

Contango ORE, Inc.
Form 10-Q
February 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012
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
(State or other jurisdiction of
incorporation or organization)

27-3431051
(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 ✓ 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

The total number of shares of common stock, par value \$0.01 per share, outstanding as of February 8, 2013 was 2,519,395.

CONTANGO ORE, INC.
 (An Exploration Stage Company)
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2012
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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.
 (An Exploration Stage Company)
 BALANCE SHEETS
 (Unaudited)

Item 1 - Financial Statements

	December 31, 2012	June 30, 2012
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,534,849	\$ 7,765,265
Prepaid expenses and other	90,228	138,029
Total current assets	1,625,077	7,903,294
PROPERTY, PLANT AND EQUIPMENT:		
Mineral properties	1,208,886	1,008,886
Accumulated depreciation, depletion and amortization	—	—
Total property, plant and equipment, net	1,208,886	1,008,886
OTHER ASSETS:		
Other	225,000	225,000
Total other assets	225,000	225,000
TOTAL ASSETS	\$ 3,058,963	\$ 9,137,180
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 130,806	\$ 1,728,664
Accrued liabilities	25,000	73,000
Total current liabilities	155,806	1,801,664
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
SHAREHOLDERS' EQUITY:		
Common Stock, \$0.01 par value, 30,000,000 shares authorized; 2,519,395 shares issued and outstanding at December 31, 2012; 2,480,269 shares issued and outstanding at June 30, 2012	25,194	24,803
Additional paid-in capital	16,492,662	15,527,205
Accumulated deficit during exploration stage	(13,614,699) (8,216,492
SHAREHOLDERS' EQUITY	2,903,157	7,335,516
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,058,963	\$ 9,137,180

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

CONTANGO ORE, INC.
 (An Exploration Stage Company)
 STATEMENTS OF OPERATIONS
 (Unaudited)

	Three Months Ended December 31, 2012		Six Months Ended December 31, 2012		Period from Inception (October 15, 2009) to December 31, 2012
	2012	2011	2012	2011	
EXPENSES:					
Claim rentals and minimum royalties	\$31,683	\$87,302	\$99,288	\$171,440	\$772,215
Exploration expenses	459,238	284,077	4,199,249	1,699,137	10,849,983
Other operating expenses	—	10,703	—	10,703	146,550
Stock-based compensation expense	504,462	38,454	730,624	115,976	987,189
General and administrative expenses	166,068	71,944	369,046	145,394	858,762
Total expenses	1,161,451	492,480	5,398,207	2,142,650	13,614,699
NET LOSS	\$1,161,451	\$492,480	\$5,398,207	\$2,142,650	\$13,614,699
LOSS PER SHARE					
Basic and diluted	\$0.46	\$0.31	\$2.17	\$1.36	\$7.62
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING					
Basic and diluted	2,502,102	1,577,423	2,490,990	1,571,788	1,785,669

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

CONTANGO ORE, INC.
 (An Exploration Stage Company)
 STATEMENTS OF CASH FLOWS
 (Unaudited)

	Six Months Ended December 31,		Period from Inception (October 15, 2009) to December 31, 2012
	2012	2011	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$(5,398,207)	\$(2,142,650)	\$(13,614,699)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	965,848	150,258	1,301,966
Changes in operating assets and liabilities:			
Decrease (increase) in prepaid expenses	47,801	(27,521)	(83,028)
Increase (decrease) in accounts payable and other accrued liabilities	(1,645,858)	(496,542)	148,606
Net cash used for operating activities	\$(6,030,416)	\$(2,516,455)	\$(12,247,155)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of other assets	—	(150,000)	(225,000)
Acquisition of properties	(200,000)	—	(1,208,886)
Net cash used in investing activities	\$(200,000)	\$(150,000)	\$(1,433,886)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Shareholder's contributions	—	—	6,784,272
Common stock issuance, net	—	—	8,431,618
Short-term borrowings	—	400,000	500,000
Repayment of short-term borrowings	—	—	(500,000)
Net cash provided by financing activities	\$—	\$400,000	\$15,215,890
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,230,416)	(2,266,455)	1,534,849
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,765,265	2,395,100	—
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$1,534,849	\$128,645	\$1,534,849

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

CONTANGO ORE, INC.
 (An Exploration Stage Company)
 STATEMENT OF SHAREHOLDERS' EQUITY
 (Unaudited)

