



Lydian International Ltd: Flying Under the Radar

A Monday Morning Musing from Mickey the Mercenary Geologist

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I seek undervalued stocks in the investment game. There are numerous reasons a stock may be undervalued at various times in its trading history. These reasons could include a new public stock issuer, lack of marketing, general market conditions, low price of the target commodity, lack of current news, overhanging warrants, institutional fund selling, tax loss selling, etc. I'm sure you all can add to the list and so could I. But that is not the purpose of this musing.

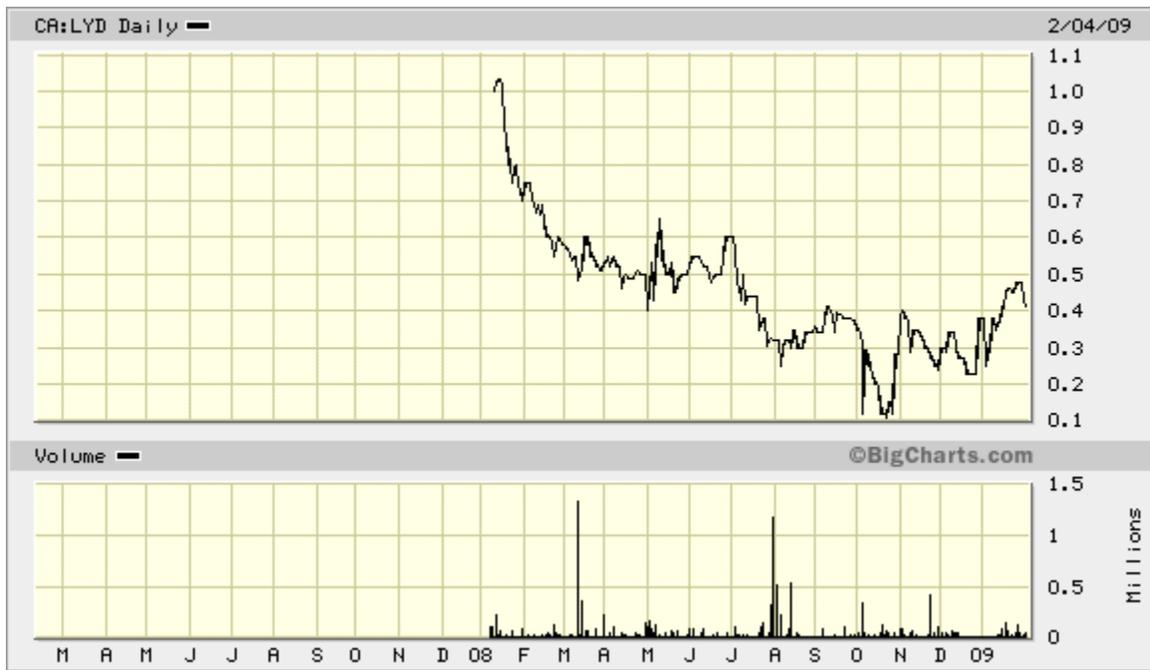
I seek stocks that will not be undervalued in a day, month, or year into the future. You know my investing philosophy: I am a trader and can't make and take profits unless I sell stock. Any investor in the junior sector must move paper to be successful.

I recently found a junior gold exploration stock that, in my opinion, is currently undervalued. It is a young company with a tightly held share structure, people that I know, have worked with previously, and will work with again, and a project with a new gold discovery having robust potential. Therefore, it meets the initial Mercenary Geologist criteria.

I like Lydian International Ltd (LYD.T) but bet most of you have never heard of it. Lydian flies under the radar screen for a number of reasons. It's been a public company for just over a year and operates out of the United Kingdom with regional offices in Yerevan, Armenia and Prishtina, Kosovo. Other than a Toronto Stock Exchange listing and an investor relations desk in that city, Lydian does not have a North American presence. Its projects are based in Eastern Europe and it's only beginning a concerted marketing effort. This is not the usual Americas fare and that's part of the reason I like it.

I was first introduced to Lydian at the PDAC last March. As usual, it was mentioned in a conversation while drinking a cold Bud (hey, we are weaned on it in Missouri) with buds in the bar. In Toronto, they were likely Aussies and they will probably out drink any North American or pass out trying. But that's not a problem. The problem was I didn't think Lydian was undervalued at the time. Now, based on exciting drill results from its flagship project, I think it is.

