Contango ORE, Inc.
Form 10-Q
May 15, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-35770
CONTANGO ORE, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	27-3431051
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3700 BUFFALO SPEEDWAY, SUITE 925
HOUSTON, TEXAS 77098
(Address of principal executive offices)
(713) 877-1311
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The total number of shares of common stock, par value $0.01 per share, outstanding as of May 15, 2015 was 3,876,206.

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CONTANGO ORE, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2015
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All references in this Form 10-Q to the "Company", "CORE", "we", "us" or "our" are to Contango ORE, Inc.

CONTANGO ORE, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
Item 1 - Financial Statements

	March 31, 2015	June 30, 2014
ASSETS		
CURRENT ASSETS:		
Cash	$2,057,390	$3,448,501
Restricted cash	4,985,239	—
Prepaid expenses	141,096	98,906
Total current assets	7,183,725	3,547,407
PROPERTY, PLANT AND EQUIPMENT:		
Mineral properties	1,208,886	1,208,886
Accumulated depreciation, depletion and amortization	—	—
Total property, plant and equipment, net	1,208,886	1,208,886
OTHER ASSETS:		
Other	225,000	225,000
Total other assets	225,000	225,000
TOTAL ASSETS	$8,617,611	$4,981,293
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$171,026	$140,133
Accrued liabilities	55,800	46,500
Deferred option	5,000,000	—
Total current liabilities	5,226,826	186,633
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
SHAREHOLDERS' EQUITY:		
Common Stock, $0.01 par value, 30,000,000 shares authorized; 3,876,206 shares issued and outstanding at March 31, 2015; 3,805,539 shares issued and outstanding at June 30, 2014	38,762	38,055
Additional paid-in capital	32,844,026	32,204,002
Accumulated deficit	(29,492,003)	(27,447,397)
SHAREHOLDERS' EQUITY	3,390,785	4,794,660
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$8,617,611	$4,981,293

The accompanying notes are an integral part of these consolidated financial statements.

CONTANGO ORE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
REVENUE:				
Expense reimbursement	$750,000	$—	$750,000	$—
Total revenues	750,000	—	750,000	—
EXPENSES:				
Claim rentals and minimum royalties	40,389	39,576	120,625	139,820
Exploration expense	278,390	214,598	492,890	6,734,888
Stock-based compensation expense	127,025	122,951	399,068	689,747
General and administrative expense	650,382	302,399	1,782,023	907,530
Total expenses	1,096,186	679,524	2,794,606	8,471,985
NET LOSS	$(346,186)	$(679,524)	$(2,044,606)	$(8,471,985)
LOSS PER SHARE				
Basic and diluted	$(0.09)	$(0.18)	$(0.53)	$(2.24)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic and diluted	3,873,506	3,805,539	3,832,206	3,774,576

The accompanying notes are an integral part of these consolidated financial statements.

CONTANGO ORE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,044,606)	$(8,471,985)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	640,731	986,317
Changes in operating assets and liabilities:		
Decrease in prepaid expenses	(42,190)	7,767
Increase in accounts payable and accrued liabilities	40,193	(1,607,540)
Net cash used for operating activities	(1,405,872)	(9,085,441)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Note receivable from Tetlin Village	—	(100,000)
Repayment of note receivable by Tetlin Village	—	100,000
Net cash used in investing activities	—	—
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash	(4,985,239)	—
Deferred option	5,000,000	—
Net cash provided by financing activities	14,761	—
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,391,111)	(9,085,441)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,448,501	13,027,932
CASH AND CASH EQUIVALENTS, END OF PERIOD	$2,057,390	$3,942,491

The accompanying notes are an integral part of these consolidated financial statements.

CONTANGO ORE, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-In	Accumulated Deficit Exploration	Total Shareholders'
	Shares	Amount	Capital	Stage	Equity
Balance at June 30, 2014	3,805,539	$38,055	$32,204,002	$(27,447,397)	$4,794,660
Stock-based compensation	—	—	640,731	—	640,731
Shares vested	70,667	707	(707)	—	—
Net loss for the period	—	—	—	(2,044,606)	(2,044,606)
Balance at March 31, 2015	3,876,206	$38,762	$32,844,026	$(29,492,003)	$3,390,785

The accompanying notes are an integral part of these consolidated financial statements.

CONTANGO ORE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Unaudited)
1. Organization and Business
Contango ORE, Inc. (“CORE” or the “Company”) is a Houston-based company that engages in the exploration in Alaska for gold and associated minerals through a joint venture company, Peak Gold, LLC. The Company was formed on September 1, 2010 as a Delaware corporation for the purpose of engaging in the exploration in the State of Alaska for gold ore and associated minerals.
On November 29, 2010, Contango Mining Company ("Contango Mining"), a wholly owned subsidiary of Contango Oil & Gas Company (“Contango”), assigned the Original Properties (defined below) and certain other assets and liabilities to Contango. Contango contributed the Original Properties and $3.5 million of cash to the Company, in exchange for approximately 1.6 million shares of the Company’s common stock. The above transactions occurred between companies under common control and was accounted for as transactions between entities under common control, in accordance with Accounting Standards Codification ("ASC") 805, "Business Combinations" whereby the acquired assets and liabilities were recognized in the financial statements at their carrying amounts.
The Original Properties contributed by Contango included: i) a 100% leasehold interest in approximately 675,000 acres (the "Tetlin Lease") from the Tetlin Village Council, the council formed by the governing body for the Native Village of Tetlin, an Alaska Native Tribe (the "Tetlin Village Council"); and ii) approximately 18,021 acres in unpatented mining claims from the state of Alaska for the exploration of gold ore and associated minerals (collectively, the “Original Properties”). If any of the Original Properties are placed into commercial production, the Company would be obligated to pay a 3.0% production royalty to Juneau Exploration, L.P. ("JEX"), a private company involved in the exploration and production of oil and natural gas. On September 29, 2014, JEX sold its 3.0% production royalty to Royal Gold, Inc. ("Royal Gold"). See Note 10 - Related Party Transactions. The Tetlin Lease is the Company's only material property.

In September 2012, the Company and JEX entered into an Advisory Agreement in which JEX assisted the Company in acquiring 474 unpatented state of Alaska mining claims consisting of 71,896 acres for the exploration of gold and associated minerals in exchange for a 2.0% production royalty on properties acquired after July 1, 2012 (any such properties, the "Additional Properties"). If any of the Additional Properties are placed into commercial production, the Company would be obligated to pay JEX a 2.0% production royalty under the Advisory Agreement. On September 29, 2014, JEX sold its 2.0% production royalty to Royal Gold and the Company terminated its Advisory Agreement with JEX. See Note 10 - Related Party Transactions.

On September 29, 2014, the Company entered into a Master Agreement (the “Master Agreement”) with Royal Gold, pursuant to which the parties agreed, subject to the satisfaction of various closing conditions, to form a joint venture to advance exploration and development of the Tetlin Properties (as defined below), prospective for gold and associated minerals (the “Transactions”). The Transactions closed on January 8, 2015 (the "Closing").

In connection with the Closing, the Company contributed its Tetlin lease and state of Alaska mining claims near Tok, Alaska (the "Tetlin Properties"), together with other property, to Peak Gold, LLC, a newly formed limited liability company (the “Joint Venture Company”). The Joint Venture Company is managed according to a Limited Liability Company Agreement between subsidiaries of Royal Gold and the Company . At the Closing, Royal Gold made an initial investment of $5 million to fund exploration activity. The initial $5 million does not give Royal Gold an equity stake in the Joint Venture Company. Royal Gold will have the option to earn up to 40% economic interest in the joint venture by investing up to $30 million (inclusive of the initial $5 million investment) prior to October 2018. Therefore, at Closing, Royal Gold's percentage interest in the Joint Venture Company equaled 0% and the Company's percentage interest in the Joint Venture Company equaled 100%. The proceeds of Royal Gold’s investment will be used by the Joint Venture Company for additional exploration and development of the Tetlin Properties.

The Company has completed five years of exploration efforts on the Tetlin Properties, which has resulted in the discovery of the Peak Zone mineralization within the Chief Danny prospect area on the Tetlin Lease. While no significant field exploration was conducted on the Tetlin Properties in 2014, the Joint Venture Company anticipates spending approximately $5 million in exploration work on the Tetlin Properties during the summer of 2015 and may expand the amount of exploration work in the late Summer of 2015, if drilling results warrant further work. Additionally, the Joint Venture Company acquired 59 new state of Alaska claims consisting of 9,439 acres in the Eagle claim area.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), including instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete annual consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The consolidated financial statements should be read in conjunction with the audited financial statements and notes included in the Company's Form 10-K for the fiscal year ended June 30, 2014, as amended. The results of operations for the three and nine months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2015.

3. Summary of Significant Accounting Policies

The Company's significant accounting policies are described below.

Management Estimates. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents. Cash equivalents are considered to be highly liquid securities having an original maturity of 90 days or less at the date of acquisition.

Restricted Cash. Cash equivalents which are restricted to be used in the development of Tetlins properties at the Joint Venture Company.

Mineral Properties. The amount capitalized includes costs paid to acquire mineral property interests as well as the costs paid for federal and state of Alaska unpatented mining claims. Exploration costs are expensed as incurred. Development costs are expensed as incurred until the Company obtains proven and probable reserves within its commercially minable properties. Costs of abandoned projects are charged to earnings upon abandonment. Any properties determined to be impaired are written-down to their estimated fair value. The Company periodically evaluates whether events or changes in circumstances indicate that the carrying value of mineral property interests and any related property, plant and equipment may not be recoverable.

Stock-Based Compensation. The Company applies the fair value method of accounting for stock-based compensation. Under this method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the award vesting period. The Company classifies the benefits of tax deductions in excess of the compensation cost recognized for the options (excess tax benefit) as financing cash flows. The fair value of each award is estimated as of the date of grant using the Black-Scholes option-pricing model.

Income Taxes. The Company follows the liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements and (ii) operating loss and tax credit carry-forwards for tax purposes. Deferred tax assets are reduced by a valuation allowance when, based upon management's estimates, it is more likely than not that a portion of the deferred tax assets will not be realized in a future period. The Company recognized a full valuation allowance as of March 31, 2015 and June 30, 2014 and has not recognized any tax provision or benefit for any of the periods. The Company reviews its tax positions quarterly for tax uncertainties. The Company did not have any uncertain tax positions as of March 31, 2015 or June 30, 2014.

