

17 March 2010

**Price: C\$0.24**

Mining sector

## Columbia Yukon Explorations Inc (CYU.V)

*Columbia Yukon's Storie deposit contains a substantial NI 43-101-compliant mineral resource that nevertheless still offers considerable blue-sky potential. Although we are lowering our base-case valuation of Columbia Yukon to C\$0.54 per share, this is due only to a sharp decline in the price of molybdenum and a weak US dollar triggered by the global economic crisis that hit the resource sector particularly hard. We continue to view Storie as having the potential to yield good cash flows in the medium to longer terms. In fact, under scenarios with more optimistic assessments of exploration success and molybdenum pricing, Columbia Yukon would appear to be considerably undervalued at its current level.*

### KEY POINTS

- **Drilling last year has led to a substantially larger NI 43-101-compliant mineral resource**

Columbia Yukon updated its mineral resource estimates for the Storie deposit in March, with improvements in both tonnage and classification of the mineralisation. The latest estimate includes 140 million tonnes of a resource classified as measured and indicated, an increase of some 42 million tonnes. The average grade of this resource is 0.064 percent molybdenum, based on a cut-off of 3.0 percent. Storie also contains an estimated inferred resource of 58 million tonnes averaging 0.059 percent molybdenum, an increase of 27 million tonnes.

- **Exploratory drilling and prospecting last year continues to show significant "blue-sky" potential**

In our initiation note of July, 2008, we hypothesised that Columbia Yukon could substantially increase its resource at Storie with further drilling. This has largely transpired as a result of last year's 49-hole, 25,000-metre drill programme that included several exploratory holes. Nevertheless, we continue to believe Columbia Yukon can again expand its mineral resource estimate next year, as indications are that new mineralised zones exist to the west and south of the currently delineated deposit.

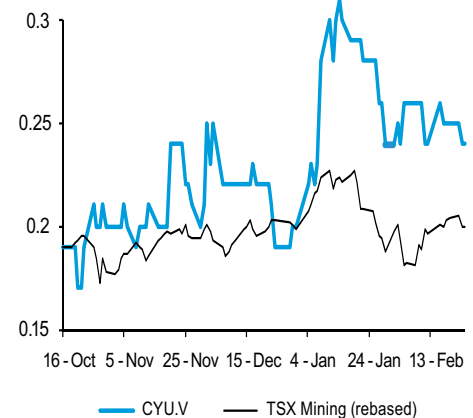
- **The 2009 exploration programme is now complete**

Despite the financial hardships imposed by the recession, Columbia Yukon successfully concluded a 2009 exploration programme. Although the budget was substantially lower than in 2008 and included no drilling, the company has been able to complete some essential work. This includes geological modelling and mapping of the Storie deposit, environmental planning and baseline studies.

- **Exploration plans for 2010 include a return to drilling**

Columbia Yukon is currently planning an aggressive exploration programme for 2010 that will allow the company to expand its mineral resource estimate for Storie and further advance the project toward a production decision. This plan will include a return to drilling at Storie, with both in-fill and exploratory holes expected.

