

Selwyn Resources (SWN-V)

Some Scotia on the Side...

Investment Thesis. Selwyn Resources is actively developing its flagship Selwyn Zn/Pb Project in the Yukon as part of its 50/50 JV partnership with Yunnan Chihong Zinc & Germanium. Over the past several weeks, Selwyn has been releasing a basket of high-grade confirmatory drill results which will serve to outline the base resource estimate for the project's bankable feasibility study, currently expected to be released in the summer of 2011. If Selwyn can meet its aggressive timeline of production at Howard's Pass by 2014, it will be in good position to capitalize on the expected shortfall in zinc concentrate supply anticipated during 2013–2014 timeframe.

Event

Selwyn Resources announced that it has signed a letter of intent with Acadian Mining Corporation to acquire 100% of its subsidiary, ScoZinc Ltd. for C\$10M. Selwyn consequently acquires a 100% interest in the Scotia mine-mill complex in addition to an extensive mineral claims package. The acquisition remains outside of Selwyn's and Yunnan Chihong' JV zinc/lead project (Howard's Pass) in the Yukon.

Details

- Concurrent to focusing on the advancement of the Selwyn Project in the Yukon, Selwyn plans to commence refurbishment of the mill at Scotia, along with other on-site activities, in order to work toward a resumption of production at Scotia by Q1/12. Full refurbishment at the mine, including the necessary on-site resource drilling activities, has been estimated to cost ~C\$25M.
- The Scotia mine was last operated and drilled out in 2007–2009 by Acadian Mining but the operation was eventually shut down subsequent to the collapse in zinc prices. Reported production rates were approximately 25Ktpa Zn and 10Ktpa Pb at a cash cost of \$0.55/lb Zn (net of by-product credits).
- In the conduction of due diligence prior to the acquisition, Selwyn was reportedly satisfied with a completed NI 43-101 resource for Scotia, which outlined ~10M tonnes at grades of ~3.0–3.5% Zn and 1.5–2.0% Pb; these outlined resources would support an approximate 10-year mine life. As a part of the mine refurbishment, Selwyn plans to complete additional drilling and engineering work (by engaging a private consultant) in order to fully update and confirm a the NI 43-101 compliant resources at Scotia.

Conclusion

We see Selwyn's acquisition of the Scotia mine-mill asset as relatively inexpensive with a total price tag of C\$35M, including the refurbishment. Based on some early numbers, Scotia has the ability to generate approximately ~\$20M in annual cash flow, much needed money for Selwyn to fund its 50% of the Yukon project. At this time, however, we don't believe that Selwyn has the cash to complete the refurbishment (although it should have enough for the initial acquisition) and will be forced to explore different financing possibilities in order to develop the project, including, but not limited to, a new equity offering and possible debt financing related to concentrate offtake agreements. In an update to our model, we have included a preliminary valuation for the Scotia acquisition (factoring in only the reserves for now) as well as the incorporation of our new zinc and lead price deck, which applies to both Howard's Pass and Scotia. We estimate the acquisition remains mildly accretive for Selwyn, and along with our increased price deck we've calculated our new NAV to be \$0.71/sh (was \$0.55/sh). Based on a 1.0x NAV multiple, we have raised our target to \$0.70 (was \$0.55) and continue to maintain our Speculative Buy recommendation.

Company Profile

Sector	Metals & Mining
Ticker	SWN-V
Stock Rating	Spec Buy
Closing Price	C\$0.31
12-Mth Target	C\$0.70 ↑
Potential ROR	126%
Shares O/S Bsc (M)	320.938
Shares O/S FD (M) *	371.318
Mkt Cap, Bsc (M)	C\$99
Mkt Cap, FD (M)	C\$115
NAV/sh **	\$0.71 ↑
Working Capital/sh	\$0.01
Debt/sh	\$0.00

