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objective corporate research

30 July 2010

Price: C$0.19

Mining sector

Selwyn Resources (SWN.V)

Selwyn continues to advance its zinc-lead deposit at Howard's Pass in southern Yukon toward production. Since our latest initiation note of February 2010, the company has initiated work that will culminate in a feasibility study before the Q2 2011, improved its expected metal recovery rates through additional metallurgical testing and is poised to close its strategic partnership with Yunnan Chihong Zinc and Germanium Ltd. These developments result in a valuation that improves to C$0.43 per share from C$0.34 per share despite unfavourable moves in metals prices and exchange rates.

UPDATE

- ***Selwyn is poised to close its joint venture with Yunnan Chihong***

  Selwyn Resources anticipates closing its joint venture with Yunnan Chihong Zinc and Germanium in August. Under the proposed terms of the arrangement, Selwyn Resources will transfer title to the property to a new entity, Selwyn Chihong Mining Ltd (SCML). In return, Yunnan Chihong will contribute C$100m to SCML. Selwyn and Yunnan Chihong will each own a 50-percent interest in SCML. Further, Selwyn Resources anticipates receiving approximately C$9m as reimbursement of project expenses since July, 2009.

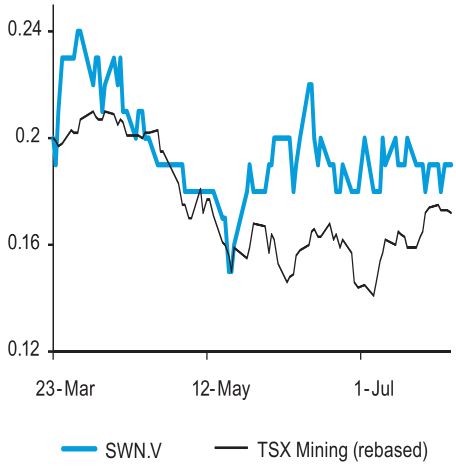
- ***A full feasibility study is under way at Selwyn***

  Selwyn has engaged Wardrop to conduct further work and exploration at the Selwyn project. This programme is expected to lead to a NI 43-101-compliant feasibility study that should be complete Q2 2011. The move to full feasibility results in increased confidence for a favourable production decision, and hence an improved valuation.

- ***Metallurgical testing has improved expectations for metal recoveries***

  Selwyn engaged G&T Metallurgical Services to conduct further metallurgical testing, which was completed this spring. Processing of a 6.6-tonne batch of high-grade material taken from the XY Central zone resulted in increased recovery rates for both zinc and lead. Based on this work, we have increased our expected recovery rate for zinc from 83 percent to 85 percent, and for lead from 65 percent to 69 percent. This in turn results in a significant increase in our valuation.

Price chart (C$)



Current fair value of equity

Expected Value	US$132.4m
Value per share	**US$0.42**
Optimistic Scenario	US$223.2m
Value per share	**US$0.72**

Company details

Quote	
Shares	
- TSX Venture	SWN.V
- Frankfurt	P3Z.F
- Pinksheets	SWNLF.PK
Hi-Lo last 12-mos. (C$)	0.30 - 0.10
Shares issued (m)	315.4
Fully diluted (m)	366.3
Market Cap'n (C$m)	58.3
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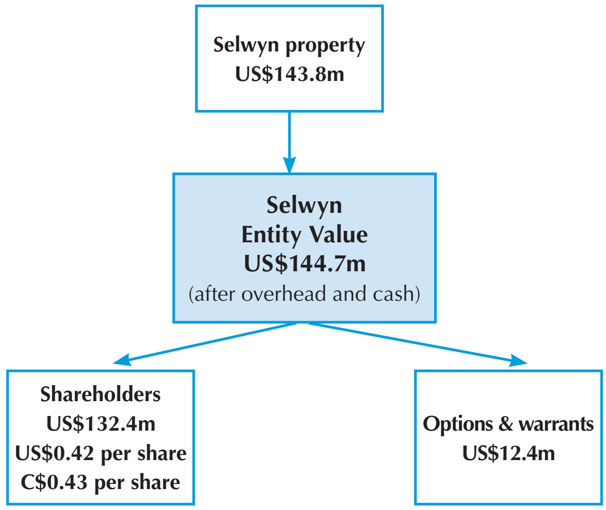
Quarterly Update