### Price chart (C\$)



### Current fair value of equity

Expected Value C\$20.8m

**Value per share C\$0.54**

### Derisked upside potential\*

Our core scenario C\$0.54

Our optimistic scenario C\$1.34

Maximum potential C\$3.84

\*potential assuming projects reach permitting

### Company details

Quote

Shares

- TSX CYU.V

- Pinksheets CYUXF.PK

Hi-Lo last 12-mos. (C\$) 0.48 - 0.10

Shares issued (m) 38.8

Fully diluted (m) 42.5

Market Cap'n (C\$m) 8.8

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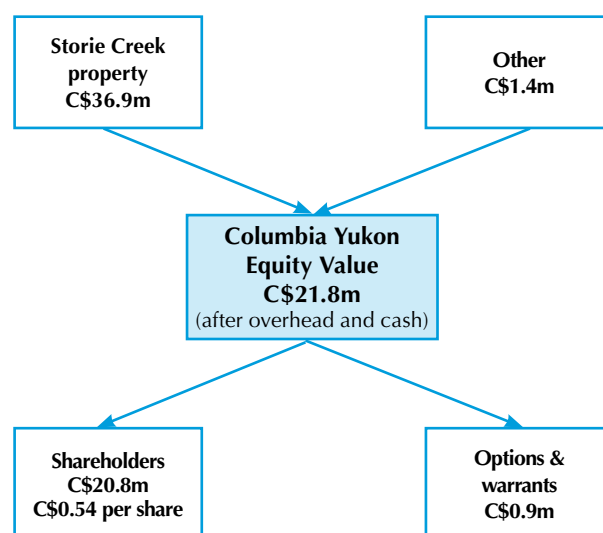
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## Fair value summary (C\$m)

Scenario	Base	Pessimistic	Optimistic
Property portfolio			
- Storie Deposit	36.9	3.1	78.4
- other	1.4	1.4	1.4
Total	38.3	4.5	79.8
Less: overhead	18.2	18.2	18.2
<b>Expected value of portfolio</b>	20.2	(13.6)	61.6
Add: other investments	0.0	0.0	0.0
Add: starting cash + new funds	1.6	1.6	1.6
Total current value for firm	21.8	(12.0)	63.2
Less: bank & other debt	0.0	0.0	0.0
Total value to equity claims	21.8	(12.0)	63.2
Less: warrants	0.9	0.0	4.2
Ordinary equity holders	20.8	(12.0)	59.0
Value per share (C\$)	<b>0.54</b>	<b>(0.31)</b>	<b>1.52</b>

## Components of Columbia Yukon's entity value



## Expected fair value of Columbia Yukon Explorations

Scenario	Risked mineable resources (m tonnes)	Storie Creek property value (C\$m)	CYU Valuation (C\$m)	Value per share (C\$)
<b>Base case outlook</b>	<b>107.7</b>	<b>36.9</b>	<b>20.8</b>	<b>0.54</b>
<b>Value for scenarios of further exploration success</b>				
Full proved up	132.6	98.5	77.4	2.00
Optimistic outlook	124.3	78.4	59.0	1.52
Pessimistic outlook	94.3	3.1	(12.0)	(0.31)
<b>Value with no further exploration success</b>				
Current resource estimate	94.3	(18.5)	(33.7)	(0.87)

### Note:

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

## Sensitivities to market assumptions ...

Long run real moly price (US\$/lb)	7.70	8.70	<b>9.70</b>	10.70	11.70
Value (C\$/share)	-0.87	-0.21	<b>0.54</b>	1.02	2.03
Time for moly price to revert to mean (years)	6	7	<b>8</b>	9	10
Value (C\$/share)	-0.61	-0.01	<b>0.54</b>	1.04	1.52
Volatility of moly price (%)	23%	<b>28%</b>	33%	38%	43%
Value (C\$/share)	-0.04	<b>0.54</b>	1.23	2.05	3.05
Interest rate (%)	3.2%	3.3%	<b>3.4%</b>	3.5%	3.6%
Value (C\$/share)	0.63	0.58	<b>0.54</b>	0.49	0.45

## Sensitivity to assumptions on ...

Recovery rate (%)	-2%	-1%	<b>+0%</b>	+1%	+2%
Value (C\$/share)	0.40	0.47	<b>0.54</b>	0.60	0.67
Change in value (%)	-25%	-12%		+12%	+25%
Roaster charge (C\$ per tonne)	0.86	<b>0.91</b>	0.95	1.00	1.04
Value (C\$/share)	0.54	<b>0.54</b>	0.53	0.53	0.53
Change in value (%)	+0%		-0%	-1%	-2%
Increase in capital cost (%)	<b>+0%</b>	+10%	+20%	+30%	+40%
Value (C\$/share)	<b>0.54</b>	-0.03	-0.62	-0.87	-0.87
Change in value (%)		-105%	-215%	-262%	-262%

