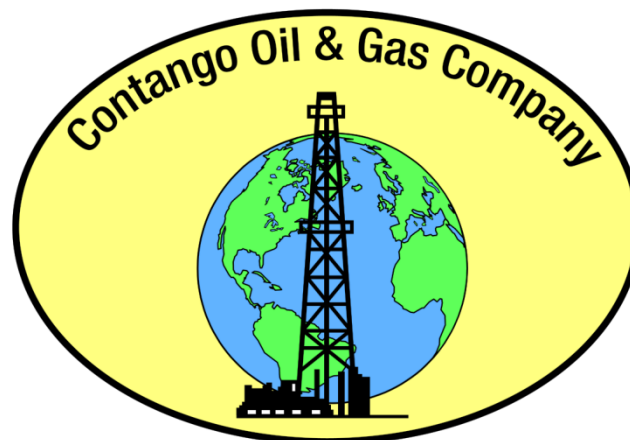


# Contango Oil & Gas Company



# Lawyer Stuff

This presentation contains forward-looking statements regarding Contango that are intended to be covered by the safe harbor "forward-looking statements" provided by of the Private Securities Litigation Reform Act of 1995, based on Contango's current expectations and includes statements regarding acquisitions and divestitures, estimates of future production, future results of operations, quality and nature of the asset base, the assumptions upon which estimates are based and other expectations, beliefs, plans, objectives, assumptions, strategies or statements about future events or performance (often, but not always, using words such as "expects", "projects", "anticipates", "plans", "estimates", "potential", "possible", "probable", or "intends", or stating that certain actions, events or results "may", "will", "should", or "could" be taken, occur or be achieved). Statements concerning oil and gas reserves also may be deemed to be forward looking statements in that they reflect estimates based on certain assumptions that the resources involved can be economically exploited. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those, reflected in the statements. These risks include, but are not limited to: the risks of the oil and gas industry (for example, operational risks in exploring for, developing and producing crude oil and natural gas; risks and uncertainties involving geology of oil and gas deposits; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to future production, costs and expenses;

# ...More Lawyer Stuff

potential delays or changes in plans with respect to exploration or development projects or capital expenditures; health, safety and environmental risks and risks related to weather such as hurricanes and other natural disasters); uncertainties as to the availability and cost of financing; fluctuations in oil and gas prices; risks associated with derivative positions; inability to realize expected value from acquisitions, inability of our management team to execute its plans to meet its goals, shortages of drilling equipment, oil field personnel and services, unavailability of gathering systems, pipelines and processing facilities and the possibility that government policies may change or governmental approvals may be delayed or withheld. Additional information on these and other factors which could affect Contango's operations or financial results are included in Contango's other reports on file with the Securities and Exchange Commission. Investors are cautioned that any forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from the projections in the forward-looking statements. Forward-looking statements are based on the estimates and opinions of management at the time the statements are made. Contango does not assume any obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

# .... And More Lawyer Stuff

*“There are three reasons why lawyers are replacing rats as laboratory research animals. One is that they’re plentiful, another is that lab assistants don’t get attached to them, and the third is that there are some things rats just won’t do”*

