Contango ORE, Inc.
Form 10-Q
May 16, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

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 000-54136

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 960

HOUSTON, TEXAS 77098

(Address of principal executive offices)

(713) 960-1901

(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 x 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 ¨ 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 x

The total number of shares of common stock, par value $0.01 per share, outstanding as of May 13, 2011 was 1,566,467.

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CONTANGO ORE, INC.

(An Exploration Stage Company)

QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2011

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All references in this Form 10-Q to the Company , CORE , we , us or our are to Contango ORE, Inc.

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Item 1 Financial Statements

CONTANGO ORE, INC.

(An Exploration Stage Company)

BALANCE SHEETS

(Unaudited)

	March 31, 2011	June 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,227,991	$
Prepaid expenses	201,380	233,268
Total current assets	3,429,371	233,268
PROPERTY, PLANT AND EQUIPMENT:		
Mineral properties	1,008,886	1,008,886
Accumulated depreciation, depletion and amortization		
Total property, plant and equipment, net	1,008,886	1,008,886
TOTAL ASSETS	$ 4,438,257	$ 1,242,154
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,861	$
Accrued liabilities		511,156
Total current liabilities	6,861	511,156
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
SHAREHOLDERS EQUITY:		
Common Stock, $0.01 par value, 30,000,000 shares authorized, 1,566,467 shares issued and outstanding at March 31, 2011 and June 30, 2010, respectively	15,665	15,665
Additional paid-in capital	6,817,126	1,817,969
Accumulated deficit during exploration stage	(2,401,395)	(1,102,636)
SHAREHOLDERS EQUITY	4,431,396	730,998
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 4,438,257	$ 1,242,154

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

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CONTANGO ORE, INC.

(An Exploration Stage Company)

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010	Period from Inception (October 15, 2009) to March 31, 2011
EXPENSES:					
Delay Rentals	$ 29,277	$ 64,238	$ 101,939	$ 128,475	$ 294,651
Exploration expenses	15,139	241,896	940,601	428,340	1,818,363
Other operating expenses			82,355	15,077	112,840
Stock-based compensation expense	36,389		48,519		48,519
General and administrative expenses	59,589		125,345	1,677	127,022
Total expenses	140,394	306,134	1,298,759	573,569	2,401,395
NET LOSS	$ 140,394	$ 306,134	$ 1,298,759	$ 573,569	$ 2,401,395
LOSS PER SHARE					
Basic and diluted	$ 0.09	$ 0.20	$ 0.83	$ 0.37	$ 1.53
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING					
Basic and diluted	1,566,467	1,566,467	1,566,467	1,566,467	1,566,467

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

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CONTANGO ORE, INC.

(An Exploration Stage Company)

STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010	Period from Inception (October 15, 2009) to March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (1,298,759)	$ (573,569)	$ (2,401,395)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	48,519		48,519
Changes in operating assets and liabilities:			
Decrease (increase) in prepaid expenses	31,888	103,980	(201,380)
Increase (decrease) in accounts payable and other accrued liabilities	(504,295)		6,861
Net cash used in operating activities	$ (1,722,647)	$ (469,589)	$ (2,547,395)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of properties		(1,008,886)	(1,008,886)
Net cash used in investing activities	$	$ (1,008,886)	$ (1,008,886)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Shareholder s contributions	4,950,638	1,478,475	6,784,272
Net cash provided by financing activities	$ 4,950,638	$ 1,478,475	$ 6,784,272
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,227,991		3,227,991
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD			
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,227,991	$	$ 3,227,991

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

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CONTANGO ORE, INC.

