Contango MicroCap Limited
ABN 47 107 617 381

INVESTMENT COMMENTARY

Quarterly Update
September 2009

Contango MicroCap Limited

Dear Fellow Shareholder

Investment Update – September Quarter 2009

Overview

Global equity markets continued to rebound during the September quarter on the back of stronger economic data. Germany and Japan surprised with positive growth in Q2 GDP after massive falls in the previous two quarters. More generally, there is growing confidence that the global recession has ended and that we are on the recovery path.

Risk appetite has picked up but there are still large amounts of cash on the sidelines waiting to re-enter the market. As this happens, it will support further gains in equity markets.

Performance

We moved to a fully invested stance in April. As a consequence, the portfolio has benefited strongly from the recovery over the September quarter. The portfolio increased by 32.4% compared with 21.8% for the Small Ordinaries Accumulation Index and 21.6% for the All Ordinaries Accumulation index

The after tax NTA at 30 September 2009 was $1.398 per share compared with $1.205 on 30 June 2009 - an increase of 16.0% over the quarter. Over the year to 30 September 2009, the after tax NTA rose by 5.7%. This compares with an increase of 6.3% for the Small Ordinaries Accumulation Index and a rise of 7.4% for the All Ordinaries Accumulation Index.

Over the quarter the share price rose by 33.5%. The solid gains in the share price since the low in March 2009 (up 112.9%) have helped to narrow the gap to Net Tangible Asset backing which stood at 23.1% at the end of September 2009.

Outlook

We expect headline demand to remain soft in coming months, but solid growth in inventories to support the continuing recovery in the global economy and for further gains in equity markets. Valuations in the microcap sector remain attractive. We expect to see increased investor interest in these high growth, emerging companies and further gains in share prices. The Company's investment portfolio is well positioned to benefit from these trends.

Yours sincerely

David Stevens

David Stevens
Chairman

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September Quarterly Update

Contango MicroCap Limited

OVERVIEW

Global equity markets followed on from the positive lead in the previous quarter to record a second straight quarterly gain. In fact, the month of September was the seventh straight monthly gain as well, highlighting the strength of this rally. All major indices recorded a gain for the three months with the exception of the Shanghai Composite index which was down due to a steep 21.8% drop in August. The MSCI World ex Australia index was up 14.6%.

Supporting equity markets were strong economic figures from a number of countries. Japan emerged from four quarters of contraction to expand 0.6% in the second quarter (this was revised down from an initial estimate of 0.9%), but the real surprise was from Europe with Germany and France both managing to grow their GDP by 0.3% for the three months to June. The region's two largest economies had also experienced four consecutive quarters of negative growth prior to this and were not expected to show growth for some time yet. The significance of Europe delivering positive growth, together with the US and Asia, is that it gives rise to the possibility of a global synchronised recovery. This, in turn, would be extremely conducive to a more rapid global recovery rather than a protracted one.

Locally, Australia's second quarter GDP grew a sound 0.6% (versus an expected 0.2%). The headline figure was largely helped by a 0.8% lift in consumer spending, a factor which benefitted from the large fiscal stimulus initiatives in place.

Throughout the quarter, all major central banks kept their interest rates on hold with many citing that it was too early to begin a tightening cycle. The Reserve Bank of Australia (RBA) however became quite hawkish, commenting that "with the cash rate at an unusually low level and the global economy stabilising, movement towards a more normal setting of monetary policy could be expected at some point if further signs of a durable recovery emerge." Indeed, by the end of the quarter, the RBA's hawkish stance suggested that a rate hike was imminent.

Come September, US Federal Reserve Governor Ben Bernanke commented that from a technical perspective the recession was "very likely over at this point". He did however caution on a weak recovery in the US.

Also supporting equity markets was a solid reporting season in the US. In July, US companies reported their second quarter earnings with approximately 75% of companies beating consensus forecasts. US investment banks in particular surprised even the most bullish analysts. Goldman Sachs reported record earnings of $3.44bn for the second quarter, *up* 65% from the same period last year, and JP Morgan also impressed with a second quarter profit of $2.7bn, up 36% from a year ago.

Reporting season dominated the Australian market in August with the majority of listed companies reporting their full year results. On the whole, results were well received and ahead of consensus expectations (remembering of course that expectations were extremely low going into the reporting season). Share prices moved in response to results with gainers outnumbering losers by more than two to one. On the outlook commentary made by companies, the phrase "cautiously optimistic" was prolific.

It would be remiss not to mention that September also marked the first anniversary of Lehman Brother's demise in 2008. How things have changed. This time last year, the world was in panic mode as economic growth was falling off a cliff and equity markets were selling off heavily on a daily basis. Governments were frantically passing (or trying to in the US's case) through stimulus packages while central banks were slashing interest rates to encourage liquidity. Fast forward a year and the rally in share markets has been impressive with extremely favourable monetary policy settings and fiscal packages playing a key role in restoring liquidity and confidence. Most equity markets including Australia's had posted a 50% plus return from their March lows by the end of September.

