. Jason Wilkinson, formerly Vice President of Exploration, resigned from his position with the Company in order to pursue other business interests. On May 1, 2009, Chris Irwin was elected as a director of the Company. As part of the strategic investment in the company by European Bank of Reconstruction and Development ("EBRD") described below, EBRD is entitled to nominate one director to the Company's board of directors for such period as EBRD retains shares in the Company representing 5% or more of the Company's capital. On May 22, 2009, Chris Irwin resigned as director of the Company and was replaced by Huw Williams, EBRD's nominee.

### LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of GBP 2,616,454 as at December 31, 2009, compared to GBP 2,664,811 on December 31, 2008. The Company had total assets of GBP 7,559,650 at December 31, 2009, compared to GBP 7,107,170 on December 31, 2008, which included deferred exploration expenditures amounting to GBP 4,296,314 (GBP 3,747,100 on December 31, 2008). The Company's principal source of liquidity as at December 31, 2009 was cash & cash equivalents amounting to GBP 2,234,790 compared to GBP 1,761,604 on December 31, 2008. Cash surplus to the Company's requirements was invested in money market deposits.

The Company's sole source of funds is presently equity finance. Management of the Company is expecting to address its current funding requirements by raising equity financing, subject to the required regulatory and share holder approval. Since December 31, 2009, the Company has received funds from the exercise of 1,616,352 warrants and 1,020,000 options in the amount of £882,000.

Lydian'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 licences will not be forfeited, but any shortfall will be considered by the applicable regulatory authority as a factor on whether to renew such licences.

The above cost includes exploration costs directly attributable to the Company's projects and directly attributable overheads including the estimated contribution from Newmont, the Company's joint venture partner, in respect of the Venture property at Amulsar in Armenia. It does not include costs relating to head office corporate activities or any new potential projects.

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

#### **Contractual Obligations**

GBP	Total	Up to 1 year	1-3 years	4-5 years
Operating lease obligations	34,454	34,454	-	-
Purchase obligations	-	-	-	-
Total contractual obligations	34,454	34,454	-	-

## 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 EURO <sub>s</sub> TO KOSOVO GOVERNMENT	
Item	12 months to December 31, 2009	12 months to December 31, 2008	12 months to December 31, 2009	12 months to December 31, 2008
Profit tax prepayment	1,000,000	1,185,500	-	-
Fee for licenses area extention	28,500,000	-	-	-
State duty on mining license	10,000,000	-	-	-
Concession fee	7,000,000	520,100	4,927	11,600
Social Insurance Funds Employer	15,615,950	20,857,713	13,814	19,832
Social Insurance Funds Individual	3,999,600	3,903,562	13,814	19,832
Environmental fees	-	350,909	-	-
Penalties	-	150,000	-	-
Customs duty	916,998	5,765,880	-	10,890
Land fee	-	-	-	4,600
Property tax	517,000	169,550	-	-
Income tax	45,652,000	55,440,000	22,344	72,708
Non resident withholding tax	35,100,000	24,300,000	-	-
VAT	54,587,130	51,496,223	-	207,210
<b>Total</b>	<b>202,888,678</b>	<b>164,139,437</b>	<b>54,899</b>	<b>346,672</b>
<b>Equivalent GBP</b>	<b>363,776</b>	<b>290,014</b>	<b>48,888</b>	<b>276,020</b>

## 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.

## OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements, and management does not anticipate entering into any such arrangements in the near future.

## POST BALANCE SHEET DATE EVENTS

On February 26, 2010, The Company entered into the Purchase Agreement (as described above) pursuant to which Lydian's 95% owned subsidiary, Geoteam will purchase all of Newmont's interest in the Venture, 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 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 agreed to (i) issue three million Ordinary Shares to Newmont, and (ii) make certain pre-production and post-production payments to Newmont. The post production payments are dependent on production occurring. Prior to production, Lydian agreed to pay Newmont USD\$15 million in three USD\$5 million installments, 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, (ii) pay twenty quarterly installment payments, each of USD\$1 million over the first five years of commercial production, or (iii) buy out Newmont's interest in the quarterly payments for an amount equal to the present value of such unpaid amounts calculated using a 10 percent discount rate.

The event discussed above does not impact carrying values and classification of assets and liabilities or the income statement or statement of comprehensive income as of and for the year ended December 31, 2009. In result of three million ordinary shares issue the sum attributable per share amount approximately will be reduced from 18 pence to 17 pence.