*-Unknown*

# “The Company”

# Contango's Core Beliefs From Inception

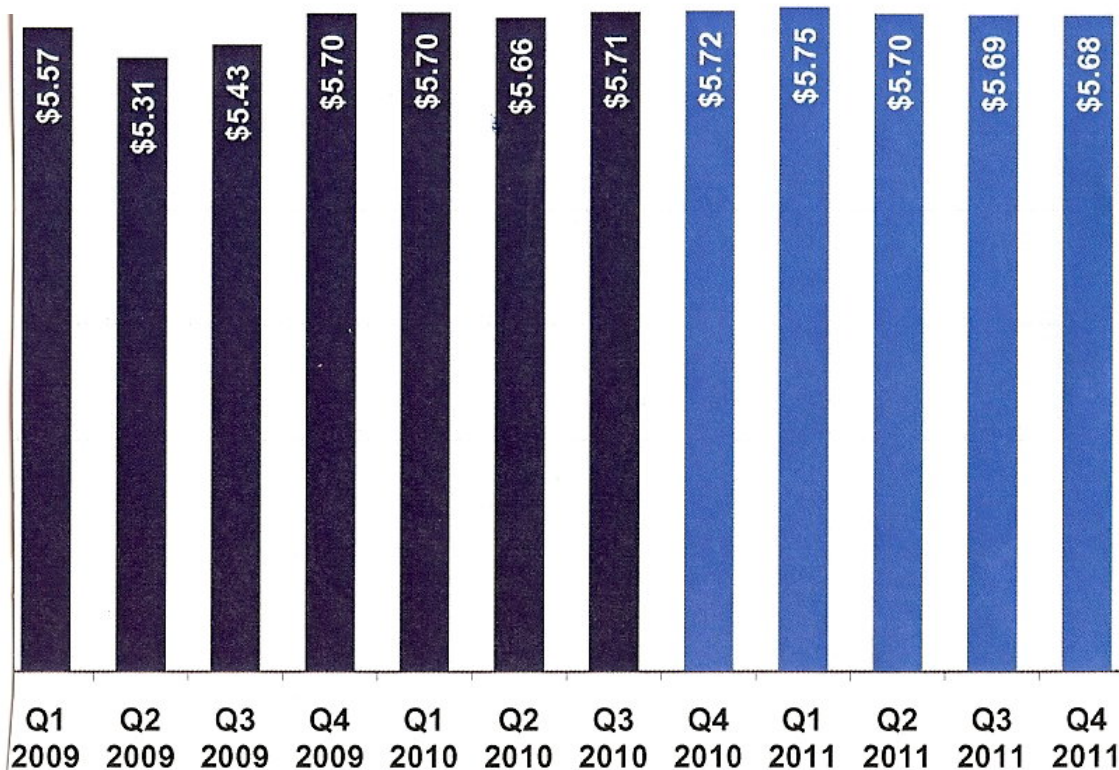
- The only competitive advantage in the natural gas and oil business is to be among the **LOWEST COST** producers
- Virtually all the exploration and production industry's **VALUE CREATION** occurs through the drilling of successful exploration wells
- The whole point of a business is only and always to increase **SHAREHOLDER WEALTH – PER SHARE...with conditions**

*“Beliefs are optional, Results are mandatory and the only result that matters is long term – 3-5-10 year return to shareholders”*

*-Kenneth R. Peak*

# Lowest Cost

Quarterly \*



## CONTANGO

### Three Months Ended 12/31/10

DD & A	\$1.74
LOE	\$0.67
G&A	\$0.35
Interest	<u>\$0.00</u>
<b>TOTAL</b>	<b>\$2.76 / Mcfe</b>

Vs.

42 Company Average

\$5.72 / Mcfe

- Investors should focus on costs but also on accounting methods used to derive those costs – successful efforts vs. full cost
- Debt adjusted cash flow per share vs. earnings per share – we favor EPS
- See “Peak Ratio”

\*From Credit Suisse Global Equity Research – Oil & Gas

# A Word About Our Biggest Expense - TAXES

- We are profitable using both GAAP and IRS Accounting Measures
- Our IRS taxes can be deferred primarily due to the immediate expensing of “Intangible drilling costs” (IDC’s) for taxes only, not GAAP.
- Even though IDC’s have been part of the tax code since 1919, there is talk in Congress and the Obama Administration to require these cost to be capitalized and then amortized over some time frame (3-5-7 years?)
- From Contango’s perspective this may not be a bad thing if overall corporate tax rates are also reduced as part of a “grand compromise” – in fact this could be a good thing
- Natural Gas prices would almost certainly rise because “all in” industry F&D costs would go up – this is not necessarily a bad thing – especially for a low cost producer.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>TOTAL</u>
GAAP Pretax Income from continuing operations (\$ millions)	\$ 134.9 100%	\$ 92.8 100%	\$ 81.3 100%	\$ 309.0 100%
Tax Rate				
Current (cash rate)	18.8%	41.1%	15.0%	24.5%
Deferred (will be paid in the future)	19.5%	-1.3%	23.9%	14.4%
Total Tax rate	38.3%	39.8%	38.9%	38.9%

# Maximize Shareholder Wealth – Per Share...With Conditions

- Our first priority is to always put the safety of our employees, partners and contractors first.
- Our second priority is to protect the environment where we work and live.
- Our third priority is to maximize “Shareholder earnings” which we define as retained earnings plus dividends and share purchases. Since inception we have repurchased nearly \$100 million worth of our shares.

