



# Forward Looking Information

The following presentation contains “forward-looking statements” and is made pursuant to the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995. Oil and gas activities are subject to risks and uncertainties inherent in the exploration for acquisition, development, operation and marketing of oil and natural gas. These risks include, but are not limited to, volatility of products, prices, uncertainties in reserve estimates, drilling risks, operations and production risks and environmental issues. Results could vary materially from the forward-looking information. You are cautioned that such forward-looking statements should be read in conjunction with the available company information, including the most recent Form 10-K/SB, 10-Q/SB.



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*Baseball, Buffett, Berra and  
Contango*



# BASEBALL WISDOM

- “No matter how successful you are, change is always good. There can never be a status quo.” - **Depleting Asset Business**
- “The day you say you have to do something, you’re screwed. Because you are going to make a bad deal.”— **Don’t get Over levered**
- “You can always recover from the player you didn’t sign. You may never recover from the player you signed at the wrong price.”— **Don’t take on plays that are bigger than you are.**

*Billy Beane, GM Oakland Athletics from  
“Moneyball” by Michael Lewis*



# THE CONTANGO GAME PLAN

- In a commodity business – there are no competitive advantages. Only lowest cost producers survive and prosper.
- The industry's value creation event is the turning to the right of the exploration drill bit.
- Incentives Drive Behavior – Follow the Money.

*“First, it’s our job to keep able people who are already rich motivated to keep working at things they...don’t need to do for financial reasons... Secondly, we have to allocate capital”. “*

*The Real Warren Buffett” by James O’Loughlin*



# CONTANGO'S STARTING NINE

- High impact exploration. Deep Shelf/Deep Water/LNG
- Diversified prospect inventory – Onshore South Texas
- Technical Breadth and Depth
- Austere culture
- Conservative Balance Sheet
- Significant management ownership
- Earnings quality
- Returns focus
- Unhedged play on Natural Gas

*“ Where else do you get a play on the Deep Shelf, Deep Water, and LNG combined – and financially structured so that relatively minimum amounts of going forward dollar commitments are required - in one Company with just 9 million shares outstanding?”*

*“A deeply biased CEO”*



# SUCCESS PREDICTORS?

- Batting Average
- RBI's
- Home runs
- Triple crown
- % Success Rate
- % Replacement
- F&D costs
- Cash Flow

*“...he'd plugged the statistics of every baseball team from the twentieth century into an equation and tested which of them correlated with winning percentage. He'd found only two, both offensive statistics, inextricably linked to baseball success”*

*Moneyball by Michael Lewis*



# VICTORIES AND VALUE CREATION

- On Base Percentage
- Slugging percentage
- EPS (successful efforts)
- NAV/share
- ROE
- No EPS – No CEO Bonus

*“In the long run, managements stressing accounting appearance over economic substance usually achieve little of either”*

*Warren Buffett*



# THE IDEAL OIL & GAS COMPANY

<u>Would have</u>	<u>Comment</u>
R/P of zero <b>Contango</b>	Not conventional wisdom <b>\$58 mil cash flow - last 3 yrs.</b>
Reinvestment risk <b>Contango</b>	Multiple “big Impact” ideas with minimum capital at risk. <b>Deep Water/Deep Shelf/LNG</b>
Shareholder Friendly <b>Contango</b>	How much of the pie is yours? <b>25% of shares retired last 18 months</b>

*“Second, we wish for very little trading activity. If we ran a private business with a few passive partners, we would be disappointed if those partners, and their replacements, frequently wanted to leave the partnership. Running a public company we feel the same way”.* Warren Buffett



# RISK. THE MOST IMPORTANT NUMBER IN BASEBALL IS 3.

“And what is on-base percentage? Simply yet exactly put, it is the probability that the batter will not make an out. When we state it that way, it becomes, or should become, crystal clear that the most important isolated (one-dimensional) offensive statistic is the on-base percentage. It measures the probability that the batter will not be another step toward the end of the inning.