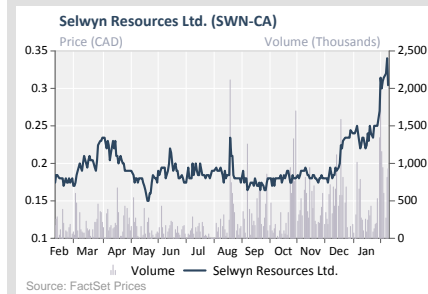
Company Description

Selwyn Resources Ltd. is a publicly traded, Canadian base metals exploration and development company. The company's core project is the world-class Selwyn Project, located in eastern Yukon. Since 2005, Selwyn has spent more than \$60M advancing the project to pre-feasibility stage. These expenditures have clearly defined the Selwyn Project as one of the largest undeveloped zinc and lead deposits in the world.

Research Team

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1-Year Stock Chart



11/18/10 Initiating target price (\$0.55)

Figure 1: Selwyn Resources NAV

	<u>US\$ millions</u>	<u>C\$ millions</u>	<u>Per Share</u>
DEVELOPING/OPERATING ASSETS			
Howards Pass	\$182.7	\$191.8	\$0.52
Scotia	\$21.1	\$22.2	\$0.06
Total	\$203.8	\$214.0	\$0.58
OTHER ASSETS			
Working Capital (of which cash = \$10m)	\$10.0	\$10.5	\$0.03
Exploration Properties	\$25.0	\$26.3	\$0.07
Cash from Exercise of Options/Warrants	\$11.2	\$11.8	\$0.03
Other Investments (Marketable securities)	\$0.5	\$0.6	\$0.00
Total	\$46.8	\$49.1	\$0.13
TOTAL ASSETS	\$250.6	\$263.1	\$0.72
LIABILITIES			
Bank Debt	\$0.0	\$0.0	\$0.00
Environmental	\$1.4	\$1.5	\$0.00
Other Obligations	\$0.0	\$0.0	\$0.00
Long term leases	\$0.0	\$0.0	\$0.00
Severance Charges	\$0.0	\$0.0	\$0.00
Total	\$1.4	\$1.5	\$0.00
TOTAL LIABILITIES	\$1.4	\$1.5	\$0.00
NET ASSET VALUE	\$249.2	\$261.6	\$0.71
Exchange Rate			
US\$1.00 =C\$	1.05		
Shares Outstanding			
	Basic	320.33	
	Warrants	28.68	
	Options	17.59	
	Fully Diluted	366.60	

Source: Company filings, Paradigm Capital Inc.

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Recommendation	# of Companies	% of B/H/S	What our ratings mean:
Buy	133	70%	Buy – Expected returns of 20% or more over the next 6 to 12 months.
Buy (Spec)	28	15%	Speculative Buy - Expected returns of 20% or more over the next 6 to 12 months on high-risk development or "pre-revenue" companies, such as junior mining and early stage biotech companies.
Hold	24	13%	Hold - Expected returns of +/-20% over the next 6 to 12 months.
Sell	4	2%	Sell - Expected returns of -20% or more over the next 6 to 12 months.
Total	189		

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Selwyn Resources (SWN-V)

Awakening a Giant in the Yukon

Highlights

- Selwyn's core project is the Selwyn project located in the Yukon. The project is recognized as one of the largest undeveloped zinc and lead deposits in the world, consisting of a consolidation of an entire district over 65 km.
- In August 2010, Selwyn completed a joint venture (JV) transaction with Yunnan Chihong Zinc and Germanium Co. ("Chihong") in order to secure funding to advance the Selwyn Project toward a bankable feasibility study. Each company will own a 50% interest in the new private partnership company, to which Yunnan Chihong has advanced C\$100M to fund ongoing projects.

Investment Thesis

Having spent over \$60M to advance the project to the pre-feasibility stage, Selwyn has logged the discovery of 13 new mineralized zones/deposits that define the Selwyn deposit as continuous for at least 38 km in the Howard's Pass District. Selwyn plans to complete a BFS by mid-2011 and complete its permitting by early 2012. A two-year construction period would follow, allowing Selwyn to proceed with a staged development plan initially targeting 16M tonnes of high-grade indicated and 26M tonnes of inferred zinc-lead resources at its underground XY Central deposit.