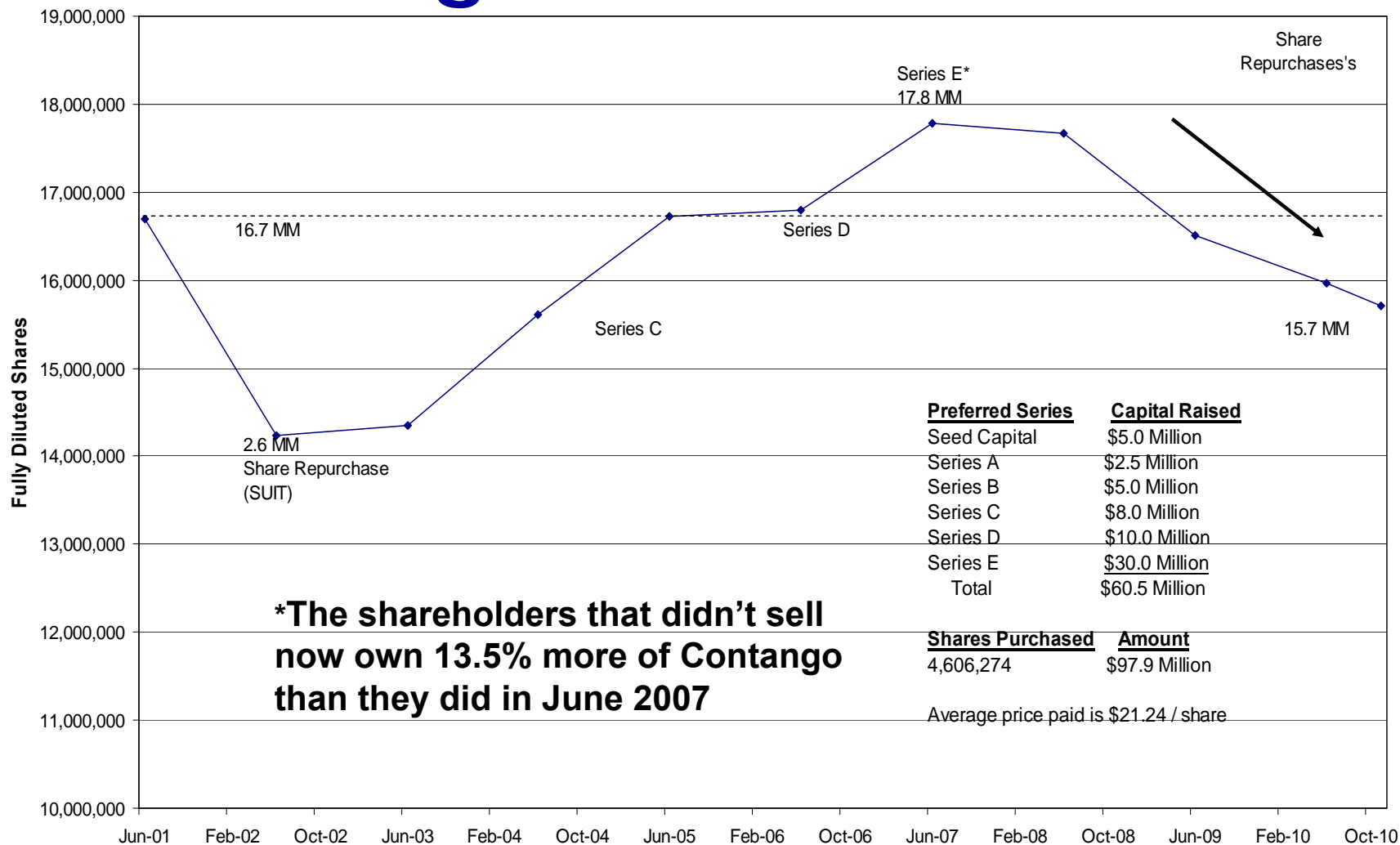
- Peak Ratio Defined: 
$$\frac{\text{Shareholder Earnings}}{\text{Invested Capital}} = \frac{\text{R/E} + \text{Dividends} + \text{Share Purchases}}{\text{(Common and Preferred Stock Raised)}}$$

- Contango’s Peak Ratio Calculated as at 12/31/10: 
$$= \frac{\$404 + 5.4 + 97.9}{\$79.0} = 6.42X$$
  
(\$ millions)

- All the numbers in the numerator are “good”.... In the denominator all are “bad”
- GAAP profits are the “Sine Qua Non” of capitalism

*“Past performance is no guarantee of future results – but it is the way to bet”*  
- Kenneth R. Peak

# Negative Dilution



<u>Preferred Series</u>	<u>Capital Raised</u>
Seed Capital	\$5.0 Million
Series A	\$2.5 Million
Series B	\$5.0 Million
Series C	\$8.0 Million
Series D	\$10.0 Million
Series E	\$30.0 Million
<b>Total</b>	<b>\$60.5 Million</b>

<u>Shares Purchased</u>	<u>Amount</u>
4,606,274	\$97.9 Million
Average price paid is \$21.24 / share	