## RISKS AND UNCERTAINTIES

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

### Going Concern

The Company's 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 Company 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 Company 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 Company's ability to continue as a going concern is dependent on its ability to obtain additional sources of financing to successfully explore, evaluate and develop its mineral properties and ultimately, to achieve profitable operations.

The Company expects to incur substantial expenditures in the future to assume 100% ownership and develop its Amulsar gold resource in Armenia. Additional sources of financing will also be required to explore other opportunities in that country. In Kosovo, the Company's intention is to find a joint venture partner to take over funding responsibilities there.

Management of the Company is expecting to address its current funding requirements by raising equity financing, subject to the required regulatory and share holder approval. Since December 31, 2009, the

Company has received funds from the exercise of 1,616,352 warrants and 1,020,000 options totalling £882,000.

In addition, the Company is actively seeking industry partners and continues to be engaged in discussions with potential partners.

These consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments, if any, will be material.

### 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 constitute 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 Armenia 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 other than to Newmont (see *Related Party Transactions* below). 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. 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.

### 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. You should not assume that all or any parts of the Company's mineral resources constitute or will be converted into reserves.

### Completion of Transactions

There may be conditions precedent that must be satisfied prior to the completion of the Company's transactions. There is no assurance that the conditions of any transaction will be satisfied or waived and there is no assurance that any of the Company's transactions, including the Purchase Agreement, will be completed as proposed or at all.

### RELATED PARTY TRANSACTIONS

The Company operated the Venture with Newmont, the holder of approximately 10% of the Company's issued and outstanding shares. The Venture agreement related to, among other things, the Amulsar exploration project in Armenia. The Venture agreement required that costs incurred on the project are to be shared equally between the Company and Newmont 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 International Limited £1,177,253 during the year ended December 31, 2009 representing their share of exploration costs, overhead recoveries and within the same period Newmont charged the Company £ 64,897 as their expenditures relating to JV activities. Management fee income charged by the Company to Newmont amounted to £86,074.

Pursuant to the private placement on May 22, 2009 International Finance Corporation, 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 at the time 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 holds 5% of the shares in Geoteam 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:

	Twelve months ended December 31, 2009	Twelve months 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

## CRITICAL ACCOUNTING ESTIMATES AND POLICIES

### Critical judgments in applying the Group'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 2009 annual financial statements 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. The estimate of significance in the consolidated financial statements relates to the joint venture arrangement with Newmont. In accordance with the terms of the joint venture arrangement, costs with respect to the Armenian project are shared equally between the two parties.

### Changes in accounting policy

During the years ended December 31, 2009 and 2008 there was not any change of accounting policy.

### 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 effective 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 CONTROLS AND PROCEDURES

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, 2009. Based on this evaluation, the President and Chief Executive Officer and Chief Financial Officer have concluded that the design of these internal controls and procedures over financial reporting was effective.

There have been no material changes in the Company's internal control over financial reporting during the Company's reporting period ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

We, Timothy Coughlin (CEO) and Roderick Corrie (CFO) certify that we are responsible for establishing and maintaining disclosure controls and procedures (DC&P) as well as internal controls over financial reporting (ICFR). We also certify that we have designed such internal controls over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of its internal control over financial reporting as of December 31, 2009, pursuant to the requirements of Multilateral Instrument 52-109. The CEO and CFO have concluded, based on this evaluation, that the Company's disclosure controls and procedures are effective, and that the design of internal control over financial reporting provides reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the company's financial statements for external purposes in accordance with (Canadian) GAAP.

Furthermore, there were no changes in internal control in the fourth quarter that we considered should be disclosed.

### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 2009 were as follows:

Cost type	12 months to December 31, 2009 £	12 months to December 31, 2008 £
Exploration and evaluation deferred expenditures	1,253,926	1,825,663
Employees benefit and expenses	751,536	1,123,496
Administrative and other expenses	468,940	342,459
Services and consumable used	454,283	462,951
Consulting expenses	169,244	161,753
Depreciation and amortization	146,186	86,086
Disposal of property and equipment	12,627	56,949

### **OTHER INFORMATION**

Additional information is available on the Company's website at [www.lydianinternational.com](http://www.lydianinternational.com) or on the SEDAR at [www.sedar.com](http://www.sedar.com).

