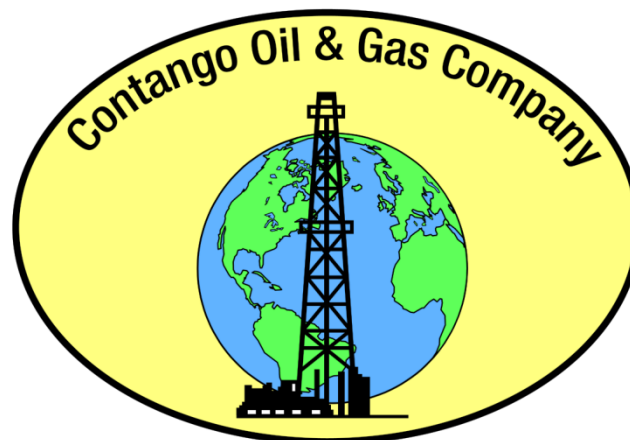


Contango Oil & Gas Company



Lawyer Stuff

The future is unknowable. We have good intentions but all of our projections and estimates will be wrong, and could be materially wrong. Wildcat exploration is expensive, speculative and potentially dangerous. An offshore spill or explosion would be enormously expensive. We have insurance but it may not be enough. You could lose your entire investment. Don't be lazy – read our 10-Q's, 10-K's and press releases, and if you lose money - please no tears.

“Don't forget about risk-free T-bills in your portfolio...After inflation and taxes you'll likely only lose 5-10% of your investment.”

- Contango V.P. Investor Relations

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 shareholder

Contango is Low Cost

But Apples to Oranges Problem

CONTANGO

Unaudited Fiscal Year Ended 6/30/11

DD & A	\$1.68
LOE	\$0.77
G&A	\$0.38
Interest	<u>\$0.00</u>
TOTAL	\$2.83 / Mcfe

- I will just assert that Contango is among the lowest cost producers in the industry
- Most independents use full cost accounting
 - Massive “Full Cost Pool” write-downs = Lower DD & A
 - Capitalize portion G & A = Lower G & A
 - Capitalize portion interest = Lower interest
- Successful efforts companies “benefit” DD & A rate by immediately expensing dry holes and seismic

By definition – low cost producers should be profitable. Hedging gains are the icing, not the cake.