Fair valuation summary (US$m)

Scenario	Base	Pessimistic	Optimistic
Property portfolio			
- Selwyn	143.8	36.8	250.8
- other	0.0	0.0	0.0
Total	143.8	36.8	250.8
Less: overhead	7.3	7.3	7.3
Expected value of portfolio	136.5	29.5	243.5
Add: other investments	0.4	0.4	0.4
Add: starting cash + new funds	7.8	7.8	7.8
Total current value for firm	144.7	37.7	251.7
Less: bank & other debt	0.0	0.0	0.0
Total value to equity claims	144.7	37.7	251.7
Less: warrants and options	12.4	12.4	28.5
Ordinary equity holders	132.4	25.4	223.2
Value per share (US$)	**0.42**	**0.12**	**0.72**
Value per share (C$)	**0.43**	**0.12**	**0.74**

Components of Selwyn's entity value



Expected value of Selwyn

Scenario	Risked mineable resources (m tonnes)	Selwyn property value (US$m)	SWN Valuation (US$m)	Value per share (US$)	Value per share **(C$)**
Base case outlook	33.7	143.8	132.4	0.42	0.43
Value for scenarios of further exploration success					
Full proved up	42.7	268.7	241.1	0.76	0.79
Optimistic outlook	39.4	250.8	225.6	0.72	0.74
Pessimistic outlook	28.1	36.8	36.6	0.12	0.12
Value with no further exploration success					
Current resource estimate	9.6	(5.3)	(4.4)	(0.01)	(0.01)

Notes:
- *'fully proven up' scenario assumes that current mineable resource estimates are upgraded to 'Proven' status*

Sensitivity to market assumptions ...

Long run real zinc price (US$/lb)	0.70	0.80	**0.90**	1.00	1.10
Value (C$/share)	-0.05	0.17	**0.43**	0.69	0.95
Change in value (%)	*-113%*	*-60%*		*+60%*	*+119%*
Time for metal price to revert to mean (years)	1	2	**3**	4	5
Value (C$/share)	0.41	0.42	**0.43**	0.44	0.45
Change in value (%)	*-5%*	*-3%*		*+2%*	*+4%*
Volatility of zinc price (%)	*13%*	***18%***	*23%*	*28%*	*33%*
Value (C$/share)	0.41	**0.43**	0.46	0.50	0.55
Change in value (%)	*-5%*		*+7%*	*+15%*	*+26%*
Interest rate (%)	*3.0%*	*3.1%*	***3.2%***	*3.3%*	*3.4%*
Value (C$/share)	0.46	0.45	**0.43**	0.42	0.41
Change in value (%)	*+6%*	*+3%*		*-3%*	*-5%*

Sensitivity to operating assumptions ...

Change in zinc recovery rate (%)	75%	80%	**+85%**	+90%	+95%
Value (C$/share)	0.19	0.31	**0.43**	0.56	0.68
Change in value (%)	-57%	-28%		+28%	+56%
Operating Costs (US$ per milled tonne)	57.00	**60.00**	63.00	66.00	69.00
Value (C$/share)	0.54	**0.43**	0.32	0.20	0.06
Change in value (%)	+25%		-27%	-55%	-86%
Increase in Capital Cost (%)	**+0%**	+10%	+20%	+30%	+40%
Value (C$/share)	**0.43**	0.30	0.16	-0.01	-0.01
Change in value (%)		-30%	-63%	-102%	-103%

Selwyn valuation (US$m)

Scenarios for exploration success	Base	Optimistic	Pessimistic
Net value of production	**1,504.7**	1,504.7	1,504.7
Expected mining success*	**60%**	80%	40%
Expected net value of production	**1,003.7**	1,304.0	703.3
Add: tax shield on depreciation charge	**108.9**	108.9	108.9
Less: development & operational capex	**693.9**	693.9	693.9
Value of mining operations	**418.6**	718.9	118.3
Probability of reaching mine development	**71%**	71%	71%
Expected value of deposit	**298.3**	512.2	84.3
Less:			
- expect pre-development costs**	**1.5**	1.5	1.5
- further exploration costs ***	**9.2**	9.2	9.2
Expected value of project	**287.6**	501.6	73.6
effective risk haircut	**68%**	44%	91%
Ownership	**50%**	50%	50%
Selwyns's share	**143.8**	250.8	36.8