**\*The shareholders that didn't sell now own 13.5% more of Contango than they did in June 2007**

*"They say you can't do it, but sometimes it doesn't always work"*  
**-Casey Stengal**

# Shareholder Value Creation and Capital Allocation

Small-Mid cap. Capital Creation Companies: Highest 5 Year CAGE \*

\* Compounded  
Annual  
Growth in  
Earnings

Small Mid-Cap Highest Growth in Adjusted Book Value – 5 Year period (\$ in millions)

Company Name	Ticker	Current Market Cap.	Dividend Yield	2011 P/E	Unlevered LTM Free Cash Flow Yield	5 year CAGE	5 Year Capital Returned / Market Cap.
Contango Oil & Gas Co.	MCF	923	-	NA	3%	43%	9%
L & L Energy, Inc.	LLEN	264	-	NA	-2%	43%	NA
Sotheby's	BID	2,901	0.5	17.0	9%	42%	23%
Middleby Corp.	MIDD	1,629	-	19.4	5%	42%	2%
Western Digital Corp.	WDC	8,419	-	12.5	20%	41%	6%
Under Armour, Inc.	UA	3,341	-	34.8	1%	41%	NA
Weight Watchers International, Inc.	WTW	3,045	1.7	13.5	7%	41%	43%
Aerostale, Inc.	ARO	2,188	-	9.3	8%	41%	42%
AmTrust Financial Services, Inc.	AFSI	1,117	1.7	7.3	NM	39%	NA
USANA Health Sciences Inc.	USNA	628	-	12.7	9%	38%	26%
optionsXpress Holdings, Inc.	OXPS	892	-	15.7	NM	37%	11%
General Cable Corp.	BGC	2,106	-	12.6	3%	37%	1%
Gartner Inc.	IT	3,517	-	24.3	5%	36%	35%
PetMed Express Inc.	PETS	345	3.4	14.9	10%	35%	12%
Garmin Ltd.	GRMN	6,188	4.7	12.1	16%	35%	19%

- Cage analysis helps identify companies that CREATE and RETURN capital to shareholders
- ROE is a distorted measure if E (Equity) is low due to a history of cumulative losses
- Share repurchases that simply offset option dilution are not a return of capital.

# Contango is now in the S & P SmallCap 600 Index

- Covers approximately 3% of the domestic equities market
- SmallCap 600 is maintained by the S & P index committee
- Criteria to be selected to S & P Small Cap 600
  - Appropriate Corporate structure, accounting standards, governance
  - 4 consecutive quarters of positive GAAP net income
  - Adequate liquidity: Annual Dollar Value Traded/Market Cap > 1.0
  - Sector Representation: Energy – 5% of Index
  - Balance Sheet Strength
- Approximately 775,000 shares of MCF are now held by SmallCap 600 Index Funds

*“S & P could have picked a lot of different companies...they picked Contango and we are honored”*

# Contango's Owners

	<b>December 31, 2010</b>		
<b>Institution</b>	<b>Shares Held</b>	<b>% S/O</b>	<b>Cumulative %</b>
International Value Advisors, LLC	1,681,485	10.73%	10.73%
BlackRock Fund Advisors	1,015,449	6.48%	17.22%
Keeley Asset Management Corp.	659,600	4.21%	21.43%
Dreman Value Management, LLC	650,933	4.16%	25.58%
The Vanguard Group, Inc.	646,499	4.13%	29.71%
Deutsche Investment Mgmt. Americas, Inc.	507,425	3.24%	32.95%
Seizert Capital Partners, LLC	422,578	2.70%	35.65%
State Street Global Advisors (SSgA)	362,293	2.31%	37.96%
Palo Alto Investors, LLC	260,000	1.66%	39.62%
Dimensional Fund Advisors, L.P. (U.S.)	234,368	1.50%	41.12%
TIAA-CREF Investment Management	220,006	1.40%	42.52%
GWL Investment Management, LTD	186,788	1.19%	43.71%
Northern Trust Investments, NA	171,769	1.10%	44.81%
PNC-Capital Advisors, LLC	167,577	1.07%	45.88%
T. Rowe Price Associates	152,680	0.97%	46.85%
Madison Investment Advisors	137,112	0.88%	47.73%
Intrepid Capital Management, Inc.	118,886	0.76%	48.49%
Horan Capital Management, LLC	117,940	0.75%	49.24%
Kennedy Capital Management, Inc.	106,713	0.68%	49.92%
Bonanza Fund Management, Inc.	104,176	0.67%	50.59%
Other (12) Institutions and Mutual Funds	798,111	5.09%	55.68%
Contango Management and BOD	2,597,136	16.58%	72.26%