Let's dig a little deeper, first the chart since the company started trading in mid-January of 2008:



This chart resembles most junior resource gold stocks for the past year with its all-time high when it IPO'd in January 2008. Since then Lydian has had a generally declining share price thru the market meltdown in October when margin calls forced a major shareholder to liquidate. This event was followed by a big rebound and volatility until the end of tax-loss selling in late December, and a strong rally in January.

Lydian has slightly less than 40 million shares outstanding: Insiders control 18.4%, Newmont Mining 12.9%, the International Finance Corporation (a financing arm of the World Bank) 12.9%, and institutions about another 20%, thus leaving a public stock float of about 35%. Liquidity is generally low but that's common with a tightly held stock. Lydian recently announced a private placement to raise \$3 million at 42c of which the IFC has committed to \$1.4 million, giving it 18% of the company. The remainder will be raised from a select group of investors. At the current price of about 40-45c, market capitalization is \$16-18 million. When the new financing is completed, the company will have a nice kitty of \$6.2 million for 2009 exploration. Lydian International operates a 50-50 joint venture with Newmont to explore for gold and copper in Armenia and together they have committed \$5 million for exploration and development on the flagship property this year.

What first attracted my attention with Lydian International was management. I have known and worked with two of the founders and directors, Marc Henderson and Peter Mullens since the early 2000's. These are two successful guys in the junior resource sector. They put together the current portfolios of two very successful juniors, Aquiline Resources and Laramide Resources, early in the last bull market.

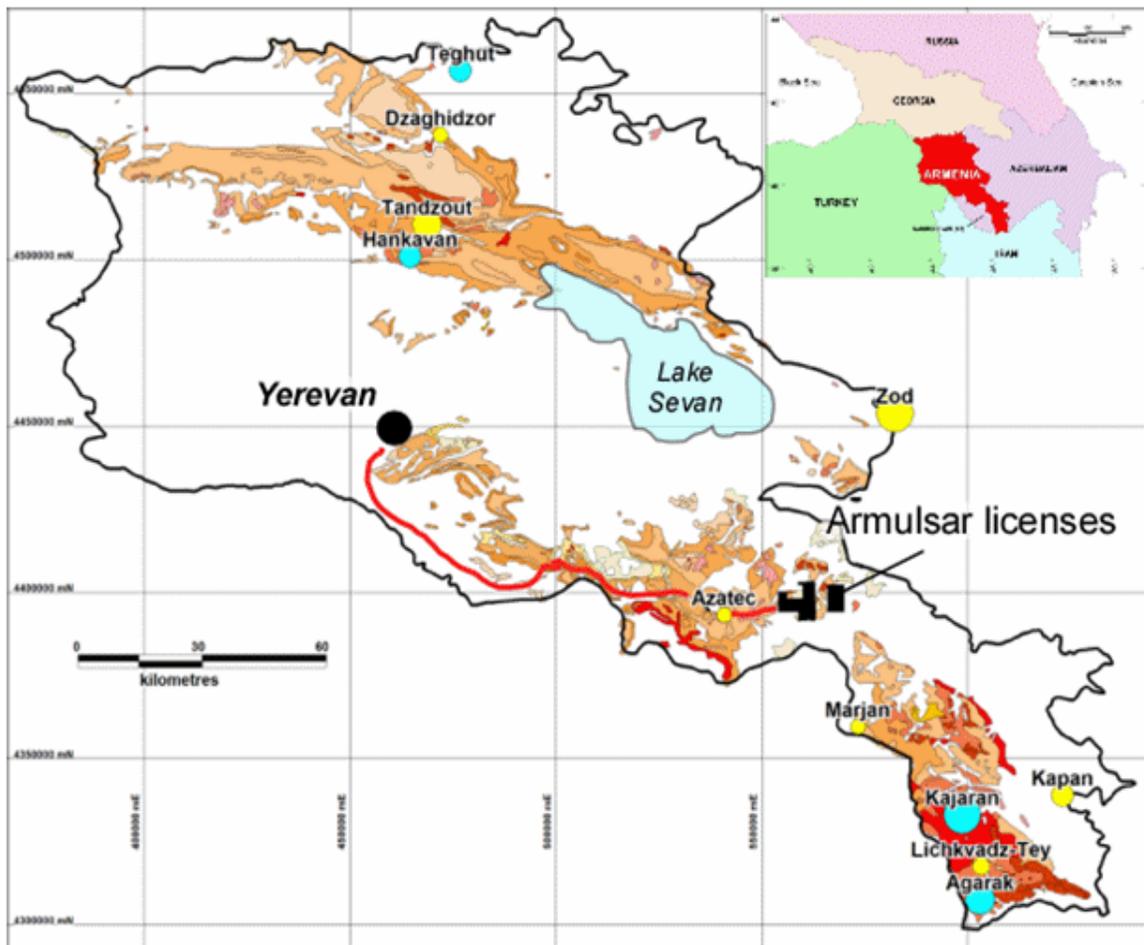
I was a member of the Ironbark Group in 2003 and 2004 when three of their other companies were formed and have profited handsomely thru my continuing association with Marc and Pete. There is a good chance they will be successful again with LYD.

