

Contango
MicroCap
Limited



Contango MicroCap Limited

ABN 47 107 617 381

Annual Report - 30 June 2010

Dear Fellow Shareholder

**CONTANGO MICROCAP LIMITED (“CTN”)
RESULTS SUMMARY FOR THE YEAR ENDED 30 JUNE 2010**

- **Operating Profit after tax of \$18.3m for the year ended 30 June 2010**
- **Gross portfolio performance of 23.3% compared to a return of 13.8% for the S&P/ASX All Ordinaries Accumulation Index**
- **Net Assets of \$180.5m as at 30 June 2010**
- **Total dividends for FY10 of 7 cents - 2 cents interim dividend paid in March 2010 and final dividend of 5 cents will be paid on 5 October 2010 – both fully franked**
- **Dividend policy to pay annual dividends equivalent to a 6% yield on the NTA per share at the start of the financial year**
- **Two new independent directors and a shareholder relations executive appointed**
- **CTN has sufficient capital and liquidity to participate in any attractive investment opportunities that may become available in the microcap sector**

Operating Performance

Contango MicroCap Ltd (ASX: CTN) announced an operating profit before tax for the year to 30 June 2010 of \$25.0 million and an operating profit after tax of \$18.3 million – an improvement of \$68.8m on the previous year’s after tax result.

Gains on investments contributed \$25.4m to this result while dividend and interest income provided a further \$3.3m.

This result reflects the strong performance of the investment portfolio which generated a return of 23.3% over the twelve months to June 2010 – a 9.5% excess over the S&P/All Ordinaries Accumulation Index for the corresponding period.

At 30 June 2010, the Net Assets of the Company totalled \$180.5m – an increase of \$44.6m over the year.

Dividends and Dividend Policy

A fully franked interim dividend of 2 cents per share was paid to shareholders in March 2010 and a fully franked final dividend of 5.0 cents per share will be paid on 5 October 2010. This will bring the full year dividend to 7.0 cents per share - in line with Company’s recently revised dividend policy, announced in April 2010, to pay dividends equivalent to 6% of the Net Tangible Asset (NTA) per share prevailing at the start of each new financial year.

At 30 June 2010, the NTA per share was \$1.202 – this will see a minimum of 7.2 cents paid as dividends for the financial year ended 30 June 2011. More details of future dividends will be made available when they are formally declared closer to payment dates.

New Directors and Shareholder Relations Executive

In December 2009 the Company announced the appointment of two independent external directors. Ian Ferres and Mark Kerr bring several decades of experience in the funds management and finance industry. Both have a keen interest in the microcap sector of the Australian market.

The Directors also decided that more effort should be devoted to communicating with shareholders about the Company and raising awareness of CTN across a wider range of potential investors. With this in mind, the Company announced the appointment of Boyd Peters to the newly created position of National Distribution Manager to lead the Company's investor relations and to promote the benefits of investing in Contango MicroCap Limited. Mr Peters took up his position in June 2010.

Update on Microcap Sector

Microcap companies remain an important and dynamic part of the Australian economy. There are nearly 1500 ASX-listed companies with a market cap of less than \$500m. Data provided by just over half of these companies indicates that they directly employ more than 120,000 Australians. With a combined market cap of approximately \$70b, total assets of \$111b, cash balances \$11b and reported NPAT of \$5.5b, the sector is well positioned to take advantage of future growth opportunities.

Contango MicroCap Limited is one of the few companies committed to the microcap segment of the Australian market. CTN is well capitalised and committed to supporting the continued growth of this sector.

Outlook

The pace of the global recovery is easing following the sharp post recession bounce. This slowdown is a normal part of the cyclical recovery process. Although we expect growth in developed economies to stabilise below trend, the continuing strength of emerging nations, including China, will provide an important offset.

Developing and emerging nations now account for nearly 50% of world growth on a purchasing power parity basis. As growth in these regions is resource intensive, their continued rapid expansion will underpin solid growth in demand for resources.

Despite the severity of the financial crisis from 2007 to 2009, in the five years to 30 June 2010, the gross return on CTN's investment portfolio was 17.5% per annum against the All Ordinaries Accumulation Index return of 4.7% over the same period.

We continue to believe that the microcap sector remains a very attractive long term investment and that CTN is well positioned to participate in the growth in the sector and the Australian market.

Yours sincerely



David I Stevens
Chairman

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CORPORATE GOVERNANCE STATEMENT

Unless disclosed below, all the best practice principles recommendations of the ASX Corporate Governance Council have been applied for the entire financial period ended 30 June 2010.

Board Composition and Performance

The skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report and their term of office are detailed in the Director's report.

As at the date of this report, the Board is comprised of four Non executive Directors, of which two are Independent Directors. The Board has considered its composition and believes that as the principal management function, being management of investments, is conducted by Contango Asset Management Limited, that the current composition of the Board is appropriate for the Company.

The Board meets regularly with its primary functions including:

- Monitoring the investment performance and Net Tangible Assets of the Company
- Ensuring adequate systems of internal control and risk management are implemented and maintained
- Approval of half yearly and annual financial reports
- Declaration of dividends
- Monitoring of taxation issues relevant to the Company
- Maintaining compliance with the investment management agreement
- Ensuring proper and effective disclosure of Company business to the market

Trading Policy

The Company's policy regarding Directors trading in its securities restricts them from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

Audit Committee

The Company does not have an audit committee. The Company's Board of Directors consists of 4 members, which take direct responsibility for audit, financial reporting and compliance activities.

Remuneration Policies and Remuneration Committee

The Company has no employees subject to any remuneration arrangements payable by the Company and therefore does not have a remuneration committee. The Company engages a professional investment manager, Contango Asset Management Limited (AFSL 237119) to manage the investment activities of the Company.