Memo: S & P  
SmallCap 600 now  
owns ~ 775,000  
shares

Source: NYSE Amex

*“Writing a check separates a commitment from a conversation”*

*- Warren Buffet*

# Contango Doesn't Have

- Lots of shares: 15.7 million outstanding and fully diluted
- Lots of options: 45,000 and shrinking
- Lots of paid in capital (SEE "PEAK RATIO")
- Lots of PUD's
- Lots of employees: 8
- Lots of wells – 11 offshore
- Lots of landowners - 2
- Lots of regulators - 4
- Near term leases expiring
- L-T rig contracts
- Debt: \$0
- Severance taxes (in Federal offshore) \$0
- Hedges: \$0

*“Sometimes what you don't have is more important than what you do have”*

*-Kenneth R. Peak*

# If you owned 100% of Contango As an Entity

- You'd have received back \$38 million more than you invested
- You'd own 100% of Contango ORE valued at \$29 million at today's price of \$17/Share
- You'd own a company with a market Cap of \$950 million and no debt and 8 employees

# VR – 170 “Swimmy”

- Applied for permit September 29, 2010
- Received Final permit February 16, 2011
- Spudded well February 24, 2011
- Logged March 22, 2011
- Expect to have on line fall 2011
- Initial expected rate 25 Mcfed – 15 Mcfed net to Contango
- Initial estimated 8/8ths reserves 55 Bcfe or 37.5 Bcfe net to Contango
- Net cost to Contango - \$26.5 million
- Ball Park 2011 GOM F&D: \$1.20/mcfe
- Estimated Royalty Income to be paid to U.S. Government as a result of Swimmy Discovery: > \$50 million
- Permit on SS-134 (“Eagle”) submitted on March 3, 2011

# Why Does Contango STILL like the GOM?

## Economics

■ Acreage, G & G and seismic costs last 4 years <u>combined</u> :	\$20 million
■ NRI to Contango <u>AFTER</u> landowner ORRI and <u>AFTER</u> G & G Promote:	65-70%
■ Severance Tax <sup>(1)</sup> :	0%
■ Ad Valorem Tax <sup>(1)</sup> :	0%
■ Sales & Use Tax <sup>(1)</sup> :	0%
■ State Income Tax <sup>(1)</sup> :	0%
■ LOE <sup>(2)</sup> :	\$.60
■ G&A <sup>(2)</sup> :	\$.34
■ If NAT GAS @ \$4.21/Mcf – Contango Receives <sup>(2)</sup> :	\$5.68/Mcfe
■ If Contango produces 77.4 Mmcf – Contango Sells <sup>(2)</sup> :	102.1 Mmcf
■ Contango is a Taxpayer: We have no NOL Carry Forwards	35% Risk Partner

## Intangibles

- Rig costs are less than half of 3 year ago levels – Negative Arbitrage
- One Landowner – BOEM
- Lot's of nearby infrastructure
- No Nimby's to deal with
- Yes, we will drill dry holes – The E in E&P stands for Exploration
- Yes, our permitting and bonding costs are going up, but think Sarbanes - Oxley

(1) Federal Waters

(2) Average for 6 months ended 12/31/10

100% expensing for bonus depreciation property placed in service Sept. 08 through Dec. 31, 2011

*“The consensus opinion always sounds right, is easily understood and is often wrong”*

*- Kenneth R. Peak*

## NatGas – In a Free Market

Could it be any clearer that Natural Gas  
Is the answer to our energy problems?

	Oil	Coal	Alternative Energy	Nuclear	Natural Gas
Price	X	√+	?	X	√+
Assured Supply	X	√	?	X	√+
US Jobs	X	√	?	MIA	√+
Environmentally Friendly	X	X	?	X DOA	√+

Americans should evaluate the Risks, Affordability and Security of its  
Energy Options and then pick the best–

*“The Cream always rises to the top...(In a Free Market)”*

# Contango Investment Rationale

- GAAP EPS is the metric that counts
- Net margins drive “E” – bigger is better
- Fully-diluted shares drive the percentage you own – fewer fully diluted shares are better
- We are wildcatters – not manufacturers
- Fukushima – New nukes almost nowhere
- According to NOAA 2010 was hottest year on record since 1880’s
- The scientific debate about global warming is irrelevant – a critical mass of people around the world believe it - carbon emission constraints are coming
- One-third of U.S. Carbon emissions come from coal used to generate electricity. 100% of mercury pollution comes from coal
- With cheap raw materials, the worlds most efficient labor force, and the devalued dollar, America is the worlds lowest cost manufacturer
- We don’t like Nat Gas, we love it.

# America's Energy Company