Consolidation of Joint Venture Company. The Company's consolidated financial statements include the accounts of the Joint Venture Company, after elimination of all intercompany balances and transactions since it currently is wholly-owned by CORE Alaska, LLC, which is a wholly-owned subsidiary of the Company.

Upon the formation of the Joint Venture Company, the Company was the only owner, and under the terms of the limited liability company agreement, was entitled to all of the Joint Venture Company's assets and liabilities until Royal Gold invests more than $5 million in the Joint Venture Company. The Company therefore consolidated 100% of the Joint Venture Company's net assets and results of operations.

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this

ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years.

The FASB has issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations (public and private companies and not-for-profit organizations) that are required to evaluate whether they should consolidate certain legal entities. The ASU will be effective for annual periods beginning after December 15, 2016; and for interim periods, within those fiscal years.

The FASB has issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015.

The Company has evaluated all other recent accounting pronouncements and believes that none of them will have a significant effect on the Company’s consolidated financial statements.

4. Costs Incurred

Costs to acquire and explore the Original Properties and Additional Properties were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Acquisition of mineral interests	$—	$—	$—	$—
Exploration costs, claim rentals, and minimum royalties	318,779	254,174	613,515	6,874,708
Total costs incurred	$318,779	$254,174	$613,515	$6,874,708

The Tetlin Lease has a ten year term beginning July 2008 with an option to renew for an additional ten years, or so long as the Company initiates and continues conducting mining operations on the Tetlin Lease. Originally, the Tetlin Lease allowed the Company to only renew 50% of the acreage, but in December 2012, the Company paid the Tetlin Village Council $200,000 in exchange for removing this 50% restriction. The Joint Venture Company is now able to renew its entire lease, consisting of 675,000, acres in July 2018.

5. Prepaid Expenses

The Company has prepaid expenses of $141,096 and $98,906 as of March 31, 2015 and June 30, 2014, respectively. Prepaid expenses relate to prepaid insurance costs, XBRL filing costs, claim rentals and certain geological consulting services and exploration activities.

6. Other Assets

If the Tetlin Lease is placed into commercial production, the Joint Venture Company would be obligated to pay a production royalty to the Tetlin Village Council, which varies from 2.0% to 5.0%, depending on the type of metal produced and the year of production. In June 2011, the Company paid the Tetlin Village Council $75,000 in exchange for reducing the production royalty payable to them by 0.25%. In July 2011, the Company paid the Tetlin Village Council $150,000 in exchange for further reducing the production royalty by 0.50%. These payments lowered the production royalty payable to a range of 1.25% to 4.25%, depending on the type of metal produced and the year of production. On or before July 15, 2020, the Tetlin Village Council has the option to increase their production royalty by (i) 0.25% by payment to the Joint Venture Company of $150,000, or (ii) 0.50% by payment to the Joint Venture Company of $300,000, or (iii) 0.75% by payment to the Joint Venture Company of $450,000. The Company has classified these payments as “Other Assets” on the consolidated balance sheet of the Company.

7. Loss Per Share

A reconciliation of the components of basic and diluted net loss per share of common stock is presented below:

	Three Months Ended March 31,					
	2015			2014		
	Loss	Weighted Average Shares	Loss Per Share	Loss	Weighted Average Shares	Loss Per Share
Basic Loss per Share:						
Net loss attributable to common stock	$(346,186)	3,873,506	$(0.09)	$(679,524)	3,805,539	$(0.18)
Diluted Loss per Share:						
Net loss attributable to common stock	$(346,186)	3,873,506	$(0.09)	$(679,524)	3,805,539	$(0.18)

	Nine Months Ended March 31,					
	2015			2014		
	Loss	Weighted Average Shares	Loss Per Share	Loss	Weighted Average Shares	Loss Per Share
Basic Loss per Share:						
Net loss attributable to common stock	$(2,044,606)	3,832,206	$(0.53)	$(8,471,985)	3,774,576	$(2.24)
Diluted Loss per Share:						
Net loss attributable to common stock	$(2,044,606)	3,832,206	$(0.53)	$(8,471,985)	3,774,576	$(2.24)

Options and warrants to purchase 1,675,999 shares of common stock were outstanding as of March 31, 2015, and options and warrants to purchase 1,692,666 shares of common stock were outstanding as of March 31, 2014. These options and warrants were not included in the computation of diluted earnings per share for each three and nine month periods ended March 31, 2015 and 20134 due to being anti-dilutive as a result of the Company's net loss for all periods presented.

8. Shareholders' Equity

The Company's authorized capital stock consists of 30,000,000 shares of common stock and 15,000,000 shares of preferred stock. As of March 31, 2015, we had 3,876,206 shares of common stock outstanding. The Company also had an additional 59,666 shares of unvested restricted stock and options and warrants to purchase 1,675,999 shares of common stock outstanding as of March 31, 2015. No shares of preferred stock have been issued. The remaining restricted stock outstanding will vest in March 2015 through November 2016.

Rights Plan

On December 19, 2012, the Company adopted a Rights Plan which was amended on March 21, 2013, September 29, 2014 and on December 18, 2014. Under the terms of the amended Rights Plan, each right (a "Right") will entitle the holder to purchase 1/100 of a share of Series A Junior Preferred Stock of the Company (the "Preferred Stock") at an exercise price of $80 per share. The Rights will be exercisable and will trade separately from the shares of common stock only if a person or group, other than the Estate of Mr. Kenneth R. Peak, acquires beneficial ownership of 20% or more of the Company's common stock.

Under the terms of the Rights Plan, Rights have been distributed as a dividend at the rate of one Right for each share of common stock that was held as of the close of business on December 20, 2012. Stockholders will not receive certificates for the Rights, but the Rights will become part of each share of common stock. An additional Right will be issued along with each share of common stock that is issued or sold by the Company after December 20, 2012. The Rights are scheduled to expire on December 19, 2016.

9. Formation of Joint Venture Company

On January 8, 2015, the Company and Royal Gold, through their wholly-owned subsidiaries, consummated the Transactions contemplated under the Master Agreement, including the formation of a joint venture to advance exploration and development of the Company's Tetlin Properties, for gold and associated minerals prospects.

In connection with the Closing of the Transactions, the Company formed the Joint Venture Company. The Company contributed to the Joint Venture Company its Tetlin properties near Tok, Alaska, together with other property (the "Contributed Assets") at an agreed value of $45.7 million (the "Contributed Assets Value"). At the Closing, the Company and Royal Gold, through their wholly-owned subsidiaries, entered into a Limited Liability Company Agreement for the Joint Venture Company (the "Joint Venture Company LLC Agreement").

As a condition to the Closing, the Company and the Tetlin Village Council entered into a Stability Agreement dated October 2, 2014, pursuant to which the Company and the Tetlin Village Council, among other things, acknowledged the continued validity of the Tetlin Lease and all its terms notwithstanding any future change in the status of the Tetlin Village Council or the property subject to the Tetlin Lease.

At Closing, Royal Gold, as an initial contribution to the Joint Venture Company, contributed $5 million in restricted cash (the "Royal Gold Initial Contribution") which is classified as a deferred option on our consolidated balance sheet. The Royal Gold Initial Contribution does not entitle Royal Gold to a percentage interest in the Joint Venture Company. Therefore, at Closing, Royal Gold's percentage interest in the Joint Venture Company equaled 0% and the Company's percentage interest in the Joint Venture Company equaled 100%. In addition, as part of the Closing, Royal Gold paid the Company $750,000 which was utilized to partially reimburse the Company for costs and expenses incurred in the Transactions and is included in revenue on our consolidated statements of operations.

The Joint Venture Company's LLC Agreement provides Royal Gold with the right, but not the obligation, to earn a percentage interest in the Joint Venture Company (up to a maximum of 40%) by making additional contributions of capital to the Joint Venture Company in an aggregate amount equal to $30 million (inclusive of the Royal Gold Initial Contribution of $5 million) during the period beginning on the Closing and ending on October 31, 2018. If Royal Gold funds its full $30 million investment by October 31, 2018, it will receive a 40% interest in the Joint Venture Company, and the Company will retain a 60% interest in the Joint Venture Company.

The proceeds of Royal Gold's contributions to the Joint Venture Company (including the Royal Gold Initial Contribution) will be used by the Joint Venture Company to fund further exploration activities on the Tetlin Properties included in the Contributed Assets.

Other than the Royal Gold's Initial Contribution, Royal Gold is not under any obligation to make capital contributions, to the Joint Venture Company by October 31, 2018 or thereafter. If Royal Gold does not make any additional capital contributions to the Joint Venture Company by October 31, 2018, and assuming there are no other new investors in the Joint Venture Company, the Company's percentage interest in the Joint Venture Company would continue to be 100% and Royal Gold will be deemed to have resigned as a member of the Joint Venture Company effective as of October 31, 2018.

Both the Company and Royal Gold will have the right to transfer each of their respective percentage interests in the Joint Venture Company to a third party, subject to certain terms and conditions set forth in the Joint Venture Company's LLC Agreement. If either member intends to transfer all or part of its percentage interest to a bona fide third party, the other member will have the right to require the transferring member to include in the intended transfer the other member's proportionate share of its percentage interests at the same purchase price and terms and conditions. Once Royal Gold has earned a 40% interest in the Joint Venture Company, it will have the additional right to require the Company to sell up to 20% of the Company's interest in the Joint Venture Company in a sale of Royal Gold's entire 40% interest to a bona fide third party purchaser. If Royal Gold exercises this right, the Company will be obligated to sell the relevant portion of its percentage interest to a bona fide third party on the same terms and conditions as the interest being sold by Royal Gold.

After October 31, 2018, or such earlier time as Royal Gold has earned a 40% interest in the Joint Venture Company, the members will contribute funds to approved programs and budgets in proportion to their respective percentage interests in the Joint Venture Company. If a member elects not to contribute to an approved program and budget or elects to contribute less than its proportionate interest, its percentage interest will be recalculated by dividing (i) the sum of (a) the value of its initial contribution plus (b) the total of all of its capital contributions plus (c) the amount of the capital contribution it elects to fund, by (ii) the sum of (a), (b) and (c) above for both members multiplied by 100.