Other Information

Further information relating to the Company's activities has been made publicly available on the Company's web site at www.contangomicrocap.com.au.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Contango MicroCap Limited for the financial year ended 30 June 2010 and auditor's report thereon. This financial report has been prepared in accordance with Australian equivalents of International Financial Reporting Standards.

Directors

The following persons were Directors of Contango MicroCap Limited during the financial year and up to the date of this report unless otherwise stated:

David I Stevens
 Glenn Fowles
 Ian N Ferres (since 7 December 2009)
 Mark G Kerr (since 7 December 2009)
 Stephen L Babidge (resigned 7 December 2009)
 William A Laister (resigned 7 December 2009)

Principal activities

The principal activities of the Company during the financial year were investment in companies listed on the Australian Stock Exchange (the "ASX"). There has been no significant change in the nature of these activities during the financial year.

Review of operations

A review of the operations of the Company during the financial year and the results of those operations are as follows:

The Company continued investing in shares listed on the ASX during the year ended 30 June 2010.

Over the 12 months the investment portfolio provided a return of +23.3% (2009: -36.7%) before fees and taxes.

The Company intends to continue investing in accordance with the guidelines which were disclosed in the Company's prospectus.

	For the year ended	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Profit/(Loss) before income tax expense	25,063	(73,111)
Income tax benefit (expense)	<u>(6,773)</u>	<u>22,555</u>
Net profit/(loss) attributable to members of Contango MicroCap Limited	<u>18,290</u>	<u>(50,556)</u>

Dividends

A fully franked interim dividend for 2009/10 of 2 cents per share was paid on 12 March 2010 which totalled \$2,338,279.

The company had a dividend reinvestment plan in respect of the 2010 interim dividend. A total amount of \$368,225 of this dividend was applied to the dividend reinvestment plan issuing 400,249 shares.

On 16 April 2010, the Company announced a revised dividend policy reflecting the intention to pay dividends equivalent to 6% of the Net Tangible Asset backing per share prevailing at 30 June each year. For the year ended 30 June 2010, this amounted to 7 cents per share and the balancing amount of 5 cents per share (fully franked) has been declared and will be paid on 5 October 2010. The total amount payable in respect of this dividend will be \$7,504,434.

Significant changes in the state of affairs

On 30 November 2009, the Company announced a Share Purchase Plan ("SPP") allowing shareholders to buy up to 17,250 shares at a share price of \$0.87 per share. Total subscriptions received under the SPP, which closed on 22 January 2010, were \$24,382,000 resulting in the issue of 28,039,300 new ordinary shares in the Company.

Subsequent to the announcement of the SPP, eligible large shareholders were provided with the opportunity to also subscribe for new shares at a cost of \$0.87 per share under a program to enable these shareholders to retain their proportional ownership in the Company that was held prior to the SPP. The "Top-Up" Prospectus was issued on 17 February 2010 and the issue closed on 5 March 2010 with subscriptions totalling \$4,119,632 and 4,735,209 new ordinary shares being issued.

Over the course of the year the Company has had an on-market buy-back facility in place. From 1 July 2009 until 30 June 2010, 208,208 shares at an average price of \$0.981 have been bought back. During this period the volume weighted average price of all shares traded was \$0.954.

After Balance Date Events

A final fully franked dividend for the year ending 30 June 2010 of 5 cents per share was declared on 19 August 2010 and will be paid on 5 October 2010. The total payable in respect of this dividend will be \$7,504,434.

No other matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Likely developments and expected results of operations

The Company will continue to pursue its operating strategy to create shareholder value. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Company.

Environmental regulation

The operations of the Company are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Information on Directors and Company Secretary

The qualifications, experience and special responsibilities of each person who has been a director of Contango Microcap Limited at any time during or since the end of the financial year is provided below, together with details of the company secretary as at the year end.

David I Stevens - Chairman (Non-executive)

Qualifications

Bachelor of Economics (Monash University)

Appointment

14 January 2004

Experience and expertise

David first began in the investment industry in 1978 and has been associated with over 21 years of first quartile investment performance. His specialist skills are Australian equities, as well as the generalist skills of strategic asset allocation through intimate knowledge of international equities, domestic and fixed interest and domestic property. More recently David joined HSBC Asset Management in 1989. He became Chief Investment Officer in 1990 and Managing Director from 1992 until his resignation in November 1998. Funds under management at HSBC grew from \$700 million to in excess of \$6.3 billion during his period as Managing Director. The bulk of these were in Balanced and Australian equity mandates. David is also a Director of Contango Capital Partners Limited.

Interests in Shares and Options

188,211 Ordinary shares in Contango Microcap Limited.

Glenn Fowles (Non-executive)

Qualifications

Bachelor of Business (Accounting and Finance) (Massey University, NZ)

Appointment

14 January 2004

Experience and expertise

Glenn has worked in the financial services industry since 1985. His roles at fund management organisations have included that of Company Accountant, Operations Manager, Financial Controller, Finance Director, Chief Operating Officer and Chief Executive Officer. Glenn has extensive experience in all aspects of investment administration, including investment accounting, custody, information systems, compliance and taxation.

Interests in Shares and Options

55,855 Ordinary shares in Contango Microcap Limited.

Special responsibilities

Company Secretary

Ian N Ferres (Non-executive)

Qualifications

FIAA, FAICD

Appointment

7 December 2009

Experience and expertise

Ian has had a distinguished career in the funds management industry. His executive roles included Executive Director, National Mutual from 1983 to 1990 with responsibility for all worldwide equity, property, and fixed interest investments, and financial/banking ventures from 1975 to 1988; Managing Director of Meridian Funds Management 1988 to 1990; and Group Managing Director of Australian Unity from 2002 to 2004.