GLOBAL ECONOMIC DEVELOPMENTS

Data from Asia was quite good while data from the US and Europe was mixed, but did suggest things were turning for the better. Not only did the theme from the previous quarter continue that the rate of contraction was slowing, but there was actually some positive data which suggested expansion.

On the negative, jobs continued to be lost worldwide (remembering of course that unemployment is a lagging indicator). The US's unemployment rate increased to 9.7% by the end of the quarter while the Eurozone's unemployment rate ended at a similar 9.6%. Looking at individual countries in Europe, a wide spread is revealed with Spain and Latvia recording the highest rates of 18.9% and 18.3% respectively, while Netherlands and Austria had the lowest unemployment rates of 3.5% and 4.7% respectively.

The headline GDP numbers were quite pleasing. The Asian economies rebounded extremely well with South Korea recording its fastest quarterly growth in five and a half years in the second quarter with a 2.3% growth rate, while Singapore grew at an amazing 20.4% annualised rate in the June quarter. China's annual GDP growth accelerated to 7.9% in the second quarter, making it the best performing major economy in the world.

The real surprise however came from Europe with Germany and France both managing to grow their GDP by 0.3% for the first three months to June following four consecutive quarters of negative growth. US GDP for the second quarter fell 1% annualised (but not as much as the 1.5% expected). With Asia and Europe showing growth and the US showing encouraging signs of a recovery, a global synchronised recovery seems a distinct possibility.

GLOBAL EQUITY MARKETS

Global equity markets had a fantastic quarter with all major indices delivering a positive return with the exception of the Shanghai Composite Index. In fact, this was the seventh straight monthly gain for equity markets. The best performing was the local Australian equity market which returned 21.6% for the quarter as measured by the ASX300 Accumulation index.

The European markets were the next best performing with returns circa 20%, followed by the US market which had returns of 15%. Asia generally lagged although the India BSE 200 Index returned 18.6%.

Issuance of equity, which featured in the first half of the calendar year, slowed down somewhat in the September quarter as the overwhelming and pervasive need to repair balance sheets subsided. Acquisition activity however was much higher with examples including Disney's $4bn acquisition of Marvel Entertainment and Xerox's $6.4bn offer for ACS.

Sector performance revealed a rotation to cyclical risk as the theme of a global recovery gained traction. In the US market for example, cyclical sectors such as Materials (+21.0%) and Consumer Discretionary (+18.8%) fared well while defensive groups such as Telcos (+3.9%) lagged.

Global Equity Markets: to 30 September 2009

Global Indices	1mth	3mth	12mth
ASX 300*	**6.3%**	**21.6%**	**8.5%**
Dow Jones Industrial	2.3%	15.0%	-10.5%
S&P 500	3.6%	15.0%	-9.2%
NASDAQ Index	5.6%	15.7%	1.9%
Nikkei 225 Index	-3.4%	1.8%	-10.0%
Hang Seng Index	6.2%	14.0%	16.3%
Shanghai Composite Index	4.2%	-6.1%	21.2%
FTSE 100	4.6%	20.8%	4.7%
German Aktien Index (DAX)	3.9%	18.0%	-2.7%
France CAC40	3.9%	20.9%	-5.9%
India BSE 200 Index	8.5%	18.6%	34.7%
MSCI World ex Aust (hedged)	2.9%	14.6%	-5.0%
MSCI World ex Aust (unhedged)	-0.9%	7.1%	-13.4%

* Total Return

GLOBAL INTEREST RATES

Bond markets rallied slightly which was surprising given the increasing risk appetite. The Australian 10-year yield ended 19bp lower at 5.44% while the US 10-year yield ended 23bp lower at 3.31%.

There were no changes in interest rates from the major central banks in the September quarter. The US Fed kept the Federal Funds rate at the target range of 0% to 0.25% following its meeting at the end of September.

The RBA also kept rates on hold at 3%. While this rate is higher than any other central bank in the world, it is a record low for Australia and perhaps a testament to how well the local economy is faring and how well the downturn was managed. The RBA's hawkish tone towards the end of the quarter however suggested that a rate hike is imminent. Bank bill futures are currently pricing in a 50bp increase in the cash rate by year-end and a cash rate of 5% in 12 months time.