10. Related Party Transactions
Mr. Brad Juneau, the Company's Chairman, President and Chief Executive Officer, is also the sole manager of JEX, a private company involved in the exploration and production of oil and natural gas. JEX was responsible for securing and negotiating the Tetlin Lease and assisting in obtaining the Original Properties and initially engaged Avalon to conduct mineral exploration activities on the Tetlin Lease. In agreeing to transfer its interests in the Original Properties to Contango Mining, a predecessor of the Company, JEX retained a 3.0% overriding royalty interest in the Original Properties transferred.
In September 2012, the Company and JEX entered into an Advisory Agreement in which JEX provided assistance in acquiring additional properties in Alaska in exchange for a production royalty of 2.0% on properties acquired after July 1, 2012.
On September 29, 2014, pursuant to a Royalty Purchase Agreement between JEX and Royal Gold (the "Royalty Purchase Agreement"), JEX sold its entire overriding royalty interest in the Original Properties and the Additional Properties to Royal Gold. On the same date, the Company terminated its Advisory Agreement with JEX.

The Company currently subleases office space from JEX at 3700 Buffalo Speedway, Ste 925, Houston, TX 77098 for approximately $11,000 per quarter.
11. Stock-Based Compensation
On September 15, 2010, the Company's Board of Directors (the "Board") adopted the Contango ORE, Inc. Equity Compensation Plan (the "2010 Plan"). Under the 2010 Plan, the Board may issue up to 1,000,000 shares of common stock and options to officers, directors, employees or consultants of the Company. Awards made under the 2010 Plan are subject to such restrictions, terms and conditions, including forfeitures, if any, as may be determined by the Board. As of March 31, 2015, there were 59,666 shares of unvested restricted common stock outstanding and options to purchase 445,000 shares of common stock outstanding issued under the 2010 Plan.
Stock-based compensation expense for the periods reflected was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Stock-based compensation included in:				
Exploration expense (1)	$136,429	$69,625	$241,663	296,571
Stock-based compensation expense (2)	127,025	122,951	399,068	689,746
Total stock-based compensation expense	$263,454	$192,576	$640,731	$986,317

(1) Related to restricted stock and stock option awards to a former technical consultant.

(2) Related to restricted stock and stock option awards to the Company's directors and employees.

The amount of compensation expense recognized does not reflect compensation actually received by the individuals, but rather represents the amount recognized by the Company in accordance with GAAP.

Restricted Stock. In November 2010, the Company granted 70,429 restricted shares of common stock to its officers and directors and an additional 23,477 restricted shares to a former technical consultant. All of the restricted stock from this grant was fully vested as of March 31, 2015.

In December 2013, the Company's directors, executive officers and a former technical consultant were granted an aggregate of 95,000 shares of restricted stock. The restricted stock vests over two years, beginning with one-third vesting on the date of grant.

In November 2014, the Company granted 27,000 restricted shares of common stock to its employees. The restricted stock vests over two years, beginning with one-third vesting on the date of grant. As of March 31, 2015 , there were 18,000 shares of such restricted stock that remained unvested. As of March 31, 2015, there were 21,666 shares of such restricted stock that remained unvested.

In January 2015, the Company granted an aggregate of 30,000 restricted shares of common stock to two of its non-employee directors, 10,000 shares vested immediately and the remaining two-thirds will vest equally over two years. In addition, the

Company granted 10,000 restricted shares of common stock to a former technical consultant which vested immediately. The Compensation Committee also elected to immediately vest all of the stock options and restricted stock previously issued to the former technical consultant. As of March 31, 2015, there were 20,000 shares of such restricted stock that remained unvested.

As of March 31, 2015, the total compensation cost related to unvested awards not yet recognized was $311,710. The remaining costs will be recognized over the remaining vesting period of the awards.

Stock Options. The option awards listed in the table below have been granted to directors, officers, employees and consultants of the Company:

Option Awards

Period Granted	Options Granted	Weighted Average Exercise Price	Vesting Period (7)
September 2011 (1)	50,000	$13.13	Vests over two years, beginning with one-third on the grant date.
July 2012 (2)	100,000	$10.25	Vests over two years, beginning with one-third on the grant date.
December 2012 (3)	250,000	$10.20	Vests over two years, beginning with one-third on the grant date.
June 2013 (4)	37,500	$10.00	Vested Immediately
July 2013 (5)	5,000	$10.00	Vested Immediately
September 2013 (6)	37,500	$10.01	Vested Immediately
September 2013 (6)	15,000	$10.01	Vests over two years, beginning with one-third on the grant date.

(1) The Company granted 40,000 stock options to its directors and officers and an additional 10,000 stock options to a former technical consultant, for services performed during fiscal year 2011.

(2) The Company granted 75,000 stock options to its directors and officers and an additional 25,000 stock options to a former technical consultant for services performed during fiscal year 2012.

(3) The Company granted 175,000 stock options to its directors and an additional 75,000 stock options to a former technical consultant for services performed during fiscal year 2013.

(4) The Company granted 37,500 stock options to its employees for services performed during fiscal year 2013.

(5) The Company granted 5,000 stock options to an employee of Avalon for services performed during fiscal year 2013.

(6) The Company granted 52,500 stock options to its employees for services performed during the first quarter of fiscal year 2014.

(7) If at any time there occurs a change of control, as defined in the 2010 Plan, any options that are unvested at that time will immediately vest. The Company's Compensation Committee has determined that the Transactions do not constitute a change of control under the 2010 Plan.

The Company applies the fair value method to account for stock option expense. Under this method, cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) are classified as financing cash flows. See Note 3 – Summary of Significant Accounting Policies. All employee stock option grants are expensed over the stock option’s vesting period based on the fair value at the date the options are granted. The fair value of each option is estimated as of the date of grant using the Black-Scholes options-pricing model. As of March 31, 2015, the stock options had a weighted-average remaining life of approximately 3 years. The total compensation cost related to unvested options not yet recognized as of March 31, 2015 was $10,348.

A summary of the status of stock options granted under the 2010 Plan as of March 31, 2015 and changes during the nine months then ended, is presented in the table below:

	Nine Months Ended March 31, 2015	
	Shares Under Options	Weighted Average Exercise Price
Outstanding, June 30, 2014	445,000	$10.41
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding, March 31, 2015	445,000	$10.41
Aggregate intrinsic value	$—	
Exercisable, end of period	440,000	$10.42
Aggregate intrinsic value	$—	
Available for grant, end of period	299,094	

12. Commitments and Contingencies

Tetlin Lease. The Tetlin Lease has a ten year term beginning July 2008 with an option to renew for an additional ten years, or so long as the Joint Venture Company initiates and continues to conduct mining operations on the Tetlin Lease. Originally, the Tetlin Lease allowed the Joint Venture Company to only renew 50% of the acreage, but in December 2012, the Joint Venture Company paid the Tetlin Village Council $200,000 in exchange for removing this 50% restriction. The Joint Venture Company is now able to renew all 675,000 acres in 2018. The Tetlin Lease is the Company's only material property.

Pursuant to the terms of the Tetlin Lease, the Joint Venture Company is required to spend $350,000 per year in exploration costs until July 15, 2018. However, because exploration funds spent in any year in excess of $350,000 are credited toward future years’ exploration cost requirements, the Joint Venture Company’s exploration expenditures to date have already satisfied this work commitment requirement for the full lease term, through 2018. Additionally, should the Joint Venture Company derive revenues from the properties covered under the Tetlin Lease, the Joint Venture Company is required to pay the Tetlin Village Council a production royalty ranging from 2.0% to 5.0%, depending on the type of metal produced and the year of production. As of March 31, 2015, the Joint Venture Company has paid the Tetlin Village Council an aggregate of $225,000 in exchange for reducing the production royalty payable to it by 0.75%. These payments lowered the production royalty to a range of 1.25% to 4.25%. On or before July 15, 2020, the Tetlin Village Council has the option to increase its production royalty by (i) 0.25% by payment to the Joint Venture Company of $150,000 (ii) 0.50% by payment to the Joint Venture Company of $300,000, or (iii) 0.75% by payment to the Joint Venture Company of $450,000. Until such time as production royalties begin, the Joint Venture Company pays the Tetlin Village Council an advance minimum royalty each year. On July 15, 2012, the advance minimum royalty increased from $50,000 to $75,000 per year, and after July 15, 2013, the advance minimum royalty is escalated by an inflation adjustment. As of March 31, 2015, the Joint Venture Company had prepaid $40,000 of the $75,000 advance minimum royalty that is due to the Tetlin Village Council on July 15, 2015.

Gold Exploration. The Joint Venture Company’s Triple Z, TOK/Tetlin, Eagle, Bush and ADC 2 claims are all located on state of Alaska lands. The annual claim rentals on these projects total 94,815 per year, and are due and payable in full by November 30 of each year. The Joint Venture Company has met the annual labor requirements for the state of Alaska acreage for the next four years, which is the maximum time allowable by Alaska law.

Royal Gold Royalties. Pursuant to the Royalty Purchase Agreement, the Joint Venture Company will pay Royal Gold an overriding royalty of 3.0% should the Joint Venture Company derive revenues from any of the Original Properties and an overriding royalty of 2.0% should the Joint Venture Company derive revenues from any of the Additional Properties.

Available Information
General information about the Company can be found on the Company's website at www.contangoore.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports, are available free of charge through our website as soon as reasonably practicable after we file or furnish them to the Securities and Exchange Commission (“SEC”).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the accompanying notes and other information included elsewhere in this Form 10-Q and in our Form 10-K, as amended, for the fiscal year ended June 30, 2014, previously filed with the SEC.