### **CAUTION REGARDING FORWARD LOOKING STATEMENTS**

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking. Forward looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. Forward looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates or other opinions or other circumstances should change. Investors are cautioned against attributing undue certainty to forward looking statements.

APPENDIX 1

Table of drill results (intersections greater than 1g/t gold) from 2007 and 2008 drilling programmes at Amulsar

TABLE X, Interim Results from Drilling at Amulsar (Intersections greater than 1g/t gold)								
Year	Drill Hole	Dip	Azimuth	Total Depth (m)	From (m)	To (m)	Intersection (m)	Gold (g/t)
2007	DDA-001	-45	270	127.3	50	57	7	1.18
	DDA-002	-90	0	69.0	14	17	3	1.40
					63	69	6	1.36
	DDA-003	-45	100	111.0	0	33	33	0.98
					44	48	4	1.06
					69	71	2	1.00
					99	107	8	1.19
	DDA-004	-45	270	145.0	0	53	53	2.98
					109	127	18	1.08
				<i>Including</i>		3	27	24
DDA-005	-80	110	140.0	109	114	5	1.04	
2008	DDA-006	-60	300	163.3	0	46	46	1.67
			<i>Including</i>		6	35	29	2.49
	RCA-001	-60	300	64*	1	38	37	1.38
					2	13	11	3.11
			<i>Including</i>		0	2	2	2.27
	RCA-002	-60	300	150.0	23	28	5	0.96
					41	45	4	1.00
					66	71	5	1.00
					15	71	56	0.56
			<i>Or</i>					
	RCA-003	-60	300	22.0	Bogged at 22m & nothing greater than 1g/t gold			
	RCA-004	-60	300	142.0	3	4	1	1.20
					27	67	40	1.07
					110	112	2	1.08
					133	142	9	3.45
	RCA-005	-60	300	118.0	46	66	20	1.00
					99	100	1	2.03
	RCA-006	-60	300	154.0	Nothing greater than 1g/t gold			
	DDA-007	-60	290	125.8	2	65	63	1.06
	RCA-007	-60	300	150.0	92	98	6	1.20
					122	128	6	1.00
	RCA-008	-70	120	106.0	64	68	4	1.22
	RCA-009	-60	120	150.0	80	89	9	1.22
					97	104	7	1.45
	RCA-010	-70	120	100.0	23	100	77	2.30
			<i>Including</i>		54	70	16	3.63
	RCA-011	-70	120	150.0	0	12	12	1.77
					126	144	18	2.03
RCA-012	-80	120	150.0	58	61	3	2.68	
				92	114	22	1.00	
				126	128	2	1.44	
DDA-008	-60	300	169.7	17	21	4	1.04	
				40	62	22	1.55	
						<i>Including</i>		40
DDA-009	-60	120	199.7	30	122	92	1.36	
						<i>Including</i>		62
DDA-010	-60	300	238.0	6	8	2	1.89	
				25	33	8	1.10	
				47	53	5	1.09	
DDA-011	-60	120	133.0	28	34	6	1.26	
				46	70	24	1.01	
				83	90	7	1.07	
DDA-012	-60	300	181.0	138	141	3	1.18	
				157	165	8	1.10	
RCA-013	-60	300	150.0	No Significant Intersections Greater Than 1g/t Gold				
RCA-014	-60	300	150.0	54	60	6	1.00	
RCA-015	-60	300	154.0	33	49	16	1.02	
				51	53	2	1.10	
				93	108	15	1.02	

