

## Selwyn Resources (SWN.V)

22 October 2010

**Price: C\$0.19**

Mining sector

Selwyn continues to advance its zinc-lead deposit at Howard's Pass in southern Yukon toward production. Since our last quarterly update of July 2010, the company has closed its strategic partnership with Yunnan Chihong Zinc and Germanium Ltd. and is taking steps to advance the project to full feasibility and permitting. These developments result in a valuation that improves to C\$0.46 per share from C\$0.45 per share despite the strong Canadian dollar.

### UPDATE

- Selwyn has closed its joint venture agreement with Yunnan Chihong**

In August, Selwyn Resources and Yunnan Chihong Zinc and Germanium closed their joint venture agreement. Upon closing, Yunnan transferred C\$100m into the joint venture company, which will hold title to the Selwyn zinc-lead deposit at Howard's Pass. All development at Selwyn will take place through the joint venture company.

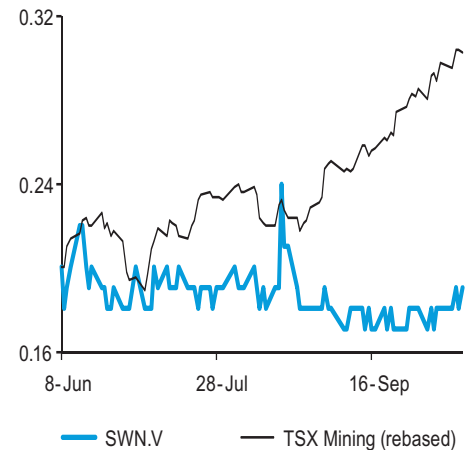
As Selwyn Resources had been funding all work on the project since the tentative agreement was signed in July 2009, the company is entitled to full reimbursement of those expenses. Selwyn Resources has already received a C\$5m first tranche and anticipates a further final payment of between C\$5m and C\$7m. With these payments, Selwyn Resources should be fully funded for well over one year, negating the need for private placements at currently adverse share prices. Selwyn will, however, be responsible for raising its 50-percent share of the costs of mine development.

- The focus at Selwyn now shifts to permitting and full feasibility**

The Selwyn partners are currently conducting background work that will enable the joint venture company to file formal documentation pertaining to the environmental and permitting processes with the government. At this time, Selwyn Resources anticipates filing the documentation early in 2011, with receipt of all required permits potentially occurring during 2012.

Concurrently, the joint venture company is ramping up engineering work which will be incorporated into the full, NI 43-101-compliant, feasibility study. Management anticipates this will be complete in mid-2011.

### Price chart (C\$)



### Current fair value of equity

Expected Value	US\$146.5m
<b>Value per share</b>	<b>US\$0.46</b>
Optimistic Scenario	US\$244.3m
<b>Value per share</b>	<b>US\$0.78</b>

### Company details

Quote	
Shares	
- TSX Venture	SWN.V
- Frankfurt	P3Z.F
- Pinksheets	SWNFLF.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
Website:	<a href="http://www.selwynresources.com">www.selwynresources.com</a>

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## Fair valuation summary (US\$m)

Scenario	Base	Pessimistic	Optimistic
Property portfolio			
- Selwyn	158.5	44.9	272.1
- other	0.0	0.0	0.0
Total	158.5	44.9	272.1
Less: overhead	7.4	7.4	7.4
<b>Expected value of portfolio</b>	<b>151.1</b>	<b>37.5</b>	<b>264.6</b>
Add: other investments	0.4	0.4	0.4
Add: starting cash + new funds	8.0	8.0	8.0
Total current value for firm	159.5	45.9	273.1
Less: bank & other debt	0.0	0.0	0.0
Total value to equity claims	159.5	45.9	273.1
Less: warrants and options	13.0	13.0	28.8
Ordinary equity holders	146.5	32.9	244.3
Value per share (US\$)	<b>0.46</b>	<b>0.14</b>	<b>0.77</b>
Value per share (C\$)	<b>0.46</b>	<b>0.14</b>	<b>0.78</b>

