

CONTANGO OIL & GAS COMPANY

NEWS RELEASE

Contango Reports Second Quarter Earnings and Updates Operations

FEBRUARY 8, 2007 – HOUSTON, TEXAS – Contango Oil & Gas Company (AMEX:MCF) reported a net loss attributable to common stock for the three months ended December 31, 2006 of approximately \$2.5 million, or \$0.16 per basic and diluted share, which included a loss on the sale of Contango Operators, Inc.'s ("COI's") 25% working interest in the Grand Isle 72 well ("Liberty"). COI is a wholly-owned subsidiary of the Company. This compares to a net loss attributable to common stock for the three months ended December 31, 2005 of \$0.4 million, or \$0.03 per basic and diluted share.

The net loss attributable to Contango common stock for the six months ended December 31, 2006 was \$2.9 million, or \$0.19 per basic and diluted share, which included a loss on the sale of COI's 25% working interest in the Grand Isle 72 well, compared to a net loss attributable to common stock for the six months ended December 31, 2005 of \$0.3 million, or \$0.02 per basic and diluted share.

Cash Inflow. During the six months ended December 31, 2006, we had approximately \$35.4 million of cash inflow consisting of \$7.0 million from the sale of COI's interest in Grand Isle 72, \$10.0 million from borrowings under our credit facility with The Royal Bank of Scotland and \$18.4 million from the sale of short term investments.

Cash Outflow. During the six months ended December 31, 2006, we used a total of approximately \$39.4 million of cash consisting of \$5.5 million for operations, \$31.9 million in exploration and development activities, \$1.5 million in investments in affiliates and \$0.5 million in financing activities.

Capital Budget. For the final six months of fiscal year 2007, our capital expenditure budget calls for us to invest a total of \$ 25.8 million (\$4.4 million of this was invested in January 2007), as we continue to invest in our Arkansas Fayetteville Shale play, bring the Grand Isle 72 ("Liberty") discovery to production and spud a second exploration well at our Dutch prospect in February 2007.

Of the \$25.8 million in capital expenditures budgeted for the remaining six months of fiscal year 2007, \$6.0 million is anticipated to be invested in offshore activities. Our budget calls for us to invest approximately \$1.1 million for production and pipeline facilities for developing Grand Isle 72, approximately \$3.9 million for drilling, completion, production and pipeline facilities for our second well at Eugene Island 10 (\$0.2 million was invested in January 2007) and \$1.0 million in projected future exploration costs, seismic and delay rentals.

Of the \$25.8 million in capital expenditures budgeted for the remaining six months of fiscal year 2007, \$19.8 million is expected to be invested in onshore activities. In the Arkansas Fayetteville Shale, our partners and we have acquired or received commitments on approximately 44,300 net mineral acres and we have committed to a total of 117 wells in this play as of February 4, 2007. We have an average working interest of 15% and a net revenue interest of 12% in these 117 wells. Of these, 25 are to be operated by Alta and 92 are to be operated by a third party independent oil and gas exploration company (these 92 wells are referred to as "Integrated Wells").

Of the 25 Alta operated wells, seven have been drilled as of December 31, 2006, four will be drilled in fiscal year 2007, and 14 will be drilled later. We estimate an additional \$4.7 million, net to Contango, will be required for remaining drilling, frac, completion and hook-up costs of these seven wells (\$2.0 million of this was invested in January 2007). We are budgeting to drill, complete and frac an additional four new Alta wells during fiscal year 2007 at a cost of \$5.4 million, net to us. Additionally, we expect to invest \$0.7 million in pipeline infrastructure and additional leasehold costs for the Arkansas Fayetteville Shale (\$0.4 million of this was invested in January 2007). We estimate we will have an average working interest of 54% and a net revenue interest of 43% in these 11 Alta wells.

