

# CONTANGO OIL & GAS COMPANY

## NEWS RELEASE

### Contango Reports Third Quarter Earnings and Updates Operations

MAY 15, 2006 – HOUSTON, TEXAS – Contango Oil & Gas Company (AMEX:MCF) reported net income attributable to common stock for the three months ended March 31, 2006 of \$0.7 million, or \$0.05 per basic and diluted share, compared to a net loss attributable to common stock for the three months ended March 31, 2005 of \$1.2 million, or \$0.09 per basic and diluted share. The increase was attributable to an increase in crude oil and natural gas prices and an increase in our oil production.

Net income attributable to common stock for the nine months ended March 31, 2006 was \$0.4 million, or \$0.03 per basic and diluted share, compared to net income attributable to common stock for the nine months ended March 31, 2005 of \$13.4 million, or \$1.02 per basic and diluted share, which included a gain on the sale of discontinued operations of \$16.3 million, from the sale of our south Texas natural gas and oil interests that was completed in December 2004.

EBITDAX for the three months ended March 31, 2006 was \$2.1 million compared to \$0.6 million for the three months ended March 31, 2005. EBITDAX for the nine months ended March 31, 2006 was \$4.2 million compared to \$27.4 million for the nine months ended March 31, 2005.

Kenneth R. Peak, Contango's Chairman and Chief Executive Officer, said, "We expect to begin drilling our High Island A-279 ("Juice") and our West Delta 43 ("Skip Jack") prospects in June, and our Eugene Island 10 ("Dutch") prospect in July.

"In our Arkansas Fayetteville Shale Play, we and our operating group have acquired or received commitments on approximately 42,000 net mineral acres. The Arkansas Oil & Gas Commission has now approved eleven of our 640-acre drilling units, which we estimate will allow our operating group to drill and operate approximately 100 horizontal wells. In addition, we have now been integrated into 35 wells that are being operated by a third party oil and gas exploration company, seven of which are producing. The remaining 28 horizontal wells are either being drilled or are expected to be drilled over the next three months. We recently logged 240 feet of net Fayetteville Shale in our first Alta operated well, the Alta Beck #1-32H, and are currently drilling this well horizontally.

"On March 15, 2006, two affiliated companies were the apparent high bidders on a total of 16 lease blocks at the Central Gulf of Mexico Lease Sale #198. We were recently awarded our 11<sup>th</sup> lease block from this sale, West Delta 77, bringing the total number of lease blocks Contango and its affiliates have to 62 offshore leases.

"As of May 11, 2006, we have approximately \$33 million in cash, cash equivalents, and short term investments. In addition, the Company has \$10.0 million of unutilized borrowing capacity. Our principal focus will continue to be our deep shelf Gulf of Mexico and Fayetteville Shale exploration programs."