Ian currently holds a number of non-executive positions including: Consultant, TressCox Lawyers; Chairman, Australian Healthcare Investment Company Limited since October 2009; Director, Australian Unity Limited since 1999; Director, St Vincent's Health Melbourne since 2006; Director, CEDA since 2008; Member, Australia Day Committee (Victoria) since 2003.

Interests in Shares and Options

Nil

Mark G Kerr (Non-executive)

Qualifications

LL.B. (University of Melbourne)

Appointment

7 December 2009

Experience and expertise

Mark has specialist expertise in the areas of finance, marketing, property and issues management. In 1989 he was appointed Finance Director of Weber Shandwick Worldwide Australia (WSW), in 1994 joint Managing Director, then in 1998, Chief Executive Officer.

Mark has served on a number of public company boards. He is currently Chairman of Hawthorn Resources Limited and a Director of Berkeley Consultants, a public relations and reputation management consultancy.

Interests in Shares and Options

Nil

Stephen L Babidge - Director (Non-executive)

Qualifications

Member of the Institute of Chartered Accountants in Australia and Fellow of the Financial Services Institute of Australasia. Bachelor of Arts in Accounting (University of South Australia).

Appointment

14 January 2004 until 7 December 2009

Experience and expertise

Stephen has in excess of 23 years of experience in funds management, investment banking and chartered accounting. Stephen joined HSBC Asset Management Australia Limited in 1987 and, at the time of his resignation in November 1998, was the Executive Director and Chief Investment Officer. His duties included Chairmanship of the Asset Allocation Committee, management of all investment personnel and asset teams, and day to day management of all clients' Australian equity portfolios as Head of Equities. During his period with HSBC, Stephen put together one of the industry's most highly regarded and stable investment teams. Stephen is also a Director of Contango Capital Partners Limited.

Interests in Shares and Options at date of resignation

248,182 Ordinary shares in Contango Microcap Limited.

William A Laister (Non-executive)

Qualifications

Bachelor of Economics (University of Queensland)

Appointment

14 January 2004 until 7 December 2009

Experience and expertise

William has worked in the investment industry for over 24 years. His roles have included Resource Analyst, Head of Trading, Investment Manager, Senior Investment Manager – Resources and Head of Australasian Equities. Prior to joining, William was Head of Australasian Equities for HSBC Asset Management and has also previously worked with the stockbroking firms of Wilson and Co and Morgan Stockbroking in Brisbane. No other directorships of listed companies were held at any time during the five years prior to 7 December 2010.

Interests in Shares and Options at date of resignation

275,416 Ordinary shares in Contango Microcap Limited.

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Board Meetings	
	A	B
David I Stevens	7	7
Glenn Fowles	7	7
Ian Ferres	4	4
Mark Kerr	4	4
Stephen L Babidge	3	3
William A Laister	3	3

A = Number of meetings attended

B = Number of meetings held during the time the director held office during the year

Remuneration report

Contango MicroCap Limited does not employ any personnel.

There have been no payments of remuneration to any Directors during the period. Ian Ferres and Mark Kerr are due payments as Independent Directors for their services from 7 December 2009 to 30 June 2010 amounting to \$27,750 each.

David Stevens and Glenn Fowles are employees of Contango Asset Management Limited which is the investment manager of Contango MicroCap Limited. Remuneration of these two non-independent Directors is paid directly by Contango Asset Management Limited.

The Directors of Contango MicroCap Limited do not consider that there is any direct correlation between the level of remuneration provided to the employees of Contango Asset Management Limited (and associated subsidiaries) and the management fees paid by Contango MicroCap Limited to Contango Asset Management Limited in accordance with the investment management agreement between them.

Share options

No options over unissued shares or interests in the Company were granted during or since the end of the financial year and there were no options outstanding at the end of the financial year.

Indemnification and insurance of Directors, officers and auditors

During the financial year, the Company has paid premiums amounting to \$35,284 insuring all Directors and the officers of the Company which indemnifies Directors, Officers of the Company, and the Company of any claim made against them subject to conditions contained in the insurance policy. Further disclosure required under section 300(9) of the Corporations Act 2001 is prohibited under the contract. No indemnities have been given or insurance paid for the auditors of the Company.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the entity.

Non-audit services

Non-audit services are approved by resolution of the board of directors. During the year, no non-audit services have been provided by the auditors of the entity, Pitcher Partners.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

Rounding of amounts

The amounts contained in the report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

This report is signed in accordance with a resolution of the directors.



David Stevens

Chairman

Melbourne

Dated this 20th day of August 2010

AUDITOR'S INDEPENDENCE DECLARATION
To the Directors of Contango Microcap Limited.

In relation to the independent audit for the year ended 30 June 2010, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct



B J BRITTEN
Partner
20 August 2010



PITCHER PARTNERS
Melbourne

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

		Year ended	
	Notes	30 June 2010 \$'000	30 June 2009 \$'000
Revenue			
Other income	4	3,313	4,467
Fair value gains/(losses) on financial assets through profit and loss	4	25,394	(75,247)
		28,707	(70,780)
Expenses			
Management fees	5	2,259	1,592
Other operating expenses	5	1,385	739
		3,644	2,331
Profit/(loss) before income tax		25,063	(73,111)
Income tax benefit/(expense)	6	(6,773)	22,555
Net profit/(loss) from continuing operations		18,290	(50,556)
Profit/(loss) for the year		18,290	(50,556)
Total comprehensive income for the year		18,290	(50,556)
Profit/(loss) is attributable to:			
Members of Contango MicroCap Limited		18,290	(50,556)
Total Comprehensive income to:			
Members of Contango MicroCap Limited		18,290	(50,556)
		Cents	Cents
Earnings per share for profit from continuing operations attributable to equity holders of the entity:			
Basic earnings per share	15	14.1	(43.1)
Diluted earnings per share	15	14.1	(43.1)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Notes	As at	
		30 June 2010 \$'000	30 June 2009 \$'000
Assets			
Cash and cash equivalents	13(b)	5,626	30,140
Receivables	8	482	218
Financial assets held at fair value through profit and loss	9	171,873	98,456
Deferred tax assets	6(c)	<u>3,533</u>	<u>10,279</u>
Total assets		<u>181,514</u>	<u>139,093</u>
Liabilities			
Payables	10	<u>1,057</u>	<u>3,191</u>
Total liabilities		<u>1,057</u>	<u>3,191</u>
Net assets		<u>180,457</u>	<u>135,902</u>
Equity			
Contributed equity	11	182,011	153,408
Accumulated losses	12	<u>(1,554)</u>	<u>(17,506)</u>
Total equity		<u>180,457</u>	<u>135,902</u>

