Contango MicroCap Limited

Contango MicroCap Limited and Controlled Entities

ABN 47 107 617 381

Financial report for the half-year ended 31 December 2014

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2014

Page

DIRECTORS' REPORT	1
AUDITOR'S INDEPENDENCE DECLARATION	2
FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2014	
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	3
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	5
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7-11
DIRECTORS' DECLARATION	12
INDEPENDENT AUDITOR'S REVIEW REPORT	13-14

DIRECTORS' REPORT

The directors present their report together with the condensed financial report of the consolidated entities consisting of Contango MicroCap Limited and controlled entities, for the half year ended 31 December 2014, and the independent review report thereon. This financial report has been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting.

Directors

The following persons held office as directors during the half-year or since the end of the half-year and up to the date of this report:

Name	Period of Directorship	Name	Period of Directorship
Mark G Kerr (Chairman)	Since 7 December 2009	Ian N Ferres	Since 7 December 2009
David I Stevens	Since 14 January 2004	Glenn Fowles	Since 14 January 2004

All directors have been in office since the start of the financial period to the date of this report.

Review of operations

The consolidated entity's net operating loss after tax for the half-year was $4,087,793 (2013: profit of $26,999,471). Basic earnings per share amounted to -2.6 cents per share for the half-year (2013: +17.6 cents).

The current period loss is primarily attributed to a reduction in value of the Company's investment portfolio from September through half-year end, partially offset by dividend and interest income. This period has seen a general fall in the Australian sharemarket which the Company operates within.

The Company continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Company, and in accordance with the provisions of its Constitution.

Significant changes in the state of affairs

On 19th December 2014, the Company issued 265,000 unsecured redeemable convertible notes, raising proceeds of $26,500,000. The notes will pay interest at the rate of 5.5% per annum, half yearly on 31 March and 30 September until maturity on 31 March 2020. The notes have a conversion price of $1.30 per ordinary share and note holders may convert their notes into ordinary shares in the Company on maturity or at various times prior to that as approved by the Board. The notes are fully redeemable on maturity if not converted.

There were no other significant changes in the state of affairs of the Company that occurred during the half-year under review.

Events subsequent to balance date

The interim dividend for FY15 of 4 cents per share (2014: 4 cents) was declared on 10 February 2015.
There have been no other significant events subsequent to 31 December 2014 that have occurred that would have any material impact on the content of these financial statements.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and 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.

Auditor's Independence Declaration

A copy of the auditor's independence declaration in relation to the review for the half-year is provided with this report, as required under section 307C of the *Corporations Act 2001*.

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

Mark Kerr

Mark Kerr – Chairman
10 February 2015

PITCHER PARTNERS

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Contango Microcap Limited

In relation to the independent auditor's review for the half-year ended 31 December 2014, 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.

This declaration is in respect of Contango MicroCap Limited and the entities it controlled during the period.





N R BULL
Partner
10 February 2015

PITCHER PARTNERS
Melbourne

An independent Victorian Partnership ABN 27 975 255 196
Liability limited by a scheme approved under Professional Standards Legislation

Pitcher Partners is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane| Newcastle
An independent member of Baker Tilly International

Condensed Consolidated Statement of Comprehensive Income

	Note	Half-year ended 31 Dec 2014 $'000	Half-year ended 31 Dec 2013 $'000
Revenue and other income			
Revenue	2	**4,638**	2,658
Fair value gain/(loss) on financial assets through profit and loss		**(7,675)**	37,311
Other income	3	**-**	873
Total revenue and other income		**(3,037)**	40,842
Expenses			
Employee benefits expense		**1,917**	591
Impairment of goodwill		**-**	194
Management fees		**-**	468
Depreciation		**6**	1
Administration costs		**1,177**	1,270
Professional fees		**545**	115
Other expenses		**534**	304
		4,179	2,943
Add:			
Share of profits of associate accounted for using the equity method		**-**	(443)
Profit/(loss) before income tax		**(7,216)**	37,456
Income tax expense/(benefit)		**(3,128)**	10,457
Profit/(loss) from continuing operations		**(4,088)**	26,999
Profit/(loss) for the half-year		**(4,088)**	26,999
Total comprehensive income for the half-year		**(4,088)**	26,999
Total comprehensive income attributable to			
Members of Contango MicroCap Limited		**(4,088)**	26,999
		Cents	Cents
Earnings/(loss) per share for profit from continuing operations attributable to members of Contango MicroCap Limited:			
Basic earnings/(loss) per share		**-2.6**	+17.6
Diluted earnings/(loss) per share		**-2.6**	+17.6

The accompanying notes form part of these financial statements.

