



LYDIAN INTERNATIONAL LIMITED
(Formerly Dawson Creek Capital Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lydian International Limited

Report on the Financial Statements

We have audited the consolidated financial statements of Lydian International Limited (formerly Dawson Creek Capital Corporation), which comprise the balance sheet as at December 31, 2007, and the income statement, statement of recognised income and expenses, and cash flow statement for the year ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements are presented fairly, in all material respects, the financial position of Lydian International Limited (formerly Dawson Creek Capital Corporation) as of December 31, 2007, and the income statement, statement of recognised income and expenses, and cash flow statement for the year ended December 31, 2007 in accordance with International Financial Reporting Standards.

The consolidated financial statements as at and for the period from December 22, 2005 to December 31, 2006 were audited by another firm of Chartered Accountants which expressed an opinion which included an emphasis of matter on going concern and without reservation on these consolidated financial statements in their report dated April 29, 2008.

Emphasis of matter – Going Concern

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicate the existence of a material uncertainty which may cast doubt about Lydian International Limited (formerly Dawson Creek Capital Corporation) and its subsidiaries ability to continue as a going concern.

(signed) "Deloitte & Touche LLP"

Chartered Accountants

April 29, 2008

Calgary, Canada

INDEPENDENT AUDITORS' REPORT IN RESPECT OF COMPATIBILITY WITH CANADIAN GAAS

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

An audit report issued in accordance with Canadian GAAS does not require the Emphasis of Matter paragraph that is included in the Independent Auditors' Report as at and for the year ended December 31, 2007 given above.

(signed) "*Deloitte & Touche LLP*"

Chartered Accountants

April 29, 2008

Calgary, Canada

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

**For the Year Ended December 31, 2007 and for the
Period from December 22, 2005 to December 31, 2006**

	<i>Notes</i>	<i>12 months to December 31, 2007</i>	<i>Period from December 22, 2005 to December 31, 2006</i>
		£	£
Interest income		90,607	12,734
Employee benefits expense		(738,791)	(153,630)
Services and consumables used		(447,771)	(239,746)
Consulting expense		(66,015)	(19,330)
Depreciation and amortisation expense	7,10	(27,548)	(3,551)
Administrative and other expenses		(43,026)	(26,897)
Other gains and losses	6	(10,933)	1,765
Total expenses		(1,334,084)	(441,389)
Loss before tax		(1,243,477)	(428,655)
Income tax	8	-	-
Loss for the period	7	(1,243,477)	(428,655)
Loss per share (basic and diluted)	9	(0.05)	(0.03)

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

For the Year Ended December 31, 2007 and for the
Period December 22, 2005 to December 31, 2006

		<i>12 months to</i>	<i>Period from</i>
	<i>Notes</i>	<i>December 31, 2007</i>	<i>December 22,</i> <i>2005 to December</i> <i>31, 2006</i>
		£	£
Exchange difference arising on translation of foreign operations	6	<u>92,579</u>	-
Loss recognised directly in equity		92,579	-
Loss for period	7	<u>(1,243,477)</u>	(428,655)
Total recognised income and expense for the period		<u>(1,150,898)</u>	(428,655)

Lydian International Limited
(formerly Dawson Creek Capital Corporation)
Consolidated Balance Sheet

As of December 31, 2007 and 2006

	<i>Notes</i>	<i>December 31, 2007</i>	<i>December 31, 2006</i>
		£	£
ASSETS			
Non-current assets			
Property and equipment	10	134,013	15,573
Exploration and evaluation assets	11	900,554	53,230
Total non-current assets		<u>1,034,567</u>	<u>68,803</u>
Current assets			
Cash and cash equivalents	12	6,009,767	1,740,848
Other current assets	13	445,590	29,832
Total current assets		<u>6,455,357</u>	<u>1,770,680</u>
TOTAL ASSETS		<u>7,489,924</u>	<u>1,839,483</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14,15	6,384,050	1,665,833
Warrants	14,15	2,050,505	54,143
Equity settled employee benefits reserve	14	222,395	-
Exchange reserve	14	92,579	-
Other reserves	14	-	517,425
Accumulated deficit	14	(1,672,132)	(428,655)
Total equity		<u>7,077,397</u>	<u>1,808,746</u>
Current liabilities			
Accrued expenses and other payables	17	412,527	30,737
TOTAL EQUITY AND LIABILITIES		<u>7,489,924</u>	<u>1,839,483</u>

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

For the Year Ended December 31, 2007 and for the
Period from December 22, 2005 to December 31, 2006