*“Moneyball” by Michael Lewis*



# RISK - ACCOUNTING POLICIES

- Successful efforts – dry holes and seismic costs expensed – this keeps you from believing you're winning when you're really down by 4 in the bottom of the ninth with Koufax on the mound.
- Well by well cost accounting not field.
- Expense director and employee options.
- Quarterly Reserve and SEC PV10 disclosure



# RISK - FIXED COSTS

- 4 employees – our annual “pre-one time events” G&A is about \$1.5 million.
- CEO/CFO combined cash salary of \$150,000 unless Company is profitable using successful efforts accounting.
- Perpetual preferred that is PIK able. – It’s impossible to default on a promise to pay nothing.
- We have 2.575 million treasury shares (SUIT repurchase). This means we can satisfy the conversion of our series A&B shares without filing a registration statement.
- Our interest burden at \$20 million borrowed at 3.5% is only \$700,000 a year.



# RISK - ALIGNMENT OF INTEREST

- 4 shareholders attend every board meeting and own 58% of common stock.
- Outsource partner receives \$0 per month and doesn't get a penny until Contango receives 100% of its invested capital back.
- Policy of no hedging – We made \$5 million in hedging profits last year, and lost \$5 million hedging this year. Our going forward policy of not hedging makes us a simple company to understand and gives our shareholders the full risk/reward of swings in natural gas prices.
- Our “hedges” are our low cost G&A structure and keeping our debt levels to less than 35% of our  $PV_{10}$  value.



# RISK - RESERVES

- 100% of our reserves are PDP. 100% of bank advance rate is backed by PDP reserves. Reserves are prepared entirely by third party engineer with no incentive or pressure from management to be aggressive.
- We now have invested \$18 million on 3-D seismic covering 3700 blocks of the offshore Gulf of Mexico – virtually the entire shallow water gulf offshore Louisiana. Our business model is designed to let us participate in the deep shelf and deep water prospects with minimal out of pocket capital going-forward.
- In addition we have also invested along with our partner \$2.0 million in a state of the art reprocessing center.
- We carry this entire Gulf of Mexico seismic investment on our books at \$0.



# BASEBALL'S VERSION OF GAMBLER'S RUIN

“Pete Palmer, the sabermetrician and author of *The Hidden Game of Baseball*, once calculated that the average difference in baseball due to skill is about one run a game, while the average difference due to luck is about four runs a game. Over a long season the luck evens out, and the skill shines through.”

*“Moneyball” by Michael Lewis*

*“In the exploration game the goal is to have a team that tilts the odds in your favor – the more the better – and enough capital – but not too much – to stay in the game – into extra innings if necessary - after seismic, dry hole and G&A expenses.”*

*An Anonymous E&P CEO*



# MCF's Story

	2001 Year 2	2002 Year 3	2003 Year 4	Total the last 3 years
<b>Revenues</b>	<b>\$ 23,991,069</b>	<b>\$ 28,918,169</b>	<b>\$ 28,210,168</b>	<b>\$ 81,119,406</b>
<b>Exploration Expe</b>	<b>\$ 4,167,427</b>	<b>\$ 2,694,425</b>	<b>\$ 17,922,116</b>	<b>\$ 24,783,968</b>
<b>Net Income( Loss)</b>	<b>\$ 7,262,454</b>	<b>\$ 5,976,982</b>	<b>\$ (4,936,025)</b>	<b>\$ 8,303,411</b>
<b>Total CAPEX</b>	<b>\$ 29,435,022</b>	<b>\$ 33,113,686</b>	<b>\$ 22,769,489</b>	<b>\$ 85,318,197</b>
<b>Production Mcfe</b>	<b>4,302,584</b>	<b>8,099,550</b>	<b>\$ 6,847,809</b>	<b>\$ 19,249,943</b>
<b>Reserves Mcfe</b>	<b>18,146,676</b>	<b>27,939,778</b>	<b>23,592,000</b>	<b>\$ 23,592,000</b>
<b>Equity Raised</b>	<b>\$ 10,000,000</b>	<b>\$ (6,180,000)</b>	<b>\$ -</b>	<b>\$ 4,478,333</b>
<b>Debt</b>	<b>\$ -</b>	<b>\$ 18,950,000</b>	<b>\$ 22,350,000</b>	<b>\$ 22,350,000</b>