Global Interest Rates: to 30 September 2009

Interest Rates	Level	1mth	3mth	12mth
AUS UBS Composite Bond	5,798.47	0.7%	1.8%	7.1%
AUS UBS Bank Bill Index	6,712.94	0.3%	0.8%	4.3%
	%	Basis point change		
AUS Cash Rate	3	0	0	-400
AUS 90 day Bank Bill rate	3.39	-7	20	-366
AUS 10 year Bond yield	5.44	-3	-19	5
US Federal Funds rate	0.25	0	0	-175
US 30 year Bond yield	4.05	-13	-28	-26
US 10 year Bond yield	3.31	-10	-23	-52

CURRENCY

The interest rate discussion in the previous section has had a direct implication in regards to the Australian dollar (AUD). The interest rate differential as well as the intention to increase rates locally well ahead of other central banks helped the AUD rally against most major currencies including the US dollar (+9.4%) and the Euro (+4.9%). An increase by the RBA would mean that Australia would be the first G20 economy to raise rates.

Currencies: to 30 September 2009

Exchange Rates	Level	1mth	3mth	12mth
AUD/USD	0.8826	4.5%	9.4%	11.4%
AUD/YEN	79.19	0.7%	1.9%	-5.8%
EURO/USD	1.4637	2.1%	4.3%	3.8%
AUD/EUR	0.6028	2.4%	4.9%	7.3%
AUST TWI	68.20	2.7%	5.4%	7.6%

COMMODITIES

Base metals had a strong quarter on the whole led by copper (+20.1%) and aluminium (+14.6%). The MG Metals index was up 14.4%. The month of September was weaker however due to concerns that Chinese demand might pause.

Gold broke through $1,000/oz for the first time since March 2008 in September, ending the quarter at $1,007.42 (+5.9%). A weaker USD helped the precious metal higher.

Oil lagged most commodities over the quarter (+1.1%) despite falls in US inventories. Interestingly even with the falling inventories, current levels are still considered high relative to demand. CNOOC, the Chinese state-owned oil company is currently in talks with Nigeria to buy large amounts of their reserves. This follows a $16bn deal earlier in September between Venezuela and China which would boost (together with another Russian deal) oil production in Venezuela by about 900,000 barrels per day.

Commodities: to 30 September 2009

Commodities	Level	1mth	3mth	12mth
Gold (US$/oz)	1,007.42	5.9%	8.8%	15.8%
Oil WTI (US$/bbl)	70.61	0.9%	1.1%	-29.9%
Aluminium (USc/lb) LME	84.01	-1.5%	14.6%	-22.7%
Copper (USc/lb) LME	278.32	-5.5%	20.1%	-4.4%
Nickel (USc/lb) LME	786.30	-11.5%	8.3%	10.0%
MG Metals Index	293.39	-6.2%	14.4%	-8.1%

DOMESTIC DEVELOPMENTS

Locally, Australian second quarter GDP grew a sound 0.6% (versus the expected 0.2%). The positive number was largely helped by a 0.8% lift in consumer spending which was largely driven by fiscal stimulus initiatives. The Q2 GDP figure built on the Q1 GDP increase of 0.4%.

Unemployment crept slightly higher to 5.8%, a rate much lower than expected, highlighting the resilience of the Australian economy. A major contributing factor to this has been the flexible conditions under which employees are hired in Australia, allowing part-time arrangements such as the four-day week to become common place and thus keep more people employed.

The RBA left its cash rate on hold at 3%. The tone of the statement was more hawkish however, hinting that the first rate hike may not be far away.

In any recovering economy, a crucial prerequisite is an improvement in confidence so it was pleasing to see that the Westpac-Melbourne Institute consumer sentiment index rose 5.2% in September to 119.3, its highest level since July 2007. The 34% rise over the last four months is the largest in the 35-year history of the index.

Indicator	Outcome
Employment, Aug mom	-27,100
Unemployment rate, Aug	5.8%
Business confidence, Jul	+18
Consumer sentiment, Sep mom	+5.2%
Housing finance approvals, Jun mom	+0.6%

Source: ABS & RBA

AUSTRALIAN EQUITY MARKET REVIEW

Like the US market, the Australian market secured a seventh consecutive month of positive returns with the ASX300 Accumulation index returning 21.6%. Industrials (+26.1%) performed much better than Resources (+11.3%) while Large caps (+6.4%) did slightly better than Small caps (+5.0%).

All sectors provided a positive return for the quarter. Financials (+34.0%), LPTs (+30.8%) and Industrials (+30.5%) were the best performers while defensives lagged including Telcos (+0.7%), Utilities (+7.1%) and Healthcare (+9.6%). Telcos performed particularly poorly due to uncertainty on how government plans to reform regulation might affect Telstra, the largest constituent of the sector.