President and CEO Tim Coughlin, who I met a few years back at the English Pub in Miraflores, Peru, is an experienced geologist with a particular knack for finding and acquiring prospective ground in the unexplored corners of the world. The company is focused on the western Balkan and southern Caucasus

regions of Eastern Europe and currently has five projects. In the Caucasus, Lydian is the operator of the previously mentioned joint venture with Newmont Overseas Exploration Ltd.

Lydian International meets my first two Mercenary criteria to invest in a junior resource issuer. Now let's get down to the nitty-gritty, the place where most companies fail: The flagship project. Lydian passes this test with flying colors.

The Amulsar project is located in the Caucasus Mountains of southeastern Armenia and the exploration license covers 99 sq km in an area of high sulfidation, epithermal gold mineralization. It is held 95% by Lydian Resources Armenia and 5% by the company's local director. The project is part of Lydian's Caucasus Joint Venture with Newmont Overseas Exploration Ltd.



Amulsar project location, southeastern Armenia.

Amulsar has excellent infrastructure. It is 240 km from the capital city of Yerevan and located on the ancient Silk Road, which is now a paved highway. Two high power electrical lines, a gas pipeline, a water pipeline, and fiber optic cable transect LYD's exploration licenses. The project is in a largely uninhabited mountainous area along a seven km long ridge that reaches a moderately high elevation of slightly less than 3000 m. The climate is arid, the mountains are treeless, and the drilling season is May to November. Two small villages in the vicinity supply local labor.

Amulsar was literally found by Lydian geologists including CEO Tim Coughlin in 2005 “while driving past it going somewhere else”. They immediately recognized it as a high sulfidation alteration zone. In 2006, reconnaissance rock samples returned up to 18 g/t Au along the central ridge line. Subsequent soil samples identified an area of 3.5 by 0.5 km exceeding 0.1 g/t Au, more than 21% of grab rock-chip samples assayed greater than 1 g/t Au, and trench samples returned 128 meters at 1.3 g/t Au.



Quartz-alunite-earthy iron oxide-gold sample from Amulsar.