## Storie deposit valuation (C\$m)

Scenarios for exploration success	Base	Optimistic	Pessimistic
<b>Net value of production</b>	<b>668.9</b>	668.9	668.9
Expected mining success*	<b>74%</b>	85%	65%
<b>Expected net value of production</b>	<b>493.0</b>	566.4	433.2
Add: tax shield on depreciation charge	<b>113.6</b>	113.6	113.6
Less: development & operational capex	<b>508.5</b>	508.5	508.5
<b>Value of mining operations</b>	<b>98.1</b>	171.5	38.3
Probability of reaching mine development	<b>57%</b>	57%	57%
<b>Expected value of deposit</b>	<b>55.4</b>	96.9	21.7
Less:			
- expect pre-development costs**	<b>7.5</b>	7.5	7.5
- further exploration costs ***	<b>11.0</b>	11.0	11.0
Expected value of project	<b>36.9</b>	78.4	3.1
effective risk haircut	<b>80%</b>	65%	92%
Ownership	<b>100%</b>	100%	100%
Columbia Yukon's share	<b>36.9</b>	78.4	3.1

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

\*\* shown as expected value of being incurred after allowing for likelihood of reaching each development stage

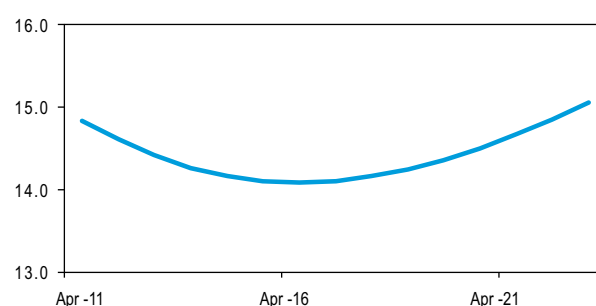
\*\*\* present value

## Commodity market assumptions

Molybdenum prices are mean reverting

Long run level	9.70 US\$/lb
Avg time to revert	8 years
Volatility	28%
Inflationary price growth	3.0%

## Expected molybdenum price (US\$/lb)



Columbia Yukon now has sufficient exploration data to provide a clearer picture of a hypothetical Storie molybdenum mine and that picture reveals a possible mine significantly larger than previously envisaged. A key reason for a larger mine is economic. That is, a larger mine would have lower per-unit operating costs, allowing for improved cash flows and a lower break-even price of molybdenum. A second reason is the expanding resource at Storie.

### Columbia Yukon has substantially increased its mineral resource estimate at Storie

In March, Columbia Yukon's consulting engineers, Mintec Inc. of Tucson, Arizona, completed a revised NI 43-101-compliant mineral resource estimate for Storie. Mintec estimated Storie hosts a measured resource of 35.6 million tonnes averaging 0.069 percent molybdenum, using a 0.03-percent cut-off, and an indicated resource of 104.2 million tonnes averaging 0.063 percent molybdenum. Further, the deposit hosts an inferred resource estimated at 58.4 million tonnes, averaging 0.059 percent molybdenum.

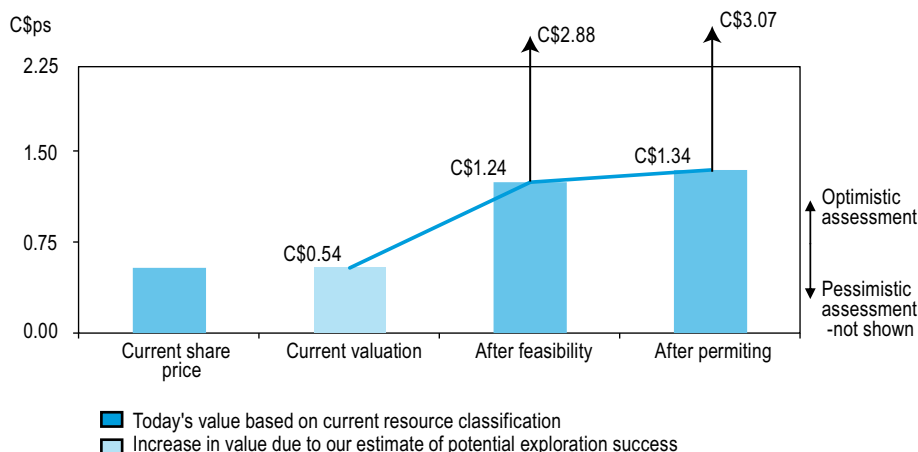
Previously, Storie was estimated to contain an indicated resource of 98.3 million tonnes, averaging 0.064 percent molybdenum, and an inferred resource of 30.9 million tonnes, averaging 0.059 percent molybdenum, all using the same 0.03-percent cut-off.