Australian Sector Performance*

Aust GICS Sector	1mth	3mth	12mth
Materials	2.8%	12.2%	7.6%
Consumer Discretionary	10.6%	26.5%	7.8%
Consumer Staples	5.2%	14.7%	10.9%
Energy	1.4%	13.2%	7.0%
Financial	9.9%	34.0%	15.1%
Financial (ex LPT's)	9.9%	34.6%	24.4%
Healthcare	5.3%	9.6%	0.6%
Industrials	6.0%	30.5%	-6.2%
Information Technology	8.8%	25.4%	32.0%
Property Trusts	10.0%	30.8%	-23.0%
Telcos	0.3%	0.7%	-13.1%
Utilities	3.8%	7.1%	-3.6%
S&P/ASX 300	6.3%	21.6%	8.5%

As at 30 September 2009. Source: Iress * Total return

Dominating the local equity market in August was the reporting season where the majority of listed companies reported their full year results. Results, on average, were ahead of expectations. Share prices moved in response to results, with gainers outnumbering losers by more than two to one. On the outlook commentary, the phrase “cautiously optimistic” was bandied around by many companies.

Overall, NPAT for FY09 declined by 16.8% on the previous financial year and while this was a substantial drop, it was circa 2% ahead of what analysts were estimating. Interestingly, within this, the NPAT for Industrials dropped circa 6% while Resources dropped circa 31%, largely on the back of falling commodity prices.

In corporate news, there were a number of capital raisings announced including Virgin Blue, Transpacific Industries, Goodman Group, Healthscope, Ramsay Healthcare and Spotless Group.

Also coming alive in September was IPO interest. After a relatively dormant 18 months, Carsales.com was the first major company to successfully list on 10 September. The $812m listing (although the free float was only a quarter of this) had an issue price of $3.50/share, but opened at a decent premium of $3.92/share and closed the day at $3.99/share. Other companies of note that are preparing for an IPO imminently include Myer and Kathmandu. Ascendia Retail, which owns Rebel Sport and Amart All Sports, is also thought to be considering a float.

MICROCAP OVERVIEW

Where the global financial crisis resulted in decreased risk appetite and consequently a reduction in exposure to the microcap space by investors for much of 2008 and early 2009, the increasing risk appetite in more recent months has seen interest in the space return.

The rally in the broader market from the 6 March low to the end of September has been 54.8% as measured by the ASX300 Accumulation index, and an even more impressive 78.1% by the ASX Small Ordinaries Accumulation index. A characteristic of this rally in the September quarter has been a switch in investor focus from beta towards stocks that generate alpha.

Consequently, it comes as no surprise that investors are turning to the microcap space to leverage this exposure and to broaden their involvement in the increasingly positive economic trends. Since the end of 2008, the average FY10 PE for the ASX Small Ordinaries index has re-rated from 7x to 11x. Despite the rally, microcaps are still trading at a significant discount to large caps, especially on a historic PE Relative basis which we expect to close over time.

Given the large recovery in the space thus far, we expect the market to concentrate more on the fundamentals of any particular company's earnings outlook. This is especially after a better than expected reporting season and the continuing improvement in domestic and offshore economic data.

As mentioned in the Australian Equity Market Review section, IPO interest has arisen once again. While the focus has been in the large cap and small cap space to date, some IPOs in the microcap space have also been mentioned and we would expect more in the near future. In the meantime, a number of placements in microcap companies have been carried out over the last few months. The fund has assessed and participated in a number of these (see IPOs and Placements section below) which we believe to be attractive opportunities.

We expect that global growth will continue to improve and that this will underpin further gains in global equity markets. Microcaps remain attractively priced relative to large caps and we expect them to outperform over the coming year.

MICROCAP PORTFOLIO OVERVIEW

The Contango Microcap portfolio returned 32.4% over the September quarter, outperforming both the 21.5% return of the ASX All Ordinaries Accumulation index and the 21.8% return of the ASX Small Ordinaries Accumulation index.

Period	Contango Microcap	All Ordinaries
1 Month	9.6%	6.0%
3 Months	32.4%	21.5%
6 Months	57.6%	36.9%
1 Year	8.2%	7.4%
2 Years pa	-12.1%	-11.2%
3 Years pa	12.9%	1.7%
4 Years pa	19.4%	5.2%
5 Years pa	23.7%	9.7%
Since Inception (Mar 2004) pa	26.2%	10.8%

The most notable change in the portfolio from the previous quarter was the sell down in the balance of our SPI futures to fund purchases in companies across a number of sectors, particularly Industrials. As has been the intention for the last several months, as attractive opportunities in companies have been identified, the fund has invested accordingly and is at a stage now where it is fully invested in stocks.

As in the previous quarter, the fund remains biased towards resources through numerous material and energy companies (importantly, the fund is well diversified in these names) while remaining underweight to the defensive sectors including Utilities, Healthcare and Consumer Staples. Through the quarter, the fund participated in placement opportunities in stock offered at a discount to the market price (see section below).