	Common Stock		Additional paid-in Capital	Accumulated Deficit Exploration Stage	Total Shareholders' Equity
	Shares	Amount			
Balance at June 30, 2012	2,480,269	\$24,803	\$15,527,205	\$(8,216,492)	\$7,335,516
Stock-based compensation	—	—	301,308	—	301,308
Net loss for the period	—	—	—	(4,236,756)	(4,236,756)
Balance at September 30, 2012	2,480,269	\$24,803	\$15,828,513	\$(12,453,248)	\$3,400,068
Stock-based compensation	—	\$—	\$664,540	\$—	\$664,540
Shares of restricted stock vested	39,126	391	(391)	—	—
Net loss for the period	—	—	\$—	(1,161,451)	(1,161,451)
Balance at December 31, 2012	2,519,395	\$25,194	\$16,492,662	\$(13,614,699)	\$2,903,157

The accompanying notes are an integral part of this financial statement.

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 ore 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) for periods prior to November 29, 2010, however, was retroactively adjusted to reflect the capital structure of the Company after November 29, 2010.

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.

The Properties originally contributed by Contango include: 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"); ii) approximately 18,560 acres in unpatented mining claims from the state of Alaska for the exploration of gold ore and associated minerals (together with the Tetlin Lease, the "Gold Properties") and iii) approximately 3,440 acres in unpatented Federal mining claims for the exploration of rare earth elements (the "REE Properties", and together with the Gold Properties, the "Properties"). If any of the Properties are placed into commercial production, the Company would be obligated to pay a 3.0% production royalty to Juneau Exploration LLC ("JEX").

Effective December 1, 2012, the Company abandoned 97,280 acres in unpatented mining claims from the state of Alaska for the exploration of rare earth elements. These abandoned acres were originally contributed by Contango. In September 2012, the Company and JEX entered into an Advisory Agreement in which JEX will continue to provide assistance in acquiring additional properties in Alaska in exchange for a 2.0% production royalty on properties acquired after July 1, 2012. In August 2012, the Company staked an additional 31,869 acres consisting of 223 unpatented state of Alaska mining claims in Eastern Alaska for the exploration of gold ore and associated minerals. If any of these newly acquired properties are placed into commercial production, the Company would be obligated to pay JEX a 2.0% production royalty under the Advisory Agreement.

We have now completed our fourth year of exploration efforts on the Properties, which has resulted in identifying one mineral prospect (Chief Danny) and five other gold and copper leads (Taixtsalda, MM, Copper Hill, Chisana and W), as well as an exploration lead on our Triple Z prospect which is located 10 miles north of, and outside the boundaries of, our Tetlin Lease.

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 included in the Company's Form 10-K for the fiscal year ended June 30, 2012. The results of operations for the three and six months ended

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December 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013.

Financial statements for the periods from October 15, 2009 to November 29, 2010 represent financial statements of Contango Mining. All assets and liabilities of Contango Mining contributed to the Company on November 29, 2010 were recorded at the carryover historical cost basis.

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3. Summary of Significant Accounting Policies

The Company's significant accounting policies are described below.

Management Estimates. The preparation of 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.

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

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. 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.

Common Stock. The Company's certificate of incorporation authorizes us to issue up to 30,000,000 shares of common stock, par value \$0.01. As of December 31, 2012, the Company had 2,519,395 shares of common stock 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 after November 29, 2010.

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.

Reclassifications. Certain prior period amounts have been reclassified to conform to current year presentation. These reclassifications were not material and had no effect on cash flows or net loss.

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 realized in a future period. The Company recognized a full valuation allowance as of December 31, 2012 and June 30, 2012 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 December 31, 2012 or June 30, 2012.

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. Costs Incurred

Costs to acquire and explore the Properties were as follows:

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	Three Months Ended December 31,		Six Months Ended December 31,		Period from Inception (October 15, 2009) to December 31, 2012
	2012	2011	2012	2011	
Acquisition of mineral interests	\$200,000	\$—	\$200,000	\$—	\$1,208,886
Exploration costs, claim rentals, and minimum royalties	490,921	371,379	4,298,537	1,870,577	11,622,198
Total costs incurred	\$690,921	\$371,379	\$4,498,537	\$1,870,577	