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Contributed Equity \$'000	Retained Earnings \$'000	Total Equity \$'000
Balance as at 1 July 2009	153,408	(17,506)	135,902
Profit for the year	-	18,290	18,290
Total comprehensive income for the year	-	18,290	18,290
Transactions with owners in their capacity as owners:			
Capital from issue of shares net of transaction costs	28,440	-	28,440
Dividend re-investment	368	-	368
Share buy-back	(205)	-	(205)
Dividends provided for or paid	-	(2,338)	(2,338)
Total transactions with owners in their capacity as owners:	28,603	(2,338)	26,265
Balance as at 30 June 2010	182,011	(1,554)	180,457
Balance as at 1 July 2008	152,919	37,724	190,643
Loss for the year	-	(50,556)	(50,556)
Total comprehensive income for the year	-	(50,556)	(50,556)
Transactions with owners in their capacity as owners:			
Dividend re-investment	745	-	745
Share buy-back	(256)	-	(256)
Dividends provided for or paid	-	(4,674)	(4,674)
Total transactions with owners in their capacity as owners:	489	(4,674)	(4,185)
Balance as at 30 June 2009	153,408	(17,506)	135,902

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Notes	2010 \$'000	2009 \$'000
Cash flows from operating activities		
Dividends received	2,877	2,216
Interest received	351	2,214
Payment of other expenses	(4,034)	(1,901)
Income tax refund (paid)	-	3,346
Net cash provided by / (used in) operating activities	(806)	5,875
13(a)		
Cash flows from investing activities		
Proceeds from sale of investments	256,993	246,107
Payment for investments	(306,939)	(263,622)
Net cash used in investing activities	(49,946)	(17,515)
Cash flows from financing activities		
Proceeds from share issues	28,501	-
Capital raising costs	(88)	-
Share buy-back	(205)	(256)
Dividends paid	(1,970)	(3,929)
Net cash provided by / (used in) financing activities	26,238	(4,185)
Net increase/(decrease) in cash and cash equivalents		
	(24,514)	(15,825)
Cash and cash equivalents at the beginning of the financial year	30,140	45,965
Cash and cash equivalents at the end of the year	5,626	30,140
13(b)		

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

This financial report is a general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Contango Microcap Limited as a Company. Contango MicroCap Limited is a company limited by shares, incorporated and domiciled in Australia.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with Australian equivalent International Financial Reporting Standards ensures compliance with International Financial Reporting Standards (IFRS).

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

The financial report was authorised for issue by the directors at the date of the Director's report.

(b) Going concern

The financial report has been prepared on a going concern basis.

(c) Financial instruments

Financial assets at fair value through the profit and loss

Investments in listed securities are carried at fair value through profit and loss. They are measured at their fair value at each reporting date and any increment or decrement in fair value from the prior period is recognised in the profit and loss of the current period. Fair value of listed investments are based on current bid prices.

Non-listed investments for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised costs using the effective interest rate method.

Financial liabilities

Financial liabilities include trade payables, other creditors and amounts due to director-related entities.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(e) Receivables

Receivables may include amounts for interest and securities sold where settlement has not yet occurred. Interest is accrued at the reporting date from the time of last payment using the effective interest rate method.

(f) Income recognition

Revenue from the sale of investments is recognised when the significant risks and rewards of ownership of the investments have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the Australian corporate income tax rate (30%) adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Securities within the portfolio are treated as trading stock for the purposes of income tax calculations.

(h) New accounting standards and interpretations

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The directors have not yet assessed the impact of these standards or interpretations.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Rounding of amounts

The Company is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(j) Comparative Figures

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. Estimates and judgements are based on past performance and management's expectation for the future. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

(a) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Given the historic performance trends of the investment portfolio, recent market activity and the directors' expectations and estimates of the Company's prospects, the Company has assessed that tax benefits arising from prior period transactions will be fully utilised over the next 3 to 5 years.

3 FINANCIAL RISK MANAGEMENT

(a) Objectives, strategies, policies and processes

The Company's activities may expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Company's overall risk management program focuses on ensuring compliance with the Company's Prospectus and seeks to maximise the returns derived for the level of risk to which the Company is exposed. Financial risk management is carried out by an Investment Manager under policies approved by the Board of Directors of the Company ('the Board').

The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, price risks, and ratings analysis for credit risk.

As part of its risk management strategy, the Company uses derivatives and other investments, including share price and warrants, to manage exposures resulting from changes in interest rates, equity price risks, and exposures arising from forecast transactions.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: price risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Company's direct investments and not on a look-through basis for investments held in the Company.

The sensitivity of the Company's equity and profit/(loss) before income tax to price risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, historical correlation of the Company's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Company invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

(i) Price risk

Equity price risk is the risk that the fair value of equities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity price risk exposure arises from the Company's investment portfolio. The investments are classified on the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

Derivatives are traded sparingly and used to provide short-term exposure to the general equity market.