Condensed Consolidated Statement of Financial Position

	As at 31 Dec 2014 $'000	As at 30 Jun 2014 $'000
Assets		
Cash and cash equivalents	**30,710**	6,023
Receivables	**1,341**	2,354
Investments at fair value	**165,029**	175,683
Other financial assets	**55**	-
Property, plant and equipment	**41**	46
Goodwill	**9,455**	9,455
Total assets	**206,631**	193,561
Liabilities		
Payables	**949**	563
Borrowings	**25,876**	-
Provisions	**546**	650
Deferred tax liabilities	**7,912**	11,040
Total liabilities	**35,283**	12,253
Net assets	**171,348**	181,308
Equity		
Contributed equity	**191,200**	189,821
Reserves	**41,179**	37,612
Accumulated losses	**(61,031)**	(49,125)
Equity attributable to owners of Contango MicroCap Limited	**171,348**	181,308

The accompanying notes form part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

	Contributed Equity $'000	Reserves $'000	Accumulated Losses $'000	Total Equity $'000
As at 1 July 2013	182,180	4,073	(32,838)	153,415
Profit/(loss) for the half-year	-	-	26,999	26,999
Total comprehensive income for the half year	-	-	26,999	**26,999**
Transactions with owners in their capacity as owners:				
Transfer to dividend payment reserve	-	19,547	(19,547)	-
Options exercised	3	-	-	3
Acquisition activities	5,430	-	-	5,430
Dividend re-investment	1,023	-	-	1,023
Dividends paid	-	(6,020)	-	(6,020)
Total transactions with owners as in their capacity as owners:	6,456	13,527	(19,547)	**436**
As at 31 December 2013	**188,636**	**17,600**	**(25,386)**	**180,850**
As at 1 July 2014	189,821	37,612	(46,125)	181,308
Profit/(loss) for the half-year	-	-	(4,088)	(4,088)
Total comprehensive income for the half year	-	-	(4,088)	**(4,088)**
Transactions with owners in their capacity as owners:				
Transfer to dividend payment reserve	-	10,818	(10,818)	-
Dividend re-investment	1,379	-	-	1,379
Dividends paid	-	(7,251)	-	(7,251)
Total transactions with owners as in their capacity as owners:	1,379	3,567	(10,818)	**(5,872)**
As at 31 December 2014	**191,200**	**41,179**	**(61,031)**	**171,348**

The accompanying notes form part of these financial statements.

Condensed Consolidated Statement of Cash Flows

	Half-year ended 31 Dec 2014 $'000	Half-year ended 31 Dec 2013 $'000
Cash flows from operating activities		
Payments for investments	**(44,689)**	(57,573)
Payments to suppliers and employees	**(4,470)**	(2,119)
Proceeds from sale of investments	**48,592**	54,915
Receipts from customers	**1,532**	95
Dividends received	**3,013**	2,364
Interest received	**92**	71
Tax paid	**(11)**	-
Net cash inflow/(outflow) from operating activities	**4,059**	(2,247)
Cash flows from investing activities		
Acquisition of subsidiaries net of cash acquired	**-**	(4,593)
Net cash inflow/(outflow) from investing activities	**-**	(4,593)
Cash flows from financing activities		
Proceeds of shares issued	**-**	5,433
Proceeds from debt instrument issued	**26,500**	-
Dividends paid	**(5,872)**	(4,997)
Net cash inflow/(outflow) from financing activities	**20,628**	436
Net increase/(decrease) in cash and cash equivalents	**24,687**	(6,404)
Cash and cash equivalents at the beginning of the half-year	**6,023**	12,451
Cash and cash equivalents at end of the half-year	**30,710**	6,047

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2014

1. Basis of preparation of the half-year financial report

This half-year financial report does not include all the notes of the type usually included in an annual financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2014 and any public announcements made by Contango MicroCap Limited during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001.*

The half-year financial report was authorised for issue by the directors as at the date of the directors' report.

Contango MicroCap Limited and Controlled Entities are for-profit for the purpose of preparing financial statements.

(a) Basis of preparation

This half-year financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year 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 accounting policies applied in the half-year financial report are consistent with those of the annual financial report for the year ended 30 June 2014 and the corresponding half-year, other than the additional accounting policy applied in this half-year described in note 1(e).

(b) Accounting for profits and losses

At the conclusion of each calendar month, the parent company records profits earned to Retained Earnings with the intention of transferring undistributed Retained Earnings to Reserves at the conclusion of the financial period. Losses incurred at the end of each calendar month are transferred to Accumulated Losses. The above process enables the Directors to declare or determine to pay dividends from the Reserve to shareholders at a future date.

