

## Lydian International Ltd (LYD CN)

BUY

## Flash Note

Price target: CAD3.84

## Mining

23 June 2011

## Impressive site trip to Amulsar

## BUY recommendation maintained

## Event

FoxDavies recently returned from an analyst site visit to the Amulsar Project and as a result we have revisited the model. Our updated model includes our latest gold price forecasts (see our Flash Note dated 17 May 2011) and also includes the results of the first pit optimisation study undertaken on the project.

## Comment

We have used a reserve figure of 3 Moz in our model which we believe, after inspecting the *in-situ* geology and drill core, and witnessing the exploration potential of the deposit, is a realistic short term ounce target. For the mining parameters and operating costs we have used the results of Option 2 of the pit optimisation study (Indicated and Inferred Resources included with pit slope of 40°) and a ROM production rate of 5 mtpa for the first three years of the operation, ramping up to 10 mtpa thereafter for the remaining life of mine.

We believe the project has significant upside potential from our target price if the following factors are achieved in the next 12 months:

- the deposit is open along strike and down dip and the current drilling programme and consequent resource modelling is likely to increase the mineable ounces;
- 0.5 Moz from the Erato deposit has not been used in the pit optimisation study, but when it is included will positively affect the economics of the project; and
- the strip ratio in the study is high at 2.6 based on an overall pit slope angle of 40°, but there is potential to steepen this once proper geotechnical work has been done. Also, material on the edges of the currently known deposit, currently being stripped as waste in the optimisation is likely to be converted to ore with more drilling.

## Recommendation

We maintain the BUY recommendation with an increased 12 month target price of CAD3.84 per share but we are confident of significant further upward ratings in the mid to long term as positive news flow is released as expected.

FYE Dec	2010	2011E	2012E	2013E
Revenue (US\$M):	0.0	0.0	0.0	0.0
EBITDA (US\$M):	-2.6	-1.2	-1.2	-1.2
NPAT (US\$M):	-2.7	-0.7	-1.2	-2.7
EPS (USc):	-3.5	-0.7	-1.2	-2.9
Cash Flow/Share (USc):	-3.4	-1.3	-1.1	-1.0
Gold Price (US\$/oz):	1225.2	1490.3	1547.5	1350.0

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## Stock Data

52 - wk Range:	C\$1.20-2.75
Current Price:	C\$2.50
Market Cap (M):	C\$236.9
EV (M):	C\$216.4

## 52 Week range

1.20	2.50	2.75
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## Price Chart



## Company Summary

Lydian International is a UK based exploration company with a listing on the Toronto Stock Exchange. It currently owns 95% of the Amulsar Project in Armenia with an option to purchase the remaining 5%.

## Analysts

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## Project information

Lydian International is an exploration company whose main focus is the exciting Amulsar gold project in Armenia. The licences are 100% owned by Geoteam CJSC, an Armenian registered closed joint stock company which in turn is 100% owned by Lydian International Limited. The company enjoys the backing of the IFC and EBRD as major shareholders.

The Amulsar deposit is located in the south of Armenia and is accessible via fully bituminised road within three hours of the Armenian capital, Yerevan. There is a substantial amount of infrastructure in the area, with the Vorotan River, high tension power lines, and a major gas pipeline all within the immediate vicinity of the project.

Mineralisation occurs as an oxidised high sulphidation epithermal gold system within a sequence of Eocene-Oligocene volcanic and volcano-sedimentary rocks of basaltic to dacitic composition. The deposit outcrops along the top of an almost 3000 m high mountain and mineralisation remains open in several directions and down dip. The topography is suitable for open pit mining with large flat areas at the base of the mountain available for leach pads. In April 2011, Lydian released an NI 43-101 compliant resource of 2.5 Moz at the project with 1.1 Moz in Indicated resource category and 1.4 Moz in Inferred resource category. The full resource estimate is shown in Table 1.

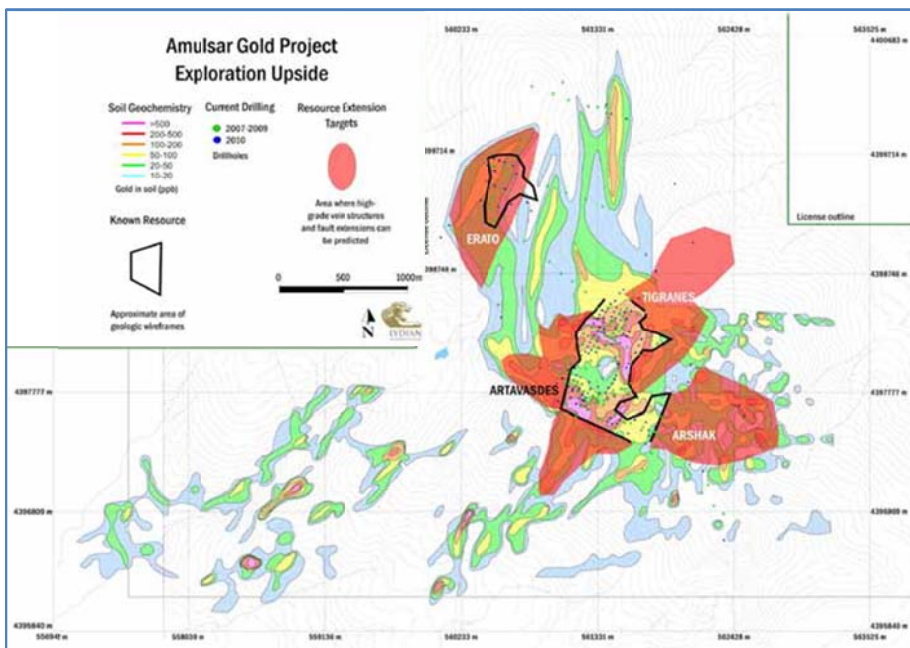
**Table 1: Amulsar April 2011 NI 43-101 compliant resources at a 0.4 g/t Au cut-off**