	<i>Notes</i>	12 months to December 31, 2007	<i>Period from December 22, 2005 to December 31, 2006</i>
		£	£
Cash flows from operating activities			
Receipts from joint venture partner	19	48,246	63,037
Payments to suppliers and employees		<u>(1,150,435)</u>	<u>(473,578)</u>
Net cash outflow from operating activities		<u>(1,102,189)</u>	<u>(410,541)</u>
Cash flows from investing activities			
Interest received		90,607	12,734
Payments for plant and equipment	10	(134,964)	(19,124)
Proceeds for the disposal of plant and equipment		1,493	-
Exploration costs paid		(944,920)	(79,629)
Receipts from joint venture partner	19	<u>189,527</u>	<u>-</u>
Net cash used by investing activities		<u>(798,257)</u>	<u>(86,019)</u>
Cash flows from financing activities			
Proceeds from issues of equity shares		6,552,970	2,286,651
Reverse acquisition	20	(13,629)	-
Payments for share issue costs	14	<u>(360,485)</u>	<u>(49,243)</u>
Net cash used in financing activities		<u>6,178,856</u>	<u>2,237,408</u>
Net increase in cash and cash equivalents		4,278,410	1,740,848
Cash and cash equivalents, beginning of period		1,740,848	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		<u>(9,491)</u>	<u>-</u>
Cash and cash equivalent, end of the period		<u>6,009,767</u>	1,740,848

Lydian International Limited
(formerly Dawson Creek Capital Corporation)
Notes to the Consolidated Financial Statements

**For the Year Ended December 31, 2007 and for the
Period December 22, 2005 to December 31, 2006**

1. GENERAL INFORMATION

Lydian International Limited (formerly Dawson Creek Capital Corporation) (the "Company") is a limited liability company registered in Jersey effective on December 12, 2007 (formerly registered in Canada). The registered office address of the Company is PO BOX 87, 22 Grenville Street, St Helier, Jersey, JE4 8PX, Channel Islands.

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

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

The Company and its subsidiaries (the 'Group') is a mineral exploration and development group focused on emerging and transitional environments, and is developing precious and base metal assets located in Armenia, Kosovo and Turkey. The Group's two main projects are gold at Armulsar, Armenia, and zinc, lead, silver and gold at Drazhnje, Kosovo. The Group also has several gold and base metal exploration projects throughout Eastern Europe and currently operates a 50/50 gold and copper exploration joint venture with Newmont Overseas Exploration Limited, in the Caucasus.

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

Going concern

These consolidated financial statements have been prepared on a going concern basis which presumes the realisation of assets and liabilities in the normal course of business. The Group has no operating revenues during the year ended December 31, 2007 and incurred a net loss of £1,243,477 (December 31, 2006: £428,655). The Group incurred expenditures on exploration and evaluation activities in the period to December 31, 2007 amounting to £755,393 (December 31, 2006 - £53,230). The Group'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 outcome of these matters cannot be predicted at this time. The consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern, and such adjustments, may be material.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Standards and Interpretations effective in the current period

On January 1, 2007, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Group's financial instruments and management of capital (refer to note 18).

Four interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') are effective for the period ended December 31, 2007. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Early adoption of Standards and Interpretations

The Group has not elected to adopt any standards or interpretations in advance their effective date.

Standards and interpretations in issue not yet adopted

The IASB and the IFRIC have issued the following standards and interpretations with an effective date after the date of these consolidated financial statements:

		<i>Effective for Annual Periods Beginning on or After</i>
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer Loyalty Programs	July 1, 2008
IFRIC 14	IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2008
IFRS 8	Segment Reporting	January 1, 2009
IAS 23	Borrowing Costs (March 2007)	January 1, 2009
IAS 1	Presentation of financial statements (September 2007)	January 1, 2009
IFRS 2	Share-based payment: vesting conditions and cancellations (amendments)	January 1, 2009
IFRS 3	Business Combinations (2008)	July 1, 2009
IAS 27	Consolidated and separate financial statements (2008)	July 1, 2009

The directors anticipates that these standards and interpretations will be adopted in the Group's consolidated financial statements on future periods as they become effective and that the adoption will have no material impact on the consolidated financial statements of the Group in the periods of initial application other than for additional disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the IASB since December 22, 2005. The disclosures required by IFRS 1 concerning the transition from UK Generally Accepted Accounting Principles ('GAAP') to IFRS are detailed in note 22.

Basis of preparation

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

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its 'subsidiaries'). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

Details of the Company's subsidiaries at December 31, 2007 and 2006 are as follows

Name of subsidiary	Place of incorporation or registration	Effective Ownership Interest		Principal activity
		2007	2006 ¹	
Lydian Resource Company Limited	United Kingdom	98%	n/a	Parent company until December 27, 2007
Lydian Holdings Ltd (BVI)	British Virgin Islands	100%	100%	Intermediate holding company.
Lydian Resources Kosovo (BVI)	British Virgin Islands	100%	100%	Intermediate holding company
Kosovo Resource Company LLC	Kosovo	100%	100%	Mineral exploration
Lydian Resources Armenia (BVI)	British Virgin Islands	100%	100%	Intermediate holding company.
Geoteam CJSC	Armenia	95%	95%	Mineral exploration

¹ The parent company was Lydian Resource Company Limited until December 27, 2007. As a result, the effective ownership interest shown in 2006 was that of Lydian Resource Company Limited.

