

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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CONTANGO OIL & GAS CO

CIK: **1071993** | IRS No.: **954079863** | State of Incorporation: **DE** | Fiscal Year End: **0630**
Type: **10-K** | Act: **34** | File No.: **001-16317** | Film No.: **081049891**
SIC: **1311** Crude petroleum & natural gas

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-16317

CONTANGO OIL & GAS COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-4079863

(IRS Employer Identification No.)

**3700 Buffalo Speedway, Suite 960
Houston, Texas 77098**

(Address of principal executive offices)

(713) 960-1901

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, Par Value \$0.04 per share

American Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At December 31, 2007, the aggregate market value of the registrant's common stock held by non-affiliates (based upon the closing sale price of shares of such common stock as reported on the American Stock Exchange) was \$649,840,517. As of August 22, 2008, there were 16,824,246 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

Items 10, 11, 12, 13 and 14 of Part III have been omitted from this report since registrant will file with the Securities and Exchange Commission, not later than 120 days after the close of its fiscal year, a definitive proxy statement, pursuant to Regulation 14A. The information required by Items 10, 11, 12, 13 and 14 of this report, which will appear in the definitive proxy statement, is incorporated by reference into this Form 10-K.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Some of the statements made in this report may contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, as amended. The words and phrases “should be”, “will be”, “believe”, “expect”, “anticipate”, “estimate”, “forecast”, “goal” and similar expressions identify forward-looking statements and express our expectations about future events. These include such matters as:

- Our financial position
- Business strategy, including outsourcing
- Meeting our forecasts and budgets
- Anticipated capital expenditures
- Drilling of wells
- Natural gas and oil production and reserves
- Timing and amount of future discoveries (if any) and production of natural gas and oil
- Operating costs and other expenses
- Cash flow and anticipated liquidity
- Prospect development
- Property acquisitions and sales

Although we believe the expectations reflected in such forward-looking statements are reasonable, such expectations may not occur. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from actual future results expressed or implied by the forward-looking statements. These factors include among others:

- Low and/or declining prices for natural gas and oil
- Natural gas and oil price volatility
- Operational constraints, start-up delays and production shut-ins at both operated and non-operated production platforms, pipelines and gas processing facilities
- The risks associated with acting as the operator in drilling deep high pressure wells in the Gulf of Mexico
- The risks associated with exploration, including cost overruns and the drilling of non-economic wells or dry holes, especially in prospects in which the Company has made a large capital commitment relative to the size of the Company’s capitalization structure
- The timing and successful drilling and completion of natural gas and oil wells
- Availability of capital and the ability to repay indebtedness when due
- Availability of rigs and other operating equipment
- Ability to raise capital to fund capital expenditures
- Timely and full receipt of sale proceeds from the sale of our production
- The ability to find, acquire, market, develop and produce new natural gas and oil properties
- Interest rate volatility
- Uncertainties in the estimation of proved reserves and in the projection of future rates of production and timing of development expenditures
- Operating hazards attendant to the natural gas and oil business

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Downhole drilling and completion risks that are generally not recoverable from third parties or insurance

Potential mechanical failure or under-performance of significant wells, production facilities, processing plants or pipeline mishaps

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Availability and cost of material and equipment

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Actions or inactions of third-party operators of our properties

Actions or inactions of third-party operators of pipelines or processing facilities

Ability to find and retain skilled personnel

Strength and financial resources of competitors

Federal and state regulatory developments and approvals

Environmental risks

Worldwide economic conditions

Successful commercialization of alternative energy technologies

Drilling and operating costs, production rates and ultimate reserve recoveries in our Eugene Island 10 (“Dutch”) and State of Louisiana (“Mary Rose”) acreage.

You should not unduly rely on these forward-looking statements in this report, as they speak only as of the date of this report. Except as required by law, we undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events. See the information under the heading “Risk Factors” referred to on page 14 of this report for some of the important factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in forward-looking statements.

All references in this Form 10-K to the “Company”, “Contango”, “we”, “us” or “our” are to Contango Oil & Gas Company and wholly-owned Subsidiaries. Unless otherwise noted, all information in this Form 10-K relating to natural gas and oil reserves and the estimated future net cash flows attributable to those reserves are based on estimates prepared by independent engineers and are net to our interest.

PART I

Item 1. *Business*

Overview

Contango is a Houston-based, independent natural gas and oil company. The Company’s business is to explore, develop, produce and acquire natural gas and oil properties primarily offshore in the Gulf of Mexico. Contango Operators, Inc. (“COI”) and Contango Resources Company (“CRC”), our wholly-owned subsidiaries, act as operator on certain offshore prospects.

Our Strategy

Our exploration strategy is predicated upon two core beliefs: (1) that the only competitive advantage in the commodity-based natural gas and oil business is to be among the lowest cost producers and (2) that virtually all the exploration and production industry’s value creation occurs through the drilling of successful exploratory wells. As a result, our business strategy includes the following elements:

Funding exploration prospects generated by Juneau Exploration, L.P., our alliance partner. We depend totally upon our alliance partner, Juneau Exploration, L.P. (“JEX”), for prospect generation expertise. JEX is experienced and has a successful track record in exploration.

Using our limited capital availability to increase our reward/risk potential on selective prospects. We have concentrated our risk investment capital in our offshore Gulf of Mexico prospects. Exploration prospects are inherently risky as they require large amounts of capital with no guarantee of success. COI and CRC drill and operate our offshore prospects. Should we be successful in any of our offshore prospects, we will have the opportunity to spend significantly more capital to complete development and bring the discovery to producing status.

Operating in the Gulf of Mexico. COI and CRC were formed for the purpose of drilling and operating exploration wells in the Gulf of Mexico. Assuming the role of an operator represents a significant increase in the risk profile of the Company since the Company has limited operating experience. While the Company has historically drilled turnkey wells, adverse weather conditions as well as difficulties encountered while drilling our offshore wells could cause our contracts to come off turnkey and thus lead to significantly higher drilling costs.

Sale of proved properties. From time-to-time as part of our business strategy, we have sold and in the future expect to continue to sell some or a substantial portion of our proved reserves and assets to capture current value, using the sales proceeds to further our offshore exploration activities. Since its inception, the Company has sold approximately \$484 million worth of natural gas and oil properties, and views periodic reserve sales as an opportunity to capture value, reduce reserve and price risk, and as a source of funds for potentially higher rate of return natural gas and oil exploration opportunities.

Controlling general and administrative and geological and geophysical costs. Our goal is to be among the most efficient in the industry in revenue and profit per employee and among the lowest in general and administrative costs. With respect to our onshore prospects, we plan to continue outsourcing our geological, geophysical, and reservoir engineering and land functions, and partnering with cost efficient operators. We have six employees.

Structuring transactions to share risk. JEX, our alliance partner, shares in the upfront costs and the risk of our exploration prospects.

Structuring incentives to drive behavior. We believe that equity ownership aligns the interests of our partners, employees, and stockholders. Our directors and executive officers beneficially own or have voting control over approximately 23.1% of our common stock.

Exploration Alliance with JEX

JEX is a private company formed for the purpose of assembling domestic natural gas and oil prospects. Under our agreement with JEX, JEX generates natural gas and oil prospects and evaluates exploration prospects generated by others. JEX focuses on the Gulf of Mexico, and generates offshore exploration prospects via our affiliated companies, Republic Exploration, LLC (“REX”) and Contango Offshore Exploration, LLC (“COE”) (see “Offshore Gulf of Mexico Exploration Joint Ventures” below).

Offshore Gulf of Mexico Exploration Joint Ventures

Contango directly and through REX and COE conducts exploration activities in the Gulf of Mexico. As of August 22, 2008, Contango, through its wholly-owned subsidiaries, COI and CRC, and its partially-owned subsidiaries, REX and COE, had an interest in 67 offshore leases. See “Offshore Properties” below for additional information on our offshore properties.

As of June 30, 2008, Contango owned a 32.3% equity interest in REX and a 65.6% equity interest in COE, both of which were formed for the purpose of generating exploration opportunities in the Gulf of Mexico. See Exhibit 21.2 for an organizational chart of our subsidiaries. These companies focus on identifying prospects, acquiring leases at federal and state lease sales and then selling the prospects to third parties, including Contango, subject to timed drilling obligations plus retained reversionary interests in favor of REX and COE.

Republic Exploration LLC (REX)

Effective April 1, 2008, the Company sold a portion of its ownership interest in REX to an existing member of REX for approximately \$0.8 million. As a result of the sale, the Company’s equity ownership interest in REX has decreased to 32.3%.

On April 3, 2008, the members of REX entered into an Amended and Restated Limited Liability Company Agreement (the “REX LLC Agreement”), effective as of April 1, 2008, to, among other things, distribute REX’s interest in Dutch and Mary Rose to the individual members of REX or their designees. In connection with this distribution, REX repaid in full all amounts owing by REX to a private investment firm under a \$50.0 million demand promissory note with such private investment firm (the “REX Demand Note”), and all security interests and other liens granted in favor of such private investment firm as security for the obligations under the REX Demand Note have been released and terminated. The Company’s portion of such repayment was approximately \$22.5 million.

On March 12, 2008, the Company announced that its wildcat exploration well at High Island A198, a REX prospect, was determined to be a dry hole, at a cost of approximately \$4.2 million. The well has been plugged and abandoned.

West Delta 36 and Eugene Island 113-B, two REX prospects, are operated by a third party. The Company depends on third-party operators for the operation and maintenance of these production platforms. On March 7, 2008, REX elected to convert its 3.67% overriding royalty interest in West Delta 36 to an undivided 25% working interest, sometimes referred to herein as “WI”. As of August 21, 2008, West Delta 36, in which REX has a 20.0% net revenue interest, sometimes referred to herein as “NRI”, was producing at a rate of approximately 9.7 million cubic feet equivalent per day (“Mmcfed”), and Eugene Island 113-B, in which REX has a 3.3% NRI, was temporarily shut-in.

During the past twelve months, REX has been awarded the following leases:

Date	Lease	Amount	Lease Sale
July 2008	Eugene Island 56	\$310,999	Central GOM Lease Sale #206
Jan 2008	High Island 263	\$1.75 million	Western GOM Lease Sale #204
Jan 2008	High Island A38	\$1.1 million	Western GOM Lease Sale #204
Dec 2007	Eugene Island 11	\$94,673	Central GOM Lease Sale #205

Contango Offshore Exploration LLC (COE)

Effective April 1, 2008, the Company sold a portion of its ownership interest in COE to an existing member of COE for approximately \$0.9 million. As a result of the sale, the Company's equity ownership interest in COE has decreased to 65.6%.

Grand Isle 72 ("Liberty"), a COE prospect operated by COI, began producing in March 2007 and as of August 22, 2008 was producing at a rate of approximately 0.2 Mmcfd. COE has invested approximately \$5.5 million (\$3.6 million net to the Company) in drilling, completion, pipeline and production facility costs as of June 30, 2008. COE has a 50% WI and a 40% NRI in this well. As of June 30, 2008, COE had borrowed \$4.3 million from the Company under a promissory note (the "Note") to fund a portion of its share of development costs at Grand Isle 72. The Note bears interest at a per annum rate of 10% and is payable upon demand. As of June 30, 2008, accrued interest thereon was \$668,816.

Grand Isle 70, another COE prospect, was drilled by COI in July 2006 and proved to be a discovery. The well has been temporarily abandoned while alternative development scenarios are being evaluated. COE has a 45.1% WI before completion of the well and a 52.6% WI after completion of the well, while COI has a 3.6% WI before and after completion of the well. As of June 30, 2008, COE and COI had invested approximately \$3.6 million to drill Grand Isle 70.

Ship Shoal 358, a COE prospect, is operated by a third party. The Company depends on third-party operators for the operation and maintenance of non-operated production platforms. As of August 12, 2008, Ship Shoal 358, in which COE has a 10.0% WI and 7.7% NRI, was producing at an 8/8ths rate of approximately 2.1 Mmcfd.

Contango Operators, Inc

COI, a wholly-owned subsidiary of the Company, was formed for the purpose of drilling exploration and development wells in the Gulf of Mexico. COI operates and acquires significant working interests in offshore exploration and development opportunities in the Gulf of Mexico, usually under a farm-out agreement, or similar agreement, with either REX or COE. COI expects to take working interests in these prospects under the same arms-length terms offered to industry third-party participants. In exchange for acting as operator, COI will receive a 10% ground floor working interest in all future wells. COI will pay the remaining 90% working interest and carry the owner of the lease (either REX or COE) for a 10% working interest through the tanks until initial production is achieved. Following a casing point election, the lease owner (either REX or COE) shall have an option to acquire a 25% working interest from COI. COI may also operate and acquire significant working interests in offshore exploration and development opportunities under farm-in agreements with third parties.

COI has recently drilled a well ("Eloise #1) on State of Louisiana leases at a depth below our Mary Rose discovery. The Company, through REX and COI participation, subject to elections for certain carried interests, has an approximate 54.17% WI in this well and is responsible for approximately \$12.5 million of drilling costs. COI has agreed to provide REX with a carried interest in this well through the tanks. At casing point, REX "backed-in" for an additional working interest from COI and COI's WI was reduced to approximately 36.90%. The Company expects to invest an additional \$3.8 million to complete the well.

Effective February 1, 2008, the Company sold COI's overriding royalty interest in Eugene Island 113-B, Ship Shoal 358 and Grand Isle 72 to JEX for \$164,400.

Contango Resources Company

CRC is a wholly-owned subsidiary of Contango formed for the sole purpose of drilling and operating exploration and development wells in our Dutch and Mary Rose leases in the Gulf of Mexico. Unlike COI, CRC will not acquire additional working interests in offshore exploration and development opportunities in the Gulf of Mexico.

Current Activities.

The Company's financial advisor, Merrill Lynch & Co., has begun meeting with parties interested in potentially purchasing the Company's Dutch and Mary Rose discoveries in the Gulf of Mexico. Any possible sale or restructuring is subject to mutually acceptable terms and conditions, mutually satisfactory documentation,

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the consent and approval of third parties and governmental authorities, the approval of Contango's board of directors and, if necessary, Contango's shareholders. If Contango obtains an acceptable proposal to acquire its Dutch and Mary Rose discoveries, the disposition would likely be structured through the sale of Contango by its shareholders, with the potential purchaser acquiring the stock of Contango Oil & Gas Company and CRC. The Company's remaining assets would be simultaneously spun-off to our shareholders through our subsidiary, Contango Energy Company. This structure would allow Contango shareholders to maintain an interest in any future exploration efforts at our other Gulf of Mexico leases.

A data room for the possible sale opened in July 2008. The Company anticipates receiving proposals in September 2008. If no acceptable proposals are received, the Company will terminate the sale and restructuring process and continue to develop and operate the Dutch and Mary Rose discoveries.

As of August 20, 2008, our three Dutch wells were flowing at a combined 8/8ths production rate of approximately 108.8 Mmcfed (approximately 41.5 Mmcfed net to Contango). The Company has invested approximately \$33.8 million to drill and complete these three Dutch wells, including pipeline and production facility costs. The three Dutch wells flow to a third-party owned and operated production platform at Eugene Island 24. This platform has a capacity of 100 million cubic feet per day ("Mmcf") and 3,000 barrels of oil per day ("bopd").

As of August 22, 2008, our four Mary Rose wells were flowing at a combined 8/8ths production rate of approximately 193.8 Mmcfed (approximately 71.4 Mmcfed net to Contango). The Company has invested approximately \$69.1 million to drill and complete these four Mary Rose wells, including pipeline and production facility costs. The four Mary Rose wells flow into the Company's recently completed production platform at Eugene Island 11, and through its associated pipeline into the ANR Pipeline Company facilities at Eugene Island 63. The gas is then processed on-shore near Patterson, Louisiana. The platform has been designed with a capacity of 500 Mmcf and 6,000 bopd and the pipeline has been designed with a capacity of 330 Mmcf and 6,000 bopd.

On April 3, 2008, the Company acquired additional working interests in the Eugene Island 10 ("Dutch") and State of Louisiana ("Mary Rose") discoveries in a like-kind exchange, using funds from the sale of its Eastern core Arkansas Fayetteville Shale properties held by a qualified intermediary. The Company purchased an additional 4.17% working interest and 3.33% net revenue interest in Dutch and an additional average 4.56% working interest and 3.33% net revenue interest in Mary Rose from three different companies for \$100 million. The effective date of the transaction was January 1, 2008. On February 8, 2008, the Company purchased an additional 0.3% overriding royalty interest in the Dutch and Mary Rose discoveries for \$9.0 million in a like-kind exchange, using funds from the sale of its Eastern core Arkansas Fayetteville Shale properties held by a qualified intermediary.

On January 3, 2008, the Company acquired an additional 8.33% working interest and 6.67% net revenue interest in Dutch and an additional average 9.11% working interest and 6.67% net revenue interest in Mary Rose from three different companies for \$200 million, in a like-kind exchange, using funds from the sale of its Western core Arkansas Fayetteville Shale properties held by a qualified intermediary. The effective date of the transaction was January 1, 2008. As of August 22, 2008, the Company had a 47.05% working interest and 38.12% net revenue interest in Dutch, and an average 53.21% working interest and 37.00% net revenue interest in Mary Rose.

The Company's independent third party engineer estimates the Dutch and Mary Rose discoveries to have total proved 8/8ths reserves as at June 30, 2008 of approximately 948 billion cubic feet equivalent ("Bcfe") (366 Bcfe net to Contango). The Company has budgeted approximately \$7.1 million to drill its first rate acceleration well ("Dutch #4") in this field beginning September 2008, and may drill additional rate acceleration wells to fully exploit its Dutch and Mary Rose discoveries.

The Minerals Management Service ("MMS") has implemented a rule on royalty relief for shallow water, deep shelf natural gas production from certain Gulf of Mexico leases. "Deep shelf gas" refers to natural gas produced from depths greater than 15,000 feet in waters of 200 meters or less. Royalty relief is available on the first 15 billion cubic feet ("Bcf") of natural gas production if produced from an interval between 15,000 to less than 18,000 feet. Royalty relief is available on the first 25 Bcf of natural gas production if produced from an interval between 18,000 to less than 20,000 feet. Royalty relief is available on the first 35 Bcf of natural gas production if produced from well depths at or greater than 20,000 feet. This royalty relief is expected to have a positive impact on the economics of

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deep gas wells drilled on the shelf of the Gulf of Mexico. The Company fully utilized its available MMS deep gas royalty relief in December 2007.

Offshore Properties

Producing Properties. The following table sets forth the interests owned by Contango through CRC and its REX and COE affiliates in the Gulf of Mexico which are producing natural gas or oil as of August 22, 2008:

<u>Area/Block</u>	<u>WI</u>	<u>NRI</u>	<u>Status</u>	<u>Notes</u>
<i>Contango Resources Company:</i>				
Eugene Island 10 #1 (Dutch #1)	47.05%	38.1%	Producing	
Eugene Island 10 #2 (Dutch #2)	47.05%	38.1%	Producing	
Eugene Island 10 #3 (Dutch #3)	47.05%	38.1%	Producing	
S-L 18640 #1 (Mary Rose #1)	53.21%	40.5%	Producing	
S-L 19266 #1 (Mary Rose #2)	53.21%	38.7%	Producing	
S-L 19266 #2 (Mary Rose #3)	53.21%	38.7%	Producing	
S-L 18860 #1 (Mary Rose #4)	34.58%	25.5%	Producing	
<i>Republic Exploration LLC</i>				
Eugene Island 113B	0.00 %	3.3 %	Producing	Farmed out
West Delta 36	25.00%	20.0%	Producing	Farmed out
<i>Contango Offshore Exploration LLC:</i>				
Grand Isle 72	50.00%	40.0%	Producing	
Ship Shoal 358, A-3 well	10.00%	7.7 %	Producing	

Leases. The following table sets forth the working interests and status of the leases owned by Contango through CRC and COI, and its REX and COE affiliates in the Gulf of Mexico as of August 22, 2008:

<u>Area/Block</u>	<u>WI</u>	<u>Lease Date</u>	<u>Expiration Date</u>	<u>Status</u>	<u>Notes</u>
<i>Contango Resources Company:</i>					
S-L 19266 #3 (Eloise North #1)	54.17%	Feb-07	Feb-12	Completing	
S-L 19261	53.21%	Feb-07	Feb-12		
S-L 19396	53.21%	Jun-07	Jun-12		
Eugene Island 11	53.21%	Dec-07	(1)		
<i>Contango Operators, Inc.:</i>					
Grand Isle 63	25.00%	May-04	May-09		
Grand Isle 73	25.00%	May-04	May-09		
West Delta 43	35.00%	May-04	May-09	Dry Hole	
Ship Shoal 14	37.50%	May-06	May-11		
Ship Shoal 25	37.50%	May-06	May-11		
South Marsh Island 57	37.50%	May-06	May-11		
South Marsh Island 59	37.50%	May-06	May-11		
South Marsh Island 75	37.50%	May-06	May-11		
South Marsh Island 282	37.50%	May-06	May-11		
Grand Isle 70	3.65 %	Jun-06	Jun-11		
West Delta 77	25.00%	Jun-06	Jun-11		
Vermilion 194	37.50%	Jul-06	Jul-11		

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<u>Area/Block</u>	<u>WI</u>	<u>Lease Date</u>	<u>Expiration Date</u>	<u>Status</u>	<u>Notes</u>
<i>Republic Exploration LLC</i>					
High Island 113	100.00%	Oct-03	Oct-08		
South Timbalier 191	50.00 %	May-04	May-09		
Vermilion 36	100.00%	May-04	May-09		
Vermilion 109	100.00%	May-04	May-09		
Vermilion 134	100.00%	May-04	May-09		
West Cameron 179	100.00%	May-04	May-09		
West Cameron 185	100.00%	May-04	May-09		
West Cameron 200	100.00%	May-04	May-09		
West Delta 18	100.00%	May-04	May-09		
West Delta 33	100.00%	May-04	May-09		
West Delta 34	100.00%	May-04	May-09		
West Delta 43	30.00 %	May-04	May-09	Dry Hole	
Ship Shoal 220	50.00 %	Jun-04	Jun-09		
South Timbalier 240	50.00 %	Jun-04	Jun-09		
West Cameron 133	100.00%	Jun-04	Jun-09		
West Cameron 80	100.00%	Jun-04	Jun-09		
West Cameron 167	100.00%	Jun-04	Jun-09		
Eugene Island 76	0.00 %	Jul-04	Jul-09	Depleted	Farmed out
Vermilion 130	100.00%	Jul-04	Jul-09		
West Cameron 107	100.00%	May-05	May-10		
Eugene Island 168	50.00 %	Jun-05	Jun-10		
Vermilion 73	0.00 %	Jul-05	Jul-10	Dry Hole	Farmed out
High Island A243	75.00 %	Jan-06	Jan-11		
South Marsh Island 57	50.00 %	May-06	May-11		
South Marsh Island 59	50.00 %	May-06	May-11		
South Marsh Island 75	50.00 %	May-06	May-11		
<i>Republic Exploration LLC (continued)</i>					
South Marsh Island 282	50.00 %	May-06	May-11		
Ship Shoal 14	50.00 %	May-06	May-11		
Ship Shoal 25	50.00 %	May-06	May-11		
West Delta 77	50.00 %	Jun-06	Jun-11		
Vermilion 154	(2)	Jul-06	Jul-11	(3)	Farmed out
Vermilion 194	50.00 %	Jul-06	Jul-11		
High Island A196	100.00%	Nov-06	Nov-11		
High Island A197	100.00%	Nov-06	Nov-11		
High Island A198	100.00%	Nov-06	Nov-11	Dry Hole	
High Island 263	100.00%	Jan-08	Jan-13		
High Island A38	100.00%	Jan-08	Jan-13		
Eugene Island 56	100.00%	Jul-08	Jul-13		

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<u>Area/Block</u>	<u>WI</u>	<u>Lease Date</u>	<u>Expiration Date</u>	<u>Status</u>	<u>Notes</u>
<i>Contango Offshore Exploration LLC:</i>					
East Breaks 283	100.00%	Dec-03	Dec-11		
East Breaks 369	0.00 %	Dec-03	Dec-08	Dry Hole	Farmed out
East Breaks 370	0.00 %	Dec-03	Dec-08	(4)	Farmed out
High Island A16	100.00%	Dec-03	Dec-08		
South Timbalier 191	50.00 %	May-04	May-09		
Grand Isle 63	50.00 %	May-04	May-09		
Grand Isle 73	50.00 %	May-04	May-09		
Ship Shoal 220	50.00 %	Jun-04	Jun-09		
South Timbalier 240	50.00 %	Jun-04	Jun-09		
Viosca Knoll 118	50.00 %	Jun-04	Jun-09		
Vermilion 154	(2)	Jul-04	Jul-09	(3)	Farmed out
Viosca Knoll 475	100.00%	May-05	May-10		
Eugene Island 168	50.00 %	Jun-05	Jun-10		
East Breaks 366	100.00%	Nov-05	Nov-15		
East Breaks 410	100.00%	Nov-05	Nov-15		
East Breaks 167	75.00 %	Dec-05	Dec-10		
High Island A311	75.00 %	Dec-05	Dec-10		
East Breaks 166	75.00 %	Jan-06	Jan-11		
High Island A342	75.00 %	Jan-06	Jan-11		
Ship Shoal 263	75.00 %	Jan-06	Jan-11		
Viosca Knoll 383	100.00%	Jan-06	Jan-11		
Grand Isle 70	45.10 %	Jun-06	Jun-11		
Viosca Knoll 119	50.00 %	Jun-06	Jun-11		

- (1) Held by Right-of-Use-and-Easement
- (2) REX and COE will split a 25% back-in WI after payout
- (3) Drilling expected by Summer 2008
- (4) No drilling date determined yet. Farmee has until September 1, 2008 to decide if East Breaks 370 will be drilled. COE will receive a 3.67% ORRI before project payout and a 6.67% ORRI after project payout.

Contango Venture Capital Corporation

In March 2008, Contango Venture Capital Corporation (“CVCC”), our wholly-owned subsidiary, sold its direct and indirect investments in Gridpoint, Inc., Trulite, Inc., Protonex Technology Corporation, Jadoo Power Systems, Contango Capital Partners Fund, L.P. and Contango Capital Partnership Management, LLC for \$3.4 million, in the aggregate, recognizing a loss of approximately \$2.9 million for the fiscal year ended June 30, 2008. CVCC’s only remaining alternative energy investment is Mobilize, Inc. (“Mobilize”).

The Company originally invested \$1.2 million in Mobilize in exchange for 648,648 shares of Mobilize convertible preferred stock. In March 2008, the Company determined that Mobilize was partially impaired, and wrote down the investment to \$0.6 million, recognizing a loss of \$0.6 million for fiscal year ended June 30, 2008. In June 2008, CVCC sold 205,000 shares of convertible preferred stock of Mobilize to a third party for \$410,000. As of August 22, 2008, CVCC owned 443,648 shares of Mobilize convertible preferred stock, valued at \$0.2 million, which represents an approximate 19.5% ownership interest. Mobilize develops real time diagnostics and field optimization solutions for the oil and gas and other industries using open-standards based technologies.

Property Sales and Discontinued Operations

Freeport LNG Development, L.P.

On February 5, 2008, the Company sold its ten percent (10%) limited partnership interest in Freeport LNG Development L.P. (“Freeport LNG”) to Turbo LNG LLC, an affiliate of Osaka Gas Co., Ltd., for \$68.0 million, and recognized a gain of approximately \$63.4 million on the sale. Freeport LNG is a limited partnership formed to develop, construct and operate a 1.75 billion cubic feet per day (“Bcfd”) liquefied natural gas (“LNG”) receiving and gasification terminal on Quintana Island, near Freeport, Texas.

The Company used \$20.3 million of the proceeds from the sale to pay off its debt with The Royal Bank of Scotland plc, including principal, interest and fees. Another \$20.0 million was used to pay off its debt with a private investment firm. The remaining \$27.7 million was used for working capital purposes.

Arkansas Fayetteville Shale

On December 21, 2007, the Company sold its Western core Arkansas Fayetteville Shale properties to Petrohawk Energy Corporation for \$199.2 million. The sale was effective October 1, 2007. The Company sold approximately 14,200 acres with 6.4 Mmcf/d of production, net to Contango. The Company recognized a gain of approximately \$155.9 million for the fiscal year ended June 30, 2008 as a result of this sale.

On January 30, 2008, the Company sold its Eastern core Arkansas Fayetteville Shale properties to XTO Energy, Inc. for approximately \$128.0 million. The sale was effective December 1, 2007. The Eastern core consisted of approximately 11,200 acres with 3.0 Mmcf/d of production, net to Contango. The Company recognized a gain of approximately \$106.4 million for the fiscal year ended June 30, 2008 as a result of this sale.

Texas and Louisiana

Effective February 1, 2008, the Company sold its interest in two on-shore wells to Alta Resources LLC. The Alta-Ellis #1 in Texas and the Temple-Inland in Louisiana were sold for approximately \$1.1 million.

Marketing and Pricing

The Company currently derives its revenue principally from the sale of natural gas and oil. As a result, the Company’s revenues are determined, to a large degree, by prevailing natural gas and oil prices. The Company currently sells its natural gas and oil on the open market at prevailing market prices. Market prices are dictated by supply and demand, and the Company cannot predict or control the price it receives for its natural gas and oil. The Company has outsourced the marketing of its offshore natural gas and oil production volume to a privately-held third party marketing firm. The Company has a policy not to hedge its natural gas and oil production.

Price decreases would adversely affect our revenues, profits and the value of our proved reserves. Historically, the prices received for natural gas and oil have fluctuated widely. Among the factors that can cause these fluctuations are:

- The domestic and foreign supply of natural gas and oil
- Overall economic conditions
- The level of consumer product demand
- Adverse weather conditions and natural disasters
- The price and availability of competitive fuels such as heating oil and coal
- Political conditions in the Middle East and other natural gas and oil producing regions
- The level of LNG imports

Domestic and foreign governmental regulations

Potential price controls and special taxes

Competition

The Company competes with numerous other companies in all facets of its business. Our competitors in the exploration, development, acquisition and production business include major integrated oil and gas companies as well as numerous independents, including many that have significantly greater financial resources and in-house technical expertise.

Governmental Regulations

Federal Income Tax. Federal income tax laws significantly affect the Company's operations. The principal provisions affecting the Company are those that permit the Company, subject to certain limitations, to deduct as incurred, rather than to capitalize and amortize, its domestic "intangible drilling and development costs" and to claim depletion on a portion of its domestic natural gas and oil properties based on 15% of its natural gas and oil gross income from such properties (up to an aggregate of 1,000 barrels per day of domestic crude oil and/or equivalent units of domestic natural gas).

Environmental Matters. Domestic natural gas and oil operations are subject to extensive federal regulation and, with respect to federal leases, to interruption or termination by governmental authorities on account of environmental and other considerations such as the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") also known as the "Super Fund Law". The trend towards stricter standards in environmental legislation and regulation could increase costs to the Company and others in the industry. Natural gas and oil lessees are subject to liability for the costs of clean-up of pollution resulting from a lessee's operations, and may also be subject to liability for pollution damages. The Company maintains insurance against costs of clean-up operations, but is not fully insured against all such risks. A serious incident of pollution may also result in the Department of the Interior requiring lessees under federal leases to suspend or cease operation in the affected area.

The Oil Pollution Act of 1990 (the "OPA") and regulations thereunder impose a variety of regulations on "responsible parties" related to the prevention of oil spills and liability for damages resulting from such spills in U.S. waters. The OPA assigns liability to each responsible party for oil removal costs and a variety of public and private damages. While liability limits apply in some circumstances, a party cannot take advantage of liability limits if the spill was caused by gross negligence or willful misconduct or resulted from violation of federal safety, construction or operating regulations. Few defenses exist to the liability imposed by the OPA. In addition, to the extent the Company's offshore lease operations affect state waters, the Company may be subject to additional state and local clean-up requirements or incur liability under state and local laws. The OPA also imposes ongoing requirements on responsible parties, including proof of financial responsibility to cover at least some costs in a potential spill. The Company believes that it currently has established adequate proof of financial responsibility for its offshore facilities. However, the Company cannot predict whether these financial responsibility requirements under the OPA amendments will result in the imposition of substantial additional annual costs to the Company in the future or otherwise materially adversely affect the Company. The impact, however, should not be any more adverse to the Company than it will be to other similarly situated or less capitalized owners or operators in the Gulf of Mexico.

The Company's onshore operations are subject to numerous federal, state and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Such laws and regulations, among other things, impose absolute liability on the lessee for the cost of clean-up of pollution resulting from a lessee's operations, subject the lessee to liability for pollution damages, may require suspension or cessation of operations in affected areas, and impose restrictions on the injection of liquids into subsurface aquifers that may contaminate groundwater. Such laws could have a significant impact on the operating costs of the Company, as well as the natural gas and oil industry in general. Federal, state and local initiatives to further regulate the disposal of natural gas and oil wastes are also pending in certain jurisdictions, and these initiatives could have a similar impact on the Company. The Company's operations are also subject to additional federal, state and local laws and regulations relating to protection of human health, natural resources, and the environment pursuant to which the Company may incur compliance costs or other liabilities.

Other Laws and Regulations. Various laws and regulations often require permits for drilling wells and also cover spacing of wells, the prevention of waste of natural gas and oil including maintenance of certain gas/oil ratios, rates of production and other matters. The effect of these laws and regulations, as well as other regulations that could be promulgated by the jurisdictions in which the Company has production, could be to limit the number of wells that could be drilled on the Company's properties and to limit the allowable production from the successful wells completed on the Company's properties, thereby limiting the Company's revenues.

The MMS administers the natural gas and oil leases held by the Company on federal onshore lands and offshore tracts in the Outer Continental Shelf. The MMS holds a royalty interest in these federal leases on behalf of the federal government. While the royalty interest percentage is fixed at the time that the lease is entered into, from time to time the MMS changes or reinterprets the applicable regulations governing its royalty interests, and such action can indirectly affect the actual royalty obligation that the Company is required to pay. However, the Company believes that the regulations generally do not impact the Company to any greater extent than other similarly situated producers. At the end of lease operations, oil and gas lessees must plug and abandon wells, remove platforms and other facilities, and clear the lease site sea floor. The MMS requires companies operating on the Outer Continental Shelf to obtain surety bonds to ensure performance of these obligations. Prior to the Company's decision to act as the operator in the drilling of offshore prospects, the Company was required by the MMS to obtain surety bonds, typically providing \$50,000 in coverage per lease, an amount of coverage that ensures a minimum level of performance. As an operator, however, the Company is required to obtain surety bonds of \$200,000 per lease for exploration and \$500,000 per lease for developmental activities.

The Federal Energy Regulatory Commission (the "FERC") has embarked on wide-ranging regulatory initiatives relating to natural gas transportation rates and services, including the availability of market-based and other alternative rate mechanisms to pipelines for transmission and storage services. In addition, the FERC has announced and implemented a policy allowing pipelines and transportation customers to negotiate rates above the otherwise applicable maximum lawful cost-based rates on the condition that the pipelines alternatively offer so-called recourse rates equal to the maximum lawful cost-based rates. With respect to gathering services, the FERC has issued orders declaring that certain facilities owned by interstate pipelines primarily perform a gathering function, and may be transferred to affiliated and non-affiliated entities that are not subject to the FERC's rate jurisdiction. The Company cannot predict the ultimate outcome of these developments, or the effect of these developments on transportation rates. Inasmuch as the rates for these pipeline services can affect the natural gas prices received by the Company for the sale of its production, the FERC's actions may have an impact on the Company. However, the impact should not be substantially different on the Company than it will on other similarly situated natural gas producers and sellers.

Employees

We have six employees, all of whom are full time. We use the services of independent consultants and contractors to perform various professional services, including reservoir engineering, land, legal, environmental and tax services. We are dependent on JEX for prospect generation, evaluation and prospect leasing. As a working interest owner, we rely on outside operators to drill, produce and market our natural gas and oil for our onshore prospects and certain offshore prospects where we are a non-operator. In the offshore prospects where we are the operator, we rely on a turn-key contractor to drill and rely on independent contractors to produce and market our natural gas and oil. In addition, we utilize the services of independent contractors to perform field and on-site drilling and production operation services and independent third party engineering firms to calculate our reserves.

Directors and Executive Officers

The following table sets forth the names, ages and positions of our directors and executive officers:

Name	Age	Position
Kenneth R. Peak	63	Chairman, President, Chief Executive Officer, Chief Financial Officer, Secretary and Director
Lesia Bautina	37	Senior Vice President and Controller
Sergio Castro	38	Vice President and Treasurer
Marc Duncan	55	President & Chief Operating Officer, Contango Operators, Inc.
B.A. Berilgen	60	Director
Jay D. Brehmer	43	Director
Charles M. Reimer	63	Director
Steven L. Schoonover	63	Director
Darrell W. Williams	65	Director

Kenneth R. Peak. Mr. Peak is the founder and has been Chairman, Chief Executive Officer and Chief Financial Officer of Contango since its formation in September 1999. Mr. Peak entered the energy industry in 1972 as a commercial banker and held a variety of financial and executive positions in the oil and gas industry prior to starting Contango in 1999. Mr. Peak served as an officer in the U.S. Navy from 1968 to 1971. Mr. Peak received a BS in physics from Ohio University in 1967, and an MBA from Columbia University in 1972. He currently serves as a director of Patterson-UTI Energy, Inc., a provider of onshore contract drilling services to exploration and production companies in North America.

Lesia Bautina. Ms. Bautina joined Contango in November 2001 as Controller and was appointed Vice President and Controller in August 2002. In July 2005, Ms. Bautina was promoted to Senior Vice President. Prior to joining Contango, Ms. Bautina worked as an auditor for Arthur Andersen LLP from 1997 to 2001. Her primary experience is accounting and financial reporting for exploration and production companies. Ms. Bautina received a degree in History from the University of Lvov in the Ukraine in 1990 and a BBA in Accounting in 1996 from Sam Houston State University, where she graduated with honors. Ms. Bautina is a Certified Public Accountant and member of the Petroleum Accounting Society of Houston.

Sergio Castro. Mr. Castro joined Contango in March 2006 as Treasurer and was appointed Vice President and Treasurer in April 2006. Prior to joining Contango, Mr. Castro spent two years as a Consultant for UHY Advisors TX, LP. From 2001 to 2004, Mr. Castro was a lead credit analyst for Dynegey Inc. From 1997 to 2001, Mr. Castro worked as an auditor for Arthur Andersen LLP, where he specialized in energy companies. Mr. Castro was honorably discharged from the U.S. Navy in 1993 as an E-6, where he served onboard a nuclear powered submarine. Mr. Castro received a BBA in Accounting in 1997 from the University of Houston, graduating summa cum laude. Mr. Castro is a Certified Public Accountant and a Certified Fraud Examiner.

Marc Duncan. Mr. Duncan joined Contango in June 2005 as President and Chief Operating Officer of Contango Operators, Inc. Mr. Duncan has over 25 years of experience in the energy industry and has held a variety of domestic and international engineering and senior-level operations management positions relating to natural gas and oil exploration, project development, and drilling and production operations. Prior to joining Contango, Mr. Duncan served in a senior executive position with USENCO International, Inc. and related companies in China and Ukraine from 2000-2004 and as a senior project and drilling engineer for Hunt Oil Company from 2004-2005. He holds an MBA in Engineering Management from the University of Dallas, an MEd from the University of North Texas and a BS in Science and Education from Stephen F. Austin University.