(c) Investments in associates

An associated company is a company over which the company is able to exercise significant influence.

The equity method of accounting has been applied in relation to all associated companies. The company recognises its share of an associate post acquisition profits and losses within the statement of comprehensive income and its share of an associate movement in reserves is recognised in reserves. These movements are adjusted against the carrying amount of the investment less any distribution received.

Unrealised gains and losses on transactions between the company and an associate are eliminated to the extent of the entities share in an associate.

(d) Borrowings

On 19th December 2014, the Company issued 265,000 unsecured redeemable convertible notes, raising proceeds of $26,500,000. The notes will pay interest at the rate of 5.5% per annum, half yearly on 31 March and 30 September until maturity on 31 March 2020. The notes have a conversion price of $1.30 per ordinary share and note holders may convert their notes into ordinary shares in the Company on maturity or at various times prior to that as approved by the Board. The notes are fully redeemable on maturity if not converted.

(e) Compound financial instruments – Convertible Notes

Compound financial instruments issued by the Contango Group comprise Convertible Notes that are able to be converted to share capital at the option of the note holder and the number of shares to be issued will not vary with changes in their fair value.

The liability component of a compound financial instrument is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. All directly attributable transactions costs are allocated to the liability and equity component on a proportional basis.

After initial recognition, the liability compound financial instrument will be measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured after initial recognition.

For the Convertible Notes maturing in 2020 the fair value of the liability component has been estimated to be equal the Face Value of the Convertible Notes and no equity component has therefore been recognised.

Interest, dividends, losses and gains relating the financial liability are recognised in profit or loss. Distributions to the equity holder are recognised against equity, net of any tax benefit.

(f) Rounding amounts

The company is of a kind referred to in ASIC Class Order CO 98/0100 and in accordance with that Class Order, amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(g) Account standards issued but not operative

AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The directors have not yet assessed the impact (if any) of changes in the standard above.

(h) Comparatives

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

The results for the half-year ended 31 December 2014 represent the results of the consolidated group for the 6 months ended on that date. The comparative half-year ended 31 December 2013 only includes two months results of Bellwether Partners Limited and one month result of Contango Group Pty Ltd which were acquired during that period on 30 October 2013 and 30 November 2013 respectively.

Refer to note 7 for further details.

2. Revenue

	Half-year ended 31 Dec 2014 $000	Half-year ended 31 Dec 2013 $000
Dividends	**2,919**	2,258
Interest	**92**	71
Investment management fees	**1,627**	329
	4,638	2,658

3. Other income

Rental Income	-	2
Revaluation on stepped acquisition of subsidiary	-	871
	-	873

4. Dividends

Dividends paid during the half-year:		
Ordinary Shares – 4.6 cents per share (2013: 4.0 cents)	**7,251**	6,020

5. Contributed Capital

	Half-year ended 31 Dec 2014 No. of shares	Half-year ended 31 Dec 2013 No. of shares	Half-year ended 31 Dec 2014 $'000	Half-year ended 31 Dec 2013 $'000
Opening balance	**157,638,993**	150,502,289	**189,821**	182,180
Shares issued to fund acquisitions	-	4,909,811	-	5,430
Options exercised	-	2,300	-	3
Dividend reinvestment - final dividend	**1,242,335**	1,043,709	**1,379**	1,023
Closing balance	**158,881,328**	156,458,109	**191,200**	188,636

6. Events occurring after the balance sheet date

The interim dividend for FY15 of 4 cents per share (2014: 4 cents) was declared on 10 February 2015.

There have been no other significant events specific to the Company of which the Directors are aware which have had a material effect on the Company or its financial position since balance date.

7. Business combinations

Prior period

On 30 October 2013 and 30 November 2013, the parent entity acquired 100% of the share capital of Bellwether Partners Limited and Contango Group Pty Ltd respectively. Details of these business combinations were disclosed in note 20 of the consolidated entity's annual financial statements for the year ended 30 June 2014.

8. Segment Information

(a) Description of segments

The consolidated entity has 2 reportable segments as described below:

- Microcaps investment portfolio – this segment represents the contribution of the investment portfolio of listed stocks from the microcap sector of the Australian share market which is managed by Contango Asset Management Limited – a wholly owned subsidiary of the Company. Direct costs of these activities are borne directly by the investment portfolio with a management fee charged by Contango Asset Management Limited. This fee is eliminated on consolidation.
- Funds management – this segment covers the management of investment portfolios for wholesale clients. This includes clients external to the Company as well as the microcap portfolio described above.