Of the 92 Integrated Wells for which we have received AFEs, 35 wells are producing, 23 wells have already been spud, and 34 wells have yet to be drilled. In addition to these 92 Integrated Wells, we estimate we will receive an additional seven AFEs per month for Integrated Wells during the final five months of fiscal year 2007 for a total of 127 Integrated Wells. We anticipate having approximately 67 producing Integrated Wells by the end of June 2007. Our capital budget for Integrated Wells assumes we will invest \$8.2 million in Integrated Wells during the remainder of fiscal year 2007 (\$1.8 million of this was invested in January 2007). We estimate we will have an average working interest of 6% and a net revenue interest of 5% in these 127 Integrated Wells.

As of February 7, 2007, we have approximately \$7.5 million in cash, cash equivalents, and short term investments and \$30.0 million in long-term debt outstanding. The Company had estimated production of approximately 11.9 MMcfe/d.

Kenneth R. Peak, Contango's Chairman and Chief Executive Officer, said, "Our Dutch # 1 well at Eugene Island 10 is now flowing at 28.3 million cubic feet equivalent per day, and Our Dutch # 2 well was spud on February 7, 2007."

Mr. Peak continued, "Our proved reserves, as estimated by our independent reserve engineers as of December 31, 2006, were 34.2 billion cubic feet equivalent. The SEC PV-10 pre-tax net present value of these reserves, using quarter end prices of \$5.63 per MMBtu and \$61.05 per barrel was \$121.5 million."

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2006	2005	2006	2005
REVENUES:				
Natural gas and oil sales.....	\$ 850,407	\$ 44,298	\$ 2,042,713	\$ 192,078
Total revenues.....	<u>850,407</u>	<u>44,298</u>	<u>2,042,713</u>	<u>192,078</u>
EXPENSES:				
Operating expenses.....	144,702	125,896	277,651	131,646
Exploration expenses.....	496,123	377,708	897,470	717,146
Depreciation, depletion and amortization.....	292,192	31,763	504,383	87,123
Impairment of natural gas and oil properties.....	192,109	-	192,109	-
General and administrative expenses.....	1,425,599	1,099,711	2,528,941	2,021,974
Total expenses.....	<u>2,550,725</u>	<u>1,635,078</u>	<u>4,400,554</u>	<u>2,957,889</u>
LOSS FROM CONTINUING OPERATIONS BEFORE				
OTHER INCOME AND INCOME TAXES.....	(1,700,318)	(1,590,780)	(2,357,841)	(2,765,811)
OTHER INCOME (EXPENSE):				
Interest expense (net of interest capitalized).....	(390,434)	(96)	(557,905)	(192)
Interest income.....	155,483	190,315	407,142	399,368
Gain (loss) on sale of assets and other.....	(1,401,076)	32,164	(1,316,685)	241,686
LOSS FROM CONTINUING OPERATIONS				
BEFORE INCOME TAXES.....	(3,336,345)	(1,368,397)	(3,825,289)	(2,124,949)
Benefit for income taxes.....	1,019,484	535,585	1,252,572	814,995
LOSS FROM CONTINUING OPERATIONS.....	(2,316,861)	(832,812)	(2,572,717)	(1,309,954)
DISCONTINUED OPERATIONS				
Discontinued operations, net of income taxes.....	-	614,425	-	1,302,868
NET LOSS.....	(2,316,861)	(218,387)	(2,572,717)	(7,086)
Preferred stock dividends.....	142,500	150,000	292,500	301,000
NET LOSS ATTRIBUTABLE TO COMMON STOCK.....	<u>\$ (2,459,361)</u>	<u>\$ (368,387)</u>	<u>\$ (2,865,217)</u>	<u>\$ (308,086)</u>
NET INCOME (LOSS) PER SHARE:				
Basic				
Continuing operations.....	\$ (0.16)	\$ (0.07)	\$ (0.19)	\$ (0.11)
Discontinued operations.....	-	0.04	-	0.09
Total.....	<u>\$ (0.16)</u>	<u>\$ (0.03)</u>	<u>\$ (0.19)</u>	<u>\$ (0.02)</u>
Diluted				
Continuing operations.....	\$ (0.16)	\$ (0.07)	\$ (0.19)	\$ (0.11)
Discontinued operations.....	-	0.04	-	0.09
Total.....	<u>\$ (0.16)</u>	<u>\$ (0.03)</u>	<u>\$ (0.19)</u>	<u>\$ (0.02)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic.....	15,031,697	14,717,570	15,018,305	14,586,862
Diluted.....	<u>15,031,697</u>	<u>14,717,570</u>	<u>15,018,305</u>	<u>14,586,862</u>