The Investment Manager mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Price risk(continued)

The Company's overall market positions are monitored on a daily basis by the Company's Investment Manager and are reviewed on a quarterly basis by the Board of Directors.

The Company's net assets include investments in debt and equity securities and related derivatives. At 30 June 2010, the overall market exposures were as follows:

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Derivatives assets held for trading	77	69
Derivatives liabilities held for trading	-	-
Securities designated at fair value through profit or loss	<u>171,796</u>	<u>98,387</u>
	<u>171,873</u>	<u>98,456</u>

An increase of 5% at the reporting date of the underlying investments' prices for Australian equities would have increased the profit from operating activities after tax by \$6,015,575 (2009: \$3,445,949). A decrease of 5% at the reporting date of the underlying investments' prices for Australian equities would have decreased the profit from operating activities after tax by \$6,015,575 (2009: \$3,445,949). There would have been no impact on equity other than the related retained earnings change due to operating profit or loss. The analysis has been performed on the same basis for 2009.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest-bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The Company may use derivatives to hedge against unexpected increases in interest rates. The interest rate risk is measured using sensitivity analysis.

In accordance with the Company's policy, the Company monitors the Company's overall interest sensitivity on a daily basis, and the Board of Directors reviews it on a quarterly basis. Compliance with the Company's policy is reported to the Board on a monthly basis.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Interest rate risk(continued)

The table below summarises the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the maturity dates:

30 June 2010	Weighted average interest rate (% pa)	Floating interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	3.25	5,626	-	5,626
Receivables	-	-	482	482
Investments	-	-	171,873	171,873
Total financial assets	-	5,626	172,355	177,981
Financial liabilities				
Payables	-	-	1,057	1,057
Total Financial liabilities	-	-	1,057	1,057
Net assets	-	5,626	171,298	176,924
30 June 2009	Weighted average interest rate (% pa)	Floating interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	2.75	30,140	-	30,140
Receivables	-	-	218	218
Investments	-	-	98,456	98,456
Total financial assets	-	30,140	98,674	128,814
Financial liabilities				
Payables	-	-	3,191	3,191
Total Financial liabilities	-	-	3,191	3,191
Net assets	-	30,140	95,483	125,623

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, and deposits with banks and other financial institutions.

The investment manager manages credit risk by diversifying the exposure among counter parties and operating in liquid markets. The Company does not have any significant concentration of credit risk on an industry basis. Deposits are held with AAA rated institutions.

With respect to credit risk arising from the financial assets of the Company, other than derivatives, the Company's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these investments as disclosed in the Balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

The Company holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired.

(d) Liquidity risk

Liquidity risk is the risk that a Company will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Company's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Company maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Company may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Company may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer. No such investments were held at the balance sheet date.

In accordance with the Company's policy, the Investment Manager monitors the Company's liquidity position on a daily basis, and the Board reviews it on a quarterly basis. Compliance with the Company's policy is reported to the Board on a monthly basis.

The Company has arranged a margin lending facility up to a value of \$40m secured against the investments of the Company. During the year ended 30 June 2010 none of this facility had been utilised (2009: Nil).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

Maturity analysis for financial liabilities

The table below analyses the Company's financial liabilities, excluding gross settled derivative financial liabilities, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month	1-3 months	3-12 months	12-60 months
At 30 June 2010				
Payables	<u>1,057</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>1,057</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June 2009				
Payables	<u>3,191</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>3,191</u>	<u>-</u>	<u>-</u>	<u>-</u>

(e) Fair values of financial assets and financial liabilities

The carrying amounts of the Company's financial assets and financial liabilities in the Statement of Financial Position are all at fair value.

For the years ended 30 June 2010 and 30 June 2009, the Company did not have any financial assets and financial liabilities that were determined using valuation techniques. The fair values of the Company's financial assets and liabilities for the years then ended were determined directly, in full, by reference to quoted prices from the Australian Securities Exchange.

Financial asset and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Input other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

All of the Company's Financial Assets and Financial Liabilities as at 30 June 2010 (\$171,873,000) and 2009 (\$98,456,000) are defined as Level 1.

Year ended	
30 June	30 June
2010	2009
\$'000	\$'000

4 REVENUE FROM CONTINUING OPERATIONS

Interest	351	2,212
Dividend and trust distribution income	2,838	2,227
Other operating income	124	28
	3,313	4,467

Fair value profits (losses) on financial assets held at fair value through the profit and loss	25,394	(75,247)
	28,707	(70,780)

5 PROFIT FROM CONTINUING OPERATIONS

Profit from continuing operations before income tax has been determined after the following specific expenses:

Management fees	2,259	1,592
Other operating expenses	1,385	739
	3,644	2,331

Year ended	
30 June 2010 \$'000	30 June 2009 \$'000

6 INCOME TAX

(a) The components of tax expense:

Current tax	-	-
Deferred tax	6,773	(17,218)
Overprovision of income tax in previous year	-	(5,337)
Total income tax expense/(benefit)	6,773	(22,555)

(b) The prima facie tax, using tax rates applicable in the country of operation, on profit differs from the income tax provided in the financial statements as follows:

Profit/(Loss) from continuing operations before income tax expense/(benefit)	25,063	(73,111)
Total profit/(loss) before income tax	25,063	(73,111)
Tax at the statutory income tax rate of 30% (2009 - 30%)	7,519	(21,933)
Tax effect of amounts which are not assessable in calculating taxable income:		
Imputation credits	(746)	(595)
Other non allowable items	-	(27)
Income tax expense/(benefit)	6,773	(22,555)

(c) Deferred tax relates to the following:

Deferred tax liabilities

Income assessable in future	54	29
Revaluation of financial assets through profit and loss at fair value	8,571	5,401
	8,625	5,430

Deferred tax assets

Accruals	36	12
Loss available for offset against future taxable income	12,060	14,975
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	-	692
Transaction costs on equity issue	62	30
	12,158	15,709

Net deferred tax asset	3,533	10,279
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All unused tax losses were incurred by Australian entities.