2008	RCA-016	-60	300	130.0	No Significant Intersections Greater Than 1g/t Gold			
	RCA-017	-60	300	182.0	8	17	9	1.18
					27	66	39	1.28
	<i>Including</i>				29	43	14	2.48
	RCA-018	-60	300	189.0	94	96	2	1.21
					101	106	5	1.08
					137	141	4	1.11
					145	152	7	1.12
	RCA-019	-60	120	150.0	19	21	2	1.09
					70	74	4	1.06
					119	143	24	1.66
	<i>Including</i>				129	143	14	2.30
	RCA-020	-60	300	162.0	0	17	17	1.04
					52	55	3	2.35
					131	137	6	1.06
	RCA-021	-60	120	114.0	0	72	72	1.12
	<i>Including</i>				26	37	11	5.22
	RCA-022	-60	300	154.0	45	154	109	1.11
					<i>Including</i>			
	DDA-013	-60	120	153.6	Nothing greater than 1g/t gold			
	DDA-014	-60	120	48.3	Bogged and Abandoned			
	DDA-015	-60	120	144.8	27	110	25	1.02
	DDA-016	-60	120	149.5	Nothing greater than 1g/t gold			
	RCA-023	-60	120	160.0	45	58	13	1.04
					65	68	3	1.17
					80	107	27	1.00
					<i>or</i>			
	RCA-024	-60	120	196.0	0	2	2	1.27
					128	130	2	1.01
					161	169	8	1.04
	RCA-025	-60	120	22.0	Bogged and abandoned			
	RCA-026	-60	120	196.0	149	152	3	1.16
	RCA-027	-60	120	166.0	0	13	13	1.21
					30	75	45	1.00
	RCA-028	-60	300	150.0	25	150	125	1.57
					<i>Including</i>			
	RCA-029	-60	300	154.0	No Significant Intersections Greater Than 1g/t Gold			
	RCA-030	-60	300	154.0	0	122	122	1.01
					<i>Including</i>			
	RCA-031	-60	300	108.0	No Significant Intersections Greater Than 1g/t Gold			
	RCA-032	-60	120	150.0	48	51	3	1.72
					82	85	3	2.00
	RCA-033	-60	120	150.0	92	112	20	1.05
					133	148	15	1.07
RCA-034	-60	120	160.0	120	122	2	1.18	
RCA-035	-60	120	131.0	51	54	3	3.48	
				76	79	3	1.04	
				80	82	2	1.02	
RCA-036	-60	300	190.0	52	57	5	1.13	
				174	189	15	1.19	
DDA-017	-60	300	150.5	19	63	44	1.00	
DDA-018	-60	120	130.0	61	66	5	1.08	
				114	129	15	1.11	
DDA-019	-60	120	142.0	63	66	3	1.05	
DDA-020	-60	120	140.0	20	23	3	1.18	
				32	34	2	1.33	
				79	81	2	1.38	
				120	122	2	1.07	
RCA-037	-60	120	150.0	24	32	8	1.04	
				54	56	2	1.24	
				66	70	4	1.13	
				81	93	12	1.17	
RCA-038	-60	300	130.0	0	5	5	1.14	
				9	11	2	1.17	
				24	130	106	2.35	
<i>Including</i>				38	59	21	9.67	
RCA-039	-60	120	130.0	40	44	4	1.12	
				50	68	18	1.04	
<i>Including</i>				94	119	25	1.01	
RCA-040	-90	0	70.0	Bogged and abandoned (13m at 0.56 to EOH)				