*"No matter how great the talent or effort, some things just take time," says Buffet.*

*"You can't produce a baby in one month by getting nine women pregnant".*

*"The Real Warren Buffett" by James O'Loughlin*



# CONTANGO'S "MTM" BOX SCORE

	June 30,			
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Working Capital (Deficit)	\$ 4,929,724	\$ 4,781,823	\$ 3,927,506	\$ (1,675,793)
SEC PV-10	12,260,121	42,625,797	53,349,207	69,627,150
Seismic & LNG		6,666,051	9,028,911	18,322,168
Debt	-	-	(19,433,920)	(22,350,000)
Net Assets	\$ 17,189,845	\$ 54,073,671	\$ 46,871,704	\$ 66,907,116
"MTM" NAV/share	\$ 3.47	\$ 4.79	\$ 4.32	\$ 7.21
"MTM" ROE		215%	-13%	40%
Wells drilled per employee	3	10	3	4

*"Equally, he would never entertain the idea of committing to an annual value creation target. He recognizes that the fermentation process that is a business cannot be controlled to the nth degree"*

*"The Real Warren Buffett" by James O'Loughlin*



# CONTANGO'S NINE INNINGS

- Profitable as a successful efforts exploration company in all commodity price environments
- Grow EPS and NAV/share over time
- Highest revenue and profit per employee in industry
- Lowest G&A as % of revenue in industry
- All in F&D costs < \$1.50/mmbtue
- Debt no greater than 35% pf PV-10
- Never report a negative revision to reserve report
- Be the lowest cost producer – womb to tomb – in the industry
- Accounting transparency – successful effort/MTM accounting for derivatives/stock options expensed

*“By the way, any Company we buy will have to pay taxes” Warren Buffett – 2002 Annual Shareholders Meeting*



# INDUSTRY OBSERVATIONS OR

**“What’s good for you today is bad  
for you tomorrow”**



# Who is the world's largest crude oil producer?

- Russia now 8.6 mbopd
- Saudi's 8.7 mbodp
- Who's going to blink to give IRAQ market share?
- Who's strategically more important to U.S.?
- Do not forget about Azerbaijan & Kazakhstan

*"I do not think OPEC will cut more and more just to stabilize the market and the others will take all this share. OPEC alone cannot protect the market".*

*Abdullah al-Attayah, the President of OPEC  
The New York Times – 09-29-03*



# New Source Review vs. Go Green

- Bush Administration issues final rules easing restrictions on coal-fired power plant “maintenance” rules
- If cost of maintenance does not exceed 20% of entire “process unit” cost then facility does not have to install modern pollution-control equipment
- Could encourage +/- 40,000 mw of incremental capacity or displace +/- 4Bcfd of natural gas demand
- Senator Jeffords plus A.G.'s of NY, CT are suing in Federal Courts of Appeals

*“Ralph Nader and the Green’s are the best friends the industry has.  
The IPAA is giving money to the wrong guys”.*

