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The Independent Directors
Contango Capital Partners Limited
Level 24
360 Collins Street
Melbourne Vic 3000

17 October 2011

Subject: Off-market takeover offer for Contango Capital Partners Limited

Dear Independent Directors

Introduction

1 On 20 September 2011 Contango Microcap Limited (Contango Microcap) announced a takeover offer for all the ordinary shares in Contango Capital Partners Limited (Contango Capital) that it does not already own at an offer price of $0.90 cash per share (the Offer). Shareholders of Contango Capital who accept the Offer and who are entitled to receive the Final Dividend[1] announced by Contango Capital on 22 September 2011 will also receive that Final Dividend without any reduction in the Offer price.

2 The Offer values the total equity in Contango Capital at approximately $17.8 million and is subject to a number of conditions which are outlined in Section I.

3 Contango Microcap and Contango Capital have two common directors. Accordingly, the Independent Directors of Contango Capital have requested that Lonergan Edwards & Associates Limited (LEA) prepare an independent expert's report (IER) stating whether, in LEA's opinion, the Offer is "fair and reasonable".

4 LEA is independent of Contango Capital and Contango Microcap and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

Summary of opinion

5 LEA has concluded that the Offer is fair and reasonable. We have arrived at this conclusion for the reasons set out below.

Valuation of Contango Capital

6 LEA has valued 100% of the ordinary shares in Contango Capital at between $0.82 and $0.94 per share, as summarised below:

1 The 2011 financial year (FY11) final dividend of $0.03 per share.

Value of Contango Capital		
	LEA assessed value	
	Low	**High**
	\$000	**\$000**
Listed investment portfolio	9,000	9,900
Investment in Contango Group Pty Limited	5,091	5,808
Other net assets[(1)]	2,566	2,566
Tax losses	900	1,300
Allowance for future management fees	(1,400)	(900)
Value of 100% of Contango Capital	16,157	18,674
Shares on issue (000's)	19,802	19,802
Value per share	\$0.82	\$0.94

Note:
1 Comprises cash and receivables net of accrued expenses and the FY11 final dividend which was paid on 12 October 2011.

7 The value of Contango Capital's listed investment portfolio has been assessed within a range due to the significantly volatility of stockmarket values in recent weeks. As at the close of trading on the Australian Securities Exchange (ASX) on 17 October 2011the listed investment portfolio had a value of \$9.5 million[2], which is broadly consistent with the mid-point of our assessed range for the portfolio.

Assessment of fairness

8 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guideline 111 – *Content of expert reports* (RG 111), an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

9 This comparison is shown below:

Comparison of the Offer consideration to value of Contango Capital			
	Low	**High**	**Mid-point**
	\$ per share	**\$ per share**	**\$ per share**
Value of the Offer consideration	0.90	0.90	0.90
Value of 100% of Contango Capital	0.82	0.94	0.88
Extent to which the Offer consideration exceeds (or is less than) the value of Contango Capital	0.08	(0.04)	0.02

10 As the consideration offered by Contango Microcap is within our assessed value of 100% of the ordinary shares in Contango Capital, in our opinion, the Offer is fair.

Assessment of reasonableness

11 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently we have concluded that the Offer is both fair and reasonable.

2 Calculated after allowing for selling costs of 0.3%.

General

12 In preparing this report we have considered the interests of Contango Capital shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

13 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

14 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

15 If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

16 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that Contango Capital shareholders read the remainder of our report.

Yours faithfully

Craig Edwards
Authorised Representative

Tony Coleman
Authorised Representative

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Appendices

A	**Financial Services Guide**
B	**Qualifications, declarations and consents**
C	**Glossary**

I Outline of the Offer

17 On 20 September 2011 Contango Microcap Limited (Contango Microcap) announced a takeover offer for all the ordinary shares in Contango Capital Limited (Contango Capital) that it does not already own at an offer price of $0.90 cash per share. Shareholders of Contango Capital who accept the Offer and who are entitled to receive the Final Dividend announced by Contango Capital on 22 September 2011 will also receive that Final Dividend without any reduction in the Offer price. The Offer will close at 7pm on 21 November 2011, unless extended.

Conditions

18 The Offer is subject to the following conditions:

(a) *Minimum acceptance* - at the end of the offer period, Contango Microcap and its associates must together have a relevant interest in at least 50.1% of the Contango Capital ordinary shares on issue

(b) *Market fall* – between the announcement date and the end of the Offer period:

(i) S&P ASX 200 does not fall to a level that is 10% or more below the level as at the close of trading on ASX on the business day immediately before the announcement date; and

(ii) S&P ASX 300 Financials Index does not fall to a level that is 10% or more below the level as at the close of trading on ASX on the business day immediately before the announcement date

(c) *Change of law* – between the announcement date and the end of the offer period no change of any taxation law or any law affecting regulation of financial markets takes effect or is announced by any government authority

(d) *Board composition* – between the announcement date and the end of the offer period:

(i) no new director is appointed to the board of Contango Capital; or

(ii) no person (including Contango Capital) convenes a general meeting of Contango Capital to consider resolutions to appoint or remove a person from the board of Contango Capital

(e) *Dividend* – except as announced by Contango Capital to ASX prior to the announcement date, neither Contango Capital nor any subsidiary of Contango Capital recommends, pays, declares or determines, or resolves to recommend, pay, declare or determine any dividend or distribution other than the Final Dividend.