Valuation and Conclusion

Selwyn is in a good position to meet its aggressive project development timeline. The company has some infrastructure challenges that need to be addressed along the way; however, the investment and JV partnership from/with Chihong will allow for future progress to be made at the necessary pace. This will be important for Selwyn in order to meet its production schedule, which could possibly coincide with a decreased global zinc supply due to medium-term worldwide mine shutdowns. We have put together a model for Selwyn's initial production from its XY Central, XY West and Don deposits at the proposed 8,000 tpd processing rate and have arrived at a NAV of \$0.55. As a consequence we initiate coverage with a \$0.55 target price based on a 1.0x NAV multiple. Speculative Buy Recommendation

Selwyn Project History

Mineralization in the district known as Howard's Pass was first discovered in 1972 by Placer Dome as it was essentially following up on strong zinc-lead anomalies in a stream sampling program. Over the course of the next 10 years, Placer Dome put in 210 drill holes and eventually developed an historic resource. Ultimately, Placer Dome chose not to pursue the project due to low zinc prices. In 2000, Copper Ridge Exploration (KRX-T, NR), in partnership with Billiton (BHP-N, NR), drilled another eight holes; however, it also eventually walked away due to persistently low zinc prices. Selwyn Resources picked up the Selwyn Project by consolidating its Selwyn Project with Placer's (now in a JV ownership with Cygnus Mines) Howard's Pass in 2005 for \$10M payable to Placer over the course of seven years, a 1% NSR and 20% net profits capped at \$10M. Selwyn, now operating the project under the Selwyn Chihong JV, possesses 100% ownership of 321 square kilometres in the area.

Company Profile

Sector	Metals & Mining
Ticker	SWN-V
Stock Rating	Spec Buy
Closing Price	C\$0.17
12-Mth Target	C\$0.55
Potential ROR	224%
Shares O/S Bsc (M)	327.330
Shares O/S FD (M)	367.007
Mkt Cap, Bsc (M)	C\$56
Mkt Cap, FD (M)	C\$62
NAV/sh	\$0.55
Working Capital/sh	\$0.01
Debt/sh	\$0.00

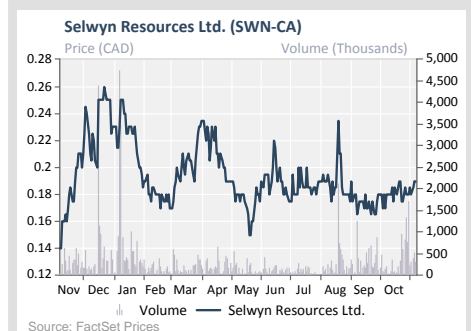
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1-Year Stock Chart



Selwyn Project Location & Deposit Type

The Selwyn Project is located in the Howard's Pass region, approximately 350 km from the capital of Whitehorse. The terrain is mountainous with the targeted deposits located at elevations between 1,100 and 2,000 metres at surface. Current access to the project is via helicopter, the use of two airstrips located on the property, and a 78-km access road to the town of Tungsten in the Northwest Territories (NWT). The Selwyn Project lies in a region known as the Selwyn Basin, which runs from the eastern border of the Yukon into Alaska. The basin is recognized for hosting numerous sedimentary exhalative (SEDEX) deposits, including Teck Resources' (TCK.A/B, Buy, \$56.00 TP) Red Dog mine, currently the world's largest zinc mine producing 10% of the world's zinc supply.

SEDEX zinc and lead deposits are known to exhibit significant thicknesses as well as continuity; they are also often characterized by higher-grade core zones. The zinc and lead mineralization in the Howard's Pass District occurs as beds within favourable shale strata that typifies SEDEX deposits. Originally, these deposits form as metal-rich brines onto the seafloor. Consequently, formation of the deposits on the seafloor commonly provides for strong lateral continuity of mineralization, as previously mentioned; as such, the lateral continuity of mineralization in the Howard's Pass District is extremely remarkable. SEDEX deposits currently account for over half of the world's known zinc and lead resources.

