

# CONTANGO OIL & GAS COMPANY

## NEWS RELEASE

### Contango Reports Third Quarter Earnings and Updates Operations

May 9, 2005 – HOUSTON, TEXAS – Contango Oil & Gas Company (AMEX:MCF) reported 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, compared to net income attributable to common stock for the three months ended March 31, 2004 of \$1.2 million, or \$0.11 per basic and diluted share. Natural gas and oil sales from continuing and discontinued operations for the three months ended March 31, 2005 were \$1 million, down from \$6.6 million for the three months ended March 31, 2004. The decrease in revenue was primarily the result of the sale of our south Texas natural gas and oil interests for \$50 million, completed in December 2004. The \$1 million of revenue for the current quarter reflects primarily production from new reserves and production from south Texas properties not included in the sale. EBITDAX was \$0.6 million for the three months ended March 31, 2005, down from EBITDAX for the three months ended March 31, 2004 of \$5.6 million.

Net income attributable to common stock for the nine months ended March 31, 2005 was \$13.4 million, or \$1.02 per basic and diluted share, compared to net income attributable to common stock for the nine months ended March 31, 2004 of \$8.2 million, or \$0.83 per basic and diluted share. Natural gas and oil sales from continuing and discontinued operations for the nine months ended March 31, 2005 were \$15.0 million, down from \$20.8 million for the nine months ended March 31, 2004. EBITDAX was \$27.4 million for the nine months ended March 31, 2005, up from EBITDAX for the nine months ended March 31, 2004 of \$24.0 million.

We currently have approximately \$34.8 million in cash, cash equivalents, and short term investments and have no debt. We currently have production of approximately 2,100 Mcf/d. Based on current prices and production rates, the Company anticipates EBITDAX of approximately \$200,000 per month, net of estimated on-going general and administrative expenses of \$200,000 per month.

Kenneth R Peak, Contango's Chairman and Chief Executive Officer, said, "As a result of the Company's increased liquidity stemming from our recent south Texas property sale, the Company is selectively increasing its risk exposure in certain onshore and offshore prospects. The Company will also for the first time operate two offshore prospects in the Gulf of Mexico through its wholly owned subsidiary, Contango Operators, Inc. Our estimated capital budget for exploration activities for the remainder of the calendar year 2005 is \$21 million of which \$12 million will be invested in just three prospects: our Fayetteville Shale acreage acquisition project in Arkansas at \$4 million, and two offshore exploration prospects at \$4 million each. While this shift in strategy greatly increases the potential loss to the Company from dry holes on these prospects, it may also significantly increase our potential profit should the wells be successful."

Mr. Peak continued, "In the future, Contango expects to take working interests in additional prospects generated by its two partially owned subsidiaries, Republic Exploration and Contango Offshore Exploration. Contango will be offered these prospects under the same arms-length terms offered to industry participants. Some of these working interests may involve commitments by the Company of \$5 million or more per prospect."

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
	REVENUES:			
Natural gas and oil sales.....	\$ 1,031,081	\$ 28,327	\$ 3,036,677	\$ 105,244
Gain from hedging activities.....	-	-	-	58,171
Total revenues.....	1,031,081	28,327	3,036,677	163,415
EXPENSES:				
Operating expenses.....	82,106	51,547	335,079	102,576
Exploration expenses.....	1,970,442	1,394,253	3,702,781	4,670,794
Depreciation, depletion and amortization.....	322,550	6,202	942,172	21,002
Impairment of natural gas and oil properties.....	124,537	-	236,537	42,995
General and administrative expenses.....	620,738	662,898	2,520,262	1,808,478
Total expenses.....	3,120,373	2,114,900	7,736,831	6,645,845
(LOSS) FROM CONTINUING OPERATIONS.....	(2,089,292)	(2,086,573)	(4,700,154)	(6,482,430)
Interest expense.....	(93)	(28,804)	(71,410)	(308,449)
Interest income.....	168,466	12,263	201,822	31,929
Gain on sale of marketable securities.....	-	-	-	710,322
Gain (loss) on sale of assets and other.....	(12,346)	18,858	(99,166)	6,262,847
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.....	(1,933,265)	(2,084,256)	(4,668,908)	214,219
(Provision) benefit for income taxes.....	676,642	729,489	1,634,118	(7,761)
INCOME (LOSS) FROM CONTINUING OPERATIONS.....	(1,256,623)	(1,354,767)	(3,034,790)	206,458
DISCONTINUED OPERATIONS				
Discontinued operations, net of income taxes.....	184,579	2,708,437	16,701,024	8,494,112
NET INCOME (LOSS).....	(1,072,044)	1,353,670	13,666,234	8,700,570
Preferred stock dividends.....	105,000	173,333	315,000	500,000
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK.	\$ (1,177,044)	\$ 1,180,337	\$ 13,351,234	\$ 8,200,570
NET INCOME (LOSS) PER SHARE:				
Basic				
Continuing operations.....	\$ (0.10)	\$ (0.13)	\$ (0.26)	\$ (0.03)
Discontinued operations.....	0.01	0.24	1.28	0.86
Total.....	\$ (0.09)	\$ 0.11	\$ 1.02	\$ 0.83
Diluted				
Continuing operations.....	\$ (0.10)	\$ (0.13)	\$ (0.26)	\$ (0.03)
Discontinued operations.....	0.01	0.24	1.28	0.86
Total.....	\$ (0.09)	\$ 0.11	\$ 1.02	\$ 0.83
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic.....	13,108,196	11,145,896	13,030,251	9,927,796
Diluted.....	13,108,196	11,145,896	13,030,251	9,927,796