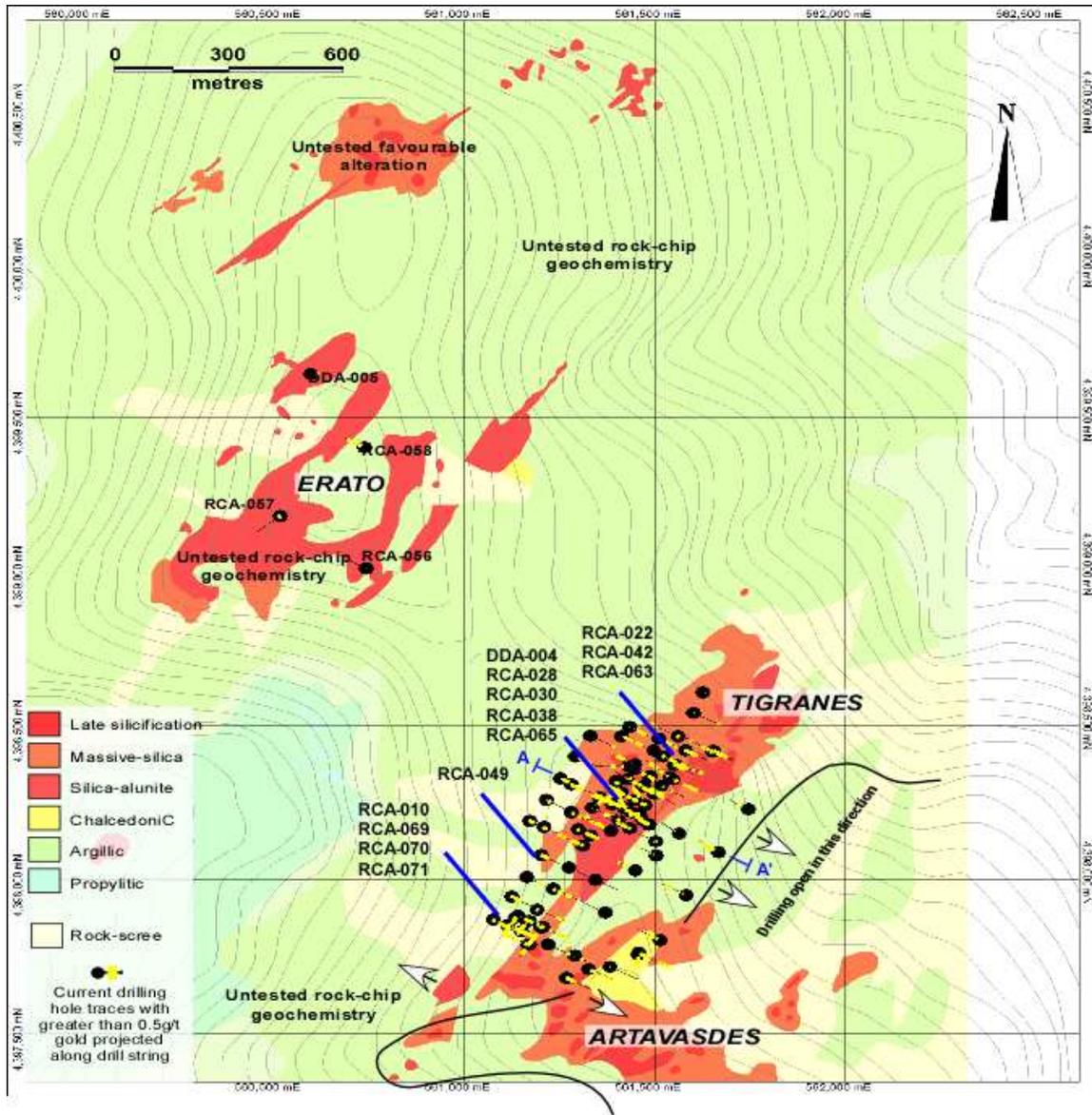
In 2007, five scout diamond drill holes totaling nearly 600 meters revealed the potential of Amulsar and another 13,000 meters of diamond and reverse circulation drilling were completed on the project in 2008. Of 83 holes released to date, 73 have intersected significant gold mineralization and 10 intercepts average greater than 1 g/t Au over more than 75 meters. Assay highlights are presented below:

Hole	From	To	Int (m)	Gold g/t
DDA-004	0	53	53	2.60
<i>Including</i>	3	27	24	5.95
RCA-010	23	100	77	2.30
<i>Including</i>	54	70	16	3.63
RCA-022	45	154	109	1.11
<i>Including</i>	70	104	34	3.12
RCA-028	25	150	125	1.57
<i>Including</i>	26	57	31	4.44
RCA-030	0	122	122	1.01
<i>Including</i>	74	112	38	2.58
RCA-038	24	130	106	2.35
<i>Including</i>	38	59	21	9.67
RCA-042	3	70	67	3.62
<i>Including</i>	33	53	20	8.06
RCA-049	48	137	89	1.03
<i>Including</i>	101	108	7	6.59
RCA-063	0	111	111	1.08
<i>Including</i>	71	98	27	2.47
RCA-065	8	100	92	1.00
RCA-069	3	138	135	2.26
<i>Including</i>	3	20	17	5.26
RCA-070	29	100	71	3.05
RCA-071	52	148	96	1.37
<i>Including</i>	76	96	20	3.21