Interest in Joint Ventures

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

Foreign currencies

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Share based payments

Equity-settled awards, including share options and warrants, are measured at fair value at the date of grant and recognised on a straight line basis over the vesting period, based on the Group's estimate of equity-settled awards that will eventually vest, along with a corresponding increase in equity. Fair value is measured using the Black-Scholes option pricing model taking into consideration management's best estimate of the expected life of the option, the expected share price volatility, the risk free rate, the expected dividend yield and the estimated number of shares that will eventually vest.

Taxation

The group has no taxable profit and no current tax.

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

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

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

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

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

Property and equipment

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

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

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

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

Motor vehicles	3 – 5 years
Office equipment and fixtures	1 – 5 years

Impairment

Impairment of property and equipment

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

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

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

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

Impairment of financial assets

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

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

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

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

Exploration and evaluation costs

Exploration and evaluation expenditures comprise of costs incurred directly in exploration and evaluation as well as the cost of mineral licences. They are capitalised as intangible assets pending determination of the feasibility of the project. When the existence of economically recoverable reserves and commercial viability are established, the related intangible assets are transferred to property and equipment and are depleted on a unit of production basis.

Where a project is abandoned or is determined not to be economically viable, the related costs are written off.

Impairment is assessed when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Inventories

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

Financial Assets

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

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

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity.

Generally, the Group recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognised in the income statement except for income or loss on any available-for-sale financial assets which are recognised in equity.

Other Receivables

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

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

Cash and cash equivalents

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

Financial liabilities

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

Equity

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

Interest income

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

Employee benefits

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

Provisions

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

Operating leases

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

Loss per share

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

Business and geographic segments

Business Segments

The Group operates in one business segment, mineral exploration.

Geographical Segments

The directors of the Group are of the opinion that two geographical segments, Kosovo and Armenia, existed as at December 31, 2007 and 2006.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Group's accounting policies

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, 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 judgement that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements is the policy on exploration and evaluation costs.

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

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

Key sources of estimation uncertainty

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

The estimate of significance in the consolidated financial statements relates to the joint venture arrangement with Newmont Overseas Exploration Limited. In accordance with the terms of the joint venture arrangement, costs are shared equally between the two parties. The consolidated financial statements include a receivable of £120,000 due by Newmont Overseas Limited based on an estimate of the settlement required in respect of the period April 1, 2007 to December 31, 2007. The amount is in the process of being determined and agreed. The directors expect that the final outcome will not differ significantly from the estimated position.

5. GEOGRAPHICAL AND BUSINESS SEGMENTS

The Group is engaged in one business activity, mineral exploration. The two key geographical segments are Kosovo with three exploration sites and Armenia with one exploration site. The Group acquired Lydian International Limited (formerly Dawson Creek Capital Corporation) in a reverse takeover business combination on December 27, 2007. The corporate head office function was carried out by Lydian Resource Company Limited, located in the United Kingdom ("UK") until December 27, 2007. Subsequent to this date the corporate head office function is carried out by Lydian International Limited incorporated in Jersey.

The Group has no discontinued operations.

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

	<i>12 months to December 31, 2007</i>	<i>Period from December 22, 2005 to December 31, 2006</i>
	£	£
Interest income		
Kosovo	11,370	-
Armenia	2,588	-
Head office activities – UK and Jersey	76,649	12,734
	<u>90,607</u>	<u>12,734</u>
Loss for the period		
Kosovo	672,020	104,750
Armenia	71,335	24,804
Head office activities – UK and Jersey	500,122	299,101
	<u>1,243,477</u>	<u>428,655</u>
Depreciation		
Kosovo	18,387	3,007
Armenia	6,079	-
Head office activities – UK and Jersey	3,082	544
	<u>27,548</u>	<u>3,551</u>

The geographical segmented information on balance sheet items are given below

	<i>December 31, 2007</i>				
	<i>Kosovo</i>	<i>Armenia</i>	<i>Head office activities</i>	<i>Eliminations</i>	<i>Consolidated</i>
	£	£	£	£	£
Property and equipment expenditures	68,832	66,132	-	-	134,964
Exploration and evaluation expenditures	539,550	215,843	-	-	755,393
Total assets	880,775	755,641	8,046,824	(2,193,316)	7,489,924
Total liabilities	(1,715,721)	(430,423)	(459,699)	2,193,149	(412,527)
	<i>December 31, 2006</i>				
	<i>Kosovo</i>	<i>Armenia</i>	<i>Head office activities</i>	<i>Eliminations</i>	<i>Consolidated</i>
	£	£	£	£	£
Property and equipment expenditures	14,823	675	3,626	-	19,124
Exploration and evaluation expenditures	27,868	25,362	-	-	53,230
Total assets	65,358	81,521	1,948,044	(255,440)	1,839,483
Total liabilities	(212,802)	(60,399)	(12,976)	255,440	(30,737)

6. OTHER GAINS AND LOSSES

Other gains and losses relate to exchange differences on the translation on monetary items in accordance with Group's accounting policy.