(b) Segment information

31 December 2014	MicroCaps	Funds Management	Total
Segment revenue			
Total segment revenue	(4,675)	3,854	(821)
Inter-segment revenue	-	(2,216)	(2,216)
Segment revenue from external source	(4,675)	1,638	(3,037)
Segment result			
Total segment result	(6,584)	2,496	(4,088)
Inter-segment eliminations	2,216	(2,216)	-
Total result	(4,368)	280	(4,088)
Total segment assets	204,636	1,995	206,631
Total segment liabilities	34,014	1,269	35,283

31 December 2013	MicroCaps	Funds Management	Total
Segment revenue			
Total segment revenue	39,631	534	40,165
Inter-segment revenue	-	(193)	(193)
Segment revenue from external source	39,631	341	39,972
Unallocated revenue			870
Segment result			
Total segment result	26,193	(64)	26,129
Inter-segment eliminations	193	(193)	-
Unallocated result	-	-	870
Total result	26,386	(257)	26,999
Total segment assets	192,429	1,804	194,233
Total segment liabilities	12,608	775	13,383

9. Contingent liabilities

As at 31 December 2014, the consolidated entity had the following contingent liabilities.

Acquisition earn-outs

- Under the terms of the sale agreement between Contango MicroCap Limited and the vendors of Bellwether Partners Limited that was acquired on 30 October 2013, an amount equal to 3 basis points per annum (0.03%) of the value of funds managed by Bellwether Partners Limited is payable to the vendors. Based on current valuations, this amounts to approximately $134,900 over the remaining term of the agreement.
- Under the terms of the sale agreement between Contango MicroCap Limited and the vendors of the 50.004% of Contango Group Pty Ltd that was acquired on 30 November 2013, an amount equal to 75% of the net fee revenue from growth in new funds managed by Contango Asset Management Limited between 1 December 2013 and 30 November 2016 is payable to those vendors. As at 31 December 2014, there had been no new growth that gave rise to any liability under this arrangement. An accurate value of this liability is not possible at this early stage of the arrangement.

10. Leasing Commitments

Operating lease commitments for premises occupied by Contango Asset Management Limited exist until 31 October 2019. This disclosure arises from the acquisition by Contango MicroCap Limited of 50.004% of Contango Group Pty Ltd on 30 November 2013. Contango Asset Management Limited is a wholly owned subsidiary of Contango Group Pty Ltd.

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable	**31 Dec 2014**	31 Dec 2013
- not later than one year	**175,000**	175,000
- later than one year and not later than five years	**670,000**	700,000
- later than five years	**-**	146,000
Total	**$845,000**	$1,021,000

11. Related Party Transactions

During the half-year, as part of its normal payment of dividends the Company made payments to related parties that held shares in Contango MicroCap Limited (CTN). The amounts paid were as follows:

Name	Capacity	Amount $
Mark Kerr	Chairman	2,300
David Stevens	Director	113,586
Glenn Fowles	Director	27,053

12. Fair Value Measurement

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 six months ended 31 December 2014, 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 periods then ended were determined directly, in full, by reference to quoted prices from the Australian Securities Exchange. Financial assets 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

The Company held $165,029,000 Level 1 Financial Assets and Liabilities as at 31 December 2014 (2013: $175,683,000).

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 4 to 14 in accordance with the *Corporations Act 2001*:

(a) Comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and

(b) Give a true and fair view of the financial position of the company as at 31 December 2014 and of its performance for the half-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 is made in accordance with a resolution of the directors.



Mark Kerr
Chairman
10 February 2015

PITCHER PARTNERS

CONTANGO MICROCAP LIMITED AND CONTROLLED ENTITIES
ABN 47 107 617 381

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
CONTANGO MICROCAP LIMITED AND CONTROLLED ENTITIES

We have reviewed the accompanying half-year financial report of Contango Microcap Limited and controlled entities, which comprises the condensed consolidated statement of financial position as at 31 December 2014, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half- year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Contango Microcap Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

An independent Victorian Partnership ABN 27 975 255 196
Liability limited by a scheme approved under Professional Standards Legislation

Pitcher Partners is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane| Newcastle
An independent member of Baker Tilly International

PITCHER PARTNERS

CONTANGO MICROCAP LIMITED AND CONTROLLED ENTITIES
ABN 47 107 617 381

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
CONTANGO MICROCAP LIMITED AND CONTROLLED ENTITIES

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Contango Microcap Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

N R BULL
Partner

10 February 2015

PITCHER PARTNERS
Melbourne

An independent Victorian Partnership ABN 27 975 255 196
Liability limited by a scheme approved under Professional Standards Legislation

Pitcher Partners is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane| Newcastle
An independent member of Baker Tilly International