(An Exploration Stage Company)

STATEMENT OF SHAREHOLDERS EQUITY

(Unaudited)

	Common Stock			Accumulated Deficit	Total
	Shares	Amount	Additional paid-in Capital	Exploration Stage	Shareholder s Equity
Balance at Inception (October 15, 2009)		$	$	$	$
Shareholder s contribution	1,566,467	15,665	1,817,969		1,833,634
Net loss for the period				(1,102,636)	(1,102,636)
Balance at June 30, 2010	1,566,467	15,665	1,817,969	(1,102,636)	730,998
Shareholder s contribution			1,147,483		1,147,483
Net loss for the period				(862,128)	(862,128)
Balance at September 30, 2010	1,566,467	$ 15,665	$ 2,965,452	$ (1,964,764)	$ 1,016,353
Shareholder s contribution			3,803,155		3,803,155
Stock-based compensation			12,130		12,130
Net loss for the period				(296,237)	(296,237)
Balance at December 31, 2010	1,566,467	$ 15,665	$ 6,780,737	$ (2,261,001)	$ 4,535,401
Stock-based compensation			36,389		36,389
Net loss for the period				(140,394)	(140,394)
Balance at March 31, 2011	1,566,467	$ 15,665	$ 6,817,126	$ (2,401,395)	$ 4,431,396

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

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CONTANGO ORE, INC.

(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Business

Contango ORE, Inc. (CORE or the Company) is a Houston-based, exploration stage company. The Company was formed on September 1, 2010 as a Delaware corporation for the purpose of engaging in the exploration for (i) gold and associated minerals and (ii) rare earth elements in the State of Alaska.

On November 29, 2010, Contango Mining Company (Contango Mining), a wholly owned subsidiary of Contango Oil & Gas Company (Contango), assigned the Properties (defined below) and certain other assets and liabilities to Contango. Contango contributed the 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. Contango subsequently distributed the Company s common stock to Contango s stockholders. The Company had no operating history prior to the contribution of assets and liabilities by Contango. The financial statements of the Company include the financial position, results of operations, and cash flows of Contango Mining since Contango Mining s inception on October 15, 2009 (the Inception date or the Inception). The equity structure (i.e. the number and type of equity interests issued), however, was retroactively adjusted to reflect the capital structure of the Company.

The Company is an exploration stage company as defined by Accounting Standards Codification (ASC) 915, Development Stage Entities. An investment in the Company involves a high degree of risk. The Company s fiscal year end is June 30.

As of March 31, 2011, the Company held a 100% leasehold interest in 647,000 acres from the Tetlin Village Council, the council formed by the governing body for the Native Village of Tetlin, an Alaska Native Tribe (Tetlin Lease) and held 12,000 acres in unpatented mining claims from the State of Alaska for the exploration of gold and associated minerals (together with the Tetlin Lease, the Gold Properties). The Company also held interests in and to 3,520 acres in unpatented Federal mining claims and 97,280 acres in unpatented mining claims from the State of Alaska for the exploration of rare earth elements (the REE Properties , and together with the Gold Properties, the Properties). If the Tetlin Lease is placed into commercial production, the Company would be obligated to pay a production royalty to the Native Village of Tetlin, which varies from 3% to 5%. In addition, if any of the Properties are placed into commercial production, the Company would be obligated to pay a 3% production royalty to Juneau Exploration LLC (JEX).

2. Basis of Presentation

The accompanying unaudited 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 financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the financial statements have been included. All such adjustments are of a normal recurring nature. The financial statements should be read in conjunction with the audited financial statements and notes of Contango Mining included in the Company s report on Amendment No. 2 to Registration Statement on Form 10 filed on November 26, 2010. The results of operations for the three and nine months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2011.

Financial statements for the periods from October 15, 2009 to November 29, 2010 represent financial statements of Contango Mining. The Company used a carryover historical cost basis for all assets and liabilities contributed from Contango Mining on November 29, 2010.

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CONTANGO ORE, INC.

(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Summary of Significant Accounting Policies

The application of GAAP involves certain assumptions, judgments, choices and estimates that affect reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from these estimates. The Company s significant accounting policies are described below.

Management Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. As of March 31, 2011, the Company had approximately $3.2 million in cash and cash equivalents.

Revenue Recognition. CORE has yet to realize any revenues. Expenses are presented on the accrual basis of accounting.