B.A. Berilgen. Mr. Berilgen was appointed a director of Contango in July 2007. Mr. Berilgen has served in a variety of senior positions during his 38 year career. Currently, he is Chief Executive Officer of Patara Oil & Gas LLC. Prior to that he was Chairman, Chief Executive Officer and President of Rosetta Resources Inc., a company he founded in 2005. Mr. Berilgen was also previously the Executive Vice President of Calpine Corp. and President of Calpine Natural Gas L.P. from October 1999 through June 2005. In June 1997, Mr. Berilgen joined Sheridan Energy, a public

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oil and gas company, as its President and Chief Executive Officer. Mr. Berilgen attended the University of Oklahoma, receiving a B.S. in Petroleum Engineering in 1970 and a M.S. in Industrial Engineering/Management Science.

Jay D. Brehmer. Mr. Brehmer has been a director of Contango since October 2000. Mr. Brehmer is currently a founding partner of Southplace LLC, a provider of private-company middle-market corporate finance advisory services. Prior to that, he was Managing Director of Houston Capital Advisors LP, a boutique financial advisory, merger and acquisition investment bank. From November 2002 until August 2004, he advised various energy and energy-related companies on corporate finance and merger and acquisition activities through Southplace, LLC. From May 1998 until November 2002, Mr. Brehmer was responsible for structured-finance energy related transactions at Aquila Energy Capital Corporation. Prior to joining Aquila, Mr. Brehmer founded Capital Financial Services, which provided mid-cap companies with strategic merger and acquisition advice coupled with prudent financial capitalization structures. Mr. Brehmer holds a BBA from Drake University in Des Moines, Iowa.

Charles M. Reimer. Mr. Reimer was elected a director of Contango in 2005. Mr. Reimer is President of Freeport LNG Development, L.P, and has experience in exploration, production, liquefied natural gas (“LNG”) and business development ventures, both domestically and abroad. From 1986 until 1998, Mr. Reimer served as the senior executive responsible for the VICO joint venture that operated in Indonesia, and provided LNG technical support to P. T. Badak. Additionally, during these years he served, along with Pertamina executives, on the board of directors of the P.T. Badak LNG plant in Bontang, Indonesia. Mr. Reimer began his career with Exxon Company USA in 1967 and held various professional and management positions in Texas and Louisiana. Mr. Reimer was named President of Phoenix Resources Company in 1985 and relocated to Cairo, Egypt, to begin eight years of international assignments in both Egypt and Indonesia. Prior to joining Freeport LNG Development, L.P. in December 2002, Mr. Reimer was President and Chief Executive Officer of Cheniere Energy, Inc.

Steven L. Schoonover. Mr. Schoonover was elected a director of Contango in 2005. Mr. Schoonover was most recently Chief Executive Officer of Cellxion, L.L.C., a company specializing in construction and installation of telecommunication buildings and towers, as well as the installation of high-tech telecommunication equipment. From 1990 until its sale in November 1997 to Telephone Data Systems, Inc., Mr. Schoonover served as President of Blue Ridge Cellular, Inc., a full-service cellular telephone company he co-founded. From 1983 to 1996, he served in various positions, including President and Chief Executive Officer, with Fibrebond Corporation, a construction firm involved in cellular telecommunications buildings, site development and tower construction. Mr. Schoonover has been awarded, on two occasions with two different companies, Entrepreneur of the Year, sponsored by Ernst & Young, Inc Magazine and USA Today.

Darrell W. Williams. Mr. Williams has been a director of Contango since 1999. From 2005 through 2007, Mr. Williams was President and Chief Executive Officer of Porta-Kamp International LP, which specializes in the manufacture, supply and construction of remote area housing, and Chief Executive Officer of Clearwater Environmental Systems, a manufacturer of sewage and water treatment systems. From 2002 until 2005, Mr. Williams was Managing Director of Catalina Capital Advisors, LP. Prior to joining Catalina, Mr. Williams was in senior executive positions with Deutug Drilling, GmbH (1993-2002), Nabors Drilling (1988-1993), Pool Company (1985-1988), Baker Oil Tools (1980-1983), SEDCO (1970-1980), Tenneco (1966-1970), and Humble Oil (1964-1966). Mr. Williams graduated from West Virginia University with a degree in Petroleum Engineering in 1964. Mr. Williams is past Chairman of the Houston Chapter of International Association of Drilling Contractors, a life member of the Society of Petroleum Engineers and a registered professional engineer in Texas.

Directors of Contango serve as members of the board of directors until the next annual stockholders meeting, until successors are elected and qualified or until their earlier resignation or removal. Officers of Contango are elected by the board of directors and hold office until their successors are chosen and qualified, until their death or until they resign or have been removed from office. All corporate officers serve at the discretion of the board of directors. Each outside director of the Company receives a quarterly retainer of \$8,000 payable in cash and \$36,000 payable annually in Company common stock. Each outside director also receives a \$1,000 cash payment for each board meeting and separately scheduled Audit Committee meeting attended. The Chairman of the Audit Committee receives an additional quarterly cash payment of \$3,000. There are no family relationships between any of our directors or executive officers.

Corporate Offices

We lease our corporate offices at 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098. On September 30, 2006 we extended the term of our lease agreement for an additional 60 months, commencing November 1, 2006, with a termination date of October 31, 2011.

Code of Ethics

We adopted a Code of Ethics for senior management in December 2002. A copy of our Code of Ethics is filed as an exhibit to this Form 10-K and is also available on our Website at www.contango.com.

Available Information

General information about us can be found on our Website at www.contango.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports, are available free of charge through our Website as soon as reasonably practicable after we file or furnish them to the Securities and Exchange Commission.

Item 1A. Risk Factors

In addition to the other information set forth elsewhere in this Form 10-K, you should carefully consider the following factors when evaluating the Company. An investment in the Company is subject to risks inherent in our business. The trading price of the shares of the Company is affected by the performance of our business relative to, among other things, competition, market conditions and general economic and industry conditions. The value of an investment in the Company may decrease, resulting in a loss. The risk factors listed below are not all inclusive.

We have no ability to control the prices that we receive for natural gas and oil. Natural gas and oil prices fluctuate widely, and a substantial or extended decline in natural gas and oil prices would adversely affect our revenues, profitability and growth and could have a material adverse effect on the business, the results of operations and financial condition of the Company.

Our revenues, profitability and future growth depend significantly on natural gas and crude oil prices. Prices received affect the amount of future cash flow available for capital expenditures and repayment of indebtedness and our ability to raise additional capital. We do not expect to hedge our production to protect against price decreases. Lower prices may also affect the amount of natural gas and oil that we can economically produce. Factors that can cause price fluctuations include:

- The domestic and foreign supply of natural gas and oil.
- Overall economic conditions.
- The level of consumer product demand.
- Adverse weather conditions and natural disasters.
- The price and availability of competitive fuels such as heating oil and coal.
- Political conditions in the Middle East and other natural gas and oil producing regions.
- The level of LNG imports.
- Domestic and foreign governmental regulations.
- Potential price controls and special taxes.
- Access to pipelines and gas processing plants.

A substantial or extended decline in natural gas and oil prices could have a material adverse effect on our access to capital and the quantities of natural gas and oil that may be economically produced by us. A significant decrease in price levels for an extended period would negatively affect us.

We depend on the services of our chairman, chief executive officer and chief financial officer, and implementation of our business plan could be seriously harmed if we lost his services.

We depend heavily on the services of Kenneth R. Peak, our chairman, chief executive officer, and chief financial officer. We do not have an employment agreement with Mr. Peak, and the proceeds from a \$10.0 million “key person” life insurance policy on Mr. Peak may not be adequate to cover our losses in the event of Mr. Peak’s death.

We are highly dependent on the technical services provided by JEX and could be seriously harmed if JEX terminated its services with us or became otherwise unavailable.

Because we have only six employees, none of whom are geoscientists or petroleum engineers, we are dependent upon JEX for the success of our natural gas and oil exploration projects and expect to remain so for the foreseeable future. We do not have a written agreement with JEX which contractually obligates them to provide us with their services in the future. Highly qualified explorationists and engineers are difficult to attract and retain. As a result, the loss of the services of JEX could have a material adverse effect on us and could prevent us from pursuing our business plan. Additionally, the loss by JEX of certain explorationists could have a material adverse effect on our operations as well.

Our ability to successfully execute our business plan is dependent on our ability to obtain adequate financing.

Our business plan, which includes participation in 3-D seismic shoots, lease acquisitions, the drilling of exploration prospects and producing property acquisitions, has required and is expected to continue to require substantial capital expenditures. We may require additional financing to fund our planned growth. Our ability to raise additional capital will depend on the results of our operations and the status of various capital and industry markets at the time we seek such capital. Accordingly, additional financing may not be available to us on acceptable terms, if at all. In the event additional capital resources are unavailable, we may be required to curtail our exploration and development activities or be forced to sell some of our assets in an untimely fashion or on less than favorable terms.

It is difficult to quantify the amount of financing we may need to fund our planned growth. The amount of funding we may need in the future depends on various factors such as:

- Our financial condition;
- The prevailing market price of natural gas and oil;
- The type of projects in which we are engaging; and
- Lead time required to bring discoveries to production.

We frequently obtain capital through the sale of our producing properties.

The Company, since its inception in September 1999, has raised approximately \$484.0 million from various property sales. These sales bring forward future revenues and cash flows, but our longer term liquidity could be impaired to the extent our exploration efforts are not successful in generating new discoveries, production, revenues and cash flows. Additionally, our longer term liquidity could be impaired due to the decrease in our inventory of producing properties that could be sold in future periods. Further, as a result of these property sales the Company’s ability to collateralize bank borrowings is reduced which increases our dependence on more expensive mezzanine debt and potential equity sales. The availability of such funds will depend upon prevailing market conditions and other factors over which we have no control, as well as our financial condition and results of operations.

We assume additional risk as Operator in drilling high pressure wells in the Gulf of Mexico.

COI and CRC are wholly-owned subsidiaries of the Company, formed for the purpose of drilling and operating exploration wells in the Gulf of Mexico. COI is currently the operator of Eloise #1 and Grand Isle 72, and CRC is currently the operator for our Dutch and Mary Rose discoveries.

Drilling activities are subject to numerous risks, including the significant risk that no commercially productive hydrocarbon reserves will be encountered. The cost of drilling, completing and operating wells and of installing production facilities and pipelines is often uncertain. Drilling costs could be significantly higher if we encounter difficulty in drilling offshore exploration wells. The Company's drilling operations may be curtailed, delayed, canceled or negatively impacted as a result of numerous factors, including inexperience as an operator, title problems, weather conditions, compliance with governmental requirements and shortages or delays in the delivery or availability of material, equipment and fabrication yards. In periods of increased drilling activity resulting from high commodity prices, demand exceeds availability for drilling rigs, drilling vessels, supply boats and personnel experienced in the oil and gas industry in general, and the offshore oil and gas industry in particular. This may lead to difficulty and delays in consistently obtaining certain services and equipment from vendors, obtaining drilling rigs and other equipment at favorable rates and scheduling equipment fabrication at factories and fabrication yards. This, in turn, may lead to projects being delayed or experiencing increased costs. The cost of drilling, completing, and operating wells is often uncertain, and new wells may not be productive or we may not recover all or any of our investment. The risk of significant cost overruns, curtailments, delays, inability to reach our target reservoir and other factors detrimental to drilling and completion operations may be higher due to our inexperience as an operator.

Additionally, we use turnkey contracts that cost more, and under certain conditions, the turnkey contract can be terminated by the turnkey drilling contractor, leading to higher risks and costs for the Company.

We rely on third-party operators to operate and maintain some of our production pipelines and processing facilities and as a result we have limited control over the operations of such facilities and the interests of an operator may even differ from our interests.

We depend upon the services of third-party operators to operate production platforms, pipelines, gas processing facilities and the infrastructure required to produce and market our natural gas, condensate and oil. We have limited influence over the conduct of operations by third-party operators. As a result, we have little control over how frequently and how long our production is shut-in when production problems, weather and other production shut-ins occur. Poor performance on the part of, or errors or accidents attributable to, the operator of a project in which we participate may have an adverse effect on our results of operations and financial condition. Also, the interest of an operator may differ from our interests.

Repeated production shut-ins can possibly damage our well bores.

Our Dutch and Mary Rose well bores are required to be shut-in from time to time due to a combination of weather, mechanical problems and shut-ins necessary to upgrade and increase the production handling capacity at related downstream platform, gas processing and pipeline infrastructure. In addition to negatively impacting our near term revenues and cash flow, repeated production shut-ins may damage our well bores if repeated excessively or not executed properly. The loss of a well bore due to damage could require us to drill additional wells to recover our reserves.

Concentrating our capital investment in the Gulf of Mexico increases our exposure to risk.

Our capital investments are focused in offshore Gulf of Mexico prospects. However, our exploration prospects in the Gulf of Mexico may not lead to significant revenues. Furthermore, we may not be able to drill productive wells at profitable finding and development costs.

Natural gas and oil reserves are depleting assets and the failure to replace our reserves would adversely affect our production and cash flows.

Our future natural gas and oil production depends on our success in finding or acquiring new reserves. If we fail to replace reserves, our level of production and cash flows would be adversely impacted. Production from natural gas and oil properties decline as reserves are depleted, with the rate of decline depending on reservoir characteristics. Our total proved reserves will decline as reserves are produced unless we conduct other successful exploration and development activities or acquire properties containing proved reserves, or both. Further, the majority of our reserves are proved developed producing. Accordingly, we do not have significant opportunities to

increase our production from our existing proved reserves. Our ability to make the necessary capital investment to maintain or expand our asset base of natural gas and oil reserves would be impaired to the extent cash flow from operations is reduced and external sources of capital become limited or unavailable. We may not be successful in exploring for, developing or acquiring additional reserves. If we are not successful, our future production and revenues will be adversely affected.

Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions could materially affect the quantities and present values of our reserves.

The process of estimating natural gas and oil reserves is complex. It requires interpretations of available technical data and various assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves shown in this report.

In order to prepare these estimates, our independent third-party petroleum engineers must project production rates and timing of development expenditures as well as analyze available geological, geophysical, production and engineering data, and the extent, quality and reliability of this data can vary. The process also requires economic assumptions relating to matters such as natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of natural gas and oil reserves are inherently imprecise.

Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and pre-tax net present value of reserves shown in this report. In addition, estimates of our proved reserves may be adjusted to reflect production history, results of exploration and development, prevailing natural gas and oil prices and other factors, many of which are beyond our control and may prove to be incorrect over time. As a result, our estimates may require substantial upward or downward revisions if subsequent drilling, testing and production reveal different results. Furthermore, some of the producing wells included in our reserve report have produced for a relatively short period of time. Because some of our reserve estimates are not based on a lengthy production history and are calculated using volumetric analysis, these estimates are less reliable than estimates based on a more lengthy production history. Any downward adjustment could indicate lower future production and thus adversely affect our financial condition, future prospects and market value.

You should not assume that the pre-tax net present value of our proved reserves prepared in accordance with Securities and Exchange Commission guidelines referred to in this report is the current market value of our estimated natural gas and oil reserves. We base the pre-tax net present value of future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices, costs, taxes and the volume of produced reserves will likely differ materially from those used in the pre-tax net present value estimate.

The Company's revenue activities are significantly concentrated in one field.

The proved reserves assigned to our Dutch and Mary Rose discoveries have seven producing well bores concentrated in one reservoir. As of August 29, 2008, this reservoir had only nineteen months of production history, and was producing via two pipelines and two production platforms. Reserve assessments based on only seven well bores in one reservoir with relatively limited production history are subject to greater risk of downward revision than multiple well bores from several mature producing reservoirs.

We rely on the accuracy of the estimates in the reservoir engineering reports provided to us by our outside engineers.

We have no in house reservoir engineering capability, and therefore rely on the accuracy of the periodic reservoir reports provided to us by our independent third-party reservoir engineers. If those reports prove to be inaccurate, our financial reports could have material misstatements. Further, we use the reports of our independent reservoir engineers in our financial planning. If the reports of the outside reservoir engineers prove to be inaccurate, we may make misjudgments in our financial planning.

Exploration is a high risk activity, and our participation in drilling activities may not be successful.

Our future success largely depends on the success of our exploration drilling program. Participation in exploration drilling activities involves numerous risks, including the significant risk that no commercially productive natural gas or oil reservoirs will be discovered. The cost of drilling, completing and operating wells is uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

- Unexpected drilling conditions.
- Blowouts, fires or explosions with resultant injury, death or environmental damage.
- Pressure or irregularities in formations.
- Equipment failures or accidents.
- Tropical storms, hurricanes and other adverse weather conditions.
- Compliance with governmental requirements and laws, present and future.
- Shortages or delays in the availability of drilling rigs and the delivery of equipment.
- Our turnkey drilling contracts reverting to a day rate contract which would significantly increase the cost and risk to the Company.
- Problems at third-party operated platforms, pipelines and gas processing facilities over which we have no control.

Even when properly used and interpreted, 3-D seismic data and visualization techniques are only tools used to assist geoscientists in identifying subsurface structures and hydrocarbon indicators. They do not allow the interpreter to know conclusively if hydrocarbons are present or economically producible. Poor results from our drilling activities would materially and adversely affect our future cash flows and results of operations.

In addition, as a “successful efforts” company, we choose to account for unsuccessful exploration efforts (the drilling of “dry holes”) and seismic costs as a current expense of operations, which immediately impacts our earnings. Significant expensed exploration charges in any period would materially adversely affect our earnings for that period and cause our earnings to be volatile from period to period.

The natural gas and oil business involves many operating risks that can cause substantial losses.

The natural gas and oil business involves a variety of operating risks, including:

- Blowouts, fires and explosions.
- Surface cratering.
- Uncontrollable flows of underground natural gas, oil or formation water.
- Natural disasters.
- Pipe and cement failures.
- Casing collapses.
- Stuck drilling and service tools.
- Abnormal pressure formations.
- Environmental hazards such as natural gas leaks, oil spills, pipeline ruptures or discharges of toxic gases.
- Capacity constraints, equipment malfunctions and other problems at third-party operated platforms, pipelines and gas processing plants over which we have no control.
- Repeated shut-ins of our well bores could significantly damage our well bores.

If any of the above events occur, we could incur substantial losses as a result of:

- Injury or loss of life.

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Reservoir damage.

Severe damage to and destruction of property or equipment.

Pollution and other environmental damage.

Clean-up responsibilities.

Regulatory investigations and penalties.

Suspension of our operations or repairs necessary to resume operations.

Offshore operations are subject to a variety of operating risks peculiar to the marine environment, such as capsizing and collisions. In addition, offshore operations, and in some instances, operations along the Gulf Coast, are subject to damage or loss from hurricanes or other adverse weather conditions. These conditions can cause substantial damage to facilities and interrupt production. As a result, we could incur substantial liabilities that could reduce the funds available for exploration, development or leasehold acquisitions, or result in loss of properties.

If we were to experience any of these problems, it could affect well bores, platforms, gathering systems and processing facilities, any one of which could adversely affect our ability to conduct operations. In accordance with customary industry practices, we maintain insurance against some, but not all, of these risks. Losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. We may not be able to maintain adequate insurance in the future at rates we consider reasonable, and particular types of coverage may not be available. An event that is not fully covered by insurance could have a material adverse effect on our financial position and results of operations.

Not hedging our production may result in losses.

Due to the significant volatility in natural gas prices and the potential risk of significant hedging losses if our production should be shut-in during a period when NYMEX natural gas prices increase, our policy is to hedge only through the purchase of puts. By not hedging our production, we may be more adversely affected by declines in natural gas and oil prices than our competitors who engage in hedging arrangements.

Our ability to market our natural gas and oil may be impaired by capacity constraints and equipment malfunctions on the platforms, gathering systems, pipelines and gas plants that transport and process our natural gas and oil.

All of our natural gas and oil is transported through gathering systems, pipelines, processing plants, and offshore platforms. Transportation capacity on gathering system pipelines and platforms is occasionally limited and at times unavailable due to repairs or improvements being made to these facilities or due to capacity being utilized by other natural gas or oil shippers that may have priority transportation agreements. If the gathering systems, processing plants, platforms or our transportation capacity is materially restricted or is unavailable in the future, our ability to market our natural gas or oil could be impaired and cash flow from the affected properties could be reduced, which could have a material adverse effect on our financial condition and results of operations. Further, repeated shut-ins of our wells could result in damage to our well bores that would impair our ability to produce from these wells and could result in additional wells being required to produce our reserves.

We may not have title to our leased interests and if any lease is later rendered invalid, we may not be able to proceed with our exploration and development of the lease site.

Our practice in acquiring exploration leases or undivided interests in natural gas and oil leases is to not incur the expense of retaining title lawyers to examine the title to the mineral interest prior to executing the lease. Instead, we rely upon the judgment of JEX and others to perform the field work in examining records in the appropriate governmental, county or parish clerk's office before leasing a specific mineral interest. This practice is widely followed in the industry. Prior to the drilling of an exploration well the operator of the well will typically obtain a preliminary title review of the drillsite lease and/or spacing unit within which the proposed well is to be drilled to identify any obvious deficiencies in title to the well and, if there are deficiencies, to identify measures necessary to cure those defects to the extent reasonably possible. However, such deficiencies may not have been cured by the

operator of such wells. It does happen, from time to time, that the examination made by title lawyers reveals that the lease or leases are invalid, having been purchased in error from a person who is not the rightful owner of the mineral interest desired. In these circumstances, we may not be able to proceed with our exploration and development of the lease site or may incur costs to remedy a defect. It may also happen, from time to time, that the operator may elect to proceed with a well despite defects to the title identified in the preliminary title opinion.

Competition in the natural gas and oil industry is intense, and we are smaller and have a more limited operating history than many of our competitors.

We compete with a broad range of natural gas and oil companies in our exploration and property acquisition activities. We also compete for the equipment and labor required to operate and to develop these properties. Most of our competitors have substantially greater financial resources than we do. These competitors may be able to pay more for exploratory prospects and productive natural gas and oil properties. Further, they may be able to evaluate, bid for and purchase a greater number of properties and prospects than we can. Our ability to explore for natural gas and oil and to acquire additional properties in the future depends on our ability to evaluate and select suitable properties and to consummate transactions in this highly competitive environment. In addition, most of our competitors have been operating for a much longer time than we have and have substantially larger staffs. We may not be able to compete effectively with these companies or in such a highly competitive environment.

We are subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous laws and regulations governing the operation and maintenance of our facilities and the discharge of materials into the environment. Failure to comply with such rules and regulations could result in substantial penalties and have an adverse effect on us. These laws and regulations may:

Require that we obtain permits before commencing drilling.

Restrict the substances that can be released into the environment in connection with drilling and production activities.

Limit or prohibit drilling activities on protected areas, such as wetlands or wilderness areas.

Require remedial measures to mitigate pollution from former operations, such as plugging abandoned wells.

Under these laws and regulations, we could be liable for personal injury and clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. We maintain only limited insurance coverage for sudden and accidental environmental damages. Accordingly, we may be subject to liability, or we may be required to cease production from properties in the event of environmental damages. These laws and regulations have been changed frequently in the past. In general, these changes have imposed more stringent requirements that increase operating costs or require capital expenditures in order to remain in compliance. It is also possible that unanticipated factual developments could cause us to make environmental expenditures that are significantly different from those we currently expect. Existing laws and regulations could be changed and any such changes could have an adverse effect on our business and results of operations.

We cannot control the activities on properties we do not operate.

Other companies may from time to time drill, complete and operate properties in which we have an interest. As a result, we have a limited ability to exercise influence over operations for these properties or their associated costs. Our dependence on the operator and other working interest owners for these projects and our limited ability to influence operations and associated costs could materially adversely affect the realization of our targeted returns on capital in drilling or acquisition activities. The success and timing of our drilling and development activities on properties operated by others therefore depend upon a number of factors that are outside of our control, including:

Timing and amount of capital expenditures.

The operator's expertise and financial resources.

Approval of other participants in drilling wells.
Selection of technology.

We are highly dependent on our management team, JEX, exploration partners and third-party consultants and any failure to retain the services of such parties could adversely affect our ability to effectively manage our overall operations or successfully execute current or future business strategies.

The successful implementation of our business strategy and handling of other issues integral to the fulfillment of our business strategy is highly dependent on our management team, as well as certain key geoscientists, geologists, engineers and other professionals engaged by us. We are highly dependent on the services provided by JEX and we do not have any written agreements contractually obligating them to provide us with their services in the future. The loss of key members of our management team, JEX or other highly qualified technical professionals could adversely affect our ability to effectively manage our overall operations or successfully execute current or future business strategies which may have a material adverse effect on our business, financial condition and operating results.

Acquisition prospects are difficult to assess and may pose additional risks to our operations.

We expect to evaluate and, where appropriate, pursue acquisition opportunities on terms our management considers favorable. The successful acquisition of natural gas and oil properties requires an assessment of:

- Recoverable reserves.
- Exploration potential.
- Future natural gas and oil prices.
- Operating costs.
- Potential environmental and other liabilities and other factors.
- Permitting and other environmental authorizations required for our operations.

In connection with such an assessment, we would expect to perform a review of the subject properties that we believe to be generally consistent with industry practices. Nonetheless, the resulting conclusions are necessarily inexact and their accuracy inherently uncertain and such an assessment may not reveal all existing or potential problems, nor will it necessarily permit a buyer to become sufficiently familiar with the properties to fully assess their merits and deficiencies. Inspections may not always be performed on every platform or well, and structural and environmental problems are not necessarily observable even when an inspection is undertaken.

Future acquisitions could pose additional risks to our operations and financial results, including:

- Problems integrating the purchased operations, personnel or technologies.
- Unanticipated costs.
- Diversion of resources and management attention from our exploration business.
- Entry into regions or markets in which we have limited or no prior experience.
- Potential loss of key employees, particularly those of the acquired organization.

Anti-takeover provisions of our certificate of incorporation, bylaws and Delaware law could adversely effect a potential acquisition by third-parties that may ultimately be in the financial interests of our stockholders.

Our certificate of incorporation, bylaws and the Delaware General Corporation Law contain provisions that may discourage unsolicited takeover proposals. These provisions could have the effect of inhibiting fluctuations in the market price of our common stock that could result from actual or rumored takeover attempts, preventing changes in our management or limiting the price that investors may be willing to pay for shares of common stock. These provisions, among other things, authorize the board of directors to:

- Designate the terms of and issue new series of preferred stock.
- Limit the personal liability of directors.
- Limit the persons who may call special meetings of stockholders.
- Prohibit stockholder action by written consent.

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Establish advance notice requirements for nominations for election of the board of directors and for proposing matters to be acted on by stockholders at stockholder meetings.

Require us to indemnify directors and officers to the fullest extent permitted by applicable law.

Impose restrictions on business combinations with some interested parties.

Our common stock is thinly traded.

Contango has approximately 16.8 million shares of common stock outstanding, held by approximately 92 holders of record. Directors and officers own or have voting control over approximately 3.4 million shares. Since our common stock is thinly traded, the purchase or sale of relatively small common stock positions may result in disproportionately large increases or decreases in the price of our common stock.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Production, Prices and Operating Expenses

The following table presents information from continuing operations regarding the production volumes, average sales prices received and average production costs associated with our sales of natural gas, oil and natural gas liquids (“NGLs”) for the periods indicated. Oil, condensate and NGLs are compared with natural gas in terms of cubic feet of natural gas equivalents. One barrel of oil, condensate or NGL is the energy equivalent of six thousand cubic feet (“Mcf”) of natural gas.

	Year Ended June 30,		
	2008	2007	2006
Production:			
Natural gas (million cubic feet)	9,089	1,792	72
Oil and condensate (thousand barrels)	185	34	4
Natural gas liquids (thousand gallons)	4,700	187	–
Total (million cubic feet equivalent)	10,870	2,023	96
Natural gas (thousand cubic feet per day)	24,833	4,910	197
Oil and condensate (barrels per day)	505	93	11
Natural gas liquids (gallons per day)	12,842	512	–
Total (thousand cubic feet equivalent per day)	29,698	5,541	263
Average sales price:			
Natural gas (per thousand cubic feet)	\$9.81	\$6.62	\$7.05
Oil and condensate (per barrel)	\$108.36	\$59.60	\$61.53
Natural gas liquids (per gallon)	\$1.55	\$0.94	\$–
Total (per thousand cubic feet equivalent)	\$10.72	\$6.91	\$8.08
Selected data per Mcfe:			
Total lease operating expenses	\$0.62	\$0.44	\$(0.03)
General and administrative expenses	\$1.51	\$3.38	\$48.44
Depreciation, depletion and amortization of natural gas and oil properties	\$1.01	\$0.61	\$–

Development, Exploration and Acquisition Capital Expenditures

The following table presents information regarding our net costs incurred in the purchase of proved and unproved properties and in exploration and development activities for the periods indicated:

	Year Ended June 30,		
	2008	2007	2006
Property acquisition costs:			
Unproved	\$-	\$3,571,830	\$14,609,232
Proved	309,000,000	-	-
Exploration costs	45,243,651	72,888,603	19,529,607
Developmental costs	76,025,586	1,453,066	590,395
Capitalized interest	-	1,083,693	149,365
Total costs	<u>\$430,269,237</u>	<u>\$78,997,192</u>	<u>\$34,878,599</u>

Drilling Activity

The following table shows our drilling activity for the periods indicated. In the table, “gross” wells refer to wells in which we have a working interest, and “net” wells refer to gross wells multiplied by our working interest in such wells.

	Year Ended June 30,					
	2008		2007		2006	
	Gross	Net	Gross	Net	Gross	Net
Exploratory Wells:						
Productive (onshore)	34	2.2	60	9.9	11	2.0
Productive (offshore)	4	2.0	4	1.6	1	0.6
Non-productive (onshore)	19	3.9	4	0.6	3	2.8
Non-productive (offshore)	1	1.0	1	0.4	2	0.9
Total	<u>58</u>	<u>9.1</u>	<u>69</u>	<u>12.5</u>	<u>17</u>	<u>6.3</u>

The productive and non-productive onshore wells listed above relate strictly to our investment in the Arkansas Fayetteville Shale. At the time the Company sold its interest in the Arkansas Fayetteville Shale wells, the Company had 16 wells that were being drilled. We have classified those 16 wells as non-productive.

Exploration and Development Acreage

Our principal natural gas and oil properties consist of natural gas and oil leases. The following table indicates our interests in developed and undeveloped acreage as of June 30, 2008:

	Developed Acreage(1)(2)		Undeveloped Acreage(1)(3)	
	Gross(4)	Net(5)	Gross(4)	Net(5)
	Onshore Texas	-	-	5,800
Offshore Gulf of Mexico	<u>21,950</u>	<u>5,920</u>	<u>237,029</u>	<u>104,442</u>
Total	<u>21,950</u>	<u>5,920</u>	<u>242,829</u>	<u>108,502</u>

- (1) Excludes any interest in acreage in which we have no working interest before payout or before initial production.
- (2) Developed acreage consists of acres spaced or assignable to productive wells.

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- (3) Undeveloped acreage is considered to be those leased acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas, regardless of whether or not such acreage contains proved reserves.
- (4) Gross acres refer to the number of acres in which we own a working interest.
- (5) Net acres represent the number of acres attributable to an owner's proportionate working interest in a lease (e.g., a 50% working interest in a lease covering 320 acres is equivalent to 160 net acres).

Included in the Offshore Gulf of Mexico acres shown in the table above are the beneficial interests Contango has in the offshore acreage owned by its partially-owned subsidiaries. The above table includes (i) our 32.3% interest in Republic Exploration LLC's 1,163 net developed acres and 121,685 net undeveloped acres, and (ii) our 65.6% interest in Contango Offshore Exploration LLC's 3,000 net developed acres and 75,476 net undeveloped acres. In addition, the Company holds royalty interests in approximately 10,760 gross undeveloped acres (484 net undeveloped acres) and 5,000 gross developed acres (71 net developed acres), offshore in the Gulf of Mexico.

Productive Wells

The following table sets forth the number of gross and net productive natural gas and oil wells in which we owned an interest as of June 30, 2008:

	Total Productive Wells(1)	
	Gross(2)	Net(3)
Natural gas (offshore)	11	3.8
Oil	—	—
Total	11	3.8

- (1) Productive wells are producing wells and wells capable of producing commercial quantities. Completed but marginally producing wells are not considered here as a "productive" well.
- (2) A gross well is a well in which we own an interest.
- (3) The number of net wells is the sum of our fractional working interests owned in gross wells.

Natural Gas and Oil Reserves

The following table presents our estimated net proved natural gas and oil reserves and the pre-tax net present value of our reserves at June 30, 2008, based on a reserve report generated by William M. Cobb & Associates, Inc. The pre-tax net present value, discounted at 10%, is not intended to represent the current market value of the estimated natural gas and oil reserves we own.

The pre-tax net present value of future cash flows attributable to our proved reserves prepared in accordance with SEC guidelines as of June 30, 2008 was based on \$13.095 per million British thermal units ("MMbtu") for natural gas at the NYMEX and \$140.00 per barrel of oil at the West Texas Intermediate Posting, in each case before adjusting for basis, transportation costs and British thermal unit ("Btu") content. For further information concerning the present value of future net cash flows from these proved reserves, see "Supplemental Oil and Gas Disclosures".

Offshore	Total Proved Reserves as of June 30, 2008		
	Producing	Non-Producing	Total
Natural gas (MMcf)	262,502	29,066	291,568
Oil and condensate (MBbls)	5,161	318	5,479
Natural gas liquids (MBbls)	6,759	680	7,439
Total proved reserves (MMcfe)	334,022	35,054	369,076
Pre-tax net present value (\$000) (Disc. @ 10%)	\$2,983,433	\$200,410	3,183,843

The process of estimating natural gas and oil reserves is complex. It requires various assumptions, including natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Our

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third party engineers must project production rates, estimate timing and amount of development expenditures, analyze available geological, geophysical, production and engineering data, and the extent, quality and reliability of all of this data can vary. Therefore, estimates of natural gas and oil reserves are inherently imprecise. Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves most likely will vary from estimates. Any significant variance could materially affect the estimated quantities and net present value of reserves. In addition, estimates of proved reserves may be adjusted to reflect production history, results of exploration and development, prevailing natural gas and oil prices and other factors, many of which are beyond our control.

It should not be assumed that the pre-tax net present value is the current market value of our estimated natural gas and oil reserves. In accordance with requirements of the Securities and Exchange Commission, we base the estimated discounted future net cash flows from proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate.

Item 3. *Legal Proceedings*

As of the date of this Form 10-K, we are not a party to any material legal proceedings and we are not aware of any material proceedings contemplated against us.

Item 4. *Submission of Matters to a Vote of Security Holders*

During the quarter ended June 30, 2008, no matters were submitted to a vote of security holders.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

Our common stock was listed on the American Stock Exchange in January 2001 under the symbol "MCF". The table below shows the high and low closing prices of our common stock for the periods indicated.

	<u>High</u>	<u>Low</u>
Fiscal Year 2007:		
Quarter ended September 30, 2006	\$14.45	\$11.47
Quarter ended December 31, 2006	\$24.09	\$10.46
Quarter ended March 31, 2007	\$22.49	\$19.74
Quarter ended June 30, 2007	\$39.35	\$21.38
Fiscal Year 2008:		
Quarter ended September 30, 2007	\$40.20	\$32.05
Quarter ended December 31, 2007	\$52.70	\$36.75
Quarter ended March 31, 2008	\$69.15	\$49.52
Quarter ended June 30, 2008	\$94.40	\$69.25

On August 22, 2008, the closing price of our common stock on the American Stock Exchange was \$77.98 per share, and there were approximately 16.8 million shares of Contango common stock outstanding, held by approximately 92 holders of record.

We have not declared or paid any dividends on our shares of common stock. Any future decision to pay dividends on our common stock will be at the discretion of our board and will depend upon our financial condition, results of operations, capital requirements, and other factors our board may deem relevant.

On May 17, 2007, we sold \$30.0 million of our Series E preferred stock to a group of private investors. The sale of the Series E preferred stock was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder, as a transaction not involving a public offering. The Series E preferred stock was convertible at any time by the holder into shares of our common stock at a price of \$38.00 per share. The

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dividend on the Series E preferred stock was paid quarterly in cash at a rate of 6.0% per annum. We used the net proceeds to repay \$15.0 million in debt outstanding from the Company's \$30.0 million term loan agreement and to fund the Company's offshore Gulf of Mexico deep shelf exploration program.

During the quarter ended March 31, 2008, four Series E preferred stockholders voluntarily elected to convert a total of 2,400 shares of Series E preferred stock to 315,786 shares of our common stock. The converted shares of Series E preferred stock had a face value of \$12.0 million. During the quarter ended June 30, 2008, the final three Series E preferred stockholders voluntarily elected to convert a total of 3,600 shares of Series E preferred stock to 473,682 shares of our common stock. The converted shares of Series E preferred stock had a face value of \$18.0 million.

The following table sets forth information about our equity compensation plan at June 30, 2008:

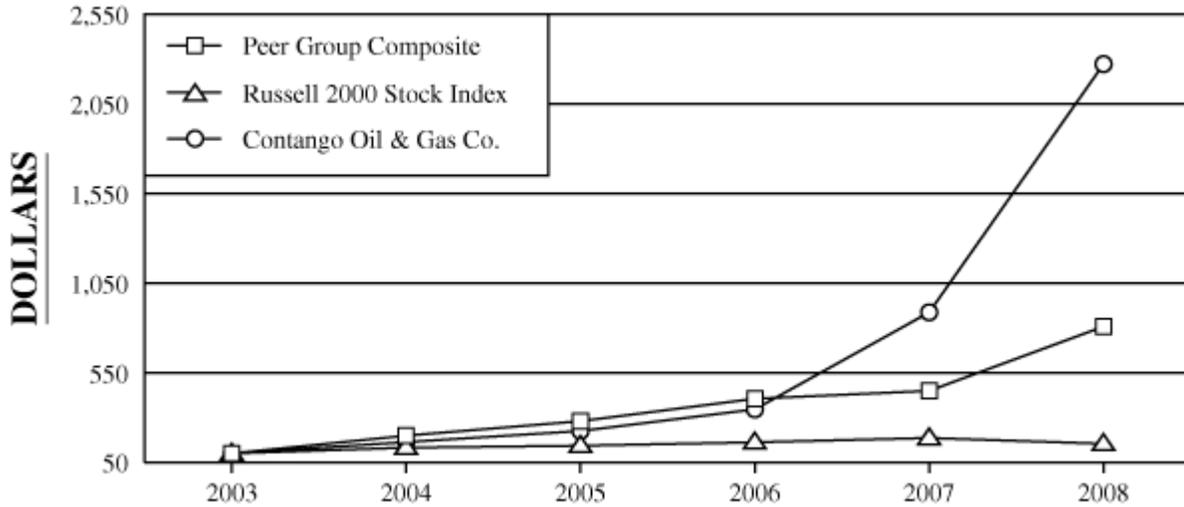
Plan Category	Number of Securities to be Issued upon Exercise of Outstanding options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
1999 Stock Incentive Plan	855,667	\$ 11.57	568,666

On February 13, 2008, the Company's board of directors approved the purchase of an aggregate of 99,333 stock options from three officers of the Company and one member of its board of directors for approximately \$5.9 million, in the aggregate. The board also approved the purchase of 10,000 shares of common stock from one member of its board of directors for approximately \$0.7 million. All purchases were completed during the three months ended March 31, 2008. The Company does not have a program to repurchase shares of our common stock.

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The following graph compares the yearly percentage change from June 30, 2003 until June 30, 2008 in the cumulative total stockholder return on our common stock to the cumulative total return on the Russell 2000 Stock Index and a peer group of five independent oil and gas exploration companies selected by us. The companies in our selected peer group are Brigham Exploration Company, Carrizo Oil & Gas, Inc., Edge Petroleum Corp., Goodrich Petroleum Corp. and PetroQuest Energy, Inc. Our common stock began trading on the American Stock Exchange on January 19, 2001 and previously traded on the Nasdaq over-the-counter Bulletin Board. The graph assumes that a \$100 investment was made in our common stock and each index on June 30, 2003 and that all dividends were reinvested. The stock performance for our common stock is not necessarily indicative of future performance.