Selwyn has had significant exploration success in the past few years, which is reflected by a rapid growth in NI 43-101 compliant resources in conjunction with ever-increasing degrees of confidence. Between 2006 and 2009, Selwyn saw a 361% increase in indicated as well as a 107% increase in inferred resources, including increases in zinc and lead tonnages each by over 300% (Figure 1).

Figure 1: Selwyn Resource Content Growth 2006 to 2009 (NI 43-101 Compliant)

Mineral Resource Report	Resource Class	Million Tonnes	Zn (%)	Pb (%)	Zn (billion lb)	Pb (billion lb)
Feb-06	Indicated	33.50	5.52	2.10	4.08	1.55
	Inferred	112.91	5.40	2.14	13.44	5.31
Apr-07	Indicated	86.60	4.93	1.97	9.41	3.29
	Inferred	215.40	4.71	1.48	22.38	7.03
Jan-08	Indicated	154.35	5.35	1.86	18.19	6.31
	Inferred	231.54	4.54	1.42	23.19	7.23
Feb-09	Indicated	154.35	5.35	1.86	18.19	6.31
	Inferred	234.15	4.54	1.41	23.43	7.28

Source: Company filings, Bloomberg, Paradigm Capital Inc.

These total resource values comprised data collected from a long list of currently identified deposits on the property, including (from east to west) XY Deposit, XY Nose Zone, XY West, Brodel, HC, HC West, Don East, Don, Anniv East, Anniv Central, Anniv West, HP, OP, OP West and Pelly North. Resources tonnages identified west of Anniv Central are currently relatively low compared to the rest. The eastern-most zones still extend over 24 km from east to west, have been more fully explored, and will likely be slated for development sooner than those on the western end of the strike.

Selwyn Chihong Mining Ltd.

The JV transaction between Selwyn and Yunnan Chihong Zinc and Germanium Co. closed on August 17, 2010, with the deposit of \$100M into the bank account of the new Selwyn Chihong Mining Ltd. JV along with the transfer of Selwyn's assets to the JV. The new JV breaks down as follows:

- 50:50 JV structure with the JV to carry out all activities on the project as directed by equally controlled JV management committee.
- Commitment to jointly pool property interests for security of senior debt financing with Chinese banks.
- Selwyn has granted Chihong a first right of opportunity to acquire its share of concentrates.
- Chihong to provide technical and financial expertise to the JV.
- Selwyn to recover approximately C\$10M in exploration expenditures since 2009.
- Completion of Chihong transaction funds all activities to complete the BFS (due mid-2011) as well as all necessary permitting and infrastructure upgrades.

Included in the closing documents of the JV were the 2010 and 2011 pre-development programs totalling approximately C\$89M (including \$33M for the 2010 pre-development program that began in June). Planned expenditures for 2010 include an \$18M definition drilling program.

Staged Development Plan

While the number of deposits contained at Selwyn is significant, Selwyn's current focus is the development of its XY central deposit (as well as the XY West and Don deposits) and Wardrop Engineering is currently engaged in completing the BFS with this plan in mind. With 16M tonnes of high-grade indicated and 26M tonnes of inferred zinc-lead resources defined by recent exploration, Selwyn is confident that it can easily develop the deposit as a large underground mining operation. The new development plan has Selwyn mining at 8,000 tpd to produce approximately 255,000 tpa Zn and 65,000 tpa Pb. Stage 2 of the plan includes the addition of 17,000 tpd open-pit production, which would effectively increase total Zn production to 490,000 tpa with 133,000 tpa Pb; additional underground opportunities would likely follow.