Common Stock. The Company s certificate of incorporation authorizes us to issue 30,000,000 shares of common stock, $0.01, par value. As of March 31, 2011, approximately 1.6 million shares of common stock were issued and outstanding, all of which were fully paid and non-assessable. Holders of common stock are entitled to one vote for each share held of record on all matters to be voted on by stockholders and are not entitled to cumulative voting for the election of directors. Upon the liquidation, dissolution or winding up of our business, after payment of all liabilities and payment of preferential amounts to the holders of preferred stock, if any, the shares of common stock are entitled to share equally in our remaining assets. Pursuant to our certificate of incorporation, no stockholder has any preemptive rights to subscribe for our securities. The common stock is not subject to redemption. The Company s equity structure for all periods prior to November 29, 2010 was retroactively adjusted to reflect the equity structure of the Company.

Stock-Based Compensation. The Company applies the fair value based method to account 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 fair value of each award is estimated as of the date of grant using the Black-Scholes option-pricing model. 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.

In December 2010, the Company granted 70,429 restricted shares of common stock to its officers and directors and an additional 23,477 restricted shares to its technical consultant. All shares of restricted stock vest over three years, beginning in December 2011, the one-year anniversary of the date the shares were granted. Compensation expense related to these awards will be recognized over the vesting period. For the three and nine months ended March 31, 2011, the Company recorded stock-based compensation expense of $36,389 and $48,519, respectively, related to the restricted stock awards. The amount of compensation expense recognized does not reflect compensation actually received by the individuals, but rather represents the amount recognized in accordance with GAAP.

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 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

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CONTANGO ORE, INC.

(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

realized in a future period. The Company recognizes a full valuation allowance as of March 31, 2011 and June 30, 2010 and has not recognized any tax provision or benefit for the three and nine months ended March 31, 2011 and 2010. The Company reviews its tax positions quarterly for tax uncertainties. The Company did not have significant uncertain tax positions as of March 31, 2011. The amount of unrecognized tax benefits may change in the future, however, we do not expect the change to have a significant impact on our results of operations or our financial position or results of operations.

Recently Issued Accounting Pronouncements

We have reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe that the future adoption of any such pronouncements will cause a material impact on our financial condition or the results of our operations.

4. Property and Equipment

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 will be 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 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.

The amounts shown as costs incurred include 100% of the costs pertaining to the Properties. During the nine months ended March 31, 2011, the Company incurred approximately $1.0 million to explore the Properties. During the nine months ended March 31, 2010, the Company incurred approximately $1.0 million to acquire lease rights to some of the Properties, and another approximately $0.6 million to explore the Properties. During the period from the Inception to March 31, 2011, we incurred approximately $1.0 million to acquire and approximately $2.1 million to explore the Properties.

	Nine Months Ended March 31, 2011 (Unaudited)	Nine Months Ended March 31, 2010 (Unaudited)	Period from Inception (October 15, 2009) to March 31, 2011 (Unaudited)
Acquisition of Mineral Interests	$	$ 1,008,886	$ 1,008,886
Exploration costs and delay rentals	1,042,540	556,815	2,113,014
Total costs incurred	$ 1,042,540	$ 1,565,701	$ 3,121,900

5. Prepaid Expenses

The Company s prepaid expenses of $201,380 and $233,268 as of March 31, 2011 and June 30, 2010, respectively, relate to delay rentals and certain geological consulting services and exploration activities conducted by Avalon Development Corporation, an Alaska-domiciled domestic corporation.

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CONTANGO ORE, INC.

(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Loss Per Share

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

	$(1,298,759)	$(1,298,759)	$(1,298,759)	$(1,298,759)	$(1,298,759)	$(1,298,759)
		Three Months Ended March 31, 2011			**Three Months Ended March 31, 2010**	
	Loss	**Weighted Average Shares**	**Per Share**	**Loss**	**Weighted Average Shares**	**Per Share**
Basic Loss per Share:						
Net loss attributable to common stock	$ (140,394)	1,566,467	$ (0.09)	$ (306,134)	1,566,467	$ (0.20)
Diluted Loss per Share:						
Net loss attributable to common stock	$ (140,394)	1,566,467	$ (0.09)	$ (306,134)	1,566,467	$ (0.20)