In total, the revised resource estimate now includes a measured, indicated and inferred resource of 198 million tonnes, averaging 0.063 percent molybdenum. This represents a 53-percent increase over the previously estimated indicated and inferred resource of some 129 million tonnes, which graded an average of 0.063 percent molybdenum. Of course, lost in this calculation is the fact that there has been a substantial migration across the classifications toward greater certainties.

Our previous model for Storie included the assumption that further exploration would result in Columbia Yukon delineating another 50 million tonnes of mineralisation beyond the 2008 estimate. In fact, the 2009 mineral resource calculation resulted in an increase of some 69 million tonnes, demonstrating that our expectation for further exploration success was overly conservative.

We continue to believe that further exploration at Storie will result in additional tonnages being delineated. Accordingly, we include an additional 15 million tonnes of hypothetical mineralisation in our revised model. Again, this may prove to be conservative.

### What Columbia Yukon could be worth - now and in the future



Source: Objective Capital

### **Columbia Yukon now envisages a significantly larger mine at Storie**

Our 2008 initiation note included a model based on a 20,000-tonne-per-day mine, but the substantial resource increase allows for an expansion of this plan, and the downturn in the molybdenum market necessitates it.

The most likely scenario for a Storie mine is based on an open pit and mill operating at 40,000 tonnes per day, or some 14 million tonnes of ore per year. This will result in significantly higher capital costs, but an equally important drop in unit operating costs, making Storie more economically viable during market downturns.

### **Resource expansion and delineation of high-grade zones the focus for 2010 at Storie**

Columbia Yukon plans a return to drilling next year at Storie. The focus will be both exploratory and infill drilling, as the company seeks to both expand and upgrade the existing resource, and to add further mineralisation to the deposit.

In particular, Columbia Yukon plans to investigate what appears to be a cylindrical pipe immediately south of the deposit, in an area previously classified as waste rock. The company believes this pipe could represent a high-grade feeder zone for the Storie deposit.

As well, exploration farther up the canyon, near the eastern contact of the pipe, resulted in the discovery of coarsely-disseminated molybdenite at a point 150 metres below all previously discovered mineralisation. This could prove an important new zone and will likely be drilled next year.

Drilling to date at Storie continues to yield substantial higher-grade zones averaging in excess of 0.10 per cent molybdenum. Further delineation of these areas is likely, as the economics of a Storie mine would be significantly enhanced if Columbia Yukon could commence mining these high-grade zones early on, allowing for a faster payback.

We have re-examined our valuation model, prepared for our initiation note of July 2008. Our revised model reflects some significant changes in light of recent developments, changing metal prices and interest and currency exchange rates.

In particular, our revised model includes a major change to our hypothesised mining plan and to the underlying resource assumptions supporting it.

The net effect of all changes is a valuation lowered to C\$0.54 per share from the August 2008 valuation of C\$0.92 per share. This is entirely the result of the collapse in the price of molybdenum due to the global recession and it should be noted that a quick return to the heady days of 2007, when the price of molybdenum topped US\$30 per pound, would result in a dramatic improvement in our valuation for Columbia Yukon. As a result, although the result is a lower valuation, it is one that is nevertheless held in greater confidence despite the continuing fragility of the resource sector.

### **A lower molybdenum price lowers our valuation but could offer long-term upside**

After spending much of 2007 and 2008 handily above US\$30 per pound, the price of molybdenum collapsed late last year to under US\$8. It currently trades near US\$15.00 per pound. Although we modelled the price to revert toward its long-term inflation-adjusted mean of US\$9.70 per pound, the sudden correction eliminated nearly all of the residual effect of markedly higher prices early in the life of a Storie mine. This necessarily exerts a powerful negative influence on our valuation.