## 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\$)
<b>Base case outlook</b>	33.7	158.5	146.5	0.46	0.46
<b>Value for scenarios of further exploration success</b>					
Full proved up	42.7	293.2	265.4	0.83	0.84
Optimistic outlook	39.4	272.1	246.8	0.77	0.78
Pessimistic outlook	28.1	44.9	44.2	0.14	0.14
<b>Value with no further exploration success</b>					
Current resource estimate	9.6	(5.4)	(4.4)	(0.01)	(0.01)

### Notes:

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

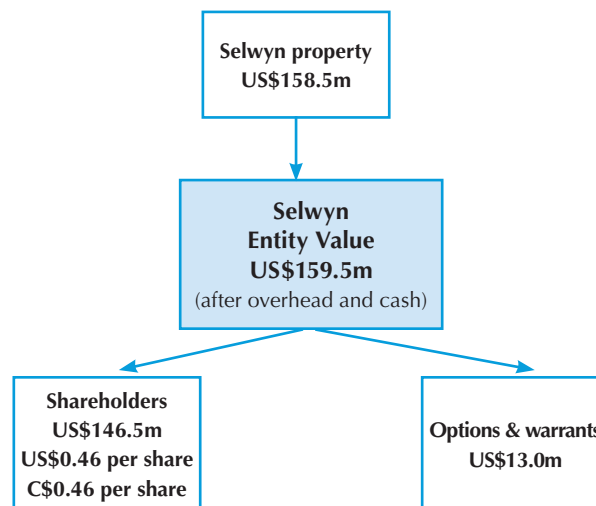
## Sensitivity to market assumptions ...

Long run real zinc price (US\$/lb)	0.70	0.80	<b>0.90</b>	1.00	1.10
Value (C\$/share)	-0.06	0.20	<b>0.46</b>	0.73	1.00
Change in value (%)	-112%	-58%		+57%	+115%
Time for metal price to revert to mean (years)					
	1	2	<b>3</b>	4	5
Value (C\$/share)	0.42	0.44	<b>0.46</b>	0.49	0.52
Change in value (%)	-8%	-5%		+5%	+11%
Volatility of zinc price (%)					
	13%	<b>18%</b>	23%	28%	33%
Value (C\$/share)	0.44	<b>0.46</b>	0.49	0.53	0.58
Change in value (%)	-5%		+7%	+15%	+25%
Interest rate (%)					
	2.6%	2.7%	<b>2.8%</b>	2.9%	3.0%
Value (C\$/share)	0.49	0.48	<b>0.46</b>	0.45	0.44
Change in value (%)	+5%	+3%		-3%	-5%

## Sensitivity to operating assumptions ...

Change in zinc recovery rate (%)	75%	80%	<b>+85%</b>	+90%	+95%
Value (C\$/share)	0.21	0.34	<b>0.46</b>	0.59	0.72
Change in value (%)	-55%	-27%		+27%	+54%
Operating Costs (US\$ per milled tonne)					
	57.00	<b>60.00</b>	63.00	66.00	69.00
Value (C\$/share)	0.58	<b>0.46</b>	0.34	0.22	0.08
Change in value (%)	+24%		-26%	-53%	-83%
Increase in Capital Cost (%)					
	<b>+0%</b>	+10%	+20%	+30%	+40%
Value (C\$/share)	<b>0.46</b>	0.33	0.19	0.02	-0.01
Change in value (%)		-28%	-59%	-95%	-103%

