

CONTANGO OIL & GAS COMPANY

NEWS RELEASE

Contango Completes \$13.5 Million Sale of Onshore Texas and Alabama Producing Properties, Announces \$20 Million Debt Financing and Updates Operations

May 1, 2006 – HOUSTON, TEXAS – Contango Oil & Gas Company (AMEX:MCF) announced today that it has completed the sale of all onshore producing Texas and Alabama natural gas and oil interests to two independent oil and gas companies for a combined \$13.5 million. The Company also announced today that it has completed the arrangement of a new three-year \$20 million secured term loan agreement with The Royal Bank of Scotland plc (“RBS”). When combined with the Company’s \$16 million of cash on hand, the Company has over \$45 million of cash and unused borrowing capacity available to continue to fund its Arkansas Fayetteville Shale Play and offshore Gulf of Mexico exploration and development activities.

The sold properties had net reserves of approximately 203 Mbbl of oil and 1,036 MMcf of gas, or 2.3 Bcfe. The pre-tax gain on these two sales combined is approximately \$7 million.

The RBS Term Loan Agreement (the “Agreement”) is secured with the stock of Contango Sundance, Inc. (“Sundance”), our 100% owned subsidiary. Sundance owns a 10% limited partnership interest in Freeport LNG Development, LP, which owns the Freeport LNG facility. The Company has borrowed the first \$10 million under the Agreement and may borrow the remaining \$10 million at anytime over the next six months. Borrowings under the Agreement bear interest, at the Company’s option, at either (i) 30 day LIBOR, (ii) 60 day LIBOR or (iii) 90 day LIBOR, all plus 6.5%. Interest is due at the end of the LIBOR period chosen. The principal is due May 1, 2009, but we may prepay after two years (May 1, 2008) with no prepayment penalty. The Agreement requires an arrangement fee of 2%, or \$400,000, that was paid upon closing.

Kenneth R. Peak, Contango’s Chairman and Chief Executive Officer, said, “We are extremely pleased with these transactions and our resultant capital availability. We will continue to focus on expanding our offshore drilling program and developing our Arkansas Fayetteville Shale Play.”

OPERATIONS UPDATE:

Grand Isle 72 (“Liberty”)

The Company announced an offshore discovery on March 2, 2006. We estimate \$3.8 million, net to our interest, will be required to build production and pipeline facilities to commence production. We believe the well will be on-stream by September 2006, with an estimated initial 8/8ths equivalent production rate of 7-10 MMcfe/d.

Eugene Island 10 (“Dutch”)

The Company expects to spud this exploration well in June. Initial 8/8ths dry hole costs are estimated to be \$12 million. The Company’s share is approximately \$4 million.

High Island A279 (“Juice”)

The Company expects to spud this exploration well in June. Initial 8/8ths dry hole costs are estimated to be \$5 million. The Company’s share is approximately \$3 million.

West Delta 43 (“Skip Jack”)

The Company expects to spud this exploration well in June. Initial 8/8ths dry hole costs are estimated to be \$7 million. The Company’s share is approximately \$3.5 million.

Success at any of the above will require additional capital for completion, production and pipeline facilities.

Fayetteville Shale

Our operating group now owns leases on 42,000 net mineral acres in the Fayetteville Shale, and we are continuing to acquire additional leases. Our first operated well, the Alta-Beck #1-32H, was spud in March, logged 240 feet of Fayetteville Shale and is currently drilling horizontally. We plan on drilling one operated well per month, at an estimated net cost to Contango of approximately \$1 million per well.

Depending on our continuing drilling results, we will attempt to move a second rig in place by this fall, and a third by the end of the year. We have also now been integrated by another operator in a total of 28 wells, 6 of which are producing, 4 of which are being drilled, and 18 of which are either being permitted or waiting on drilling rigs.

Other

On March 15, 2006, two affiliates of the Company, Republic Exploration LLC (“REX”) and Contango Offshore Exploration, LLC (“COE”), were the Apparent High Bidders on 12 and 4 lease blocks, respectively, at the Central Gulf of Mexico Lease Sale #198. To date, REX has been awarded 6 of the 12 lease blocks and COE has been awarded 2 of the 4 lease blocks.

Contango is a Houston-based, independent natural gas and oil company. The Company explores, develops, produces and acquires natural gas and oil properties primarily onshore in the Gulf Coast and offshore in the Gulf of Mexico. Contango also owns a 10% partnership interest in Freeport LNG Development L.P., and a 32% interest in Contango Capital Partnership Management, LLC, which was formed to invest in the alternative energy venture capital market with a focus on environmentally preferred energy technologies. Additional information can be found on our web page at www.contango.com.

This press release contains forward-looking statements that involve risks and uncertainties, and actual events or results may differ materially from Contango’s expectations. The statements reflect Contango’s current views with respect to future events that involve risks and uncertainties, including those related to successful negotiations with other parties, oil and gas exploration and development risk, price volatility, production levels, closing of transactions,

capital availability, operational, weather and other risks, uncertainties and factors described from time to time in Contango's publicly available reports filed with the Securities and Exchange Commission.

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