(f) *Prescribed occurrences* – between the announcement date and the end of the Offer period no Prescribed Occurrence (as defined in the Contango Microcap bidder's statement) occurs

(g) *Material adverse changes and other transactions* – except as disclosed in any public announcement by Contango Capital delivered to ASX prior to the announcement date, Contango Capital has not between the announcement date and the end of the Offer period:

(i) issued or agreed to issue, or authorised or proposed the issue of any equity, debt or hybrid security (including any security convertible into shares of any class) or rights, warrants, performance rights or options to subscribe for or require any such securities

(ii) issued or agreed to issue any debentures, or except in the ordinary course of business incurred or increased any indebtedness for a material amount in aggregate

(iii) implemented or entered into any scheme or arrangement or compromise or a deed of company arrangement, or any analogous procedure, scheme of arrangement in any jurisdiction

(iv) terminated or, other than in the ordinary course, materially changed the terms of the investment management agreement between Contango Capital and Contango Asset Management Limited dated 3 April 2007 (the Management Agreement) or does any act or thing which has or may reasonably be expected to result in a breach of the Management Agreement

(v) entered into any transaction or instructed the Manager to do anything which has the effect of reducing the net tangible asset (NTA) value of Contango Capital per share by 10% or more below the NTA as at 31 August 2011

(vi) publicly disclosed the existence of any matter described in paragraphs (i) to (v) above; or

(vii) entered into any contract, commitment, arrangement or agreement, passed any resolution or made any offer (which remains open for acceptance) with respect to, or publicly announced an intention to, or proposal to, do anything described in paragraphs (i) to (vi) above.

(h) *No action by government authority* – between the announcement date and the end of the offer period:

(i) there is not in effect any preliminary or final decision, order or decree issued by government authority; and

(ii) no application is made by any person, and no action or investigation is announced, threatened or commenced by a government authority,

in consequence of or in connection with the offer (other than a determination by ASIC or the Takeovers Panel in exercise of powers and discretions conferred by the Corporations Act which:

(iii) restrains or prohibits (or if granted could restrain or prohibit), or otherwise materially adversely impacts on, the making of the offer or the completion of any transaction contemplated by the offer (whether that subject to conditions or not) or the rights of Contango Microcap in respect of Contango Capital and the Contango Capital shares to be acquired under the offer; or

(iv) requires divestiture by Contango Microcap of any Contango Capital shares, or the divestiture of any assets of Contango Capital.

II Scope of our report

Purpose

19 Contango Microcap and Contango Capital have two common directors. Accordingly, the Independent Directors of Contango Capital have requested that LEA prepare an independent expert's report (IER) stating whether, in LEA's opinion, the Offer is "fair and reasonable".

20 This report has been prepared to assist the Independent Directors of Contango Capital in making their recommendation to Contango Capital shareholders in relation to the Offer and to assist the shareholders of Contango Capital assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable. This report should not be used for any other purpose.

21 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

22 Our report is required under s640 of the *Corporations Act 2001 (Cth)* (Corporations Act). Consequently, in preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111.

23 RG 111 distinguishes "fair" from "reasonable" and considers:

(a) an offer to be "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. A comparison must be made assuming 100% ownership of the target company

(b) an offer to be "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

24 Our report therefore considers:

Fairness

(a) the market value of 100% of the shares in Contango Capital

(b) the value of the consideration under the Offer

(c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

Reasonableness

(d) the extent to which the Offer consideration exceeds the observable share prices of Contango Capital prior to the Offer

(e) the extent to which a share of the synergies likely to arise upon an acquisition of Contango Capital are being shared with Contango Capital shareholders

(f) the listed market price of Contango Capital shares both prior to the announcement of the Offer and during the Offer period

(g) the likely market price of Contango Capital shares if the Offer is not successful

(h) the position of Contango Capital shareholders if Contango Microcap acquires 50.1% but less than 100% of the Contango Capital shares on issue

(i) Contango Microcap's current shareholding in Contango Capital

(j) the value of Contango Capital to an alternative Offeror and the likelihood of an alternative Offer emerging, either prior to the close of the Offer, or sometime in the future

(k) the impact of current sharemarket conditions on the value of Contango Capital

(l) other risks, advantages and disadvantages.

Limitations and reliance on information

25 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. Currently stock market values are particularly volatile.

26 Our report is also based upon financial and other information provided by Contango Capital and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS). We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

27 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of Contango Capital securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

28 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Offer, rather than a comprehensive audit or investigation of detailed matters.

29 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

30 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of

which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

III Profile of Contango Capital

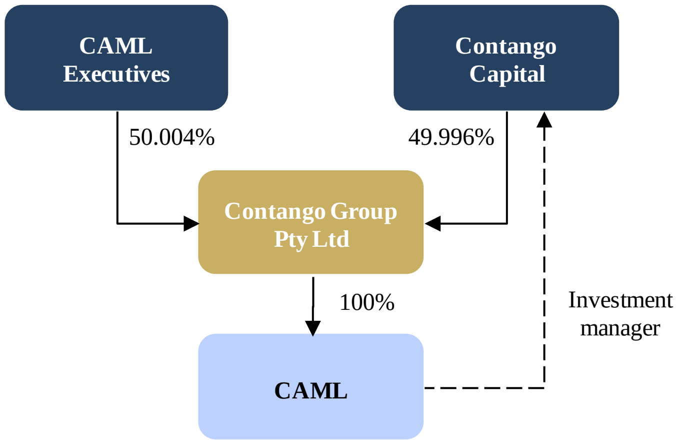
Overview

31 Contango Capital (ASX: CCQ) is a listed investment company which holds a portfolio of listed securities, principally in Australia. Contango Capital also holds a 49.996% indirect interest in an unlisted funds management company, Contango Asset Management Limited (CAML)[3]. Contango Capital commenced operations on 24 May 2007 and listed on the Australian Securities Exchange (ASX) on 30 May 2007.

