

## **LYDIAN INTERNATIONAL LIMITED**

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

of the Consolidated Financial Condition and Results of Operations

for the three and nine month periods ended September 30, 2010

(All monetary figures are expressed in British Pounds unless otherwise stated)

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Lydian International Limited ("Lydian" or the "Company") for the three and nine month periods ended September 30, 2010. This discussion should be read in conjunction with the consolidated financial statements and the notes thereto. The consolidated financial statements have been prepared on the historical cost basis and presented in British Pounds. Additional Company information, including the Company's most recent Financial Statements and Annual Information Form, can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.lydianinternational.co.uk](http://www.lydianinternational.co.uk). This information is provided as at November 15, 2010.

## **REVIEW OF ACTIVITIES**

### **Third Quarter and Recent Highlights**

- On June 17 2010, the Company announced that it had commenced its minimum 16000m drilling program at the Amulsar project in Armenia.
- On July 29, 2010, the Company announced that it had executed a Heads of Agreement with IMM Marketing Limited ("IMM") over its Drazhnje lead-zinc-silver project in Kosovowith respect to the further exploration and development work at Drazhnje. Following the execution of the Heads of Agreement, Lydian and IMM Marketing Ltd elected to cease any further investment on the project and Lydian made application has made application to the Independent Commission for Mines and Minerals (ICMM) in Kosovo to convert its exploration license over the Drazhnje lead-zinc-silver asset in Kosovo to a "retention license". This decision was made as a result of the findings of an independent pre-scoping study conducted by CSA Global (UK) Ltd, which concluded that the project (which hosts a CIM compliant inferred category resource of 3.2Mt at 5.2% Zinc and 2.5% Lead) would require significant additional reserves to be viable at the then current base metal prices, coupled with local economic factors that currently preclude development and access to nearby ore treatment facilities.
- The Company commenced drilling at Amulsar on June 17th this year and completed some 24,000m of combined diamond and reverse circulation drill holes on October 31<sup>st</sup> 2010. Drilling was a combination of resource up-grade and extension work in the Tigranes and Artavasdes areas as well as exploratory work at Erato and Arshak. A map showing where these zones are relative to each other is available on the Company's website or on SEDAR. Drilling this year has returned some highly encouraging results including 84m at 4.9g/t gold (open at depth) from an interpreted higher grade "feeder zone" at Artavasdes, 87m at 2.8g/t gold from resource extension drilling and 186m at 1.1g/t and 85m at 1.2g/t gold in exploratory drilling at Erato.. New areas of gold mineralization have been intersected in drilling over a strike distance of at-least 3km from Erato to Arshak. The Company appears to have met its objectives with higher-grade material from within the resource shell now being defined and connected between drill strings, with the resource shell being extended in all directions and new areas including Erato and Arshak being identified and developed.
- Overall, over 90% of the drill hole intersections published in 2010 were at 1.0g/t or greater. Drilling results will continue to be released until mid December.
- On October 26, 2010, the Company closed a bought deal offering, pursuant to which it sold 9,315,000 ordinary shares of the Company to a syndicate of investment dealers at a purchase price of \$2.13 per share, for aggregate gross proceeds of \$19,840,950. The 9,315,000 ordinary shares sold include 1,215,000 ordinary shares sold pursuant to the exercise of an over-allotment option granted to the underwriters, which was exercised in full.

## CAUTIONARY NOTE REGARDING FORWARD -LOOKING STATEMENTS

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

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

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

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

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

Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of an Inferred Mineral Resource exists, or is economically or legally mineable.

## **Exploration activity and results**

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

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 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. Metallurgical test work has returned good gold extractions on coarse-sized ore fractions to over 89% with recoveries still increasing when the test work was stopped at 70-days. Drilling during 2009 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 along a ridge top and consequently stripping ratio is minimized.

### ***Amulsar: Exploration History***

Amulsar was first identified as an area of potential interest by Lydian geologists in 2005. In March 2006 Geoteam was awarded an exploration licence across the prospect. The first gold at the Amulsar project was discovered by Lydian geologists in rock chip samples collected during June 2006.

