



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **INTRODUCTION**

The following discussion of performance and financial condition should be read in conjunction with the consolidated financial statements of Lydian International Limited ("Lydian" or the "Company") for the years ended December 31, 2007 and 2006. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's reporting currency is the British Pound. The date of this Management's Discussion and Analysis is April 30, 2008.

### **DESCRIPTION OF BUSINESS**

The Company is a diversified U.K. mineral exploration and development company operating in emerging exploration environments. The Company is currently focused on Eastern Europe, exploring in the Balkan and Caucasus regions, and is developing advanced precious and base metal assets located in Armenia and in Kosovo.

The Company's two main projects are exploring for gold at Amulsar in Armenia and for zinc, lead, silver and gold at Drazhnje in Kosovo. Lydian also has a pipeline of gold and base metal exploration projects in the Balkans region, where it operates a 50/50 gold and copper exploration joint venture (the "Newmont Joint Venture") with Newmont Overseas Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation (NSYE & ASX:NEMS, TSX:NMC), in the Caucasus region. The Company's two largest shareholders are Newmont Mineral Holdings B.V., and International Finance Corporation (part of the World Bank Group).

### **REVIEW OF ACTIVITIES.**

The Company's exploration activities and its overall corporate development is summarised below:

#### **Exploration activity**

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

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

The exploration licences are held 100% by Geoteam JSC (“Geoteam”), an Armenian registered closed joint stock company. The outstanding shares of Geoteam are held 95% by Lydian Resources Armenia (a subsidiary of Lydian International Limited).

In 2007, Lydian advanced the project to scout drilling stage by conducting mapping, soil sampling, trenching and rock-chip sampling.

Five scout diamond drill holes totalling 591m were drilled in 2007 and represent the very first subsurface test of the gold potential at Amulsar. The Company believes that the results from this programme are highly promising. The Company intends to carry out a 20,000m drill programme with a view to defining a reportable resource in 2008.

***Drazhnje: Kosovo***

Drazhnje is a zinc, lead, silver and gold 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.

Further surface geochemistry and a 2500m drilling programme was completed at Drazhnje in 2007. The drilling programme confirmed the presence of the former Yugoslav resource and identified two new extensions of both base metal and gold mineralisation, which the Company is developing further. During 2007, the portal to underground exploration development was rebuilt in readiness for underground access and exploration during 2008.

***Crepulje: Kosovo***

Crepulje is a zinc-lead oxide project of approximately 5km strike-extent in northern Kosovo. During 2007, reconnaissance rock-chip sampling and cleaning and sampling of trenches was conducted in preparation for drilling. The Company believes that the results for zinc were highly encouraging suggesting open-pittable potential.

***Rahovec: Kosovo***

Lydian’s Rahovec license is located in central Kosovo. Results from reconnaissance rock-chip and soil sampling conducted during 2007 have identified a gold anomalous zone of approximately 1km in strike length and 100m in width with a maximum soil geochemical result of 1.89ppm Au and rock-chip results of up 7.9g/t gold and 0.9% copper. Trenching has identified a central zone of breccia and replacement style mineralisation with the most encouraging trench result to-date being 64m @ 0.94g/t gold. Rahovec will be prepared for drill testing in 2008.

***Muratdag: Turkey***

As part of the Newmont Joint Venture, Lydian acquired a 50% interest in the Muratdag gold-nickel project in Western Turkey. The Muratdag project area is at an early-stage and extensive, comprising 23 individual exploration licence areas and totalling approximately 66.22 square kilometres.

Muratdag was discovered by Newmont during a regional BLEG survey in 2004. Since then, grid soil sampling and reconnaissance rock-chip sampling has identified two zones of gold and nickel mineralisation extending over a strike length of more than 2km with soil samples of greater than 1ppm Au and .6% Ni and rock-chip highs of 2ppm Au and .6% Ni. Work conducted during 2007 revealed that mineralisation is related to peridotitic bodies and is hosted in throughgoing faults and overlying coarse clastic sediments.

### ***New Frontiers***

As part of its policy to maintain a pipeline of quality projects during 2007, Lydian conducted research and field exploration studies elsewhere in the Balkans and Caucasus regions.