2008	RCA-041	-60	120	151.0	1	9	8	1.09			
					38	56	18	1.01			
					61	75	14	1.05			
					110	116	6	1.06			
					123	126	3	1.03			
	RCA-042	-60	120	150.0	2	6	4	1.13			
					23	89	66	1.13			
					<i>Including</i>				45	53	8
	RCA-043	-60	300	130.0	3	70	67	3.62			
					<i>Including</i>				33	53	20
	RCA-044	-60	120	150.0	0	2	2	2.19			
					48	137	89	1.03			
					<i>Including</i>				101	108	7
	RCA-045	-60	120	139.0	No Significant Intersections Greater Than 1g/t Gold						
	RCA-046	-60	120	144.0	No Significant Intersections Greater Than 1g/t Gold						
	RCA-047	-60	120	156.0	0	4	4	3.04			
					18	55	37	1.68			
	RCA-048	-60	120	108.0	85	94	9	1.00			
	RCA-049	-60	120	150.0	6	40	34	1.02			
	RCA-050	-60	120	113.0	No Significant Intersections Greater Than 1g/t Gold						
	RCA-051	-60	120	150.0	20	25	5	1.07			
					13	15	2	1.21			
					62	68	6	1.80			
					89	92	3	3.54			
					105	125	20	1.39			
	DDA-021	-60	300	147.2	45	56	11	2.15			
					71	73	2	1.42			
	DDA-022	-60	210	111.2	46	61	15	1.06			
					79	84	5	1.70			
					91	139	48	1.05			
	RCA-052	-60	120	186.0	3	62	59	1.00			
	RCA-053	-60	120	180.0	Nothing greater than 1g/t gold						
	RCA-054	-60	120	180.0	16	17	1	1.10			
					19	22	3	1.00			
					29	40	11	1.00			
					14	52	38	0.71			
					147	150	3	1.23			
					161	180 EOH	19	2.26			
	RCA-055	-60	180	126.0	14	61	47	1.06			
	RCA-056	-60	300	109.0	Bogged before target - Nothing greater than 1g/t gold						
	RCA-057	-60	230	198.0	4	5	1	1.02			
					23	27	4	1.15			
					59	60	1	1.05			
					71	72	1	1.00			
					95	103	8	1.00			
	RCA-059	-60	120	162.0	12	54	42	1.02			
	RCA-060	-60	120	108.0	No Significant Intersections Greater Than 1g/t Gold						
RCA-061	-60	120	150.0	71	74	3	1.02				
				102	105	3	1.07				
				75	78	3	1.58				
RCA-062	-60	150	156.0	99	115	16	1.04				
				126	130	4	1.00				
				141	144	3	1.14				
				0	111	111	1.08				
RCA-063	-60	170	180.0	<i>Including</i>							
				71	98	27	2.47				
RCA-064	-60	300	126.0	13	47	34	1.02				
				49	51	2	1.12				
RCA-065	-60	330	108.0	8	100	92	1.00				
				104	106	2	1.01				
RCA-066	-60	120	132.0	55	72	17	1.18				
				85	96	11	1.00				
RCA-067	-60	120	140.0	23	27	4	1.00				
				60	63	3	1.08				
				88	96	8	1.02				
				110	117	7	1.02				
RCA-068	-60	120	150.0	No Significant Intersections Greater Than 1g/t Gold							
RCA-069	-60	210	140.0	3	138	135	2.26				
				<i>Including</i>				3	20	17	5.26
				97	114	17	9.64				
RCA-070	-60	210	100.0	29	100	71	3.05				
RCA-071	-60	210	154.0	0	4	4	1.02				
				52	148	96	1.37				
				<i>Including</i>				76	96	20	3.21
RCA-072	-60	210	88.0	No Significant Intersections Greater Than 1g/t Gold							
RCA-073	-60	300	124.0	119	124 (EOH)	5	1.05				
RCA-074	-60	300	117.0	No Significant Intersections Greater Than 1g/t Gold							

APPENDIX 2

Table of drill results (intersections greater than 1g/t gold) from 2009 drilling programmes at Amulsar

TABLE X, Interim Results from Drilling at Amulsar (Intersections greater than 1g/t gold)									
Year	Drill Hole	Dip	Azimuth	Total Depth (m)	From (m)	To (m)	Intersection (m)	Gold (g/t)	
2009	DDA-024	-60	30	151.6	129	131	2	1.63	
	DDA-025	-60	30	58.4	Hole lost before target; off set and redrilled in DDA-026				
					2	6	4	1.42	
						38	52	14	1.52
	DDA-026	-60	30	165.8	Rockbit 0-31.5m; cored drilling + sampling 31.5-EOH				
					121	123	2	1.59	
	DDA-027	-60	300	120.0	4.0	10.0	6.0	0.97	
					87.5	95	7.5	1.15	
	DDA-028	-60	300	96.0	40.0	42.0	2.0	1.19	
	DDA-029	-60	300	110.4	18.0	20.0	2.0	1.30	
	DDA-030	-55	115	239.9	4	233	229	1.04	
					<i>Including</i>			24	40
	DDA-031	-55	135	142.4	52	54	2	1.21	
					70	80	10	1.09	
					106	108	2	1.06	
					114	122	8	0.95	
					136	144	8	1.01	
	RCA-075	-60	210	162	24	26	2	1.24	
					32	34	2	1.23	
					88	102	14	0.96	
					110	120	10	1.02	
	RCA-076	-60	210	65	Hole lost before target				
					60	62	2	2.22	
	RCA-077	-60	210	130	0	8	8	1.34	
					122	130 (EOH)	8	1.08	
	RCA-078	-60	210	166	111	119	8	0.98	
	RCA-079	-60	210	149	0	14	14*	1.18	
					74	149 (EOH)	75	1.06	
	RCA-080	-60	210	160	38	102	64	1.01	
					134	140	6	0.95	
					156	158	2	1.45	
	RCA-081	-60	210	160	32	38	6	0.99	
					76	80	4	1.29	
					140	142	2	1.21	
	RCA-082	-60	210	184	102	184 (EOH)	82	2.46	
	RCA-083	-60	210	126	18	22	4	1.00	
	RCA-084	-60	210	124	92	124	32	6.24	
					<i>Including</i>			92	110
	RCA-085	-60	210	148	0	6	6	1.23	
	RCA-086	-60	210	166	34	92	58	1.22	
98					104	6	1.14		
RCA-087	-60	210	70	Hole lost before target					
				No Significant Intersections Greater Than 1g/t Gold					
RCA-088	-60	30	160	80	160 (EOH)	80	1.13		
RCA-089	-60	30	109	46	110 (EOH)	64	1.07		
RCA-090	-60	30	94	No Significant Intersections Greater Than 1g/t Gold					
RCA-091	-60	300	99	64	76	12	1.00		
RCA-092	-60	300	172	50	52	2	1.54		
				62	70	8	1.26		
RCA-093	-60	300	148	50	144	94	1.49		
RCA-094	-60	210	94	No Significant Intersections Greater Than 1g/t Gold					
RCA-095	-60	210	95	10	22	12	0.97		
RCA-096	-60	210	106	44	46	2	1.02		
RCA-097	-60	30	88	44	46	2	1.01		
				56	58	2	1.10		
				86	88 (EOH)	2	1.04		
RCA-098	-60	210	74	No Significant Intersections Greater Than 1g/t Gold					