In 2007, Lydian advanced the Amulsar project to scout drilling stage by conducting mapping, soil sampling, trenching and rock-chip sampling. The Company identified a 3.5 km long zone of anomalous gold mineralization following a northwesterly oriented high ridge top. More detailed work identified five discrete prospect areas located along and parallel to this northwesterly ridge. These prospect areas are known from north to south as Erato North, Erato, Tigranes, Artavasdes and Arshak. 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> carried anomalous gold mineralization.

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

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

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

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

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

The Company commenced drilling at Amulsar on June 17th this year and completed some 24,000m of combined diamond and reverse circulation drill holes on October 31<sup>st</sup> 2010. Drilling was a combination of resource up-grade and extension work in the Tigranes and Artavasdes areas as well as exploratory work at Erato and Arshak. A map showing where these zones are relative to each other is available on the Company’s website or on SEDAR. Drilling this year has returned some highly encouraging results including 84m at 4.9g/t gold (open at depth) from an interpreted higher grade “feeder zone” at Artavasdes, 87m at 2.8g/t gold from resource extension drilling and 186m at 1.1g/t and 85m at 1.2g/t gold in exploratory drilling at Erato. New areas of gold mineralization have been intersected in drilling over a strike distance of at-least 3km from Erato to Arshak. The Company appears to have met its its objectives with higher-grade material from within the resource shell now being defined and connected between drill strings, with the resource shell being extended in all directions and new areas including Erato and Arshak being identified and developed. [ add percentage disclosure]

### *Drazhnje: Kosovo*

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

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

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

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

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

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

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

This resource estimate is preliminary only and remains open immediately at depth in the Main Zone and with additional tonnage 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.

On July 29, 2010, the Company announced that it had executed a Heads of Agreement with IMM over its Drazhnje lead-zinc-silver project in Kosovo. Under the terms of the deal, which is subject to the execution of a definitive agreement and regulatory approvals, IMM will fully fund all further exploration and development work at Drazhnje to a point at which a joint Management Committee will decide whether to advance the project through to commercial production; such decision to be made no later than December 31st 2011. At Commercial Production Lydian will have two options; either to jointly develop the project on a 50-50 basis with IMM, or to be paid 50% of all payments, profits, distributions and dividends from production at Drazhnje until such time as a total CAD\$ 5 million has been paid to Lydian. Lydian would also retain a 1.5% NSR over the life of the project.

On the September 16, 2010 Lydian announced that due to the findings of an independent pre-scoping study conducted by CSA Global (UK) Ltd, which concluded that the project would require significant additional reserves to be viable at today's base metal prices, coupled with local economic factors it had made application to the Independent Commission for Mines and Minerals (ICMM) in Kosovo to convert its exploration license over Drazhnje to a "retention license". The Regulation on Mines and Minerals in Kosovo allows the holder of an exploration license to apply to the ICMM for the grant of a retention license over an existing resource, if the resource cannot be developed immediately due to adverse market conditions or other economic factors that are reasonably believed to be of a temporary character. A retention license does not impose any cost or require any exploration expenditure. The Company has so far received no response as to the progress of its retention license application over Drazhnje.

## **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 meters at 25.89% zinc, and 3.86% lead along its entire length. Other highly significant results include: Trench 1; 25 meters at 14.74% zinc and 1.82% lead; Trench 3; 23 meters at 12.53% zinc and 1.10% lead; and Trench 6; 15 meters at 21.53% zinc and 1.53% lead (all using 1% zinc cut-off and maximum internal dilution of two meters).

Due to a karst weathering control to oxide lead and zinc mineralization at Crepulje, consequently isolated and discontinuous zones of mineralization and thus limited tonnage potential the Company has elected to relinquish the license.

## **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 nine month periods ended September 30, 2010 and comparative financial information for the corresponding interim periods in the Company's previous financial year.

British Pounds	Three months ended September 30,		Nine months ended September 30,	
	2010 £	2009 £	2010 £	2009 £
Interest income	7,056	723	10,507	4,394
Total expenses	947,882	651,683	2,260,113	1,618,513
Net income (deficit)	(940,826)	(650,960)	(2,249,606)	(1,614,119)



Loss per share (basic and diluted)	0.01	0.01	0.03	0.04
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During the nine month periods ended September 30, 2010 and 2009, the Company had no revenues. Its only income was bank interest. In this period, the Company recorded a loss of GBP 2,249,606 (3 pence per share), respectively, compared to GBP 1,614,119 (4 pence per share) during the corresponding period in 2009.