### ***Corporate***

- The Company, formerly Dawson Creek Capital Corp., was incorporated under the *Business Corporations Act* (Alberta) on February 14, 2006 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange. The principal business of the Company was the potential identification and evaluation of acquisitions or businesses.
- On December 12, 2007, the Company consolidated its outstanding share capital on the basis of two post-consolidation shares for each three post-consolidation shares, continued from the Province of Alberta to Jersey, Channel Islands and changed its name to Lydian International Limited.
- On December 27, 2007, the Company completed its qualifying transaction by acquiring approximately 98% of the issued and outstanding shares of Lydian Resource Company Limited (“Lydian Resource Company”). As at the date hereof, all of the remaining shareholders of Lydian Resource Company have accepted the Company’s offer to sell their shares of Lydian Resource Company in exchange for shares of the Company. The Company is in the process of completing the acquisition of this minority interest on the same terms as the Company’s original offer.
- As part of the qualifying transaction, the Company completed a private placement of 6,903,600 units for proceeds of CAD \$ 8,629,500. Each unit was priced at \$1.25 and consisted of one common share and a warrant that entitles the holder to purchase one half of a common share, exercisable at \$1.55 per share for a period of 24 months.
- The shares of the company started trading on the Toronto Stock Exchange (“TSX”) on January 10, 2008.
- On August 3, 2007, Lydian Resource Company completed a private placement of 6,150,000 ordinary shares for proceeds of GBP 1,537,500. On September 30,

2007, Lydian Resource Company also completed a private placement of 1,149,999 ordinary shares for proceeds of GBP 287,499.

## FINANCIAL RESULTS OF OPERATIONS

### Selected Annual Information

	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
<b>Statement of Operations</b>	£	£
Interest income	90,607	12,734
Costs	(1,334,084)	(441,389)
Loss for the year	<u>(1,243,477)</u>	<u>(428,655)</u>
Attributable to :		
Equity holders of the parent	(1,243,477)	(428,655)
Minority interests	-	-
	<u>(1,243,477)</u>	<u>(428,655)</u>
Loss per share from continuing operations:		
Basic	4.8 pence	3.1 pence
Diluted	4.8 pence	3.1 pence
	<b>As at December 31, 2007</b>	<b>As at December 31, 2006</b>
	£	£
<b>Balance Sheet Data</b>		
Current assets	6,455,357	1,770,680
Property, plant and equipment	134,013	15,573
Deferred Exploration Expenses	900,554	53,230
Total Assets	<u>7,489,924</u>	<u>1,839,483</u>
Current Liabilities	(412,527)	(30,737)
<b>Shareholders' Funds</b>	<b><u>7,077,397</u></b>	<b><u>1,808,746</u></b>
Attributable to equity holders of		
• The parent	7,019,733	1,808,746
• Minority interest	57,664	-

During the year ended December 31, 2007, the Company had no revenues. Its only income was bank interest and contributions received from Newmont in connection with the Newmont Joint Venture. In this period, the Company recorded a loss of GBP 1,243,477 (4.8 pence per share) compared to GBP 428,655 (3.1 pence per share) in 2006. The expenditures incurred in the year were comprised primarily of remuneration for the employees, contractors and directors, costs relating to the Company's three offices in Spain (now closed), Kosovo and Armenia and exploration site overheads. Deferred exploration expenditures incurred during this period were GBP 847,324 compared to deferred expenditures of GBP 53,230 in 2006. These deferred exploration expenditures were related to exploration work on the Company's following exploration projects as follows:

<b>Deferred exploration expenses by project are :</b>	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
	£	£
<b>Kosovo</b>		
• Draznja	585,958	27,870
• Rahovec	15,325	-
• Crepulja	9,013	-
<b>Armenia</b>		-
• Armulsar	290,258	25,360
<b>Turkey</b>		
• Muratag	-	-
<b>Total</b>	900,554	53,230

The deferred exploration expenditures set out above were primarily for geological consulting and services, report preparation, drilling, processing of sampling, project administration, travel, field work and equipment.

The Company's financial performance will be directly affected by the exploration activities to be conducted on its projects and the potential for development for commercial production of any discovered minerals. Should the results of such exploration activities warrant bringing any of these projects into commercial production, substantial funds will be required to do so. Until such time as commercial production is achieved (and there can be no assurance it will be), the Company will continue to incur administrative costs and exploration expenditures that are either deferred or expensed, depending upon the nature of those expenditures, resulting in continuing operating losses. In the future, should the development of the Company's mineral projects occur, the Company's financial performance will become more closely linked to the prices obtained for the minerals produced by the Company, if any. The exploration and development of the Company's mineral projects will require substantial additional financing. Failure to obtain sufficient financing will result in the delay or indefinite postponement of exploration, development or production on any or all of such projects, and may even cause a loss of project interest. There can be no assurance that additional capital or other types of financing will be available when needed or that, if available, the terms of such financing will be favourable to the Company.