		Nine Months Ended March 31, 2011			**Nine Months Ended March 31, 2010**	
	Loss	**Weighted Average Shares**	**Per Share**	**Loss**	**Weighted Average Shares**	**Per Share**
Basic Loss per Share:						
Net loss attributable to common stock	$ (1,298,759)	1,566,467	$ (0.83)	$ (573,569)	1,566,467	$ (0.37)
Diluted Loss per Share:						
Net loss attributable to common stock	$ (1,298,759)	1,566,467	$ (0.83)	$ (573,569)	1,566,467	$ (0.37)

	$(2,401,395)	**$(2,401,395)**	**$(2,401,395)**
		Period from Inception (October 15, 2009) to March 31, 2011	
	Loss	**Weighted Average Shares**	**Per Share**
Basic Loss per Share:			
Net loss attributable to common stock	$ (2,401,395)	1,566,467	$ (1.53)

Diluted Loss per Share:					
Net loss attributable to common stock	$	(2,401,395)	1,566,467	$	(1.53)

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CONTANGO ORE, INC.

(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Shareholders Equity

During the nine months ended March 31, 2011, the Company had the following common stock transactions:

On November 29, 2010, the Company issued approximately 1.6 million shares of common stock to Contango for distribution to Contango s stockholders of record as of October 15, 2010 on the basis of one share of common stock for each ten (10) shares of Contango s common stock then outstanding in exchange for the assignment by Contango Mining of all of its assets and liabilities, together with $3.5 million in cash to the Company pursuant to the terms of a Contribution Agreement between Contango and the Company (the Contribution Agreement). The Company s equity structure for the periods prior to November 29, 2010 was retroactively adjusted to reflect the equity structure of the Company as of November 29, 2010.

Additionally, in December 2010, the Company granted 93,906 shares of restricted stock to its officers, directors and consultants pursuant to the Company s 2010 Equity Compensation Plan. These restricted shares will vest over a period of three years, beginning with the one-year anniversary of the date the shares were granted. For the three and nine months ended March 31, 2011, the Company recorded compensation expense of $36,389 and $48,519, respectively, related to these restricted shares.

8. Related Parties

Contango and the Company share the same executive management team. Pursuant to the Contribution Agreement between Contango and the Company, effective as of November 29, 2010, Contango contributed the Properties and $3.5 million in cash to the Company in exchange for shares of common stock of the Company in an amount equal to one share of common stock for each ten (10) shares of Contango s common stock outstanding as of October 15, 2010.

9. Commitments and Contingencies

In connection with acquiring all the assets and liabilities of Contango Mining, the Company has assumed any claims, litigation or disputes pending as of the effective date on any matters arising in connection with ownership of the Properties prior to the effective date. The Company is not aware of any legal, environmental or other commitments or contingencies that would have a material effect on the Company s financial position or results of operations.

10. Subsequent Events

In May 2011, the Company staked 6,560 acres, to add to its existing 12,000 acres in unpatented mining claims from the State of Alaska for the exploration of gold and associated minerals, bringing the total acreage to 18,560.

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Available Information

General information about us can be found on our 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 financial statements and footnotes of the Company and other information included in this Form 10-Q as well as in conjunction with the financial statements and related footnotes of Contango Mining Company (Contango Mining) for the year ended June 30, 2010 and other information included in Amendment No. 2 to our Registration Statement on Form 10 filed on November 26, 2010 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 expressions 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 rare earth elements
- Timing and amount of future discoveries (if any) and production of natural resources
- Operating costs and other expenses
- Cash flow and anticipated liquidity
- Prospect development
- New governmental laws and regulations

Although we believe 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:

- Low and/or declining prices for gold and rare earth elements
- Price volatility for natural resources
- 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
- Availability of operating equipment
- Ability to raise capital to fund capital expenditures
- Timely and full receipt of sale proceeds from the sale of any of our mined products
- Interest rate volatility
- Operating hazards attendant to the mining industry
- Potential mechanical failure or under-performance of facilities and equipment
- Weather
- Availability and cost of material and equipment
- Actions or inactions of third-parties
- The ability to find and retain skilled personnel
- Strength and financial resources of competitors