Selwyn is moving forward with a 28,000-metre definition drilling program (35,000 metres by March 2011) to upgrade mineral resources in the XY Central, XY West and Don zones for inclusion in the BFS. Underground development is also under way with the construction of a platform for the exploration of the core of the XY zone synclinal structure that hosts the high-grade mineralization. In addition, surface drilling is expected to extend into early 2011; surface drilling is expected to continue in order to bring inferred resources at Don into the measured and indicated category. Other current priorities include securing a Yukon B Water Licence to commence initial underground development in order to confirm the mining conditions and expand the high-grade resources in the XY Central and XY West zones, as mentioned above. Finally, with such a large set of deposits, Selwyn is in an ideal location to take advantage of the Yukon's unique incremental permitting process.

Infrastructure

Because of its remote location, infrastructure challenges remain the key issues for the ultimate viability of the Selwyn Project – more specifically, access to power and concentrate transportation, as they can both contribute significantly to operating costs. In both cases, Selwyn will also be responsible for identifying any environmental impacts associated with power and transportation alternatives.

While diesel power is commonly used for power generation at remote projects, Selwyn has recently completed an investigation into the potential use of nearby hydroelectric targets. Attractive "run-of-river" hydroelectric opportunities have been identified and could ultimately lead to an HEP producing 20MW of power on a seasonal basis. Further studies are looking into extending the power availability into the winter months with the addition of a water storage facility capable of producing some 7MW of power during the low-flow seasons for a combined total of ~18MW (with HEP), meeting approximately 75% of the total power draw for the initial facility. While this would not completely eliminate the use of diesel power (peak power draw = 23MW), peak power generation capacity would meet 85% of the project's needs. The HEP plant will not be included in the DFS due to permitting associated with the facility; the DFS assumes that project start-up (first two years) will rely completely on diesel power generation. Initial investigations into the possible use of wind power are also now under way.

Regarding the concentrate transportation, Selwyn is looking into reducing, rather than completely eliminating, the use of concentrate truck hauling. The most recent (and most favoured) development involves an assessment into the use of a concentrate slurry pipeline for the portion of the haul, which under their current conditions, would need new roads or expensive upgrades to existing ones. With a favourable initial assessment, Selwyn is now in the process of a preliminary evaluation of the capital and operating costs of a proposed 18-cm diameter buried pipe to a dewatering and shipping facility on the

Robert-Campbell Highway. This option has not been set in stone, and other options are still being studied.

Recent Developments

On August 23, 2010, Selwyn received its amended Mining Land Use Permit. This permit provides authorization for much of the work required for new project infrastructure for the planned advanced underground exploration targets at Selwyn, including upgrades to drill and access roads, expansion of camp personnel to 160, additional fuel storage and the use of explosives. The permit does not include the use of or discharge of water related to the program, this will be covered by the Type “B” Water Licence to be obtained in the near future from the Yukon Water Board. Mining permits will initially be submitted for the XY and Don deposits only. In addition, Selwyn has also commenced discussions with the Kaska First Nations to negotiate a socioeconomic participation agreement to address environmental and social concerns as well as to address their participation in the economic benefits of the project.

On October 25, Selwyn reported that it had completed 48 drill holes of its 28,000-metre program to bring the inferred resources at XY Central, XY West and Don deposits into the Indicated category to support the BFS, which is currently under way. On October 25, drilling to date had totalled 13,685 metres, and at the time of the update five drill rigs continued to turn.

The Road Ahead

Selwyn’s CEO, Dr. Harlan Meade, has set an aggressive timeline for development of the Selwyn project. If everything falls into place, this timeline is theoretically achievable. Significant set milestones include the submission of a project report for environmental assessment in early 2011, a completed BFS at the end of Q2/11, and mill commissioning in early 2014. Selwyn has a strong technical and financial partner in Yunnan Chihong, and its participation will be instrumental in securing the necessary financing (most likely from Chinese banks) after the completion of the BFS. In a great position to take advantage of higher zinc prices during the next zinc cycle, Selwyn Resources has the potential to back up its claim that it truly is “a giant in the making.”

Figure 2: Selwyn’s Don Valley Camp



Source: Company filings, Bloomberg, Paradigm Capital Inc.