Comparison of Fiscal Year 2008 Cumulative Total Return



	06/30/03	06/30/04	06/30/05	6/30/2006	6/30/2007	6/30/2008
Peer Group Composite	100	199	280	405	449	808
Russell 2000 Stock Index	100	132	143	162	186	154
Contango Oil & Gas Co.	100	163	225	346	887	2,272

[Table of Contents](#)**Item 6. Selected Financial Data**

	Year Ended June 30,				
	2008	2007	2006	2005	2004
(Dollar amounts in 000s, except per share amounts)					
Financial Data:					
Revenues:					
Natural gas and oil sales	\$116,498	\$14,140	\$776	\$1,051	\$28
Gain from hedging activities	—	—	—	—	58
Total revenues	<u>\$116,498</u>	<u>\$14,140</u>	<u>\$776</u>	<u>\$1,051</u>	<u>\$86</u>
Income (loss) from continuing operations	\$83,221	\$(1,078)	\$(6,888)	\$(3,191)	\$(340)
Discontinued operations, net of income taxes	173,685	(1,617)	6,681	15,609	8,040
Net income (loss)	\$256,906	\$(2,695)	\$(207)	\$12,418	\$7,700
Preferred stock dividends	1,548	540	601	420	620
Net income (loss) attributable to common stock	<u>\$255,358</u>	<u>\$(3,235)</u>	<u>\$(808)</u>	<u>\$11,998</u>	<u>\$7,080</u>
Net income (loss) per share:					
Basic					
Continuing operations	\$5.05	\$(0.03)	\$(0.50)	\$(0.27)	\$(0.09)
Discontinued operations	10.73	(0.18)	0.45	1.19	0.77
Total	<u>\$15.78</u>	<u>\$(0.21)</u>	<u>\$(0.05)</u>	<u>\$0.92</u>	<u>\$0.68</u>
Diluted					
Continuing operations	\$4.82	\$(0.03)	\$(0.50)	\$(0.27)	\$(0.09)
Discontinued operations	10.06	(0.18)	0.45	1.19	0.77
Total	<u>\$14.88</u>	<u>\$(0.21)</u>	<u>\$(0.05)</u>	<u>\$0.92</u>	<u>\$0.68</u>
Weighted average shares outstanding:					
Basic	16,185	15,430	14,760	13,089	10,484
Diluted	17,263	15,430	14,760	13,089	10,484
Working capital (deficit)	29,913	\$(4,088)	\$18,333	\$28,839	\$3,032
Capital expenditures	\$430,269	\$78,997	\$34,879	\$9,677	\$12,384
Long term debt	\$15,000	\$20,000	\$10,000	\$—	\$7,089
Stockholders' equity	\$341,998	\$90,804	\$62,540	\$50,979	\$36,117
Total assets	\$599,974	\$153,936	\$89,385	\$53,353	\$45,511
Proved Reserve Data:					
Total proved reserves (Mmcf)	369,076	84,876	3,430	1,373	17,422
Pre-tax net present value (SEC at 10%)	\$3,183,843	\$329,179	\$8,852	\$7,081	\$59,767

PART II

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and the related notes and other information included elsewhere in this report.

Overview

Contango is a Houston-based, independent natural gas and oil company. The Company's business is to explore, develop, produce and acquire natural gas and oil properties primarily offshore in the Gulf of Mexico. COI and CRC, our wholly-owned subsidiaries, act as operator on certain offshore prospects.

Revenues and Profitability. Our revenues, profitability and future growth depend substantially on prevailing prices for natural gas and oil and on our ability to find, develop and acquire natural gas and oil reserves that are economically recoverable. The preparation of our financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect our reported results of operations and the amount of reported assets, liabilities and proved natural gas and oil reserves. We use the successful efforts method of accounting for our natural gas and oil activities.

Reserve Replacement. Generally, our producing properties offshore in the Gulf of Mexico have high initial production rates, followed by steep declines. As a result, we must locate and develop or acquire new natural gas and oil reserves to replace those being depleted by production. Substantial capital expenditures are required to find, develop and acquire natural gas and oil reserves.

Sale of proved properties. From time-to-time as part of our business strategy, we have sold, and in the future may continue to sell some or a substantial portion of our proved reserves to capture current value, using the sales proceeds to further our exploration activities.

Use of Estimates. The preparation of our financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates with regard to these financial statements include estimates of remaining proved natural gas and oil reserves and the timing and costs of our future drilling, development and abandonment activities.

Please see "Risk Factors" on page 14 for a more detailed discussion of a number of other factors that affect our business, financial condition and results of operations.

Results of Operations

The following is a discussion of the results of our continuing operations for the fiscal year ended June 30, 2008, compared to the fiscal year ended June 30, 2007, and for the fiscal year ended June 30, 2007, compared to the fiscal year ended June 30, 2006.

Revenues. All of our revenues are from the sale of our natural gas and oil production. Our revenues may vary significantly from year to year depending on changes in commodity prices, which fluctuate widely, and production volumes. Our production volumes are subject to wide swings as a result of new discoveries and ongoing geologic declines.

The table below sets forth revenue and production data for continuing operations for the fiscal years ended June 30, 2008, 2007 and 2006.

	<u>Year Ended June 30,</u>		<u>%</u>	<u>Year Ended June 30,</u>		<u>%</u>
	<u>2008</u>	<u>2007</u>		<u>2007</u>	<u>2006</u>	
	<u>(\$000)</u>			<u>(\$000)</u>		
Revenues:						
Natural gas and oil sales	\$116,498	\$14,140	724 %	\$14,140	\$776	1722 %
Total revenues	\$116,498	\$14,140		\$14,140	\$776	
Production:						
Natural gas (million cubic feet)	9,089	1,792	407 %	1,792	72	2389 %
Oil and condensate (thousand barrels)	185	34	444 %	34	4	750 %
Natural gas liquids (thousand gallons)	4,700	187	2413%	187	—	100 %
Total (million cubic feet equivalent)	10,870	2,023	437 %	2,023	96	2007 %
Natural gas (thousand cubic feet per day)	24,833	4,910	406 %	4,910	197	2389 %
Oil and condensate (barrels per day)	505	93	443 %	93	11	750 %
Natural gas liquids (gallons per day)	12,842	512	2407%	512	—	100 %
Total (thousand cubic feet per day equivalent)	29,698	5,541	436 %	5,541	263	2007 %
Average Sales Price:						
Natural gas (per thousand cubic feet)	\$9.81	\$6.62	48 %	\$6.62	\$7.05	(6 %) %
Oil and condensate (per barrel)	\$108.36	\$59.60	82 %	\$59.60	\$61.53	(3 %) %
Natural gas liquids (per gallon)	\$1.55	\$0.94	65 %	\$0.94	\$—	100 %
Operating expenses	\$6,777	\$891	661 %	\$891	\$(3)	29800%
Exploration expenses	\$5,729	\$2,380	141 %	\$2,380	\$6,816	(65 %) %
Depreciation, depletion and amortization	\$11,900	\$1,607	641 %	\$1,607	\$202	696 %
Impairment of natural gas and oil properties	\$642	\$—	100 %	\$—	\$708	(100 %) %
General and administrative expenses	\$16,929	\$6,842	147 %	\$6,842	\$4,761	44 %
Interest expense, net of interest capitalized	\$3,933	\$2,163	82 %	\$2,163	\$54	3906 %
Interest income	\$1,969	\$886	122 %	\$886	\$826	7 %
Gain (loss) on sale of assets and other	\$62,314	\$(2,684)	2422%	\$(2,684)	\$250	(1174) %

Natural Gas and Oil Sales. We reported natural gas and oil sales of approximately \$116.5 million for the year ended June 30, 2008, up from approximately \$14.1 million reported for the year ended June 30, 2007. This increase is attributable to our Dutch #2 discovery which began producing in July 2007, our Dutch #3 discovery which began producing in November 2007, our Mary Rose #1 and #3 discoveries which began producing in April 2008, and our Mary Rose #2 discovery which began producing in June 2008. Another reason for the large increase is the additional interest we purchased in our Dutch and Mary Rose discoveries, effective January 1, 2008.

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We reported natural gas and oil sales of approximately \$14.1 million for the year ended June 30, 2007, up from approximately \$0.8 million reported for the year ended June 30, 2006. This increase is mainly attributable to our Dutch #1 discovery which began producing in January 2007 and our Liberty discovery which began producing in March 2007.

Natural Gas and Oil Production and Average Sales Prices. Our net natural gas production for the year ended June 30, 2008 was approximately 24.8 Mmcfd, up from approximately 4.9 Mmcfd for the year ended June 30, 2007. Net oil production for the period was up from 93 bopd to 505 bopd, and NGL production was up from 512 gallons per day to 12,842 gallons per day for the same period. The increase in natural gas, oil and NGL production was the result of our Dutch #2 discovery which began producing in July 2007, our Dutch #3 discovery which began producing in November 2007, our Mary Rose #1 and #3 discoveries which began producing in April 2008, and our Mary Rose #2 discovery which began producing in June 2008. Another reason for the large increase is the additional interest we purchased in our Dutch and Mary Rose discoveries, effective January 1, 2008. For the year ended June 30, 2008, the price of natural gas was \$9.81 per Mcf while the price for oil and NGLs was \$108.36 per barrel and \$1.55 per gallon, respectively. For the year ended June 30, 2007, the price of natural gas was \$6.62 per Mcf while the price for oil and NGLs was \$59.60 per barrel and \$0.94 per gallon, respectively.

Our net natural gas production for the year ended June 30, 2007 was approximately 4.9 Mmcfd, up from approximately 0.2 Mmcfd for the year ended June 30, 2006. Net oil production for the period was up from 11 bopd to 93 bopd, and NGL production increased from zero to 512 gallons per day for the same period. The increase in natural gas, oil and NGL production was primarily the result of our Dutch #1 discovery which began producing in January 2007 and our Liberty discovery which began producing in March 2007. For the year ended June 30, 2007, the price of natural gas was \$6.62 per Mcf while the price for oil and NGLs was \$59.60 per barrel and \$0.94 per gallon, respectively. For the year ended June 30, 2006, the price of natural gas was \$7.05 per Mcf while the price for oil was \$61.53 per barrel.

Operating Expenses. Operating expenses for the year ended June 30, 2008 were approximately \$6.8 million which related mainly to continuing operations from our three Dutch wells and our first three Mary Rose wells, compared to operating expenses for the year ended June 30, 2007 of approximately \$0.9 million which related mainly to only one Dutch well. Operating expenses for the year ended June 30, 2006 were immaterial due to no significant producing discoveries during this time.

Exploration Expense. We reported approximately \$5.7 million of exploration expenses for the year ended June 30, 2008. Of this amount, approximately \$4.2 million was related to the dry hole the Company drilled at High Island A198, approximately \$0.6 million was attributable to the cost to acquire and reprocess 3-D seismic data offshore in the Gulf of Mexico, and approximately \$0.9 million was attributable to the payment of delay rentals.

We reported approximately \$2.4 million of exploration expenses for the year ended June 30, 2007. Of this amount, approximately \$1.4 million was attributable to the cost to acquire and reprocess 3-D seismic data in the Gulf of Mexico, and approximately \$1.0 million was attributable to the payment of delay rentals.

We reported approximately \$6.8 million of exploration expenses for the year ended June 30, 2006. Of this amount, approximately \$5.9 million was related to unsuccessful wells drilled in the Gulf of Mexico during the period, approximately \$0.3 million was attributable to the cost to acquire and reprocess 3-D seismic data offshore in the Gulf of Mexico, and approximately \$0.6 million was attributable to the cost of delay rentals.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization for the year ended June 30, 2008 was approximately \$11.9 million. For the year ended June 30, 2007, we recorded approximately \$1.6 million of depreciation, depletion and amortization. The increase in depreciation, depletion and amortization was primarily attributable to added production from newly added reserves from our Dutch #2, Dutch #3, Mary Rose #1, Mary Rose #2 and Mary Rose #3 discoveries, as well as from the additional interest we purchased in our Dutch and Mary Rose discoveries, effective January 1, 2008.

Depreciation, depletion and amortization for the year ended June 30, 2007 was approximately \$1.6 million. For the year ended June 30, 2006, we recorded approximately \$0.2 million of depreciation, depletion and amortization. The increase in depreciation, depletion and amortization was primarily attributable to added production from newly added reserves from our Dutch #1 and Liberty discoveries.

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Impairment of Natural Gas and Oil Properties. We reported an impairment of natural gas and oil properties of approximately \$0.6 million for the year ended June 30, 2008, related to the expiration of Eugene Island 209 and Viosca Knoll 161, two leases held by COE. The Company did not report an impairment charge for the fiscal year ended June 30, 2007.

We reported an impairment of natural gas and oil properties of approximately \$0.7 million for the year ended June 30, 2006. These related to impairment of offshore properties held by REX and COE. When Contango acquired an additional interest in REX and COE, the purchase price was allocated to several prospects. Specifically, \$0.3 million related to our Main Pass 221 prospect and \$0.3 million related to our West Delta 43 prospect were impaired because they were both determined to be dry holes during the period; and \$0.1 million relating to our East Cameron 107 prospect was impaired as a result of the expiration of its lease.

General and Administrative Expenses. General and administrative expenses for the year ended June 30, 2008 were approximately \$16.9 million, up from \$6.8 million for the year ended June 30, 2007. Major components of general and administrative expenses for the year ended June 30, 2008 included approximately \$1.0 million in salaries, \$12.1 million in benefits and bonuses (includes \$1.2 million in non-cash expenses related to the cost of expensing stock options), \$1.1 million in office administration and other expenses, \$0.4 million in insurance costs, \$0.9 million in accounting and tax services, and \$1.4 million in legal and other administrative expenses.

General and administrative expenses for the year ended June 30, 2007 were approximately \$6.8 million, up from \$4.8 million for the year ended June 30, 2006. Major components of general and administrative expenses for the year ended June 30, 2007 included approximately \$4.4 million in salaries, benefits and bonuses (includes \$1.5 million in non-cash expenses related to the cost of expensing stock options), \$1.2 million in office administration and other expenses, \$0.3 million in insurance costs, \$0.5 million in accounting and tax services, and \$0.4 million in legal and other administrative expenses.

General and administrative expenses for the year ended June 30, 2006 were approximately \$4.8 million. Major components of general and administrative expenses for the year ended June 30, 2006 included approximately \$1.8 million in salaries, benefits and bonuses, \$0.9 million in office administration and other expenses, \$0.3 million in insurance costs, \$0.5 million in accounting and tax services, \$0.4 million in legal and other administrative expenses, and \$0.9 million in non-cash expenses related to the cost of expensing stock options.

Interest Expense. Interest expense for the fiscal years ended June 30, 2008, 2007 and 2006 were approximately \$3.9 million, \$2.2 million, and \$54,488, respectively. The higher levels of interest expense for fiscal year 2007 and 2008 were attributable to higher levels of bank debt outstanding during such period. The lower level of interest expense in fiscal year 2006 was attributable to the Company retiring all of its long term debt in the second quarter of fiscal year 2005. No interest was capitalized for unevaluated property for the fiscal year ended June 30, 2008.

Interest Income. Interest income for the fiscal years ended June 30, 2008, 2007 and 2006 were approximately \$1.9 million, \$0.9 million, and \$0.8 million, respectively. The higher levels of interest income for fiscal years 2008 and 2007 were attributable to loans made to related parties and interest earned on the proceeds from our various property sales.

Gain on Sale of Assets and Other. We reported a gain on sale of assets and other of approximately \$62.3 million for the year ended June 30, 2008. Of this amount, approximately \$63.4 million relates to the gain on the sale of the Company's 10% limited partnership interest in Freeport LNG, \$2.1 relates to a payment from a stockholder related to a short swing profit liability, \$0.3 million relates to the gain on the sale of certain overriding royalty interests and onshore properties, offset by a \$2.9 million loss recognized on the sale of certain assets held by CVCC and a \$0.6 million loss attributable to the write-down of the Company's investment in Mobilize.

We reported a loss on sale of assets and other of approximately \$2.7 million for the year ended June 30, 2007, which consists of a \$2.3 million loss on COI's sale of Grand Isle 72 and a \$0.4 million loss on equity investments.

We reported a gain on sale of assets and other of approximately \$0.3 million for the year ended June 30, 2006, which represents other income recognized by our partially-owned subsidiary, COE.

Discontinued Operations The table and discussions above, along with our financial statements, discuss only continuing operations for all fiscal years presented. Not reflected are the Company' s sold producing properties

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which generated 7.7%, 24.3% and 86.6% of combined revenues for the fiscal years ended June 30, 2008, 2007 and 2006, respectively. Please see Note 5 – Sale of Properties – Discontinued Operations of Notes to Consolidated Financial Statements included as part of this Form 10-K, for a discussion of our discontinued operations.

Capital Resources and Liquidity

Cash From Operating Activities. Cash flow from operating activities provided approximately \$112.7 million in cash for the year ended June 30, 2008 compared to \$4.1 million for the same period in 2007. This increase in cash provided by operating activities is attributable to increased natural gas and oil sales from our Dutch #2, Dutch #3, Mary Rose #1, Mary Rose #2 and Mary Rose #3 discoveries which began producing during the year ended June 30, 2008. Another reason for the increase is the added sales attributable to the additional interest we purchased in our Dutch and Mary Rose discoveries, effective January 1, 2008.

Cash flow from operating activities provided approximately \$4.1 million in cash for the year ended June 30, 2007 compared to \$9.5 million for the same period in 2006. This decrease in cash from operating activities is primarily attributable to higher general and administrative costs, higher operating expenses and higher interest expense for the year ended June 30, 2007.

Cash From Investing Activities. Cash flows used in investing activities for the year ended June 30, 2008 were approximately \$38.9 million, compared to \$55.1 million used in investing activities for the year ended June 30, 2007. This decrease in cash flows used in investing activities was due primarily to the proceeds received from the sale of our Arkansas Fayetteville Shale properties and our 10% limited partnership interest in Freeport LNG, partially offset by the acquisition of additional interests in our Dutch and Mary Rose leases.

Cash flows used in investing activities for the year ended June 30, 2007 were approximately \$55.1 million, compared to \$23.7 million used in investing activities for the year ended June 30, 2006. This increase in cash flows used in investing activities was due primarily to \$77.5 million used in natural gas and oil exploration and development expenses, offset by selling approximately \$16.0 million of short-term investments and the sale of COI's 25% interest in Grand Isle 72 for \$7.0 million.

Cash From Financing Activities. Cash flows used in financing activities for the year ended June 30, 2008 were approximately \$20.2 million, compared to \$47.0 million provided by financing activities for the same period in 2007. This decrease in cash flow is primarily attributable to \$48.5 million of debt repayment by the Company and its affiliates, \$1.5 million of preferred stock dividends paid, and \$6.6 million of stock and options repurchased during the year ended June 30, 2008, partially offset by \$35.0 million of borrowings under credit facilities.

Cash flows provided by financing activities for the year ended June 30, 2007 were approximately \$47.0 million, compared to \$20.5 million for the same period in 2006. This increase in cash flow is primarily attributable to raising approximately \$28.8 million from the issuance of our Series E convertible preferred equity securities, net of issuance costs, and \$8.5 million in borrowings by our affiliates.

Income Taxes. During the year ended June 30, 2008, we paid approximately \$24.5 million in estimated income taxes.

Capital Budget. For fiscal year 2009, our capital expenditure budget calls for us to invest a total of approximately \$116.3 million. Of the \$116.3 million, our budget calls for us to invest approximately \$16.3 million to drill and complete Eloise #1. We have also budgeted to invest approximately \$100.0 million to drill two rate acceleration wells at our Dutch and Mary Rose leases and four currently planned wildcat exploration wells in the Gulf of Mexico.

As of August 26, 2008, we had approximately \$75.3 million in cash and cash equivalents.

Discontinued Operations. The Company, since its inception in September 1999, has raised \$484.0 million in proceeds from twelve separate property sales, and views periodic reserve sales as an opportunity to capture value, reduce reserve and price risk, in addition to being a source of funds for potentially higher rate of return natural gas and oil exploration investments. We believe these periodic

natural gas and oil property sales are an efficient strategy to meet our cash and liquidity needs by providing us with immediate cash, which would otherwise take years to

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realize through the production lives of the fields sold. We have in the past and expect to in the future to continue to rely heavily on the sales of assets to generate cash to fund our exploration investments and operations.

These sales bring forward future revenues and cash flows, but our longer term liquidity could be impaired to the extent our exploration efforts are not successful in generating new discoveries, production, revenues and cash flows. Additionally, our longer term liquidity could be impaired due to the decrease in our inventory of producing properties that could be sold in future periods. Further, as a result of these property sales the Company's ability to collateralize bank borrowings is reduced which increases our dependence on more expensive mezzanine debt and potential equity sales. The availability of such funds will depend upon prevailing market conditions and other factors over which we have no control, as well as our financial condition and results of operations.

The table below sets forth the proceeds received from natural gas and oil property sales in each of the fiscal years ended June 30, 2006, 2007 and 2008, the impact of these sales on our developed reserve quantities, and a measure of our developed reserves held at the end of each such fiscal year. Please see the reserve activity reported in the Supplemental Oil and Gas Disclosures on pages F-29 and F-30 for a more detailed discussion regarding our standardized measure.

Fiscal Year of	Property Sale	Proceeds Received	Reserves Sold (Mmcfe)	Reserves at End of Fiscal Year (Mmcfe)	Standardized Measure of Discounted Future Net Cash Flows at End of Fiscal Year
2006		\$12,892,916	2,294	3,430	\$7,734,106
2007		\$7,000,000	426	84,876	\$252,297,275
2008		\$328,300,000	13,789	369,076	\$2,233,918,129

For fiscal year 2008, the Company realized approximately \$8.1 million in operating cash flows from discontinued operations, approximately \$319.0 million in investing cash flows from discontinued operations and zero in financing cash flows from discontinued operations.

Off Balance Sheet Arrangements

None.

Contractual Obligations

The following table summarizes our known contractual obligations as of June 30, 2008:

	Payment due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long term debt	\$15,000,000	\$-	\$15,000,000	-	\$-
Operating leases	625,182	190,458	434,724	-	-
Total	<u>\$15,625,182</u>	<u>\$190,458</u>	<u>\$15,434,724</u>	<u>\$-</u>	<u>\$-</u>

Additionally, once we have completed drilling Eloise #1, we are committed to retain the drilling rig for two more wells. The Company will use this rig to drill a rate acceleration well at Dutch #4 and then either a second rate acceleration well or a wildcat exploration well.

Credit Facility

On August 26, 2008, the Company prepaid the \$15.0 million it had outstanding under its \$30.0 million loan agreement with a private investment firm (the "Term Loan Agreement") and terminated the Term Loan Agreement. The Company paid an additional \$116,442 in accrued and unpaid interest and non-use

fees. As of June 30, 2008, the Company was in compliance with its financial covenants, ratios and other provisions of the Term Loan Agreement.

On February 5, 2008, using the proceeds from our \$68.0 million sale of Freeport LNG, the Company prepaid the \$20.0 million it had outstanding under its three-year \$20.0 million secured term loan facility with The Royal Bank of Scotland plc (the "RBS Facility") and terminated the RBS Facility. The Company paid an additional \$342,292 in accrued and unpaid interest and prepayment fees.

Application of Critical Accounting Policies and Management's Estimates

The discussion and analysis of the Company's financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's significant accounting policies are described in Note 2 of Notes to Consolidated Financial Statements included as part of this Form 10-K. We have identified below the policies that are of particular importance to the portrayal of our financial position and results of operations and which require the application of significant judgment by management. The Company analyzes its estimates, including those related to oil and gas reserve estimates, on a periodic basis and bases its estimates on historical experience, independent third party reservoir engineers and various other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of the Company's financial statements:

Successful Efforts Method of Accounting. Our application of the successful efforts method of accounting for our oil and gas business activities requires judgments as to whether particular wells are developmental or exploratory, since exploratory costs and the costs related to exploratory wells that are determined to not have proved reserves must be expensed whereas developmental costs are capitalized. The results from a drilling operation can take considerable time to analyze, and the determination that commercial reserves have been discovered requires both judgment and application of industry experience. Wells may be completed that are assumed to be productive and actually deliver oil and gas in quantities insufficient to be economic, which may result in the abandonment of the wells at a later date. On occasion, wells are drilled which have targeted geologic structures that are both developmental and exploratory in nature, and in such instances an allocation of costs is required to properly account for the results. Delineation seismic costs incurred to select development locations within a productive oil and gas field are typically treated as development costs and capitalized, but often these seismic programs extend beyond the proved reserve areas and therefore management must estimate the portion of seismic costs to expense as exploratory. The evaluation of oil and gas leasehold acquisition costs included in unproved properties requires management's judgment to estimate the fair value of exploratory costs related to drilling activity in a given area. Drilling activities in an area by other companies may also effectively condemn leasehold positions.

Reserve Estimates. The Company's estimates of oil and gas reserves are, by necessity, projections based on geologic and engineering data, and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effect of regulations by governmental agencies, and assumptions governing future oil and gas prices, future operating costs, severance taxes, development costs and workover costs, all of which may in fact vary considerably from actual results. The future drilling costs associated with reserves assigned to proved undeveloped locations may ultimately increase to the extent that these reserves are later determined to be uneconomic. For these reasons, estimates of the economically recoverable quantities of expected oil and gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of the Company's oil and gas properties and/or the rate of depletion of such oil and gas properties. Actual

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production, revenues and expenditures with respect to the Company's reserves will likely vary from estimates, and such variances may be material. Holding all other factors constant, a reduction in the Company's proved reserve estimate at June 30, 2008 of 1% would not have a material effect on depreciation, depletion and amortization expense.

Impairment of Oil and Gas Properties. The Company reviews its proved oil and gas properties for impairment on an annual basis or whenever events and circumstances indicate a potential decline in the recoverability of their carrying value. The Company compares expected undiscounted future net cash flows on a cost center basis to the unamortized capitalized cost of the asset. If the future undiscounted net cash flows, based on the Company's estimate of future natural gas and oil prices and operating costs and anticipated production from proved reserves, are lower than the unamortized capitalized cost, then the capitalized cost is reduced to fair market value. The factors used to determine fair value include, but are not limited to, estimates of reserves, future commodity pricing, future production estimates, anticipated capital expenditures, and a discount rate commensurate with the risk associated with realizing the expected cash flows projected. Unproved properties are reviewed quarterly to determine if there has been impairment of the carrying value, with any such impairment charged to expense in the period. Given the complexities associated with oil and gas reserve estimates and the history of price volatility in the oil and gas markets, events may arise that will require the Company to record an impairment of its oil and gas properties and there can be no assurance that such impairments will not be required in the future nor that they will not be material.

Stock-Based Compensation. Effective July 1, 2006, we adopted Statement of Financial Accounting Standard ("SFAS") No. 123(R) (revised 2004) ("SFAS 123(R)", "Share-Based Payment", which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123(R) requires that management make assumptions including stock price volatility and employee turnover that are utilized to measure compensation expense. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, which are set forth in Note 2 of Notes to Consolidated Financial Statements included as part of this Form 10-K.

Recent Accounting Pronouncements

FASB Staff Position No. EITF 03-6-1 (EITF 03-6-1). EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in SFAS No. 128, *Earnings per Share*. The provisions of EITF 03-6-1 are effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of EITF 03-6-1. Early application is not permitted. We do not expect EITF 03-6-1 to have a material effect on our consolidated financial statements.

In May 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 162 ("SFAS 162"), "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP (the GAAP hierarchy). SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU section 411, "The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles*." We are currently evaluating the provisions of SFAS 162 and assessing the impact, if any, it may have on our financial position and results of operations.

Effective July 1, 2009, the FASB issued SFAS No. 157-2 ("SFAS 157-2"), "Effective Date of FASB Statement No. 157". This pronouncement defers the effective date of SFAS No. 157 ("SFAS 157"), "Fair Value Measurements" to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). An entity that has issued interim or annual financial statements reflecting the application of the measurement and disclosure provisions of SFAS 157 prior to

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February 12, 2008, must continue to apply all provisions of SFAS 157. We are currently evaluating the impact of our adoption of SFAS 157-2 on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R) (“SFAS 141(R)”), “Business Combinations” and SFAS No. 160 (“SFAS 160”), “Noncontrolling Interests in Consolidated Financial Statements”. These statements require most identifiable assets, liabilities and noncontrolling interests to be recorded at full fair value and require noncontrolling interests to be reported as a component of equity. Both statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS 141(R) will be applied to business combinations occurring after the effective date and SFAS 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently evaluating the provisions of SFAS 141(R) and SFAS 160 and assessing the impact, if any, they may have on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.” This pronouncement permits entities to use the fair value method to measure certain financial assets and liabilities by electing an irrevocable option to use the fair value method at specified election dates. After election of the option, subsequent changes in fair value would result in the recognition of unrealized gains or losses as period costs during the period the change occurred. SFAS 159 becomes effective as of the beginning of the first fiscal year that begins after November 15, 2007, with early adoption permitted. However, entities may not retroactively apply the provisions of SFAS 159 to fiscal years preceding the date of adoption. We are currently evaluating the impact that SFAS 159 may have on our financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and requires enhanced disclosures about fair value measurements. It does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact that SFAS 157 may have on our financial position, results of operations and cash flows.

Item 7A. *Quantitative and Qualitative Disclosure about Market Risk*

Commodity Risk. Our major commodity price risk exposure is to the prices received for our natural gas and oil production. Realized commodity prices received for our production are tied to the spot prices applicable to natural gas and crude oil at the applicable delivery points. Prices received for natural gas and oil are volatile, unpredictable and are beyond our control. For the year ended June 30, 2008, a 10% fluctuation in the prices received for natural gas and oil production would have had an approximate \$11.7 million impact on our revenues.

Interest Rate Risk. As of August 26, 2008 we have no long-term debt subject to the risk of loss associated with movements in interest rates.

Item 8. *Financial Statements and Supplementary Data*

The financial statements and supplemental information required to be filed under Item 8 of Form 10-K are presented on pages F-1 through F-30 of this Form 10-K.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company’s senior management of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of June 30, 2008, the end of the period covered

by this report. Based on that evaluation, the Company's management, including the Chairman, Chief Executive Officer, Chief Financial Officer, Controller and Treasurer, concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that the Company files under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to the Company's management, including the Chairman, Chief Executive Officer and Chief Financial Officer, together with our Controller and Treasurer, as appropriate, to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of the Company's management, including the Chairman, Chief Executive Officer and Chief Financial Officer, together with our Controller and the Treasurer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under the framework in *Internal Control – Integrated Framework*, the Company's management concluded that its internal control over financial reporting was effective as of June 30, 2008.

Grant Thornton LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has audited the effectiveness of our internal control over financial reporting as of June 30, 2008, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Contango Oil & Gas Company

We have audited Contango Oil & Gas Company (a Delaware Corporation) and subsidiaries' internal control over financial reporting as of June 30, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Contango Oil & Gas Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on Contango Oil & Gas Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Contango Oil & Gas Company and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Contango Oil & Gas Company and subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2008 and our report dated August 29, 2008 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Houston, Texas
August 29, 2008

Changes in Internal Control Over Financial Reporting

There was no change in our internal controls over financial reporting during the period covered by this annual report on Form 10-K that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information regarding directors, executive officers, promoters and control persons required under Item 10 of Form 10-K will be contained in our Definitive Proxy Statement for our 2008 Annual Meeting of Stockholders (the "Proxy Statement") under the headings "Election of Directors", "Executive Compensation", "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance" and is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act of 1934, as amended, not later than 120 days after June 30, 2008.

Item 11. *Executive Compensation*

The information required under Item 11 of Form 10-K will be contained in the Proxy Statement under the heading "Executive Compensation" and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required under Item 12 of Form 10-K will be contained in the Proxy Statement under the heading "Security Ownership of Certain Other Beneficial Owners and Management" and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required under Item 13 of Form 10-K will be contained in the Proxy Statement under the heading "Certain Relationships and Related Transactions, and Director Independence" and "Executive Compensation" and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required under Item 14 of Form 10-K will be contained in the Proxy Statement under the heading "Principal Accountant Fees and Services" and is incorporated herein by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) Financial Statements and Schedules:

The financial statements are set forth in pages F-1 to F-31 of this Form 10-K. Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

(b) Exhibits:

The following is a list of exhibits filed as part of this Form 10-K. Where so indicated by a footnote, exhibits, which were previously filed, are incorporated herein by reference.

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<u>Exhibit</u> <u>Number</u>	<u>Description</u>
2 .1	Purchase and Sale Agreement, by and between Juneau Exploration, L.P. and REX Offshore Corporation, dated as of September 1, 2005.(17)
2 .2	Purchase and Sale Agreement, by and between Juneau Exploration, L.P. and COE Offshore, LLC dated as of September 1, 2005.(17)
2 .3	Purchase and Sale Agreement between Contango STEP, LP and Rosetta Resources Operating LP, dated April 28, 2006.(19)
2 .4	Purchase and Sale Agreement between Contango Operators, Inc. and Rosetta Resources Offshore LLC, dated December 14, 2006.(21)
2 .5	Asset Purchase Agreement by and among Petrohawk Energy Corporation and Contango Operators Inc. (successor-in-interest to Contango Gas Solutions, L.P.), Alta Resources, L.L.C., GPM Energy, LLC, MND Partners, L.P. and TePee Petroleum Company, Inc., dated as of November 26, 2007.(25)
2 .6	Asset Purchase Agreement by and among XTO Energy Inc. and Contango Operators, Inc., Alta Resources, L.L.C., GPM Energy, LLC, MND Partners, L.P. and TePee Petroleum Company, Inc., dated as of January 4, 2008.(26)
2 .7	Partnership Interest Purchase Agreement by and among Turbo LNG LLC, Contango Sundance, Inc. and Osaka Gas Co., Ltd., as Guarantor, dated January 7, 2008.(27)
3 .1	Certificate of Incorporation of Contango Oil & Gas Company.(6)
3 .2	Bylaws of Contango Oil & Gas Company.(6)
3 .3	Agreement of Plan of Merger of Contango Oil & Gas Company, a Delaware corporation, and Contango Oil & Gas Company, a Nevada corporation.(6)
3 .4	Amendment to the Certificate of Incorporation of Contango Oil & Gas Company.(11)
4 .1	Facsimile of common stock certificate of Contango Oil & Gas Company.(1)
4 .2	Certificate of Designations, Preferences and Relative Rights and Limitations for Series C Senior Convertible Cumulative Preferred Stock of Contango Oil & Gas Company.(13)
4 .3	Certificate of Designations, Preferences and Relative Rights and Limitations for Series D Perpetual Cumulative Convertible Preferred Stock of Contango Oil & Gas Company.(16)
4 .4	Securities Purchase Agreement, dated as of July 15, 2005, among Contango Oil & Gas Company and the Purchasers Named Therein, relating to the Series D Perpetual Cumulative Convertible Preferred Stock.(16)
4 .5	Certificate of Designations, Preferences and Relative Rights and Limitations for Series E Perpetual Cumulative Convertible Preferred Stock of Contango Oil & Gas Company.(22)
4 .6	Securities Purchase Agreement, dated as of May 11, 2007, among Contango Oil & Gas Company and the Purchasers Named Therein, relating to the Series E Perpetual Cumulative Convertible Preferred Stock.(22)
10.1	Agreement, dated effective as of September 1, 1999, between Contango Oil & Gas Company and Juneau Exploration, L.L.C.(2)
10.2	Securities Purchase Agreement between Contango Oil & Gas Company and Trust Company of the West, dated December 29, 1999.(9)
10.3	Warrant to Purchase Common Stock between Contango Oil & Gas Company and Trust Company of the West, dated December 29, 1999.(3)
10.4	Co-Sale Agreement among Kenneth R. Peak, Contango Oil & Gas Company and Trust Company of the West, dated December 29, 1999.(3)
10.5	Securities Purchase Agreement dated August 24, 2000 by and between Contango Oil & Gas Company and Trust Company of the West.(4)
10.6	Securities Purchase Agreement dated August 24, 2000 by and between Contango Oil & Gas Company and Fairfield Industries Incorporated.(4)
10.7	Securities Purchase Agreement dated August 24, 2000 by and between Contango Oil & Gas Company and Juneau Exploration Company, L.L.C.(4)

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Exhibit Number	Description
10.8	Amendment dated August 14, 2000 to agreement between Contango Oil & Gas Company and Juneau Exploration Company, LLC. dated effective as of September 1, 1999.(5)
10.9	Asset Purchase Agreement by and among Juneau Exploration, L.P. and Contango Oil & Gas Company dated January 4, 2002.(7)
10.10	Asset Purchase Agreement by and among Mark A. Stephens, John Miller, The Hunter Revocable Trust, Linda G. Ferszt, Scott Archer and the Archer Revocable Trust and Contango Oil & Gas Company dated January 9, 2002.(8)
10.11	Option Purchase Agreement between Contango Oil & Gas Company and Cheniere Energy, Inc. dated June 4, 2002.(10)
10.12	Securities Purchase Agreement dated December 12, 2003 by and between Contango Oil & Gas Company and the Purchasers Named Therein.(13)
10.13	Freeport LNG Development, L.P. Amended and Restated Limited Partnership Agreement dated February 27, 2003.(14)
10.14	Partnership Purchase Agreement among Contango Sundance, Inc., Contango Oil & Gas, Cheniere LNG, Inc. and Cheniere Energy, Inc. dated March 1, 2003.(14)
10.15	First Amendment, dated December 19, 2003, to Freeport LNG Development, L.P. Amended and Restated Limited Partnership Agreement dated February 27, 2003.(14)
10.16	Asset Purchase Agreement, dated as of October 7, 2004, by and between Contango Oil & Gas Company; Contango STEP, L.P.; Edge Petroleum Exploration Company; and Edge Petroleum Corporation.(15)
10.17	Limited Liability Company Agreement of Republic Exploration LLC dated August 24, 2000.(17)
10.18	Amendment to Limited Liability Company Agreement and Additional Agreements of Republic Exploration LLC dated as of September 1, 2005.(17)
10.19	Limited Liability Company Agreement of Contango Offshore Exploration LLC dated November 1, 2000.(17)
10.20	First Amendment to Limited Liability Company Agreement and Additional Agreements of Contango Offshore Exploration LLC dated as of September 1, 2005.(17)
10.21*	Contango Oil & Gas Company 1999 Stock Incentive Plan. (18)
10.22*	Amendment No. 1 to Contango Oil & Gas Company 1999 Stock Incentive Plan dated as of March 1, 2001.(18)
10.23	Term Loan Agreement between Contango Oil & Gas Company and The Royal Bank of Scotland plc, dated April 27, 2006.(20)
10.24	Demand Promissory Note dated October 26, 2006 with Schedules I, II and III.(23)
10.25	Term Loan Agreement between Contango Oil & Gas Company and Centaurus Capital LLC, dated January 30, 2007.(24)
10.26	Form of Pledge Agreement.(24)
10.27	Assignment of Operating Rights Interest between CGM, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.28	Partial Assignment of Oil and Gas Leases between CGM, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.29	Assignment of Operating Rights Interest between CGM, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.30	Assignment of Operating Rights Interest between Olympic Energy Partners, LLC and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.31	Partial Assignment of Oil and Gas Leases between Olympic Energy Partners, LLC and Contango Operators, Inc. dated as of January 3, 2008.(28)
10.32	Assignment of Operating Rights Interest between Olympic Energy Partners, LLC and Contango Operators, Inc., dated as of January 3, 2008.(28)

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<u>Exhibit</u> <u>Number</u>	<u>Description</u>
10.33	Assignment of Operating Rights Interest between Juneau Exploration, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.34	Partial Assignment of Oil and Gas Leases between Juneau Exploration, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.35	Assignment of Operating Rights Interest between Juneau Exploration, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.36	Assignment of Operating Rights Interest between Juneau Exploration, LP and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.37	Partial Assignment of Oil and Gas Leases between Juneau Exploration, LP and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.38	Assignment of Operating Rights Interest between Juneau Exploration, LP and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.39	Assignment of Operating Rights Interest between Olympic Energy Partners, LLC and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.40	Partial Assignment of Oil and Gas Leases between Olympic Energy Partners, LLC and Contango Operators, Inc. dated as of April 3, 2008. (30)
10.41	Assignment of Operating Rights Interest between Olympic Energy Partners, LLC and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.42	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.43	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.44	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.45	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.46	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.47	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.48	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.49	Amended and Restated Limited Liability Company Agreement of Republic Exploration LLC, dated April 1, 2008.(30)
10.50	Amended and Restated Limited Liability Company Agreement of Contango Offshore Exploration LLC, dated April 1, 2008†
10.51	Third Amendment to Term Loan Agreement, dated as of January 17, 2008, between Contango Oil & Gas Company, as Borrower, and Centaurus Capital LLC, as Lender.(29)
10.52	Fourth Amendment to Term Loan Agreement, dated as of February 13, 2008, between Contango Oil & Gas Company, as Borrower, and Centaurus Capital LLC, as Lender.(31)
10.53	Amended and Restated Term Loan Agreement, dated June 5, 2008, between Contango Oil & Gas Company, as Borrower, and Centaurus Capital LLC, as Lender.†
14.1	Code of Ethics.(12)
21.1	List of Subsidiaries.†
21.2	Organizational Chart.†
23.1	Consent of William M. Cobb & Associates, Inc.†
23.2	Consent of Grant Thornton LLP.†
23.3	Consent of W.D. Von Gonten & Co.†

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<u>Exhibit</u> <u>Number</u>	<u>Description</u>
31.1	Certification required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.†
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

† Filed herewith.