## Quarterly results

To date, the Company has only prepared quarterly financial statements as at June 30, 2007 and September 30, 2007. These quarterly financial statements are summarised below.

	As at December 31, 2007	As at September 30, 2007	As at June 30, 2007 (See note below)	As at December 31, 2006
	£	£	£	£
<b>Balance Sheet Data</b>				
Current assets	6,455,357	2,233,911	1,217,680	1,770,680
Property, plant and equipment.	134,013	117,664	45,642	15,573
Deferred Exploration Expenses	900,554	510,910	484,797	53,230
Total Assets	7,489,924	2,862,485	1,748,119	1,839,483
Current Liabilities	(412,527)	(103,731)	(137,249)	(30,737)
<b>Shareholders' Funds</b>	<b>7,077,397</b>	<b>2,758,754</b>	<b>1,610,870</b>	<b>1,839,483</b>

	Three months to December 31, 2007	Three months to September 30, 2007	Six months to June 30, 2007	Period from December 2005 to 31 December 31, 2006
	£	£	£	£
<b>Loss for the period</b>	(368,878)	(392,555)	(482,044)	(428,655)

The loss per share from continuing operations was 4.8 pence per share (basic and diluted) for the year ended December 31, 2007 compared to 3.1 pence per share (basic and diluted) in the year ended December 31, 2006.

**Note** – the consolidated financial position and the consolidated results have been shown as at June 30, 2007 and for the six month period ended June 30, 2007, respectively. At the time the Company was a private entity and, prior to this date, the Company did not prepare financial management information on a consolidated basis. Accordingly, the quarterly financial position as at March 31, 2007 and the quarterly result for the three months ended March 31, 2007 has not been presented.

## OUTSTANDING SHARE DATA

The Company has only one class of issued equity shares, being ordinary shares. A summary of outstanding shares and options is set out below at March 31, 2008 and December 31, 2007:

	<u>As at March 31, 2008</u> <u>Number</u>	<u>As at December 31, 2007</u> <u>Number</u>
<b>Ordinary shares</b>	39,832,929	39,165,763
<b>Rolling stock option plan</b>	300,000	200,000
<b>Other Warrants/Options</b>	15,319,816	15,104,816

## LIQUIDITY AND CAPITAL RESOURCES

Lydian had working capital of GBP 6,042,830 as at December 31, 2007, compared to GBP 1,739,943 on December 31, 2006. The Company had gross assets of GBP 806,946 at December 31, 2007, compared to GBP 1,839,483 on December 31, 2006 which included deferred exploration expenditure amounting to GBP 900,554 (GBP 53,230) respectively. The Company's principal source of liquidity as at December 31, 2007 was cash amounting to GBP 6,009,767 compared to GBP 1,740,848 on December 31, 2006. Cash surplus to the Company's requirements were invested in money market deposits. During the period ended December 31, 2007, the net proceeds from the issue of shares net of finance costs, amounted to GBP 6,192,485 compared to GBP 2,237,408 on December 31, 2006.

The Company had no capital commitments for capital expenditures as at December 31, 2007 and had no operating commitments at this date. The office properties used by the Company are rented on a monthly basis.

The Company's sole source of funds is equity finance. The Company is not planning to raise any equity finance in the immediate future and has sufficient funds to carry out its planned exploration activities until the end of the year.

The following summary sets out the Company's estimate of the future expenditures required to maintain its current right of tenure to its exploration projects. The Company forecasts that its 2008 expenditure will amount to GBP [2,900,000] to carry out its plans for 2008. Certain expenditure commitments have been given 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.

<b>Exploration Commitment Costs</b>	<b>Less than 1 year GBP</b>	<b>1 to 3 years GBP</b>
	2,900,000	

**[Note: this table needs to be updated or confirmed] Suggest table removed.**

The above costs are exploration costs directly attributable to the Company's projects and are attributable overheads. They include the estimated contribution from Newmont, the Company's joint venture partner, in respect of the Newmont Joint Venture property at Amulsar in Armenia, and do not include costs relating to head office corporate activities or the project pipeline.