The fund's top 20 composition has changed since last quarter due to a number of new additions. Please see the Top 20 Stock Weights section below for descriptions on these companies.

Details of weightings to the main sectors at quarter end are set out below:

Sector Weightings	Jun 09	Sep 09
Energy	18.0%	19.6%
Materials	27.9%	29.9%
Industrials	11.5%	20.9%
Consumer Discretionary	10.5%	11.6%
Consumer Staples	0.0%	0.0%
Health Care	1.5%	2.4%
Financials	5.1%	7.9%
Information Technology	1.2%	2.1%
Telecommunication Services	2.6%	2.6%
Utilities	0.0%	0.3%
SPI Futures	19.8%	0.8%
Cash	1.9%	1.8%

IPO's and Placements

During the quarter we accepted placements in companies detailed in the table below. The performance column measures the return from the price paid to the end of the quarter (or the performance up to the date when the stock was sold prior to quarter end):

Company Name	Performance
Ammtec	+30.8%
Amadeus Energy	-9.6%
Antares Energy	-4.0%
Continental Coal	+46.0%
Clarius Group	+40.6%
Grange Resources	+6.0%
Halcygen Pharmaceuticals	+125.0%
Jackgreen	-9.1%
Mirabela Nickel	+18.3%
McPherson's	+38.1%
Northern Iron	+19.0%
Nkwe Platinum	+10.0%
Probiotec	-2.4%
Sedgman	+34.6%
Skilled Group	+30.0%
Spitfire Resources	-4.4%
Texon Petroleum	+21.1%
Whitehaven Coal	+22.0%
Watpac	+35.2%
YTC Resources	+2.4%

Top 20 Stock Weights as at 30 September 2009
(as a percentage of the total portfolio)

Company Name	Weight
Galaxy Resources	2.2%
Atlas Iron	2.2%
Citadel Resource Group	2.1%
Carnarvon Petroleum	2.0%
Emeco Holdings	1.8%
NRW Holdings	1.7%
Northern Energy Corporation	1.7%
PanAust	1.6%
Sedgman	1.5%
Skilled Group	1.5%
Whitehaven Coal	1.5%
Retail Food Group	1.5%
The Reject Shop	1.5%
ROC Oil Company	1.4%
Mitchell Communication Group	1.4%
Austin Engineering	1.4%
Tox Free Solutions	1.4%
Neptune Marine Services	1.4%
OM Holdings	1.3%
Mineral Deposits	1.3%

Galaxy Resources (GXY)
Galaxy Resources is an emerging lithium producer. The company is moving ahead to develop its Mount Cattlin lithium deposit near Ravensthorpe in West Australia and then to produce lithium carbonate in China. Production of lithium concentrate is scheduled from late 2010 and carbonate from early 2011. Galaxy has recently secured A$30m in equity from Creat Group of Beijing, which has also guaranteed A$130m in project debt. Galaxy is therefore comfortably ahead of the other emerging lithium producers, giving it potential to capitalise on the burgeoning demand expected in 2011–2013.

Atlas Iron (AGO)
Atlas Iron's Pardoo project is only 75km east of Port Hedland, close to infrastructure and is not reliant on rail, meaning it should generate good cash flows. The price rise has significantly enhanced the already robust economics of both Pardoo and Abydos; Atlas has a large project pipeline and is well positioned to have 6mt of DSO hematite production by 2010. The acquisition of further Pilbara tenements has also improved its already large exploration portfolio, with recent exploration leading the Company to substantially increase its exploration target to 120 – 180mt of iron ore.

In coming months we expect the strong news flow to continue in the lead up to mining at Pardoo including: resource/reserve updates for Abydos, Pardoo, and Ridley; the completion of pre-feasibility studies for Abydos and Ridley; initial resources for the Midwest projects; as well as ongoing drilling across all projects.

Citadel Resource Group (CGG)
The company is in the process of completing a feasibility study on its 50% owned Jabal Sayid copper gold sulphide deposit in Saudi Arabia. It also has a number of other potential projects such as its gold deposits Jabalshayban/Baydan, owned 100%. Citadel's copper deposit has a number of benefits, high resource grade of 1.8%, capital requirement that is in line with other projects of its scale, but has an existing production decline in place. Facilitating the development is the attractive investment regime, Saudi is now part of the world trade organization, the country has a new mining act, and the corporate tax rate is 20%, royalties are zero, and fuel prices are $0.30/litre and finally the government provides assistance with cheap debt for up to 50-75% of capital expenditure.

Carnarvon Petroleum (CVN)
Carnarvon Petroleum is involved in exploration, development and the production of oil and gas. The company is focused on developing producing assets in Thailand and Australia. The current focus of the company relates to its Thai assets specifically the acreage it operates in joint venture with Canadian explorer, Pan Orient Energy (specifically the Na Sunan East field). The company is self funding its exploration program in Thailand and focusing on developments in drilling as well as other geological analogues to the Na Sunan field including Wichian Buri and Bo Rang zones.