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

Operating Results :	Three months ended		Six months ended	
	December 31,		December 31,	
	2006	2005	2006	2005
Revenues.....	\$ -	\$ 1,779,111	\$ -	\$ 2,821,882
Operating (expenses) credits.....	-	733,833 *	-	948,332 *
Exploration expenses.....	-	(1,202,665)	-	(1,202,665)
Depreciation, depletion and amortization.....	-	(365,010)	-	(586,734)
Gain on sale of discontinued operations.....	-	-	-	23,598
Gain before income taxes.....	\$ -	\$ 945,269	\$ -	\$ 2,004,413
Provision for income taxes	-	(330,844)	-	(701,545)
Gain from discontinued operations, net of income taxes.....	\$ -	\$ 614,425	\$ -	\$ 1,302,868

* credit due to severance tax refunds

Production, Prices, Operating Expenses, and Other

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2006	2005	2006	2005
	(Dollar amounts in 000's, except per Mcfe amounts)		(Dollar amounts in 000's, except per Mcfe amounts)	
Production Data:				
Natural gas (million cubic feet).....	105	135	248	226
Oil and condensate (thousand barrels).....	1	9	5	15
Total (million cubic feet equivalent).....	111	189	278	316
Natural gas (million cubic feet per day).....	1.1	1.5	1.3	1.2
Oil and condensate (thousand barrels per day).....	0.1	0.1	0.1	0.1
Total (million cubic feet equivalent per day).....	1.7	2.1	1.9	1.8
Average sales price:				
Natural gas (per thousand cubic feet).....	\$ 7.45	\$ 10.30	\$ 6.76	\$ 9.72
Oil and condensate (per barrel).....	\$ 58.33	\$ 50.18	\$ 67.56	\$ 55.77
Selected data per Mcfe:				
Production and severance taxes.....	\$ 0.76	\$ (3.21)	\$ 0.47	\$ (2.89)
Lease operating expenses.....	\$ 0.53	\$ (0.05)	\$ 0.52	\$ 0.29
General and administrative expenses.....	\$ 12.74	\$ 5.89	\$ 9.01	\$ 6.44
Depreciation, depletion and amortization of natural gas and oil properties.....	\$ 2.15	\$ 1.96	\$ 1.46	\$ 2.00
EBITDAX (1).....	\$ (2,121)	\$ 1,364	\$ (2,082)	\$ 2,098

(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.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2006	2005	2006	2005
	(\$000)		(\$000)	
Loss from continuing operations.....	\$ (1,700)	\$ (1,591)	\$ (2,358)	\$ (2,766)
Exploration expenses.....	496	378	897	717
Depreciation, depletion and amortization.....	292	32	504	87
Impairment on natural gas and oil properties.....	192	-	192	-
Gain (loss) on sale of assets and other.....	(1,401)	32	(1,317)	242
EBITDAX from continuing operations.....	(2,121)	(1,149)	(2,082)	(1,720)
Gain from discontinued operations, before taxes.....	-	945	-	2,004
Exploration expenses.....	-	1,203	-	1,203
Depreciation, depletion and amortization.....	-	365	-	587
Gain on sale of assets and other.....	-	-	-	24
EBITDAX.....	<u>\$ (2,121)</u>	<u>\$ 1,364</u>	<u>\$ (2,082)</u>	<u>\$ 2,098</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. 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.

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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