(d) Deferred income tax related items credited directly to equity:

	30	-
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(e) Provision for income tax

	-	-
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Year ended	
30 June 2010 \$'000	30 June 2009 \$'000

7 DIVIDENDS

(a) Dividends paid during the year

Interim dividend for current year	2,338	-
Fully franked dividend at 30% – 2 cents per share (2009: 0 cents per share)		
Final dividend for previous year – fully franked at 30% - 4 cents per share	-	4,674
Total dividend paid	2,338	4,674

(b) Final dividend

A final dividend of 5 cents per share (fully franked) has been declared and will be paid on 5 October 2010. The total amount payable in respect of this dividend will be \$7,504,434.

(c) Franking account balance

Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and after deducting franking credits to be used in payment of proposed dividends	2,706	2,643
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The dividend of 5 cents per share declared for payment on 5 October 2010 will reduce the franking credit balance at that time by \$3,229,030

8 RECEIVABLES

Accrued income	182	98
Unsettled sales	191	58
Other receivables	109	62
	482	218

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Held for trading

Derivatives	77	69
Listed equities	171,796	98,387
	171,873	98,456

Year ended	
30 June 2010 \$'000	30 June 2009 \$'000

10 PAYABLES

Unsettled purchases	938	2,725
Sundry creditors and accruals	119	466
	<u>1,057</u>	<u>3,191</u>

11 CONTRIBUTED EQUITY

Year ended		Year ended	
30 June 2010 \$'000	30 June 2010 No. of shares	30 June 2009 \$'000	30 June 2009 No. of shares

(a) Issued and paid up capital

Ordinary shares fully paid	182,011	150,088,688	153,408	117,122,138
Fully paid ordinary shares carry one vote per share and carry the right to dividends.				

(b) Movements in shares on issue

Beginning of the financial year	153,408	117,122,138	152,919	116,853,739
Issued during the year				
- Dividend reinvestment scheme	368	400,249	745	671,832
- Shares issued net of transaction costs	28,440	32,774,509	-	-
- Shares bought back	(205)	(208,208)	(256)	(403,433)
End of the financial year	<u>182,011</u>	<u>150,088,688</u>	<u>153,408</u>	<u>117,122,138</u>

11 CONTRIBUTED EQUITY (CONTINUED)

(c) Capital risk management

The Company's capital is invested to:

- achieve of a long term real rate of return for investors over and above the return of the S&P/ASX All Ordinaries Accumulation Index;
- deliver the regular payment of franked dividends; and
- preserve the capital base of the Company.

The Directors have the additional discretion to undertake capital management initiatives such as on-market share buy-back of shares to assist with these investment objectives.

All of the Company's assets, with the exception of the Deferred Tax Asset, are liquid assets. Liquid assets include cash and cash equivalents and listed equities.

12 ACCUMULATED LOSSES

	Year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Balance at the beginning of the year	(17,506)	37,724
Net profit/(loss) attributable to shareholders	18,290	(50,556)
Dividends paid	(2,338)	(4,674)
Balance at end of year	(1,554)	(17,506)

Year ended	
30 June 2010 \$'000	30 June 2009 \$'000

13 CASH FLOW INFORMATION

(a) Reconciliation of net profit/(loss) after tax to net cash inflow/(outflow) from operating activities

Net profit/(loss) for the year	18,290	(50,556)
Adjusting Items		
Losses/(profits) on investments	(25,394)	75,247
Change in operating assets and liabilities during the year		
Increase in income receivables	(131)	(36)
Increase / (decrease) in expense payables	(347)	429
Decrease increase in income tax payable	-	(1,994)
Decrease in deferred tax liabilities	6,776	(17,215)
	6,298	(18,816)
Net cash inflow/(outflow) from operating activities	(806)	5,875

(b) Reconciliation of cash

Cash balance comprises:		
Cash and cash equivalents	5,626	30,140
Closing cash balance	5,626	30,140

(c) Loan facilities

Margin lending facility	40,000	-
Amount utilised	-	-
Unused loan facility	40,000	-

14 COMMITMENTS AND CONTINGENCIES

The Company regularly commits to underwriting activities in respect of public share issues. The amount disclosed represents the potential financial amount that the Company may be liable for at 30 June 2010 is \$0 (2009: \$2,017,624).

The Company has arranged a margin lending facility up to a value of \$40m secured against the investments of the Company. During the year ended 30 June 2010 none of this facility had been utilised (2009: Nil).

15 EARNINGS PER SHARE

(a) Reconciliation of earnings used in calculating earnings per share:

Profit/(loss) from continuing operations	18,290	(50,556)
Profit/(loss) used in calculating basic earnings per share	18,290	(50,556)

Basic earnings per share	14.1	(43.1)
Diluted earnings per share	14.1	(43.1)

	2010	2009
	No. of Shares	No. of shares

Weighted average number of shares used in the calculation of earnings per share. There has been no event giving rise to a difference between 'basic' and 'diluted' number of shares.

	130,034,056	117,173,300
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16 DIRECTORS' AND EXECUTIVES' COMPENSATION

(a) Key management personnel compensation

Independent Directors of the Company are remunerated directly by the Company. Messrs Ferres and Kerr are independent directors and were appointed to the Board on 7 December 2009. Their annual remuneration for their role as a director is \$50,000 per annum each. As at 30 June 2010, Ian Ferres and Mark Kerr are due payments amounting to \$27,250 each.