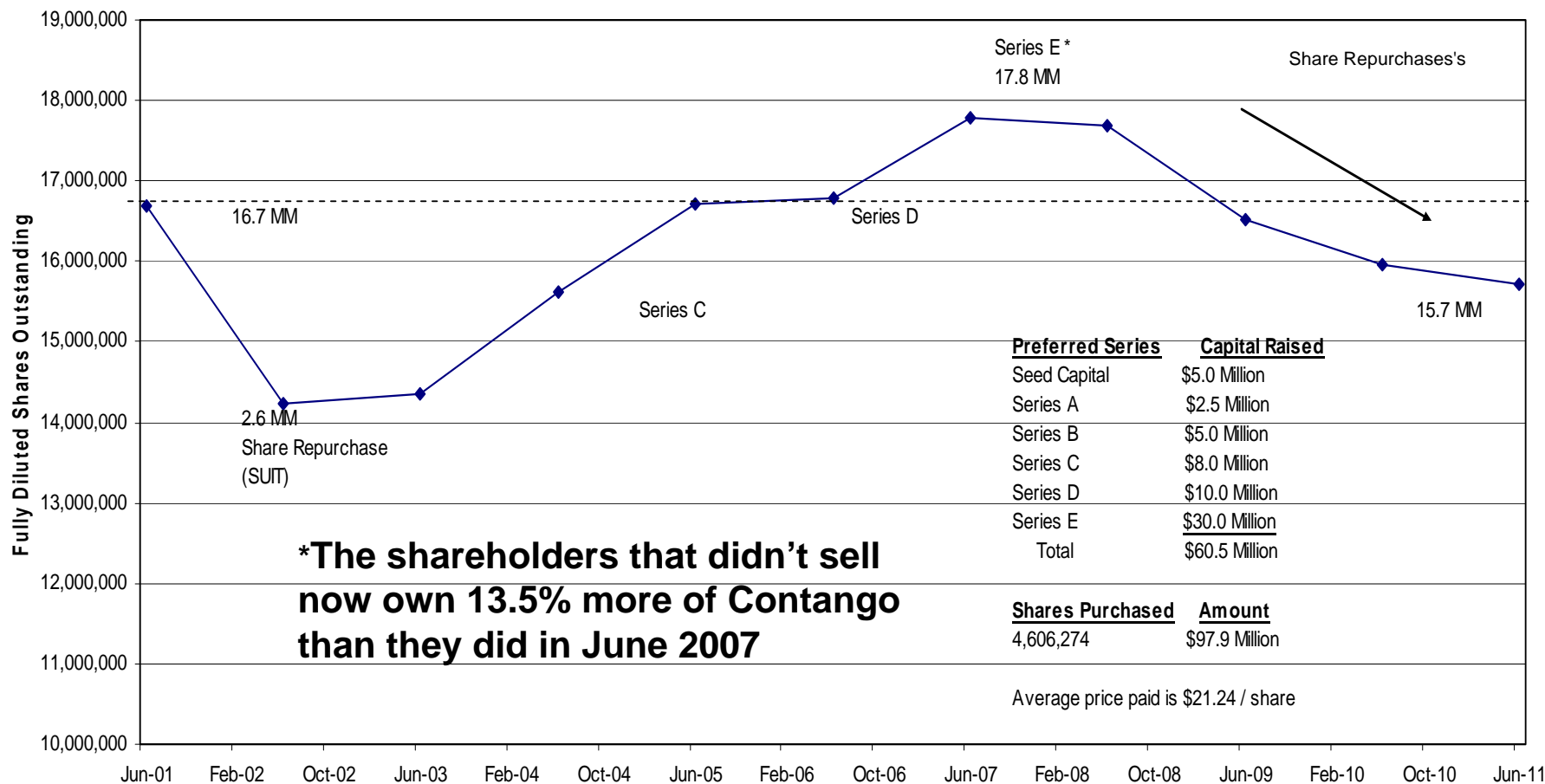
What Get's Measured – Get's Managed

- 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 unaudited Peak Ratio Calculated as at 3/31/11:
$$\frac{\$421 + 5.4 + 97.9}{\$79.0} = 6.6X$$

(\$ millions)
- Share purchases that offset option dilution are not a return on capital

GAAP profits are the “Sine Qua Non” of capitalism

Negative Dilution



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

If Contango only had one share and I owned it – that would be great.

Contango's Owners

<u>Institution</u>	<u>March 31, 2011</u>		
	<u>Shares Held</u>	<u>% S/O</u>	<u>Cumulative %</u>
International Value Advisors, LLC	1,338,348	8.54%	8.54%
BlackRock Fund Advisors	1,017,233	6.49%	15.04%
T. Rowe Price Associates	713,917	4.56%	19.60%
The Vanguard Group, Inc.	675,712	4.31%	23.91%
Dreman Value Management, LLC	664,135	4.24%	28.15%
Keeley Asset Management Corp.	659,600	4.21%	32.36%
State Street Global Advisors (SSgA)	576,655	3.68%	36.04%
Deutsche Investment Mgmt. Americas, Inc.	518,700	3.31%	39.35%
Tamro Captial Partners, LLC	388,847	2.48%	41.83%
Seizert Capital Partners, LLC	288,231	1.84%	43.67%
GWL Investment Management, LTD	268,708	1.72%	45.39%
Dimensional Fund Advisors, L.P. (U.S.)	260,068	1.66%	47.05%
Thomson Horstmann & Bryant, Inc.	255,100	1.63%	48.68%
Northern Trust Investments, NA	187,633	1.20%	49.88%
TIAA-CREF Investment Management	164,473	1.05%	50.93%
Invesco PowerShares Captial Management	151,936	0.97%	51.90%
Palo Alto Investors, LLC	145,000	0.93%	52.82%
Conestoga Capital Advisors, LLC	128,243	0.82%	53.64%
Opus Captial Management	125,392	0.80%	54.44%
Intrepid Capital Management, Inc.	115,216	0.74%	55.18%
Horan Capital Management, LLC	113,866	0.73%	55.90%
Madison Investment Advisors, Inc.	109,202	0.70%	56.60%
Bonanza Fund Management, Inc.	104,176	0.67%	57.27%
Norges Bank Investment Management (Norway)	101,650	0.65%	57.91%
Other (9) Institutions and Mutual Funds	665,873	4.25%	62.16%
Contango Management and BOD	2,597,136	16.58%	78.74%