* Indicates a management contract or compensatory plan or arrangement.

1. Filed as an exhibit to the Company' s Form 10-SB Registration Statement, as filed with the Securities and Exchange Commission on October 16, 1998.
2. Filed as an exhibit to the Company' s report on Form 10-QSB for the quarter ended December 31, 1999, as filed with the Securities and Exchange Commission on November 11, 1999.
3. Filed as an exhibit to the Company' s report on Form 10-QSB for the quarter ended December 31, 1999, as filed with the Securities and Exchange Commission on February 14, 2000.
4. Filed as an exhibit to the Company' s report on Form 8-K, dated August 24, 2000, as filed with the Securities and Exchange Commission of September 8, 2000.
5. Filed as an exhibit to the Company' s annual report on Form 10-KSB for the fiscal year ended June 30, 2000, as filed with the Securities and Exchange Commission on September 27, 2000.
6. Filed as an exhibit to the Company' s report on Form 8-K, dated December 1, 2000, as filed with the Securities and Exchange Commission on December 15, 2000.
7. Filed as an exhibit to the Company' s report on Form 8-K, dated January 4, 2002, as filed with the Securities and Exchange Commission on January 8, 2002.
8. Filed as an exhibit to the Company' s report on Form 10-QSB for the quarter ended March 31, 2002, as filed with the Securities and Exchange Commission on February 14, 2002.
9. Filed as an exhibit to the Company' s report on Form 10-QSB/A for the quarter ended December 31, 1999, as filed with the Securities and Exchange Commission on June 4, 2002.
10. Filed as an exhibit to the Company' s Registration Statement on Form S-1 (Registration No. 333-89900) as filed with the Securities and Exchange Commission on June 14, 2002.
11. Filed as an exhibit to the Company' s report on Form 10-QSB for the quarter ended December 31, 2002, dated November 14, 2002, as filed with the Securities and Exchange Commission.
12. Filed as an exhibit to the Company' s annual report on Form 10-KSB for the fiscal year ended June 30, 2003, as filed with the Securities and Exchange Commission on September 22, 2003.
13. Filed as an exhibit to the Company' s report on Form 8-K, dated December 12, 2003, as filed with the Securities and Exchange Commission on December 17, 2003.
14. Filed as an exhibit to the Company' s report on Form 8-K, dated December 19, 2003, as filed with the Securities and Exchange Commission on December 23, 2003.
15. Filed as an exhibit to the Company' s report on Form 8-K, dated September 27, 2004, as filed with the Securities and Exchange Commission on October 8, 2004.
16. Filed as an exhibit to the Company' s Registration Statement filed on Form S-3 as filed with the Securities and Exchange Commission on August 2, 2005.
17. Filed as an exhibit to the Company' s report on Form 8-K, dated September 2, 2005, as filed with the Securities and Exchange Commission on September 8, 2005.
18. Filed as an exhibit to the Company' s report on Form 10-K for the fiscal year ended June 30, 2005, as filed with the Securities and Exchange Commission on September 13, 2005.
19. Filed as an exhibit to the Company' s report on Form 10-Q for the quarter ended March 31, 2006, dated May 15, 2006, as filed with the Securities and Exchange Commission.

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20. Filed as Exhibit 10.1 to the Company' s report on Form 10-Q for the quarter ended March 31, 2006, dated May 15, 2006, as filed with the Securities and Exchange Commission.
21. Filed as an exhibit to the Company' s report on Form 8-K, dated December 14, 2006, as filed with the Securities and Exchange Commission on December 20, 2006.
22. Filed as an exhibit to the Company' s report on Form 8-K, dated May 11, 2007, as filed with the Securities and Exchange Commission on May 17, 2007.
23. Filed as an exhibit to the Company' s report on Form 10-Q for the quarter ended September 30, 2006, dated November 8, 2006, as filed with the Securities and Exchange Commission.
24. Filed as an exhibit to the Company' s report on Form 8-K, dated January 30, 2007, as filed with the Securities and Exchange Commission on February 5, 2007.
25. Filed as an exhibit to the Company' s report on Form 8-K, dated November 26, 2007, as filed with the Securities and Exchange Commission on November 29, 2007.
26. Filed as an exhibit to the Company' s report on Form 8-K, dated January 4, 2008, as filed with the Securities and Exchange Commission on January 10, 2008.
27. Filed as an exhibit to the Company' s report on Form 8-K, dated February 5, 2008, as filed with the Securities and Exchange Commission on February 8, 2008.
28. Filed as an exhibit to the Company' s report on Form 8-K, dated January 3, 2008, as filed with the Securities and Exchange Commission on January 9, 2008.
29. Filed as an exhibit to the Company' s report on Form 8-K, dated January 17, 2008, as filed with the Securities and Exchange Commission on January 24, 2008.
30. Filed as an exhibit to the Company' s report on Form 8-K, dated April 3, 2008, as filed with the Securities and Exchange Commission on April 9, 2008.
31. Filed as an exhibit to the Company' s report on Form 10-Q for the quarter ended March 31, 2008, dated May 12, 2008, as filed with the Securities and Exchange Commission.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONTANGO OIL & GAS COMPANY

/s/ KENNETH R. PEAK
Kenneth R. Peak
Chairman, Chief Executive Officer and
Chief Financial Officer
(principal executive officer
and principal financial officer)

/s/ LESIA BAUTINA
Lesia Bautina
Senior Vice President and Controller
(principal accounting officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ KENNETH R. PEAK</u> Kenneth R. Peak	Chairman of the Board	August 29, 2008
<u>/s/ B.A. BERILGEN</u> B.A. Berilgen	Director	August 29, 2008
<u>/s/ JAY D. BREHMER</u> Jay D. Brehmer	Director	August 29, 2008
<u>/s/ CHARLES M. REIMER</u> Charles M. Reimer	Director	August 29, 2008
<u>/s/ STEVEN L. SCHOONOVER</u> Steven L. Schoonover	Director	August 29, 2008
<u>/s/ DARRELL W. WILLIAMS</u> Darrell W. Williams	Director	August 29, 2008

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Contango Oil & Gas Company

We have audited the accompanying consolidated balance sheets of Contango Oil & Gas Company (a Delaware corporation) and subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Contango Oil & Gas Company and subsidiaries as of June 30, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Contango Oil & Gas Company and subsidiaries' internal control over financial reporting as of June 30, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 29, 2008 expressed an unqualified opinion on the internal control over financial reporting.

/s/ GRANT THORNTON LLP

Houston, Texas
August 29, 2008

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30,	
	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$59,884,574	\$6,177,618
Short-term investments	-	2,200,576
Inventory tubulars	334,797	334,797
Accounts receivable:		
Trade receivable	72,343,761	7,853,080
Advances to affiliates	5,754,516	5,259,191
Joint interest billings receivable	18,019,847	7,894,505
Prepaid capital costs	1,264,278	5,539,419
Income tax receivable	-	2,666,884
Other	1,147,345	255,788
Total current assets	<u>158,749,118</u>	<u>38,181,858</u>
PROPERTY, PLANT AND EQUIPMENT:		
Natural gas and oil properties, successful efforts method of accounting:		
Proved properties	442,630,193	82,655,848
Unproved properties	7,591,447	22,012,054
Furniture and equipment	278,737	235,512
Accumulated depreciation, depletion and amortization	<u>(13,134,511)</u>	<u>(3,584,618)</u>
Total property, plant and equipment, net	<u>437,365,866</u>	<u>101,318,796</u>
OTHER ASSETS:		
Cash and other assets held by affiliates	3,299,002	1,195,074
Investment in Freeport LNG Project	-	3,243,585
Investment in Contango Venture Capital Corporation	190,000	5,864,558
Deferred income tax asset	-	3,377,016
Facility fees and other assets	369,764	754,622
Total other assets	<u>3,858,766</u>	<u>14,434,855</u>
TOTAL ASSETS	<u>\$599,973,750</u>	<u>\$153,935,509</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$22,990,887	\$14,659,860
Royalties and working interests payable	66,606,414	-
Accrued liabilities	10,334,008	1,417,279
Joint interest advances	15,666,389	-
Accrued exploration and development	3,082,399	14,235,062
Advances from affiliates	2,965,022	3,417,103
Debt of affiliates	3,261,177	8,540,091
Income tax payable	3,463,176	-
Other current liabilities	466,232	-
Total current liabilities	<u>128,835,704</u>	<u>42,269,395</u>
LONG-TERM DEBT	15,000,000	20,000,000
DEFERRED TAX LIABILITY	112,189,684	-
ASSET RETIREMENT OBLIGATION	1,949,881	862,344
COMMITMENTS AND CONTINGENCIES (NOTE 15)		
SHAREHOLDERS' EQUITY:		
Convertible preferred stock, 6%, Series E, \$0.04 par value, 10,000 shares authorized, 6,000 shares issued and outstanding at June 30, 2007, liquidation preference of \$30,000,000 at \$5,000 per share	-	240
Common stock, \$0.04 par value, 50,000,000 shares authorized, 19,404,746 shares issued and 16,819,746 outstanding at June 30, 2008, 18,539,807 shares issued and 15,964,807 outstanding at June 30, 2007,	776,189	741,591
Additional paid-in capital	73,030,926	75,849,506
Accumulated other comprehensive income	-	715,659
Treasury stock at cost (2,585,000 and 2,575,000 shares, respectively)	<u>(6,843,900)</u>	<u>(6,180,000)</u>
Retained earnings	275,035,266	19,676,774
Total shareholders' equity	<u>341,998,481</u>	<u>90,803,770</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$599,973,750</u>	<u>\$153,935,509</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June 30,		
	2008	2007	2006
REVENUES:			
Natural gas and oil sales	\$116,497,713	\$14,140,161	\$776,331
Total revenues	<u>116,497,713</u>	<u>14,140,161</u>	<u>776,331</u>
EXPENSES:			
Operating expenses	6,776,757	891,116	(3,213)
Exploration expenses	5,728,600	2,380,071	6,815,750
Depreciation, depletion and amortization	11,899,620	1,607,319	201,684
Impairment of natural gas and oil properties	642,374	-	707,523
General and administrative expense	16,928,760	6,841,721	4,760,662
Total expenses	<u>41,976,111</u>	<u>11,720,227</u>	<u>12,482,406</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE OTHER INCOME AND INCOME TAXES	74,521,602	2,419,934	(11,706,075)
OTHER INCOME (EXPENSE):			
Interest expense (net of interest capitalized)	(3,933,309)	(2,162,573)	(54,488)
Interest income	1,969,145	886,420	826,399
Gain (loss) on sale of assets and other	62,314,188	(2,684,062)	249,611
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	134,871,626	(1,540,281)	(10,684,553)
Benefit (provision) from income taxes	(51,650,422)	462,569	3,797,038
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>83,221,204</u>	<u>(1,077,712)</u>	<u>(6,887,515)</u>
DISCONTINUED OPERATIONS (Note 5)			
Discontinued operations, net of income taxes	<u>173,685,065</u>	<u>(1,616,839)</u>	<u>6,680,552</u>
NET INCOME (LOSS)	256,906,269	(2,694,551)	(206,963)
Preferred stock dividends	1,547,777	539,722	601,000
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	<u>\$255,358,492</u>	<u>\$(3,234,273)</u>	<u>\$(807,963)</u>
NET INCOME (LOSS) PER SHARE:			
Basic			
Continuing operations	\$5.05	\$(0.11)	\$(0.50)
Discontinued operations	10.73	(0.10)	0.45
Total	<u>\$15.78</u>	<u>\$(0.21)</u>	<u>\$(0.05)</u>
Diluted			
Continuing operations	\$4.82	\$(0.11)	\$(0.50)
Discontinued operations	10.06	(0.10)	0.45
Total	<u>\$14.88</u>	<u>\$(0.21)</u>	<u>\$(0.05)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	<u>16,184,517</u>	<u>15,430,146</u>	<u>14,760,268</u>
Diluted	<u>17,262,715</u>	<u>15,430,146</u>	<u>14,760,268</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) from continuing operations	\$83,221,204	\$(1,077,712)	\$(6,887,515)
Income (loss) from discontinued operations, net of income taxes	<u>173,685,065</u>	<u>(1,616,839)</u>	<u>6,680,552</u>
Net income (loss)	256,906,269	(2,694,551)	(206,963)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	15,173,285	3,267,252	1,199,436
Impairment of natural gas and oil properties	1,234,111	192,109	707,523
Exploration expenditures	4,747,798	5,473,218	8,221,045
Deferred income taxes	115,952,055	692,818	7,139
Loss (gain) on sale of assets	(326,337,749)	2,313,334	(7,232,351)
Stock-based compensation	1,476,988	1,492,765	856,412
Tax benefit from exercise of stock options	(1,080,562)	(188,897)	(359,772)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable and other	(67,279,024)	(7,599,816)	947,586
Increase in notes receivable	(250,000)	(1,005,000)	-
Increase in prepaid insurance	(447,202)	(205,904)	(20,640)
Increase in inventory	-	(139,972)	(194,825)
Increase in accounts payable and advances from joint owners	26,152,482	4,570,213	6,219,698
Increase (decrease) in other accrued liabilities	75,997,351	(87,286)	792,025
Increase (decrease) in income taxes payable	7,210,622	(2,377,988)	(1,398,776)
Other	<u>3,286,631</u>	<u>370,723</u>	<u>(64,921)</u>
Net cash provided by operating activities	<u>112,743,055</u>	<u>4,073,018</u>	<u>9,472,616</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Natural gas and oil exploration and development expenditures	(119,928,546)	(77,688,085)	(33,804,518)
Investment in Freeport LNG Project	-	-	(236,834)
Sale of short-term investments, net	2,200,576	16,271,751	7,027,542
Additions to furniture and equipment	(43,225)	(26,659)	(20,425)
Decrease in advances to operators	-	-	1,137,056
Investment in Contango Venture Capital Corporation	(1,166,624)	(681,244)	(2,156,447)
Acquisition of overriding royalty interests	-	-	(1,000,000)
Acquisition of Republic Exploration LLC and Contango Offshore Exploration LLC interests	-	-	(7,500,000)
Acquisition of natural gas and oil producing properties	(309,000,000)	-	-
Sale/Acquisition costs	(7,847,613)	-	(7,170)
Proceeds from the sale of assets	<u>396,925,821</u>	<u>7,000,000</u>	<u>12,892,916</u>
Net cash used in investing activities	<u>(38,859,611)</u>	<u>(55,124,237)</u>	<u>(23,667,880)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under credit facility	35,000,000	25,000,000	10,000,000
Repayments under credit facility	(40,000,000)	(15,000,000)	-
Borrowings (repayments) by affiliates	(8,540,091)	8,540,091	-
Proceeds from preferred equity issuances, net of issuance costs	-	28,783,936	9,616,438
Preferred stock dividends	(1,547,777)	(539,722)	(601,000)
Repurchase/cancellation of stock options	(5,922,532)	(202,521)	-
Purchase of shares	(663,900)	-	-
Proceeds from exercise of options and warrants	580,760	519,715	1,535,880
Tax benefit from exercise of stock options	1,080,562	188,897	359,772
Debt issue costs	(163,510)	(336,509)	(426,651)
Net cash provided by (used in) financing activities	<u>(20,176,488)</u>	<u>46,953,887</u>	<u>20,484,439</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	53,706,956	(4,097,332)	6,289,175
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>6,177,618</u>	<u>10,274,950</u>	<u>3,985,775</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$59,884,574</u>	<u>\$6,177,618</u>	<u>\$10,274,950</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for taxes, net of cash received	<u>\$21,974,825</u>	<u>\$451,993</u>	<u>\$1,045,816</u>
Cash paid for interest	<u>\$4,305,336</u>	<u>\$2,702,672</u>	<u>\$125,582</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total Shareholders' Equity	Comprehensive Income
	Shares	Amount	Shares	Amount						
Balance at June 30, 2005	1,400	\$ 56	13,422,809	\$ 639,910	\$32,800,077	–	\$ (6,180,000)	\$23,719,010	\$ 50,979,053	
Exercise of stock options and warrants	–	–	406,500	16,260	1,519,620	–	–	–	1,535,880	
Tax benefit from exercise of stock options	–	–	–	–	359,772	–	–	–	359,772	
Cashless exercise of stock options	–	–	3,114	125	(125)	–	–	–	–	
Conversion of Series C preferred stock to common stock	(1,400)	(56)	1,166,662	46,666	(46,610)	–	–	–	–	
Issuance of Series D preferred stock	2,000	80	–	–	9,616,358	–	–	–	9,616,438	
Expense of stock options	–	–	–	–	856,412	–	–	–	856,412	
Net loss	–	–	–	–	–	–	–	(206,963)	(206,963)	
Preferred stock dividends	–	–	–	–	–	–	–	(601,000)	(601,000)	
Comprehensive income	–	–	–	–	–	–	–	–	–	\$ –
Balance at June 30, 2006	<u>2,000</u>	<u>\$ 80</u>	<u>14,999,085</u>	<u>\$ 702,961</u>	<u>\$45,105,504</u>	<u>\$ –</u>	<u>\$ (6,180,000)</u>	<u>\$22,911,047</u>	<u>\$ 62,539,592</u>	
Exercise of stock options	–	–	106,500	4,260	515,455	–	–	–	519,715	
Tax benefit from exercise of stock options	–	–	–	–	155,003	–	–	–	155,003	
Cancellation of stock options, net of tax benefit of \$33,894	–	–	–	–	(168,627)	–	–	–	(168,627)	
Cashless exercise of stock options	–	–	726	29	(29)	–	–	–	–	
Amortization of Restricted Stock	–	–	25,166	1,007	152,972	–	–	–	153,979	
Conversion of Series D preferred stock to common stock	(2,000)	(80)	833,330	33,334	(33,254)	–	–	–	–	
Issuance of Series E preferred stock	6,000	240	–	–	28,783,696	–	–	–	28,783,936	
Expense of stock options	–	–	–	–	1,338,786	–	–	–	1,338,786	
Net loss	–	–	–	–	–	–	–	(2,694,551)	(2,694,551)	(2,694,551)
Preferred stock dividends	–	–	–	–	–	–	–	(539,722)	(539,722)	
Unrealized gain on available for sale securities, net of tax	–	–	–	–	–	715,659	–	–	715,659	715,659
Comprehensive income	–	–	–	–	–	–	–	–	–	\$ (1,978,892)
Balance at June 30, 2007	<u>6,000</u>	<u>\$ 240</u>	<u>15,964,807</u>	<u>\$ 741,591</u>	<u>\$75,849,506</u>	<u>\$ 715,659</u>	<u>\$ (6,180,000)</u>	<u>\$19,676,774</u>	<u>\$ 90,803,770</u>	
Exercise of stock options	–	–	71,000	2,840	577,920	–	–	–	580,760	
Tax benefit from exercise of stock options	–	–	–	–	611,726	–	–	–	611,726	
Cancellation of stock options, net of tax benefit of \$468,836	–	–	–	–	(5,453,696)	–	–	–	(5,453,696)	
Treasury shares at cost	–	–	(10,000)	–	–	–	(663,900)	–	(663,900)	
Amortization of restricted stock	–	–	4,471	179	252,257	–	–	–	252,436	
Conversion of Series E preferred stock to common stock	(6,000)	(240)	789,468	31,579	(31,339)	–	–	–	–	
Expense of stock options	–	–	–	–	1,224,552	–	–	–	1,224,552	
Net income	–	–	–	–	–	–	–	256,906,269	256,906,269	256,906,269
Preferred stock dividends	–	–	–	–	–	–	–	(1,547,777)	(1,547,777)	
Unrealized gain on available for sale securities, net of tax	–	–	–	–	–	(715,659)	–	–	(715,659)	(715,659)
Comprehensive income	–	–	–	–	–	–	–	–	–	\$ 254,211,718
Balance at June 30, 2008	<u>–</u>	<u>\$ –</u>	<u>16,819,746</u>	<u>\$ 776,189</u>	<u>\$73,030,926</u>	<u>\$ –</u>	<u>\$ (6,843,900)</u>	<u>\$275,035,266</u>	<u>\$ 341,998,481</u>	

The accompanying notes are an integral part of these consolidated financial statements.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Contango Oil & Gas Company (collectively with its subsidiaries, "Contango" or "the Company") is a Houston-based, independent natural gas and oil company. The Company's business is to explore, develop, produce and acquire natural gas and oil properties primarily offshore in the Gulf of Mexico.

2. Summary of Significant Accounting Policies

The application of generally accepted accounting principles involves certain assumptions, judgments, choices and estimates that affect reported amounts of assets, liabilities, revenues and expenses. Thus, the application of these principles can result in varying results from company to company. Contango's critical accounting principles, which are described below, relate to the successful efforts method for costs related to natural gas and oil activities, consolidation principles and stock based compensation, cash and cash equivalents, and short-term investments.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue Recognition. Revenues from the sale of natural gas and oil produced are recognized upon the passage of title, net of royalties. Revenues from natural gas production are recorded using the sales method. When sales volumes exceed the Company's entitled share, an overproduced imbalance occurs. To the extent the overproduced imbalance exceeds the Company's share of the remaining estimated proved natural gas reserves for a given property, the Company records a liability. At June 30, 2008 and 2007, the Company had no overproduced imbalances.

Cash Equivalents. Cash equivalents are considered to be highly liquid investment grade debt investments having an original maturity of 90 days or less. As of June 30, 2008, the Company had \$59.9 million in cash and cash equivalents, of which \$25.1 million was invested in highly liquid AAA-rated money market funds.

Short Term Investments. As of June 30, 2007, the Company had \$2,200,576 invested in a portfolio of periodic auction reset ("PAR") securities, which have coupons that periodically reset to market interest rates at intervals ranging from 7 to 35 days. These PAR securities are being classified as short term investments and consist of AAA-rated tax-exempt municipal bonds. The Company had no funds invested in PAR securities as of June 30, 2008.

Accounts Receivable. The Company sells natural gas and crude oil to a limited number of customers. In addition, the Company participates with other parties in the operation of natural gas and crude oil wells. Substantially all of the Company's accounts receivables are due from either purchasers of natural gas and crude oil or participants in natural gas and crude oil wells for which the Company serves as the operator. Generally, operators of natural gas and crude oil properties have the right to offset future revenues against unpaid charges related to operated wells. A portion of our natural gas and crude oil sales are secured with letters of credit.

The allowance for doubtful accounts is an estimate of the losses in the Company's accounts receivable. The Company periodically reviews the accounts receivable from customers for any collectability issues. An allowance for doubtful accounts is established based on reviews of individual customer accounts, recent loss experience, current economic conditions, and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. Provisions for bad debts and recoveries on accounts previously charged-off are added to the allowance.

Accounts receivable allowance for bad debt was \$0 at June 30, 2008 and 2007. At June 30, 2008 and 2007, the carrying value of the Company's accounts receivable approximates fair value.

Impairment of Long-Lived Assets. The Company follows Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"),

which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

present and the undiscounted cash flows estimated to be generated by those assets are less than the asset's carrying amount. In the evaluation of the fair value and future benefits of long-lived assets, the Company performs an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets. If the carrying value of the related asset exceeds the undiscounted cash flows, the carrying value is reduced to its fair value.

Net Income (Loss) per Common Share. Basic and diluted net income (loss) per common share have been computed in accordance with SFAS No. 128, "Earnings per Share". Basic net income (loss) per common share is computed by dividing income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. See Note 7 – Net Income (Loss) Per Common Share for the calculations of basic and diluted net income (loss) per common share.

Income Taxes. The Company follows the liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements and (ii) operating loss and tax credit carryforwards for tax purposes. Deferred tax assets are reduced by a valuation allowance when, based upon management's estimates, it is more likely than not that a portion of the deferred tax assets will not be realized in a future period. In accordance with FASB Interpretation No. 48, "Accounting for uncertainty in Income Taxes, an interpretation of FASB Statement No. 109", the Company reviews its tax position for tax uncertainties.

Concentration of Credit Risk. Substantially all of the Company's accounts receivable result from natural gas and oil sales or joint interest billings to a limited number of third parties in the natural gas and oil industry. This concentration of customers and joint interest owners may impact the Company's overall credit risk in that these entities may be similarly affected by changes in economic and other conditions.

Consolidated Statements of Cash Flows. For the purpose of cash flows, the Company considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents. Significant transactions may occur that do not directly affect cash balances and, as such, are not disclosed in the Consolidated Statements of Cash Flows. Certain such non-cash transactions are disclosed in the Consolidated Statements of Shareholders' Equity, including shares issued as compensation and issuance of stock options.

Fair Value of Financial Instruments. The carrying amounts of the Company's short-term financial instruments, including cash equivalents, short-term investments, trade accounts receivable and trade accounts payable, approximate their fair values based on the short maturities of those instruments. The Company's long-term debt is variable rate debt and, as such, approximates fair value, as interest rates are variable based on prevailing market rates.

Successful Efforts Method of Accounting. The Company follows the successful efforts method of accounting for its natural gas and oil activities. Under the successful efforts method, lease acquisition costs and all development costs are capitalized. Unproved properties are reviewed quarterly to determine if there has been impairment of the carrying value, and any such impairment is charged to expense in the period. Exploratory drilling costs are capitalized until the results are determined. If proved reserves are not discovered, the exploratory drilling costs are expensed. Other exploratory costs, such as seismic costs and other geological and geophysical expenses, are expensed as incurred. The provision for depreciation, depletion and amortization is based on the capitalized costs as determined above. Depreciation, depletion and amortization is on a cost center by cost center basis using the unit of production method, with lease acquisition costs amortized over total proved reserves and other costs amortized over proved developed reserves.

When circumstances indicate that proved properties may be impaired, the Company compares expected undiscounted future cash flows on a cost center basis to the unamortized capitalized cost of the asset. If the future undiscounted cash flows, based on the Company's estimate of future natural gas and oil prices and

operating costs and anticipated production from proved reserves, are lower than the unamortized capitalized cost, then the capitalized cost is reduced to fair market value.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company amortizes and impairs natural gas and oil properties on a field-by-field cost center basis. Management believes this policy provides greater comparability with other successful natural gas and oil companies by conforming to predominant industry practice. In addition, the field level is consistent with the Company's operational and strategic assessment of its natural gas and oil investments.

In accordance with SFAS 144, the Company classified the following asset sales as discontinued operations: its \$128.0 million Western core Arkansas Fayetteville Shale sale effective October 1, 2007, its \$199.2 million Eastern core Arkansas Fayetteville Shale sale effective December 1, 2007, its \$1.1 million Alta-Ellis #1 and Temple Inland sale effective February 1, 2008, its \$11.6 million property sale effective April 1, 2006 and its \$2.0 million property sale effective February 1, 2006. An integral and on-going part of our business strategy is to sell our proved reserves from time to time in order to generate additional capital to reinvest in our onshore and offshore exploration programs. Thus, it is our intent to remain an independent natural gas and oil company engaged in the exploration, production, and acquisition of natural gas and oil.

Principles of Consolidation. The Company's consolidated financial statements include the accounts of Contango Oil & Gas Company and its wholly and partially-owned subsidiaries, after elimination of all intercompany balances and transactions. Wholly-owned subsidiaries are fully consolidated. Exploration and development subsidiaries not wholly owned, such as 32.3% owned Republic Exploration LLC ("REX") and 65.6% owned Contango Offshore Exploration LLC ("COE"), each as of June 30, 2008, are not controlled by the Company and are proportionately consolidated.

Upon the formation of REX, Contango was the only owner that contributed cash, and under the terms of the respective limited liability company agreements, was entitled to all of the ventures' assets and liabilities until the ventures expended all of the Company's initial cash contribution. The Company therefore consolidated 100% of the ventures' net assets and results of operations. During the quarter ended December 31, 2002, REX completed exploration activities to fully expend the Company's initial cash contribution, thereby enabling each owner to share in the net assets of REX based on their stated ownership percentages. Commencing with the quarter ended December 31, 2002, the Company began consolidating 33.3% of the net assets and results of operations of REX. The reduction of our ownership in the net assets of REX resulted in a non-cash exploration expense of approximately \$4.2 million and \$0.2 million, respectively in 2002. The other owners of REX contributed seismic data and related geological and geophysical services in exchange for its ownership interest.

Upon the formation of COE, Contango was the only owner that contributed cash, but by agreement, the owners in COE immediately shared in the net assets of COE, including the Company's initial cash contribution, based on their stated ownership percentages. The Company therefore consolidated 66.6% of the venture's net assets and results of operations. The other owner of COE contributed geological and geophysical services in exchange for its ownership interest.

On September 2, 2005, the Company purchased an additional 9.4% ownership interest in each of REX and COE. Both interests were purchased from an existing owner, which prior to the sale, owned 33.3% of each of the two subsidiaries. As a result of these two purchases, the Company's equity ownership interest in REX increased from 33.3% to 42.7% and in COE from 66.6% to 76.0%. On September 2, 2005, an independent third party also purchased a 9.4% interest in each of REX and COE and the selling owner's ownership interest thus decreased from 33.3% to 14.6% in each such entity.

Effective April 1, 2008, the Company sold a portion of its ownership interest in REX and COE to an existing owner for approximately \$0.8 million and \$0.9 million, respectively. As a result of the sale, the Company's equity ownership interest in REX and COE has decreased to 32.3% and 65.6%, respectively.

Contango's 19.5% ownership of Mobilize Inc. ("Mobilize") is accounted for using the cost method. Under the cost method, Contango records an investment in the stock of an investee at cost, and recognizes dividends received as income. Dividends received in excess of earnings subsequent to the date of investment are considered a return of investment and are recorded as reductions of cost of the investment.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Recent Accounting Pronouncements. FASB Staff Position No. EITF 03-6-1 (EITF 03-6-1). EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in SFAS No. 128, *Earnings per Share*. The provisions of EITF 03-6-1 are effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of EITF 03-6-1. Early application is not permitted. We do not expect EITF 03-6-1 to have a material effect on our consolidated financial statements.

In May 2008, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 162 (“SFAS 162”), “The Hierarchy of Generally Accepted Accounting Principles”. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP (the GAAP hierarchy). SFAS 162 is effective 60 days following the Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board amendments to AU section 411, “The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles*.” We are currently evaluating the provisions of SFAS 162 and assessing the impact, if any, it may have on our financial position and results of operations.

Effective July 1, 2009, the FASB issued SFAS No. 157-2 (“SFAS 157-2”), “Effective Date of FASB Statement No. 157”. This pronouncement defers the effective date of SFAS No. 157 (“SFAS 157”), “Fair Value Measurements” to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). An entity that has issued interim or annual financial statements reflecting the application of the measurement and disclosure provisions of SFAS 157 prior to February 12, 2008, must continue to apply all provisions of SFAS 157. We are currently evaluating the impact of our adoption of SFAS 157-2 on our consolidated financial statements.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141(R) (“SFAS 141(R)”), “Business Combinations” and SFAS No. 160 (“SFAS 160”), “Noncontrolling Interests in Consolidated Financial Statements”. These statements require most identifiable assets, liabilities and noncontrolling interests to be recorded at full fair value and require noncontrolling interests to be reported as a component of equity. Both statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS 141(R) will be applied to business combinations occurring after the effective date and SFAS 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently evaluating the provisions of SFAS 141(R) and SFAS 160 and assessing the impact, if any, they may have on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.” This pronouncement permits entities to use the fair value method to measure certain financial assets and liabilities by electing an irrevocable option to use the fair value method at specified election dates. After election of the option, subsequent changes in fair value would result in the recognition of unrealized gains or losses as period costs during the period the change occurred. SFAS 159 becomes effective as of the beginning of the first fiscal year that begins after November 15, 2007, with early adoption permitted. However, entities may not retroactively apply the provisions of SFAS 159 to fiscal years preceding the date of adoption. We are currently evaluating the impact that SFAS 159 may have on our financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and requires enhanced disclosures about fair value measurements. It does not require any new fair value measurements. SFAS 157 is effective for financial statements issued

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact that SFAS 157 may have on our financial position, results of operations and cash flows.

Stock-Based Compensation. Effective July 1, 2001, the Company adopted the fair value based method prescribed in SFAS No. 123 (“SFAS 123”), “Accounting for Stock Based Compensation”. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the award vesting period. The fair value of each award is estimated as of the date of grant using the Black-Scholes options-pricing model. Effective July 1, 2005, the Company adopted SFAS No. 123 (revised 2004) (“SFAS 123(R)”), “Share-Based Payment”. Prior to the adoption of SFAS 123(R), the Company presented all benefits from the exercise of share-based compensation as operating cash flows in the statement of cash flows. SFAS 123(R) requires the benefits of tax deductions in excess of the compensation cost recognized for the options (excess tax benefit) to be classified as financing cash flows. The fair value of each option is estimated as of the date of grant using the Black-Scholes option-pricing model. No options were granted for the fiscal year ended June 30, 2008. For the fiscal years ended June 30, 2007 and 2006, the following weighted-average assumptions were used: (i) risk-free interest rate of 5.0 percent and 5.1 percent, respectively; (ii) expected lives of five years; (iii) expected volatility of 56 percent and 40 percent, respectively; and (iv) expected dividend yield of zero percent.

Under the Company’s 1999 Stock Incentive Plan, as amended (the “1999 Plan” or the “Option Plan”), the Company’s board of directors may also grant restricted stock awards to officers or other employees of the Company. Restricted stock awards made under the 1999 Plan are subject to such restrictions, terms and conditions, including forfeitures, if any, as may be determined by the board. Restricted stock awards generally vest over a period of three years. Grants of service based restricted stock awards are valued at our common stock price at the date of grant. During the fiscal year ended June 30, 2008, the Company granted 4,140 shares of restricted stock to its board of directors. During the fiscal year ended June 30, 2007, the Company granted 16,750 shares of restricted stock to its employees, and 8,416 shares of restricted stock to its board of directors as part of its annual compensation. The shares of restricted stock granted to the board of directors vest over a period of one year.

On February 7, 2007, the Company granted 200,000 options to the Chairman and Chief Executive Officer at a fair value of \$11.25 per option, to be expensed over the vesting period. During the years ended June 30, 2008, 2007 and 2006, the Company recorded a charge of \$1.2 million, \$1.3 million and \$0.9 million in stock option expenses to general and administrative expense, respectively.

Derivative Instruments and Hedging Activities. The Company did not enter into any derivative instruments or hedging activities for the fiscal years ended June 30, 2008, 2007 or 2006, nor did we have any open commodity derivative contracts at June 30, 2008.

Asset Retirement Obligation. The Company adopted SFAS No. 143 (“SFAS 143”), “Accounting for Asset Retirement Obligations” as of July 1, 2002. SFAS 143 requires the Company to record the fair value of a liability for an asset retirement obligation (“ARO”) in the period in which it is incurred. When the liability is initially recorded, a company increases the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Due to

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

the Company's focus on offshore properties during the past few years, the ARO has increased since June 30, 2005. Activities related to the Company's ARO during the year ended June 30, 2008 and 2007 are as follows:

	Year Ended June 30,	
	2008	2007
Initial ARO as of July 1	\$862,344	\$665,458
Liabilities incurred during period	1,222,402	460,886
Liabilities settled during period	–	(264,000)
Accretion expense	(134,865)	–
Balance of ARO as of June 30	<u>\$1,949,881</u>	<u>\$862,344</u>

3. Natural Gas and Oil Exploration Risk

The Company's future financial condition and results of operations will depend upon prices received for its natural gas and oil production and the cost of finding, acquiring, developing and producing reserves. Substantially all of its production is sold under various terms and arrangements at prevailing market prices. Prices for natural gas and oil are subject to fluctuations in response to changes in supply, market uncertainty and a variety of other factors beyond the Company's control.

Other factors that have a direct bearing on the Company's financial condition are uncertainties inherent in estimating natural gas and oil reserves and future hydrocarbon production and cash flows, particularly with respect to wells that have not been fully tested and with wells having limited production histories; the timing and costs of our future drilling; development and abandonment activities; access to additional capital; changes in the price of natural gas and oil; availability and cost of services and equipment; and the presence of competitors with greater financial resources and capacity. The preparation of our financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect our reported results of operations, the amount of reported assets, liabilities and contingencies, and proved natural gas and oil reserves. We use the successful efforts method of accounting for our natural gas and oil activities.

4. Customer Concentration Credit Risk

The customer base for the Company is primarily concentrated in the natural gas and oil exploration industry. The majority of the Company's revenues for the fiscal year ended June 30, 2008, approximately 59%, resulted from oil and gas sales to a single customer, Cokinos Energy Corporation. The receivables associated with the revenues from Cokinos Energy Corporation are secured with letters of credit. We believe the loss of this purchaser would not have a material effect on our financial position or results of operation since there are numerous potential purchasers of our production.

Other major purchasers of our natural gas and oil for the fiscal year ended June 30, 2008 include ConocoPhillips Company (24%) and Shell Trading US Company (8%).

5. Sale of Properties – Discontinued Operations

On December 21, 2007, the Company sold its Western core Arkansas Fayetteville Shale properties to Petrohawk Energy Corporation for \$199.2 million. The sale was effective October 1, 2007. The Company sold approximately 14,200 acres with 6.4 million cubic feet per day (“Mmcf”) of production, net to Contango. The Company recognized a gain of approximately \$155.9 million for the fiscal year ended June 30, 2008 as a result of this sale. The Company's proved and unproved properties as of June 30, 2007 were reduced by approximately \$43.3 million as a result of classifying this sale as discontinued operations.