Selwyn Resources Valuation

Selwyn is in a good position to meet its aggressive project development timeline and has some infrastructure challenges that need to be addressed along the way; however, the investment and JV partnership from/with Chihong will allow for future progress to be made at the necessary pace. This will be important for Selwyn in order to meet its production schedule, which could possibly coincide with a decreased global zinc supply due to medium-term worldwide mine shutdowns. We have put together a model for Selwyn's initial production from its XY Central, XY West and Don deposits at the proposed 8,000 tpd processing rate and have arrived at a NAV of \$0.55. We currently assign a \$0.55 target price based on a 1.0x NAV multiple. Speculative Buy recommendation.

Selwyn Resources NAV

	US\$ millions	C\$ millions	Per Share
DEVELOPING/OPERATING ASSETS			
Howards Pass	\$130.6	\$137.1	\$0.37
Total	\$130.6	\$137.1	\$0.37
OTHER ASSETS			
Working Capital (of which cash = \$10m)	\$12.0	\$12.6	\$0.03
Exploration Properties	\$25.0	\$26.3	\$0.07
Cash from Exercise of Options/Warrants	\$20.0	\$21.0	\$0.06
Other Investments (Marketable securities)	\$6.0	\$6.3	\$0.02
Total	\$63.0	\$66.2	\$0.18
TOTAL ASSETS	\$193.6	\$203.2	\$0.55
LIABILITIES			
Bank Debt	\$0.0	\$0.0	\$0.00
Environmental	\$1.4	\$1.5	\$0.00
Other Obligations	\$0.0	\$0.0	\$0.00
Long term leases	\$0.0	\$0.0	\$0.00
Severance Charges	\$0.0	\$0.0	\$0.00
Total	\$1.4	\$1.5	\$0.00
TOTAL LIABILITIES	\$1.4	\$1.5	\$0.00
NET ASSET VALUE	\$192.2	\$201.8	\$0.55
Exchange Rate			
US\$1.00 = C\$	1.05		
Shares Outstanding			
			Basic
			Warrants
			Options
			Fully Diluted
			320.33
			28.36
			18.32
			367.01

Source: Company filings, Bloomberg, Paradigm Capital Inc.

Technical Analysis: Selwyn Resources Ltd. (6-9 Month Outlook)

Throughout 2010, SWN has been consolidating below the five-year downtrend line near the \$0.20 level. The bullish shift in the weekly momentum indicators suggests a major upward trend reversal in the stock:

- The faster-moving Full STO gives the first positive signal as it climbs above 20 from oversold lows.
- Weekly RSI is attempting to breakout above 50 after a year-long period of decline.
- The move toward a bullish crossover in the MACD confirms the underlying strength in the momentum trend.

A new advance in SWN measures toward the neckline of the 2006–2007 descending topping pattern at the \$0.50 zone.



Source: Stockcharts.com

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Recommendation	# of Companies	% of B/H/S	What our ratings mean:
Buy	127	69%	Buy – Expected returns of 20% or more over the next 6 to 12 months.
Buy (Spec)	27	15%	Speculative Buy - Expected returns of 20% or more over the next 6 to 12 months on high-risk development or "pre-revenue" companies, such as junior mining and early stage biotech companies.
Hold	29	16%	Hold - Expected returns of +/-20% over the next 6 to 12 months.
Sell	2	1%	Sell - Expected returns of -20% or more over the next 6 to 12 months.
Total	185		

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STOCK RATING SYSTEM

Strong Buy: The stock is expected to appreciate and produce a total return of at least 20% over the next twelve months. This rating is used to highlight one or two stocks that our Analysts believe will outperform, from a risk-reward standpoint, all other companies in their respective coverage universes.

Buy: The stock is expected to appreciate and produce a total return of at least 20% over the next twelve months.

Hold: The stock is expected to provide returns of +/- 20% over the next twelve months.

Sell: The stock is expected to depreciate and produce a total return of -20% or less over the next twelve months.