Contango Capital's interest in CAML

32 In 2007, Contango Capital acquired its 49.996% indirect interest in CAML for some $16.2 million. In FY09 the investment was impaired by some $8.6 million. CAML, incorporated in 1998, is a niche fund management business based in Melbourne that specialises in the management of large, small and microcap Australian equities portfolios. CAML is the investment manager of Contango Capital and Contango Microcap[4], as well as range of superannuation funds, wealth managers, and other institutional clients. The ownership structure of CAML is set out diagrammatically below:

Contango Capital – investment in CAML



Source: Contango Capital management.

33 CAML holds an Australian Financial Services Licence (AFSL) and currently employs 10 staff involved in providing investment services, as well as five support staff. CAML currently holds seven investment mandates generating fees in the range of 0.49% to 1.20% per annum, in addition to the portfolios of Contango Capital (1.75% fee) and Contango Microcap (1.25% fee). In December 2010 CAML lost a significant equity mandate that accounted for some $786 million of funds under management (FUM), which was equivalent to approximately a half of the total managed funds.

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3 Held via its 49.996% interest in Contango Group Pty Limited.

4 CAML also established Contango Microcap, which listed on the ASX in March 2004.

Investment management agreement (IMA) between Contango Capital and CAML

34 Contango Capital appointed CAML as investment manager for a period of 10 years to May 2017, and both parties are bound by the IMA dated 3 April 2007. In consideration for the services provided by CAML, CAML is entitled to a management fee of 0.4375% per quarter, which is payable quarterly in arrears. CAML is also entitled to a performance fee of 15% of the amount that the portfolio exceeds the benchmark, which is calculated to be the 90-day bank bill rate plus 5% per annum.

Financial performance

35 The financial performance of Contango Capital for the four years ended 30 June 2011 (FY11) is set out below:

Contango Capital – financial performance	FY08 $000	FY09 $000	FY10 $000	FY11 $000
Revenue[1]	5,131	2,263	1,079	982
Fair value profits / (losses) on financial assets[2]	(31,351)	(8,749)	1,051	(396)
Gain on disposal of subsidiary[3]	-	323	-	-
Impairment of investment in associate[4]	-	(8,626)	-	-
Management fees[5]	(1,251)	(462)	(283)	(191)
Administration expenses	(828)	(1,025)	(521)	(417)
Profit before tax (PBT)	(28,299)	(16,276)	1,326	(22)
Share of net profits of associates	304	269	757	906
Reported PBT	(27,995)	(16,007)	2,083	884
Income tax expense	8,341	(9,135)	-	-
Reported net profit after tax (NPAT)	(19,654)	(25,142)	2,083	884

Note:
1 Includes interest, dividend and trust distribution income from listed equity investments.
2 The substantial losses on listed equity investments in FY08 and FY09 were due to the adverse impacts following the beginning of the global financial crisis (GFC). We note that the S&P/ASX 300 Diversified Financials Accumulation Index declined by some 48.5% in FY08 and 11.8% in FY09.
3 On 21 April 2009, Contango Capital disposed of its 64% interest in Olympus Funds Management Pty Ltd.
4 Being the impairment of Contango Capital's 49.996% interest in CAML. The impairment was based on an independent valuation of the investment.
5 Being the management fees paid to CAML.

Financial position

36 The financial position of Contango Capital as at 30 June 2010, 31 December 2010 and 30 June 2011 is set out below:

Contango Capital – financial position			
	30 Jun 10 $000	**31 Dec 10 $000**	**30 Jun 11 $000**
Cash and cash equivalents	590	954	1,062
Receivables	229	104	137
Investments in associates	7,573	7,084	7,770
Financial assets	13,369	14,560	12,365
Total assets	21,761	22,702	21,334
Payables	57	130	34
Total liabilities	57	130	34
Net assets	21,704	22,572	21,300

37 With regard to the above, we note:

(a) **cash and cash equivalents** – held in the portfolio managed by CAML under the IMA

(b) **receivables** – primarily dividend and trust distributions on listed equity investments which Contango Capital have the right to receive

(c) **investments in associates** – Contango Capital acquired a 49.996% interest in CAML in 2007 for some $16.2 million and is accounted for using the equity method of accounting. In FY09 the investment was impaired by some $8.6 million to $7.2 million based on an independent valuation. The investment was again independently valued as at 30 April 2011 and was not impaired in FY11

(d) **financial assets** – includes Contango Capital's equity investments in listed companies in Australia and the United Kingdom (UK)

(e) **payables** – includes sundry creditors and accruals.

38 Substantial losses on financial assets in FY08 and FY09 have given rise to significant realised (and unrealised) capital tax losses and revenue tax losses. Contango Capital has a franking credit balance of some $1.592 million as at 30 June 2011.

Share capital

39 As at 17 October 2011 Contango Capital had 19.8 million fully paid ordinary shares on issue. There are no options or performance rights outstanding.

40 We note that on 14 October 2009 Contango Capital announced a capital return of $0.30 per share as well as a consolidation of share capital by consolidating every 5 shares on issue into one share.