*A naïve E&P CEO?*



# Natural Gas vs. Coal Economics

Coal vs. Natural Gas Power Generation Economics						
Coal vs. Natural Gas Power Generation Economics						
			Economics @ Current Prices		Breakeven @ \$28/ton Coal	
			Central Appalachia	Comb. Cycle Nat Gas	Central Appalachia	Comb. Cycle Nat Gas
Btu Content (btus/lb)			12,000		12,000	
Fuel Price (coal \$/ton, gas \$/mcf)			\$35.00	\$4.49	\$28.00	\$2.15
Transportation (Cost/ton, Cost/Mcf)			\$9.00	\$0.40	\$9.00	\$0.25
Delivered Coal (Price/ton, Price/Mcf)			\$44.00	\$4.89	\$37.00	\$2.40
Delivered Cost (¢/mmbtu)			183¢	489¢	154¢	240¢
Sulfur Emission Cost (¢/ mmbtu)			16¢	0¢	16¢	0¢
<b>SO<sub>2</sub> Adjusted Delivered Price</b>			<b>200¢</b>	<b>489¢</b>	<b>170¢</b>	<b>240¢</b>
Heat Rate (conversion efficiency)			10,000	7,200	10,000	7,200
Fuel Cost (\$/Mwhr)			\$19.95	\$35.21	\$17.04	\$17.31
Incremental O&M (\$/whr)			\$1.25	\$1.00	\$1.25	\$1.00
<b>Total Dispatch price (\$/Mwhr)</b>			<b>\$21.20</b>	<b>\$36.21</b>	<b>\$18.29</b>	<b>\$18.31</b>
Notes:	*Henry Hub cash price used for gas fuel price, New York City Gate cash price used for gas delivered price; differential represents implied transpiration cost					
	*Central Appalachia transportation cost assumes shipment to Carolinas/Georgia area					
	*Assumes SO <sub>2</sub> emissions prices of \$182/ton (per Morgan Stanley Commodities Group)					
Source:	RDI, Natural Gas Week, Bloomberg, Morgan Stanley Equity Research					
	<b>SOURCE: Morgan Stanley</b>					
	<b>Exploration &amp; Production - September 3, 2003</b>					



# New Coal Fired electrical generation is coming

MidAmerican Energy will start construction this week on a new \$1.2 billion, 790 MW coal-fired power plant in Iowa. The utility will be the first in the US to use “super-critical” boiler technology, which burns coal at high temperatures and pressure. The MidAmerican plant is expected to begin operations in 2007.



# Why does everyone keep saying NatGas Supply is Down?

The EIA Monthly report was released today and two trends remain firmly in place. Production as reported by the EIA remains well above year ago level. Estimates for April production of 54.2 bcf/d stand an impressive 4.4% above last year. At the same time, storage levels as compiled from all operators indicated those storage levels exceed the storage levels reported by the week survey by 87 bcf as of May 31.

*Citigroup Futures Research – 09-15-03*



# This is the real world Market: Does this sound bullish?

- HOUSTON, Sept. 25 /PRNewswire-FirstCall/ -- Texas Genco Holdings, Inc., a majority-owned subsidiary of CenterPoint Energy, Inc., announced today that it will mothball gas-fired generation in two phases totaling 2,990 megawatts (MW).
- "Lack of bids for most of our intermediate gas products in recent capacity auctions combined with high forecasted reserve margins in ERCOT for the near-term has resulted in this decision," said David Tees, president and chief executive officer of Texas Genco. "We will still offer an adequate amount of gas-fired capacity in our upcoming auctions for retail energy providers and other purchasers."
- Texas Genco Holdings, Inc., based in Houston, Texas, is one of the largest wholesale electric power generating companies in the United States with over 14,000 MW of generation capacity.



# Can You Spell E-L-A-S-T-I-C-I-T-Y

**Demand was off about 2.6% this summer, “due largely to the 11% fewer cooling degree-days...and the effect of high natural gas prices on consumption in the industrial and electricity generating sectors,” said the outlook. “These factors dampened demand and enabled the record-high levels of ...storage injections seen in the past few months,” when weekly net storage additions exceeded the five-year average in 18 of the past 20 weeks.**



# Why I'm a contrarian

- **HOUSTON--(BUSINESS WIRE)--Sept. 29, 2003--The biggest issue facing the U.S. energy industry today is the shortage of domestic sources of natural gas. That's what a poll of 400 oil and gas executives and investors found at an industry conference held by RBC Capital Markets recently in Houston.**
- **More than half the executives polled likened it to being as bad as or worse than the oil crisis of the 1970s, while 48 percent said this crisis would be manageable.**
- **"It's interesting to note that when we conducted this survey last year, the group ended up being cautious in their prediction for natural gas prices," said Joe Allman, an E&P analyst at RBC Capital Markets.**

*"Let's see... a year ago we were cautious on NatGas and gas went to \$12. Now we're bullish?"*

*A contrarian CEO*