Exchange differences arising on the translation of financial statements of each subsidiary to presentation currency have been recognised directly in equity in the exchange reserve.

7. LOSS FOR THE PERIOD

Loss for the period is stated after charging:

	<i>12 months to December 31, 2007</i>	<i>Period from December 22, 2005 to December 31, 2006</i>
	£	£
Depreciation and amortisation		
Depreciation of property and equipment	24,175	3,551
Loss on disposal of property and equipment	3,373	-
Auditor fees		
Primary auditor's fees:		
Audit	43,300	5,000
Other services	40,000	6,700
Secondary auditors' fees:		
Audit	19,882	8,995
Other services	37,113	2,905

8. TAXATION

There was no tax payable for the Group in 2007 or 2006. The loss per the income statement can be reconciled to the overall tax charge as follows:

	<i>12 months to December 31, 2007</i>	<i>Period from December 22, 2005 to December 31, 2006</i>
	£	£
Loss before taxation	<u>(1,243,477)</u>	<u>(428,655)</u>
Tax at 19.9% (2006: 19.2%)	(247,375)	(82,302)
Items which are not deductible for tax	27,876	7,334
Losses not recognised	<u>219,499</u>	<u>74,968</u>
Income tax expense	<u>-</u>	<u>-</u>

At the balance sheet date and subject to confirmation from the taxation authorities, the Group had taxation losses of approximately £1,103,010 (2006: £ 390,458) that has not been recognised as there is insufficient evidence of taxable profits. These losses start to expire in 2011.

9. LOSS PER SHARE

Loss per share of £0.05 (December 31, 2006 – £0.03) have been calculated on the basis of the net loss of £1,243,477 (December 31, 2006 loss: £428,655) on 25,859,062 (December 31, 2006: 14,034,221) shares being the weighted average of shares in issue.

As a result of the losses incurred during the periods ended December 31, 2007 and 2006, the potential shares to be issued from the exercise of options and warrants are not included in the computation of diluted per share amounts since the result would be anti-dilutive. Accordingly, the diluted loss per share and the basic loss per share for these periods being presented are the same.

10. PROPERTY, PLANT AND EQUIPMENT

COST

	Motor Vehicles £	Equipment £	Total £
Balance as at December 22, 2005	-	-	-
Additions	10,484	8,640	19,124
At January 1, 2007	10,484	8,640	19,124
Additions	63,501	71,463	134,964
Disposal	(2,747)	(4,028)	(6,775)
Exchange difference	7,837	6,759	14,596
As at December 31, 2007	79,075	82,834	161,909

ACCUMULATED DEPRECIATION

	Motor Vehicles £	Equipment £	Total £
Balance at December 22, 2005	-	-	-
Charge	(2,097)	(1,454)	(3,551)
At January 1, 2007	(2,097)	(1,454)	(3,551)
Charge for the period	(11,086)	(13,089)	(24,175)
Disposals	1,464	624	2,088
Exchange difference	(1,063)	(1,195)	(2,258)
As at December 31, 2007	(12,782)	(15,114)	(27,896)

CARRYING AMOUNT

	Motor Vehicles £	Equipment £	Total £
At December 31, 2007	66,293	67,720	134,013
At December 31, 2006	8,387	7,186	15,573

11. EXPLORATION AND EVALUATION ASSETS

Cost	Kosovo projects £	Armenia projects £	Total £
	At 22 December 2005	-	-
Additions	27,868	25,362	53,230
At 1 January 2007	27,868	25,362	53,230
Additions	539,550	215,843	755,393
Exchange difference	42,879	49,052	91,931
At December 31, 2007	610,297	290,257	900,554

The Group's accounting policy is to capitalise exploration and evaluation costs as permitted by IFRS 6. IFRS 6 requires that regular impairment assessments are made.

The licenses associated with the Kosovo projects for exploration will expire within the next five to fourteen months after December 31, 2007. The directors carried out a review as of December 31, 2007 and are satisfied that on the basis of the current plans and status of operations, there are no indications of impairment.

12. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments. As at December 31, 2007, the money market investments had a one month maturity period.