Emeco Holdings (EHL)
Emeco Holdings principally services the earthmoving, quarrying and mining sectors. The company has established a number of inter-related businesses focused on large earthmoving equipment that operate in Australia, Canada, Indonesia and the USA. Emeco's group of businesses encompasses the following individual activities: rental, sales, parts, maintenance and procurement. The company has demonstrated an ability to reduce costs during a slowing demand cycle which has led to improved operating cashflow through the 2009 financial year. We expect this performance to continue into 2010 and expect the company to report a profit of $50m for the current financial year.

NRW Holdings (NWH)
NRW Holdings is a Western Australian based provider of services to the resources sector. The company provides civil contracting services including rail formation, bulk earthworks, mine development, road and tunnel construction and a range of contract mining services. Blue chip clients among others include Rio Tinto, BHP Billiton and Fortescue Metals Group.

Northern Energy Corporation (NEC)
Northern Energy Corporation is a coal exploration company and producer. The focus at the moment is the 0.5Mtpa Maryborough hard coking coal project in southern Queensland and, in our view, NEC is one of the more promising junior ASX coals. The company has strong potential for an increase of the JORC resource from 5Mt to perhaps 50-70Mt, with initial sales targeted from March 2011 and a well-supported seaborne coking coal market, Studies for the 5Mtpa Elimata thermal coal project in the Surat Basin are ongoing, including mine optimization. Significant rail and port infrastructure is required for Elimata to proceed and Stage 1 design of the new Wiggins Island Coal Terminal is almost complete. The Southern Missing Link rail is progressing through the EIS phase and NEC expects to begin access negotiations in the current quarter.

PanAust (PNA)
In 2008, PanAust successfully commissioned the Phu Kham open-cut copper-gold project 100km north of Vientiane, in Laos. At Ban Houaxyai, also in Laos, the company is evaluating an open pit gold-silver project producing 100-130koz/pa at low cash costs and with a preliminary feasibility due for completion late in 2009. PNA has a Mineral Exploration and Production Agreement (MEPA) covering 2,636 square km in Laos which is highly prospective for base and precious metals.

Sedgman (SDM)
Sedgman is a leading provider of multi-disciplinary engineering, project delivery and operations services to the global resources industry. It is a market leader in the design, construction and operation of coal handling and preparation plants (CHPP) and has gained international recognition for its coal processing and materials handling technologies. There are two core divisions of Sedgman Coal and Sedgman Metals. The decline in global growth through 2009 led to many projects being cancelled or deferred. Now, customers have resumed spending in both exploration and production which has led to improved business opportunities for Sedgman. We expect SDM to grow profits by around 10% in the 2010 financial year.

Skilled Group (SKE)
Skilled Group is a leading provider of labour hire and staffing services in Australia. Skilled has over 160 offices across Australasia with annualised revenues of around $2bn. The company partners with clients to improve their workforce efficiency and increase their productivity levels and also provides staffing services. 40% of revenues is currently derived from the oil, gas, mining, resources and infrastructure sectors. A recent equity raising enabled the company's balance sheet to improve substantially and now places the company in a prime position as the economy recovers and employment improves, especially in relation to large resource projects.

Whitehaven Coal (WHC)
WHC is a coal mining company with projects located in the Gunnedah Region of New South Wales. WHC operates five open cut mines, Canyon (formerly Whitehaven), Tarrawonga, Werris Creek, Rocglen (formerly Belmont) and Sunnyside and is developing the Narrabri North underground mine. Whitehaven is now assured longer term of at least 9.5Mtpa port capacity between PWCS, NCIG stage 1, effective March 2010, and NCIG stage 2 which has yet to be built. This places Whitehaven in a strong position as a number of other listed coal players are still facing ongoing infrastructure issues in both port and rail.

Retail Food Group (RFG)
Retail Food Group is Australia's largest food brand manager and franchisor with in excess of 1,050 outlets under its control. It is the franchisor and intellectual property owner of Donut King, bb's café, Brumby's and the recently acquired Michel's Patisseries. Revenue is generated from the licensing of that intellectual property to others (franchisees and product suppliers). RFG's strategy of earnings growth through 1) new store rollout 2) acquisitions and 3) internal expansion has proved very successful to date. We rate management highly and believe the defensive nature of earnings make this stock an attractive investment in the current climate.

The Reject Shop (TRS)
The Reject Shop is a discount variety retailer of general merchandise products. The group operates 182 stores in Vic, NSW, SA, ACT, WA and Qld and is looking to roll out a further 20-25 stores per annum over the next 5 years. The Reject Shop is a very well managed organisation. In our view, the company is well placed to continue its strong performance as the store roll out program continues, new inventory management systems are introduced, merchandising continues to improve and supply chain costs are reduced.