**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>REVENUES:</b>				
Natural gas and oil sales.....	\$ 123,199	\$ 256,632	\$ 315,274	\$ 630,720
Total revenues.....	<u>123,199</u>	<u>256,632</u>	<u>315,274</u>	<u>630,720</u>
<b>EXPENSES:</b>				
Operating expenses (credits).....	5,512	5,890	(11,216)	43,610
Exploration expenses.....	152,011	1,741,322	978,682	3,014,786
Depreciation, depletion and amortization.....	11,909	98,884	99,032	266,205
Impairment of natural gas and oil properties.....	419,918	124,537	419,918	236,537
General and administrative expense.....	1,061,518	620,738	3,083,492	2,520,262
Total expenses.....	<u>1,650,868</u>	<u>2,591,371</u>	<u>4,569,908</u>	<u>6,081,400</u>
<b>LOSS FROM CONTINUING OPERATIONS BEFORE</b>				
<b>OTHER INCOME AND INCOME TAXES.....</b>	(1,527,669)	(2,334,739)	(4,254,634)	(5,450,680)
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense.....	(93)	(93)	(285)	(71,410)
Interest income.....	165,946	168,466	565,314	201,822
Gain (loss) on sale of assets and other.....	(18,519)	(12,346)	223,167	(99,166)
<b>LOSS FROM CONTINUING OPERATIONS</b>				
<b>BEFORE INCOME TAXES.....</b>	(1,380,335)	(2,178,712)	(3,466,438)	(5,419,434)
Benefit for income taxes.....	524,792	762,549	1,326,191	1,896,802
<b>LOSS FROM CONTINUING OPERATIONS.....</b>	<u>(855,543)</u>	<u>(1,416,163)</u>	<u>(2,140,247)</u>	<u>(3,522,632)</u>
<b>DISCONTINUED OPERATIONS</b>				
Discontinued operations, net of income taxes.....	1,754,965	344,119	3,032,583	17,188,866
<b>NET INCOME (LOSS).....</b>	899,422	(1,072,044)	892,336	13,666,234
Preferred stock dividends.....	150,000	105,000	451,000	315,000
<b>NET INCOME (LOSS) ATTRIBUTABLE</b>				
<b>TO COMMON STOCK.....</b>	<u>\$ 749,422</u>	<u>\$ (1,177,044)</u>	<u>\$ 441,336</u>	<u>\$ 13,351,234</u>
<b>NET INCOME (LOSS) PER SHARE:</b>				
<b>Basic</b>				
Continuing operations.....	\$ (0.07)	\$ (0.12)	\$ (0.18)	\$ (0.30)
Discontinued operations.....	0.12	0.03	0.21	1.32
Total.....	<u>\$ 0.05</u>	<u>\$ (0.09)</u>	<u>\$ 0.03</u>	<u>\$ 1.02</u>
<b>Diluted</b>				
Continuing operations.....	\$ (0.07)	\$ (0.12)	\$ (0.18)	\$ (0.30)
Discontinued operations.....	0.12	0.03	0.21	1.32
Total.....	<u>\$ 0.05</u>	<u>\$ (0.09)</u>	<u>\$ 0.03</u>	<u>\$ 1.02</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>				
Basic.....	<u>14,865,965</u>	<u>13,108,196</u>	<u>14,675,586</u>	<u>13,030,251</u>
Diluted.....	<u>14,865,965</u>	<u>13,108,196</u>	<u>14,675,586</u>	<u>13,030,251</u>

The summarized financial results for discontinued operations for each of the periods ended March 31, are as follows:

Operating Results:	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2006	2005	2006	2005
Revenues.....	\$ 1,555,134	\$ 774,449	\$ 4,377,017	\$ 14,357,236
Operating (expenses) credits *.....	466,362	178,392	1,266,320	(1,226,890)
Depreciation expense.....	(380,000)	(223,666)	(966,734)	(2,259,325)
Exploration expense.....	-	(229,119)	(1,093,139)	(714,906)
Gain on sale of discontinued operations.....	1,058,450	29,358	1,082,048	16,288,294
Gain before income taxes.....	2,699,946	529,414	4,665,512	26,444,409
Provision for income taxes.....	(944,981)	(185,295)	(1,632,929)	(9,255,543)
Gain from discontinued operations, net of income taxes.....	<u>\$ 1,754,965</u>	<u>\$ 344,119</u>	<u>\$ 3,032,583</u>	<u>\$ 17,188,866</u>