On January 30, 2008, the Company sold its Eastern core Arkansas Fayetteville Shale properties to XTO Energy, Inc. for approximately \$128.0 million. The sale was effective December 1, 2007. The Eastern core consisted of approximately 11,200 acres with 3.0 Mmcf of production, net to Contango. The Company recognized a gain of approximately

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

\$106.4 million for the fiscal year ended June 30, 2008 as a result of this sale. The Company's proved and unproved properties as of June 30, 2007 were reduced by approximately \$21.6 million as a result of classifying this sale as discontinued operations.

Effective February 1, 2008, the Company sold its interest in two on-shore wells to Alta Resources LLC. The Alta-Ellis #1 in Texas and the Temple-Inland in Louisiana were sold for approximately \$1.1 million.

On March 24, 2006, the Company's board of directors approved the sale of all of the Company's onshore producing assets in Texas and Alabama for an aggregate purchase price of \$11.6 million. These properties were held by Contango STEP, LP ("STEP"), an indirect wholly-owned subsidiary of the Company. On April 28, 2006, the Company completed the sale of substantially all of these natural gas and oil interests for \$11.1 million pursuant to a purchase and sale agreement. The sale of the remaining two wells under the same purchase and sale agreement for an aggregate purchase price of approximately \$0.5 million was completed in June 2006. The sold properties had net reserves of approximately 203 thousand barrels ("Mbbl") of oil and 849 million cubic feet ("Mmcf") of gas, or 2.1 billion cubic feet equivalent ("Bcfe"). The Company recognized a pre-tax gain of \$6.2 million for the year ended June 30, 2006. This sale has been classified as discontinued operations in our financial statements for all periods presented.

In March 2006, the Company completed the sale of its interest in a producing well in Zapata County, Texas to an independent oil and gas company for approximately \$2.0 million. Approximately 227 Mmcf of proven reserves were sold. Pre-tax proceeds after netting adjustments were \$2.0 million. The Company recognized a pre-tax gain on sale of \$1.0 million for the year ended June 30, 2006. This sale has been classified as discontinued operations in our financial statements for all periods presented.

In accordance with SFAS 144, we classified our property sales as discontinued operations in our financial statements for all periods presented.

The summarized financial results for discontinued operations for the periods ended June 30, 2008, 2007 and 2006 are as follows:

	<u>June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Results:			
Revenues	\$9,679,330	\$4,547,661	\$5,018,064
Operating (expenses) credits*	(1,144,786)	(780,709)	1,503,706
Depletion expenses	(3,273,655)	(1,659,933)	(997,752)
Exploration expenses	(359,888)	(4,402,354)	(2,479,376)
Impairment	(591,737)	(192,109)	–
Gain on sale of discontinued operations	<u>262,898,530</u>	<u>–</u>	<u>7,233,130</u>
Gain before income taxes	\$267,207,794	\$(2,487,444)	\$10,277,772
(Provision) benefit for income taxes	<u>(93,522,729)</u>	<u>870,605</u>	<u>(3,597,220)</u>
Gain from discontinued operations, net of income taxes	<u>\$173,685,065</u>	<u>\$(1,616,839)</u>	<u>\$6,680,552</u>

* Credits due to severance tax refunds

For the year ended June 30, 2006, operating expenses from discontinued operations resulted in a net credit of \$1.5 million. The credit was attributable to credits issued for previously paid severance taxes. The Railroad Commission of Texas allows for a severance tax reduction on tight sand gas wells. As a result, some of our former south Texas formation properties, which were included in the sale of our south Texas natural gas and oil interests to Edge Petroleum, were eligible for severance tax reduction. By contractual agreement, revenues and expenses prior to July 1, 2004, the effective date of the sale, accrue to us.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

6. Sale of Properties – Other

Freeport LNG Development, L.P.

On February 5, 2008, the Company sold its ten percent (10%) limited partnership interest in Freeport LNG Development L.P. (“Freeport LNG”) to Turbo LNG LLC, an affiliate of Osaka Gas Co., Ltd., for \$68.0 million, and recognized a pre-tax gain of approximately \$63.4 million on the sale. Freeport LNG is a limited partnership formed to develop, construct and operate a 1.75 billion cubic feet per day (“Bcfd”) liquefied natural gas (“LNG”) receiving and gasification terminal on Quintana Island, near Freeport, Texas. The Company used \$20.3 million of the proceeds from the sale to pay off its debt with The Royal Bank of Scotland plc, including principal, interest and fees. Another \$20.0 million was used to pay off its debt with a private investment firm. The remaining \$27.7 million was used for working capital purposes.

Contango Venture Capital Corporation

In March 2008, Contango Venture Capital Corporation (“CVCC”), our wholly-owned subsidiary, sold its direct and indirect investments in Gridpoint, Inc., Trulite, Inc., Protonex Technology Corporation, Jadoo Power Systems, Contango Capital Partners Fund, L.P. and Contango Capital Partnership Management, LLC for \$3.4 million, in the aggregate, recognizing a pre-tax loss of approximately \$2.9 million for the fiscal year ended June 30, 2008. CVCC’s only remaining alternative energy investment is Moblize, Inc. (“Moblize”).

The Company originally invested \$1.2 million in Moblize in exchange for 648,648 shares of Moblize convertible preferred stock. In March 2008, the Company determined that Moblize was partially impaired, and wrote down the investment to \$0.6 million, recognizing a loss of \$0.6 million for fiscal year ended June 30, 2008. In June 2008, CVCC sold 205,000 shares of convertible preferred stock of Moblize to a third party for \$410,000. As of August 22, 2008, CVCC owned 443,648 shares of Moblize convertible preferred stock, valued at \$0.2 million, which represents an approximate 19.5% ownership interest. Moblize develops real time diagnostics and field optimization solutions for the oil and gas and other industries using open-standards based technologies.

7. Net Income (Loss) Per Common Share

A reconciliation of the components of basic and diluted net income (loss) per common share for the fiscal years ended June 30, 2008, 2007 and 2006 is presented below:

	Year Ended June 30, 2008		
	Net Income	Shares	Per Share
Income from continuing operations, including preferred dividends	\$81,673,427	16,184,517	\$5.05
Discontinued operations, net of income taxes	\$173,685,065	16,184,517	\$10.73
Basic Earnings per Share:			
Net income attributable to common stock	<u>\$255,358,492</u>	<u>16,184,517</u>	<u>\$15.78</u>
Effect of Potential Dilutive Securities:			
Stock options	–	448,264	
Other	–	7,570	
Series E preferred stock	<u>1,547,777</u>	<u>622,364</u>	–
Income from continuing operations	\$83,221,204	17,262,715	\$4.82
Discontinued operations, net of income taxes	<u>\$173,685,065</u>	<u>17,262,715</u>	<u>\$10.06</u>
Diluted Earnings per Share:			
Net income attributable to common stock	<u>\$256,906,269</u>	<u>17,262,715</u>	<u>\$14.88</u>

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Year Ended June 30, 2007		
	Net Loss	Shares	Per Share
Loss from continuing operations including preferred dividends	\$(1,617,434)	15,430,146	\$(0.11)
Discontinued operations, net of income taxes	<u>\$(1,616,839)</u>	<u>15,430,146</u>	<u>\$(0.10)</u>
Basic Earnings per Share:			
Net loss attributable to common stock	<u>\$(3,234,273)</u>	<u>15,430,146</u>	<u>\$(0.21)</u>
Effect of Potential Dilutive Securities:			
Stock options	–	(a)	
Series D preferred stock	(a)	(a)	
Series E preferred stock	(a)	(a)	
Net loss attributable to common stock	<u>\$(3,234,273)</u>	<u>15,430,146</u>	<u>\$(0.21)</u>
Diluted Earnings per Share:			
Net loss attributable to common stock	<u>\$(3,234,273)</u>	<u>15,430,146</u>	<u>\$(0.21)</u>
Anti-dilutive Securities:			
Shares assumed not issued from options to purchase common shares as income from continuing operations was in a loss position for the period	\$–	1,026,000	
Series D Preferred Stock	\$314,722	447,061	\$0.70
Series E Preferred Stock	\$225,000	94,909	\$2.37

(a) Anti-dilutive.

	Year Ended June 30, 2006		
	Net Income (Loss)	Shares	Per Share
Loss from continuing operations including preferred dividends	\$(7,488,515)	14,760,268	\$(0.50)
Discontinued operations, net of income taxes	<u>6,680,552</u>	<u>14,760,268</u>	<u>\$0.45</u>
Basic Earnings per Share:			
Net loss attributable to common stock	<u>\$(807,963)</u>	<u>14,760,268</u>	<u>\$(0.05)</u>
Effect of Potential Dilutive Securities:			
Stock options and warrants	–	(a)	
Series C preferred stock	(a)	(a)	
Series D preferred stock	(a)	(a)	
Loss from continuing operations	\$(7,488,515)	14,760,268	\$(0.50)
Discontinued operations, net of income taxes	<u>6,680,552</u>	<u>14,760,268</u>	<u>0.45</u>
Diluted Earnings per Share:			
Net loss attributable to common stock	<u>\$(807,963)</u>	<u>14,760,268</u>	<u>\$(0.05)</u>
Anti-dilutive Securities:			
Shares assumed not issued from options to purchase common shares as income from continuing operations was in a loss position for the period	\$–	927,500	\$7.78
Series D Preferred Stock	\$601,000	833,330	\$0.72
Series C Preferred Stock	\$21,000	1,166,667	\$0.02

(a) Anti-dilutive.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

8. Adoption of FIN 48 and FSP FIN 48-1

We adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48”) as of July 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes”. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We also adopted FASB Staff Position No. FIN 48-1, “Definition of Settlement in FASB Interpretation No. 48” (“FSP FIN 48-1”) as of July 1, 2007. FSP FIN 48-1 provides that a company’s tax position will be considered settled if the taxing authority has completed its examination, the company does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. The adoption of FIN 48 and FSP FIN 48-1 had no effect on our financial position or results of operations. Estimated interest related to potential underpayment of any unrecognized tax benefits are classified as a component of interest expense in the Consolidated Statement of Operations. Estimated penalties related to potential underpayment of any unrecognized tax benefits are classified as a component of general and administrative expense in the Consolidated Statement of Operations. The Company did not derecognize any tax benefits, nor recognize any interest expense or penalties on unrecognized tax benefits as of the date of adoption, or on our year end Consolidated Balance Sheets or Consolidated Statements of Operations. The Company currently does not anticipate a significant increase in unrecognized tax benefits during the next 12 months.

The Company files income tax returns in the United States and various state jurisdictions. The Company’s tax returns for 2005, 2006 and 2007 remain open for examination by the taxing authorities in the respective jurisdictions where those returns were filed.

9. Change in Ownership of Partially-Owned Subsidiaries and Overriding Royalties

On September 2, 2005, we purchased an additional 9.4% ownership interest in each of our two partially-owned offshore Gulf of Mexico exploration subsidiaries, REX for \$5.6 million and COE for \$1.9 million, for a total expenditure of \$7.5 million. Both interests were purchased from Juneau Exploration, L.P. (“JEX”), which prior to the sale, owned 33.3% of each of the two subsidiaries. As a result of these two purchases, the Company’s equity ownership interest in REX increased from 33.3% to 42.7% and in COE from 66.6% to 76.0%. The purchases were financed from the Company’s existing cash on hand. An independent third party also purchased a 9.4% interest in each of REX and COE from JEX for the same total purchase price of \$7.5 million. JEX has continued in its capacity as the managing member of both REX and COE and following these two sales, owns a 14.6% interest in each of REX and COE.

During the fiscal year ended June 30, 2006, the Company allocated the purchase price to the net assets acquired (“purchase price allocation”). These assets include planned drilling commitments, unevaluated exploration blocks, and proven developed producing (“PDP”) properties. A significant portion of the purchase price allocation was allocated to our Eugene Island 10 (“Dutch”) and Grand Isle 63/72/73 (“Liberty”) exploration prospects, which proved to be discoveries. During the fiscal year ended June 30, 2006, we wrote off \$0.3 million of the purchase price relating to our Main Pass 221 prospect and \$0.3 million relating to our West Delta 43 prospect, because they were dry holes; and \$0.1 million relating to our East Cameron 107 prospect, as a result of the expiration of its lease.

On April 3, 2008, the members of REX entered into an Amended and Restated Limited Liability Company Agreement (the “REX LLC Agreement”), effective as of April 1, 2008, to, among other things, distribute REX’s interest in Dutch and Mary Rose to the individual members of REX or their designees. In connection with this distribution, REX repaid in full all amounts owing by REX to a private investment firm under a \$50.0 million demand promissory note with such private investment firm (the “REX Demand Note”), and all security interests and other liens granted in favor of such private investment firm as security for the obligations under the REX Demand Note have been released and terminated. The Company’s portion of such repayment was approximately \$22.5 million.

Effective April 1, 2008, in connection with the REX LLC Agreement, the Company sold a portion of its membership interest in REX to an existing member of REX for approximately \$0.8 million. As a result of the sale,

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

the Company's equity ownership interest in REX has decreased to 32.3%. Also effective April 1, 2008, the Company sold a portion of its membership interest in COE to an existing member of COE for approximately \$0.9 million. As a result of the sale, the Company's equity ownership interest in COE has decreased to 65.6%.

10. Acquisitions

On January 3, 2008, the Company acquired additional working interests in the Eugene Island 10 ("Dutch") and State of Louisiana ("Mary Rose") discoveries in a like-kind exchange, using funds from the sale of its Western core Arkansas Fayetteville Shale properties held by a qualified intermediary. The Company purchased an additional 8.33% working interest and 6.67% net revenue interest in Dutch and an additional average 9.11% working interest and 6.67% net revenue interest in Mary Rose from three different companies for \$200 million. We allocated 60%, or \$120.0 million, of the purchase price to Dutch, and the remaining 40%, or \$80.0 million, to Mary Rose. Of these three companies, one of them was the managing member of REX, who exchanged an ownership interest in REX for a direct working interest in Dutch and Mary Rose. The Company purchased a 2.45% working interest in Dutch and a 2.68% working interest in Mary Rose from this company for approximately \$58.9 million. The effective date of the transactions was January 1, 2008.

On February 8, 2008, the Company acquired a 0.3% overriding royalty interest in the Dutch and Mary Rose discoveries for \$9.0 million in a like-kind exchange, using funds from the sale of its Eastern core Arkansas Fayetteville Shale properties held by a qualified intermediary. We allocated 60%, or \$5.4 million, of the purchase price to Dutch, and the remaining 40%, or \$3.6 million, to Mary Rose.

On April 3, 2008, the Company acquired additional working interests in the Dutch and Mary Rose discoveries in a like-kind exchange, using funds from the sale of its Eastern core Arkansas Fayetteville Shale properties held by a qualified intermediary. The Company purchased an additional 4.17% working interest and 3.33% net revenue interest in Dutch and an additional average 4.56% working interest and 3.33% net revenue interest in Mary Rose from two different companies for \$100 million. The effective date of the transaction is January 1, 2008.

On November 7, 2005, the Company, in a separate transaction, also acquired certain overriding royalty interests in REX and COE for the purchase price of \$1.0 million.

Pro Forma Results

The pro forma results presented below for the fiscal year ended June 30, 2008 and 2007 have been prepared to give effect to our 2008 acquisitions on our results of operations under the purchase method of accounting as if they had been consummated on July 1, 2007 and July 1, 2006. The pro forma results do not purport to represent what our results of operations actually would have been if these acquisitions had in fact occurred on such date or to project our results of operations for any future date or period. The results of our 2008 acquisitions for the fiscal year ended June 30, 2008 are reflected in our revenues, net income, and earnings per share in our presented Consolidated Statements of Operations.

	Year Ended June 30,	
	2008	2007
Pro Forma:		
Revenues	\$125,058,436	\$17,514,201
Net income (loss)	\$86,391,194	\$(866,581)
Basic earnings per share	\$5.24	\$(0.09)
Diluted earnings per share	\$5.00	\$(0.09)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

11. Series E Perpetual Cumulative Convertible Preferred Stock

On May 17, 2007, we sold \$30.0 million of our Series E preferred stock to a group of private investors. The Series E preferred stock is perpetual and cumulative, is senior to our common stock and is convertible at any time into shares of our common stock at a price of \$38.00 per share. Each record holder of Series E preferred stock is entitled to one vote per share for each share of common stock into which each share of Series E preferred stock is convertible. The dividend on the Series E preferred stock can be paid quarterly in cash at a rate of 6.0% per annum or paid-in-kind at a rate of 7.5% per annum, at the Company's option. Our registration statement filed with the Securities and Exchange Commission, covering the 789,468 shares of common stock issuable upon conversion of the Series E preferred stock was declared effective September 12, 2007. Net proceeds associated with the private placement of the Series E preferred stock was approximately \$28.8 million, net of stock issuance costs.

Holders of common stock and holders of Series E preferred stock vote as one class for the election of directors and most other matters. Upon any liquidation or dissolution of the Company, the holders of common stock are entitled to receive a pro rata share of all of the assets remaining available for distribution to shareholders after settlement of all liabilities and liquidating preferences of preferred stockholders.

During the quarter ended March 31, 2008, four Series E preferred stockholders voluntarily elected to convert a total of 2,400 shares of Series E preferred stock to 315,786 shares of our common stock. The converted shares of Series E preferred stock had a face value of \$12.0 million. During the quarter ended June 30, 2008, the final three Series E preferred stockholders voluntarily elected to convert a total of 3,600 shares of Series E preferred stock to 473,682 shares of our common stock. The converted shares of Series E preferred stock had a face value of \$18.0 million.

12. Series D Perpetual Cumulative Convertible Preferred Stock

On July 15, 2005, we sold \$10.0 million of our Series D preferred stock to a group of private investors. The Series D preferred stock is perpetual and cumulative, is senior to our common stock and is convertible at any time into shares of our common stock at a price of \$12.00 per share. Each record holder of Series D preferred stock is entitled to one vote per share for each share of common stock into which each share of Series D preferred stock is convertible. The dividend on the Series D preferred stock can be paid quarterly in cash at a rate of 6.0% per annum or paid-in-kind at a rate of 7.5% per annum, at the Company's option. Our registration statement filed with the Securities and Exchange Commission, covering the 833,330 shares of common stock issuable upon conversion of the Series D preferred stock, became effective on October 26, 2005. Net proceeds associated with the private placement of the Series D preferred stock was approximately \$9.6 million, net of stock issuance costs.

In November 2006, two Series D preferred stockholders voluntarily elected to convert a total of 100 shares of Series D preferred stock to 41,666 shares of our common stock. The converted shares of Series D preferred stock had a face value of \$0.5 million.

On January 15, 2007, we exercised our mandatory conversion rights pursuant to the terms of our Series D preferred stock, and converted all of the remaining 1,900 shares of our Series D preferred stock issued and outstanding into 791,664 shares of our common stock. The outstanding shares of the Series D preferred stock had a face value of \$9.5 million.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

13. Income Taxes

Actual income tax expense (benefit) from continuing operations differs from income tax expense (benefit) from continuing operations computed by applying the U.S. federal statutory corporate rate of 35 percent to pretax income (loss) as follows:

	Year Ended June 30,					
	2008		2007		2006	
Provision (benefit) at statutory tax rate	\$47,205,069	35.0 %	\$(539,099)	(35.0)%	\$(3,739,594)	(35.0)%
State income tax provision (benefit), net of federal benefit	1,526,658	1.13 %	–	–	–	–
Permanent differences	2,393,765	1.78 %	13,604	0.88 %	(185,315)	(1.74)%
Other	524,930	0.39 %	62,926	4.09 %	127,871	1.20 %
Income tax provision (benefit)	<u>\$51,650,422</u>	<u>38.30%</u>	<u>\$(462,569)</u>	<u>(30.03)%</u>	<u>\$(3,797,038)</u>	<u>(35.54)%</u>

The provision (benefit) for income taxes for the periods indicated are comprised of the following:

	Year Ended June 30,		
	2008	2007	2006
Current:			
Federal	\$25,364,147	\$(1,155,387)	\$(3,804,177)
State	–	–	–
Total	<u>\$25,364,147</u>	<u>\$(1,155,387)</u>	<u>\$(3,804,177)</u>
Deferred:			
Federal	\$23,937,570	\$692,818	\$7,139
State	2,348,705	–	–
Total	<u>\$26,286,275</u>	<u>\$692,818</u>	<u>\$7,139</u>
Total:			
Federal	\$49,301,717	\$(462,569)	\$(3,797,038)
State	2,348,705	–	–
Total	<u>\$51,650,422</u>	<u>\$(462,569)</u>	<u>\$(3,797,038)</u>

The net deferred tax asset (liability) is comprised of the following:

	Year Ended June 30,		
	2008	2007	2006
Deferred tax asset (liability):			
Net operating loss carryover	–	\$13,254,460	\$2,805,770
AMT credit carryforward	–	\$523,149	\$–
Temporary basis differences in natural gas and oil properties and other	(112,189,684)	(10,400,593)	1,649,420
Net deferred tax asset (liability)	<u>\$(112,189,684)</u>	<u>\$3,377,016</u>	<u>\$4,455,190</u>

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

14. Long-Term Debt

As of June 30, 2008, the Company had \$15.0 million outstanding under its \$30 million loan agreement with a private investment firm (the “Term Loan Agreement”). The commitments to fund under the Term Loan Agreement were increased from \$30.0 million to \$60.0 million on January 17, 2008, and decreased to \$30.0 million on June 5, 2008. Borrowings under the Term Loan Agreement bear interest at 30 day LIBOR plus 5.0%. Accrued interest is due monthly and the Term Loan Agreement matures on January 1, 2010, but we may prepay at any time with no prepayment penalty. We pay a non-use fee in the amount of 1.50% per annum multiplied by such non-funded amount.

The Term Loan Agreement requires a minimum level of working capital and contains certain negative covenants that, among other things, restrict or limit our ability to incur indebtedness, sell certain assets, and pay dividends. Failure to maintain required working capital or comply with certain covenants in the Term Loan Agreement could result in a default and funds not being available for borrowing. As of June 30, 2008, the Company was in compliance with its financial covenants, ratios and other provisions of the Term Loan Agreement.

On February 5, 2008, using the proceeds from our \$68.0 million sale of Freeport LNG, the Company prepaid the \$20.0 million it had outstanding under its three-year \$20.0 million secured term loan facility with The Royal Bank of Scotland plc (the “RBS Facility”) and terminated the RBS Facility. The Company paid an additional \$342,292 in accrued and unpaid interest and prepayment fees.

15. Commitments and Contingencies

Operating Leases. Contango leases its office space and certain other equipment. As of June 30, 2008 minimum future lease payments are as follows:

Fiscal years Ending June 30,	
2009	190,458
2010	183,922
2011	187,780
2012	63,022
2013 and thereafter	–
Total	<u>\$625,183</u>

The amount incurred under operating leases during the years ended June 30, 2008, 2007 and 2006 was \$149,782, \$173,259 and \$139,744, respectively.

Additionally, once we have completed drilling Eloise #1, we are committed to retain the drilling rig for two more wells. The Company will use this rig to drill a rate acceleration well at Dutch #4 and then either a second rate acceleration well or a wildcat exploration well.

16. Stock Based Compensation

In September 1999, the Company established the Contango Oil & Gas Company 1999 Stock Incentive Plan (the “1999 Plan” or the “Option Plan”). Under the Option Plan, the Company may issue up to 2,500,000 shares of common stock with an exercise price of each option equal to or greater than the market price of the Company’s common stock on the date of grant, but in no event less than \$2.00 per share. The Company may grant key employees both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and stock options that are not qualified as incentive stock options. Stock option grants to non-employees, such as directors and consultants, can only be stock options that are not qualified as incentive stock options. Options generally expire after five or ten years. The vesting schedule varies, but vesting generally occurs over a two-year period (1/3 immediately, 1/3 one year from the date of grant and 1/3 two years from the date of grant) or four-year period (1/4 one year from the date of grant and 1/4 two years, three years and four years from the

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

date of grant). As of June 30, 2008, options under the Option Plan to acquire 855,667 shares of common stock at prices between \$3.00 and \$21.00 per share were outstanding.

A summary of the status of the Option Plan and those options granted outside of the Option Plan as of June 30, 2008, 2007 and 2006, and changes during the fiscal years then ended, is presented in the table below:

	Year Ended June 30,					
	2008		2007		2006	
	Shares Under Options	Weighted Average Exercise Price	Shares Under Options	Weighted Average Exercise Price	Shares Under Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,026,000	\$10.87	960,500	\$7.97	1,176,000	\$6.74
Granted	–	\$–	213,500	\$20.42	76,000	\$12.31
Exercised	(71,000)	\$8.18	(107,750)	\$4.93	(284,000)	\$4.10
Cancelled	(99,333)	\$6.77	(40,250)	\$8.14	(7,500)	\$5.17
Outstanding, end of year	<u>855,667</u>	<u>\$11.57</u>	<u>1,026,000</u>	<u>\$10.87</u>	<u>960,500</u>	<u>\$7.97</u>
Aggregate intrinsic value	<u>\$69,608,510</u>		<u>\$26,079,555</u>		<u>\$5,926,285</u>	
Exercisable, end of year	<u>686,167</u>	<u>\$10.87</u>	<u>671,500</u>	<u>\$9.04</u>	<u>561,292</u>	<u>\$6.82</u>
Aggregate intrinsic value	<u>\$56,300,002</u>		<u>\$18,301,165</u>		<u>\$4,108,657</u>	
Available for grant, end of year	<u>568,666</u>		<u>469,333</u>		<u>642,583</u>	
Weighted average fair value of options granted during the year(1)	–		<u>\$10.85</u>		<u>\$5.17</u>	

(1) The fair value of each option is estimated as of the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants during the years ended June 30, 2007 and 2006, respectively: (i) risk-free interest rate of 5.0 percent and 5.1 percent; (ii) expected lives of five years for the Option Plan and other options; (iii) expected volatility of 56 percent and 40 percent; and (iv) expected dividend yield of zero percent.

The following table summarizes information about options that were outstanding at June 30, 2008:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares Under Outstanding Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares Under Outstanding Options	Weighted Average Exercise Price
\$ 3.00 - \$ 3.99	35,000	4.0	\$3.00	35,000	\$3.00
\$ 6.00 - \$ 6.99	215,000	0.9	\$6.78	215,000	\$6.78
\$ 9.00 - \$ 9.99	110,000	2.0	\$9.30	82,500	\$9.30
\$10.00 - \$10.99	250,000	2.0	\$10.23	187,500	\$10.23
\$11.00 - \$11.99	30,667	2.8	\$11.59	17,834	\$11.55
\$12.00 - \$12.99	7,500	2.7	\$12.95	7,500	\$12.95
\$14.00 - \$14.99	7,500	3.0	\$14.14	7,500	\$14.14
\$21.00 - \$21.99	200,000	3.6	\$21.00	133,333	\$21.00
	<u>855,667</u>	<u>2.2</u>	<u>\$11.57</u>	<u>686,167</u>	<u>\$10.87</u>

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Effective July 1, 2001, the Company changed its method of accounting for employee stock-based compensation to the fair value method prescribed in SFAS 123. Effective July 1, 2005, the Company adopted SFAS 123(R). Prior to the adoption of SFAS 123(R), we presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Consolidated Statement of Cash Flows. SFAS 123(R) requires that cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) be classified as financing cash flows. For the fiscal years ended June 30, 2008, 2007 and 2006, approximately \$1.1 million, \$188,897 and \$359,772 respectively, of such excess tax benefits were classified as financing cash flows. See Note 2 – Summary of Significant Accounting Policies.

All employee stock option grants are expensed over the stock options vesting period based on the fair value at the date the options are granted. The fair value of each option is estimated as of the date of grant using the Black-Scholes options-pricing model. During the fiscal year-ended June 30, 2008, 2007 and 2006, the Company recorded stock option expense of \$1.2 million, \$1.3 million and \$0.9 million, respectively.

As of June 30, 2008, we have approximately \$1.1 million of total unrecognized compensation cost related to non-vested awards granted under our various share-based plans, which we expect to recognize over an average period of three years.

The aggregate intrinsic values of the options exercised during fiscal years 2008, 2007 and 2006 were approximately \$1.9 million, \$1.9 million and \$2.2 million, respectively.

On November 14, 2007, the Company awarded a total of 4,140 shares of restricted stock under the 1999 Plan to its board of directors. Of these 4,140 shares of restricted stock, 2,070 shares vest on the date of grant, and the remaining 2,070 shares vest one year thereafter. The fair value of restricted stock was approximately \$180,000. On November 16, 2006, the Company awarded a total of 8,416 shares of restricted stock under the 1999 Plan to its board of directors. Of these 8,416 shares of restricted stock, 4,208 shares vest on the date of grant, and the remaining 4,208 shares vest one year thereafter. The fair value of restricted stock was approximately \$144,000. On July 5, 2006, the Company awarded a total of 16,750 shares of restricted stock under the 1999 Plan to certain employees. The restricted stock vests over a three year period, commencing on the grant date. The fair value of restricted stock was approximately \$239,000 and is being recognized as compensation expense over the three year vesting period.

For the year ended June 30, 2008 and 2007, the Company recognized \$252,435 and \$153,979, respectively, in compensation expense relating to restricted stock awards. No restricted stock awards were granted for the year ended June 30, 2006. A summary of the Company's restricted stock as of June 30, 2008, is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Fair Value per Share</u>
Nonvested balance at June 30, 2007	15,375	\$15.04
Granted	4,471	42.95
Vested	(12,192)	20.80
Forfeited	—	—
Nonvested balance at June 30, 2008	7,654	\$15.03

17. Warrants

As of June 30, 2008 and 2007, the Company had no outstanding warrants. The final remaining issued warrants were exercised during the fiscal year ended June 30, 2006. The Company reserved an equal number of shares of

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

common stock for issuance upon the exercise of its outstanding warrants. A summary of the Company warrants as of June 30, 2008, 2007 and 2006, and changes during the fiscal years then ended, is presented in the table below:

	Year Ended June 30,					
	2008		2007		2006	
	Number of Shares Under Outstanding Warrants	Weighted Average Exercise Price	Number of Shares Under Outstanding Warrants	Weighted Average Exercise Price	Number of Shares Under Outstanding Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	–		–		125,000	\$3.06
Exercised					(125,000)	\$3.06
Cancelled	–	–	–	–	–	–
Outstanding, end of year	–	–	–	–	–	–
Exercisable, end of year	–	–	–	–	–	–

We received cash from options and warrants exercised during the years ended June 30, 2008, 2007 and 2006 of \$0.6 million, \$0.5 million and \$1.5 million, respectively. The impact of these cash receipts is included in financing activities in the accompanying Consolidated Statements of Cash Flows.

18. Related Party Transactions

In the ordinary course of business, the Company contracted with Mobilize to install automation equipment that will allow COI to remotely monitor, control and record, in real time, daily production volumes from the Grand Isle 72 #1 well. For the year ended June 30, 2008 and 2007, the Company paid approximately \$4,000 and \$85,000, respectively, to Mobilize for such services. The Company did not contract with Mobilize during the year ended June 30, 2006.

In fiscal year 2007, REX executed the REX Demand Note which was non-recourse to Contango. Under the terms of the REX Demand Note, REX could borrow up to \$50.0 million at a per annum rate of 11.5% for the first advance, and a per annum rate of LIBOR plus 6.0% for each additional advance. As of April 1, 2008, REX had borrowed the entire \$50.0 million available under the REX Demand Note. The Company was not a party to or guarantor of the REX Demand Note. On April 3, 2008, the members of REX entered into the REX LLC Agreement, effective as of April 1, 2008, to, among other things, distribute REX' s interest in Dutch and Mary Rose to the individual members of REX or their designees. In connection with this distribution, REX repaid in full all amounts owing by REX under the REX Demand Note, and all security interests and other liens granted in favor of such private investment firm as security for the obligations under the REX Demand Note were released and terminated. As a result of our proportionate consolidation of REX, the Company' s portion of such repayment was approximately \$22.5 million. For the fiscal year ended June 30, 2008, the Company' s proportionate share of such interest expense was approximately \$1.3 million.

In fiscal year 2007, the Company executed a series of promissory notes with Trulite (the “Trulite Notes”), whereby Trulite borrowed funds from the Company, agreeing to pay all accrued and unpaid interest on the various due dates. On November 25, 2007, the Company entered into a subscription agreement with Trulite pursuant to which both parties agreed to convert the aggregate principal balance of all five outstanding promissory notes and all accrued but unpaid interest thereon into shares of Trulite common stock. The Company converted \$1,255,000 of principal and \$101,540 of interest into 2,024,687 shares of Trulite common stock. For the fiscal year ended June 30, 2008, the Company earned approximately \$58,000 in interest income from the five Trulite Notes. As discussed in Note 6 – Sale of Properties – Other, the Company sold its interest in Trulite effective March 2008.

On February 13, 2008, the Company' s board of directors approved the purchase of an aggregate of 99,333 stock options from three officers of the Company and one member of its board of directors for

approximately \$5.9 million, in the aggregate. The board also approved the purchase of 10,000 shares of common stock from one

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

member of its board of directors for approximately \$0.7 million. All purchases were completed during the three months ended March 31, 2008. The Company does not have a program to repurchase shares of our common stock.

On March 31, 2006, COE executed a Promissory Note (the “COE Note”) to the Company to finance its share of development costs in Grand Isle 72, in the aggregate principal amount of up to \$2.8 million. The COE Note is payable upon demand and bears interest at a per annum rate of 10%. The COE Note has been amended from time to time and on April 24, 2007, the aggregate principal amount of the COE Note was increased to \$5.0 million. As of June 30, 2008, the outstanding principal balance under the COE Note was \$4.3 million. For the fiscal year ended June 30, 2008, the amount of interest income was approximately \$0.5 million.

19. Suspended Well Costs

The Company’s net changes in suspended well costs for the year ended June 30, 2008, in accordance with FASB Staff Position No. 19-1 (“FSP 19-1”), “Accounting for Suspended Well Costs”, are presented below:

	Year Ended June 30, 2008
Balance at June 30, 2007	\$3,010,401
Additions pending the determination of economic resources	–
Reclassification to proved reserves	–
Charged to dry hole costs	–
Balance at June 30, 2008	<u>\$3,010,401</u>

FSP 19-1 permits the continued capitalization of exploratory well costs if a well finds a sufficient quantity of reserves to justify its completion as a producing well and we are making sufficient progress towards assessing the reserves and the economic and operating viability of the project. The \$3.0 million in capitalized well costs that have been capitalized for a period of greater than one year were incurred in fiscal year 2007. These costs relate to our Grand Isle 70 discovery. We are undergoing an analysis of various development scenarios to determine if economic quantities of natural gas can be produced from this project.

20. Subsequent Events

On August 26, 2008, the Company prepaid the \$15.0 million it had outstanding under its \$30.0 million Term Loan Agreement with a private investment company and terminated the Term Loan Agreement. The Company paid an additional \$116,442 in accrued and unpaid interest and non-use fees.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
SUPPLEMENTAL OIL AND GAS DISCLOSURES (Unaudited)

The following disclosures provide unaudited information required by SFAS No. 69, "Disclosures about Oil and Gas Producing Activities".

Costs Incurred. The following table presents information regarding our net costs incurred in the purchase of proved and unproved properties and in exploration and development activities for the periods indicated:

	Year Ended June 30,		
	2008	2007	2006
Property Acquisition Costs:			
Unproved	\$-	\$3,571,830	\$14,609,232
Proved	309,000,000	-	-
Exploration costs	45,243,651	72,888,603	19,529,607
Developmental costs	76,025,586	1,453,066	590,395
Capitalized interest	-	1,083,693	149,365
Total costs	<u>\$430,269,237</u>	<u>\$78,997,192</u>	<u>\$34,878,599</u>

Natural Gas and Oil Reserves. Proved reserves are estimated quantities of natural gas and oil that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves that reasonably can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved natural gas and oil reserve quantities at June 30, 2008, 2007 and 2006, and the related discounted future net cash flows before income taxes are based on estimates prepared by W.D. Von Gonten & Co. and William M. Cobb & Associates, Inc., petroleum engineering. Such estimates have been prepared in accordance with guidelines established by the Securities and Exchange Commission.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
SUPPLEMENTAL OIL AND GAS DISCLOSURES – (Continued)

The Company's net ownership interests in estimated quantities of proved natural gas and oil reserves and changes in net proved reserves as of June 30, 2008, 2007 and 2006, all of which are located in the continental United States, are summarized below:

	<u>Oil and Condensate</u> (MBbls)	<u>NGL' s</u> (MBbls)	<u>Natural Gas</u> (MMcf)
Proved Developed and Undeveloped Reserves as of:			
June 30, 2005	77	–	911
Sale of reserves	(203)	–	(1,076)
Discoveries	174	–	3,813
Recoveries and revisions	–	–	172
Production	(37)	–	(456)
June 30, 2006	<u>11</u>	<u>–</u>	<u>3,364</u>
Sale of reserves	(2)	–	(414)
Discoveries	1,188	–	75,662
Recoveries and revisions	6	–	1,732
Production	(39)	–	(2,452)
June 30, 2007	<u>1,164</u>	<u>–</u>	<u>77,892</u>
Sale of reserves	–	–	(13,789)
Discoveries	2,200	3,186	117,999
Purchases	1,496	2,015	78,745
Recoveries and revisions	806	2,350	41,309
Production	(187)	(112)	(10,588)
June 30, 2008	<u>5,479</u>	<u>7,439</u>	<u>291,568</u>
Proved Developed Reserves as of:			
June 30, 2005	77	–	911
June 30, 2006	11	–	1,876
June 30, 2007	827	–	57,721
June 30, 2008	5,479	7,439	291,568

Standardized Measure. The standardized measure of discounted future net cash flows relating to the Company's ownership interests in proved natural gas and oil reserves as of June 30, 2008, 2007 and 2006 are shown below:

	<u>As of June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Future cash flows	\$5,635,443,766	\$575,634,244	\$20,342,459
Future operating expenses	(211,104,075)	(56,151,152)	(2,957,249)
Future development costs	(20,712,845)	(51,478,940)	(4,436,360)
Future income tax expenses	(1,733,031,168)	(114,832,834)	(1,389,931)
Future net cash flows	3,670,595,678	353,171,318	11,558,919
10% annual discount for estimated timing of cash flows	(1,436,677,549)	(100,874,043)	(3,824,813)
Standardized measure of discounted future net cash flows	<u>\$2,233,918,129</u>	<u>\$252,297,275</u>	<u>\$7,734,106</u>

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
SUPPLEMENTAL OIL AND GAS DISCLOSURES – (Continued)

Future cash flows are computed by applying fiscal year-end prices of natural gas and oil to year-end quantities of proved natural gas and oil reserves. Future operating expenses and development costs are computed primarily by the Company's petroleum engineers by estimating the expenditures to be incurred in developing and producing the Company's proved natural gas and oil reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions.

Future income taxes are based on year-end statutory rates, adjusted for tax basis and applicable tax credits. A discount factor of 10 percent was used to reflect the timing of future net cash flows. The standardized measure of discounted future net cash flows is not intended to represent the replacement cost or fair value of the Company's natural gas and oil properties. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates of natural gas and oil producing operations.