13. OTHER CURRENT ASSETS

	<i>December 31, 2007</i>	<i>December 31, 2006</i>
	£	£
Inventories	7,569	137
Payment in advance	157,659	-
Trade receivables	-	3,119
Prepayments and accrued income	35,690	-
Other receivables	244,672	26,576
	<u>445,590</u>	<u>29,832</u>

14. SHARE CAPITAL AND RESERVES

	<i>Share capital including, premium and discounts</i>	<i>Warrants</i>	<i>Equity settled employee benefits reserve</i>	<i>Other reserves</i>	<i>Exchange reserve</i>	<i>Accumulated deficit</i>	<i>Total</i>
	£	£	£	£	£	£	£
Balance at December 22, 2005	-	-	-	-	-	-	-
New equity share capital subscribed	1,769,219	-	-	-	-	-	1,769,219
Cash received in advance of share issue	-	-	-	517,425	-	-	517,425
Loss for the period	-	-	-	-	-	(428,655)	(428,655)
Issue of warrants	(54,143)	54,143	-	-	-	-	-
Share transaction costs	(49,243)	-	-	-	-	-	(49,243)
Balance at December 31, 2006	1,665,833	54,143	-	517,425	-	(428,655)	1,808,746
New equity share capital subscribed	7,070,395	-	-	(517,425)	-	-	6,552,970
Issuance of shares on reverse acquisition (note 20)	114,654	-	-	-	-	-	114,654
Issue of broker warrants	(111,389)	111,389	-	-	-	-	-
Issue of warrants	(1,884,973)	1,884,973	-	-	-	-	-
Loss for the period	-	-	-	-	-	(1,243,477)	(1,243,477)
Exchange difference arising on the translation of foreign entities	-	-	-	-	92,579	-	92,579
Employee share options issued during the Year	-	-	222,395	-	-	-	222,395
Share transaction costs	(360,485)	-	-	-	-	-	(360,485)
Transaction costs relating to reverse acquisition (note 20)	(109,985)	-	-	-	-	-	(109,985)
Balance at December 31, 2007 – attributable to equity holders of the parent	<u>6,384,050</u>	<u>2,050,505</u>	<u>222,395</u>	<u>-</u>	<u>92,579</u>	<u>(1,672,132)</u>	<u>7,077,397</u>

Details of share capital are set out in note 15.

The 'Warrants' relate to future shares expected to be issued for warrants issued by the Group. Refer to note 15 for a summary of the assumptions used to compute the recorded amount.

The 'Equity settled employee benefits reserve' relates to the future shares expected to be issued under the Group's employee share option plan. Refer to note 16 for a summary of the assumptions used to compute the recorded amount.

15. SHARE CAPITAL

At December 31, 2007, the Company had 39,035,763 (December 31, 2006 19,259,327) shares outstanding, comprising of the existing post consolidation shares (2,000,002), the shares issued on December 27, 2007 (30,132,161) in exchange for 98% of the Lydian Resource Company Limited shares and the concurrent offering on December 27, 2007 of (6,903,600) shares.

At December 31, 2007, the Company had 10,586,558 (December 31, 2006, 795,932) outstanding warrants to subscribe for ordinary shares at a price ranging from 20 pence to 80 pence. In addition 2,000,000, investor warrants were outstanding at December 31, 2007 (2006: nil). The warrants numbered 1 to 7 below convert into one ordinary share of the Company. Warrants 8 and 9 are whole warrants which were originally issued as half warrants entitling the holder to purchase one half of a share, exercisable at 80 pence per whole share. Warrants may be exercised at any time from the date of vesting to the date of their expiry.

Subsequent to December 31, 2007, the Company acquired the remaining 622,166 shares from the Lydian Resource Company shareholders. A further 125,000 shares were subscribed on January 8, 2008 completing the concurrent offering and during January 2008, 100,000 investor warrants were exercised.

Warrant identifier	Number	Grant date	Expiry date	Exercise price	Fair value at grant date	
					2007 £	2006 £
1	474,833	20 December 2006	30 September 2010	20 pence		32,051
2	321,099	20 December 2006	30 November 2010	20 pence		22,092
3	934,500	17 May 2007	10 January 2012	22 pence	76,349	
4	150,000	July 2007	10 January 2010	31.25 pence	11,220	
5	4,149,999	July 2007	10 January 2011	31.25 pence	388,025	
6	2,000,000	July 2007	10 January 2010	31.25 pence	149,600	
7	1,000,000	September 2007	10 January 2010	31.25 pence	135,600	
8	3,451,900	December 2007	10 January 2010	0.80 pence	1,200,527	
9	104,227	December 2007	10 January 2010	0.80 pence	35,041	
	12,586,558				1,996,362	54,143

The fair value of warrants granted for 2007 were allocated as: investor warrants £1,884,973 (2006 - £nil) and broker warrants £111,389 (2006 - £54,143).