* portion of reserve/resource expected to be converted to a mineable resource, probability-weighted for our confidence they will be proven-up

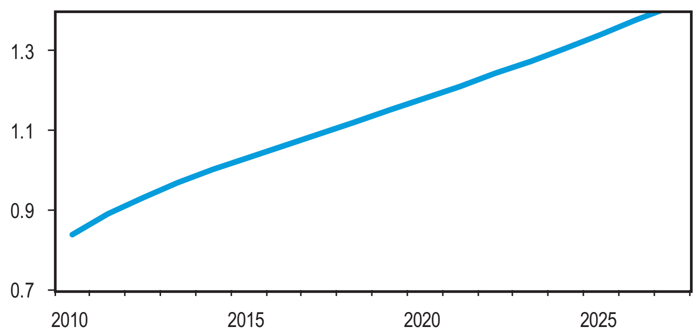
** total of expected costs of exploration and feasibility

*** present value

Commodity assumptions

Zinc prices are mean reverting	
Long run level	0.90 US$/lb
Avg time to revert	3.3 years
Volatility	*18%*
Inflationary price growth	*2.5%*

Expected zinc price

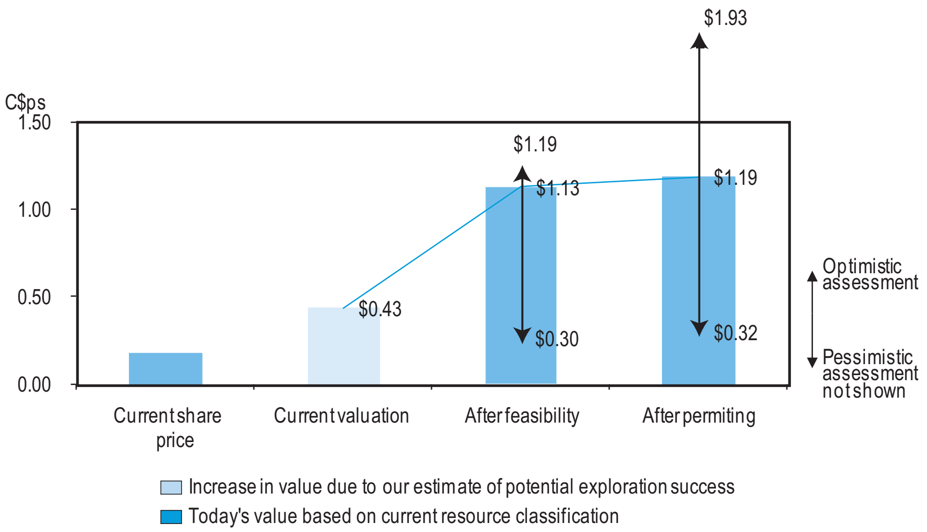


- ***Decreased metals prices have a modest negative impact on our valuation***
  Since our initiation note of March 2010, prices of both zinc and lead have declined by over 10 percent. Nevertheless, our model anticipates little long run change in prices from values contained in our initiation note. The Canadian dollar has strengthened by approximately 5 percent against the U.S. dollar, which decreases anticipated revenues by a comparable amount. These changes only partially counter the increase in revenues anticipated from the higher metal recovery rates.

- ***Our basic mine model remains unchanged***
  We continue to hypothesise a Selwyn mine will draw upon nearly 50 million tonnes of mineralisation averaging 9.4 percent zinc and 3.3 percent lead. We anticipate mining will commence in late 2014 with a milling capacity of 8,000 tonnes per day. We further assume capital spending will commence in late 2011 and will total C$850m. Our anticipated operating costs are C$60 per tonne initially, escalating for inflation at a nominal rate thereafter.

- ***Our valuation of Selwyn Resources increases to C$0.43 per share***
  Based on recent developments, our base-case valuation of Selwyn Resources increases from C$0.34 per share to C$0.43 per share. Our more optimistic assessment, based on higher confidences of exploration success, increases to C$0.74 per share. Assuming success at all stages through feasibility and permitting, our base-case and optimistic assessments increase to C$1.19 and C$1.93 per share respectively.