Nevertheless, the lower price could have a longer-term positive benefit, as most rival projects are now on hold, or delayed. That could exacerbate the expected shortage of the metal as the global economy rights itself, allowing Columbia Yukon to quietly play catch-up.

### **The Storie resource has grown substantially**

We choose to adopt a higher cut-off of 0.035 per cent molybdenum for Storie, but we nevertheless project such a mine would have just under 150 million tonnes of ore, averaging 0.075 percent molybdenum, available to it. This is a substantial increase from our earlier projection of 133 million tonnes.

Further, Columbia Yukon's 2008 drilling and subsequent assays allowed it to upgrade the resource classifications significantly, allowing us to assume greater confidences in our calculations. This exerts a significant positive influence on our model.

### **Our base-case assumptions for development at Storie have grown**

Based on the larger resource estimates, we now believe the company's best development option is the construction of a 40,000-tonne-per-day mine that will commence full production by mid-2014 and run for at least 10 years. This exerts a significant positive influence on our valuation.

Accordingly, our projected capital costs have increased significantly, to C\$622m, after adjustment for inflation. This exerts a negative influence on our model, but one more than balanced by the corresponding decrease in our operating cost assumptions. We now project Storie could run with operating costs of US\$10 per pound of molybdenum produced, again, adjusted for inflation.

### **A weak US dollar lowers our revenue projections somewhat**

The Canadian dollar remains strong, trading near par with its US counterpart, which would result in lower revenues when expressed in Canadian dollars than previously assumed. This has a further negative impact on our valuation.

Interest rates are also lower than those that prevailed in 2008. This has a slight positive impact on our valuation.

### **The net result of these changes is a core valuation of C\$0.54 per share**

Our base-case core valuation for Columbia Yukon is lowered to C\$0.54 per share from our August 2008 estimate of C\$0.92 per share, but it remains substantially above the company's recent share price of C\$0.25 per share, which appears to be a reflection of the market's lingering pessimism for the resource sector in the wake of the recession, which we believe is an over-reaction.

Our lowered valuation is entirely the result of the dramatic and sudden drop in the price of molybdenum since our initiation note and in the weakening US dollar, rather than some inherent negative change in the underlying geology of the Storie deposit.

Indeed, our more optimistic scenario, which assumes greater probabilities of exploration success, results in a current valuation of C\$1.52 per share, and given continued exploration success, we value the company in the post-feasibility, post-permitting environment with a base-case and optimistic values of C\$1.35 and C\$3.07 per share respectively.

Further, should the world economy pull out of the recession faster, or more strongly than we expect, the price of molybdenum could increase faster than we project. This would result in a substantial upward revision in our estimates for this highly leveraged project.

<b>Risked mineable resource assumptions</b>			
<b>Reserves</b>		<b>Probability</b>	<b>Tonnes (m)</b>
Proven		90%	0.0
Probable		50%	0.0
<b>Total</b>		<b>0%</b>	<b>0.0</b>
<b>Resources</b>	<b>Conversion</b>	<b>Probability</b>	<b>Tonnes (m)</b>
Measured	80%	90%	30.8
Indicated	80%	50%	89.8
Inferred	80%	35%	48.5
Hypothesised	80%	15%	15.0
<b>Total</b>	<b>80%</b>	<b>50%</b>	<b>184.1</b>
<b>Mineable resource</b>			<b>Tonnes (m)</b>
<b>Mineable resource</b>			<b>147.3</b>
<b>Risked mineable resource</b>			<b>Tonnes (m)</b>
Current classification			73.5
<i>Scenarios for exploration success</i>			
- base case			107.7
- optimistic case			124.3
- pessimistic case			94.3

#### **Notes:**

- mineable resource have been estimated as reserves plus the portion of resources that would be expected to convert to reserves considering deposit type and likely grade variability
- risked mineable resource refers to the various classes of resource/reserve weighted by their assumed confidence level

Source: Objective Capital

Although Columbia Yukon holds interests in two other mineral projects in Canada, these properties are low priorities and are unlikely to offer significant upside potential in the short term.