April 2011 - Amulsar Au Resource by Category (0.4g/t Au cut-off)			
Class	Tonnes (Mt)	Au (g/t)	Au (Moz)
Indicated	32.4	1.1	1.1
Inferred	48.3	0.9	1.4
Total	80.7	1	2.5

Source: Lydian

This year's drill programme will consist of over 30 000 m of reverse circulation and diamond drilling and is focused on proving up along strike extensions to the mineralisation and infill drilling to uplift the confidence in the resource and therefore move portions of it from inferred to indicated and from indicated to measured resources. Exhibit 1 shows the substantial, as yet undrilled extensions to the mineralisation in red shading.

**Exhibit 1: Exploration potential at Amulsar**



Source: Lydian

Preliminary metallurgical test work has indicated that the mineralisation is amenable to low-cost, heap leach processing. Bottle roll and column leach tests on drill core samples returned gold recoveries of up to 93.5% and concluded that that the cost-optimized crush size for Amulsar gold mineralization is likely to be 19 mm and the optimum solvent concentration is 0.05%. Using these parameters leaching was exceptionally rapid for both samples with up to 80% gold being recovered after seven days of leaching.

## Research Disclosures

### **Juan Alvarez**

Juan has a Bachelors' degree in geology from Macquarie University in Sydney and has over fifteen years' experience in exploration, mining geology, resource estimation and grade control. Juan joined from Golder Associates where he spent seven years as a consultant working on resource estimation, due diligence studies and feasibility studies. Prior to Golder, Juan worked for four years with AngloGold, three years with Rio Tinto in the iron ore mines of the Pilbara and two years as an exploration geologist.

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### **Peter Rose**

Peter Rose has 25 years' experience in equities as a resources analyst, most recently having spent 11 years with Deutsche Bank in Australia. Prior to this he spent 3 years with Prudential Bache and 5 years with James Capel. Peter's industry experience includes 16 years as a metallurgist, 3 years with De Beers in South Africa and 8 years in the uranium industry, 5 of which were spent at the Ranger Uranium mine. Peter holds a BSc degree in Applied Mineral Science from Leeds University UK and a Bachelor of Commerce from the University of South Africa. Peter is also a member of the Institute of Mining & Metallurgy and a chartered engineer.

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Research disclosure as of 23 June 2011

Company Name	Disclosure
Lydian International Limited (LYD)	2

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Mining					
African Barrick Gold	ABG LN Equity	BUY	17.05.11	£5.92	£4.05
Alexander Nubia	AAN CN Equity	BUY	18.04.11	C\$0.75	C\$0.125
Angel Mining	ANGM LN Equity	BUY	03.03.10	£0.16	£0.02
Antofagasta	ANTO LN Equity	SELL	09.06.11	£9.69	£12.84
Atlantic Coal	ATC LN Equity	BUY	08.06.11	£0.011	£0.004
Centamin Egypt	CEY LN Equity	BUY	17.05.11	£1.86	£1.24
Copper Development Corporation	CDC LN Equity	BUY	09.06.11	£0.82	£0.29
Discovery Metals	DME LN Equity	BUY	10.11.10	£1.00	£0.76
EMED Mining	EMED LN Equity	BUY	07.06.11	£0.59	£0.10
Exco Resources	EXS AU Equity	BUY	17.05.11	A\$0.90	A\$0.64
Hambledon Mining	HMB LN Equity	BUY	12.05.11	£0.084	£0.04
Highland Gold	HGM LN Equity	BUY	22.06.11	£1.98	£1.70
Hochschild Mining	HOC LN Equity	BUY	12.05.11	£6.33	£4.40
KEFI Minerals	KEFI LN Equity	HOLD	21.06.11	NA	£0.06
Kryso Resources	KYS LN Equity	BUY	21.04.10	£0.22	£0.18
Lydian International	LYD CN Equity	BUY	23.06.11	C\$3.84	C\$2.5
Minera IRL	MIRL LN Equity	BUY	14.06.11	£1.23	£0.68
Paragon Diamonds	PRG LN Equity	BUY	06.06.11	£0.43	£0.27
Randgold Resources	RRS LN Equity	BUY	11.05.11	£55.65	£49.30
Stratex International	STI LN Equity	BUY	22.06.11	£0.13	£0.08

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