Substantial shareholders

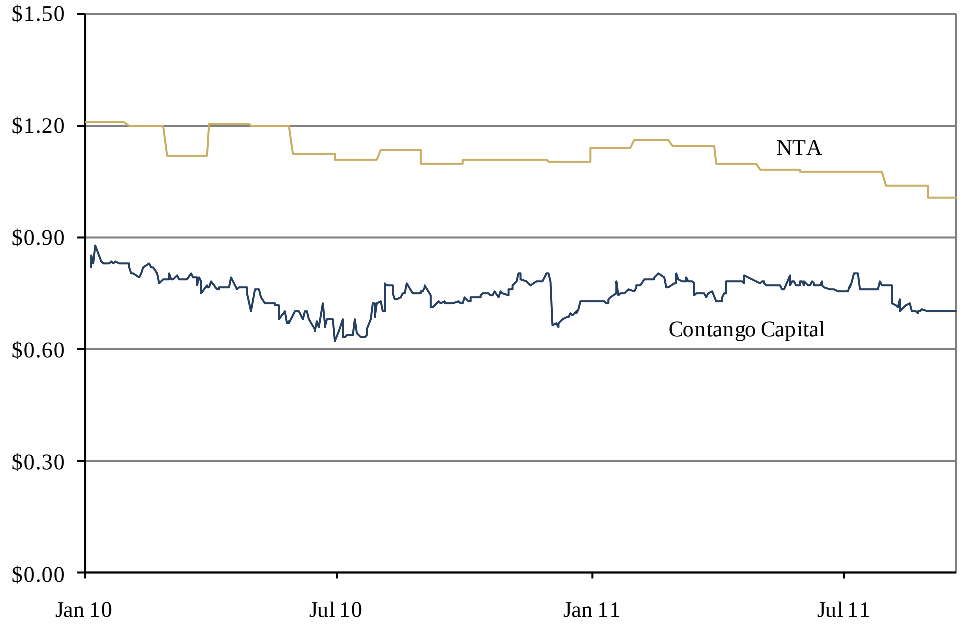
41 Contango Microcap holds some 15.63% of the ordinary shares of Contango Capital. The other substantial shareholder's as at 15 August 2011, as per Contango Capital's 2011 Annual Report, are as follows:

Contango Capital – substantial shareholders		
Shareholder	**Shareholding**	**%**
RBC Dexia Investor Services Aust Noms Pty Ltd	3,938,302	19.89
Ginga Pty Ltd	1,500,000	7.57
Ayersland Pty Ltd	1,119,864	5.66

Share price performance

42 The price of Contango Capital shares and the monthly reported net tangible assets (NTA) per share from 1 January 2010 to 19 September 2011 (the day prior to the announcement of the Offer) is summarised in the table below:

Contango Capital – share price and NTA
1 January 2010 to 19 September 2011



Source: Bloomberg.

43 Having regard to the above, we note that:

(a) NTA excludes any value attributed to tax losses[5]

(b) the share price has consistently traded at a significant discount to the reported NTA over the period

5 No tax is payable due to carry forward tax losses. The potential future income tax benefit from recoupment of the losses is excluded in the calculation of NTA.

(c) the substantial fall in the share price in December 2010 was due to the announcement of the loss of a substantial investment mandate held by CAML.

44 The following table provides an overview of Contango Capital's VWAP for the one month, three months and six months to 19 September 2011:

Contango Capital – VWAP summary	
Period	**VWAP $**
1 month to 19 September 2011	0.70
3 months to 19 September 2011	0.75
6 months to 19 September 2011	0.76

Source: Bloomberg.

Liquidity in Contango Capital shares

45 The liquidity in Contango Capital shares based on trading on the ASX during the year to 19 September 2011 is set out below:

Contango Capital – liquidity in shares					
				Implied level of liquidity	
Period	**Value $000**	**Volume 000s**	**WANOS (1) 000s**	**Period(2) %**	**Annual(3) %**
1 week to 19 September 2011	62	89	19,802	0.45	23.29
1 month to 19 September 2011	186	266	19,802	1.34	16.11
3 months to 19 September 2011	1,449	1,924	19,802	9.72	38.87
6 months to 19 September 2011	2,355	3,099	19,802	15.65	31.30
1 year to 19 September 2011	4,461	5,923	19,802	29.91	29.91

Note:
1 Weighted average number of shares outstanding.
2 Number of shares traded during the period (volume) divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the period.
Source: Bloomberg.

IV Valuation of 100% of Contango Capital

Valuation methodology

46 As Contango Capital is a listed investment company the market value of its shares have been determined by assessing the market value of its underlying investment portfolio[6] less an allowance for:

(a) the selling costs which would be incurred upon a sale of the portfolio

(b) the capitalised value of on-going management fees payable[7].

47 Contango Capital has significant realised income and capital tax losses. We have based the value of these tax losses on the present value of the likely tax shield for future returns from the existing portfolio. Further, Contango Capital has significant unrealised capital tax losses. Therefore, we have not made an allowance for a capital gains tax (CGT) liability that would crystallise upon a sale of the portfolio.

48 In accordance with ASIC Regulatory Guide 111 "Content of Experts Reports" we have assessed the value of Contango Capital shares on a 100% controlling interest basis. Our valuation therefore reflects the full underlying value of Contango Capital shares and implicitly includes a premium for control[8].

Valuation summary

49 A summary of Contango Capital's reported net tangible asset (NTA) backing as at 30 September 2011 and our assessed value range for Contango Capital shares is shown below:

	NTA as at 30 Sep 11 $000	LEA assessed value Low $000	High $000
Listed investment portfolio	9,118	9,000	9,900
Investment in Contango Group Pty Limited	6,783	5,091	5,808
Other net assets(1)	2,566	2,566	2,566
Tax losses	-	900	1,300
Allowance for future management fees	-	(1,400)	(900)
Value of 100% of Contango Capital	18,467	16,157	18,674
Shares on issue (000's)	19,802	19,802	19,802
Value per share	$0.93	$0.82	$0.94

Note:
1 Comprises cash and receivables net of accrued expenses and the FY11 final dividend which was paid on 12 October 2011.

6 Net of receivables, accrued expenses and the Final Dividend.

7 We have not made an allowance for administration costs as they primarily arise due to Contango Capital being a publicly listed company.