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Federal and state regulatory developments and approvals

Environmental risks

Worldwide economic conditions

Restrictions on mining activities

Expanded rigorous monitoring and testing requirements

Legislation that may regulate mining activities

Ability to obtain insurance coverage on commercially reasonable terms

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

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 to explore in the State of Alaska for (i) gold ore and associated minerals, and (ii) rare earth elements. We have leased or have control over Federal and State of Alaska properties totaling approximately 766,360 acres for the exploration of gold and associated minerals and rare earth elements. We anticipate that from time to time we will acquire additional acreage in Alaska for the exploration of gold and associated minerals and rare earth elements through leases or obtaining additional mining claims.

Our Business

The Company was formed on September 1, 2010 as a Delaware corporation. On November 29, 2010, Contango Mining Company (Contango Mining), a wholly owned subsidiary of Contango Oil & Gas Company (Contango), assigned the Properties (defined below) and certain other assets and liabilities to Contango. Contango Mining was formed on October 15, 2009 as a Delaware corporation for the purpose of engaging in exploration in the State of Alaska for (i) gold and associated minerals and (ii) rare earth elements. Contango contributed the 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 Form 10 on the basis of one share of common stock for each ten (10) shares of Contango s common stock then outstanding.

The Company had no operating history prior to the contribution of Contango Mining s assets and liabilities. The financial statements of the Company include the financial position, results of operations, and cash flows of Contango Mining since its inception on October 15, 2009 (the Inception date or the Inception). The equity structure was retroactively adjusted to reflect the capital structure of the Company. References that describe the operations of the Company include the operations of Contango Mining for the periods prior to November 29, 2010.

The Company now holds leasehold interests in 647,000 acres from the Tetlin Village Council, the council formed by the governing body for the Native Village of Tetlin, an Alaska Native Tribe (Tetlin Lease) and holds 18,560 acres in unpatented mining claims from the State of Alaska for the exploration of gold and associated minerals (together with the Tetlin Lease, the Gold Properties). The Company also holds interests in and to 3,520 acres in unpatented Federal mining claims and 97,280 acres in unpatented mining claims from the State of Alaska for the exploration of rare earth elements (the REE Properties , and together with the Gold Properties, the Properties). If the Tetlin Lease is placed into commercial production, the Company would be obligated to pay a production royalty to the Native Village of Tetlin, which varies from 3% to 5%. In addition, if any of the Properties are placed into commercial production, the Company would be obligated to pay a 3% production royalty on such Properties to Juneau Exploration LLC (JEX).

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Strategy

Our exploration strategy is predicated upon two core beliefs: (1) that the only competitive advantage in a commodity-based business is to be among the lowest cost producers and (2) that virtually all the mining industry s value creation occurs through the discovery of mineral deposits that can be developed to the state of a commercially viable producing mine. While we do not have previous experience in the gold or rare earth element industries, we plan to focus our business strategy on the following elements:

Using our limited capital availability to increase our reward/risk potential on selective prospects. We will concentrate our risk investment capital in our prospects in Alaska. We have leased approximately 647,000 acres and control another 18,560 acres consisting of 167 unpatented State of Alaska mining claims in Eastern Alaska for the exploration of gold and associated minerals. We also own 3,520 acres consisting of 176 unpatented Federal mining claims and 97,280 acres consisting of 608 unpatented State of Alaska mining claims for the exploration of rare earth elements.

Exploration prospects are inherently risky as they require large amounts of capital with no guarantee of success. Furthermore, we may never achieve a competitive advantage in the conduct of our business, since it is unlikely that our Properties will have commercially viable mineral deposits. Should the Properties prove to have known deposits, or mineral ore, we will be required to develop our own mining operations or contract with third parties to mine our mineral ore. We may only become a low cost producer if the mineral ore is of high quality and the cost of the infrastructure necessary to mine the mineral ore is low relative to other producers, including those competitors located in China if rare earth elements are mined.