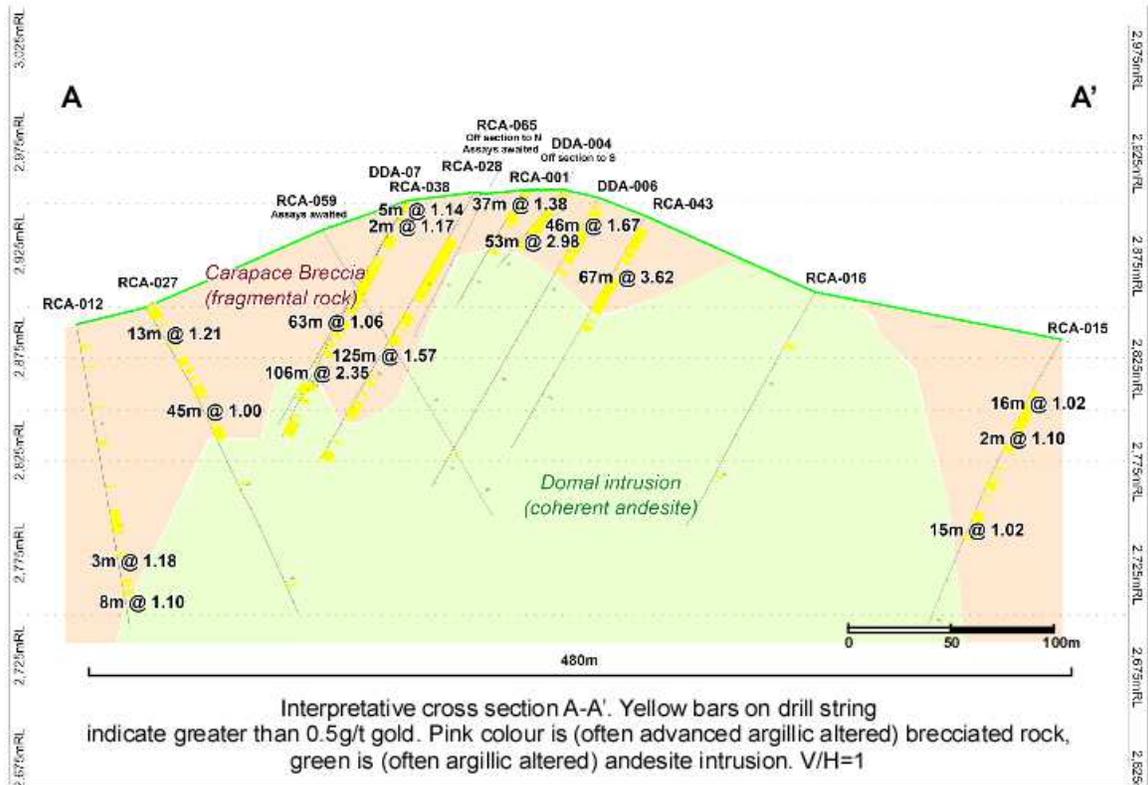
2008 drilling at Artavasdes with Tigranes in background.

Most of the drilling so far has tested the Tigranes prospect. Significant upside potential exists at the Artavasdes prospect which returned strong gold intercepts in scout drilling in late 2008. The oxide gold mineralization at Tigranes and Artavasdes now spans over one km of strike and is open in all directions. Erato warrants additional drilling and other high priority prospects remain undrilled.



Drill holes in the main Amulsar alteration zone.

Metallurgical tests on one strongly mineralized core hole indicate heap leach gold recoveries could be about 95%. Folks, although preliminary, that's as good as it gets in the game. Drilling to date indicates a geometry that likely would be open-pittable if an economic deposit was defined:



Lydian has submitted a preliminary standard resource document for Amulsar to the Armenian central ore resource committee. It is expected to pass easily. The next step in the process is to complete a preliminary feasibility study and apply for a 25 year special mining license which also allows for continuing exploration. This is followed by an environmental impact assessment and process design documents before mining can commence. The government has indicated willingness to merge resource protocols with Canadian 43-101 regulations to avoid duplication of effort by Western-based companies.

In addition to their flagship, Lydian has a generative copper-gold project in Armenia, under the aforementioned JV with Newmont.

In Kosovo, it has significant base and precious metals interests, including a historic zinc-lead-silver resource at Drazhnje which is the company's other flagship project. A Yugoslav resource estimate from previous exploration work comprising 80 drill holes and underground sampling from two levels of exploration drifts produced 6.7 million tonnes at 5.2% Zn, 2.6% Pb and 45 ppm Ag. LYD's goal is to define a +10 million tonne underground and open-pit operation, with a feasibility study targeted for the end of 2010. An outcropping, high grade zinc oxide project is also held in Kosovo. Given low base metal prices, these two polymetallic projects are currently on the back burner. Another non-core project in central Turkey will likely be joint ventured with a retained NSR.