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 PUD's
- Lots of employees: 8
- Lots of wells – 12 offshore
- Lots of landowners - 2
- Lots of regulators – 4
- Winner's curse – We were the sole bidder at last 3 offshore lease sales
- Near term leases expiring
- L-T rig contracts
- Debt: \$0
- Severance taxes (in Federal offshore) \$0
- Hedges: \$0

*Our objective is not to do “more with less,”
it's – in fact – just to do less.*

Wildcat Exploration Budget through December 31, 2012

<u>Well</u>	<u>8/8ths Dry Hole Cost</u>	<u>Contango WI%</u>	<u>Expected Spud Date</u>
Ship Shoal 121/134 (Eagle)	\$25,000,000	100%	Sept/Oct 2011
South Timbalier 75 (Fang)*	\$25,000,000	100%	Early 2012
Ship Shoal 121 (Birdie)**	\$15,000,000	100%	2012
Two prospect ideas	\$35,000,000	100%	2012
TOTAL	\$100,000,000		
*Farm-In			
**Under some scenarios, it is possible that if Eagle is a dry hole that it could condemn our Birdie Prospect.			

“I don’t want to swim in a roped off sea”

Cowboy in the Jungle – Jimmy Buffet

Why I Prefer the Conventional (<20,000 feet wells) GOM Shelf (<300 feet water)

Economics

■ Acreage, G & G and seismic costs last 4 years <u>combined</u> :	\$16 million
■ NRI to Contango <u>AFTER</u> landowner ORRI and <u>AFTER</u> G & G Promote:	65% ±
■ Severance Tax ⁽¹⁾ :	0%
■ Ad Valorem Tax ⁽¹⁾ :	0%
■ Sales & Use Tax ⁽¹⁾ :	0%
■ State Income Tax ⁽¹⁾ :	0%
■ If NAT GAS @ \$4.39/Mcf – Contango Receives ⁽²⁾	\$6.24/Mcfe
■ If Contango produces 67.8 Mmcf/d – Contango Sells ⁽²⁾	89.1 Mmcf/d
■ Contango is a Taxpayer: We have no NOL Carry Forwards	40% Risk Partner

Intangibles

- Rig costs are less than 3 year ago levels
- 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

(1) Federal Waters

(2) Preliminary, unaudited FY 2011

Less competition, lower costs, better margins, premium markets, one landowner/regulator – what's not to like?

Incentives Drive Behavior – Full Stop

✓ Aug 3 (*NY Post*) -- Taxed-out New Yorkers are voting with their feet, with a staggering 1.6 million residents fleeing the state over the last decade.

← **Tax Policy Works**

“If you believe that ordinary people aren’t rational, first try to outthink them. It may not be as easy as you expected”

Tim Hartford – The Logic of Life

Incentives Drive Behavior

Let's Talk Compensation

- Preliminary G & A for FY 2011 of \$12.3 million - \$9.6 in salaries, benefits and board compensation. Options awards were \$1.3 million of this total – we retired most of our outstanding options.
- G & A – 1.3 % of “Assets under management” (market cap). Compare 1.3/0 to the 2/20 model.
- KRP compensation was \$5 million - \$1 million salary - \$4 million bonus, with an additional \$2 million required to vest to be earned.
- Total KRP cash compensation for last 3 years was \$7.5 million. No options or restricted stock were awarded.
- Cash bonuses that vest create an incentive to stay.