Cautionary Statement about Forward-Looking Statements

Some of the statements made in this report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, as amended. The words and phrases "should be", "will be", "believe", "expect", "anticipate", "estimate", "forecast", "goal" and similar expressi identify forward-looking statements and express our expectations about future events. These include such matters as:

- Our financial position
- Business strategy, including outsourcing
- Meeting our forecasts and budgets
- Anticipated capital expenditures
- Prices of gold and associated minerals
- Timing and amount of future discoveries (if any) and production of natural resources on our Tetlin Properties
- Operating costs and other expenses
- Cash flow and anticipated liquidity
- Prospect development
- New governmental laws and regulations

Although the Company believes the expectations reflected in such forward-looking statements are reasonable, such expectations may not occur. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from future results expressed or implied by the forward-looking statements. These factors include among others:

- Ability to raise capital to fund capital expenditures
- Operational constraints and delays
- The risks associated with exploring in the mining industry
- The timing and successful discovery of natural resources
- Availability of capital and the ability to repay indebtedness when due
- Declines and variations in the price of gold and associated minerals
- Price volatility for natural resources
- Availability of operating equipment
- Operating hazards attendant to the mining industry
- Weather
- The ability to find and retain skilled personnel
- Restrictions on mining activities
- Legislation that may regulate mining activities
- Impact of new and potential legislative and regulatory changes on mining operating and safety standards
- Uncertainties of any estimates and projections relating to any future production, costs and expenses.
- Timely and full receipt of sale proceeds from the sale of any of our mined products (if any)
- Stock price and interest rate volatility
- Federal and state regulatory developments and approvals
- Availability and cost of material and equipment
- Actions or inactions of third-parties
- Potential mechanical failure or under-performance of facilities and equipment
- Environmental risks
- Strength and financial resources of competitors
- Worldwide economic conditions

- Expanded rigorous monitoring and testing requirements
- Ability to obtain insurance coverage on commercially reasonable terms
- Competition generally and the increasing competitive nature of our industry

You should not unduly rely on these forward-looking statements in this report, as they speak only as of the date of this report. Except as required by law, we undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events. See the information under the heading “Risk Factors” in this Form 10-Q for some of the important factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in forward-looking statements.

Overview

We are a Houston-based company, whose primary business is the participation in a joint venture to explore in the State of Alaska for gold ore and associated minerals. On January 8, 2015, the Company and Royal Gold, Inc. (“Royal Gold”), through their wholly-owned subsidiaries, consummated the transactions (the “Transactions”) contemplated under the Master Agreement, dated as of September 29, 2014 (the “Master Agreement”), including the formation of a joint venture to advance exploration and development of the Company’s Tetlin Properties, prospective for gold and associated minerals. As of March 31, 2015, the Joint Venture Company had leased or had control over State of Alaska properties totaling approximately 774,356 acres for the exploration of gold ore and associated minerals.

Background

Contango Mining Company (“Contango Mining”), a wholly owned subsidiary of Contango Oil & Gas Company (“Contango”), was formed on October 15, 2009 for the purpose of engaging in exploration in the State of Alaska for (i) gold ore and associated minerals and (ii) rare earth elements. Contango Mining initially acquired a 50% interest in the Original Properties (defined below) from Juneau Exploration, L.P., (“JEX”) in exchange for $1 million and a 1.0% overriding royalty interest in the Properties under a Joint Exploration Agreement (the “Joint Exploration Agreement”). On September 15, 2010, Contango Mining acquired the remaining 50% interest in the Original Properties by increasing the overriding royalty interest in the Original Properties granted to JEX to 3.0% pursuant to an Amended and Restated Conveyance of Overriding Royalty Interest (the “Amended ORRI Agreement”), and JEX and Contango Mining terminated the Joint Exploration Agreement. JEX assisted the Company in acquiring land in Alaska pursuant to an Advisory Agreement dated September 6, 2012, and the Company granted to JEX a 2% overriding royalty interest in the Additional Properties acquired. On September 29, 2014, pursuant to a Royalty Purchase Agreement between JEX and Royal Gold (the “Royalty Purchase Agreement”), JEX sold its entire overriding royalty interest in the Original Properties and Additional Properties to Royal Gold. On the same date, we terminated our Advisory Agreement with JEX.

The Company was formed on September 1, 2010 as a Delaware corporation and on November 29, 2010, Contango Mining assigned the Original Properties and certain other assets and liabilities to Contango. Contango contributed the Original Properties and $3.5 million of cash to the Company, pursuant to the terms of a Contribution Agreement (the “Contribution Agreement”), in exchange for approximately 1.6 million shares of the Company's common stock. The transactions above took place between companies under common control.

Contango distributed all of the Company's common stock to Contango's stockholders of record as of October 15, 2010, promptly after the effective date of the Company's Registration Statement on Form 10 on the basis of one share of common stock for each ten (10) shares of Contango's common stock then outstanding.

In connection with the closing of the Transactions with Royal Gold (the “Closing”), the Company formed Peak Gold, LLC (the “Joint Venture Company”) and contributed to the Joint Venture Company its Tetlin Properties near Tok, Alaska, together with other personal property (the “Contributed Assets”) at an agreed value of $45.7 million (the “Contributed Assets Value”). At the Closing, the Company and Royal Gold, through their wholly-owned subsidiaries, entered into a Limited Liability Company Agreement for the Joint Venture Company (the “Joint Venture Company LLC Agreement”).

Royal Gold invested $5 million initially to fund exploration activity. The initial $5 million does not give Royal Gold an equity stake in the Joint Venture Company. Royal Gold has the option to earn up to a 40% economic interest in the Joint Venture Company by investing up to $30 million (inclusive of the initial $5 million investment) prior to October 2018. The proceeds of Royal Gold's investment will be used by the Joint Venture Company for additional exploration and development of the Tetlin Properties.

Properties

Since 2009, the Company's primary focus has been the exploration and development of its Tetlin Lease and almost all of its resources have been directed to that end. Our State of Alaska claims are not material properties. All work presently conducted by the Company has been directed at exploration of our Tetlin Properties and increasing understanding of the characteristics of, and economics of, any mineralization. There are no known quantifiable mineral reserves on the Tetlin Lease or any of the Company's other properties as defined by SEC Industry Guide 7.

The Tetlin Lease originally had a ten year term beginning July 2008 with an option to renew 50% of the acreage for an additional ten years. In December 2012, the Tetlin Lease was amended, allowing the Company to renew 100% of the acreage in 2018, in exchange for $200,000, which the Company paid to the Tetlin Village Council. If the properties under the Tetlin Lease are placed into commercial production, the Tetlin Lease will be held throughout production and the Company would be obligated to pay a production royalty to the Native Village of Tetlin, which varies from 2.0% to 5.0%, depending on the type of metal produced and the year of production. In June 2011, the Company paid the Tetlin Village Council $75,000 in exchange for reducing the production royalty payable to them by 0.25%. In July 2011, the Company paid the Tetlin Village Council an additional $150,000 in exchange for further reducing the production royalty by 0.50%. These payments lowered the production royalty to a range of 1.25% to 4.25%, depending on the type of metal produced and the year of production. On or before July 15, 2020, the Tribe of Tetlin has the option to increase its production royalty by (i) 0.25% by payment to the Joint Venture Company of $150,000, or (ii) 0.50% by payment to the Joint Venture Company of $300,000, or (iii) 0.75% by payment to the Joint Venture Company of $450,000.

Our Tetlin Lease is the Joint Venture Company's only material property. The Joint Venture Company also holds certain state of Alaska unpatented mining claims for the exploration of gold ore and associated minerals. The Company believes that the Joint Venture Company holds good title to its properties, in accordance with standards generally accepted in the mineral industry. As is customary in the mineral industry, the Company conducts only a perfunctory title examination at the time it acquires a property. Before the Joint Venture Company begins any mine development work, however, the Joint Venture Company will conduct a full title examination and perform curative work on any defects that it deems significant. A significant amount of additional work is likely required in the exploration of the properties before any determination as to the economic feasibility of a mining venture can be made. Due to harsh weather conditions in Alaska, the Joint Venture Company's exploration field work will be normally restricted to May through October.

The following table summarizes the property holdings of the Joint Venture Company as of March 31, 2015:

Property	Location	Commodities	Claims	Acres	Type
Tetlin-Tok	Eastern Interior	Gold, Copper	131	10,850	State Mining Claims
Eagle	Eastern Interior	Gold, Copper	428	65,946	State Mining Claims
Bush	Eastern Interior	Gold, Copper	48	7,680	State Mining Claims
West Fork	Eastern Interior	Gold, Copper	48	7,680	State Mining Claims
Triple Z	Eastern Interior	Gold, Copper	45	7,200	State Mining Claims
Tetlin-Village	Eastern Interior	Gold, Copper	-	675,000	Lease
	TOTALS:		700	774,356	

Strategy

Partnering with strategic industry participants to expand our exploration work. In connection with an evaluation of the Company’s strategic options conducted by the Board of Directors and its financial advisor, the Company determined to continue its exploration and development activities on the Tetlin Properties through a joint venture with an experienced industry participant. As a result, the Company formed the Joint Venture Company pursuant to a Joint Venture Company's LLC Agreement with Royal Gold. Under the Joint Venture Company's LLC Agreement, Royal Gold is appointed as the manager of the Joint Venture Company (the “Manager”), initially, with overall management responsibility for operations of the Joint Venture Company through October 31, 2018, and, thereafter, provided Royal Gold earns at least a forty percent (40%) percentage interest by October 31, 2018. Royal Gold may resign as Manager and can be removed as Manager under certain circumstances as provided in the Joint Venture Company's LLC Agreement. The Manager will manage, and direct the operation of the Joint Venture Company, and will discharge its duties in accordance with approved programs and budgets. The Manager will implement the decisions of the Management Committee of the Joint Venture Company (the “Management Committee”) and will carry out the day-to-day-operations of the Joint Venture Company.

Except as expressly delegated to the Manager, the Joint Venture Company's LLC Agreement provides that the Management Committee has exclusive authority to determine all management matters related to the Company. Initially, the Management Committee consists of one appointee designated by the Company and two appointees designated by Royal Gold. Each designate on the Management Committee will be entitled to one vote. Except for the list of specific actions set forth in the Joint Venture Company's LLC Agreement, the affirmative vote by a majority of designates will be required for action.

Structuring Incentives to Drive Behavior. The Company believes that equity ownership aligns the interests of our executives, employees and directors with those of our stockholders. The Company’s directors, officers and employees do not receive cash compensation for their work for the Company. As of March 31, 2015, the Company's directors and employees beneficially own approximately 10.7% of our common stock. An additional 21.6% of our common stock is beneficially owned by the Estate of Mr. Kenneth R. Peak, our former Chairman, who passed away on April 19, 2013.