### **FINANCIAL 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. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The Company operates internationally and is therefore exposed to foreign exchange risks arising from foreign currency fluctuations. The Company raises finance in Canadian Dollars and incurs expenses in mainly five currencies – the Euro, the British Pound, the U.S. dollar, the Canadian dollar and the Armenia Dram. The Company has recently formalised a risk management policy and holds cash in the Euro, British Pound, the U.S. dollar and the Canadian dollar, broadly in line with its currency expenditure forecasts.

### **OFF-BALANCE SHEET ARRANGEMENTS**

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

### **PROPOSED TRANSACTIONS**

To the best of management's knowledge, there are no transactions that are currently proposed that will affect the Company's financial performance.

## RELATED PARTY TRANSACTIONS

The Company operates the Newmont Joint Venture with Newmont, the holder of approximately 13% of the Company's issued and outstanding shares. The Newmont Joint Venture agreement relates to, among other things, the Armulsar exploration project in Armenia. The Newmont Joint Venture 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 the Company GBP 237,772 during the year ended December 31, 2007 as a payment on account of its share of the Armulsar project's costs. At December 31, 2007, the estimated amount due by Newmont in respect of the Joint Venture is GBP 120,000 in respect of the period from April 1, 2007 to December 31, 2007.

The remuneration of directors during the year ended December 31, 2007 and from December 22, 2005 to December 31, 2006 is as follows:

	<b>Year ended December 31, 2007</b>	<b>Period from December 22, 2005 to December 31, 2006</b>
	£	£
Aggregate emoluments	<b>245,344</b>	96,001
Share based payments	<b>222,395</b>	-

Until June 2007, the Company's head office was located in premises occupied by a director, Tim Coughlin. Mr. Coughlin, through his service company recharged the company at cost for office services used. The arrangement ended in June 2007 following the relocation of the head office. The amount recharged in the six month period ended June 30, 2007 was £17,282.

## DIVIDEND POLICY

The Company has neither declared nor paid any dividends on its ordinary shares and intends to retain its earnings, if any, to finance growth and expand its operations and does not anticipate paying any dividends in the foreseeable future. The payment of dividends in the future will depend on the Company's earnings and financial condition and such other factors as the Company's board of directors may consider appropriate.

## CRITICAL ACCOUNTING ESTIMATES

The accounting 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 Newmont Joint Venture is operated as a jointly controlled operation. In accordance with the terms of the Newmont Joint Venture agreement, costs are shared equally between the Company and Newmont. The financial statements include a receivable of GBP 50,000 due by Newmont based on an estimate of the settlement required in respect of the period April 1, 2007 to December 31, 2007. The position is in the process of being determined in detail and agreed. The directors expect that the final outcome will not differ significantly from the estimated position.

The Company has adopted IFRS 6 to determine its accounting policy for exploration and evaluation costs. IFRS 6 does not follow the requirements of the IASB Framework. As a result, exploration expenditure has been capitalised earlier than would be allowed under the IASB Framework.

Exploration projects are only reviewed for impairment when there is an indication that impairment may have occurred.

The recoverability of deferred 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.

## **ACCOUNTING POLICIES**

The accounting policies for the year ended December 31, 2007 are consistent with the prior period ended December 31, 2006.

## **RISKS AND UNCERTANTITIES**

The Company is in the mineral exploration and development business and is exposed to a number of risks and uncertainties that are common to other companies in the same business. Some of the possible risks include the following:

- The industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates.
- The only source of future funds for further exploration programs, or if such exploration programs are successful for the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration or development. Management was successful in accessing the equity markets during the period ended December 31, 2007, but there is no assurance that such sources will be available on acceptable terms in the future.

- Any future equity financings by the Company for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders.
- The Company must comply with environmental regulations governing air and water quality and land disturbance.
- The Company'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 Company 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 Company's business, operating results and financial condition.
- 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 will not result in the Company having to pay significantly higher taxes, which could have a materially adverse effect on the Company's business.
- The operations of the Company will require various licences and permits from various 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.
- There is no certainty that the properties which the Company has deferred on its balance sheet will be realized at the amounts recorded. These amounts should not be taken to reflect realizable value.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described in any of the forward looking statements. The Company has not completed a feasibility study on any of its deposits to determine if it hosts a mineral resource that can be economically developed and profitably mined.

#### **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 have been based on careful judgements 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.

#### **OTHER INFORMATION**

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

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

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

Roderick Corrie  
Chief Financial Officer  
April 30, 2008