2009	RCA-099	-60	290	136	2	6	4	1.12
	RCA-100	-60	290	178	No Significant Intersections Greater Than 1g/t Gold			
	RCA-101	-60	290	154	No Significant Intersections Greater Than 1g/t Gold			
	RCA-102	-60	290	160	No Significant Intersections Greater Than 1g/t Gold			
	RCA-103	-60	290	154	No Significant Intersections Greater Than 1g/t Gold			
	RCA-104	-60	290	184	50	100	50	0.98
					128	184 (EOH)	56	1.20
	RCA-105	-60	20	154	22	24	2	1.10
					54	66	12	0.98
	RCA-106	-60	110	142	14	20	6	1.26
					26	30	4	1.08
	RCA-107	-60	290	160	60	62	2	1.05
					108	122	14	1.08
	RCA-108	-60	290	126	110	114	4	0.95
	RCA-109	-60	110	159	No Significant Intersections Greater Than 1g/t Gold			
	RCA-110	-60	290	166	No Significant Intersections Greater Than 1g/t Gold			
	RCA-111	-60	290	172	No Significant Intersections Greater Than 1g/t Gold			
	RCA-112	-60	290	118	112	114	2	1.01
	RCA-113	-60	290	154	No Significant Intersections Greater Than 1g/t Gold			
	RCA-114	-60	20	91	6	16	10	1.13
	RCA-115	-60	20	130	No Significant Intersections Greater Than 1g/t Gold			
	RCA-116	-60	300	98	12	28	16	0.98
	RCA-117	-60	210	118	14	26	12**	0.95
	RCA-118	-60	30	145	30	50	20	1.14
					126	132	6	1.05
	RCA-119	-60	210	154	82	134	52	1.08
	RCA-120	-60	210	160	10	12	2	1.24
					74	82	8	1.48
					112	120	8	1.07
					124	126	2	1.63
					134	138	4	1.16
					152	166 (EOH)	14	0.99
	RCA-121	-60	180	114	No Significant Intersections Greater Than 1g/t Gold			
	RCA-122	-60	180	88	No Significant Intersections Greater Than 1g/t Gold			
	RCA-123	-60	180	82	20	46	26	1.04
					66	74	8	1.07
	RCA-124	-60	300	64	No Significant Intersections Greater Than 1g/t Gold			
	RCA-125	-60	300	90	No Significant Intersections Greater Than 1g/t Gold			
	RCA-126	-60	300	136	No Significant Intersections Greater Than 1g/t Gold			
	RCA-127	-60	300	27	Hole lost before target			
No Significant Intersections Greater Than 1g/t Gold								
RCA-128	-60	300	178	80	82	2	1.02	
				128	136	8	1.01	
RCA-129	-60	300	160	74	102	28	0.97	
RCA-130	-60	300	146	26	40	14	1.03	
				48	50	2	1.14	
RCA-131	-60	300	158	106	110	4	1.22	
				138	144	6	1.06	
RCA-132	-60	300	150	92	96	4	1.12	
				102	104	2	1.13	
RCA-133	-60	300	86	40	42	2	1.29	
				50	52	2	1.01	
RCA-134	-60	300	144	8	20	12	0.97	
				50	126	76	0.97	
RCA-135	-60	300	158	0	38	38	0.95	
				130	140	10	1.01	
				144	146	2	1.19	
RCA-136	-60	120	138	0	16	16	1.02	
				44	64	20	1.00	
				136	138 (EOH)	2	1.27	
RCA-137	-60	30	131	12	16	4	1.12	
				90	98	8	1.61	
RCA-138	-60	300	72	No Significant Intersections Greater Than 1g/t Gold				
RCA-139	-60	300	30	Hole lost before target				
				No Significant Intersections Greater Than 1g/t Gold				