The weighted average exercise price of the warrants granted during the financial year is 30 pence. The warrants were priced using the Black Scholes Option Pricing Model using the following assumptions:

Warrant identifier	Grant date share price	Exercise price	Expected volatility	Warrant and investor option life	Dividend yield	Risk free interest rate
1	20 pence	20 pence	35%	3.75 years	0%	5%
2	20 pence	20 pence	35%	3.9 years	0%	5%
3	22 pence	22 pence	35%	4.5 years	0%	5%
4	31.25 pence	31.25 pence	35%	2 years	0%	5%
5	31.25 pence	31.25 pence	35%	3 years	0%	5%
6	31.25 pence	31.25 pence	35%	2 years	0%	5%
7	31.25 pence	31.25 pence	35%	2 years	0%	5%
8	0.80 pence	0.80 pence	75%	2 years	0%	5%
9	0.80 pence	0.80 pence	75%	2 years	0%	5%

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

16. SHARE BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

As at the December 31, 2007 the following equity-settled share based payment arrangements were in existence. Each share option converts into one ordinary share of Lydian International Limited. Options may be exercised at any time from the date of vesting to the date of their expiry. The options all vested and were exercisable at the date of listing on the Toronto Venture Exchange on January 10, 2008.

Option identifier	Number	Grant date	Expiry date	Exercise price	Fair value apportioned to 2007. £
1	100,000	September 2006	January 2010	15 pence	2,872
2	100,000	January 2007	January 2010	20 pence	4,663
3	100,000	March 2007	January 2012	20 pence	6,755
4	100,000	May 2007	January 2010	25 pence	5,735
5	200,000	August 2007	January 2010	25 pence	11,126
6	100,000	August 2007	January 2010	31 pence	6,233
7	1,675,000	September 2007	January 2010	31 pence	185,011
	2,375,000				222,395

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

The weighted average fair value per share options granted during the year was 10 pence (2006 – nil). Options were priced using the Black Scholes Option Pricing Model using the following assumptions:

Option identifier	Grant date share price	Exercise price	Expected volatility	Option life	Dividend yield	Risk free interest rate
1	15 pence	15 pence	35%	2 year	0 %	5.0%
2	20 pence	20 pence	35%	2 year	0 %	5.0%
3	20 pence	20 pence	35%	2 year	0%	5.0%
4	25 pence	25 pence	35%	4 year	0%	5.0%
5	25 pence	25 pence	35%	2 year	0%	5.0%
6	31 pence	31 pence	35%	2 year	0%	5.0%
7	31 pence	31 pence	75%	2 year	0%	5.0%

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

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

	Dec 2007 No of options	Dec 2007 Weighted average exercise price
Balance at 22 December 2005	-	-
Granted during the period	100,000	15 pence
Balance at 31 December 2006	100,000	15 pence
Granted during the year	2,375,000	29 pence
Forfeited during the year	(100,000)	25 pence
Balance at 31 December 2007	2,375,000	29 pence

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

17. ACCRUED EXPENSES AND OTHER PAYABLES

	December 31, 2007 £	December 31, 2006 £
Accrued expenses	396,966	18,354
Wage accruals	9,767	9,279
Payroll tax and pension accruals	5,794	3,104
	412,527	30,737

18. FINANCIAL RISK MANAGEMENT

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

Capital risk management

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

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

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

The Group defines capital as total equity plus cash and cash equivalents. Total equity is comprised of share capital, warrants, reserves and accumulated deficit as disclosed in note 14. Cash and cash equivalents are disclosed in note 12.

Liquidity Risk

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

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

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

Accrued expenses and other payables (note 17) amounted to £412,527 (2006: £30,737) which were all settled in January 2008, and within their contractual terms which in the majority of cases was 30 days or less.

Currency rate risk

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

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

Subsequent to the December 31, 2007, the Group developed a currency risk policy and, invested its cash resources in the British Pound (15%), the US Dollar (35%), the Canadian Dollar (10%) and the Euro (40%). This is broadly in line with the ratio of expected currency expenditures. This was done to reduce the risk of the Group holding virtually all of its monetary assets in a single currency when the expenditure is spread over five main currencies.

Currency risk sensitivity

The following table details the Group's sensitivity to a 10% increase and decrease in the British Pound against the relevant foreign currencies. A 10% increase or decrease is used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes loans to operations within the Group where the denomination of the loan is in a currency other than the currency of the lender. A positive (negative) number below indicates an increase (decrease) in profit and equity where the British Pound strengthens 10% against the relevant currency.

For a 10% weakening of the British Pound against the relevant currency, there would be an equal and opposite impact. This analysis assumes that all other variables are assumed constant.