What Selwyn could be worth - now and in the future



Source: Objective Capital

Financials

Profit and Loss

Year ending June (C$m)	2009A	2010E	2011E	2012E	2103E	2014E	2015E
Revenues	**—**	**—**	**—**	**—**	**—**	**161.6**	**455.7**
COGS	—	—	—	—	—	(89.1)	(289.4)
Gross profits	—	—	—	—	—	72.5	166.3
Administrative Costs	(3.3)	(3.4)	(3.5)	(3.5)	(3.6)	(3.7)	(3.8)
EBITDTA	**(3.3)**	**(3.4)**	**(3.5)**	**(3.5)**	**(3.6)**	**68.8**	**162.5**
Depreciation & amortisation	—	—	—	—	—	(20.8)	(58.2)
EBIT	(3.3)	(3.4)	(3.5)	(3.5)	(3.6)	48.0	104.3
Interest	0.0	0.2	(0.1)	(4.2)	(13.8)	(21.8)	(21.7)
EBT	(3.3)	(3.2)	(3.6)	(7.8)	(17.4)	26.2	82.7
Tax paid	1.5	0.8	0.9	1.9	4.2	(6.3)	(19.8)
Earnings	**(1.8)**	**(2.4)**	**(2.7)**	**(5.9)**	**(13.3)**	**19.9**	**62.8**
Dividends	—	—	—	—	—	—	—
Retained earnings	**(1.8)**	**(2.4)**	**(2.7)**	**(5.9)**	**(13.3)**	**19.9**	**62.8**

Cashflow

Year ending June (C$m)	2009A	2010E	2011E	2012E	2103E	2014E	2015E
EBIT	(3.3)	(3.4)	(3.5)	(3.5)	(3.6)	48.0	104.3
Depreciation	—	—	—	—	—	20.8	58.2
Stock-based Compensation	—	—	—	—	—	—	—
Gains, Writedowns, Recoverables	—	—	—	—	—	—	—
(Increase) decrease in receivables	0.2	—	—	—	—	(24.2)	(44.1)
(Increase) decrease in inventory	(0.0)	—	—	—	—	(10.7)	(24.0)
Increase (decrease) in payables	0.2	—	—	—	—	13.4	30.0
Net cash from Ops	**(2.9)**	**(3.4)**	**(3.5)**	**(3.5)**	**(3.6)**	**47.2**	**124.4**
Tax paid	1.5	0.8	0.9	1.9	4.2	(6.3)	(19.8)
Dividends	—	—	—	—	—	—	—
Net interest recieved (paid)	0.0	0.2	(0.1)	(4.2)	(13.8)	(21.8)	(21.7)
New equity	11.9	8.0	15.0	50.0	75.0	—	—
New (deposits) borrowings	—	5.0	—	130.0	170.0	—	(50.0)
Capital expenditure	(6.9)	(5.0)	(22.0)	(109.9)	(175.8)	(132.8)	(3.2)
Net cash from financing	**6.5**	**8.9**	**(6.2)**	**67.8**	**59.6**	**(160.8)**	**(94.7)**
Net increase (decrease) in cash	**3.6**	**5.6**	**(9.7)**	**64.2**	**55.9**	**(113.6)**	**29.7**

Balance sheet

Year ending June (C$m)	2009A	2010E	2011E	2012E	2103E	2014E	2015E
Fixed assets at NAV	64.7	69.7	91.7	201.6	377.4	489.4	434.4
Cash	6.7	12.3	2.6	66.8	122.7	9.1	38.8
Receivables, Recoverables	0.2	0.2	0.2	0.2	0.2	24.4	68.5
Inventory	0.0	0.0	0.0	0.0	0.0	10.7	34.7
Less Payables	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(13.8)	(43.9)
Net current assets	6.4	12.0	2.3	66.5	122.5	30.4	98.2
Less loans	—	(5.0)	(5.0)	(135.0)	(305.0)	(305.0)	(255.0)
Less Future Tax Liability	(5.4)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)
Capital employed	65.7	71.0	83.3	127.4	189.2	209.1	271.9
Represented by							
Shares in issue	70.2	78.2	93.2	143.2	218.2	218.2	218.2
Add retained profit							
Prior periods	(3.2)	(4.8)	(7.2)	(9.9)	(15.8)	(29.0)	(9.1)
This period	(1.3)	(2.4)	(2.7)	(5.9)	(13.3)	19.9	62.8
Shareholders' funds	65.7	71.0	83.3	127.4	189.2	209.1	271.9

Source: Objective Capital

About Objective Capital:

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