The activities of the Company are managed by Contango Asset Management Limited and its associated subsidiaries ('the Fund Manager'). The Company pays the Fund Manager a management fee and a performance fee in accordance with the Contango MicroCap Limited constitution, the Investment Management Agreement and Prospectuses. Directors of the Company that are employees of the Fund Manager are considered non-independent Directors and are remunerated directly by the Fund Manager. Messrs Stevens and Fowles are non-independent directors. There is no direct correlation between the level of remuneration provided to the employees of the Fund Manager and the management and performance fees paid by Contango MicroCap Limited to the Fund Manager. Fees paid to the Fund Manager are disclosed in Note 20.

There were no transactions with key management personnel of the company and their personally related entities.

17 DIRECTORS' AND EXECUTIVES' EQUITY HOLDINGS

(a) Number of shares held by Key Management Personnel

	Balance at the start of the period No. of shares	Rights taken up during the year No. of shares	Other changes during the year No. of shares	Balance at the end of the period No. of shares
Directors of Contango MicroCap Limited				
Ordinary shares				
2010				
David I Stevens	73,471	-	114,740	188,211
Glenn Fowles	38,605	-	17,250	55,855
Stephen L Babidge – resigned 7 December 2009	248,182	-	-	248,182
William A Laister – resigned 7 December 2009	275,146	-	-	275,146
Ian Ferres – appointed 7 December 2009	-	-	-	-
Mark Kerr – appointed 7 December 2009	-	-	-	-
2009				
David I Stevens	53,000	-	20,471	73,471
Stephen L Babidge	248,182	-	-	248,182
William A Laister	265,836	-	9,580	275,416
Glenn Fowles	38,605	-	-	38,605

No options were granted as remuneration. Where a director was not in tenure for the full year, the shareholding at start or end represents their appointment or resignation balance as applicable.

18 LOANS TO KEY MANAGEMENT PERSONNEL

During the year there were no loan arrangements entered into or outstanding with Directors or associates.

There are no outstanding loans to key management personnel at 30 June 2010.

19 AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor, its related practices and non-related audit firms:

	Year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
(a) Audit services		
Pitcher Partners		
Audit and review of financial reports	50	69
(b) Other assurance services		
Taxation services and other assurance	-	-

20 RELATED PARTY TRANSACTIONS

(a) Transactions with entities with joint control or significant influence over the Company

The Company has entered into an investment management agreement with Contango Asset Management Limited, the Fund Manager, for a period of 10 years, which expires in April 2014. As contained in this agreement and detailed in the original prospectus, the management fee is 1.25% per annum of funds under management and a performance fee of 15% of any out performance above the S&P/ASX All Ordinaries Accumulation Index is also payable.

At the end of the period a total of \$0 was payable to the Manager (2009: \$385,400).

	Year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Management fees	2,259	1,592

No performance fee was paid or payable during the year ended 30 June 2010 (2009: Nil)

21 ECONOMIC DEPENDENCY

Other than the contents of the investment management agreement between the Company and the investment manager, Contango Asset Management Limited, the Company has no economic dependency on any other entity.

22 SEGMENT INFORMATION

The company operates in the one business segment of investment management within Australia. Consequently, no segment reporting is provided in the Company's financial statements.

23 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

A final fully franked dividend for the year ending 30 June 2010 of 5 cents per share was declared on 19 August 2010 and will be paid on 5 October 2010. The total payable in respect of this dividend will be \$7,504,434.

There has been no other matter or circumstance, which has arisen since 30 June 2010 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2010, of the Company, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2010, of the Company.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 10 to 31 in accordance with the *Corporation Act 2001*:

- (a) Comply with Accounting standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
- (b) As stated in Note 1, the Financial Statements also comply with International Financial Reporting Standards; and
- (c) Give a true and fair view of the financial position of the company as at 30 June 2010 and of its performance as represented by the results of operations, changes in equity and cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Contango MicroCap Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.

This declaration is made in accordance with a resolution of the directors.



David Stevens

Chairman

Melbourne
20 August 2010

**CONTANGO MICROCAP LIMITED
ABN 52 124 184 765****INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CONTANGO MICROCAP LIMITED**

We have audited the accompanying financial report of Contango Microcap Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Contango Microcap Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

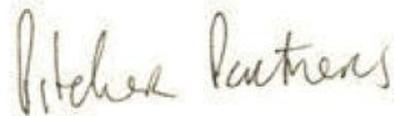
We have audited the Remuneration Report included in pages 7 to 8 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Contango Microcap Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



B J BRITTEN
Partner
20 August 2010



PITCHER PARTNERS
Melbourne

Company particulars

Contango MicroCap Limited ABN 47 107 617 381

The Company was incorporated as a limited liability company in New South Wales on 27 November 2003.
The Company is a Listed Investment Company with its securities listed only on the Australian Stock Exchange.

Registered office

Level 24
360 Collins Street
Melbourne Victoria 3000
Telephone (03) 9222 2333

Directors

David I Stevens
Glenn Fowles
Ian N Ferres
Mark G Kerr

Company secretary

Glenn Fowles

Auditor

Pitcher Partners
Level 19
15 William Street
Melbourne Victoria 3000

Investment custodian

National Australia Bank Limited
500 Bourke Street
Melbourne VIC 3000

Share registrar

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3000
Telephone 1300 850 505

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

A. SHAREHOLDER DATA

The Company has one class of security on issue – ordinary shares, and these are quoted on the Australian Securities Exchange Ltd.