8 As a large portion of Contango Capital's investments represent portfolio interests in large listed companies, in our opinion, a willing but not anxious purchaser would not pay any material premium to replicate the portfolio. In addition, the Contango Capital's interest in CAML is not a controlling interest. Further, synergies would not be material. Accordingly, no significant premium for control should apply.

50 Our assessed values for Contango Capital's investments and other assets are set out in detail below.

Listed investment portfolio

51 The value of Contango Capital's listed investment portfolio as at 17 October 2011 based on stock market closing prices and after an allowance for selling costs of 0.3%[9] is set out below:

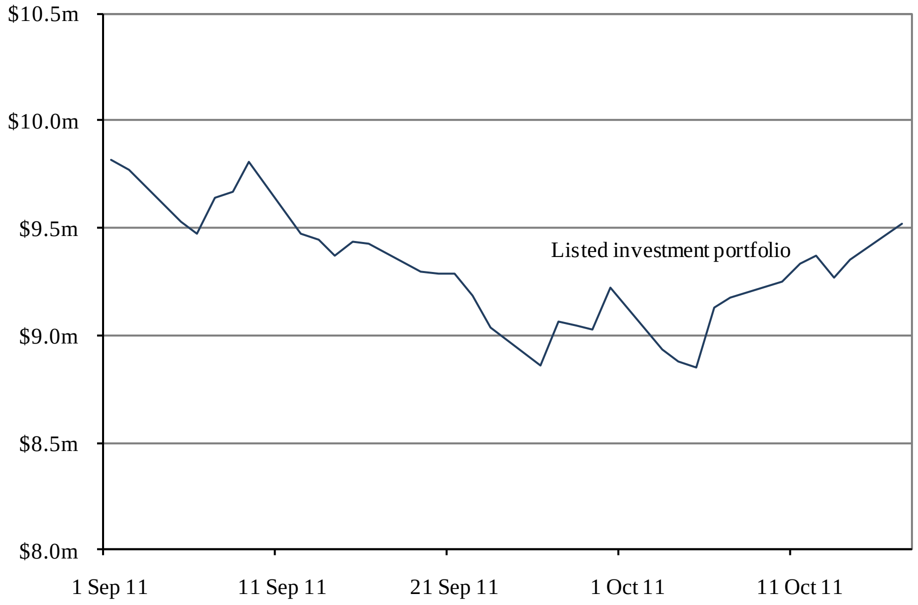
	17 Oct 11 A$000
AMP Limited	1,513
ANZ Banking Group Limited	947
Aspen Group Stapled	281
Centuria Capital Ltd	261
Investorfirst Ltd	26
K2 Asset Management Holdings Ltd	321
Linq Resources Fund	10
Macquarie Group Ltd	894
Minara Resources Ltd	13
Prime Financial Group Limited	725
Snowball Group Limited	1,369
Tidewater Investments Limited	175
TFS Corporation Ltd	1,882
The Trust Co Ltd	427
ASX listed investments	8,845
Epicure Qatar – options	8
Epicure Qatar – shares	698
AIM (UK) listed investments	706
Total Listed Investments	9,551
Estimated selling costs (0.3%)	(29)
Net realisable value	9,522

52 However, due to significant stock market volatility we have assessed the value of Contango Capital's listed investment portfolio based on the value of the portfolio over the period 1 September 2011 to 17 October 2011 (after an allowance for selling costs of 0.3%). The portfolio value over this period is set out in the chart below:

9 We note that the reported NTA does not allow for selling costs.

Listed investment portfolio

1 September 2011 to 17 October 2011



Source: Bloomberg, Weblink.

53 On this basis we have assessed the value of Contango Capital's listed investment portfolio at between $9.0 million and $9.9 million. The wide valuation range reflects the very high volatility in share market values currently prevailing.

Investment in Contango Group Pty Limited

54 As stated in Section III, Contango Capital owns 49.996% of the shares in Contango Group Pty Limited (Contango Group). Contango Group's only major asset is its 100% interest in Contango Asset Management Limited (CAML)[10].

CAML

55 CAML is a small funds management business based in Melbourne that specialises in the management of large, small and microcap Australian equities portfolios for superannuation funds, wealth managers and other institutional clients. As at 30 September 2011 total FUM was $639.9 million. The composition of FUM as at 30 September 2011 is set out below:

CAML – FUM

Mandates	FUM $m	%
Contango MicroCap Limited	180.8	28.3
Contango Capital	19.0	3.0
Wholesale / institutional clients	440.1	68.7
Total	639.9	100.0

10 We have been advised that there are no other material net assets in Contango Group.

Contango MicroCap and Contango Capital investment mandates

56 Both Contango MicroCap and Contango Capital are managed by CAML pursuant to Investment Management Agreements (IMA) which have a term of 10 years from their date of commencement. The IMA with Contango MicroCap expires in April 2014 and the IMA with Contango Capital expires in May 2017.

57 The base management fees charged to Contango MicroCap (1.25% pa) and Contango Capital (1.75% pa) are significantly higher than the management fees charged on wholesale mandates. As a result the Contango MicroCap and Contango Capital mandates account for 41.4% and 6.1% respectively of annualised base fee income (based on FUM as at 30 September 2011), compared to only 28.3% and 3.0% respectively of FUM.