*Complete, full, transparent disclosure of pay is a good thing.
It's your company, after all.*

Incentives Drive Behavior

KRP Bonus Targets – FY 2011 and 2012

Absolute Measures	Comment	Bonus Earned If Achieved	Comment
Increase in Net Debt Adjusted Reserves/ Fully Diluted Share	Reserves shall be reduced by the reserves required to completely pay off all the debt incurred by the Company; Shares shall be reduced by the amount of shares Company could purchase on 6/30/12 with cash on hand	\$1 million	Net Debt = w/k - debt - P & A liability. The "value" of an Mcfee is equal to: PV10 ÷ reserves. Reserves are then reduced to pay for the claims that are senior to shareholders. These adjustments take away any incentive for me to buy reserves or buy shares, just to meet this target. Also since denominator is fully diluted shares, issuing options has a cost. This bonus target ties directly to value creation per share.
Shareholder Return (Stock price + dividends) Use stock price @ 6/30/11 - \$58.44/share as beginning price	This return measures what S/H's care about most.	S/H Return > 0% - \$0.5 million > 5.0% - \$1.0 million >10.0% - \$1.5 million >15.0% - \$2.0 million >20.0% - 3.0 million	Pay for performance doesn't get anymore direct than this. I get \$0 if our share price doesn't increase.
Tax Effected F & D for 2012 capex	<\$3.00/ Mcfee <\$2.00/ Mcfee	\$1 million \$2 million	Contango's industry peers - by and large - do not pay current income taxes. Contango does. Cap Ex is "tax effected" to account for the tax "benefit" of expensing IDC and dry holes immediately. MCF's are adjusted for "Economic Equivalent" i.e. liquids at 10:1 ratio
Performance against the S&P 600 Small Cap Index (^SML)	Must beat the index to earn bonus	\$1 million	This is a value creation test vs the overall market. Even if MCF stock price rises due to NatGas prices, we still have to beat this index. We estimate approximately 5% of our shareholders own us because of this index.

“I get paid by the pound – not for taste.”

-Tomato Farmer

Incentives Drive Behavior

<u>Absolute Measures</u>	<u>Comment</u>	<u>Bonus Earned If Achieved</u>	<u>Comment</u>
Increase in Net Debt Adjusted Reserves/ Fully Diluted Share	Reserves shall be reduced by the reserves required to completely pay off all the debt incurred by the Company; Shares shall be reduced by the amount of shares Company could purchase on 6/30/12 with cash on hand	\$1 million	Net Debt = w/k - debt - P & A liability. The "value" of an Mcfe is equal to: PV10 ÷ reserves. Reserves are then reduced to pay for the claims that are senior to shareholders. These adjustments take away any incentive for me to buy reserves or buy shares, just to meet this target. Also since denominator is fully diluted shares, issuing options has a cost. This bonus target ties directly to value creation per share.

“The chief value of money lies in the fact that one lives in a world in which it is overestimated”

- H.L. Mencken

Incentives Drive Behavior

<u>Absolute Measures</u>	<u>Comment</u>	<u>Bonus Earned If Achieved</u>	<u>Comment</u>
Shareholder Return (Stock price + dividends) Use stock price @ 6/30/11 - \$58.44/share as beginning price	This return measures what S/H's care about most.	<p>S/H Return</p> <ul style="list-style-type: none"> > 0% - \$0.5 million > 5.0% - \$1.0 million >10.0% - \$1.5 million >15.0% - \$2.0 million >20.0% - 3.0 million 	Pay for performance doesn't get anymore direct than this. I get \$0 if our share price doesn't increase.

*“To be clever enough to get all that money,
one must be stupid enough to want it.”*

- G.K. Chesterton

Incentives Drive Behavior

<u>Absolute Measures</u>	<u>Comment</u>	<u>Bonus Earned If Achieved</u>	<u>Comment</u>
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“Ideas don’t make you rich. The correct execution of ideas does”

The Narrow Road - Felix Dennis

Incentives Drive Behavior

<u>Absolute Measures</u>	<u>Comment</u>	<u>Bonus Earned If Achieved</u>	<u>Comment</u>
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*Get the right incentives. Align them.
Now at least, you have a chance to make some money.*

Contango

Investment Thesis

- 300 Bcfe – 20 Mcfe per “net debt adjusted fully diluted” share
- \$120 million cash - \$7.50/share
- \$0 Debt
- 12 wells
- 5 prospect ideas - \$100 million projected wildcat dry hole risk (\$60 million of after tax risk)
- Outstanding shares = Fully Diluted Shares = 15.7 million
- 8 Employees

Market Cap/Employee (\$000):

MCF – \$110,000

XOM - \$3,835

AAPL - \$6,038

MSFT- \$2,362

WMT - \$88

Does this mean anything?

America's Energy Company