(i) Distribution of equity securities

Analysis of numbers of equity holders by size of ordinary shareholding as at 31 July 2010:

	Number of holdings	Total shares held	Percentage of total
1 - 1,000	168	59,576	0.04
1,001 - 5,000	416	1,302,278	0.87
5,001 - 10,000	456	3,546,840	2.36
10,000 - 100,000	2,214	70,897,783	47.24
100,000 and over	205	74,282,211	49.49
	<u>3,459</u>	<u>150,088,688</u>	<u>100.00</u>

There were 116 holders of less than a marketable parcel of ordinary shares of \$500 (579 shares)

(ii) Top 20 registered shareholders

The twenty largest holders of the Company's ordinary shares as at 31 July 2010 are listed below:

Position and Name	No. of Shares	%
1. NATIONAL NOMINEES LIMITED	11,199,110	7.46
2. UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	6,965,828	4.64
3. CITICORP NOMINEES PTY LIMITED <CWLTH SMALL CO FD 9 A/C>	5,545,919	3.70
4. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,980,043	2.65
5. AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	1,696,711	1.13
6. BRAZIL ENTERPRISES PTY LTD	1,696,380	1.13
7. MR VICTOR JOHN PLUMMER	1,500,000	1.00
8. DR GEORGE HAVAS + MRS LYNETTE DAWN HAVAS <HAVAS FAMILY SUPER FUND A/C>	1,264,739	0.84
9. ANZ NOMINEES LIMITED <CASH INCOME A/C>	902,105	0.60
10. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	807,180	0.54
11. MR COLIN ALFRED GREEN + MR DAVID FLOWERS <GREEN FLOWERS S/FUND A/C>	783,250	0.52
12. LONCETA PTY LTD <HANCOCK SUPER FUND A/C>	762,139	0.51
13. G J P INVESTMENTS PTY LTD <THE LANGHAM A/C>	746,191	0.50
14. DR STEPHEN JOHN AHERN	709,835	0.47
15. MR JAMES V C GUEST & MRS SARAH L GUEST <GUEST FAMILY SUPER FUND A/C>	682,250	0.45
16. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	595,836	0.40
17. MR DAVID JAMES INGLES <D J INGLES SUPER FUND A/C>	593,124	0.40
18. MR PETER MICHAEL ANTAW + MRS VICTORIA MARY ANTAW <PETAVIC SUPER FUND A/C>	480,023	0.32
19. MR DONALD GORDON MACKENZIE + MRS GWENNETH EDNA MACKENZIE	446,500	0.30
20. DR STEPHEN JOHN AHERN	412,288	0.27
TOTAL Top 20 Holders	41,769,451	27.83

(iii) Substantial Shareholders

The names and holdings of substantial shareholders advised to the Company as at 31 July 2010 are:

Contango Asset Management Limited	18,359,641 shares (12.7%)	notified 2 February 2010
National Australia Bank	9,146,894 shares (6.3%)	notified 8 February 2010

B. ON-MARKET BUY BACK

The Company announced its intention to commence an on-market buy-back on 6 November 2009, permitting it to buy-back up to 11,712,213 shares between 23 November 2009 and 22 November 2010. Up until 30 June 2010, the Company had bought back a total of 208,208 shares under this buy-back.

C. INVESTMENTS

As at 30 June 2010, the following companies were held within the Company's investment portfolio:

Ammtec Limited	Andean Resources Limited
Antares Energy Limited	Anvil Mining Limited
ASG Group Limited	Aspen Group
Atlas Iron Limited	Aurora Oil & Gas Limited
Ausdrill Limited	Austbrokers Holdings Limited
Austin Engineering Limited	Australian Bauxite Limited
Automotive Holdings Group Limited	BT Investment Management Limited
Cardno Limited	Carnarvon Petroleum Limited
Citadel Resource Group Limited	Clough Limited
Contango Capital Partners Limited	Cooper Energy Limited
CSG Limited	Customers Limited
Decmil Group Limited	Devine Limited
Diploma Group Limited	DWS Advanced Business Solutions Limited
Emeco Holdings Limited	Every Day Mine Services Limited
FlexiGroup Limited	Folkestone Limited
Forge Group Limited	Galaxy Resources Limited
Galilee Energy Limited	Gerard Lighting Group Limited
Global Geoscience Limited	Grange Resources Limited
Gujarat NRE Coking Coal Limited	Halcygen Pharmaceuticals Limited
Hillgrove Resources Limited	Horizon Oil Limited
Industrial Minerals Corporation Limited	Ivanhoe Australia Limited
Jabiru Metals Limited	Kairiki Energy Limited
Logicamms Limited	Ludowici Limited
MacArthur Coal Limited	Mastermyne Group Limited
McMillan Shakespeare Limited	McPherson's Limited
Medusa Mining Limited	Minara Resources Limited
Mineral Resources Limited	Mitchell Communication Group Limited
Molopo Energy Limited	Mount Gibson Iron Limited

Navitas Limited	New Zealand Oil & Gas Limited
NIB Holdings Limited	Nkwe Platinum Limited
Norfolk Group Limited	Northern Energy Corporation Limited
Northern Iron Limited	NRW Holdings Limited
OM Holdings Limited	Orocobre Limited
Otto Energy Limited	PanAust Limited
Penrice Soda Holdings Limited	Perilya Limited
REA Group Ltd	Reckon Limited
Red 5 Limited	Red Fork Energy Limited
Retail Food Group Limited	REY Resources Limited
Sabre Resources Limited	Saracen Mineral Holdings Limited
Sedgman Limited	Silver Lake Resources Limited
Sino Strategic International Limited	Slater & Gordon Limited
Southern Cross Electrical Engineering Ltd	Sun Resources NL
Swick Mining Services Ltd	Talent2 International Limited
Terramin Australia Limited	Texon Petroleum Ltd
TFS Corporation Limited	The Mac Services Group Limited
Thorn Group Limited	Tox Free Solutions Limited
Treasury Group Limited	Troy Resources NL
Webjet Limited	Western Plains Resources Ltd

D. TRANSACTION DATA

Over the 12 months ended 30 June 2010, the Company executed 953 purchase transactions and 860 sale transactions. The total brokerage paid or accrued during this period was \$629,802.