Roc Oil (ROC)
Roc Oil is an Australian-based company with oil and gas assets in the UK, Australia, Africa and China. It also has substantial international exploration acreage. The company is predominantly Asian-focused with Australian and Chinese assets providing around 80% of production and proven and probable reserves. The company has recently refocused on a capital preservation strategy resulting in the sale of equity in some non-core assets; and directing funds towards better returning projects including Basker Manta Gummy (Victoria) and Zhao Dong (Bohia Bay, China).

Mitchell Communications (MCU)
Mitchell Communications Group (formerly emitch Limited) provides communication services, including traditional and online media planning and buying, digital creative sources, search engine marketing, public relations, direct marketing, outdoor advertising, and corporate social responsibility consulting services.

Austin Engineering (ANG)
Austin Engineering is an engineering company with manufacturing facilities in Australia, USA and the Middle East. The Australian and USA facilities provide fabrication facilities servicing the mining, oil, gas and industrial sectors. The Middle East operation provides specialised products and services for the aluminium smelter industry. Austin owns rights to welding processes and robotic applications to suit product lines, general fabrications and any repetitive production processes. Austin has become a leading supplier to the truck body market globally, initially in Australia via its business JEC mining and earthmoving then, globally by consolidating its former licensor Westech allowing Austin to exploit the South American and Canadian markets amongst others.

Tox Free Solutions (TOX)
Tox Free Solutions is an integrated waste management and environmental service provider in Australia. The company focused on the provision of industrial and hazardous waste treatment, contaminated site remediation and industrial services. The company also provides industrial maintenance services through its subsidiaries strategically located throughout Western Australia. Following its recent purchase of a recycling business Greenchip in Victoria and the industrials services business Barry Brothers (from Programmed Maintenance Services) we expect the company to grow profit by around 15% to around $9m in 2010.

Neptune Marine Services (NMS)
Neptune Marine Services is one of Australia's leading providers of integrated solutions to the international oil and gas, marine and renewable energy industries. The company employs more than 600 people in Australia, the UK, USA and Asia and provides a full suite of innovative services including subsea and pipeline engineering; commercial diving; specialist fabrication; inspection, repair and maintenance; pipeline stabilisation and protection; ROV and vessel supply; hydrographic surveying and geophysical services; project management; rope access and tension netting IRM; and the patented NEPSYS dry underwater welding technology. We expect Neptune to grow profits by 30% in the 2010 financial year.

OM Holdings (OMH)
OM Holdings is involved in metals trading, incorporating the sourcing and distribution of manganese ore products and the processing of ores into ferro-manganese intermediate products. The company operates the Bootu Creek Manganese Mine in the Northern Territory, which has the capacity to produce 550,000 tonnes of manganese product annually, and which is exclusively marketed by the group's own trading division. The company also operates a wholly-owned smelter at Qinzhou in south-west China and through its Singapore-based trading activities, is a significant supplier of manganese to the Chinese market.

Mineral Deposits (MDL)
Mineral Deposits is a heavy minerals and gold producer with projects located in Senegal, Africa. The company has had an excellent ramp up to full production at their gold mine at Sabodala in Senegal. the company is on track to produce 160koz for CY09 and with the recent reduction in the hedge book it now only represents 25% of total reserves we expect to see the company to ramp up exploration over the next quarter as there are some obvious strike targets from known resources.