## Barnes Creek is currently on hold

Columbia Yukon holds a 100-percent interest in the Barnes Creek gold project in British Columbia. The last significant work programme took place in 2007. In 2008, the company agreed to option a 60-percent interest in the property to White Tiger Mining Corp, but the latter company decided not to pursue the option.

Columbia Yukon currently does not plan to explore Barnes Creek as it presses ahead with Storie. Accordingly it has written down the Barnes Creek property by C\$1.35m, covering its acquisition and exploration costs to date.

## Work on the VBE/1506 claims in Labrador are also suspended

Columbia Yukon has held interests in the VBE claims in Labrador for several years. The company had been working under an arrangement with Celtic Minerals Ltd and Merrex Gold Ltd on the VBE-2 property, but last year the two companies elected to terminate the arrangement.

Columbia Yukon also held a 50-percent interest in the VBE-1 property, which it had been sharing with CanAlaska Uranium Ltd. Late last year, the two companies decided to cease work and drop the claims.

The company also has an interest in the 1506 metals property in Labrador, which is under option to Black Panther Mining Corp.

## As a result, Storie remains Columbia Yukon's main "blue-sky" project

Although the Storie molybdenum property is an advanced project, it still offers significant upside exploration potential. Further exploration may result in significant expansion of the currently defined resource, and in further delineation of higher-grade zones within the existing deposit.

### Proforma Storie Creek operation profit and loss

Proforma P&L (C\$m)	Year ending April								
	'12	'13	'14	'15	'16	'17	'18	'19	'20
<b>Gross revenues</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>396.7</b>	<b>375.3</b>	<b>355.0</b>	<b>330.2</b>	<b>312.0</b>	<b>294.4</b>
Operating costs	0.0	0.0	0.0	214.5	202.3	204.3	205.5	207.6	209.8
<b>Operating profit</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>182.2</b>	<b>172.9</b>	<b>150.8</b>	<b>124.7</b>	<b>104.4</b>	<b>84.6</b>
Depreciation	0.0	0.0	0.0	80.8	76.2	71.9	66.8	63.0	59.3
Administrative costs	0.0	0.0	0.0	4.5	4.6	4.7	4.8	4.9	5.1
<b>EBIT</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>267.5</b>	<b>253.7</b>	<b>227.4</b>	<b>196.3</b>	<b>172.3</b>	<b>148.9</b>

#### Assumptions

Capital costs (C\$m)	165.0	277.5	142.5	37.5	0.0	0.0	0.0	0.0	0.0
Tonnes ore processed (millions)	0.0	0.0	0.0	14.0	14.0	14.0	14.0	14.0	14.0
Average grade (%)		10.50%	10.50%	10.00%	9.50%	9.00%	8.50%	8.00%	7.50%

#### Other assumptions

Roasting charge C\$0.91/lb; roaster deduction 1.5% loss; transport C\$150/t wet conc; processing costs C\$3/t; power costs C\$2.35/t

Source: Objective Capital

# Financials

## Profit and Loss

Year ending April	2009	2010	2011	2012	2013	2014	2015
Revenues	—	—	—	—	—	—	396.7
COGS	—	—	—	—	—	—	(201.0)
Gross profits	—	—	—	—	—	—	195.7
Administrative Costs	(1.5)	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)	(1.3)
<b>EBITDTA</b>	<b>(1.5)</b>	<b>(1.2)</b>	<b>(1.2)</b>	<b>(1.2)</b>	<b>(1.2)</b>	<b>(1.3)</b>	<b>194.4</b>
Depreciation & amortisation	—	—	—	—	—	—	(80.8)
Writedowns and Minority interests	(1.4)	—	—	—	—	—	—
EBIT	(2.9)	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)	113.6
Interest	0.3	0.1	(0.1)	(2.6)	(11.6)	(24.0)	(29.1)
EBT	(2.6)	(1.1)	(1.3)	(3.8)	(12.8)	(25.3)	84.5
Tax paid	0.6	0.3	0.4	1.1	3.8	7.6	(25.4)
<b>Earnings</b>	<b>(2.0)</b>	<b>(0.8)</b>	<b>(0.9)</b>	<b>(2.6)</b>	<b>(9.0)</b>	<b>(17.7)</b>	<b>59.2</b>
Dividends	—	—	—	—	—	—	—
<b>Retained earnings</b>	<b>(2.0)</b>	<b>(0.8)</b>	<b>(0.9)</b>	<b>(2.6)</b>	<b>(9.0)</b>	<b>(17.7)</b>	<b>59.2</b>