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

As at September 30, 2010, the cash and cash equivalents of the Company was GBP 5,485,552 compared to GBP 2,234,790 on December 31, 2009. During the third quarter of 2010, the cash and cash equivalents of the Company decreased by GBP 1,400,372 as a result of payments to suppliers, contractors, employees and other vendors. The increase in exploration and evaluation assets in the three month period ended September 30, 2010 was GBP 1,867,123. The increase of exploration and evaluation assets is mainly related to capitalized expenditure incurred in Armenia and Kosovo. Other current assets increased by GBP 136,538 during this period, mainly as result of increase of refundable VAT counted in Geoteam accounts. During the three month period ended September 30, 2010 equity capital of the Company increased by GBP 485,243.

There were no extraordinary transactions or significant end of reporting period adjustments during the nine months ended September 30, 2010. Within nine month ended September 30, 2010 the Company's 95% owned Armenian subsidiary, Geoteam C.J.S.C., purchased all of the interest of Newmont Overseas Exploration Limited ("Newmont") in the 50/50 gold and copper exploration joint venture (the "Venture") formerly existing with Newmont, resulting in an increase of exploration and evaluation assets as described below.

During three month period ended September 30, 2010, there were not significant fluctuations between the British Pound, Canadian dollar, Euro and Armenian Dram. In this period the Company incurred losses resulting from foreign exchange of £103,220. The Company protects itself from some of the potential variations in exchange rates by roughly holding its cash in currencies in proportion to the expected expenditure going forward.

### Income Tax Expense

There was no tax payable for the Company in the nine month period ended September 30, 2010 and during the same period in 2009. As at September 30, 2010, the Company had taxation losses of £2,307,500 (December 31, 2009 £2,745,000) that had not been recognised as there is insufficient evidence of taxable profit in the near future. In result of winding up of Company's subsidiary Lydian Resource Company £856,600 tax loss was written off in quarter three 2010.

### Summary of Operating Cash Flows, Investing and Financing Activities

The following table summarises the Company's cash flow for the three and nine month periods ended September 30, 2010 and comparative financial information for the corresponding interim periods in the Company's previous financial year.

British Pounds	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	£	£	£	£
Receipts from joint venture partner	-	3,008	-	3,008
Net cash provided (used) by operating activities	(946,180)	(257,768)	(2,484,216)	(1,402,365)

Net cash used by investing activities	(2,042,156)	(410,473)	(5,337,615)	(716,270)
Net cash provided (used) by financing activities	1,691,184	15,000	11,157,416	1,633,768

### Summary of Balance sheet data

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

British Pounds	As at September 30, 2010 £	As at December 31, 2009 £	As at December 31, 2008 £
Current assets	6,481,254	2,851,557	2,664,811
Property and equipment	335,440	378,028	626,821
Intangible assets	28,107	33,751	68,438
Exploration and evaluation assets	17,558,415	4,296,314	3,747,100
Total Assets	24,403,216	7,559,650	7,107,170
Current liabilities	691,556	235,103	610,330
Non-current liabilities	5,780,553	-	-
Shareholders' Funds	17,931,107	7,324,547	6,496,840

### Deferred exploration expenditures

The expenditures incurred by the Company in the three and nine month periods ended September 30, 2010 were comprised of purchase of Newmont's interest in the Venture, primarily of remuneration for its employees, contractors and directors, acquisition of a new license, costs relating to the Company's offices in Kosovo and Armenia and exploration site overheads. Deferred exploration expenditures incurred during these periods were GBP 2,016,006 and GBP 5,274,364 respectively (of which the Newmont deal was GBP 3,207,184) for the three and nine month periods ended September 30, 2010 compared to deferred expenditures of GBP 406,720 and GBP 698,640 in the corresponding periods in 2009. These deferred exploration expenditures were related to exploration work on the Company's exploration projects as follows:

British Pounds	Cumulative as at September 30, 2010	Cumulative as at December 31, 2009
Kosovo		
• Drazhnje	2,221,779	2,237,340
• Crepulje	-	81,911
Armenia		
• Amulsar	15,309,880	1,977,063
• Nor Arevik	26,756	-
Total	17,558,415	4,296,314

The increase of deferred exploration expenditures in the nine month period ended September 30, 2010 in Armenia Amulsar project was mainly a result of a purchase of Newmont's interest in the Venture, exploration drilling cost, mining license state duty and exploration license concession fee payments, capitalized salaries of employees engaged in exploration, rentals for areas under exploration, costs of environmental studies, and costs pertaining to exploration camp maintenance. The cost of deferred exploration expenditure in Nor Arevik project consist of license acquisition price paid to the Government of Armenia.