\* credit due to severance tax refunds

### Production, Prices, Operating Expenses, and Other

Production Data:	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2006	2005	2006	2005
	(Dollar amounts in 000s, except average sales price and per Mcfe amounts)		(Dollar amounts in 000s, except average sales price and per Mcfe amounts)	
Natural gas (million cubic feet).....	116	120	342	2,030
Oil and condensate (thousand barrels).....	13	5	28	44
Total (million cubic feet equivalent).....	194	150	510	2,294
Natural gas (thousand cubic feet per day).....	1,289	1,333	1,248	7,409
Oil and condensate (barrels per day).....	144	56	102	161
Total (thousand cubic feet equivalent per day).....	2,153	1,669	1,860	8,375
Average sales price:				
Natural gas (per thousand cubic feet).....	\$ 8.00	\$ 6.32	\$ 9.14	\$ 6.40
Oil and condensate (per barrel).....	\$ 58.17	\$ 50.68	\$ 56.89	\$ 45.35
Selected data per Mcfe:				
Severance taxes.....	\$ (2.89)	\$ (1.28)	\$ (2.89)	\$ (0.18)
Lease operating expenses.....	\$ 0.51	\$ 0.15	\$ 0.37	\$ 0.74
General and administrative expenses.....	\$ 5.49	\$ 4.08	\$ 6.08	\$ 1.10
Depreciation, depletion and amortization of natural gas and oil properties.....	\$ 1.96	\$ 2.06	\$ 1.99	\$ 1.07
EBITDAX (1).....	\$ 2,117	\$ 600	\$ 4,192	\$ 27,386

- (1) EBITDAX represents earnings before interest, income taxes, depreciation, depletion and amortization, impairment expenses, exploration expenses, including gain (loss) from hedging activities, and sale of assets and other. We have reported EBITDAX because we believe EBITDAX is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt. We believe EBITDAX assists investors in comparing a company's performance on a consistent basis without regard to depreciation, depletion and amortization, impairment of natural gas and oil properties and exploration expenses, which can vary significantly depending upon accounting methods. EBITDAX is not a calculation based on U.S. generally accepted accounting principles and should not

be considered an alternative to net income (loss) in measuring our performance or used as an exclusive measure of cash flow because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in our statements of cash flows. Investors should carefully consider the specific items included in our computation of EBITDAX. While we have disclosed our EBITDAX to permit a more complete comparative analysis of our operating performance and debt servicing ability relative to other companies, investors should be cautioned that EBITDAX as reported by us may not be comparable in all instances to EBITDAX as reported by other companies. EBITDAX amounts may not be fully available for management's discretionary use, due to requirements to conserve funds for capital expenditures, debt service, preferred stock dividends and other commitments.

A reconciliation of EBITDAX to loss from continuing operations and operating results for discontinued operations for the periods indicated is presented below.

Reconciliation of EBITDAX:	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2006	2005	2006	2005
	(Dollar amounts in 000s)		(Dollar amounts in 000s)	
(Loss) from continuing operations before other income and income taxes.....	\$ (1,528)	\$ (2,335)	\$ (4,255)	\$ (5,451)
Exploration expenses.....	152	1,741	979	3,015
Depreciation, depletion and amortization.....	12	99	99	266
Impairment of natural gas and oil properties.....	420	125	420	237
Gain (loss) on sale of assets and other.....	(19)	(12)	223	(99)
EBITDAX from continuing operations.....	(963)	(382)	(2,534)	(2,032)
Gain from discontinued operations before taxes.....	2,700	529	4,666	26,444
Exploration expenses.....	-	229	1,093	715
Depreciation, depletion and amortization.....	380	224	967	2,259
EBITDAX.....	<u>\$ 2,117</u>	<u>\$ 600</u>	<u>\$ 4,192</u>	<u>\$ 27,386</u>

Contango is a Houston-based, independent natural gas and oil company. The Company's core business is to explore, develop, produce and acquire natural gas and oil properties primarily offshore in the Gulf of Mexico and onshore in the Arkansas Fayetteville Shale. As a recent addition to our business, we now operate certain offshore prospects through our wholly-owned subsidiary, Contango Operators, Inc. ("COI"). The Company also owns a 10% interest in a limited partnership formed to develop an LNG receiving terminal in Freeport, Texas, and holds investments in companies focused on commercializing environmentally preferred energy technologies. Additional information can be found on our web page at [www.contango.com](http://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 risks, price volatility, production levels, closing of transactions, capital availability, operational 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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