Restricted Stock. In November 2010, the Company's directors, executive officers and a former technical consultant were granted an aggregate of 93,906 shares of restricted stock. The restricted stock vests over three years, beginning in November 2011, the one-year anniversary of the date the shares were granted. As of March 31, 2015, all of the restricted stock granted in November 2010 was vested.

In December 2013, the Company's directors, executive officers and a former technical consultant were granted an aggregate of 95,000 shares of restricted stock. The restricted stock vests over two years, beginning with one-third vesting on the date of grant. As of March 31, 2015, there were 21,666 shares of such restricted stock that remained unvested.

In November 2014, two employees of the Company were granted an aggregate of 27,000 shares of restricted stock. The restricted stock vests over two years, beginning with one-third vesting on the date of grant. As of March 31, 2015, there were 18,000 shares of such restricted stock that remained unvested.

In January 2015, the Company's non-employee directors were granted an aggregate of 30,000 shares of restricted stock, of which 10,000 shares vested immediately and the remaining 20,000 shares will vest over the next two years. In addition, a former technical consultant was granted an aggregate of 10,000 shares of restricted stock which vested immediately. The Compensation Committee also elected to immediately vest all of the stock options and restricted stock previously issued to the former technical consultant. As of March 31, 2015, there were 20,000 shares of such restricted stock that remained unvested.

Stock Options. As of the date of this report, the option awards listed in the table below have been granted to directors, officers, employees and consultants of the Company:

	Option Awards		
Period Granted	Options Granted	Weighted Average Exercise Price	Vesting Period [7]
September 2011 [1]	50,000	$13.13	Vests over two years, beginning with one-third on the grant date.
July 2012 [2]	100,000	$10.25	Vests over two years, beginning with one-third on the grant date.
December 2012 [3]	250,000	$10.20	Vests over two years, beginning with one-third on the grant date.
June 2013 [4]	37,500	$10.00	Vested Immediately
July 2013 [5]	5,000	$10.00	Vested Immediately
September 2013 [6]	37,500	$10.01	Vested Immediately
September 2013 [6]	15,000	$10.01	Vests over two years, beginning with one-third on the grant date.

(1) The Company granted 40,000 stock options to its directors and officers and an additional 10,000 stock options to its technical consultant, the owner of Avalon, for services performed during fiscal year 2011.

(2) The Company granted 75,000 stock options to its directors and officers and an additional 25,000 stock options to its technical consultant for services performed during fiscal year 2012.

(3) The Company granted 175,000 stock options to its directors and an additional 75,000 stock options to its technical consultant for services performed during fiscal year 2013.

(4) The Company granted 37,500 stock options to its employees for services performed during fiscal year 2013.

(5) The Company granted 5,000 stock options to an employee of Avalon for services performed during fiscal year 2013.

(6) The Company granted 52,500 stock options to its employees for services performed during the first quarter of fiscal year 2014.

(7) If at any time there occurs a change of control, as defined in the 2010 Plan, any options that are unvested at that time will immediately vest. The Company's Compensation Committee has determined that the Transactions do not constitute a change in control under the 2010 Plan.

Ms. Leah Gaines was appointed Vice President, Chief Financial Officer, Chief Accounting Officer, Treasurer and Secretary of the Company as of October 1, 2013. The appointment of Ms. Gaines followed the resignation of Mr. Sergio Castro and Ms. Yaroslava Makalskaya, as a result of the merger between Contango Oil & Gas Company and Crimson Exploration Inc. On June 28, 2013, the Compensation Committee elected to immediately vest all of the stock options of Mr. Castro and Ms. Makalskaya.

Exploration and Mining Property

Exploration and mining rights in Alaska may be acquired in the following manner: public lands, private fee lands, unpatented Federal or State of Alaska mining claims, patented mining claims, and tribal lands. The primary sources for acquisition of these lands are the United States government, through the Bureau of Land Management and the United States Forest Service, the Alaskan state government, tribal governments, and individuals or entities who currently hold title to or lease government and private lands.

Tribal lands are those lands that are under control by sovereign Native American tribes, such as land constituting the Tetlin Lease or Alaska Native corporations established by the Alaska Native Claims Settlement Act of 1971 (ANSCA). Areas that show promise for exploration and mining can be leased or joint ventured with the tribe controlling the land, including land constituting the Tetlin Lease.

The State of Alaska government owns public lands. Mineral resource exploration, development and production are administered primarily by the State Department of Natural Resources. Ownership of the subsurface mineral estate, including alluvial and lode mineral rights, can be acquired by staking a 40 acre or 160 acre mining claim, which right is granted under Alaska Statute Sec. 38.05.185 to 38.05.275, as amended (the “Alaska Mining Law”). The State government continues to own the surface estate, subject to certain rights of ingress and egress owned by the claimant, even though the subsurface can be controlled by a claimant with a right to extract through claim staking. Private fee lands are lands that are controlled in fee-simple title by private individuals or corporations. These lands can be acquired for mining and exploration activities by either leasing or purchasing the surface and subsurface rights from the private owner. Unpatented mining claims located on public land owned by another entity can be controlled by leasing or purchasing the claims outright from the owners.

With respect to unpatented mining claims, the State government continues to own the fee interest in real property while allowing private parties to stake claims for exploration, development and commercial extraction of minerals with rights of ingress and egress on the real property. Unpatented claims give the claimant the exclusive right, subject to permitting requirements, to explore for and to develop the underlying minerals and use the surface for such purpose. However, the claimant does not own unfettered title to either the minerals or the surface, and the mining claim is subject to annual assessment work requirements, the payment of annual rental fees which are established by the governing authority of the land on which the claim is located and royalties due to the State of Alaska after commencement of Commercial Production. Both private fee-land and unpatented mining claims and related rights, including rights to use the surface, are also subject to permitting requirements of Federal, State, Tribal and Local governments, challenges by third parties or contests by government agencies.

Gold Exploration

The Company, through its participation in the Joint Venture Company, controls a total of 774,356 acres consisting of the Tetlin Lease and State of Alaska mining claims for the exploration of gold and associated minerals. To date, our gold exploration has concentrated on the Tetlin Lease, with only a limited amount of work performed on our TOK, Eagle, Bush, AD and Triple Z claims. The Tetlin Lease is located in eastern interior Alaska, approximately 200 miles southeast of Fairbanks and 12 miles southeast of Tok, Alaska. The area is accessible via helicopter and via the 23 mile long Tetlin Village Road which provides year-round access to the Alaska Highway. Buried electrical and fiber-optic communications cables link the Tetlin Village to the Tok power and communications grid.

Through its joint venture agreement with Royal Gold, Peak Gold, LLC, the Company expects drilling activities to resume in the second quarter of 2015 on the Tetlin project. Several exploration prospects will be tested in addition to extension and deeper testing of the previously discovered Peak zone mineralization. The Company expects to have the results of the first phase of drilling by early in the third quarter, at which time a decision will be made as to the extent of further drilling activities on the lease.

The Company's exploration effort on the Tetlin Lease has resulted in identifying one mineral deposit (Peak) and several other gold and copper prospects. The Company has drilled certain of these other prospect as part of our 2011, 2012 and 2013 exploration programs. The Company gathered surface, bedrock, and stream sediment data on the Tetlin Lease as well as on the Eagle and Tok state of Alaska claims adjacent to the Tetlin Lease. The Company did not conduct drilling on the Eagle claims during the 2014 exploration program. None of our exploration targets are known to host quantifiable commercial mineral reserves and none are near or adjacent to other known significant gold or copper deposits. There has been no recorded past placer or lode mining on Tetlin project, and the Company is the only entity known to have conducted drilling operations on the Tetlin project.

The Joint Venture Company has prepared a summer of 2015 exploration program on the Tetlin Properties. The work program anticipates spending $5 million in a first phase with a possible expansion of the work program in late summer, if drilling results warrant further work. The drilling program will include exploration targets that are helicopter-supported at the Tars, Saddle, North Saddle and Saddle Skarn targets and road-supported work at the Peak Zone. Most of the initial work program may be completed by the end of July with on-site sample preparation and assay results in early August.

Chief Danny Prospect

The Chief Danny Prospect currently is the most advanced exploration target on the Tetlin Lease and is comprised of several distinct mineralized areas, the Peak deposit, Discovery Zone, Roadcut Zone and the Saddle Zone. The Chief Danny prospect was discovered during rock, stream sediment and pan concentrate sampling in 2009 and since then has been explored using top of bedrock soil auger sampling, trenching, ground induced polarization (IP) geophysics, airborne magnetic and resistivity surveys and core drilling. Results from this work indicate the presence of a zoned metal-bearing system consisting of a gold-copper-iron enriched core covering six square miles at Chief Danny South (includes Peak, Discovery and Roadcut Zones) and a fault-offset arsenic-gold enriched zone to the north covering three square miles at the Saddle Zone. We have conducted extensive drilling on the Peak Zone. We have also conducted environmental base line studies on the areas surrounding the Chief Danny prospect, as well as conducted airborne magnetic and resistivity programs. From 2009 through 2013, the Company conducted field-related exploration work at the Chief Danny Prospect, including collecting the following samples:

Year	Program	Core Samples	Rock Samples	Soil Samples	Pan Con Samples	Stream Silt Samples	Core (feet)	IP/Geophysics (kilometers)	Trenching (feet)
2009	Chief Danny	—	958	33	94	11	—	—	2,330
2010	Chief Danny	—	613	760	668	795	—	14	—
2011	Chief Danny	1,267	20	688	—	—	8,057	3,957	—
2012	Chief Danny	5,223	82	1,029	—	—	36,004	—	—
2013	Chief Danny	8,970	6	1,406	—	—	47,079	2,524	—
2014	Chief Danny	—	—	—	—	—	—	—	—
	Total	15,460	1,679	3,916	762	806	91,140	6,495	2,330

2014 Exploration Program. No field exploration programs were conducted on the Tetlin project during 2014. Work conducted in previous years was sufficient to satisfy work commitment requirements of the Tetlin Lease and annual work commitment requirements of State of Alaska mining claims that are part of the Tetlin project.