Lydian International also has a pipeline of promising gold and base metal exploration projects in the Balkan and south Caucasus regions. The probability of discovering large, world-class projects is higher in newly emergent and transitional countries and Lydian's management and technical teams have a track record of success in grassroots discovery, in acquiring and developing undervalued assets, and in building companies. The company has a strong management who understand the complex socio-economic and geopolitical issues that characterize emerging countries.

When operating in remote and largely undeveloped parts of the world, the most important questions are often geopolitical and geographical. Since the breakup of the Soviet Union in 1991, Armenia has made great strides in rebuilding its economy and infrastructure. It is a constitutional democracy, a member of the Commonwealth of Independent States and the World Trade Organization, and is predominantly Christian. Its economy produced 12% annual GDP growth in the mid-late 2000's, it has an equitable tariff policy, foreign entities can own 100% of companies, there is protection against government expropriation, and profits can be repatriated without restriction. Mining tenure is simple and projects are subject to 1.1 to 1.8% NSR depending on mine profitability and a 20% net profits tax.

That said, Armenia faces challenges. It was a part of the former Soviet Union and its centrally planned economy so market economics is relatively new. It is remote, a landlocked country, and depends mainly on Russia and to a lesser extent, Iran for its petroleum supplies. It has closed borders and long-lived disputes with Turkey and Azerbaijan. In-country energy production includes one nuclear power plant and hydroelectric facilities. The country lies within a seismically active zone with some areas having a high risk of major earthquakes, including the Amulsar project.

However, evidence that Armenia is a relatively safe, low-risk place to do business is provided by Lydian International's largest shareholders: Newmont Mining Company and International Finance Corporation, part of the World Bank. In my mind, those two major investors provide a very strong endorsement of the country.

At this time the value of Lydian International lies in the Amulsar project. It is a junior resource stock, by nature a highly speculative investment, and there are associated risk factors:

- With all advanced projects anywhere there is exploration and development risk. However, proximity to infrastructure and preliminary metallurgical results mitigate a portion of this at Amulsar. The project has undergone two successful drill campaigns that indicate potential for a substantial gold deposit. Drilling will commence again in the late spring to delineate the mineralization at Tigranes, expand the resource at Artavasdes, and drill for extensions along strike and down dip. The company will commission a 43-101 resource estimate after the third phase of drilling in late 2009.
- Lydian has a relatively high burn rate and funds 50% of the Newmont JV including project expenses at Amulsar and reconnaissance exploration in the southern Caucasus. It is therefore subject to economic and market conditions which could result in share dilution risk with repeated equity financings. It has 9.0 mm warrants outstanding at a wide range of prices but most of these are in strong hands including insiders, family and friends, and Newmont. Financing risk is mitigated by continuing participation of the IFC in its private placements. Depending on market conditions and base metal prices, an option for LYD would be to spin-out the Kosovo polymetallic assets to conserve working capital and realize fair market value for their other flagship project.
- Armenia is a stable democracy, has a modern and progressive mining tenure policy, and Lydian's major investors lend credence as a favorable country for investment. There is geopolitical risk in all countries with former centrally planned economies. However, it is very encouraging that a USA-listed company produces from a gold mine and a German company operates a large copper-molybdenum project in the country.

In a recent interview, CEO and geologist Tim Coughlin said, “I think we are turning moose pasture into a gold mine.”

I think that just about sums it up.

This project, as witnessed by Newmont’s continued participation, has a good shot at developing into a major heap leach, open-pit gold deposit.

With its strong combination of seasoned and successful management, astute financial backers, joint venture with a major gold mining company, and highly encouraging drill results from its Armenian gold project, it is my opinion that as Lydian International becomes better known in the junior resource financial and investment community it won’t be flying under the radar or undervalued for very long.

Note that I am a shareholder of the company and therefore I am biased.

Ciao for now,

Mickey Fulp
Mercenary Geologist



The [Mercenary Geologist Michael S. “Mickey” Fulp](#) is a Certified Professional [Geologist](#) with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey’s professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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