Change in Standardized Measure. Changes in the standardized measure of future net cash flows relating to proved natural gas and oil reserves are summarized below:

	<u>Year Ended June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Changes due to current year operation:			
Sales of natural gas and oil, net of natural gas and oil operating expenses	\$(118,255,500)	\$(17,015,997)	\$(7,301,314)
Extensions and discoveries	1,320,872,171	326,092,883	17,872,465
Net change in prices and production costs	393,348,968	1,721,445	249,397
Change in future development costs	50,366,258	2,737,444	(5,660)
Revisions of quantity estimates	641,122,998	5,450,220	1,023,322
Purchase of reserves	868,101,751	–	–
Sale of reserves	(26,923,252)	(1,529,012)	(11,517,747)
Accretion of discount	32,917,957	885,209	708,142
Change in the timing of production rates and other	(306,888,418)	1,985,288	742,058
Changes in income taxes	(873,042,079)	(75,764,311)	712,843
Net change	1,981,620,854	244,563,169	2,483,506
Beginning of year	252,297,275	7,734,106	5,250,600
End of year	<u>\$2,233,918,129</u>	<u>\$252,297,275</u>	<u>\$7,734,106</u>

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

Quarterly Results of Operations. The following table sets forth the results of operations by quarter for the years ended June 30, 2008 and 2007:

	Quarter Ended			
	Sept. 30,	Dec. 31,	Mar. 31,	June 30,
	(\$000, except per share amounts)			
Fiscal Year 2008:				
Revenues from continuing operations	\$9,096	\$16,596	\$20,559	\$70,246
Income from continuing operations(1)	\$5,377	\$7,693	\$43,965	\$26,186
Net income attributable to common stock	\$5,721	\$111,274	\$112,399	\$25,964
Net income per share(2):				
Basic:				
Continuing operations	\$0.31	\$0.45	\$2.70	\$1.58
Discontinued operations	\$0.05	\$6.49	\$4.27	\$-
Diluted:				
Continuing operations	\$0.31	\$0.45	\$2.57	\$1.52
Discontinued operations	\$0.04	\$6.02	\$4.02	\$-
Fiscal Year 2007:				
Revenues from continuing operations	\$726	\$251	\$5,127	\$8,036
Income (loss) from continuing operations(1)	\$(422)	\$(2,388)	\$249	\$1,483
Net income (loss) attributable to common stock	\$(406)	\$(2,459)	\$156	\$(525)
Net income (loss) per share(2):				
Basic:				
Continuing operations	\$(0.04)	\$(0.13)	\$0.01	\$0.05
Discontinued operations	\$0.01	\$-	\$-	\$(0.11)
Diluted:				
Continuing operations	\$(0.04)	\$(0.13)	\$0.01	\$0.05
Discontinued operations	\$0.01	\$-	\$-	\$(0.11)

(1) Represents natural gas and oil sales, less operating expenses, exploration expenses, depreciation, depletion and amortization, impairment of natural gas and oil properties, and general and administrative expense and other income after benefit (expense) for income taxes.

(2) The sum of the individual quarterly earnings (loss) per share may not agree with year-to-date earnings (loss) per share as each quarterly computation is based on the income or loss for that quarter and the weighted average number of common shares outstanding during that quarter.

Exhibit Index

Exhibit Number	Description
2 .1	Purchase and Sale Agreement, by and between Juneau Exploration, L.P. and REX Offshore Corporation, dated as of September 1, 2005.(17)
2 .2	Purchase and Sale Agreement, by and between Juneau Exploration, L.P. and COE Offshore, LLC dated as of September 1, 2005.(17)
2 .3	Purchase and Sale Agreement between Contango STEP, LP and Rosetta Resources Operating LP, dated April 28, 2006.(19)
2 .4	Purchase and Sale Agreement between Contango Operators, Inc. and Rosetta Resources Offshore LLC, dated December 14, 2006.(21)
2 .5	Asset Purchase Agreement by and among Petrohawk Energy Corporation and Contango Operators Inc. (successor-in-interest to Contango Gas Solutions, L.P.), Alta Resources, L.L.C., GPM Energy, LLC, MND Partners, L.P. and TePee Petroleum Company, Inc., dated as of November 26, 2007.(25)
2 .6	Asset Purchase Agreement by and among XTO Energy Inc. and Contango Operators, Inc., Alta Resources, L.L.C., GPM Energy, LLC, MND Partners, L.P. and TePee Petroleum Company, Inc., dated as of January 4, 2008.(26)
2 .7	Partnership Interest Purchase Agreement by and among Turbo LNG LLC, Contango Sundance, Inc. and Osaka Gas Co., Ltd., as Guarantor, dated January 7, 2008.(27)
3 .1	Certificate of Incorporation of Contango Oil & Gas Company.(6)
3 .2	Bylaws of Contango Oil & Gas Company.(6)
3 .3	Agreement of Plan of Merger of Contango Oil & Gas Company, a Delaware corporation, and Contango Oil & Gas Company, a Nevada corporation.(6)
3 .4	Amendment to the Certificate of Incorporation of Contango Oil & Gas Company.(11)
4 .1	Facsimile of common stock certificate of Contango Oil & Gas Company.(1)
4 .2	Certificate of Designations, Preferences and Relative Rights and Limitations for Series C Senior Convertible Cumulative Preferred Stock of Contango Oil & Gas Company.(13)
4 .3	Certificate of Designations, Preferences and Relative Rights and Limitations for Series D Perpetual Cumulative Convertible Preferred Stock of Contango Oil & Gas Company.(16)
4 .4	Securities Purchase Agreement, dated as of July 15, 2005, among Contango Oil & Gas Company and the Purchasers Named Therein, relating to the Series D Perpetual Cumulative Convertible Preferred Stock.(16)
4 .5	Certificate of Designations, Preferences and Relative Rights and Limitations for Series E Perpetual Cumulative Convertible Preferred Stock of Contango Oil & Gas Company.(22)
4 .6	Securities Purchase Agreement, dated as of May 11, 2007, among Contango Oil & Gas Company and the Purchasers Named Therein, relating to the Series E Perpetual Cumulative Convertible Preferred Stock.(22)
10.1	Agreement, dated effective as of September 1, 1999, between Contango Oil & Gas Company and Juneau Exploration, L.L.C.(2)
10.2	Securities Purchase Agreement between Contango Oil & Gas Company and Trust Company of the West, dated December 29, 1999.(9)
10.3	Warrant to Purchase Common Stock between Contango Oil & Gas Company and Trust Company of the West, dated December 29, 1999.(3)
10.4	Co-Sale Agreement among Kenneth R. Peak, Contango Oil & Gas Company and Trust Company of the West, dated December 29, 1999.(3)
10.5	Securities Purchase Agreement dated August 24, 2000 by and between Contango Oil & Gas Company and Trust Company of the West.(4)
10.6	Securities Purchase Agreement dated August 24, 2000 by and between Contango Oil & Gas Company and Fairfield Industries Incorporated.(4)
10.7	Securities Purchase Agreement dated August 24, 2000 by and between Contango Oil & Gas Company and Juneau Exploration Company, L.L.C.(4)
10.8	Amendment dated August 14, 2000 to agreement between Contango Oil & Gas Company and Juneau Exploration Company, LLC. dated effective as of September 1, 1999.(5)

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<u>Exhibit</u> <u>Number</u>	<u>Description</u>
10.9	Asset Purchase Agreement by and among Juneau Exploration, L.P. and Contango Oil & Gas Company dated January 4, 2002.(7)
10.10	Asset Purchase Agreement by and among Mark A. Stephens, John Miller, The Hunter Revocable Trust, Linda G. Ferszt, Scott Archer and the Archer Revocable Trust and Contango Oil & Gas Company dated January 9, 2002.(8)
10.11	Option Purchase Agreement between Contango Oil & Gas Company and Cheniere Energy, Inc. dated June 4, 2002.(10)
10.12	Securities Purchase Agreement dated December 12, 2003 by and between Contango Oil & Gas Company and the Purchasers Named Therein.(13)
10.13	Freeport LNG Development, L.P. Amended and Restated Limited Partnership Agreement dated February 27, 2003.(14)
10.14	Partnership Purchase Agreement among Contango Sundance, Inc., Contango Oil & Gas, Cheniere LNG, Inc. and Cheniere Energy, Inc. dated March 1, 2003.(14)
10.15	First Amendment, dated December 19, 2003, to Freeport LNG Development, L.P. Amended and Restated Limited Partnership Agreement dated February 27, 2003.(14)
10.16	Asset Purchase Agreement, dated as of October 7, 2004, by and between Contango Oil & Gas Company; Contango STEP, L.P.; Edge Petroleum Exploration Company; and Edge Petroleum Corporation.(15)
10.17	Limited Liability Company Agreement of Republic Exploration LLC dated August 24, 2000.(17)
10.18	Amendment to Limited Liability Company Agreement and Additional Agreements of Republic Exploration LLC dated as of September 1, 2005.(17)
10.19	Limited Liability Company Agreement of Contango Offshore Exploration LLC dated November 1, 2000.(17)
10.20	First Amendment to Limited Liability Company Agreement and Additional Agreements of Contango Offshore Exploration LLC dated as of September 1, 2005.(17)
10.21*	Contango Oil & Gas Company 1999 Stock Incentive Plan.(18)
10.22*	Amendment No. 1 to Contango Oil & Gas Company 1999 Stock Incentive Plan dated as of March 1, 2001.(18)
10.23	Term Loan Agreement between Contango Oil & Gas Company and The Royal Bank of Scotland plc, dated April 27, 2006.(20)
10.24	Demand Promissory Note dated October 26, 2006 with Schedules I, II and III.(23)
10.25	Term Loan Agreement between Contango Oil & Gas Company and Centaurus Capital LLC, dated January 30, 2007.(24)
10.26	Form of Pledge Agreement.(24)
10.27	Assignment of Operating Rights Interest between CGM, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.28	Partial Assignment of Oil and Gas Leases between CGM, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.29	Assignment of Operating Rights Interest between CGM, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.30	Assignment of Operating Rights Interest between Olympic Energy Partners, LLC and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.31	Partial Assignment of Oil and Gas Leases between Olympic Energy Partners, LLC and Contango Operators, Inc. dated as of January 3, 2008.(28)
10.32	Assignment of Operating Rights Interest between Olympic Energy Partners, LLC and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.33	Assignment of Operating Rights Interest between Juneau Exploration, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.34	Partial Assignment of Oil and Gas Leases between Juneau Exploration, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)

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<u>Exhibit</u> <u>Number</u>	<u>Description</u>
10.35	Assignment of Operating Rights Interest between Juneau Exploration, LP and Contango Operators, Inc., dated as of January 3, 2008.(28)
10.36	Assignment of Operating Rights Interest between Juneau Exploration, LP and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.37	Partial Assignment of Oil and Gas Leases between Juneau Exploration, LP and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.38	Assignment of Operating Rights Interest between Juneau Exploration, LP and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.39	Assignment of Operating Rights Interest between Olympic Energy Partners, LLC and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.40	Partial Assignment of Oil and Gas Leases between Olympic Energy Partners, LLC and Contango Operators, Inc. dated as of April 3, 2008.(30)
10.41	Assignment of Operating Rights Interest between Olympic Energy Partners, LLC and Contango Operators, Inc., dated as of April 3, 2008.(30)
10.42	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.43	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.44	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.45	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.46	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.47	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.48	Assignment of Overriding Royalty Interest between Dutch Royalty Investments, Land and Leasing, LP and Contango Operators, Inc., dated as of February 8, 2008.†
10.49	Amended and Restated Limited Liability Company Agreement of Republic Exploration LLC, dated April 1, 2008.(30)
10.50	Amended and Restated Limited Liability Company Agreement of Contango Offshore Exploration LLC, dated April 1, 2008†
10.51	Third Amendment to Term Loan Agreement, dated as of January 17, 2008, between Contango Oil & Gas Company, as Borrower, and Centaurus Capital LLC, as Lender.(29)
10.52	Fourth Amendment to Term Loan Agreement, dated as of February 13, 2008, between Contango Oil & Gas Company, as Borrower, and Centaurus Capital LLC, as Lender.(31)
10.53	Amended and Restated Term Loan Agreement, dated June 5, 2008, between Contango Oil & Gas Company, as Borrower, and Centaurus Capital LLC, as Lender.†
14.1	Code of Ethics.(12)
21.1	List of Subsidiaries.†
21.2	Organizational Chart.†
23.1	Consent of William M. Cobb & Associates, Inc.†
23.2	Consent of Grant Thornton LLP.†
23.3	Consent of W.D. Von Gonten & Co.†
31.1	Certification required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.†
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

† Filed herewith.

* Indicates a management contract or compensatory plan or arrangement.

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1. Filed as an exhibit to the Company's Form 10-SB Registration Statement, as filed with the Securities and Exchange Commission on October 16, 1998.
 2. Filed as an exhibit to the Company's report on Form 10-QSB for the quarter ended December 31, 1999, as filed with the Securities and Exchange Commission on November 11, 1999.
 3. Filed as an exhibit to the Company's report on Form 10-QSB for the quarter ended December 31, 1999, as filed with the Securities and Exchange Commission on February 14, 2000.
 4. Filed as an exhibit to the Company's report on Form 8-K, dated August 24, 2000, as filed with the Securities and Exchange Commission of September 8, 2000.
 5. Filed as an exhibit to the Company's annual report on Form 10-KSB for the fiscal year ended June 30, 2000, as filed with the Securities and Exchange Commission on September 27, 2000.
 6. Filed as an exhibit to the Company's report on Form 8-K, dated December 1, 2000, as filed with the Securities and Exchange Commission on December 15, 2000.
 7. Filed as an exhibit to the Company's report on Form 8-K, dated January 4, 2002, as filed with the Securities and Exchange Commission on January 8, 2002.
 8. Filed as an exhibit to the Company's report on Form 10-QSB for the quarter ended March 31, 2002, as filed with the Securities and Exchange Commission on February 14, 2002.
 9. Filed as an exhibit to the Company's report on Form 10-QSB/A for the quarter ended December 31, 1999, as filed with the Securities and Exchange Commission on June 4, 2002.
 10. Filed as an exhibit to the Company's Registration Statement on Form S-1 (Registration No. 333-89900) as filed with the Securities and Exchange Commission on June 14, 2002.
 11. Filed as an exhibit to the Company's report on Form 10-QSB for the quarter ended December 31, 2002, dated November 14, 2002, as filed with the Securities and Exchange Commission.
 12. Filed as an exhibit to the Company's annual report on Form 10-KSB for the fiscal year ended June 30, 2003, as filed with the Securities and Exchange Commission on September 22, 2003.
 13. Filed as an exhibit to the Company's report on Form 8-K, dated December 12, 2003, as filed with the Securities and Exchange Commission on December 17, 2003.
 14. Filed as an exhibit to the Company's report on Form 8-K, dated December 19, 2003, as filed with the Securities and Exchange Commission on December 23, 2003.
 15. Filed as an exhibit to the Company's report on Form 8-K, dated September 27, 2004, as filed with the Securities and Exchange Commission on October 8, 2004.
 16. Filed as an exhibit to the Company's Registration Statement filed on Form S-3 as filed with the Securities and Exchange Commission on August 2, 2005.
 17. Filed as an exhibit to the Company's report on Form 8-K, dated September 2, 2005, as filed with the Securities and Exchange Commission on September 8, 2005.
 18. Filed as an exhibit to the Company's report on Form 10-K for the fiscal year ended June 30, 2005, as filed with the Securities and Exchange Commission on September 13, 2005.
 19. Filed as an exhibit to the Company's report on Form 10-Q for the quarter ended March 31, 2006, dated May 15, 2006, as filed with the Securities and Exchange Commission.
 20. Filed as Exhibit 10.1 to the Company's report on Form 10-Q for the quarter ended March 31, 2006, dated May 15, 2006, as filed with the Securities and Exchange Commission.
 21. Filed as an exhibit to the Company's report on Form 8-K, dated December 14, 2006, as filed with the Securities and Exchange Commission on December 20, 2006.
 22. Filed as an exhibit to the Company's report on Form 8-K, dated May 11, 2007, as filed with the Securities and Exchange Commission on May 17, 2007.
 23. Filed as an exhibit to the Company's report on Form 10-Q for the quarter ended September 30, 2006, dated November 8, 2006, as filed with the Securities and Exchange Commission.
 24. Filed as an exhibit to the Company's report on Form 8-K, dated January 30, 2007, as filed with the Securities and Exchange Commission on February 5, 2007.
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25. Filed as an exhibit to the Company' s report on Form 8-K, dated November 26, 2007, as filed with the Securities and Exchange Commission on November 29, 2007.
26. Filed as an exhibit to the Company' s report on Form 8-K, dated January 4, 2008, as filed with the Securities and Exchange Commission on January 10, 2008.
27. Filed as an exhibit to the Company' s report on Form 8-K, dated February 5, 2008, as filed with the Securities and Exchange Commission on February 8, 2008.
28. Filed as an exhibit to the Company' s report on Form 8-K, dated January 3, 2008, as filed with the Securities and Exchange Commission on January 9, 2008.
29. Filed as an exhibit to the Company' s report on Form 8-K, dated January 17, 2008, as filed with the Securities and Exchange Commission on January 24, 2008.
30. Filed as an exhibit to the Company' s report on Form 8-K, dated April 3, 2008, as filed with the Securities and Exchange Commission on April 9, 2008.
31. Filed as an exhibit to the Company' s report on Form 10-Q for the quarter ended March 31, 2008, dated May 12, 2008, as filed with the Securities and Exchange Commission.

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

STATE OF LOUISIANA §
§
PARISH OF IBERIA §

KNOW ALL MEN BY THESE PRESENTS:

THAT the undersigned, Dutch Royalty Investments, Land and Leasing, LP, a Texas limited partnership (hereinafter referred to as “Assignor”), whose address is c/o John R. Miller, General Partner, 635 Hunters Grove Lane, Houston, Texas 77098, for and in consideration of the sum of One Hundred and No/100 dollars (\$100.00) and other good and valuable consideration, in hand paid by Assignee, the receipt and sufficiency of which are hereby acknowledged, does hereby TRANSFER, BARGAIN, SELL, ASSIGN and CONVEY unto Contango Operators, Inc., a Delaware corporation (hereinafter referred to as “Assignee”), whose address is 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098, an overriding royalty interest of 0.30000% of 8/8ths (hereinafter referred to as the “Assigned ORRI”), in and to the production from or allocable to the oil and gas lease described in Exhibit “A” (said lease as to the area and depths described is hereinafter referred to as the “Lease”), attached hereto and made a part hereof.

Reference is hereby made for all purposes to that certain Assignment of Overriding Royalty Interest, executed by Republic Exploration LLC (“REX”) in favor of Linda G. Ferszt (“Ferszt”), a single person, Assignor, Mark A. Stephens and Donna R. Stephens (collectively, “Stephens”), husband and wife, Gary Clack and Judith Ann Clack (collectively, “Clack”), husband and wife, and Assignee (Ferszt, Assignor, Stephens, Clack, and Assignee are collectively referred to as the “ORRI Owners”), on April 12, 2007, effective November 20, 2006, filed with the Minerals Management Service (non-required records) on April 16, 2007 and recorded on April 16, 2007 in Conveyance Book 1361, Page 262, under File Number 2007-00004069, of the records of Iberia Parish, Louisiana, wherein REX conveyed to the ORRI Owners an overriding royalty interest equal to 3.33333% of 8/8ths (which overriding royalty interest includes the Assigned ORRI) in and to and affecting production from the Lease, subject to all of the terms and provisions set forth therein (the “Assignment”). The Assignment was amended by that certain Amendment to Assignment of Overriding Royalty Interest, executed by and between REX, et al., Assignor and Assignee, effective November 20, 2006 (the Assignment, as so amended, is referred to hereafter as the “EI 10 Assignment”).

It is the intention of Assignor and Assignee that the Assigned ORRI affect and include a portion of the overriding royalty interest acquired by Assignor in the EI 10 Assignment, that no portion of the Assigned ORRI expire or terminate through merger or confusion as a result of the execution of this instrument due to Assignee’s current ownership of working interest in and to the Lease, and that the Assigned ORRI is conveyed subject to and conditioned by the terms and provisions of the EI 10 Assignment, the Farmout Agreement (as defined in the EI 10 Assignment) and the JOA (as defined in the EI 10 Assignment).

TO HAVE AND TO HOLD all and singular the Assigned ORRI unto Assignee and Assignee' s respective heirs, successors and assigns forever, subject to the terms and conditions hereof and the terms, covenants and provisions of the Lease. Assignor hereby binds Assignor and Assignor' s successors and/or assigns to warrant and defend the title to the Assigned ORRI unto Assignee and Assignee' s heirs, successors and assigns against every person lawfully claiming, *or* to claim the same, or any part thereof, by, through and under Assignor but not otherwise.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon Assignor and Assignee and their respective successors in title, assigns and/or heirs.

[Signatures follow]

IN WITNESS WHEREOF, this Assignment of Overriding Royalty Interest has been executed by Assignor and Assignee as of February 8, 2008 but shall be effective for all purposes as of January 1, 2008.

Dutch Royalty Investments, Land and Leasing, LP

By: /s/ JOHN R. MILLER

John R. Miller
General Partner

Contango Operators, Inc.

By: /s/ KENNETH R. PEAK

Kenneth R. Peak
Chairman and Secretary

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

STATE OF LOUISIANA §
 §
PARISH OF IBERIA §

KNOW ALL MEN BY THESE PRESENTS:

THAT the undersigned, Dutch Royalty Investments, Land and Leasing, LP, a Texas limited partnership (hereinafter referred to as "Assignor"), whose address is c/o John R. Miller, General Partner, 635 Hunters Grove Lane, Houston, Texas 77098, for and in consideration of the sum of One Hundred and No/100 dollars (\$100.00) and other good and valuable consideration, in hand paid by Assignee, the receipt and sufficiency of which are hereby acknowledged, does hereby TRANSFER, BARGAIN, SELL, ASSIGN and CONVEY unto Contango Operators, Inc., a Delaware corporation (hereinafter referred to as "Assignee"), whose address is 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098, an overriding royalty interest of 0.30000% of 8/8ths (hereinafter referred to as the "Assigned ORRI"), in and to the production from or allocable to the oil and gas lease described in Exhibit "A" (said lease as to the area and depths described is hereinafter referred to as the "Lease"), attached hereto and made a part hereof.

Reference is hereby made for all purposes to that certain Assignment of Overriding Royalty Interest, executed by Republic Exploration LLC ("REX") in favor of Linda G. Ferszt ("Ferszt"), a single person, Assignor, Mark A. Stephens and Donna R. Stephens (collectively, "Stephens"), husband and wife, Gary Clack and Judith Ann Clack (collectively, "Clack"), husband and wife, and Assignee (Ferszt, Assignor, Stephens, Clack, and Assignee are collectively referred to as the "ORRI Owners"), on January 24, 2008, effective December 1, 2007, and recorded on January 29, 2008 in Conveyance Book 1390, Page 914, under File Number 2008-00001176, of the records of Iberia Parish, Louisiana, wherein REX conveyed to the ORRI Owners an overriding royalty interest equal to 3.33333% of 8/8ths (which overriding royalty interest includes the Assigned ORRI) in and to and affecting production from the Lease, subject to all of the terms and provisions set forth therein (the "REX Assignment").

It is the intention of Assignor and Assignee that the Assigned ORRI affect and include a portion of the overriding royalty interest acquired by Assignor in the REX Assignment, that no portion of the Assigned ORRI expire or terminate through merger or confusion as a result of the execution of this instrument due to Assignee's current ownership of working interest in and to the Lease, and that the Assigned ORRI is conveyed subject to and conditioned by the terms and provisions of the REX Assignment and that certain Joint Operating Agreement, dated February 7, 2007, executed by and between Assignee, as Operator, and REX, CGM, LP, Olympic Energy Partners, LLC and Unocal Oil Company of California, as Non-Operators.

TO HAVE AND TO HOLD all and singular the Assigned ORRI unto Assignee and Assignee's respective heirs, successors and assigns forever, subject to the terms and conditions hereof and the terms, covenants and provisions of the Lease. Assignor hereby binds Assignor and Assignor's successors and/or assigns to warrant and defend the title to the Assigned ORRI unto Assignee and Assignee's heirs, successors and assigns against every person lawfully



claiming, *or* to claim the same, or any part thereof, by, through and under Assignor but not otherwise.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon Assignor and Assignee and their respective successors in title, assigns and/or heirs.

[Signatures follow]

IN WITNESS WHEREOF, this Assignment of Overriding Royalty Interest has been executed by Assignor and Assignee as of February 8, 2008 but shall be effective for all purposes as of January 1, 2008.

Dutch Royalty Investments, Land and Leasing, LP

By: /s/ JOHN R. MILLER

John R. Miller
General Partner

Contango Operators, Inc.

By: /s/ KENNETH R. PEAK

Kenneth R. Peak
Chairman and Secretary

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

STATE OF LOUISIANA §
§
PARISH OF IBERIA §

KNOW ALL MEN BY THESE PRESENTS:

THAT the undersigned, Dutch Royalty Investments, Land and Leasing, LP, a Texas limited partnership (hereinafter referred to as "Assignor"), whose address is c/o John R. Miller, General Partner, 635 Hunters Grove Lane, Houston, Texas 77098, for and in consideration of the sum of One Hundred and No/100 dollars (\$100.00) and other good and valuable consideration, in hand paid by Assignee, the receipt and sufficiency of which are hereby acknowledged, does hereby TRANSFER, BARGAIN, SELL, ASSIGN and CONVEY unto Contango Operators, Inc., a Delaware corporation (hereinafter referred to as "Assignee"), whose address is 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098, an overriding royalty interest of 0.30000% of 8/8ths (hereinafter referred to as the "Assigned ORRI"), in and to the production from or allocable to the oil and gas lease described in Exhibit "A" (said lease as to the area and depths described is hereinafter referred to as the "Lease"), attached hereto and made a part hereof.

Reference is hereby made for all purposes to that certain Assignment of Overriding Royalty Interest, executed by Republic Exploration LLC ("REX") in favor of Linda G. Ferszt ("Ferszt"), a single person, Assignor, Mark A. Stephens and Donna R. Stephens (collectively, "Stephens"), husband and wife, Gary Clack and Judith Ann Clack (collectively, "Clack"), husband and wife, and Assignee (Ferszt, Assignor, Stephens, Clack, and Assignee are collectively referred to as the "ORRI Owners"), on October 30, 2007, effective June 13, 2007, and recorded on October 31, 2007 in Conveyance Book 1383, Page 266, under File Number 2007-00013692, of the records of Iberia Parish, Louisiana, wherein REX conveyed to the ORRI Owners an overriding royalty interest equal to 3.33333% of 8/8ths (which overriding royalty interest includes the Assigned ORRI) in and to and affecting production from the Lease, subject to all of the terms and provisions set forth therein (the "REX Assignment").

It is the intention of Assignor and Assignee that the Assigned ORRI affect and include a portion of the overriding royalty interest acquired by Assignor in the REX Assignment, that no portion of the Assigned ORRI expire or terminate through merger or confusion as a result of the execution of this instrument due to Assignee's current ownership of working interest in and to the Lease, and that the Assigned ORRI is conveyed subject to and conditioned by the terms and provisions of the REX Assignment and that certain Joint Operating Agreement, dated February 7, 2007, executed by and between Assignee, as Operator, and REX, CGM, LP, Olympic Energy Partners, LLC and Unocal Oil Company of California, as Non-Operators.

TO HAVE AND TO HOLD all and singular the Assigned ORRI unto Assignee and Assignee's respective heirs, successors and assigns forever, subject to the terms and conditions hereof and the terms, covenants and provisions of the Lease. Assignor hereby binds Assignor and Assignor's successors and/or assigns to warrant and defend the title to the Assigned ORRI unto Assignee and Assignee's heirs, successors and assigns against every person lawfully claiming, or to claim the same, or any part thereof, by, through and under Assignor but not otherwise.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon Assignor and Assignee and their respective successors in title, assigns and/or heirs.

[Signatures follow]

IN WITNESS WHEREOF, this Assignment of Overriding Royalty Interest has been executed by Assignor and Assignee as of February 8, 2008 but shall be effective for all purposes as of January 1, 2008.

Dutch Royalty Investments, Land and Leasing, LP

By: /s/ JOHN R. MILLER

John R. Miller
General Partner

Contango Operators, Inc.

By: /s/ KENNETH R. PEAK

Kenneth R. Peak
Chairman and Secretary

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

STATE OF LOUISIANA §
 §
PARISH OF IBERIA §

KNOW ALL MEN BY THESE PRESENTS:

THAT the undersigned, Dutch Royalty Investments, Land and Leasing, LP, a Texas limited partnership (hereinafter referred to as "Assignor"), whose address is c/o John R. Miller, General Partner, 635 Hunters Grove Lane, Houston, Texas 77098, for and in consideration of the sum of One Hundred and No/100 dollars (\$100.00) and other good and valuable consideration, in hand paid by Assignee, the receipt and sufficiency of which are hereby acknowledged, does hereby TRANSFER, BARGAIN, SELL, ASSIGN and CONVEY unto Contango Operators, Inc., a Delaware corporation (hereinafter referred to as "Assignee"), whose address is 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098, an overriding royalty interest of 0.30000% of 8/8ths (hereinafter referred to as the "Assigned ORRI"), in and to the production from or allocable to the oil and gas lease described in Exhibit "A" (said lease as to the area and depths described is hereinafter referred to as the "Lease"), attached hereto and made a part hereof.

Reference is hereby made for all purposes to that certain Assignment of Overriding Royalty Interest, executed by Republic Exploration LLC ("REX") in favor of Linda G. Ferszt ("Ferszt"), a single person, Assignor, Mark A. Stephens and Donna R. Stephens (collectively, "Stephens"), husband and wife, Gary Clack and Judith Ann Clack (collectively, "Clack"), husband and wife, and Assignee (Ferszt, Assignor, Stephens, Clack, and Assignee are collectively referred to as the "ORRI Owners"), on May 10, 2007, effective February 14, 2007, and recorded on May 11, 2007 in Conveyance Book 1363, Page 890, under File Number 2007-00005324, of the records of Iberia Parish, Louisiana, wherein REX conveyed to the ORRI Owners an overriding royalty interest equal to 3.33333% of 8/8ths (which overriding royalty interest includes the Assigned ORRI) in and to and affecting production from the Lease, subject to all of the terms and provisions set forth therein (the "REX Assignment").

It is the intention of Assignor and Assignee that the Assigned ORRI affect and include a portion of the overriding royalty interest acquired by Assignor in the REX Assignment, that no portion of the Assigned ORRI expire or terminate through merger or confusion as a result of the execution of this instrument due to Assignee's current ownership of working interest in and to the Lease, and that the Assigned ORRI is conveyed subject to and conditioned by the terms and provisions of the REX Assignment and that certain Joint Operating Agreement, dated February 7, 2007, executed by and between Assignee, as Operator, and REX, CGM, LP, Olympic Energy Partners, LLC and Unocal Oil Company of California, as Non-Operators.

TO HAVE AND TO HOLD all and singular the Assigned ORRI unto Assignee and Assignee's respective heirs, successors and assigns forever, subject to the terms and conditions hereof and the terms, covenants and provisions of the Lease. Assignor hereby binds Assignor and Assignor's successors and/or assigns to warrant and defend the title to the Assigned ORRI unto Assignee and Assignee's heirs, successors and assigns against every person lawfully claiming, or to claim the same, or any part thereof, by, through and under Assignor but not otherwise.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon Assignor and Assignee and their respective successors in title, assigns and/or heirs.

[Signatures follow]

IN WITNESS WHEREOF, this Assignment of Overriding Royalty Interest has been executed by Assignor and Assignee as of February 8, 2008 but shall be effective for all purposes as of January 1, 2008.

Dutch Royalty Investments, Land and Leasing, LP

By: /s/ JOHN R. MILLER

John R. Miller
General Partner

Contango Operators, Inc.

By: /s/ KENNETH R. PEAK

Kenneth R. Peak
Chairman and Secretary

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

STATE OF LOUISIANA §
 §
PARISH OF IBERIA §

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Reference is hereby made for all purposes to that certain Assignment of Overriding Royalty Interest, executed by Republic Exploration LLC ("REX") in favor of Linda G. Ferszt ("Ferszt"), a single person, Assignor, Mark A. Stephens and Donna R. Stephens (collectively, "Stephens"), husband and wife, Gary Clack and Judith Ann Clack (collectively, "Clack"), husband and wife, and Assignee (Ferszt, Assignor, Stephens, Clack, and Assignee are collectively referred to as the "ORRI Owners"), on April 12, 2007, effective January 11, 2006, and recorded on April 16, 2007 in Conveyance Book 1361, Page 257, under File Number 2007-00004068, of the records of Iberia Parish, Louisiana, wherein REX conveyed to the ORRI Owners an overriding royalty interest equal to 3.33333% of 8/8ths (which overriding royalty interest includes the Assigned ORRI) in and to and affecting production from the Lease, subject to all of the terms and provisions set forth therein (the "REX Assignment").

It is the intention of Assignor and Assignee that the Assigned ORRI affect and include a portion of the overriding royalty interest acquired by Assignor in the REX Assignment, that no portion of the Assigned ORRI expire or terminate through merger or confusion as a result of the execution of this instrument due to Assignee's current ownership of working interest in and to the Lease, and that the Assigned ORRI is conveyed subject to and conditioned by the terms and provisions of the REX Assignment and that certain Joint Operating Agreement, dated February 7, 2007, executed by and between Assignee, as Operator, and REX, CGM, LP, Olympic Energy Partners, LLC and Unocal Oil Company of California, as Non-Operators.

TO HAVE AND TO HOLD all and singular the Assigned ORRI unto Assignee and Assignee's respective heirs, successors and assigns forever, subject to the terms and conditions hereof and the terms, covenants and provisions of the Lease. Assignor hereby binds Assignor and Assignor's successors and/or assigns to warrant and defend the title to the Assigned ORRI unto Assignee and Assignee's heirs, successors and assigns against every person lawfully

claiming, or to claim the same, or any part thereof, by, through and under Assignor but not otherwise.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon Assignor and Assignee and their respective successors in title, assigns and/or heirs.

[Signatures follow]

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Dutch Royalty Investments, Land and Leasing, LP

By: /s/ JOHN R. MILLER

John R. Miller
General Partner

Contango Operators, Inc.

By: /s/ KENNETH R. PEAK

Kenneth R. Peak
Chairman and Secretary

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

STATE OF LOUISIANA §
 §
PARISH OF IBERIA §

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[Signatures follow]

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John R. Miller
General Partner

Contango Operators, Inc.

By: /s/ KENNETH R. PEAK

Kenneth R. Peak
Chairman and Secretary

ASSIGNMENT OF OVERRIDING ROYALTY INTEREST

STATE OF LOUISIANA §
 §
PARISH OF IBERIA §

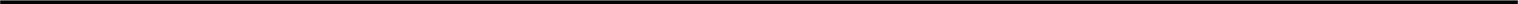
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[Signatures follow]

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Dutch Royalty Investments, Land and Leasing, LP

By: /s/ JOHN R. MILLER

John R. Miller
General Partner

Contango Operators, Inc.

By: /s/ KENNETH R. PEAK

Kenneth R. Peak
Chairman and Secretary

**AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
CONTANGO OFFSHORE EXPLORATION LLC**

THIS Limited Liability Company Agreement dated effective as of April 1, 2008 (this “**AGREEMENT**”), among Juneau Exploration, L.P., a Texas limited partnership (“**JEX**”), with offices at 3700 Buffalo Speedway, Suite 925, Houston, Texas 77098, COE Offshore, LLC, a Delaware limited liability company (“**COE O/S**”), with offices at 3700 Buffalo Speedway, Suite 960, Houston, TX 77098, and CGM II, LP, a Texas limited partnership (“**CGM**”) with offices at 3050 Post Oak Boulevard, Suite 850, Houston, Texas 77056.

WITNESSETH:

WHEREAS, JEX and COE O/S caused Contango Offshore Exploration LLC (the “**COMPANY**”) to be formed under the Delaware Limited Liability Company Act (the “**ACT**,” which term will include any future amendments thereto), a copy of the certificate of formation being attached hereto as **EXHIBIT A**; and

WHEREAS, JEX, COE O/S and CGM wish to, among other things, amend and restate the Limited Liability Company Agreement of the COMPANY, as amended to the date hereof, on the terms hereinafter set forth.

NOW, THEREFORE, JEX, COE O/S and CGM hereby agree as follows:

1. **Limited Liability Company Agreement.** This AGREEMENT is a limited liability company agreement under and as provided in the ACT.
2. **Members.** Concurrently with the execution of this AGREEMENT, JEX, COE O/S and CGM will become and be the MEMBERS of the COMPANY. JEX, COE O/S and CGM and any other individual, corporation or other entity that becomes a member of the COMPANY in accordance with the terms of this AGREEMENT are collectively called “**MEMBERS**,” and any one of them is called a “**MEMBER**.” The neuter pronoun will refer to a MEMBER regardless of the MEMBER’ s gender.
3. **Duration of the Company.** The COMPANY will have perpetual existence.
4. **Business of the Company.** The business of the COMPANY will be the acquisition, reprocessing, interpretation and evaluation of speculative and proprietary geophysical and geological data (“**DATA**”) and the identification, recovery and exploitation of hydrocarbon deposits.
5. **Contributions by the Members.**
 - A. JEX will provide its know-how and expertise in oil and gas exploration and development to the COMPANY. Juneau’ s capital account will not be credited to any extent for its know-how and expertise. In addition, JEX will from time to

time make available to the COMPANY certain DATA license and use agreements (“LICENSES”), subject to the terms and conditions of the following LICENSES and this Section 5.A:

- (i) Volume License Agreement dated September 9, 2002, as amended October 18, 2002, between JEX and Seismic Exchange, Inc.;
- (ii) Master Geophysical Data-Use License dated May 10, 2001 and Supplemental Agreement No. VMSO1 effective October 7, 2002, between JEX and Veritas Marine Surveys;
- (iii) Seismic Data Review and Possession Agreement (Contract No. 02-10-001 AJF) dated October 3, 2002, between JEX and Seitel Data Ltd.; and
- (iv) Master License Agreement dated November 7, 2002 together with Supplementary Agreement for License of Geophysical Data – Supplement Number I of even date, between JEX and TGS-NOPEC Geophysical Company (“TGS”).

It is understood and agreed that JEX will be the only MEMBER of the COMPANY entitled to use said DATA, and neither the COMPANY nor COE O/S nor any other MEMBER of the COMPANY shall have any ownership interest in or rights to use or receive delivery of said DATA including any resulting or related interpretations, derivatives or reprocessings. The COMPANY’ s and the other MEMBERS’ access to the DATA will be limited to the same rights afforded non-licensees under the LICENSES.

B. The COMPANY will not pay interest on capital contributions.

C. Each MEMBER confirms to the COMPANY and to the other MEMBERS that it and/or its principal equity owners are experienced in the oil and gas industry and that it is fully aware of the risks involved in the venture set forth in this AGREEMENT.

6. **Management of the Company.**

JEX will manage the business, affairs and day-to-day operations of the COMPANY and, except as hereinafter provided, will make all decisions with respect to the foregoing and the strategic direction of the COMPANY. JEX may appoint from time to time one or more natural persons to exercise the functions, however designated, of President, Chief Executive Officer, Chief Operating Officer, Vice President, Treasurer and Secretary as may be required by, or allowed by, the Delaware Limited Liability Company Act and to cause the COMPANY from time to time to enter into an indemnification agreement or agreements with such natural persons.

B. As part of its management responsibilities, JEX will, for and on behalf of the COMPANY, acquire, analyze, process and/or reprocess, interpret and use the

DATA to identify hydrocarbon prospects in which the COMPANY should acquire an interest; and, except as hereinafter provided, JEX will make all decisions with respect to the acquisition of DATA and leases, the development of prospects and the exploitation of production from the prospects.

- Before the COMPANY acquires an interest in any prospect (other than prospects to be bid upon at regularly scheduled federal and/or state lease sales), JEX will advise the other MEMBERS of the prospect and its potential risks; the terms and other details of the interest to be acquired, including whether that interest will be acquired alone or in conjunction with one or more other parties; the manner in which the COMPANY will develop the prospect; the estimated cost to the COMPANY to acquire the interest and develop the prospect; and any other information about the venture that the other MEMBERS may request. Prior to bidding upon prospects at federal and/or state lease sales, JEX will advise the other MEMBERS in general terms of the number of prospects the COMPANY expects to bid on and the approximate dollars the COMPANY anticipates exposing at any such lease sale. Immediately following the lease sale, JEX will provide the other MEMBERS with full particulars regarding the COMPANY' s participation at such sale.
- C.