Our strategic initiatives are to undertake cost efficient and effective exploration activities to discover mineralization and potential mineral reserves which may enhance the value of our Properties. If we are successful in our exploration activities, we may consider a joint venture or sales of our Properties to qualified mining companies.

Alliance with JEX. JEX is a private company formed primarily for the purpose of assembling natural gas and oil prospects. JEX has been responsible in securing and negotiating the Tetlin Lease and assisting in obtaining the Properties and initially engaged Avalon Development Corporation, an Alaska domiciled domestic corporation (Avalon) to conduct mineral exploration activities on the Tetlin Lease. JEX will continue to assist us in acquiring additional acreage in Alaska and provide other consulting services to the Company. We do not have a written agreement with JEX which contractually obligates them to provide us with their services. We anticipate providing JEX with an additional overriding royalty interest in property where JEX assists in the acquisition of such property.

Structuring Incentives to Drive Behavior. We believe that equity ownership aligns the interests of our consultants, executives and directors with those of our stockholders. The Company s directors and officers do not receive any cash compensation for their work for the Company. The Company s directors and executive officers beneficially own or have voting control over approximately 18% of our common stock. In addition, our major consultant for geological and exploration activities, Avalon, owns 23,477 restricted shares of our common stock. All shares of restricted stock will vest over three years, beginning in December 2011, the one-year anniversary of the date the shares were granted.

Properties

Our Properties consist of mineral leases and unpatented mining claims. We believe that we hold good title to our Properties in accordance with standards generally accepted in the minerals industry. As is customary in both the gold and rare earths industry, we conduct only a perfunctory title examination at the time we acquire a property. Before we begin any mining activities, however, we will conduct a full title examination and perform curative work on any defects that we deem significant. A significant amount of additional work and at least another two years is likely required in the exploration of our Properties before any determination as to the economic feasibility of a mining venture can be made. Due to the harsh climate in Alaska, our work months are restricted to May through October.

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Gold Exploration

In 2009, exploration activities were conducted on our Gold Properties. In our 2009 exploration program, we collected a total of 1,096 rock, soil, pan concentrate and stream silt samples from our Tetlin Lease. Of this total, 348 samples showed measurable amounts of gold with 30 samples showing measured gold of 500 parts per billion (ppb) or higher. In our 2010 exploration program, we collected a total of 1,884 rock, soil, pan concentrate and stream silt samples from our Tetlin Lease. Of this total, 910 samples showed measurable amounts of gold with 54 samples showing gold concentrations greater than 500 ppb. We also ran ground geophysical surveys with induced polarization (IP) which measures the conductivity/resistivity of underlying sub-surface rocks. Conductivity indicates the presence of metals. Our 2011 exploration program includes flying airborne magnetic, electromagnetic, and radiometrics in early summer, and based on the results of this airborne operation, drill core holes over selected areas of our acreage.

Rare Earth Elements

In 2011, we expect to begin exploratory work for rare earth elements over the 100,800 acres of REE Properties we control in Alaska. Our exploration activities will include the following: geological surveying, geochemical sampling, geophysical surveying, geochemical evaluation for rare earth elements and two-dimensional and three dimensional electromagnetic exploration in order to determine the existence and location of any rare earth elements.

We hold the following Federal unpatented mining claims: (i) 49 unpatented mining claims near Stone Rock Bay, Alaska, totaling 980 acres, and (ii) 127 unpatented mining claims near Salmon Bay, totaling 2,540 acres, which are located near Bokan Mountain. We also control 608 State of Alaska unpatented mining claims, totaling 97,280 acres, located in the interior of Alaska. The Company believes that there has been limited exploration targeted specifically at REEs in Alaska historically, with the exception of Bokan Mountain, located on the Prince of Wales Island in Southeast Alaska.

Consulting Services provided by Avalon Development Corporation

The Company is 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 will continue to provide certain geological consulting services and exploration activities. The Company pays Avalon on a per diem basis and reimburses Avalon for its expenses pursuant to the PSA. As additional compensation, Avalon received restricted shares of common stock equal to approximately 1.5% of the aggregate shares of common stock distributed to the stockholders of Contango. The shares will vest over three years beginning in December 2011, the one-year anniversary of the date the shares were granted.