KEY INVESTMENT INDICES	30/09/2009	Month	Quarter	6 Months	Financial Year to Date	12 Months
Accumulated Australian Indices						
ASX 200	32,870.39	6.2%	21.5%	35.2%	21.5%	8.3%
ASX 300	32,809.58	6.3%	21.6%	35.6%	21.6%	8.5%
ASX 300 Industrials	55,385.32	7.8%	26.1%	40.7%	26.1%	8.6%
ASX 300 Resources	23,863.46	2.5%	11.3%	23.9%	11.3%	8.6%
All Ordinaries	32,492.98	6.0%	21.5%	36.9%	21.5%	7.4%
Small Ordinaries	5,484.03	5.0%	21.8%	53.1%	21.8%	6.3%
ASX 300 Accumulated GICS Sector Indices						
Materials	69,786.09	2.8%	12.2%	25.2%	12.2%	7.6%
Consumer Discretionary	10,362.22	10.6%	26.5%	49.2%	26.5%	7.8%
Consumer Staples	50,058.23	5.2%	14.7%	27.3%	14.7%	10.9%
Energy	110,906.97	1.4%	13.2%	27.5%	13.2%	7.0%
Financial	37,691.40	9.9%	34.0%	50.2%	34.0%	15.1%
Financial (ex LPT's)	42,109.02	9.9%	34.6%	49.7%	34.6%	24.4%
Healthcare	42,146.52	5.3%	9.6%	14.8%	9.6%	0.6%
Industrials	27,776.10	6.0%	30.5%	50.2%	30.5%	-6.2%
Information Technology	5,161.23	8.8%	25.4%	38.5%	25.4%	32.0%
Property Trusts	20,319.69	10.0%	30.8%	51.9%	30.8%	-23.0%
Telecoms	9,461.25	0.3%	0.7%	7.3%	0.7%	-13.1%
Utilities	33,248.54	3.8%	7.1%	7.7%	7.1%	-3.6%
Global Indices						
Dow Jones Industrial	9,712.28	2.3%	15.0%	27.6%	15.0%	-10.5%
S&P 500	1,057.08	3.6%	15.0%	32.5%	15.0%	-9.2%
NASDAQ Index	2,122.42	5.6%	15.7%	38.8%	15.7%	1.9%
Nikkei 225 Index	10,133.23	-3.4%	1.8%	25.0%	1.8%	-10.0%
Hang Seng Index	20,955.25	6.2%	14.0%	54.4%	14.0%	16.3%
Shanghai Composite Index	2,779.43	4.2%	-6.1%	17.1%	-6.1%	21.2%
FTSE 100	5,133.90	4.6%	20.8%	30.8%	20.8%	4.7%
German Aktien Index (DAX)	5,675.16	3.9%	18.0%	38.9%	18.0%	-2.7%
France CAC40	3,795.41	3.9%	20.9%	35.2%	20.9%	-5.9%
India BSE 200 Index	2,094.94	8.5%	18.6%	83.7%	18.6%	34.7%
MSCI World ex Aust (hedged)	1,889.19	2.9%	14.6%	33.6%	14.6%	-5.0%
MSCI World ex Aust (unhedged)	3,027.74	-0.9%	7.1%	10.9%	7.1%	-13.4%
S&P 500 US GICS Sector Indices						
Energy	409.31	4.6%	9.5%	20.5%	9.5%	-16.4%
Materials	186.92	4.7%	21.0%	39.8%	21.0%	-6.8%
Industrials	231.92	6.6%	21.2%	43.1%	21.2%	-15.7%
Consumer Discretionary	216.48	5.2%	18.8%	39.8%	18.8%	-2.2%
Consumer Staples	263.19	3.3%	10.5%	20.3%	10.5%	-7.7%
Health Care	333.76	0.9%	8.9%	17.9%	8.9%	-5.9%
Financials	201.18	1.9%	25.1%	69.0%	25.1%	-25.7%
Information Technology	335.65	4.5%	16.7%	39.3%	16.7%	8.1%
Telecommunication Services	108.29	2.8%	3.9%	5.9%	3.9%	-5.8%
Utilities	148.93	1.1%	5.0%	14.2%	5.0%	-11.4%
Commodities						
Gold (US$/oz)	1,007.42	5.9%	8.8%	9.7%	8.8%	15.8%
Oil WTI (US$/bbl)	70.61	0.9%	1.1%	42.2%	1.1%	-29.9%
Aluminium (USc/lb) LME	84.01	-1.5%	14.6%	35.6%	14.6%	-22.7%
Copper (USc/lb) LME	278.32	-5.5%	20.1%	52.1%	20.1%	-4.4%
Nickel (USc/lb) LME	786.30	-11.5%	8.3%	84.3%	8.3%	10.0%
MG Metals Index	293.39	-6.2%	14.4%	46.9%	14.4%	-8.1%
Interest Rates						
AUS UBS Composite Bond Index	5,798.47	0.7%	1.8%	0.4%	1.8%	7.1%
AUS UBS Bank Bill Index	6,712.94	0.3%	0.8%	1.6%	0.8%	4.3%
	%	basis point change				
AUS Cash Rate	3	0	0	-25	0	-400
AUS 90 day Bank Bill rate	3.39	-7	20	25	20	-366
AUS 10 year Bond yield	5.44	-3	-19	83	-19	5
US Federal Funds rate	0.25	0	0	0	0	-175
US 30 year Bond yield	4.05	-13	-28	52	-28	-26
US 10 year Bond yield	3.31	-10	-23	64	-23	-52
Exchange Rates						
AUD/USD	0.8826	4.5%	9.4%	27.7%	9.4%	11.4%
AUD/YEN	79.19	0.7%	1.9%	15.7%	1.9%	-5.8%
EURO/USD	1.4637	2.1%	4.3%	10.5%	4.3%	3.8%
AUD/EUR	0.6028	2.4%	4.9%	15.5%	4.9%	7.3%
AUST TWI	68.20	2.7%	5.4%	18.8%	5.4%	7.6%