	Canadian Dollar		2007	Euro		US Dollar		Armenian Dram	
	2007	2006		2006	2007	2006	2007	2006	
	£	£	£	£	£	£	£	£	£
Loss	(421,053)	-	(16,476)	(2,972)	5,178	5,090	(3,414)	38	
Exchange reserve	-	-	(145,732)	-	4,698	-	-	-	

Interest rate risk

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

Interest rate sensitivity

A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. With a 50 basis point increase or decrease in interest rates, the loss for the year ended December 31, 2007, would be £ 8,000 higher or lower respectively. This analysis assumes all other variables are assumed constant. With the funds raised through the concurrent offering on December 27, 2007, the risk and sensitivity is expected to be greater in 2008.

Credit risk management

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

As the Group has no revenue or trade receivables, its credit risk is low. Up front deposits are on occasion paid to major suppliers primarily relating to exploration drilling contracts. The payment of these deposits is considered by the management on a case by case basis and the progress on the contract carefully reviewed. The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics other than for the receivable of £120,000 from a joint venture partner as outlined in note 19.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. Impairment losses include a provision against prepayments of £29,315.

Prepayments include the following:

- Bank guarantee deposits amounting to £38,425 held on behalf of two suppliers customs duty commitments to the Kosovo Customs Authority. There is no impairment provision against this balance; and
- VAT recoverable relating to both Kosovo Resource Company LLC and Geoteam CJSC, amounting to £68,890. Kosovo Resource Company LLC is entitled to reclaim this from the tax authorities. Geoteam CJSC may recover the balance through offsetting with VAT payable on behalf of non residents.

These balances are considered recoverable.

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

Financial assets

Fixed rate financial assets are cash held on fixed term deposit. Cash at bank is held to finance the Group's short term cash requirements. Certain of the Group's cash deposits earn interest set by reference to the prevailing LIBOR (£606,056 at December 31, 2007 and £1,692,095 at December 31, 2006). Following the concurrent offering on December 27, 2007, £4,418,444 was held as at December 31, 2007, in an interest bearing account held in trust by the Group's solicitor.

At December 31, 2007 and 2006, cash and cash equivalents were as follows:

	Fixed rate assets £	Cash assets £	Solicitor Client Account £	Total £	Average period for which rates are fixed Months	Average interest rates for fixed rate assets
31 Dec 2007	950,000	641,323	4,418,444	6,009,767	One	5.1%
31 Dec 2006	-	1,740,848		1,740,848	-	-

Fair value of financial assets and liabilities

The directors believe that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature. Fair value has been determined by reference to the market value at the balance sheet date.

19. RELATED PARTY TRANSACTIONS

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

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

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

The group has a jointly controlled operation with Newmont Overseas Exploration Limited. ("Newmont"). The agreement relates to the Armulsar exploration project in Armenia. The agreement currently requires that costs incurred on the project are shared equally with the future option of a carried interest available to either party once the project goes to the feasibility or development stage. Newmont paid to Lydian Resource Company Limited £237,772 during the year ended December 31, 2007 to cover their share of the costs. At December 31, 2007 it is estimated that the amount due from Newmont Overseas Exploration Limited in respect of the joint agreement amounts to approximately £120,000, and has been recognised in the consolidated financial statements.

Newmont Mineral Holdings BV held 4,150,000 shares as at December 31, 2007 and 2,000,000 options at an exercise price of 31.25 pence exercisable within 2 years from January 10, 2008 and is related by virtue of these holdings.

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

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

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

	12 months to December 31, 2007 £	Period from December 22, 2005 to December 31, 2006 £
Aggregate emoluments	245,344	96,001
Share based payments	222,395	-

The directors and key management were awarded the following share options under the employee share option plan during the year:

Date of grant	Number of options	Exercise price	Expiry
March 2007	100,000	20 pence	January 2012
September 2007	1,675,000	31 pence	January 2010

Until June 2007, the Group's head office was located in premises occupied by a director. The director, through his service company charged the Group at cost for office services used. The amount charged in the year ended December 31, 2007 was £17,282 (2006 – £nil).

20. REVERSE ACQUISITION

On the December 27, 2007 Lydian Resource Company Limited, acquired Lydian International Limited (formerly Dawson Creek Capital Corporation) in a reverse acquisition (note 1). Dawson Creek Capital Corporation was a capital pool company listed on the Toronto TSX Venture Exchange.

The reverse acquisition of Lydian International Limited was through the exchange of one Lydian International Limited share for one Lydian Resource Company Limited share resulting in 2,000,002 shares being issued on a post-consolidation basis. Fees directly related to the acquisition amounting to £109,985. The fair value of the net assets acquired, representing the value attributable to shares issued, is as follows:

	£
Fair value of net assets acquired	
Cash	96,356
Other receivables	21,968
Other payables	(3,670)
	<u>114,654</u>

21. OPERATING LEASE COMMITMENTS

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

	<i>December 31,</i> <i>2007</i>	<i>December 31,</i> <i>2006</i>
	£	£
Not later than one year	7,473	-
Later than one year and no later than five years	11,833	-
Later than five years	-	-
	<u>19,306</u>	<u>-</u>

22. EXPLANATION OF TRANSITION TO IFRS

The Group has adopted IFRS from December 22, 2005, which is the date of transition to IFRS. Under IFRS 1 '*First time adoption of International Financial Reporting Standards*', IFRS are applied retrospectively at the date of transition. No exemptions were taken on reconciling to IFRS on the date of transition. The IFRS in effect as at December 31, 2007, the reporting date of Group's first financial statements were used to prepare the financial statements since December 22, 2005 and for each of the comparative periods being presented.