Due to strengthening of exchange rate of GBP against EUR there is a decrease of deferred exploration expenditures in Drazhnje project reported in GBP amount. However during the nine month period ended September 30, 2010 investments in the project totaled to GBP 42,358 comprised mainly from concession fee payments, costs relating to security, costs of environmental studies, and purchases of geophysical data. The Company decided not to continue with one of its projects in Kosovo called Crepulje and dropped the corresponding license, expenditures incurred for that project totaling to GBP 82,165 were written off as of September 30, 2010.

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

## SUMMARY OF QUARTERLY RESULTS

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

	Q4 2008	Q1 2009	Q2 2009	Q3 2009
	£	£	£	£
Net sales or total revenues	-	-	-	-
Net income (loss)	(862,435)	(461,107)	(502,052)	(650,960)
Loss per share (basic and diluted)	0.02	0.01	0.01	0.01

  

	Q4 2009	Q1 2010	Q2 2010	Q3 2010
	£	£	£	£
Net sales or total revenues	-	-	-	-
Net income (loss)	(276,174)	(467,888)	(840,892)	(940,826)
Loss per share (basic and diluted)	0.01	0.01	0.01	0.01

## OUTSTANDING SHARE DATA

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

	As at November 10th, 2010	As at September 30, 2010	As at December 31, 2009
	Number	Number	Number
Ordinary shares	91,886,705	82,545,580	52,891,191
Stock option plan	3,155,000	3,155,000	1,230,000
Other, Warrants/Options	12,140,457	12,166,582	19,984,581

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

## MANAGEMENT AND STAFFING

During the nine month period ended September 30, 2010, there were no changes in the management of the Company.

## LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of GBP 5,789,698 as at September 30, 2010, compared to GBP 2,616,454 on December 31, 2009. The Company had total assets of GBP 24,403,216 at September 30, 2010, compared to

GBP 7,559,650 on December 31, 2009, which included deferred exploration expenditures amounting to GBP 17,558,415 (GBP 4,296,314 on December 31, 2009). The Company's principal source of liquidity as at September 30, 2010 was cash & cash equivalents amounting to GBP 5,485,552 compared to GBP 2,234,790 on December 31, 2009. Cash surplus to the Company's requirements was invested in money market deposits.

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

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

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

For the nine months to 30th September 8,462,814 warrants and options were exercised providing approximately GBP 3 million of additional funding for the Company.

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

The Company has made certain expenditure commitments to the licensing authorities for the Company's projects. Should these expenditure targets not be met, the applicable 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.

After the end of the reporting period, on October 26, 2010, the Company closed a bought deal offering, pursuant to which it sold 9,315,000 ordinary shares of the Company to a syndicate of investment dealers at a purchase price of \$2.13 per share, for aggregate gross proceeds of \$19,840,950.

## **CONTRACTUAL OBLIGATIONS**

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

British Pounds	Total	Up to 1 year	1-3 years	4-5 years
Operating lease obligations	78,093	39,168	38,925	-
Purchase obligations	5,360,481	-	5,360,481	-
Total contractual obligations	5,438,574	39,168	5,399,406	-

## **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.

<b>AMOUNTS PAID IN ARMENIAN DRAMS TO ARMENIAN GOVERNMENT</b>			<b>AMOUNTS PAID IN EUROS TO KOSOVO GOVERNMENT</b>	
<b>Item</b>	9 months to September 30, 2010	12 months to December 31, 2009	9 months to September 30, 2010	12 months to December 31, 2009
Profit tax prepayment	-	1,000,000	-	-
Fee for licenses area extension	-	28,500,000	-	-
New license acquisition	14,000,000	-	-	-
State duty on mining license	10,000,000	10,000,000	-	-
Concession fee	11,387,500	7,000,000	7,027	4,927
Social Insurance Funds Employer	20,734,100	15,615,950	6,564	13,814
Social Insurance Funds Individual	6,127,000	3,999,600	6,564	13,814
Customs duty	1,436,022	916,998	-	-
Property tax	131,900	517,000	-	-
Income tax	48,153,100	45,652,000	10,993	22,344
Non resident withholding tax	8,500,000	35,100,000	-	-
VAT	7,879,359	54,587,130	-	-
<b>Total</b>	<b>128,348,981</b>	<b>202,888,678</b>	<b>31,148</b>	<b>54,899</b>
<b>Equivalent GBP</b>	<b>221,896</b>	<b>363,776</b>	<b>26,718</b>	<b>48,888</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