Profitability

58 The reported results of CAML for the three years ended 30 June 2011 are summarised below:

CAML - Summary of reported NPAT			
Year ended 30 June	**2009 $000**	**2010 $000**	**2011 $000**
Management fee income:			
Contango MicroCap:			
Base fees	1,553	2,204	2,852
Performance fees	-	-	3,339
Contango Capital	974	538	383
Other	5,074	5,518	5,076
Total management fee income	7,601	8,260	11,650
Interest and other income	175	122	181
Total revenue	7,776	8,382	11,831
Employee benefits expense	(3,779)	(3,649)	(7,003)
Other expenses	(1,874)	(1,842)	(1,664)
PBT	2,123	2,891	3,164
Tax expense	(662)	(889)	(969)
NPAT	1,461	2,002	2,195

59 FUM and performance fee income are key drivers of CAML's profitability. FUM declined from $1,443 million as at 30 June 2010 to $745 million as at 30 June 2011, primarily due to the loss of a large investment mandate in December 2010 (which accounted for some $786 million of the FUM as at 30 June 2010) and the loss of a number of smaller mandates. Based on the level of FUM as at 30 September 2011 total base management fee income would be approximately $5.5 million per annum.

60 CAML is entitled to performance fees under its IMAs with Contango MicroCap, Contango Capital and some other investment mandates. In the six years ended 30 June 2011, three annual performance fees[11] have been received totalling $16.6 million (representing an average of some $2.8 million per annum). Management have advised that a significant amount of

[11] Received in FY06, FY07 and FY11.

performance fee income is paid out in performance bonuses to employees once CAML's profitability hurdles have been met.

Earnings adopted for valuation purposes

61 Due to the significant reduction in FUM over the FY09 to FY11 period the level of net profit after tax (NPAT) achieved in these years is not a reliable indicator of future earnings. Further, the FY11 result included a significant performance fee, which varies from year to year (and is often nil).

62 For valuation purposes we believe it is therefore more appropriate to adopt earnings based on:

(a) the annualised base management fee income which would be derived from the level of FUM as at 30 September 2011 (i.e. $5.5 million); and

(b) average performance fees received over recent years (i.e. $2.8 million, being the average over the last six years).

63 On this basis the level of NPAT adopted for valuation purposes is as follows:

CAML – Earnings adopted for valuation purposes	
	$000
Base management fee income	5,500
Employee benefits expense[1] (50%)	(2,750)
Other expenses	(1,550)
Average performance fee income (at 25%)[2]	700
Interest income[3]	150
PBT	2,050
Tax at 30%	(615)
NPAT	1,435

Note:
1 Excluding performance bonuses. Due to the lower fee income adopted compared to historical levels we have also assumed a reduction in employee costs.
2 As 75% of performance fees are typically paid to employees as performance bonuses.
3 Interest on cash required for working capital and regulatory licence requirements at 5% per annum.

PE multiple

64 In assessing the appropriate PE multiple to apply when valuing CAML we have considered:

(a) the PE multiples for Australian listed funds management businesses. However, in our opinion, the multiples for these listed companies are not particularly relevant due to the fact that they are substantially larger than CAML and are generally not dependent on a small number of investment mandates. As a result these companies trade on significantly higher PE multiples than considered appropriate for CAML

(b) the very high level (41%) of annualised base management fee income (based on FUM as at 30 September 2011) derived from the Contango MicroCap investment mandate and the relatively short remaining term of that mandate[12]. While it is possible that this

12 The Contango MicroCap mandate terminates in April 2014 (i.e. in around two and a half years).

mandate could be renewed, in our opinion, there is a high risk that investors in Contango MicroCap may seek to instigate capital management initiatives in order to reduce the discount at which Contango MicroCap securities trade on the ASX relative to their reported net tangible asset (NTA) backing[13]. As a result, in our opinion, there is a significant risk that the Contango MicroCap investment mandate may not be renewed. Given this risk, the short period to expiry and the significant adverse impact on CAML's profitability if the Contango MicroCap mandate is not renewed, in our opinion, the appropriate PE multiple for CAML is low

(c) the risk of Contango Capital undertaking capital management (or other) initiatives which have the effect of reducing future management fees

(d) the small number of investment mandates held by CAML (currently less than 10) and the impact the loss of a single mandate would have on profitability

(e) the term of CAML's wholesale investment mandates, which can generally be terminated with a 30 day notice period

(f) the level of performance fee income assumed in the earnings adopted for valuation purposes, which has also been derived from the Contango MicroCap mandate

(g) the higher risk associated with future performance fee income compared to base management fee income

(h) the significant decline in FUM over recent years

(i) despite recent good investment performance, the immediate prospect of winning new investment mandates in the existing economic environment is subdued

(j) the fact that Contango Capital has joint rather than full control over Contango Group (and therefore CAML)[14].

65 Based on the above and the significant risks associated with an investment in Contango Group / CAML, in our opinion, a PE multiple of 4.5 to 5.5 is appropriate when valuing Contango Capital's interest in Contango Group / CAML[15].

Surplus assets

66 We have reviewed CAML's financial position as at 30 September 2011. Based on this review we believe CAML has the following assets which are surplus to ongoing business operations:

CAML – Surplus assets	
	$000
Cash	5,818
Less: cash required for working capital and regulatory licence requirements	(3,000)
Add: staff loans	647
Add: investments in funds	260
Surplus assets	3,725

13 A number of listed investment companies have been forced to implement capital management initiatives in recent years to address the discount at which their securities have traded relative to their NTA.

14 We note that 50.004% of Contango Group is held by senior management, but that major business decisions require a 75% majority.

15 Our value range reflects a small discount for joint rather than full control.

Valuation of investment in CAML

67 Based on the above we have adopted the following value for Contango Capital's investment in Contango Group:

CAML – Valuation of investment in CAML	Low $000	High $000
NPAT adopted for valuation purposes	1,435	1,435
PE multiple	4.5	5.5
	6,458	7,893
Surplus assets	3,725	3,725
Value of Contango Group / CAML(1)	10,183	11,618
Contango Capital interest in Contango Group / CAML	49.996%	49.996%
Value of Contango Capital interest in Contango Group / CAML	5,091	5,808

Note:

1 Determined on a joint controlling interest basis. The NTA as at 30 September 2011 was $4.0 million. Given the risks identified with respect to CAML, in our opinion, a value above our assessed values could not be justified.