The reconciliation of the UK GAAP and IFRS consolidated financial statements are presented below.

Reconciliation of UK GAAP to IFRS Consolidated Income Statement for the Period from December 22, 2005 to December 31, 2006:

	<i>Notes</i>	<i>UK GAAP</i>	<i>Effect of Transition of IFRS</i>	<i>IFRS</i>
		£	£	£
Interest income		12,734	-	12,734
Employee benefits expense	(a), (b)	-	(153,630)	(153,630)
Services and consumables used	(a), (b)	-	(239,746)	(239,746)
Consulting expense	(a), (b)	-	(19,330)	(19,330)
Depreciation and amortisation expense	(a), (b)	-	(3,551)	(3,551)
Administrative and other expenses	(a), (b), (c)	(527,297)	500,00	(26,897)
Other gains and losses	(a), (b)	-	1,765	1,765
Total expenses		(527,297)	85,908	(441,389)
Loss before tax		(514,563)	85,908	(428,655)
Income tax		-	-	-
Loss for the period		(514,563)	85,908	(428,655)
Attributable to:				
Equity holders of the parent		(514,563)	85,908	(428,655)
Minority interest	(d)	3,015	(3,015)	-
		(511,548)	82,893	(428,655)

Reconciliation of UK GAAP to IFRS Consolidated Balance Sheet as of December 31, 2006:

		<i>UK GAAP</i>	<i>Effect of Transition to IFRS</i>	<i>IFRS</i>
		£	£	£
ASSETS				
Non-current assets				
Property, plant and equipment		15,573	-	15,573
Exploration and evaluation assets	(b)	79,629	(26,399)	53,230
Total non-current assets		95,202	(26,399)	68,803
Current assets				
Cash and cash equivalents		1,740,848	-	1,740,848
Other current assets		29,832	-	29,832
Total current assets		1,770,680	-	1,770,680
TOTAL ASSETS		1,865,882	(26,399)	1,839,483
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	(e), (f)	192,593	1,473,240	1,665,833
Share premium account	(e)	1,576,626	(1,576,626)	-
Warrants	(f)	-	54,143	54,143
Other reserves		517,425	-	517,425
Accumulated deficit	(b), (c), (d)	(511,548)	82,893	(428,655)
Equity attributable to equity holders of the parent		1,775,096	33,650	1,808,746
Minority interest	(d)	(3,008)	3,008	-
Total equity		1,772,088	36,658	1,808,746
Current liabilities				
Trade and other payables	(b)	93,794	(63,058)	30,737
TOTAL EQUITY AND LIABILITIES		1,865,882	(26,399)	1,839,483

- (a) Under UK GAAP, all expenses are presented under administrative and other expenses. Under IFRS, the details of expenses are presented in the face of the consolidated income statement in accordance with their nature.
- (b) Under IFRS, jointly controlled operations are accounted for on a proportionate consolidation method to reflect the substance of the operation resulting in a decrease in net loss of £36,665.
- (c) Under UK GAAP, share issue costs amounting to £49,243 were expensed. Under IFRS, share issue costs are presented in equity.
- (d) Under IFRS, the minority interest amounting to £3,015 was taken to shareholder equity, in accordance with IAS 27, as there is no contract with the minority holder to fund the losses.
- (e) Under UK GAAP, subscribed equity share capital is presented under the caption 'Share premium account'. Under IFRS, subscribed equity share capital is included in the 'Share capital' account.
- (f) Under IFRS, the fair value of broker warrants granted in 2006 totalling to £54,143 was recognised and presented separately on the face of the consolidated balance sheet and debited against share issue costs in the 'Share capital' account.

There were no significant differences between IFRS and UK GAAP on the Group's cash flow statement for the period ended December 31, 2006.

23. CONTINGENCIES

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

The Group in its normal course of operations incurs the obligation to restore its operating sites to as close to their original state as is practicable. When normal operations cause deterioration to the sites, an estimate of the total future redemption and abandonment costs will be determined in accordance with the Group's accounting policy and an annual charge will be accrued, thereby matching costs with the revenues expected over the remaining project life. Management is of the opinion that the Group has met the regulatory requirements concerning environmental matters and, therefore, believes that the Group does not have any current material environmental liabilities.

Armenia and Kosovo Country related Risks

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

Social Risks and Business Environment

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