Notwithstanding the foregoing paragraph, if, under Section 6.D(ii) below, JEX may cause the COMPANY to acquire an interest in a prospect without the approval of the other MEMBERS, and if JEX determines that the COMPANY may lose a worthwhile opportunity if JEX must report about the prospect to the other MEMBERS before the acquisition is made, then JEX may cause the COMPANY to acquire the interest before making the report; and if JEX does so, then JEX will promptly thereafter advise the other MEMBERS of the information required under the foregoing paragraph.

- D. JEX may, without the approval of the other MEMBERS, cause the COMPANY to do any of the following and to enter into agreements to accomplish the same:
- (i) license or acquire DATA, provided the cost to the COMPANY does not exceed Two Hundred Thousand Dollars (\$200,000.00);
 - (ii) acquire an interest in a prospect, either alone or in conjunction with one or more other parties, and make all arrangements with respect to that interest and prospect, provided JEX' s estimated cost for the COMPANY to acquire the interest and develop the prospect does not exceed Two Million Dollars (\$2,000,000.00);
 - (iii) borrow up to and including Ten Million Dollars (\$ 10,000,000.00) in connection with any prospect in which the COMPANY has acquired an interest and grant a security interest in the COMPANY' s interest in that prospect to secure the COMPANY' s obligations in respect of that borrowing;

- (iv) sell, lease or otherwise dispose of any asset of the COMPANY which has a reasonable value not exceeding One Million Dollars (\$1,000,000.00);
- (v) settle any claim for an amount not exceeding One Hundred Thousand Dollars (\$100,000.00); and
- (vi) apart from the direct costs and expenses to acquire, interpret, evaluate and reprocess the DATA and acquire interests in and develop prospects, budget and incur expenses for the operation of the COMPANY not in excess of One Million Dollars (\$1,000,000.00) per fiscal year of the COMPANY. Beginning with fiscal year 2004, JEX will prepare the budget for each fiscal year, with expenses itemized, and furnish the other MEMBERS a copy thereof.

In making its estimate of the cost to the COMPANY to acquire an interest and develop a prospect, JEX may take into account investments by participants to the extent that JEX reasonably and in good faith determines that it can obtain participation by others in the prospect.

The amounts set forth in items (i) through (vi) above may be amended according to the determination of two (2) or more MEMBERS owning at least fifty-one percent (51%) of the profits of the COMPANY.

- Approval by two (2) or more MEMBERS owning at least fifty-one percent (51%) of the profits of the COMPANY will be required for any matter described in Section 6.D above for which JEX does not have sole authority; for the COMPANY to borrow money or enter into any agreement other than for the express purposes in the express situations described in Section 6.D above; for the COMPANY to lend money or issue a guarantee; except as provided in Section 6.D(vi) above, for the COMPANY to engage the services of anyone; and for the COMPANY to arrange the defense or prosecution of any claim.
- E.

- Approval by all of the MEMBERS will be required for the COMPANY to merge, consolidate or otherwise combine with another entity,
- F. make an assignment for the benefit of creditors or seek relief under any bankruptcy, insolvency or similar law and engage in any business other than that set forth in Section 4 above.

- In addition to the capital contributions provided in Section 5 above and revenues of the COMPANY, the money to finance the business of the COMPANY may be derived from (i) loans and extensions of credit to the COMPANY from third parties permitted by this AGREEMENT and (ii) MEMBER LOANS.
- G.

In order to satisfy the financial needs of the COMPANY, Juneau may cause the COMPANY to borrow from banks, lending institutions or other third parties, and to pledge COMPANY properties to secure or provide for the payment of such loans in accordance with and within the amounts described in Section 6.D above; and all the Members may cause the COMPANY to borrow from banks, lending institutions or other third parties, and to pledge properties to secure or provide for

the payment of such loans for amounts in excess of those described in Section 6.D above.

If Juneau determines that additional funds are required, and unless the COMPANY can borrow funds from third parties on terms and conditions reasonably acceptable to Juneau and/or the MEMBERS, with due regard being given to the particular needs of the COMPANY, Juneau shall give written notice to all of the MEMBERS which notice shall state the amount of additional funds required and a date upon which the MEMBERS wishing to participate therein may make loans to the COMPANY (“**MEMBER LOANS**”) in the amount of such additional funds. If there is more than one MEMBER who desires to advance such funds to the COMPANY, each such MEMBER shall be entitled to advance such portion of the needed funds in proportion to the capital account (as of the date such MEMBER LOANS are required) of such MEMBER bears to the aggregate capital accounts (as of the date such MEMBER LOANS are required) of all such MEMBERS desiring to so advance, or in such other proportions as they shall otherwise mutually agree upon. MEMBER LOANS made on or after the date hereof shall be made on such terms and conditions, including interest rates and maturity dates, as Juneau and/or the MEMBERS shall determine. Payment of interest and principal on MEMBER LOANS shall be made in accordance with these terms and as determined by Juneau and/or the MEMBERS.

- H. At the request of any MEMBER, the MEMBERS will meet to discuss the business of the COMPANY.
- I. The MEMBERS will record, in writings signed by them, their approvals, agreements, determinations and other actions under or in respect of this AGREEMENT.

7. **Compensation; Expenses.**

- A. The COMPANY will grant to certain JEX employees (as designated by JEX), by an instrument substantially in the form of **EXHIBIT 7.A** hereto, an overriding royalty of three and one-third percent (3-1/3%) of one hundred percent (100%) (proportionately reducible as provided in **EXHIBIT 7.A**) burdening any oil, gas and/or mineral interest that the COMPANY acquires.

- B. Except as expressly provided in this AGREEMENT, the MEMBERS will not be entitled to compensation or reimbursement for their services to the COMPANY or for the services of their employees to the COMPANY. Further, the MEMBERS will cause their employees not to seek compensation from the COMPANY, and each MEMBER will indemnify the COMPANY against and hold it harmless from any claims for compensation by any of its employees and any expenses (including, without limitation, legal fees) that the COMPANY incurs in connection with any such claim

- C. The MEMBERS will pay their own expenses (including, without limitation, legal fees) in connection with the preparation and negotiation of this AGREEMENT, but the COMPANY will reimburse JEX for the filing fees and service company fees to establish the COMPANY and to qualify the COMPANY to do business in Texas, Louisiana and any other venues or governing bodies deemed necessary by JEX.

8. Profits and Losses; Taxation.

- A. The MEMBERS will have the following interests in the profits of the COMPANY:

JEX	25 %
COE O/S	65.63%
CGM	9.37 %

The losses of the COMPANY for any fiscal year will be shared by the MEMBERS in proportion to their capital accounts on the day before the last day of that fiscal year. The capital accounts of the MEMBERS will be determined in accordance with the requirements of the Internal Revenue Code and the rules and regulations thereunder from time to time in effect (collectively called the “CODE”).

- B. The profits and losses of the COMPANY and items of income, gain, loss, deduction, expense, credit and similar items will be determined by the COMPANY’s accountants in accordance with generally accepted accounting principles.
- C. The COMPANY will be treated as a partnership for federal income tax purposes and, wherever possible, for state and local income tax purposes.

The COMPANY will make the following elections for its first and subsequent tax years:

- (i) to deduct currently, in accordance with the CODE and the relevant provisions of state law, all intangible drilling and development costs with respect to drilling productive and non-productive wells and the preparation of wells for the production of hydrocarbons;
- (ii) to recover the basis of recovery property using the maximum recovery rate permitted by the CODE; and
- (iii) to deduct expenses of organizing the COMPANY ratably over a sixty (60) month period in accordance with Section 709 of the CODE.

The COMPANY will make all other elections required, or permitted to be made, by it under the CODE or applicable state law in accordance with the written agreement of all of the MEMBERS.

The COMPANY will elect JEX the tax matters MEMBER under and pursuant to the CODE. JEX will have authority to apply the provisions of this AGREEMENT relating to the maintenance of capital accounts and the allocation of profits and losses and of each item of income, gain, loss and deduction of the COMPANY so as to comply with Treasury Regulation Sections 1.704-1(b) and 1.704-2 from time to time in effect. In the event JEX determines it is prudent to modify any allocations of profits or losses or items of income, gain, loss or deduction, or debits or credits, or the manner in which they are computed, in order to comply with said Treasury Regulations, then JEX may make such modification provided that such modification will not have a material effect on the allocation of profits or losses or on cash or other property in kind that would otherwise be allocable or distributable to any MEMBER pursuant to this AGREEMENT had no such modification been made. JEX will promptly notify the other MEMBERS of any modification that it makes under this paragraph and of the nature, extent and effect of the modification.

- D. If a MEMBER transfers all or a part of its interest in the COMPANY (see Section 13), the COMPANY may, but will not be required to, elect to adjust the basis of the COMPANY' s property in accordance with the provisions of the CODE from time to time in effect. The COMPANY will make this election only in accordance with the written agreement of all of the MEMBERS.

- E. The COMPANY and its MEMBERS will use their best efforts to cause the firm that audits the COMPANY' s financial statements to sign the COMPANY' s federal income tax return as preparer thereof. The MEMBERS will also use their best efforts to cause the COMPANY to furnish the MEMBERS, within ninety (90) days after the close of the COMPANY' s fiscal year, all information reasonably necessary for the MEMBERS to prepare their federal income tax returns.

9. **Distributions.**

- A. Distributions by the COMPANY will be made to the MEMBERS in the same percentages as their interests in the profits of the COMPANY.

- B. During each of its fiscal years, the COMPANY will set aside and maintain, in a separate interest bearing account, forty percent (40%) of the revenues it receives, as it receives them (the funds so set aside and the interest thereon are called the “**TAX RESERVE**”). If the MEMBERS have taxable income from the COMPANY for a fiscal year, the COMPANY will distribute to the MEMBERS, from and to the extent of the TAX RESERVE for that year, an amount equal to forty percent (40%) of the aggregate taxable income of the MEMBERS from the COMPANY for that fiscal year. To the extent the TAX RESERVE for any fiscal year is not distributed to the MEMBERS, it will be used for the general purposes of the COMPANY.

Except as provided above, the COMPANY will make distributions to the MEMBERS only in accordance with the determination of all of the MEMBERS; provided, however, any MEMBER may request a meeting by written notice to the other MEMBERS to discuss a recommendation for a distribution.

D. The COMPANY will not make distributions to the MEMBERS before year 2004.

10. **Bank Accounts.**

A. The COMPANY will maintain bank accounts at such banks with such signatories having such authority as two (2) or more MEMBERS owning at least fifty-one percent (51 %) of the profits of the COMPANY determine.

11. **Books and Records; Financial Statements.**

Unless two (2) or more MEMBERS owning at least fifty-one percent (51%) of the profits of the COMPANY decide otherwise, A. JEX will keep the books and records of the COMPANY and will prepare and furnish to the other MEMBERS quarterly and annual balance sheets and profit and loss and cash flow statements and such other reports as the MEMBERS deem appropriate.

B. The COMPANY will maintain its books and records on an accrual basis.

C. The COMPANY' s fiscal year will end on June 30th, and its first fiscal year will end June 30, 2003.

D. The COMPANY will engage the services of an independent accounting firm to audit the COMPANY' s annual balance sheet and profit and loss statement.

E. Any MEMBER may examine the books and records of the COMPANY during normal business hours.

12. **[Reserved].**

A.

13. **Resignation; Expulsion; Assignment.**

A. A MEMBER may not resign from the COMPANY prior to its dissolution and winding up.

B. A MEMBER may not be expelled from the COMPANY.

C. Prior to the dissolution and winding up of the COMPANY, a MEMBER may not assign, transfer, encumber or otherwise dispose of all or a portion of its interest in the COMPANY (including its interest in profits and losses) except for (i) transfers on the dissolution or death of a MEMBER, but in either of these cases the transfer may only be to the shareholders, members or heirs, as the case may be, of the

MEMBER and (ii) transfers approved by all of the MEMBERS other than the MEMBER which is transferring its interest. Any assignment, transfer, encumbrance or other disposition of a MEMBER' s interest in the COMPANY in violation of the provisions of this AGREEMENT will be null and void.

A transferee (other than the COMPANY) of all or a portion of a MEMBER' s interest in the COMPANY pursuant to the provisions of this AGREEMENT is called a "TRANSFEREE." A TRANSFEREE that is not a MEMBER of the COMPANY at the time of the transfer will, without further act, become and be a MEMBER of the COMPANY. A TRANSFEREE will be subject to the terms and provisions of this AGREEMENT, will be entitled to the rights and benefits of the transferor ("TRANSFEROR") to the extent of the interest transferred and will be subject to the obligations of the TRANSFEROR to the extent of the interest transferred; but a TRANSFEREE that is not a signatory to this AGREEMENT at the time of the transfer will not be entitled to receive any distributions unless and until that TRANSFEREE executes this AGREEMENT by signing an instrument in the form of **EXHIBIT 13.D-1** hereto. In addition, if a MEMBER transfers all or a portion of its interest in the COMPANY, all of the MEMBERS will enter into an amendment of this AGREEMENT, substantially in the form of **EXHIBIT 13.D-2** hereto, reflecting the changes in the ownership of the profits and losses of the COMPANY resulting from the transfer and any other matters to which the MEMBERS and a TRANSFEREE agree.

- D.

A TRANSFEROR and TRANSFEREE will agree between themselves as to the allocation between them of the profits and losses and items of income, gain, loss, deduction, expense, credit and similar items for the fiscal year in which the transfer occurs, and they will jointly advise the COMPANY in writing of their allocation.

- E. The COMPANY may not transfer or assign any of its rights under this AGREEMENT, and any such transfer will be null and void.

14. **Events of Bankruptcy.** None of the events listed in Section 18-304 of the ACT (*EVENTS OF BANKRUPTCY*) will result in a MEMBER ceasing to be a MEMBER of the COMPANY.

15. **Dissolution.**

- A. The COMPANY will be dissolved and its affairs will be wound up upon the occurrence of any of the following: (i) approval by all of the MEMBERS; (ii) the election of any MEMBER, made by written notice to the COMPANY and the other MEMBERS, at any time after the dissolution of or cessation of business by JEX, or after the death of John B. Juneau, or John B. Juneau' s ceasing to control JEX, including any incapacity that renders John B. Juneau incapable of controlling JEX; or (iii) the election of any MEMBER (other than the MEMBER in breach or default), made by written notice to the COMPANY and the other MEMBERS, within a period of one hundred twenty (120) days after a MEMBER

materially breaches this AGREEMENT or materially defaults in any of its obligations under this AGREEMENT. The right to elect to dissolve the COMPANY because of a breach or default is in addition to any other rights and remedies each MEMBER has by reason of that breach or default.

Control means the ability to control or determine the management of an entity, whether by voting power or other means.

Except as provided above, the dissolution or death of a MEMBER or the occurrence of any other event which terminates the membership of a MEMBER in the COMPANY will not result in the dissolution and winding up of the COMPANY.

On the dissolution and winding up of the COMPANY, after the obligations of the COMPANY have been paid or provided for, the

B. COMPANY will distribute its remaining assets to the MEMBERS in the same percentages as their interests in the profits of the COMPANY.

16. **Indemnity.**

A. The COMPANY will indemnify each of the MEMBERS, their officers and employees from and against any claim, demand, liability, fine or expense (including, without limitation, reasonable legal fees and disbursements, court costs and the cost of appellate proceedings) arising out of any act or inaction by a MEMBER done in good faith and reasonably believed by such MEMBER to be in the best interests of the COMPANY and provided, in the case of any fine, that such MEMBER had no reasonable cause to believe its conduct was unlawful.

B. The COMPANY will, to the extent approved by all of the MEMBERS (other than the one seeking indemnity), pay the expenses of a MEMBER seeking indemnity in advance of the final disposition of the matter upon receipt of an undertaking from that MEMBER satisfactory to those MEMBERS to repay the amount advanced if it is ultimately determined that the MEMBER seeking indemnity is not entitled to indemnification. The MEMBERS required to approve the payment of these expenses will grant such approval if they determine that the MEMBER seeking indemnity will, in fact, be entitled to indemnity under Section 16.A and to the extent that they determine that the payment of those expenses will not jeopardize the COMPANY.

C. Each MEMBER will indemnify each other MEMBER, its officers and employees from and against any liability and any loss, damage or expense (including, without limitation, reasonable legal fees and disbursements, court costs and the cost of appellate proceedings) arising out of any claim by a third party against the indemnitee because of any act or inaction by the indemnitee which does not constitute negligence, gross negligence willful misconduct, malfeasance, a breach of duty or other wrongdoing-but only to the extent that the COMPANY does not perform its obligation to the indemnitee under Section 16.A, and then only for a

portion of the COMPANY' s unperformed obligation equal to the product of such unperformed obligation and the indemnitor' s percentage interest in the profits of the COMPANY at the time of the occurrence giving rise to the indemnification.

No MEMBER will incur liability to any other MEMBER, and no MEMBER will have a claim against any other MEMBER,
D. because of an error or mistake in judgment made in good faith and in what the MEMBER believed to be in the best interests of the COMPANY.

E. No MEMBER will have any liability to the COMPANY or any other MEMBER with respect to any deficit in its capital account.

17. **Amendment; Admission of New Members.**

A. This AGREEMENT may be amended only by an instrument in writing signed by all of the MEMBERS.

B. The certificate of formation of the COMPANY may be amended only by an instrument in writing signed by all of the MEMBERS.

Except as provided in Section 13, a person may not become a MEMBER in the COMPANY unless that person' s admission is

C. approved by all of the MEMBERS as evidenced by an amendment to this AGREEMENT signed by all of the MEMBERS and by that person.

18. **Waiver.** The COMPANY and each MEMBER of the COMPANY may not waive any of its rights or any obligation of another or any provision of this AGREEMENT except by an instrument in writing signed by the party issuing the waiver.

19. **Severability.** If any provision of this AGREEMENT or the application of any such provision to any individual, corporation or other entity or to any circumstance is held invalid, the remainder of this AGREEMENT, and the application of such provision, other than to the extent it is held invalid, will not be invalidated or affected thereby.

20. **Governing Law; Submission to Jurisdiction.** This AGREEMENT and the rights and obligations of the MEMBERS of the COMPANY will be governed by and construed in accordance with the laws of the State of Delaware. For purposes of any proceeding involving this AGREEMENT or any of the rights or obligations of any of the MEMBERS, each MEMBER hereby submits to the non-exclusive jurisdiction of the courts of the State of Delaware and agrees not to raise and waives any objection to or defense based upon the venue of any such court or based upon *forum non conveniens*. Each MEMBER and the COMPANY agree not to bring any action or other proceeding with respect to this AGREEMENT or the COMPANY or with respect to any of the rights or obligations of any of the MEMBERS of the COMPANY in any other court unless such courts of the State of Delaware determine that they do not have jurisdiction in the matter.

21. **Entire Agreement.** This AGREEMENT contains the entire agreement of the parties with respect to the subject matter hereof, and it supersedes all prior understandings and

agreements, whether written or oral, and all prior dealings of the parties with respect to the subject matter hereof.

22. **Execution by the Company.** By executing this AGREEMENT, the COMPANY agrees to abide by and to be bound by all of the terms of this AGREEMENT.
23. **Section Headings.** Section headings are for reference purposes only and will not in any way affect the meaning or interpretation of any provision of this AGREEMENT.

[Signature on following page]

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IN WITNESS WHEREOF, the MEMBERS have executed this AGREEMENT as of the day and year first written above.

JUNEAU EXPLORATION, L.P.
By: Juneau GP, LLC, Its General Partner,

By: /s/ John B. Juneau

John B. Juneau
Sole Manager

COE OFFSHORE, LLC

By: /s/ Kenneth R. Peak

Kenneth R. Peak
Chairman and CEO

CGM II, LP

By: CGM GP, LLC
General Partner

By: /s/ Mark S. Muller

Mark S. Muller
Manager

ACKNOWLEDGED AND AGREED:

**CONTANGO OFFSHORE
EXPLORATION LLC**

By: Juneau Exploration, L.P.

By: Juneau GP, LLC, its General Partner

By: /s/ John B. Juneau

John B. Juneau
Sole Manager

[Signature Page to LLC Agreement]

\$30,000,000

AMENDED AND RESTATED TERM LOAN AGREEMENT

dated as of

June 5, 2008

between

**Contango Oil & Gas Company,
as Borrower**

and

**Centaurus Capital LLC,
as Lender**

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AMENDED AND RESTATED TERM LOAN AGREEMENT

AMENDED AND RESTATED TERM LOAN AGREEMENT (this "**Agreement**") dated as of June 5, 2008, between **Contango Oil & Gas Company**, a Delaware corporation (the "**Borrower**"), and **Centaurus Capital LLC** (the "**Lender**").

WITNESSETH:

WHEREAS, Borrower and the Lender entered into that certain Term Loan Agreement dated as of January 30, 2007 (as amended or modified from time to time prior to the date hereof, the "**Existing Loan Agreement**"), whereby Lender agreed to make available to Borrower a credit facility upon the terms and conditions set forth therein; and

WHEREAS, Borrower has requested that the Existing Loan Agreement be amended and restated, in its entirety, and Lender has agreed to so amend and restate the Existing Loan Agreement in accordance with the terms and provisions set forth herein.

In consideration of the mutual covenants, rights and obligations contained herein, the benefits to be derived therefrom, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree that the Existing Loan Agreement is hereby amended and restated, in its entirety, as follows:

ARTICLE 1 DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"**Adjusted Eurodollar Rate**" means, with respect to any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"**Affiliate**" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the specified Person.

"**Agreement**" has the meaning set forth in the introductory paragraph hereof.

"**Board of Governors**" means the Board of Governors of the Federal Reserve System of the United States of America.

"**Borrower**" means Contango Oil & Gas Company, a Delaware corporation, and its successors and permitted assigns.

"**Business Acquisition**" means (a) an Investment by Borrower or any other Contango Entity in any other Person pursuant to which such Person shall become a Subsidiary or shall be merged into or consolidated with Borrower or such Contango

Entity or (b) an acquisition by Borrower or any other Contango Entity of the property and assets of any other Person that constitute substantially all of the assets of such Person or any division or other business unit of such Person.

“**Business Day**” means any day that is not a Saturday, Sunday or other day on which commercial banks in Houston, Texas, are authorized or required by Law to remain closed.

“**Capital Lease Obligations**” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under its method of accounting, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with its method of accounting.

“**Cash Equivalents**” means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed or insured by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within one year from the date of acquisition thereof and having, at such date of acquisition, a credit rating of at least A-1 from Standard & Poor’s Rating Service (“**S&P**”) and P-1 from Moodys Investor’s Service, Inc. (“**Moodys**”);

(c) investments in certificates of deposit, banker’s acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the Laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than \$500,000,000;

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in **clause (a)** above and entered into with a financial institution satisfying the criteria described in **clause (c)** above;

(e) money market funds that (i) comply with the criteria set forth in Securities and Exchange Commission Rule 2a-7 under the Investment Company Act of 1940, (ii) are rated or invest solely in the assets described in **clauses (a)** through **(d)** above and (iii) have portfolio assets of at least \$5,000,000,000;

(f) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof, in each case maturing within one year after the date of acquisition and having, at such date, the highest rating obtainable from either S&P or Moodys; and

(g) other securities, instruments, bonds and obligations rated at least AA by S&P or Aa by Moodys.

“Change in Control” means (a) any Person or “group” of Persons (within the meaning of Rules 13d-3 and 13d-5 under the Exchange Act) other than Kenneth R. Peak shall have (i) acquired, directly or indirectly, beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities representing 30% or more of the combined voting power of all outstanding voting securities of the Borrower or (ii) obtained the power (whether or not exercised) to elect a majority of the Borrower’s directors, (b) individuals who were directors of the Borrower on the date hereof, and individuals elected as directors by not less than two-thirds of the individuals who were directors of the Borrower on such date, shall cease to constitute a majority of the members of the board of directors of the Borrower, or (c) Kenneth R. Peak shall cease to be an executive officer of the Borrower or shall otherwise cease to be active in the day to day management of the Borrower’s operations and activities.

“Change in Law” means (a) the adoption of any Law after the date of this Agreement, (b) any change in any Law or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by the Lender with any request, guideline or directive (whether or not having the force of Law) of any Governmental Authority made or issued after the date of this Agreement.

“Closing Date” means June 5, 2008, or such other date as the Borrower and the Lender shall agree.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Contango Entity” means the Borrower or any of its Subsidiaries.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. **“Controlling”** and **“Controlled”** have meanings correlative thereto.

“Debt” of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business that are due not more than 90 days from the creation thereof), (f) all Debt of others secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Debt secured thereby has been assumed, (g) all guarantees by such Person of Debt of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as

an account party in respect of letters of credit and letters of guaranty, (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances, and (k) any other items required to be listed as a liability under the Borrower's method of accounting, other than accounts payable not more than 90 days from date, incurred in the ordinary course of business. The Debt of any Person shall include the Debt of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Debt provide that such Person is not liable therefor.

"Default" means any event or condition that constitutes an Event of Default or that upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Disposition" means with respect to any asset (including an Equity Interest or any portion thereof), a sale, assignment, transfer, conveyance, gift, exchange or other disposition of such asset, whether such disposition be voluntary, involuntary or by operation of Law, including, but not limited to, the following: (a) in the case of an asset owned by a natural Person, a transfer of such asset upon the death of its owner, whether by will, intestate succession or otherwise; (b) in the case of an asset owned by a Person other than a natural Person, (i) a merger or consolidation of such Person (whether or not such Person is the survivor thereof), or (ii) a distribution of such asset, including in connection with the dissolution, liquidation, winding-up or termination of such Person; and (c) a disposition in connection with, or in lieu of, a foreclosure of a Lien.

"Drawdown Termination Date" has the meaning given such term in *Section 2.1(a)*.

"Dutch and Mary Rose Interests" means, collectively, at least (A) a 47% working interest in OCS-G 23851 (Eugene Island Area Block 10), (B) a 53% working interest in State of Louisiana Lease Nos. 18640, 18860, 19261, 19266 and 19396, and (C) a 53% working interest in OCS-G 31362 (Eugene Island Area Block 11).

"Environmental Laws" means all Laws, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Substance or to health and safety matters.

"Environmental Permits" means any and all permits, licenses, registrations, notifications, approvals, exemptions and any other authorization required under any applicable Environmental Law.

"Equity Interests" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“**ERISA Affiliate**” means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under section 414(b) or (c) of the Code or, solely for purposes of section 302 of ERISA and section 412 of the Code, is treated as a single employer under section 414 of the Code.

“**ERISA Event**” means (a) any “*reportable event*”, as defined in section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in section 412 of the Code or section 302 of ERISA), whether or not waived; (c) the filing pursuant to section 412(d) of the Code or section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

“**Event of Default**” has the meaning assigned to such term in *Article 7*.

“**Financial Officer**” means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

“**GAAP**” means, subject to the qualifications contained in *Section 1.3*, generally accepted accounting principles in the United States of America, as in effect from time to time.

“**Governmental Approval**” means (a) any authorization, consent, approval, license, waiver, ruling, permit, tariff, rate, certification, exemption, filing, variance, claim, order, judgment, decree, sanction or publication of, by or with; (b) any notice to; (c) any declaration of or with; or (d) any registration by or with, or any other action or deemed action by or on behalf of, any Governmental Authority.

“**Governmental Authority**” means the government of the United States of America or any other nation, any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“**guarantee**” of or by any Person (the “**guarantor**”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Debt or other obligation of any other Person (the “**primary obligor**”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Debt or obligation; *provided*, that the term guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“**Hazardous Substances**” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any applicable Environmental Law.

“**Indemnified Taxes**” means Taxes other than, with respect to the Lender, taxes that are imposed on its overall net income by the United States of America and taxes that are imposed on its overall net income (and franchise taxes imposed in lieu thereof) by the state or foreign jurisdiction under the laws of which the Lender is organized or is a resident, or has a fixed place of business or a permanent establishment, or any political subdivision of any of the foregoing, and taxes that are imposed on its overall net income (and franchise taxes imposed in lieu thereof) by the state or foreign jurisdiction of its applicable lending office or any political subdivision thereof.

“**Independent Engineer**” means W. D. Von Gonten & Co., William M. Cobb & Associates, Inc., or another independent engineering firm selected by the Borrower and approved in writing by Lender.

“**Interest Payment Date**” means the last day of each Interest Period.

“**Interest Period**” means the period commencing on the date of the Loan, or on the last day of the immediately preceding Interest Period, as applicable, and ending on the numerically corresponding day in the calendar month that is one month thereafter; *provided*, that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period.

“**Investment**” means (a) any direct or indirect purchase or other acquisition by the Borrower or any of its Subsidiaries of, or of a beneficial interest in, any Equity Interests of any other Person and (b) any loan, advance (other than advances to employees for moving, entertainment and travel expenses, drawing accounts and similar expenditures in the ordinary course of business) or capital contribution by the Borrower or any of its Subsidiaries to any other Person. The amount of any investment shall be the original cost of such investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment.

“**Law**” means all laws, statutes, treaties, ordinances, codes, acts, rules, regulations, Governmental Approvals and Orders of all Governmental Authorities, whether now or hereafter in effect.

“**Lender**” means Centaurus Capital LLC.

“**LIBO Rate**” means, with respect to any Interest Period, the rate as calculated by the British Bankers’ Association and obtained through a nationally recognized service such as Dow Jones (Telerate), Reuters or Bloomberg (the “**Service**”) and including any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Lender from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the “**LIBO Rate**” for such Interest Period shall be the rate reasonably determined by Lender, at which dollar deposits in the amount of the outstanding Loan and for a maturity comparable to such Interest Period are offered by major commercial banks in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

“**Lien**” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“**Loan**” means all of the loans and advances made by the Lender to the Borrower pursuant to **Section 2.1(a)**.

“**Loan Documents**” means this Agreement, the Note and any other agreement (including, but not limited to, any fee agreements) entered into in connection with the transactions contemplated by this Agreement.

“**Material Adverse Effect**” means a material adverse effect on (a) the business, assets, property, financial condition or results of operations of the Borrower and its Subsidiaries, taken as a whole, (b) the ability of the Borrower to perform its obligations under the Loan Documents or (c) the validity or enforceability of the Loan Documents or the validity, perfection, priority or enforceability of the Liens created thereunder.

“**Material Debt**” means Debt (other than the Loan) of the Borrower or any other Contango Entity in an aggregate principal amount exceeding \$1,000,000.

“**Maturity Date**” means January 1, 2010.

“**Maximum Rate**” has the meaning set forth in **Section 8.12**.

“**Multiemployer Plan**” means a multiemployer plan as defined in section 4001(a)(3) of ERISA.

“**Note**” means a note in the form attached hereto as **Exhibit 1.1**.

“**Oil and Gas Properties**” means all oil, gas and/or mineral leases, oil, gas or mineral properties, mineral servitudes and/or mineral rights of any kind (including, without limitation, mineral fee interests, lease interests, farmout interests, overriding royalty and royalty interests, net profits interests, oil payment interests, production payment interests and other types of mineral interests), and all oil and gas gathering, treating, storage, processing and handling assets.

“**Order**” means a binding order, writ, judgment, award, injunction, decree, ruling or decision of any Governmental Authority or arbitrator.

“**Organizational Documents**” means, with respect to any entity, the articles or certificate of incorporation, bylaws, partnership agreement or membership agreement or equivalent governing documents of such entity.

“**Other Taxes**” means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any of the other Loan Documents.

“**PBGC**” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“**Permitted Liens**” means with respect to any asset or property (a) royalties, overriding royalties, reversionary interests, production payments and similar burdens; (b) sales contracts or other arrangements for the sale of production of oil, gas or associated liquid or gaseous hydrocarbons which would not (when considered cumulatively with the matters set forth in clause (a) above) deprive Borrower or any of its Subsidiaries of any material right in respect of its assets or properties (except for rights customarily granted with respect to such contracts and arrangements); (c) statutory Liens for taxes or other assessments that are not yet delinquent (or that, if delinquent, are being contested in good

faith by appropriate proceedings, levy and execution thereon having been stayed and continue to be stayed and for which Borrower has set aside on its books adequate reserves in accordance with GAAP); (d) easements, rights of way, servitudes, permits, surface leases and other rights in respect to surface operations, pipelines, grazing, logging, canals, ditches, reservoirs or the like, conditions, covenants and other restrictions, and easements of streets, alleys, highways, pipelines, telephone lines, power lines, railways and other easements and rights of way on, over or in respect of Borrower' s or any of its Subsidiaries' assets or properties and that do not individually or in the aggregate, cause a Material Adverse Effect; (e) materialmen' s, mechanic' s, repairman' s, employee' s, warehousemen' s, landlord' s, carrier' s, pipeline' s, contractor' s, sub-contractor' s, operator' s, non-operator' s (arising under operating or joint operating agreements), and other Liens (including any financing statements filed in respect thereof) incidental to obligations incurred by Borrower or any of its Subsidiaries in connection with the construction, maintenance, development, transportation, storage or operation of Borrower' s or such Subsidiary' s assets or properties to the extent not delinquent (or which, if delinquent, are being contested in good faith by appropriate proceedings and for which Borrower or such Subsidiary has set aside on its books adequate reserves in accordance with GAAP); (f) Liens in connection with workmen' s compensation, unemployment insurance or other social security, old age pension or public liability obligations; and (g) rights reserved to or vested in any municipality, governmental, statutory or other public authority to control or regulate Borrower' s or its Subsidiaries' assets and properties in any manner, and all applicable laws, rules and orders from any Governmental Authority.

“**Person**” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“**Plan**” means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or section 412 of the Code or section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under section 4069 of ERISA be deemed to be) an “employer” as defined in section 3(5) of ERISA.

“**Preferred Stock**” means any Perpetual Cumulative Convertible Preferred Stock (in any series) of the Borrower.

“**Price Criteria**” means certain price assumptions determined by the Borrower' s then current hydrocarbon borrowing base lending bank (or, if the Borrower has no such borrowing base lending bank at such time, The Royal Bank of Scotland plc) used by said bank in the determination of borrowing base calculations for senior secured oil and gas loans; provided in each instance that such bank discloses such pricing assumptions, in writing, to Borrower and the Lender; and provided further that if such price assumptions are not disclosed or otherwise available, “**Price Criteria**” shall mean price assumptions determined by Lender pursuant to its then current policies and procedures used in making senior secured oil and gas loans.

“**Producing Reserves**” means the Proved Reserves from reservoirs that are currently being produced and sold.

“**Proved Reserves**” means the estimated quantities of crude oil, condensate, natural gas and natural gas liquids from Oil and Gas Properties, as determined by the Borrower’s Independent Engineer, that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made), as determined in accordance with Rule 4-10 of Regulation S-X promulgated by, and other applicable requirements of, the Securities and Exchange Commission.

“**PV-9 Value**” means, with respect to any Oil and Gas Properties, the then present value of the future net revenues attributable to such Oil and Gas Properties as determined by the Independent Engineer and using a 9% discount rate and the Price Criteria of the then relevant Reserve Report under **Section 5.1(j)**, and specifically with respect to the Proved Reserves and the Producing Reserves owned by the Contango Entities (other than Contango Offshore Exploration, LLC and Republic Exploration LLC), such value calculated on the basis of the most recent Reserve Report and said Price Criteria.

“**Reserve Report**” means a report separately stated with respect to (a) all Oil and Gas Properties owned directly or indirectly by the Contango Entities valued in accordance with Rule 4-10 of Regulation S-X promulgated by, and other applicable requirements of, the United States Securities and Exchange Commission, and (b) all Oil and Gas Properties owned directly or indirectly by the Contango Entities valued using the Price Criteria, setting forth, among other things, (i) the PV-9 Value of such Oil and Gas Properties, (ii) the Proved Reserves attributable to such Oil and Gas Properties, (iii) the Producing Reserves attributable to such Oil and Gas Properties and (iv) a projection of the rate of production of the Proved Reserves attributable to such Properties as of the date of such Reserve Report.

“**Restricted Payment**” means any distribution (whether in cash, securities or other property) with respect to any Equity Interests in the Borrower or any of its Subsidiaries, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interests in the Borrower or any of its Subsidiaries or any option, warrant or other right to acquire any such Equity Interests in the Borrower or any of its Subsidiaries.

“**Statutory Reserve Rate**” means, at any time, a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal in effect at such time (as established by the Board of Governors of the U.S. Federal Reserve System) to which the Lender is subject for Eurocurrency funding (currently referred to as “**Eurocurrency Liabilities**” in Regulation D of the Board of Governors).

“**Subsidiary**” means, with respect to any Person (the “**parent**”) at any date, any corporation, limited liability company, partnership, association or other entity (other than Contango Offshore Exploration, LLC and Republic Exploration LLC), the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with the Borrower’s method of accounting as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more Subsidiaries of the parent or by the parent and one or more Subsidiaries of the parent.

“**Taxes**” means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“**Transactions**” means the execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents to which it is a party, the borrowing of the Loan and the use of the proceeds thereof.

“**Withdrawal Liability**” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

1.2 Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “*include*”, “*includes*” and “*including*” shall be deemed to be followed by the phrase “*without limitation*”. The word “*will*” shall be construed to have the same meaning and effect as the word “*shall*”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “*herein*”, “*hereof*” and “*hereunder*”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words “*asset*” and “*property*” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

1.3 Accounting Terms. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with Borrower’s method of accounting, as in effect from time to time; provided that, if the Borrower notifies the Lender that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in its method of accounting or in the application thereof on

the operation of such provision (or if the Lender notifies the Borrower that it requests an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in its method of accounting or in the application thereof, then such provision shall be interpreted on the basis of its method of accounting as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

ARTICLE 2 LOAN

2.1 The Loan.

(a) Subject to the terms and conditions set forth herein, the Lender shall make loans to the Borrower in the principal amount requested by Borrower up to a maximum principal amount of \$30,000,000. The outstanding principal amount of any loans made to Borrower under the Existing Loan Agreement shall be and be deemed to be loans made to Borrower on the Closing Date pursuant to this **Subsection 2.1(a)** of this Agreement. If less than \$30,000,000 is borrowed on the Closing Date, and subject to the terms and conditions set forth herein, Borrower shall be entitled to request that additional amounts be advanced to it from time to time in increments of not less than \$1,000,000 provided that the total Loan outstanding shall not exceed a maximum of \$30,000,000. All advances shall require (i) five (5) Business Days prior written notice thereof (for any advance of \$15,000,000 or less), or (ii) ten (10) Business Days prior written notice thereof (for any advance in excess of \$15,000,000), and shall be made pursuant to a Request for Advance in the form of **Exhibit 2.1** hereto. If less than \$30,000,000 is advanced by Lender hereunder by the date which is ten (10) Business Days prior to the Maturity Date (the “**Drawdown Termination Date**”), the Loan shall be in the maximum amount outstanding on such date and there shall be no further advances hereunder. Amounts prepaid or repaid with respect to the Loan may not be reborrowed. The Lender shall make any advances under the Loan by wire transfer of immediately available funds to the account of the Borrower set forth in **Exhibit 2.1**.

(b) The Borrower shall prepare, execute and deliver to the Lender a Note payable to the order of the Lender substantially in the form of **Exhibit 1.1**. Thereafter, the Loan shall at all times (including after assignment pursuant to **Section 8.3**) be represented by a Note payable to the order of the payee named therein.