Tax losses

68 As at 30 June 2011 Contango Capital had realised income and capital tax losses of $3.8 million and $34.9 million respectively. These tax losses principally arose due to the significant decline in value of the investment portfolio concurrent with and subsequent to the global financial crisis (GFC). Contango Capital also has significant unrealised tax losses on its investment portfolio (being the difference between the cost of its investments and our assessed market values).

69 The future utilisation of these tax losses is dependent on, inter alia:

(a) the ability of Contango Capital to meet the "continuity of ownership" or "same business" tests

(b) future returns from the investment portfolio, net of on-going management fees and administration costs.

70 A purchaser of Contango Capital would need to meet the "same business" test in order to utilise the tax losses. We understand that the scope of the "same business" test is intended to be limited and has been applied accordingly by the Australian Taxation Office (ATO). If a third party acquired Contango Capital and either changed its investment mandate and/or increased the scale of the company's activities the "same business" test may not be satisfied to enable a recoupment of the prior year income tax losses carried forward.

71 Further, we note that purchasers are generally reluctant to pay any significant value for tax losses due to, inter-alia, the uncertainty associated with their ability to utilise the tax losses (particularly following a change of control).

72 However, we recognise that the tax losses have some value as they will shield future returns from the existing portfolio from tax until such time as the tax losses are utilised (or become

unavailable). Accordingly, we have valued the tax losses at the present value of the tax benefit likely to be received over a three or five year timeframe assuming the portfolio returned, on average, 6% per annum (before tax) over this period. In our opinion, tax losses utilised after this period are unlikely to have any material value due to the significant uncertainty associated with their future utilisation. A discount rate of 15% per annum was applied to recognise the risks associated with utilising the tax losses.

73 On this basis we have assessed the value of the tax losses at $0.9 million to $1.3 million.

Allowance for future management fees

74 As stated above Contango Capital is managed by CAML under an IMA which expires in May 2017. The IMA does not include any provision which allows Contango Capital to terminate the agreement earlier, other than in the event of a default by CAML (which is considered unlikely).

75 We note that future management fees could potentially be reduced over the remaining term by returning capital to Contango Capital shareholders (thereby reducing the value of Contango Capital upon which future management fees are levied). However if this was assumed:

(a) the ability to utilise existing tax losses would be further reduced (due to the lower level of funds remaining in Contango Capital), and a lower value for tax losses would be appropriate

(b) capital management initiatives to reduce future management fees payable would undermine the ability to realise our assessed value of Contango Capital's investment in Contango Group / CAML.

76 Given the above and the value of Contango Capital's investment in Contango Group / CAML, we have therefore considered the present value of future management fees payable over the period to expiry using a discount rate of 10% per annum. On this basis we assessed the present value of future management fees at $1.3 million to $1.4 million[16]. However, for valuation purposes we have adopted a value for future management fees of $0.9 million to $1.4 million. The low end of this range reflects the possibility that a purchaser may be able to negotiate reduced management fees over the remaining term or agree a lump sum termination payment which is lower than the present value of future fees payable (on the basis that the services are not required)[17].

77 We note that Contango Capital also incurs other administration costs, such as Director fees, accounting and audit fees and shareholder listing and communication expenses. However, in our view, these costs could be eliminated by a purchaser of 100% of the company as they primarily arise due to Contango Capital being a publicly listed company. Accordingly, in our opinion, no allowance should be made for these other administration costs when valuing 100% of the shares in Contango Capital because they would not necessarily need to be incurred if the company was 100% owned.

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[16] Based on the NTA of Contango Capital at 30 September 2011 the annualised base management fee is approximately $320,000.

[17] As noted above this risk has been also been taken into account when assessing the value of CAML.

V Evaluation of the Offer

Summary of opinion

78 LEA has concluded that the Offer is fair and reasonable. We have arrived at this conclusion for the reasons set out below.

Assessment of fairness

79 Pursuant to RG 111 an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

80 This comparison is shown below:

Comparison of the Offer consideration to value of Contango Capital			
	Low $ per share	**High $ per share**	**Mid-point $ per share**
Value of the Offer consideration	0.90	0.90	0.90
Value of 100% of Contango Capital	0.82	0.94	0.88
Extent to which the Offer consideration exceeds (or is less than) the value of Contango Capital	0.08	(0.04)	0.02

81 As the consideration offered by Contango Microcap is within our assessed value of 100% of the ordinary shares in Contango Capital, in our opinion, the Offer is fair.

Assessment of reasonableness

82 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently we have concluded that the Offer is both fair and reasonable.

83 In assessing whether the Offer is reasonable LEA has also considered:

(a) the extent to which the Offer consideration exceeds the observable share prices of Contango Capital prior to the Offer

(b) the extent to which a share of the synergies likely to arise upon an acquisition of Contango Capital are being shared with Contango Capital shareholders[18]

(c) the listed market price of Contango Capital shares both prior to the announcement of the Offer and during the Offer period

(d) the likely market price of Contango Capital shares if the Offer lapses

(e) the position of Contango Capital shareholders if Contango Microcap acquires 50.1% but less than 100% of the Contango Capital shares on issue

(f) Contango Microcap's current shareholding in Contango Capital

(g) the value of Contango Capital to an alternative offeror and the likelihood of a higher alternative offer emerging, either prior to the close of the Offer, or sometime in the future

18 Since Contango Capital is an investment company, synergies would not be material.

(h) other risks, advantages and disadvantages.