2013 Exploration Program. We completed 14,349 meters (47,079 ft) of core drilling in 69 core holes during the 2013 Tetlin project exploration program. Drilling included infill and step-out drilling in the Peak Zone (60 holes, 11,592 meters), and completion of 9 additional core holes on 5 other leads in the greater Chief Danny prospect (2,757 meters). We also completed approximately 2,500 line-kilometers of airborne magnetic and electromagnetic geophysics, completed or commenced all of the baseline water quality sampling, cultural resource assessments, wetlands mapping, preliminary metallurgical testing and acid rock drainage testing. We spent approximately $9.0 million for this work which includes drilling, geochemical analyses, airborne geophysics, landholding fees and other related expenses. The following table summarizes the significant drilling results released to date for 2013:
Significant 2013 Drill Intercepts from the Peak Zone. Sample intervals are calculated using a 0.5 gpt lower cut off for gold with no internal waste greater than 3 meters less than cutoff grade. Intercepts shown are drill intercept lengths. True width of mineralization are unknown. The grade cutoff for gold (Au) is 0.5 gpt; for silver (Ag) is 10 gpt; and for

copper (Cu) is 0.1%.

Drill Hole	Zone	From (meters)	To (meters)	Interval (meters)	Au gpt	Au_opt	Ag gpt	Cu %
TET13062	Peak	88.90	153.70	64.80	13.101	0.382	21.0	0.482
TET13063	Peak	131.11	171.60	40.49	16.550	0.483	36.1	0.732
TET13064	Peak	147.20	191.40	44.20	8.464	0.247	5.5	0.169
TET13065	Peak	184.45	206.93	22.48	1.160	0.034	10.5	0.403
TET13067	Peak	114.80	125.10	10.30	0.180	0.005	18.2	0.215

Drill Hole	Zone	From (meters)	To (meters)	Interval (meters)	Au gpt	Au_opt	Ag gpt	Cu %
TET13068	Peak	—	112.80	112.80	0.196	0.006	13.5	0.267
TET13069	Peak	54.60	162.63	108.03	0.026	0.001	11.0	0.406
TET13070	Peak	116.80	154.92	38.12	1.815	0.053	1.8	0.040
TET13071	Peak	129.90	186.50	56.60	1.182	0.034	1.9	0.048
TET13072	Peak	170.99	199.82	28.83	1.173	0.034	6.4	0.133
TET13073	Peak	170.23	192.64	22.41	0.708	0.021	5.5	0.103
TET13074	Peak	78.90	105.80	26.90	0.079	0.002	17.9	0.336
TET13075	Peak	83.70	134.50	50.80	0.057	0.002	8.1	0.354
TET13076	Peak	107.80	163.50	55.70	0.044	0.001	17.0	0.661
TET13077	Peak	135.48	162.12	26.64	0.022	0.001	34.6	1.110
TET13078	Peak	77.06	105.00	27.94	2.648	0.077	3.1	0.123
TET13079	Peak	120.04	157.89	37.85	4.366	0.127	3.7	0.203
TET13080	Peak	135.41	157.38	21.97	5.378	0.157	2.7	0.070
TET13081	Peak	146.53	179.73	33.20	2.550	0.074	52.4	0.491
TET13082	Peak	5.79	93.38	87.59	4.025	0.117	19.3	0.300
TET13083	Peak	112.46	143.65	31.19	1.350	0.039	5.5	0.163
TET13084	Peak	134.95	160.33	25.38	5.086	0.148	9.0	0.244
TET13085	Peak	130.13	175.16	45.03	2.740	0.080	69.5	1.401
TET13088	Peak	19.18	157.20	138.02	3.626	0.106	11.4	0.113
TET13089	Peak	2.74	101.60	98.86	2.500	0.073	3.5	0.093
TET13090	Peak	127.60	159.20	31.60	0.087	0.003	24.3	0.882
TET13091	Peak	45.11	98.78	53.67	1.111	0.032	10.5	0.249
TET13092	Peak	77.90	87.63	9.73	0.004	—	3.5	0.157
TET13093	Peak	141.70	146.56	4.86	1.184	0.035	9.7	0.092
TET13094	Peak	129.90	153.60	23.70	0.415	0.012	106.6	0.716
TET13095	Peak	146.00	191.35	45.35	0.193	0.006	12.3	0.151
TET13096	Peak	85.04	86.70	1.66	1.968	0.057	0.9	0.013
TET13097	Peak	171.53	196.00	24.47	0.726	0.021	8.5	0.156
TET13098	Peak	9.75	94.18	84.43	4.988	0.145	16.7	0.167
TET13100	Peak	10.98	106.90	95.92	5.748	0.168	6.9	0.140
TET13102	Peak	6.35	30.90	24.55	0.758	0.022	5.9	0.223
TET13103	Peak	150.40	186.95	36.55	0.145	0.004	88.3	0.340
TET13104	Peak	—	142.60	142.60	2.529	0.074	2.4	0.082
TET13105	Peak	50.30	52.74	2.44	1.081	0.032	1.8	0.008
TET13106	Peak	57.45	103.33	45.88	0.016	—	35.1	0.070
TET13107	Peak	—	159.25	159.25	7.010	0.204	6.6	0.102
TET13108	Peak	14.33	73.25	58.92	1.058	0.031	10.8	0.130
TET13109	Peak	81.52	114.20	32.68	0.089	0.003	3.2	0.181
TET13110	Peak	2.13	99.06	96.93	9.060	0.264	4.3	0.093
TET13111	Peak	169.77	172.82	3.05	0.175	0.005	7.6	0.232
TET13113	Peak	82.60	97.50	14.90	0.946	0.028	66.3	0.086
TET13117	Peak	—	134.82	134.82	4.848	0.141	2.9	0.084
TET13119	Peak	6.10	80.70	74.60	1.303	0.038	2.9	0.130
TET13120	Peak	196.10	202.39	6.29	0.186	0.005	2.9	0.130
TET13121	Peak	46.70	55.26	8.56	5.671	0.165	10.8	0.121
TET13122	Peak	81.38	84.09	2.71	2.255	0.066	3.9	0.010
TET13124	Peak	33.22	168.72	135.50	3.240	0.095	3.6	0.115

TET13125	Peak	65.17	121.92	56.75	0.284	0.008	15.3	0.523

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Drill Hole	Zone	From (meters)	To (meters)	Interval (meters)	Au gpt	Au_opt	Ag gpt	Cu %
TET13128	Peak	116.12	119.17	3.05	0.489	0.014	2.5	0.157
TET13129	Peak	9.60	75.90	66.30	1.450	0.042	3.7	0.250
TET13130	Peak	9.14	31.39	22.25	2.348	0.068	1.1	0.082

2012 Exploration Program. The 2012 exploration program at the Chief Danny Prospect began in mid-May and was completed in mid-October 2012. We originally budgeted $3.6 million to utilize one rig and drill 20,000 feet in 20 to 40 core holes. Initial results from the drilling program at Chief Danny resulted in reallocating funds from our other gold and copper leads to the Chief Danny Prospect, which enabled us to utilize two rigs to drill 36,004 feet in 50 core holes. We also conducted additional soil auger geochemical sampling on the western and southern margins of the Chief Danny zone and conducted baseline water quality sampling in drainage basins that have the potential to be impacted by the development of the Chief Danny Prospect. The total cost of our 2012 exploration program on our Chief Danny prospect was approximately $4.6 million, compared to investing only $1.0 million on our other gold and copper leads which also included geochemical analysis, claim rentals and other related expenses.

The 2012 exploration program expanded on previously drilled areas and intercepted high grade gold and copper mineralization in the newly designated Peak Zone discovery. The results from four holes contained high gold values over substantial widths, with the best section grading an average 192 feet grading 11.996 ppm gold, 9.1 ppm silver and 0.243% copper in one hole; 14.5 feet grading 46.148 ppm gold, 25.9 ppm silver and 0.518% copper in another hole; and 120 feet grading 0.309 ppm gold, 71.6 ppm silver and 1.114% copper in another hole (see table of results below). In general, all of the holes intercepted a 100 to 125 foot wide zone of alteration and mineralization. The mineralization dips at a low angle to the north and trends northwest-southeast. In addition to gold, silver and copper, other anomalous metals include arsenic, bismuth, cobalt, molybdenum and tin with lesser, more sporadic anomalous lead and zinc.

Significant 2012 Gold Drill Results from the Peak Zone. Sample intervals are calculated using a 0.5 ppm lower cut off for gold with no internal intervals below cutoff grade that are greater than ten feet thick. Intercepts shown are drill intercept lengths. True width of mineralization is not known.

Drill Hole	Zone	From (meters)	To (meters)	Interval (meters)	Au opt	Au gpt	Ag gpt	Cu %
TET1216	Peak	14.02	15.54	1.52	0.123	4.208	7.2	0.096
TET1216	Peak	19.96	45.72	25.75	0.228	7.832	23.5	0.061
including	Peak	25.91	28.95	3.05	0.634	21.75	34.8	0.086
And	Peak	42.67	44.19	1.52	1	34.3	50.9	0.01
TET1216	Peak	53.34	60.04	6.71	0.102	3.499	15.8	0.535
including	Peak	56.39	57.09	0.70	0.379	13	123	0.865
TET1216	Peak	64.61	78.33	13.72	0.081	2.766	1.4	0.053
including	Peak	70.31	70.62	0.30	0.274	9.385	4.8	0.809
And	Peak	76.81	78.33	1.52	0.252	8.632	4.2	0.117
TET1216	Peak	81.38	113.99	32.61	0.109	3.735	2.6	0.113
including	Peak	105.97	106.28	0.30	1.604	55	9.3	0.727
And	Peak	106.28	107.89	1.62	0.282	9.661	3.6	0.133
TET1217	Peak	7.92	56.99	49.07	0.327	11.218	21.6	0.085
including	Peak	7.92	32.31	24.38	0.574	19.677	16.9	0.082
including	Peak	14.02	18.59	4.57	1.255	43.033	15.5	0.142
And	Peak	23.16	26.21	3.05	0.844	28.95	19.9	0.051
And	Peak	27.74	32.31	4.57	0.726	24.9	37.6	0.054
TET1217	Peak	139.47	140.44	0.98	0.122	4.173	48.7	0.11
TET1218	Peak	85.34	143.86	58.52	0.422	14.452	9.1	0.243
including	Peak	103.93	106.67	2.74	0.945	32.393	8.9	0.324
And	Peak	107.13	111.55	4.42	1.459	50.007	25.9	0.518