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 expects to assign approximately 5 engineers and geologists to conduct exploration activities on the Properties. Work schedules will vary widely from a 7 day per week, 30-day minimum schedule for field related geologists and geological engineers to 40-hours per week schedules for geographic information system and management staff. Because the Company does not have experience exploring or evaluating gold or rare earth element prospects in Alaska, we will rely on Avalon s experience in the State of Alaska to determine whether our exploration activities will be likely to develop commercially viable deposits. Avalon s mineral exploration services include pre-field planning, in-progress evaluation/modification and post-field critical review. Avalon will continue to work in conjunction with the Company to identify new properties and will conduct the initial exploration for such properties.

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Marketing and Pricing

Should our exploratory drilling activities prove to be successful, the Company expects to mine ore and derive its revenue principally from the sale of gold and associated minerals or rare earth elements. We may also enter into joint ventures or sell some or all of our Properties to qualified mining companies. We do not currently have a market for any minerals that may be derived from our Properties. As a result, the Company s revenues are expected to be determined, to a large degree, by the success of our exploration and any subsequent mining activities and by prevailing prices for gold and rare earth elements. Market prices are dictated by supply and demand, and the Company cannot predict or control the price it will receive for gold ore and rare earth elements.

Adverse Climate Conditions

Climate conditions will affect the Company s ability to conduct exploration activities and mine any ore from its Properties in Alaska. While exploratory drilling and related activities may only be conducted from May to October on certain of our Properties, the Company believes 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.

While there are few rare earth mining companies in the United States, the global rare earth mining and processing markets are competitive. China currently accounts for over 90% of rare earth mineral production and manufacturing, and should our rare earth mining efforts prove to be successful, we may not be able to implement the processing technologies and capabilities that our Chinese counterparts have already established. Our Chinese competitors may have greater financial resources, as well as other strategic advantages to maintain, improve and expand their mining programs. In addition, Chinese domestic economic policies may allow domestic companies to produce at relatively lower costs.

Competitive conditions may be substantially affected by various forms of legislation and regulation considered from time to time by the government of the United States and the State of Alaska, as well as factors that we cannot control, including international political conditions, overall levels of supply and demand for minerals, and currency fluctuations.

Employees

The Company has three part-time employees. Mr. Peak is the Chairman, Chief Executive Officer and President of the Company and is responsible for the management of the Company. Mr. Castro is the Vice President, Chief Financial Officer and Secretary of the Company and is responsible for the financial affairs of the Company. Ms. Makalskaya is the Vice President and Controller of the Company and is responsible for the Company s accounting.

Off-Balance Sheet Arrangements

None

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Contractual Obligations

The Tetlin Lease provides for an initial term of ten (10) years and so long after such initial term as we continue conducting exploration or mining operations on the Tetlin Lease. While the Company is required to spend $350,000 per year annually for ten years in exploration costs pursuant to the Tetlin Lease, the Company anticipates that exploration expenditures through the 2010 exploration program will satisfy this requirement 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 of 3% to 5% should we deliver to a purchaser on a commercial basis precious metals, non-precious metals or hydrocarbons derived from the Tetlin Lease. Additionally, we will pay JEX a production royalty of 3% should we deliver to a purchaser on a commercial basis precious metals, non-precious metals or hydrocarbons derived from the Properties.

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 financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these 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 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 the State of Alaska 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 based method to account for stock-based compensation. Under this method, we will measure and recognize compensation expense for all stock-based payments at fair value. Management is required to make assumptions including stock price volatility and employee turnover that are utilized to measure compensation expense.

Results of Operations

The Company is a newly-formed company that has not commenced mining or producing commercially marketable minerals. To date, we have not generated any revenue from mineral sales or operations. We have no recurring source of revenue and our 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, we may generate revenue from a combination of mineral sales and other payments resulting from any commercially recoverable minerals from the Properties. We do not expect to generate revenue from mineral sales in the foreseeable future. If our 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.

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Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

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