84 These issues are discussed in detail below.

Extent to which a premium above recent share prices is being paid

85 We have calculated the premium implied by the Offer by reference to the market prices of Contango Capital shares (as traded on the ASX) for periods up to and including 19 September 2011 (being the trading day prior to the announcement of the proposed transaction).

86 We note that Contango Capital shareholders received a final dividend of $0.03 per share on 12 October 2011 and that the share prices prior to the ex-date of 28 September 2011 (including the periods over which we have measured the premiums implied by the Offer consideration) traded with an entitlement to this dividend.

87 Accordingly, to ensure the implied premium is calculated on an appropriate basis we have therefore adopted a total consideration of $0.93 per share for implied offer premium calculation purposes, determined as follows:

Total consideration for offer premium calculations	
	$
Offer consideration(1)	0.90
Contango Capital's FY11 final dividend	0.03
Total value to Contango Capital shareholders	0.93

Note:
1 Excluding any separate benefit from franking credits.

88 The implied offer premium relative to Contango Capital share prices up to 20 September 2011 is shown below:

Implied offer premium relative to recent Contango Capital share prices		
	Contango Capital share price $	**Implied offer premium %**
Total value to Contango Capital shareholders	0.93	
Closing share price on:		
19 September 2011 (the last trading day prior to the announcement)	0.70	32.3%
19 August 2011 (1 month prior)	0.72	29.2%
19 June 2011 (3 months prior)	0.77	20.8%
VWAP:		
1 month to 19 September 2011	0.70	32.3%
3 months to 19 September 2011	0.75	24.0%

89 Having regard to the above, we note that the Offer consideration implies a significant premium to pre-bid market prices.

Recent share prices subsequent to the Offer

90 Shareholders should note that Contango Capital shares have traded on the ASX in the range of $0.85 to $0.88 per share[19] in the period since the Offer was announced up to 17 October 2011. These share prices are lower than the Offer consideration and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge and that the Offer is likely to be successful.

Likely price of Contango Capital shares if the Offer lapses

91 In our opinion, if the Offer lapses and no higher offer or alternative proposal emerges, it is likely (at least in the short-term) that Contango Capital shares will trade at a significant discount to our valuation (consistent with the difference between the value of Contango Capital on a portfolio basis and the value on a 100% controlling interest basis) and the Offer price of $0.90 per share.

92 If the Offer is not accepted those Contango Capital shareholders who wish to sell their Contango Capital shares are therefore likely, at least in the short-term, to realise a significantly lower price for their shares than will be payable under the Offer.

Contango Microcap acquires at least 50.1% or more but less than 90% of Contango Capital

93 Contango Capital shareholders should note that the Offer is currently conditional on Contango Microcap acquiring at least 50.1% of Contango Capital shares. Should Contango Microcap acquire 50.1% but less than 90% of Contango Capital, Contango Microcap will control Contango Capital including its day-to-day management, strategic direction and level of dividend payments. Should this occur the liquidity of Contango Capital shares may also be diminished which may result in a fall in the price of Contango Capital shares.

Likelihood of an alternative offer

94 We have been advised by the independent directors of Contango Capital that no formal alternative offer or proposal has been received subsequent to the announcement of the Offer on 20 September 2011.

95 Since Contango Microcap owns 15.63% of Contango Capital shares on issue, any alternative offer by another party for 100% of Contango Capital could not succeed unless Contango Microcap agreed to sell its shareholding.

Conclusion

96 Based upon the above we have concluded that the Offer is fair and reasonable.

Other matters

97 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder’s Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

98 The ultimate decision whether to accept the Offer should be based on each shareholders’ assessment of their own circumstances, including their risk profile, liquidity preference, tax

[19] Share prices between 20 September 2011 and 28 September 2011 have been adjusted to exclude the final dividend.

LONERGAN EDWARDS & ASSOCIATES LIMITED

position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to Contango Capital shareholders in connection with the Offer.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $35,000 plus GST.

9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Qualifications, declarations and consents

Qualifications

15 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared many hundred independent expert's reports.

16 This report was prepared by Mr Edwards and Mr Coleman, who are each authorised representatives of LEA. Mr Edwards and Mr Coleman have over 17 years and 25 years experience respectively in the provision of valuation advice.

Declarations

17 This report has been prepared at the request of the independent directors of Contango Capital to accompany the Target Statement to be sent to Contango Capital shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the shareholders of Contango Capital.

Interests

18 At the date of this report, neither LEA, Mr Edwards nor Mr Coleman have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

19 LEA has had no prior business or professional relationship with Contango Capital or Contango Microcap prior to the preparation of this report.

Indemnification

20 As a condition of LEA's agreement to prepare this report, Contango Capital agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Contango Capital which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

21 LEA consents to the inclusion of this report in the form and context in which it is included in Contango Capital's Target Statement.

Appendix C

Glossary

Term	Meaning
AIFRS	Australian equivalent to International Financial Reporting Standards
AFSL	Australian Financial Services Licence
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
CGT	Capital gains tax
CAML	Contango Asset Management Limited
Corporations Act	*Corporations Act 2001 (Cth)*
Contango Group	Contango Group Pty Limited
Contango Capital	Contango Capital Partners Limited
Contango Microcap	Contango Microcap Limited
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
Final Dividend	FY11 final dividend of $0.03 per share
FUM	Funds under management
GFC	Global financial crisis
IER	Independent expert's report
IMA	Investment Management Agreement
LEA	Lonergan Edwards & Associates Limited
NPV	Net present value
NPAT	Net profit after tax
NTA	Net tangible asset
Offer	Off-market takeover offer for Contango Capital
PE	Price earnings
RG 111	Regulatory Guideline 111 – *Content of expert reports*
VWAP	Volume weighted average price