And	Peak	136.15	142.33	6.19	0.941	32.249	13.2	0.347
TET1218	Peak	151.48	155.29	3.81	0.064	2.19	6.1	0.194
TET1219	Peak	31.24	32.61	1.37	0.036	1.223	20.9	0.072
TET1219	Peak	44.19	80.46	36.27	0.076	2.589	3.3	0.086
including	Peak	45.72	59.43	13.72	0.137	4.696	2.7	0.131
TET1219	Peak	89.91	92.65	2.74	0.041	1.4	13.7	0.26
including	Peak	89.91	90.43	0.52	0.157	5.372	29.2	0.106

Drill Hole	Zone	From (meters)	To (meters)	Interval (meters)	Au opt	Au gpt	Ag gpt	Cu %
TET1219	Peak	96.31	97.84	1.52	0.13	4.457	0.8	0.012
TET1219	Peak	108.50	122.22	13.72	0.053	1.821	3.2	0.218
TET1219	Peak	139.29	143.55	4.27	0.444	15.218	2.3	0.114
including	Peak	139.29	140.51	1.22	1.35	46.3	5.9	0.274
TET1235	Peak	168.61	185.92	17.31	0.635	21.766	7.4	0.319
including	Peak	171.65	176.17	4.51	1.977	67.797	10.2	0.363
including	Peak	171.65	173.12	1.46	2.713	93	14.2	0.459
And	Peak	173.12	174.64	1.52	2.287	78.4	10.9	0.392
TET1235	Peak	188.97	192.01	3.05	0.18	6.161	7.6	0.363
TET1235	Peak	198.11	199.63	1.52	0.154	5.29	55.8	2.12
TET1236	Peak	155.44	204.21	48.77	0.429	14.717	10.1	0.244
including	Peak	164.58	201.16	36.57	0.554	18.991	12.9	0.307
including	Peak	166.11	172.20	6.10	1.103	37.8	6	0.387
And	Peak	193.54	195.06	1.52	1.397	47.9	16.1	0.921
And	Peak	199.63	201.16	1.52	1.368	46.9	13.1	0.33
TET1238	Peak	123.44	128.01	4.57	0.019	0.636	47.1	1.158
TET1238	Peak	135.63	138.68	3.05	0.039	1.334	145.9	3.735
TET1239	Peak	118.56	121.61	3.05	0.043	1.477	13.4	0.444
TET1239	Peak	136.85	138.37	1.52	0.047	1.618	42.6	1.06
TET1241	Peak	36.27	39.62	3.35	0.094	3.213	3.4	0.088
TET1241	Peak	45.72	50.29	4.57	0.048	1.632	1.9	0.059
TET1241	Peak	60.35	64.61	4.27	0.028	0.95	2.6	0.023
TET1241	Peak	137.15	141.73	4.57	0.019	0.645	46.9	0.445
TET1242	Peak	19.51	28.65	9.14	0.047	1.611	3.7	0.105
TET1242	Peak	42.37	45.57	3.20	0.043	1.483	1.4	0.048
TET1242	Peak	115.82	118.26	2.44	0.026	0.9	0.3	0.011
TET1242	Peak	121.30	124.35	3.05	0.048	1.653	1.2	0.021
TET1242	Peak	142.94	162.45	19.51	0.08	2.756	2.6	0.154
including	Peak	149.04	151.94	2.90	0.207	7.098	2	0.1
and	Peak	161.63	162.45	0.82	0.44	15.1	11.5	0.232
TET1243	Peak	30.17	34.75	4.57	0.021	0.714	1.3	0.032
TET1243	Peak	100.27	101.80	1.52	0.103	3.534	0.8	0.018
TET1244	Peak	87.17	90.22	3.05	0.057	1.963	—	0.006
TET1244	Peak	96.31	103.93	7.62	0.095	3.273	0.8	0.013
TET1244	Peak	108.50	113.08	4.57	0.097	3.324	0.9	0.019
including	Peak	108.50	110.03	1.52	0.248	8.501	1	0.008
TET1244	Peak	157.57	160.62	3.05	0.02	0.689	—	0.004
TET1246	Peak	72.54	75.59	3.05	0.055	1.899	1.6	0.01
TET1246	Peak	341.36	342.67	1.31	0.114	3.919	2.6	0.299
TET1246	Peak	435.54	437.21	1.68	0.035	1.214	5.3	0.193
TET1247	Peak	17.83	20.42	2.59	0.046	1.561	0.3	0.015
TET1247	Peak	32.92	38.10	5.18	0.067	2.283	0.2	0.01
including	Peak	35.96	36.57	0.61	0.268	9.175	1.3	0.039
TET1247	Peak	44.80	45.26	0.46	0.108	3.713	0.6	0.015
TET1247	Peak	63.40	64.31	0.91	0.183	6.279	0.8	0.004
TET1247	Peak	74.67	77.87	3.20	0.047	1.611	0.4	0.021
TET1247	Peak	233.16	234.68	1.52	0.039	1.345	0.6	0.012

TET1248	Peak	12.19	28.35	16.15	0.03	1.03	1.2	0.012
TET1249	Peak	16.76	22.55	5.79	0.022	0.757	1.7	0.008
TET1249	Peak	45.72	46.78	1.07	0.105	3.602	1.2	0.007
TET1257	Peak	17.07	24.08	7.01	0.03	1.012	23.2	0.006
TET1257	Peak	151.17	167.02	15.85	0.06	2.07	16.9	0.521
including	Peak	154.53	156.35	1.83	0.188	6.447	8.4	0.205
TET1257	Peak	171.35	173.36	2.01	0.065	2.219	27	0.827
TET1259	Peak	148.74	150.26	1.52	0.042	1.449	18.5	0.191
TET1261	Peak	87.47	89.00	1.52	0.093	3.193	—	0.037

Following discovery of the Peak Zone, additional drilling was completed along strike to the northwest and southeast, eventually extending gold and/or copper mineralization over approximately 1700 feet of strike. Gold grades in excess of 1 ppm were encountered in all of these holes. Alteration and sulfide mineralization styles were identical along the entire strike length drilled in 2012.

2011 Exploration Program. The 2011 exploration program at the Chief Danny Prospect consisted of 1,267 core samples taken over 8,057 feet of drilling in 11 core holes. The geophysics conducted in 2011 was airborne magnetics and resistivity surveys as opposed to the ground IP (induced polarization) that was done in 2010. Core drilling and trenching at the Chief Danny prospect in 2011 did not return significant grade-thickness intervals for holes number 1, 3, 6, 8, 9 and 11. For the remaining holes, intervals of gold and copper mineralization were as follows, in grams per ton ("gpt") for gold and silver and percent for copper:

Hole No.	Depth	Footage with Returns	Grams of Gold	Grams of Silver	Percent Copper
2	328 feet	4 feet	4.94 gpt	143.0 gpt	0.56%
4	735 feet	10 feet	0.94 gpt	1.10 gpt	0.03%
5	1,416 feet	12 feet	3.10 gpt	300.2 gpt	0.26%
7	976 feet	21 feet	7.40 gpt	4.90 gpt	0.15%
10	139 feet	32 feet	1.18 gpt	3.1 gpt	0.04%
Trench	n/a	70 feet	0.69 gpt	8.60 gpt	0.38%

Rare Earth Elements

While the Company previously acquired state of Alaska and federal unpatented mining claims for the exploration of rare earth elements, we abandoned our rare earth element claims to devote more time and resources to our gold exploration.

Consulting Services provided by Avalon Development Corporation

Until January 8, 2015, the Company was a party to a Professional Services Agreement ("PSA") with Avalon to provide certain geological consulting services and exploration activities with respect to the properties. Pursuant to the PSA, Avalon provided geological consulting services and exploration activities, including all field work at the Tetlin Lease. The Company paid Avalon on a per diem basis and reimbursed Avalon for its expenses. As additional compensation, the owner of Avalon received restricted shares of common stock and stock options to purchase shares of common stock of the Company.

Avalon is a Fairbanks, Alaska based mineral exploration consulting firm, which has conducted mineral exploration in Alaska since 1985. Its team of engineers and geoscientists combined with its geographic information systems (GIS) database allows Avalon to synthesize existing geological, geochemical and geophysical data and identify specific target areas for ground evaluation and/or acquisition. Avalon's exploration team has identified or conducted discovery drilling on several gold deposits in Alaska and has completed digital GIS compilations of the Tintina Gold Belt, a regional-scale mineral province stretching from southwest Alaska to the southern Yukon Territory. Avalon also has experience exploring for copper, nickel and platinum group elements ("Cu-Ni-PGE") deposits and also created a comprehensive GIS compilation of Cu-Ni-PGE prospects in Alaska, an internally-owned database that contains data on over 200 PGE occurrences in Alaska.

In connection with the Transactions, the Company terminated the PSA with Avalon, but Avalon is currently providing services to the Joint Venture Company.

Services Provided by Tetlin Village Members

Since the start of the term of our Tetlin Lease, the Company has worked closely with the Tetlin Village Council to train and employ Tetlin residents during Tetlin project exploration programs. During the 2013 exploration program, there were more than 15 Tetlin residents working on the Tetlin project exploration program, employed on a seasonal basis through Avalon. Their duties included reconnaissance soil, stream sediment and pan concentrate sampling, diamond drill core processing, drill pad construction and related tasks, expediting services, food services, database management, vehicle transportation and maintenance services, reclamation activities, and project management tasks.

On October 15, 2010, the Company entered into a consulting agreement (as amended, the “Consulting Agreement”), with the Chief of the Tetlin Village (the “Consultant”), which was terminated in January 2015 in connection with the Transactions. Under the terms of the Consulting Agreement, the Consultant assisted the Company in negotiations with other native tribes to lease additional properties and assisted the Company with State of Alaska and Federal governmental affairs issues. The Company p aid the Consultant $5,000 per month and certain lodging costs while the Consultant was in Fairbanks, Alaska, in exchange for his services.

Community Affairs

The Company's activities have increased road traffic and general activity on the Tetlin lands. During the fiscal year ended June 30, 2014, the Company expended approximately $434,000 on road work, snow plowing, flood relief, winter fuel, village repairs and charitable contributions. From July 2014 through March 2015, the Company expended approximately $30,000 on additional road work and other community-related efforts in the Tetlin community.