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

<b>Operating Results:</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenues.....	\$ -	\$ 6,582,812	\$ 11,951,278	\$ 20,738,707
Operating expenses.....	254,609	(441,461)	(935,420)	(2,959,346)
Depreciation expenses.....	-	(1,741,325)	(1,583,358)	(5,139,260)
Exploration expenses.....	-	(343,246)	(26,911)	(554,703)
Gain on sale of discontinued operations.....	29,358	110,046	16,288,294	982,467
Gain before income taxes.....	\$ 283,967	\$ 4,166,826	\$ 25,693,883	\$ 13,067,865
Provision for income taxes.....	(99,388)	(1,458,389)	(8,992,859)	(4,573,753)
Gain from discontinued operations, net of income taxes.....	<u>\$ 184,579</u>	<u>\$ 2,708,437</u>	<u>\$ 16,701,024</u>	<u>\$ 8,494,112</u>

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	(Dollar amounts in 000s, except per Mcfe amounts)		(Dollar amounts in 000s, except per Mcfe amounts)	
<b>Production Data:</b>				
Natural gas (million cubic feet).....	120	1,007	2,030	3,415
Oil and condensate (thousand barrels).....	5	20	44	78
Total (million cubic feet equivalent).....	150	1,127	2,294	3,883
Natural gas (thousand cubic feet per day).....	1,333	11,061	7,409	12,418
Oil and condensate (barrels per day).....	56	221	161	283
Total (thousand cubic feet equivalent per day).....	1,669	12,387	8,375	14,116
Average sales price:				
Natural gas (per thousand cubic feet).....	\$ 6.32	\$ 5.90	\$ 6.40	\$ 5.41
Oil and condensate (per barrel).....	\$ 50.68	\$ 33.44	\$ 45.35	\$ 30.57
Selected data per Mcfe:				
Production and severance taxes.....	\$ (1.28)	\$ 0.02	\$ (0.18)	\$ 0.22
Lease operating expenses.....	\$ 0.15	\$ 0.42	\$ 0.74	\$ 0.57
General and administrative expenses.....	\$ 4.14	\$ 0.59	\$ 1.10	\$ 0.47
Depreciation, depletion and amortization of natural gas and oil properties.....	\$ 2.06	\$ 1.52	\$ 1.07	\$ 1.30
EBITDAX (1).....	\$ 600	\$ 5,584	\$ 27,386	\$ 23,987

- (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 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,	
	2005	2004	2005	2004
	(Dollar amounts in 000s)		(Dollar amounts in 000s)	
(Loss) from continuing operations.....	\$ (2,089)	\$ (2,086)	\$ (4,700)	\$ (6,482)
Exploration expenses.....	1,970	1,394	3,703	4,671
Depreciation, depletion and amortization.....	323	6	942	21
Impairment of natural gas and oil properties.....	124	-	236	43
Gain on sale of marketable securities.....	-	-	-	710
Gain (loss) on sale of assets and other.....	(12)	19	(99)	6,263
EBITDAX from continuing operations.....	316	(667)	82	5,226
Income from discontinued operations before taxes.....	284	4,167	25,694	13,068
Exploration expenses.....	-	343	27	554
Depreciation, depletion and amortization.....	-	1,741	1,583	5,139
EBITDAX.....	<u>\$ 600</u>	<u>\$ 5,584</u>	<u>\$ 27,386</u>	<u>\$ 23,987</u>

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.; a 32% interest in Contango Capital Partnership Management, LLC, and a 25% interest in the Contango Capital Partners Fund, L.P., which were 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](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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