As part of consideration for purchase of Newmont's interest in the Venture the Company has some potential post production payments. These potential post production payments do not meet the definition of an obligation or a constructive obligation hence considered to be off-balance sheet agreement. These payments are discussed in the Management's Discussion and Analyses and in the Consolidated Financial Statements as of September 30, 2010 (note 11 and 22). The Company does not have any other off-balance sheet arrangements.

## 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 had no operating revenues during the nine month period ended September 30, 2010 and incurred a net loss of £2,249,606 (September 30, 2009 £1,614,119). The Company incurred net expenditures on exploration and evaluation activities in the nine month period ended September 30, 2010 amounting to £5,274,364 (September 30, 2009: £698,640).

The Company's ability to continue as a going concern is dependent on its ability to obtain additional sources of financing to fund the payments owing to Newmont in connection with the acquisition of its interest in the Venture and to successfully explore, evaluate and develop its mineral properties and ultimately, to achieve profitable operations.

The consolidated financial statements for period ended September 30, 2010 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 its planned operations.

### Mineral Resources

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

### Metal Prices

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

### Price Volatility of Other Commodities

The Company's profitability is also affected by the market prices of commodities, which are consumed or otherwise used in connection with the operations, such as diesel fuel, natural gas, electricity and cement. Prices of such commodities are also subject to volatile price movements over short periods of time and are affected by factors that are beyond the Company's control.

### Foreign Operations

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

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

## Foreign Exchange

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

## Counterparty Risk

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

## Taxation Risk

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

## Environmental Risks and Hazards

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

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

## Exploration

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

## Political

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

## Insurance

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

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

## Government Laws and Regulations

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

## Difficulty in Obtaining Future Financing

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



adverse impact on the Company's future cash flows, earnings, results of operations, and financial condition and could result in a default under its agreement with Newmont pursuant to which the Company's subsidiary acquired a 100% interest in the Venture.

## RELATED PARTY TRANSACTIONS

Pursuant to a private placement on April 14, 2010, International Finance Corporation (IFC), an insider of the Company, acquired 2,436,575 Ordinary Shares at a price of CAD \$0.73 per Ordinary Share. At the time of the completion of the private placement, IFC held 11,048,331 Ordinary Shares and 7,811,758 Ordinary Share purchase warrants, representing approximately 14% on a non-diluted basis and 21% on a fully-diluted basis, of the Company's issued and outstanding shares.

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

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

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

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Aggregate emoluments	205,435	142,585
Share based payments	108,994	88,787

## CRITICAL ACCOUNTING ESTIMATES AND POLICIES

### Critical judgments in applying the Company's accounting policies

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

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

In particular, management is required to assess exploration and evaluation assets for impairment with reference to the indicators provided in IFRS 6. Note 11 to the Company's Consolidated Financial Statements as of September 30, 2010 discloses the carrying values of such assets. As part of this assessment, management has carried out an impairment test on the major assets within this balance.

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

### Key sources of estimation uncertainty

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

#### Changes in accounting policies

During the nine month period ended September 30, 2010 and year ended December 31, 2009 there was no any change in the Company's accounting policies.

#### **DISCLOSURE CONTROLS AND PROCEDURES**

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

Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were 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 nine month period ended September 30, 2010. 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 September 30, 2010 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 September 30, 2010, 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.

#### **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 the three month period ended September 30, 2010 and 2009 were as follows:

Cost type	Three months to September 30,		Nine months to September 30,	
	2010 £	2009 £	2010 £	2009 £
Exploration and evaluation deferred expenditures	2,016,006	406,720	5,274,364	698,640
Employees benefit and expenses	408,898	235,862	1,002,067	699,642
Administrative and other expenses	251,531	224,290	792,354	611,641
Consulting expenses	70,489	31,816	203,390	92,955
Depreciation and amortization	31,579	47,869	95,314	126,153