## Cashflow statement

Year ending April	2009	2010	2011	2012	2013	2014	2015
EBIT	(2.9)	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)	113.6
Depreciation	—	—	—	—	—	—	80.8
Stock-based Comp, Writedowns, Tax	1.0	0.6	0.6	0.6	0.6	0.6	0.8
Recovery	—	—	—	—	—	—	—
(Increase) decrease in receivables	0.2	—	—	—	—	—	(59.5)
(Increase) decrease in inventory	(0.0)	—	—	—	—	—	(30.2)
Increase (decrease) in payables	(0.3)	—	—	—	—	—	16.1
<b>Net cash from Ops</b>	<b>(2.0)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>121.6</b>
Tax paid	0.6	0.3	0.4	1.1	3.8	7.6	(25.4)
Dividends	—	—	—	—	—	—	—
Net interest recieved (paid)	0.3	0.1	(0.1)	(2.6)	(11.6)	(24.0)	(29.1)
New equity	(0.9)	5.0	5.0	150.0	100.0	—	—
New (deposits) borrowings	—	—	6.0	100.0	150.0	125.0	(25.0)
Capital expenditure	(6.0)	(6.0)	(6.0)	(165.0)	(277.5)	(142.5)	(42.1)
<b>Net cash from financing</b>	<b>(6.0)</b>	<b>(0.6)</b>	<b>5.3</b>	<b>83.6</b>	<b>(35.3)</b>	<b>(33.9)</b>	<b>(121.5)</b>
<b>Net increase (decrease) in cash</b>	<b>(8.0)</b>	<b>(1.2)</b>	<b>4.7</b>	<b>83.0</b>	<b>(35.9)</b>	<b>(34.6)</b>	<b>0.0</b>

## Balance sheet

Year ending April	2009	2010	2011	2012	2013	2014	2015
Fixed assets at NAV	15.2	21.2	27.2	192.2	469.7	612.2	573.5
Cash	2.8	1.6	6.3	89.3	53.4	18.8	18.8
Receivables	0.1	0.1	0.1	0.1	0.1	0.1	59.6
Inventory	0.1	0.1	0.1	0.1	0.1	0.1	30.2
Less Payables	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(16.4)
<b>Net current assets</b>	<b>2.6</b>	<b>1.4</b>	<b>6.1</b>	<b>89.1</b>	<b>53.2</b>	<b>18.6</b>	<b>92.2</b>
Less loans	—	—	(6.0)	(106.0)	(256.0)	(381.0)	(356.0)
<b>Capital employed</b>	<b>17.8</b>	<b>22.6</b>	<b>27.3</b>	<b>175.3</b>	<b>266.9</b>	<b>249.8</b>	<b>309.7</b>
Represented by							
Shares in issue	31.6	37.2	42.8	193.4	294.0	294.6	295.4
Add retained profit							
Prior periods	(11.8)	(13.8)	(14.6)	(15.5)	(18.1)	(27.1)	(44.8)
This period	(2.0)	(0.8)	(0.9)	(2.6)	(9.0)	(17.7)	59.2
<b>Shareholders' funds</b>	<b>17.8</b>	<b>22.6</b>	<b>27.3</b>	<b>175.3</b>	<b>266.9</b>	<b>249.8</b>	<b>309.7</b>

Source: Objective Capital

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