## Components of Selwyn's entity value



## Selwyn valuation (US\$m)

Scenarios for exploration success	Base	Optimistic	Pessimistic
<b>Net value of production</b>	<b>1,597.2</b>	1,597.2	1,597.2
Expected mining success*	<b>60%</b>	80%	40%
<b>Expected net value of production</b>	<b>1,059.2</b>	1,378.0	740.4
Add: tax shield on depreciation charge	<b>114.1</b>	114.1	114.1
Less: development & operational capex	<b>713.2</b>	713.2	713.2
<b>Value of mining operations</b>	<b>460.1</b>	778.9	141.3
Probability of reaching mine development	<b>71%</b>	71%	71%
<b>Expected value of deposit</b>	<b>327.8</b>	555.0	100.7
Less:			
- expect pre-development costs**	<b>1.5</b>	1.5	1.5
- further exploration costs ***	<b>9.3</b>	9.3	9.3
Expected value of project	<b>317.0</b>	544.1	89.8
effective risk haircut	<b>67%</b>	44%	90%
Ownership	<b>50%</b>	50%	50%
Selwyn's share	<b>158.5</b>	272.1	44.9

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

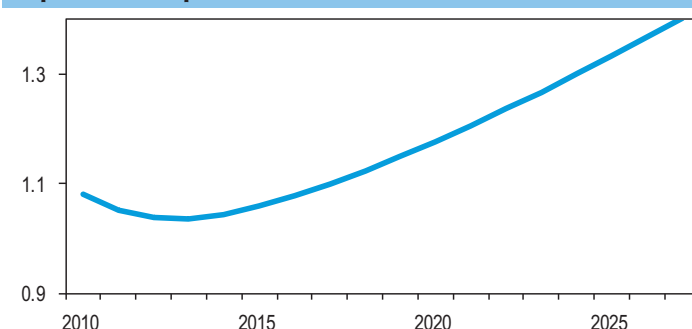
\*\* total of expected costs of exploration and feasibility

\*\*\* 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



- **An aggressive drilling programme continues at Selwyn**

Selwyn commenced another major drilling programme this year and this work will continue through the coming year, with costs covered by the joint venture company. The focus of the drilling, which is being conducted from surface, is to further delineate the high-grade zones at Selwyn to upgrade the NI 43-101-compliant mineral resource to higher classifications.

- **Higher metals prices have a modest positive impact on our valuation**

Since our last quarterly update, prices of both zinc and lead have increased by approximately 20 percent. Nevertheless, our model anticipates little long run change in prices from values contained in our initiation note. The Canadian dollar continues to strengthen against the U.S. dollar and is near parity, which decreases anticipated revenues by approximately 5 percent since our previous update, which essentially cancels the effect of higher metals prices.

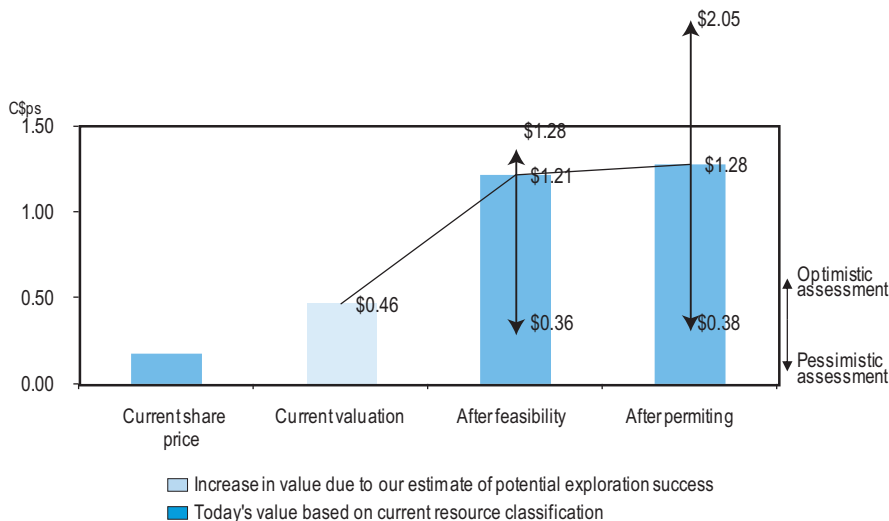
- **Our basic mine model remains unchanged**