In August 2013, the Company advanced $100,000 to the Tetlin Village Council under a Promissory Note (the "Tetlin Note") for road improvements. The terms of the Tetlin Note, required the advance be repaid without interest on the earlier of (i) October 1, 2013 or (ii) a date that is within five days following the date the Tetlin Village Council receives funds from the State of Alaska for road improvements. The Tetlin Note was repaid on October 4, 2013.

Adverse Weather Conditions

Weather conditions will affect our ability to conduct exploration activities and mine any ore from the Joint Venture Company’s Properties in Alaska. While exploratory drilling and related activities may only be conducted from May to October on certain of our Properties, we believe development work and any subsequent mining may be conducted year-round.

Competition

We currently face strong competition for the acquisition of exploration-stage properties as well as extraction of any minerals in Alaska. Numerous larger mining companies actively seek out and bid for mining prospects as well as for the services of third party providers and supplies, such as mining equipment and transportation equipment. Our competitors in the exploration, development, acquisition and mining business will include major integrated mining companies as well as numerous smaller mining companies, almost all of which have significantly greater financial resources and in-house technical expertise. In addition, we will compete with others in efforts to obtain financing to explore our mineral properties.

Off-Balance Sheet Arrangements

None.

Contractual Obligations

The Tetlin Lease provides for an initial term of ten years and so long after such initial term as we continue conducting exploration or mining operations on the Tetlin Lease. We are required to spend $350,000 per year annually until July 15, 2018 in exploration costs pursuant to the Tetlin Lease. However, our exploration expenditures to date have already have satisfied this work commitment requirement for the full lease term, through 2018, because exploration funds spent in any year in excess of $350,000 are credited toward future years’ exploration cost requirements. The Tetlin Lease also provides that we will pay the Tetlin Village Council a production royalty ranging from 2.0% to 5.0% should we deliver to a purchaser on a commercial basis precious or non-precious metals derived from the properties under the Tetlin Lease. As of March 31, 2015, we have paid the Tetlin Village Council $225,000 in exchange for reducing the production royalty payable to them by 0.75%. These payments lowered the production royalty to a range of 1.25% to 4.25%. On or before July 15, 2020, the Tetlin Village Council has the option to increase its production royalty by (i) 0.25% by payment to the Joint Venture Company of $150,000, (ii) 0.50% by payment to the Joint Venture Company of $300,000, or (iii) 0.75% by payment to the Joint Venture Company of $450,000.

On January 8, 2015, the Company assigned the Tetlin Lease to the Joint Venture Company in connection with the Transactions.

Until such time as production royalties begin, the Joint Venture Company will pay the Tetlin Village Council an advance minimum royalty of approximately $75,000 per year, plus an inflation adjustment. As of March 2015, the Company had prepaid $40,000 of the $75,000 advance minimum royalty that is due to the Tetlin Village Council on July 15, 2015. Additionally, the Joint Venture Company will pay Royal Gold a production royalty of 3.0% should it deliver to a purchaser on a commercial basis gold or associated minerals derived from the Original Properties, and a production royalty of 2.0% should it deliver to a purchaser on a commercial basis precious metals, non-precious metals or hydrocarbons derived from the Additional Properties. The Joint Venture Company pays claim rentals of $86,555 per year on state of Alaska acreage. Also, if the minimum work requirement is not performed on the property, additional minimum labor payments are due on certain state of Alaska acreage.

Application of Critical Accounting Policies and Management's Estimates

The discussion and analysis of the Company's financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We have identified below the policies that are of particular importance to the portrayal of our financial position and results of operations and which require the application of significant judgment by management. The Company analyzes its estimates, including those related to its mineral reserve estimates, on a periodic basis and bases its estimates on historical experience, independent third party engineers and various other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of the Company's consolidated financial statements:

Mineral Property Interests, Exploration and Development Costs: Mineral property interests include interests in the exploration stage mineral properties acquired. The amount capitalized includes costs paid to acquire mineral property interest as well as the costs paid to obtain the lease rights. Exploration costs are expensed as incurred. Development costs are expensed as incurred until the Company obtains proven and probable reserves within its commercially minable properties. Costs of abandoned projects are charged to earnings upon abandonment. Properties determined to be impaired are written-down to the estimated fair value. The Company periodically evaluates whether events or changes in circumstances indicate that the carrying value of mineral property interests and related property, plant and equipment may not be recoverable.

Stock-Based Compensation. The Company applies the fair value method of accounting for stock-based compensation. Under this method, the Company measures and recognizes compensation expense for all stock-based payments at fair value at the date of grant and amortize the amount over the employee's service period. Management is required to make assumptions including stock price volatility and employee turnover that are utilized to measure compensation expense.

Consolidation of Joint Venture Company. The Company's consolidated financial statements include the accounts of the Joint Venture Company, after elimination of all intercompany balances and transactions since it currently is wholly-owned by CORE Alaska, LLC, which is a wholly-owned subsidiary of the Company.

Upon the formation of the Joint Venture Company, the Company was the only owner, and under the terms of the limited liability company agreement, was entitled to all of the Joint Venture Company's assets and liabilities until Royal Gold invests more than $5 million in the Joint Venture Company. The Company therefore consolidated 100% of the Joint Venture Company's net assets and results of operations.

Results of Operations

Neither the Company nor the Joint Venture Company has commenced mining or producing commercially marketable minerals. To date, neither the Company nor the Joint Venture Company has not generated any revenue from mineral sales or operations. Neither the Company nor the Joint Venture Company has any recurring source of revenue and other than Royal Gold's contributions in connection with the Transactions, the Company's ability to continue as a going concern is dependent on our ability to raise capital to fund our future exploration and working capital requirements. In the future, the Joint Venture Company may generate revenue from a combination of mineral sales and other payments resulting from any commercially recoverable minerals from the Tetlin Properties. We do not expect the Joint Venture Company to generate revenue from mineral sales in the foreseeable future. If the Tetlin Properties fail to contain any proven reserves, our ability to generate future revenue, and our results of operations and financial position, would be materially adversely affected. Other potential sources of cash, or relief of demand for cash, include external debt, the sale of shares of our stock, joint ventures, or alternative methods such as mergers or sale of our assets. No assurances can be given, however, that we will be able to obtain any of these potential sources of cash. We will need to generate significant revenues to achieve profitability and we may never do so.

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Revenue. We recognized $750,000 and $0 for the three months ended March 31, 2015 and 2014, respectively. Revenues related to an expense reimbursement from Royal Gold to offset the costs associated with the Transactions.

Claim Rentals and Minimum Royalties. Claim rentals and minimum royalties consist of Federal and State of Alaska rental payments, annual labor payments, and minimum royalty payments payable to the Tetlin Village Council. We recognized claim rental and minimum royalties expense of $40,389 for the three months ended March 31, 2015, compared to $39,576 for the three months ended March 31, 2014.

Exploration Expense. We reported $278,390 of exploration expense for the three months ended March 31, 2015, compared to $214,598 for the three months ended March 31, 2014. This increase is due to preliminary exploration work completed by Peak Gold, LLC for the 2015 exploration program. Components of exploration expense included drilling, permits, field rentals and field supplies as well as helicopters, transportation and fuel.

Stock-based Compensation Expense. We recognized $127,025 of stock-based compensation expense for the three months ended March 31, 2015, related to restricted stock granted to our officers and directors in January 2015 and December 2013, and stock option awards granted in July 2012, December 2012, July 2013, and September 2013, all pursuant to the Company's 2010 Equity Compensation Plan. We recognized $122,951 of stock-based compensation expense for the three months ended March 31, 2014 related to the restricted stock granted in November 2010 and stock option awards granted in in September 2011, July 2012, December 2012, July 2013 and September 2013.
General and Administrative Expense. General and administrative expense for the three months ended March 31, 2015 and 2014 were $650,382 and $302,399, respectively. The majority of the costs relate to professional and legal fees associated with the Transactions with Royal Gold which were consummated on January 8, 2015.
Nine Months Ended March 31, 2015 Compared to Nine Months Ended March 31, 2014

Revenue. We recognized $750,000 and $0 for the six months ended March 31, 2015 and 2014, respectively. Revenues related to an expense reimbursement from Royal Gold to offset the costs associated with the Transactions.

Claim Rentals and Minimum Royalties. Claim rentals and minimum royalties consist of Federal and State of Alaska rental payments, annual labor payments, and minimum royalty payments payable to the Tetlin Village Council. We recognized claim rental and minimum royalties expense of $120,625 for the nine months ended March 31, 2015, compared to $139,820 for the nine months ended March 31, 2014. The decrease in claim rentals and minimum royalties is due to the abandonment of our Federal rare earth element claims to devote more time and resources to our gold exploration.

Exploration Expense. We reported $492,890 of exploration expense for the nine months ended March 31, 2015, compared to $6,734,888 for the nine months ended March 31, 2014. This decrease is due to only minimal exploration work that was completed during the 2014 period. Components of exploration expense included drilling, permits, field rentals and field supplies as well as helicopters, transportation and fuel.

Stock-based Compensation Expense. We recognized $399,068 of stock-based compensation expense for the nine months ended March 31, 2015, related to restricted stock granted to our officers and directors in January 2015 and December 2013, and stock option awards granted in July 2012, December 2012, July 2013, and September 2013, all pursuant to the Company's 2010 Equity Compensation Plan. We recognized $689,747 of stock-based compensation expense for the nine months ended March 31, 2014 related to the restricted stock granted in November 2010 and stock option awards granted in in September 2011, July 2012, December 2012, July 2013 and September 2013.
General and Administrative Expense. General and administrative expense for the nine months ended March 31, 2015 and 2014 were $1,782,023 and $907,530 respectively. The majority of the increase relates to increased legal and professional expenses during the 2014 period as compared to the prior 2013 period.

Liquidity

The Tetlin Properties are still in the initial stages of exploration, and the longer term liquidity of the Company will be impaired to the extent the Joint Venture Company's exploration efforts are not successful in generating commercially viable mineral deposits on the Tetlin Properties. As of March 31, 2015, the Company has approximately $2.0 million of cash, cash equivalents, and short term investments and approximated $5.0 million of restricted cash which usage is restricted solely to develop Tetlin properties through our wholly owned Joint Venture Company.

On January 8, 2015, Royal Gold invested $5 million initially to fund exploration