2009	RCA-140	-60	300	168	2	12	10	0.97
	RCA-141	-60	300	54	Hole lost before target			
					No Significant Intersections Greater Than 1g/t Gold			
	RCA-142	-60	300	132	14	16	2	1.02
					36	46	10	1.09
	RCA-143	-60	355	90	4	10	6	1.07
					34	38	4	0.96
	RCA-144	-60	300	120	No Significant Intersections Greater Than 1g/t Gold			
	RCA-145	-60	300	30	Hole lost before target			
					No Significant Intersections Greater Than 1g/t Gold			
	RCA-146	-60	300	32	Hole lost before target			
					No Significant Intersections Greater Than 1g/t Gold			
	RCA-147	-60	300	32	Hole lost before target			
					2	12	10	1.11
	RCA-148	-60	30	49	Hole lost before target			
					24	26	2	1.04
					28	30	2	1.09
	RCA-149	-60	30	90	66	70	4	1.00
					72	74	2	1.03
	RCA-150	-60	300	96	54	56	2	1.12
	RCA-151	-60	300	132	4	10	6	0.96
					54	104	50	1.05
	RCA-152	-60	120	150	18	20	2	1.06
					102	104	2	1.39
	RCA-153	-60	30	42	Hole lost before target			
					No Significant Intersections Greater Than 1g/t Gold			
	RCA-154	-60	330	132	No Significant Intersections Greater Than 1g/t Gold			
	RCA-155	-60	30	150	0	96	96	0.95
					134	150 (EOH)	16	2.30
	RCA-156	-60	290	174	108	126	18	0.98
	RCA-157	-60	290	192	No Significant Intersections Greater Than 1g/t Gold			
	RCA-158	-60	110	192	No Significant Intersections Greater Than 1g/t Gold			
	RCA-159	-60	110	192	46	50	4	0.99
	RCA-160	-60	110	192	No Significant Intersections Greater Than 1g/t Gold			
	RCA-161	-60	290	192	128	138	10	1.00
				168	192 (EOH)	24	0.98	
RCA-162	-60	290	130	42	48	6	1.81	
				108	130 (EOH)	22	2.70	
RCA-163	-60	250	15	Hole lost before target				
				0	2	2	1.35	
RCA-164	-60	250	102	No Significant Intersections Greater Than 1g/t Gold				
RCA-165	-60	120	60	No Significant Intersections Greater Than 1g/t Gold				
RCA-166	-60	120	72	0	2	2	1.03	
RCA-167	-60	120	60	No Significant Intersections Greater Than 1g/t Gold				
RCA-168	-60	300	72	No Significant Intersections Greater Than 1g/t Gold				
RCA-169	-60	210	186	48	50	2	1.29	
				126	138	12	0.96	
				8	16	8	0.99	
				20	22	2	1.01	
				44	46	2	1.18	
				108	148	40	1.07	
				164	166	2	1.72	
RCA-171	-60	30	24	Hole lost before target				
				No Significant Intersections Greater Than 1g/t Gold				
RCA-172	-60	30	156	80	106	26	1.04	
RCA-173	-60	300	149	74	76	2	1.17	
				86	88	2	1.43	
RCA-174	-60	30	48	Hole lost before target				
				18	30	12	1.28	
RCA-175	-60	120	126	No Significant Intersections Greater Than 1g/t Gold				

\* no recovery from 6 to 8m

\*\* no recovery from 20-23m

Cut-off 0.2g/t gold, maximum down-hole internal dilution 11m

All intersections are oxide gold, not true widths