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\$0.46 per share**

Based on recent developments, our base-case valuation of Selwyn Resources increases from C\$0.45 per share to C\$0.46 per share. Our more optimistic assessment, based on higher confidences of exploration success, increases to C\$0.78 per share. Assuming success at all stages through feasibility and permitting, our base-case and optimistic assessments increase to C\$1.28 and C\$2.16 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
<b>Revenues</b>	—	—	—	—	—	<b>41.5</b>	<b>459.1</b>
COGS	—	—	—	—	—	(21.8)	(282.7)
Gross profits	—	—	—	—	—	19.7	176.5
Administrative Costs	(3.3)	(3.4)	(3.5)	(3.5)	(3.6)	(3.7)	(3.8)
<b>EBITDTA</b>	<b>(3.3)</b>	<b>(3.4)</b>	<b>(3.5)</b>	<b>(3.5)</b>	<b>(3.6)</b>	<b>16.0</b>	<b>172.6</b>
Depreciation & amortisation	—	—	—	—	—	(5.1)	(56.9)
EBIT	(3.3)	(3.4)	(3.5)	(3.5)	(3.6)	10.9	115.8
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)	(10.9)	94.1
Tax paid	1.5	0.8	0.9	1.9	4.2	2.6	(22.6)
<b>Earnings</b>	<b>(1.8)</b>	<b>(2.4)</b>	<b>(2.7)</b>	<b>(5.9)</b>	<b>(13.3)</b>	<b>(8.3)</b>	<b>71.5</b>
Dividends	—	—	—	—	—	—	—
<b>Retained earnings</b>	<b>(1.8)</b>	<b>(2.4)</b>	<b>(2.7)</b>	<b>(5.9)</b>	<b>(13.3)</b>	<b>(8.3)</b>	<b>71.5</b>

## Cashflow

Year ending June (C\$m)	2009A	2010E	2011E	2012E	2103E	2014E	2015E
EBIT	(3.3)	(3.4)	(3.5)	(3.5)	(3.6)	10.9	115.8
Depreciation	—	—	—	—	—	5.1	56.9
Stock-based Compensation	—	—	—	—	—	—	—
Gains, Writedowns, Recoverables	—	—	—	—	—	—	—
(Increase) decrease in receivables	0.2	—	—	—	—	(6.2)	(62.7)
(Increase) decrease in inventory	(0.0)	—	—	—	—	(2.6)	(31.3)
Increase (decrease) in payables	0.2	—	—	—	—	3.3	39.1
<b>Net cash from Ops</b>	<b>(2.9)</b>	<b>(3.4)</b>	<b>(3.5)</b>	<b>(3.5)</b>	<b>(3.6)</b>	<b>10.4</b>	<b>117.8</b>
Tax paid	1.5	0.8	0.9	1.9	4.2	2.6	(22.6)
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)	(21.5)	(107.3)	(171.7)	(129.0)	(3.2)
<b>Net cash from financing</b>	<b>6.5</b>	<b>8.9</b>	<b>(5.7)</b>	<b>70.3</b>	<b>63.7</b>	<b>(148.2)</b>	<b>(97.4)</b>
<b>Net increase (decrease) in cash</b>	<b>3.6</b>	<b>5.6</b>	<b>(9.2)</b>	<b>66.8</b>	<b>60.0</b>	<b>(137.8)</b>	<b>20.4</b>

## Balance sheet

Year ending June (C\$m)	2009A	2010E	2011E	2012E	2103E	2014E	2015E
Fixed assets at NAV	64.7	69.7	91.2	198.5	370.2	494.2	440.4
Cash	6.7	12.3	3.1	69.9	129.9	(7.9)	12.5
Receivables, Recoverables	0.2	0.2	0.2	0.2	0.2	6.4	69.1
Inventory	0.0	0.0	0.0	0.0	0.0	2.6	33.9
Less Payables	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(3.7)	(42.9)
Net current assets	6.4	12.0	2.8	69.6	129.6	(2.6)	72.6
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	180.9	252.4
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)	(37.3)
This period	(1.3)	(2.4)	(2.7)	(5.9)	(13.3)	(8.3)	71.5
Shareholders' funds	65.7	71.0	83.3	127.4	189.2	180.9	252.4

Source: Objective Capital

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