(c) The Lender shall maintain an account evidencing the indebtedness of the Borrower to the Lender resulting from the Loan, including the amounts of principal and interest payable and paid to the Lender from time to time hereunder. The entries made in such account shall, to the extent permitted by applicable law, be prima facie evidence of the existence and amounts of the obligations of the Borrower recorded therein absent manifest error; provided, however, that the failure of the Lender to maintain any such account or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loan in accordance with the terms of this Agreement.

2.2 Repayment of Loan. The Borrower hereby unconditionally promises to pay to the Lender the Loan in full on the Maturity Date.

2.3 Prepayment of Loan; Reduction of Amount of Loan.

(a) The Borrower may, upon three Business Days' notice to the Lender, prepay the Loan in whole or in part without premium or penalty (other than any amounts which may be due under **Section 2.7** as a result of such prepayment). Any prepayment of principal under this section shall be in the minimum principal amount of \$2,000,000.00 and additional intervals of \$1,000,000.00 and shall be accompanied by all interest then accrued and unpaid on the principal so repaid together with any amounts due under **Section 2.7**.

(b) Subject to **Section 8.12**, if the Loan is not funded in the full amount at any time during the period from the Closing Date to the Drawdown Termination Date, the Borrower shall pay to the Lender a non-use fee in the amount of 1.50% per annum multiplied by such non-funded amount, such fee to be paid on the last day of each calendar quarter, commencing June 30, 2008 through and including September 30, 2009, and on the Drawdown Termination Date. For the avoidance of doubt, the amount of any advance under the Loan that has been prepaid or repaid shall not be subject to such non-use fee. If the Loan is not fully funded in the amount of \$30,000,000 by the Drawdown Termination Date, the Loan shall be deemed to be fully funded and no further non-use fee shall be payable.

2.4 Interest.

(a) The Loan shall bear interest on each day during the related Interest Period at the Adjusted Eurodollar Rate in effect on the first day of such Interest Period plus 5.0%.

(b) Notwithstanding the foregoing, if any principal of or interest on the Loan or any other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to 2% plus the rate otherwise applicable to the Loan.

(c) Accrued interest on the Loan shall be payable in arrears on each Interest Payment Date; provided that (i) interest accrued pursuant to paragraph (b) of this Section shall be payable on demand and (ii) in the event of any repayment or prepayment of the Loan, accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment.

(d) All interest hereunder shall be computed on the basis of a year of 360 days, and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

2.5 Payments Generally. The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, or otherwise) prior to 2:00 p.m., Houston,

Texas time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Lender, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Lender by wire transfer to such account of Lender as may be designated from time to time in a notice from Lender to Borrower. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in U.S. dollars.

2.6 Increased Costs. (a) If any Change in Law shall:

- (i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, the Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate); or
- (ii) impose on the Lender or the London interbank market any other condition materially affecting this Agreement or the Loan;

in each case other than as specified in *paragraph (b)* below, and the result of any of the foregoing shall be to increase the cost to the Lender of maintaining the Loan or to reduce the amount of any sum received or receivable by the Lender hereunder (whether of principal, interest or otherwise), in each case by an amount that the Lender reasonably deems to be material, then the Borrower shall pay to the Lender, in accordance with *paragraph (c)* of this **Section 2.6** after the Borrower's receipt of its written demand accompanied by documentation specifying in reasonable detail the events and circumstances and the applicable Change in Law in support of any such reimbursement request, such additional amount or amounts necessary to compensate the Lender for such additional costs incurred or reduction suffered.

(b) If the Lender determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on the Lender's capital or on the capital of the Lender's holding company, if any, as a consequence of this Agreement or the Loan made by the Lender to a level below that which the Lender or the Lender's holding company could have achieved but for such Change in Law (taking into consideration the Lender's policies and the policies of the Lender's holding company with respect to capital adequacy) by an amount reasonably deemed by the Lender to be material, then from time to time upon submission by the Lender to the Borrower of a written demand therefor accompanied by documentation specifying in reasonable detail the events and circumstances applicable to such reduction and the applicable Change in Law in support of such demand, and the amount demanded pursuant hereto, the Borrower will, within 30 days after receipt of such demand, pay to the Lender such additional amount or amounts necessary to compensate the Lender or such Lender's holding company for any such reduction suffered.

(c) A certificate of the Lender setting forth the amount or amounts necessary to compensate the Lender or its holding company, as the case may be, together with the relevant demand and accompanying documentation, all as specified in *paragraph (a) or (b)* of this **Section 2.6** shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay the Lender the amount shown as due on any such certificate within 30 days after receipt thereof.

(d) Failure or delay on the part of the Lender to demand compensation pursuant to this **Section 2.6** shall not constitute a waiver of the Lender's right to demand such compensation; provided that the Borrower shall not be required to compensate the Lender pursuant to this Section for any increased costs or reductions incurred more than 180 days prior to the date that the Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of the Lender's intention to claim compensation therefor in accordance with this Section; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

2.7 Break Funding Payments. If the Borrower makes any principal payment other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default or any prepayment under **Section 2.3(a)**), then the Borrower shall compensate the Lender for the loss, cost and expense attributable to such event. Such loss, cost or expense to the Lender shall be deemed to include an amount determined by the Lender to be the excess, if any, of (a) the amount of interest which would have accrued on the amount so prepaid or converted, or not so borrowed, continued, converted or prepaid at the Adjusted Eurodollar Rate that would have been applicable to the Loan, for the period from the date of such event to the last day of the then current Interest Period therefor, over (b) the amount of interest that would have accrued to the Lender on such principal amount for such period at the interest rate that the Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the interbank Eurodollar market. A certificate of the Lender setting forth any amount or amounts that the Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Lender shall submit written demand specifying in reasonable detail the events and circumstances resulting in such payment obligation, together with a certificate as to any amounts payable pursuant to this Section to the Borrower. The Borrower shall pay the Lender the amount shown as due on any such certificate within 30 days after receipt thereof.

2.8 Taxes.

(a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the

Borrower shall make such deductions, and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Lender, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Lender on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by the Lender shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Lender.

(e) If the Lender is entitled to an exemption from or reduction of withholding tax under the law of the United States, or of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement, it shall deliver to the Borrower, at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

(f) The Lender shall determine if, in its reasonable discretion, it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which a Borrower has paid additional amounts pursuant to this **Section 2.8**. If it determines that it has received any such refund, it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this **Section 2.8** with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided that the Borrower, upon the request of the Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Lender in the event the Lender is required to repay such refund to such Governmental Authority. This Section shall not be construed to require the Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lender as follows:

3.1 Organization. Each Contango Entity (a) is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization, (b) has the requisite power and authority to conduct its business in each jurisdiction in which its business is conducted and (c) is duly qualified or licensed to conduct business and is in good standing in each such jurisdiction except where any failure to be duly qualified or licensed or in good standing could not reasonably be expected to have a Material Adverse Effect.

3.2 Authority Relative to this Agreement. The Borrower has the power and authority to execute and deliver this Agreement and the other Loan Documents to which it is a party and to perform its obligations hereunder and thereunder. The Transactions have been duly authorized by all necessary action on the part of the Borrower. This Agreement and the other Loan Documents have been duly and validly executed and delivered by the Borrower, to the extent a party thereto, and constitute its legal, valid and binding obligations enforceable against the Borrower, in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights and remedies generally and to the effect of general principles of equity (regardless of whether enforcement is considered in a proceeding at Law or in equity).

3.3 No Violation. The Transactions will not:

(a) result in a breach of the Organizational Documents of any Contango Entity;

(b) result in the imposition of any Lien (other than in favor of Lender) on any Contango Entity;

(c) to the knowledge of Borrower, after due inquiry, result in, or constitute an event that would be, a breach, violation or default under any Governmental Approval held by, or relating to the business of any Contango Entity, in each case that could reasonably be expected to have a Material Adverse Effect;

(d) require any Contango Entity to obtain any consent, waiver, approval, exemption, authorization or other action of, or make any filing with or give any notice to, any Person except (i) such as have been obtained or made and are in full force and effect, and (ii) consents, waivers, approvals, exemptions, authorizations, filings, notices and other actions the failure of which to obtain or make could not reasonably be expected to have a Material Adverse Effect; or

(e) violate any Law or Order applicable to any Contango Entity or by which its properties or assets may be bound, except where such violation could not reasonably be expected to result in a Material Adverse Effect.

3.4 Financial Condition. The audited consolidated balance sheet of the Borrower and its consolidated Subsidiaries at June 30, 2007, and the related audited consolidated statements of income, cash flows and stockholder' s equity for the fiscal year ended on such date, together with the related notes and schedules thereto, reported on by Grant Thornton LLP, and the unaudited balance sheet and statement of income for the Borrower and its consolidated Subsidiaries of the quarter ending March 31, 2008, copies of all of which have heretofore been furnished or made available to the Lender, were prepared in accordance with GAAP consistently applied throughout the periods presented and present fairly in all material respects the consolidated financial position of the Borrower and its consolidated Subsidiaries as of such date, and the consolidated results of their operations and their consolidated cash flows for the period then ended. Neither the Borrower nor any of its Subsidiaries have any material liability or obligation that is not disclosed in the foregoing financial statements or in the notes thereto. Since the date of such financial statements, there has been no development, circumstance or event that has had or could reasonably be expected to have a Material Adverse Effect.

3.5 Litigation. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened by or against any Contango Entity or against any of their respective assets (a) with respect to any of the Loan Documents or any of the Transactions or (b) that could reasonably be expected to have a Material Adverse Effect.

3.6 No Default. No Contango Entity is in default under or with respect to any agreement to which it is a party that could reasonably be expected to have a Material Adverse Effect. Each Contango Entity is in compliance in all material respects with each covenant applicable to it under the Loan Documents, and no Default has occurred and is continuing or would occur as a result of the execution and delivery of this Agreement and the Loan Documents.

3.7 Ownership of Property; Liens. Each Contango Entity has good and marketable title to all of its Oil and Gas Properties that are not personal property and good title to all such Oil and Gas Properties that are personal property and material to the Borrower and its Subsidiaries taken as a whole, and such imperfections of title as do not in the aggregate materially detract from the value thereof to, or the use thereof in, the business of the Borrower and its Subsidiaries. The Borrower or one of its Subsidiaries is entitled to receive a decimal share of all hydrocarbons produced from, or allocated to, each property described in the most recent Reserve Report equal to not less than the net revenue interest set forth in such Reserve Report. There are no "back-in" or "reversionary" interests held by third parties that could materially reduce the interest of the Borrower and its Subsidiaries in such properties except as provided for in such Reserve Report.

3.8 Intellectual Property. Each Contango Entity owns, or is licensed to use, all trademarks, tradenames, copyrights, technology, know-how and processes necessary for the conduct of its business as currently conducted except for those the failure to own or license which could not reasonably be expected to have a Material Adverse Effect (the "**Intellectual Property**"). No claim has been asserted and is pending by any Person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual Property which could reasonably be expected to have a Material Adverse Effect, nor does the

Borrower know of any valid basis for any such claim which could reasonably be expected to have a Material Adverse Effect. The use of such Intellectual Property by each Contango Entity does not infringe on the rights of any Person, except for such claims and infringements that, in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

3.9 Taxes. Each Contango Entity has filed all material tax returns that are required to be filed by it and has paid or caused to be paid all taxes shown on said returns and all assessments, fees and other governmental charges levied upon it or upon any of its property or income that are due and payable, other than such taxes, assessments, fees and other governmental charges, if any, as are being diligently contested in good faith and by appropriate proceedings and with respect to which there have been established adequate reserves on the books of the Borrower in accordance with GAAP. To the knowledge of the Borrower, no material tax lien has been filed, and no material claim is being asserted, with respect to any such taxes or assessments, fees or other governmental charges.

3.10 Federal Reserve Regulations. No part of the proceeds of the Loan will be used for “*purchasing*” or “*carrying*” any “*margin stock*” within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. If requested by the Lender, the Borrower shall furnish to the Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U. The Loan and other transactions contemplated hereunder will not violate the provisions of Regulations T and X.

3.11 ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of such Plan.

3.12 Subsidiaries. The Persons listed on **Schedule 3.12** constitute all of the Subsidiaries of the Borrower as of the Closing Date. Borrower owns directly, or indirectly through one or more wholly-owned Subsidiaries, legal and beneficial ownership of all the Dutch and Mary Rose Interests.

3.13 Environmental Matters. Except as set forth on **Schedule 3.13**, and other than exceptions to any of the following that could not, in the aggregate, reasonably be expected to give rise to a Material Adverse Effect or materially adversely affect the value of the Oil and Gas Properties of any Contango Entity taken as a whole:

(a) Each Contango Entity (i) is, and within the period of all applicable statutes of limitation has been in compliance with all applicable Environmental Laws; (ii) holds all Environmental Permits (each of which is in full force and effect) required for any of its current or planned operations or for any property owned, leased, or otherwise operated by it; and (iii) is, and within the period of all applicable statutes of limitation has been, in compliance with all of its Environmental Permits; and no officer of such Contango Entity

has knowledge of any reason why its Environmental Permits will not timely be renewed or any new Environmental Permits will not timely be obtained subject to the conditions and terms that may be applied to them by the relevant Governmental Authorities.

(b) To the knowledge of the Borrower, after due inquiry, Hazardous Substances have not been transported, disposed of, emitted, discharged, or otherwise released or threatened to be released, to or at any real property presently or formerly owned, leased or operated by any Contango Entity or at any other location, which could reasonably be expected to (i) give rise to liability of any Contango Entity under any applicable Environmental Law or (ii) interfere with the continued operations of any Contango Entity.

(c) No judicial, administrative, or arbitral proceeding (including any notice of violation or alleged violation) under or relating to any Environmental Law to which any Contango Entity is, or to the knowledge of the Borrower will be, named as a party is pending or, to the knowledge of the Borrower threatened.

(d) No Contango Entity has received any written request for information, or been notified that it is a potentially responsible party under any Environmental Law, or with respect to any Hazardous Substances.

(e) No Contango Entity has entered into or agreed to any consent decree, order, or settlement, nor is subject to any judgment, decree, or order, in any judicial, administrative, arbitral, or other forum, relating to compliance with or liability under any Environmental Law.

(f) No Contango Entity has assumed or retained, by contract or operation of law, any liabilities of any kind, fixed, contingent or otherwise, under any Environmental Law other than in conformity with standard industry practice.

3.14 No Material Misstatements. All information, reports, financial statements, exhibits and schedules furnished to the Lender by or on behalf of the Borrower in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto, when taken as a whole, did not contain any untrue statements of a material fact and did not omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not materially misleading. All projections and estimates concerning the Borrower and its Subsidiaries that are or have been made available to the Lender by or on behalf of the Borrower have been prepared based on good faith estimates and based upon assumptions believed by the Borrower to be reasonable in all material respects at the time of such preparation.

3.15 Insurance. Each Contango Entity carries and maintains with respect to its insurable properties insurance (including, to the extent consistent with past practices, self-insurance) with financially sound and reputable insurers of the types, to such extent and against such risks as is customary with companies in the same or similar businesses.

3.16 Future Commitments. Except as set forth on **Schedule 3.16**, on a net basis there are no material gas imbalances, material take-or-pay or other prepayments with respect to the Oil

and Gas Properties of any Contango Entity (or, in the case of Oil and Gas Properties operated by operators other than a Contango Entity, to the Borrower's knowledge after reasonable investigation) which would require such Contango Entity to deliver hydrocarbons produced from Oil and Gas Properties at some future time without then or thereafter receiving full payment therefor.

3.17 Investment Company Status. No Contango Entity is an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940, as amended.

ARTICLE 4 CONDITIONS

4.1 Effective Date. The obligation of the Lender to make the initial advance on the Loan shall be subject to the satisfaction (or waiver in accordance with **Section 8.2**) of each of the following conditions:

- (a) The Lender shall have received from the Borrower a counterpart of this Agreement signed on behalf of such party (which may include electronic transmission of a signed signature page of this Agreement);
- (b) The Borrower shall have executed and delivered to the Lender the Note in the amount, maturity and as otherwise provided for herein;
- (c) The Lender shall have received a certificate of a Financial Officer to the effect that (i) the representation and warranties of the Borrower set forth in **Article 3** are true and correct in all material respects as of the Closing Date, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct in all material respects as of such earlier date), (ii) no Default shall exist either before or after giving effect to the Transactions, and (iii) no Material Adverse Effect shall have occurred since March 31, 2008;
- (d) The Lender shall have received such documents and certificates as the Lender or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower and its Subsidiaries, the authorization of the Transactions, the authority of each natural Person executing any of the Loan Documents on behalf of the Borrower and any other legal matters relating to the Borrower, its Subsidiaries, this Agreement or the Transactions, all in form and substance reasonably satisfactory to the Lender and its counsel;
- (e) The Lender shall have received all fees, accrued and unpaid interest and other amounts due and payable on or prior to the Closing Date under the Existing Loan Agreement, this Agreement and any other Loan Document; and
- (f) The Lender shall have received such other documents and certificates as the Lender or its counsel may reasonably request.

4.2 Conditions to each Subsequent Advance of the Loan.

The obligation to make any advance of the Loan, including the initial advance, is subject to the further satisfaction of the following conditions:

- (a) timely receipt by Lender of a Request for Advance;
- (b) immediately before and after giving effect to such advance, no Default or Event of Default shall have occurred and be continuing and the making of such advance shall not cause a Default or Event of Default;
- (c) the representations and warranties of Borrower contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of such advance, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct in all material respects as of such earlier date); and
- (d) Lender shall have received a certificate from a Financial Officer certifying that (i) attached to such certificate is a true and complete copy of the most recent Reserve Report, and (ii) setting forth in reasonable detail the calculations demonstrating compliance with **Section 6.14** of this Agreement based on the reserves and other information set forth in such Reserve Report.

Each advance of the Loan hereunder shall constitute a representation and warranty by Borrower that on the date of such advance the statements contained in **subclauses (b)** and **(c)** above and the certificate referenced in **subclause (d)** above are true.

ARTICLE 5 AFFIRMATIVE COVENANTS

Until the principal of and interest on the Loan and all other amounts owing by Borrower to Lender hereunder and under the other Loan Documents shall have been paid in full, the Borrower covenants and agrees with the Lender as follows:

5.1 Financial Statements; Other Information. The Borrower shall furnish to the Lender:

- (a) within 90 days after the end of each fiscal year of the Borrower, its audited consolidated balance sheet and related statements of income, shareholders' equity and cash flows as of the end of and for such year, setting forth in reasonable detail, in each case in comparative form the figures for the previous fiscal year, all reported on by Grant Thornton LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a

consolidated basis in accordance with GAAP consistently applied, in each case, as of the date indicated;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, its consolidated balance sheet and related statements of income and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, in each case as of the date indicated, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with **Section 6.13** and **Section 6.14** and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the last audited financial statements delivered pursuant to **Section 5.1(a)** and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) promptly after the same become available, notice of the filing of (i) all periodic and other reports, proxy statements and other materials filed by the Borrower or any Subsidiary with the Securities and Exchange Commission or with any national securities exchange, or distributed by the Borrower to its shareholders generally, as the case may be, and (ii) all press releases and other statements made available generally by the Borrower or any of its Subsidiaries to the public concerning material developments in the business of the Borrower or any of its Subsidiaries;

(e) promptly upon receipt of any complaint, order, citation, notice or other written communication from any Person with respect to, or upon the Borrower obtaining knowledge of, (i) the existence or alleged existence of a violation of any applicable Environmental Law or any liability arising under Environmental Laws in connection with any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries, (ii) any release of Hazardous Substances on such property or any part thereof in a quantity that is reportable under any applicable Environmental Law, and (iii) any pending or threatened proceeding for the termination, suspension or non-renewal of any permit required under any applicable Environmental Law, in each case in which there is a reasonable likelihood of an adverse decision or determination that could result in a Material Adverse Effect. Such notice shall contain a certificate of an executive officer of Borrower, setting forth, in reasonable detail, such matter and the actions, if any, that Borrower or such applicable Subsidiary is required or proposes to take;

(f) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of this Agreement, as the Lender may reasonably request;

(g) promptly upon receipt thereof, copies of all reports and comment letters from its independent public accountants to the Borrower or any of its Subsidiaries, their respective Boards of Directors (or equivalent governing body) or any committee thereof with respect to the financial statements described in **Section 5.1(a)**;

(h) within 120 days after the end of each fiscal year, the Borrower will make available to the Lender material reasonably satisfactory to the Lender describing all material insurance coverage maintained by the Borrower and its Subsidiaries as of the date of such report;

(i) prior to September 30 of each year, a copy of the Reserve Report prepared in connection with the Borrower's preparation and filing of its annual report on SEC Form 10-K; and

(j) copies of any reserve reports prepared by the Borrower or its Independent Engineer and submitted to the Borrower's then current hydrocarbon borrowing base lending bank promptly following such submission.

5.2 Notices of Material Events. The Borrower shall furnish to the Lender promptly, and, in any event, within five Business Days, written notice of the following:

(a) the occurrence of any Default of which the Borrower has knowledge;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Subsidiary thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect or that in any manner questions the validity of the Loan Documents;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding \$100,000;

(d) any default by the Borrower or any of its Subsidiaries of which the borrower has knowledge under any material contract, together with a description of the nature of such default and any action taken or proposed to be taken with respect to such default; and

(e) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event

or development requiring such notice and any action taken or proposed to be taken with respect thereto.

5.3 Existence; Conduct of Business. The Borrower shall (a) preserve and maintain its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business except where the failure to do so could not reasonably be expected to result in a Material Adverse Effect and (b) cause each of its Subsidiaries to preserve and maintain its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under **Section 6.3**.

5.4 Payment of Obligations. The Borrower shall pay its obligations, including Tax liabilities, before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower has set aside on its books adequate reserves with respect thereto in accordance with its method of accounting and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect. The Borrower shall cause each of its Subsidiaries to pay its obligations, including Tax liabilities, before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with its method of accounting and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

5.5 Maintenance of Properties; Insurance. The Borrower shall, and shall cause each of its Subsidiaries to (a) maintain all property material to the conduct of its business in good working order and condition, in accordance with industry practice, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by similarly situated companies engaged in the same or similar businesses operating in the same or similar locations, which insurance shall name Lender, as “*additional insured*” and as a “*loss payee*”, as applicable.

5.6 Books and Records; Inspection Rights. The Borrower shall, and shall cause each of its Subsidiaries to keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower shall, and shall cause each of its Subsidiaries to permit any representatives designated by the Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested. The Lender shall pay its out-of-pocket expenses incurred with respect to such visits, inspections, examinations, extracts and discussions except during the existence of an Event of Default, in which event the Borrower shall be responsible for such costs reasonably incurred by the Lender.

5.7 Compliance with Laws. The Borrower shall, and shall cause each of its Subsidiaries to, comply with all Laws and Orders applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

5.8 Reserved.

5.9 Use of Proceeds. The Borrower shall use the proceeds of the Loan for the exploration, development and/or acquisition of Oil and Gas Properties, for further investment in seismic acquisitions and to make other Investments which are otherwise permitted under **Section 6.5**, and for other general working capital purposes, and shall not use any of such proceeds for any purpose that would violate any of the regulations of the Board of Governors, including Regulations T, U and X.

5.10 Collateral/Guarantors.

Promptly upon the request of Lender, from time to time, Borrower shall (a) cause any properties or assets of any Contango Entity to be subject to perfected, first priority Liens in favor of Lender to secure the obligations and indebtedness of Borrower hereunder pursuant to mortgages, security agreements, pledge agreements and other collateral documents as may be satisfactory to Lender in its sole discretion, and (b) cause any Subsidiary, whether currently existing, direct or indirect, which is not currently a guarantor of Borrower's obligations and indebtedness under the Loan Documents, to execute and deliver such a guaranty, in form and substance satisfactory to Lender in its sole discretion.

**ARTICLE 6
NEGATIVE COVENANTS**

Until the principal of and interest on the Loan shall have been paid in full, the Borrower covenants and agrees with the Lender as follows:

6.1 Debt. The Borrower shall not, and shall not permit any of its Subsidiaries to create, incur, assume or permit to exist any Debt, except:

- (a) All Debt existing as of the Closing Date and listed on **Schedule 6.1** attached hereto;
- (b) Intercompany Debt expressly permitted under **Section 6.5**; and
- (c) Other Debt not to exceed, in the aggregate for all such other Debt at any time outstanding an amount equal to \$1,000,000.

6.2 Liens. The Borrower shall not and shall not permit any of its Subsidiaries to, create, incur, assume or permit to exist any Lien on any of its assets or properties now owned or hereafter acquired, except for:

- (a) Liens securing the obligations and indebtedness of Borrower hereunder and under the other Loan Documents;
- (b) All Liens existing as of the Closing Date and listed on **Schedule 6.2** attached hereto; and
- (c) All Permitted Liens.

6.3 Fundamental Changes. The Borrower shall not, and shall not permit any of its Subsidiaries to merge into or consolidate with any other Person, or liquidate or dissolve, except that (a) any Subsidiary may merge with or into Borrower or another Subsidiary, and (b) any Subsidiary may be liquidated or dissolved.

6.4 Disposition of Assets. The Borrower shall not, and shall not permit any of its Subsidiaries to sell, lease, transfer, abandon, assign or otherwise dispose of any of its properties or assets (including, without limitation, any Equity Interests of Subsidiaries or other Persons) except for (a) sales of inventory in the ordinary course of business, (b) sales of worn out or obsolete equipment or other property no longer used or useful in its business, (c) transfers or assignments of assets (including any Equity Interest of Subsidiaries) by the Borrower or any Subsidiary of the Borrower to any other Subsidiary of the Borrower, excluding transfers or assignments of (i) Equity Interests held by the Borrower in Contango Resources Company and (ii) assets of Contango Resources Company, and (d) other dispositions of assets with an aggregate value not to exceed \$5,000,000 during any fiscal year.

6.5 Investments. The Borrower will not, and will not allow any of its Subsidiaries to make an Investment in any other Person, except:

(a) Cash Equivalents;

(b) Investments existing on the date hereof and described on *Schedule 6.5* attached hereto;

(c) Investments by (i) any Subsidiary in Borrower, (ii) Borrower in any Subsidiary or by any Subsidiary in any other Subsidiary;

(d) Investments consisting of extensions of credit, prepayments, security deposits or similar transactions entered into in the ordinary course of business consistent with past practice, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(e) additional Investments from and after the Closing Date in Republic Exploration LLC not to exceed in the aggregate \$5,000,000 during any fiscal year;

(f) additional Investments from and after the Closing Date in Contango Offshore Exploration, LLC not to exceed in the aggregate \$5,000,000 during any fiscal year; and

(g) other Investments not to exceed in the aggregate \$1,000,000 during any fiscal year.

6.6 Restricted Payments. The Borrower shall not, and shall not permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except:

(a) the Borrower may declare and make distributions with respect to its Equity Interests payable solely in additional Equity Interests;

(b) any Subsidiary of the Borrower may make a Restricted Payment to the Borrower; and

(c) if no Default has occurred and is continuing, the Borrower may (i) declare and pay dividends with respect to any of its Preferred Stock in an amount not to exceed, in the aggregate, \$1,800,000 during any fiscal year, (ii) repurchase up to a maximum of \$10,000,000 of its Equity Interests consisting of common stock and/or stock options in the aggregate for all such repurchases during the term hereof, and (iii) provided that Contango Resources Company owns all of the Dutch and Mary Rose Interests, declare and make distributions with respect to its Equity Interests in Contango Energy Company.

6.7 Transactions with Affiliates. The Borrower will not, and will not permit any of its Subsidiaries to sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any holder of 10% or more of its equity securities or any of its Affiliates, except:

(a) in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties;

(b) any Restricted Payment permitted by **Section 6.6** or as otherwise permitted hereunder;

(c) indemnities in favor of any officer of the Borrower pursuant to the Organizational Documents of the Borrower or statutory provisions;

(d) any reasonable employee benefit or compensation plan or arrangement or any reasonable transaction pursuant to an employment contract; or

(e) transactions between or among the Borrower and its Subsidiaries which are otherwise permitted by this Agreement.

6.8 Restrictive Agreements. The Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon the ability of any Subsidiary to make any Restricted Payments to or Investments in Borrower, or create, incur or permit to exist any Lien in favor of Lender upon any of its property or assets; provided that (a) the foregoing shall not apply to restrictions and conditions imposed by Law or by this Agreement, and (b) the foregoing shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

6.9 Reserved.

6.10 Organizational Documents. The Borrower shall not, and shall not permit and of its Subsidiaries to, amend its Organizational Documents in any manner that would adversely and

materially affect the rights of the Lender under this Agreement or any other Loan Document or its ability to enforce the same.

6.11 Nature of Business. The Borrower and its Subsidiaries shall not engage in any business other than those in which they are currently engaged and any other business reasonably related thereto.

6.12 Accounting Changes. The Borrower shall not change the end of its fiscal year from its current date of June 30th or make any changes in its accounting treatment and reporting practices except as required or permitted in accordance with its method of accounting.

6.13 Working Capital. The Borrower shall not, as at the end of any fiscal quarter, permit the current assets of the Borrower and its Subsidiaries, plus any unused availability for advances under this Agreement, to be less than the current liabilities of the Borrower and its Subsidiaries.

6.14 Debt Coverage. The Borrower shall not permit the total aggregate Debt of the Borrower and its Subsidiaries to exceed the lesser of (a) 100% of the PV-9 Value of the Producing Reserves and (b) 70% of the PV-9 Value of the Proved Reserves, at any time.

6.15 Dutch and Mary Rose Interests. Borrower shall not undertake or permit the undertaking by any Contango Entity of any transaction that would result in the Disposition of all or any portion of the Dutch and Mary Rose Interests to any Person that is not a wholly-owned Subsidiary of Borrower or the Disposition of all or any portion of the Equity Interests of any Subsidiary of Borrower that owns all or a portion of the Dutch and Mary Rose Interests to any Person that is not a wholly-owned Subsidiary of Borrower.

ARTICLE 7 EVENTS OF DEFAULT AND REMEDIES

7.1 Events of Default. If any of the following events ("*Events of Default*") shall occur:

(a) the Borrower shall fail to pay any principal of the Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on the Loan or any other amount (other than an amount referred to in clause (a) of this *Section 7.1*) payable under this Agreement or the other Loan Documents, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower in or in connection with this Agreement or any amendment or modification hereof or waiver hereunder, or in any report, certificate, financial statement, Loan

Document or other document furnished pursuant to or in connection with this Agreement or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in **Section 5.5** or in **Article 6**, and such failure shall continue unremediated for a period of five days;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in **clause (a), (b) or (d)** of this **Section 7.1**) or in any other Loan Document to which it is a party, and such failure shall continue unremedied for a period of 30 days;

(f) the Borrower or any of its Subsidiaries shall fail to make any payment (whether of principal or interest) in respect of any Material Debt, when and as the same shall become due and payable or within any applicable grace period;

(g) any event or condition occurs that results in any Material Debt becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Debt or any trustee or agent on its or their behalf to cause any Material Debt to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this **clause (g)** shall not apply to secured Debt that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Debt;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any of its Subsidiaries or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Subsidiaries or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any of its Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in **clause (h)** of this **Section 7.1**, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any of its Subsidiaries shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of \$100,000 shall be rendered against the Borrower or any of its Subsidiaries and the same shall remain undischarged for a period of 60 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any of its Subsidiaries to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Lender, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect; or

(m) a Change in Control shall occur;

then, and in every such event, and at any time thereafter during the continuance of such event, the Lender may, by notice to the Borrower, take any or all of the following actions, at the same or different times: (i) declare the Loan then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loan so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; *provided, however*, that in case of any event with respect to the Borrower described in **Section 7.1(h)** or **Section 7.1(i)**, the principal of the Loan then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and (ii) exercise any or all of the remedies available to it under any of the Loan Documents, at Law or in equity.

ARTICLE 8 MISCELLANEOUS

8.1 Notices.

(a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to **paragraph (b)** below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Borrower, to:

Contango Oil & Gas Company
3700 Buffalo Speedway, Suite 960
Houston, TX 77098
Attention: Kenneth R. Peak
Telecopy No.: 713-960-1065
Telephone No.: 713-960-1901

with a copy to:

Morgan, Lewis & Bockius LLP
300 South Grand Avenue, 22nd Floor
Los Angeles, CA 90071
Attention: Richard A. Shortz, Esq.
Telecopy No.: (213-612-2501
Telephone No. 213-612-2526

(ii) if to the Lender, to:

Centaurus Capital LLC
3050 Post Oak Blvd., Suite 850
Houston, Texas 77056
Attention: Tim Detmering
Telecopy No.: 713-554-1333
Telephone No. 713-554-1341

with a copy to :

Haynes and Boone, LLP
1221 McKinney
Suite 2100
Houston, Texas 77010
Attention: Robert Eickenroht, Esq.
Telecopy No.: 713-236-5619
Telephone No.: 713-547-2022

(b) Either party hereto may change its address or telecopy number for notices and other communications hereunder by written notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

8.2 Amendments; Waivers. Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Lender. No failure or delay by the Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or

power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Lender hereunder are cumulative and are not exclusive of any rights or remedies that it would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of the Loan shall not be construed as a waiver of any Default, regardless of whether the Lender may have had notice or knowledge of such Default at the time.

8.3 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby. The Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby) any legal or equitable right, remedy or claim under or by reason of this Agreement.

8.4 Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of the Loan, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on the Loan or any other amount payable under this Agreement is outstanding and unpaid.

8.5 Counterparts. This Agreement may be executed in counterparts and may be delivered in original or facsimile form (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract.

8.6 Expenses; Indemnity; Damage Waiver.

(a) The Borrower shall pay (i) all reasonable out-of-pocket costs and expenses (including, without limitation, Uniform Commercial Code and lien search fees and charges, fees and expenses associated with corporate record searches and governmental certificates regarding the status of the Contango Entities, other filing fees, mortgage or stamp taxes, in each case whether incurred directly by the Lender or by its legal counsel or other agent or representative on behalf of the Lender, but excluding, however, any fees of Lender's legal counsel for services rendered), in connection with the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents, and (ii) all reasonable out-of-pocket expenses incurred by the Lender, including the fees, charges and disbursements of one primary law firm as counsel, local counsel as needed and consultants for the Lender, in the enforcement or protection of its rights in connection with this Agreement and the other Loan Documents, including its

rights under this Section, or in connection with the Loan made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of the Loan.

(b) The Borrower shall and hereby does indemnify the Lender, its Affiliates and the directors, officers, managers, employees, agents and representatives of any of the foregoing Persons (each such Person being called an “**Indemnitee**”) against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) the Loan or the use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Substance on or from any real property owned or operated by the Borrower or any of its Subsidiaries, or any liability arising under Environmental Laws related in any way to the Borrower or any of its Subsidiaries, or (iv) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto, **including any such loss, claim, damage or liability caused by the negligence of any Indemnitee**; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) To the extent permitted by applicable Law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, the Loan or the use of the proceeds thereof.

(d) All amounts due under this Section shall be payable promptly after receipt of a request therefor by the Borrower.

8.7 Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

8.8 Governing Law.

(a) THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK WITHOUT REGARD TO ANY CHOICE-OF-LAW

PROVISIONS THAT WOULD REQUIRE THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION.

(b) EXCEPT TO THE EXTENT REQUIRED FOR THE EXERCISE OF THE REMEDIES PROVIDED IN THE OTHER LOAN DOCUMENTS, BORROWER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY LITIGATION (DEFINED BELOW) ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE LOAN DOCUMENTS BROUGHT IN DISTRICT COURTS OF HARRIS COUNTY, TEXAS, OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS, HOUSTON DIVISION.

(c) BORROWER HEREBY IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH LITIGATION BY THE MAILING OF COPIES THEREOF BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, POSTAGE PREPAID, TO BORROWER' S OFFICE. NOTHING HEREIN SHALL AFFECT THE RIGHTS OF LENDER TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST BORROWER IN ANY JURISDICTION OR TO SERVE PROCESS IN ANY MANNER PERMITTED BY APPLICABLE LAW. TO THE EXTENT THAT BORROWER HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION, EXECUTION OR OTHERWISE) WITH RESPECT TO ITSELF OR ITS PROPERTY, BORROWER HEREBY IRREVOCABLY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS. AS USED HEREIN, THE TERM "**LITIGATION**" MEANS ANY PROCEEDING, CLAIM, LAWSUIT OR INVESTIGATION (I) CONDUCTED OR THREATENED BY OR BEFORE ANY COURT OR GOVERNMENTAL DEPARTMENT, COMMISSION, BOARD, BUREAU, AGENCY OR INSTRUMENTALITY OF THE UNITED STATES OR OF ANY STATE, COMMONWEALTH, NATION, TERRITORY, POSSESSION, COUNTY, PARISH, OR MUNICIPALITY, WHETHER NOW OR HEREAFTER CONSTITUTED OR EXISTING, OR (II) PENDING BEFORE ANY PUBLIC OR PRIVATE ARBITRATION BOARD OR PANEL.

8.9 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE

BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

8.10 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

8.11 Confidentiality. The Lender shall maintain the confidentiality of the Information (as defined below), except that Information may be disclosed:

(a) to its and its Affiliates' directors, officers, managers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential);

(b) to the extent requested by any regulatory authority;

(c) to the extent required by applicable Laws or regulations or by any subpoena or similar legal process;

(d) to any other party to this Agreement;

(e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder;

(f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of, or any prospective assignee of, any of its rights or obligations under this Agreement;

(g) with the consent of the Borrower; or

(h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Lender on a nonconfidential basis from a source other than the Borrower.

For the purposes of this Section, "**Information**" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Lender on a nonconfidential basis prior to disclosure by the Borrower; provided, in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

8.12 Usury Savings Clause. The Borrower and the Lender intend to contract in strict compliance with all applicable usury laws from time to time in effect, and no term or provision contained in this Agreement or any other document or instrument now or hereafter executed in

connection herewith shall ever create (or ever be construed to create) a contract to pay for the use, forbearance or detention of money with interest at a rate in excess of the maximum nonusurious rate of interest that the Lender is permitted to contract for, charge or receive under applicable law and as to which the Borrower could not successfully assert a claim or defense of usury (the "**Maximum Rate**"). For purposes hereof, "interest" shall include the aggregate of all charges that constitute interest under applicable law that are contracted for, reserved, taken, charged or received under or in connection with this Agreement. If the payment of any amounts due hereunder is accelerated by reason of any election of the Lender resulting from the occurrence of an Event of Default or otherwise, then any consideration constituting interest may never include more than the maximum nonusurious amount permitted by applicable law, and excess interest, if any, provided for in or in connection with this Agreement shall be canceled automatically as of the date of such acceleration, and, if theretofore paid, shall be credited on the principal balance due and the balance thereof, if any, refunded to the Borrower. If the Lender shall collect, charge, contract for or receive moneys that are interest and/or are deemed to constitute interest at a rate in excess of the Maximum Rate, all such sums in excess of the Maximum Rate shall be immediately credited against the outstanding principal balance, and the balance thereof, if any, returned to the Borrower upon such determination. All calculations of the rate of interest contracted for, charged or received hereunder or otherwise that are made for the purpose of determining whether such rate exceeds the Maximum Rate shall be made, to the extent permitted by applicable usury laws, by amortizing, prorating and spreading in equal parts during the period of the full stated term of payment obligation all interest at any time contracted for, charged, collected or received by the Lender in connection herewith. The provisions of this **Section 8.12** shall control over all provisions of this Agreement that may be in apparent conflict herewith, if any.

8.13 No Oral Agreements. THIS WRITTEN AGREEMENT, THE NOTE AND THE OTHER LOAN DOCUMENTS TOGETHER CONSTITUTE THE FINAL AGREEMENT OF THE PARTIES IN REGARD TO THE MATTERS DESCRIBED HEREIN AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

8.14 USA Patriot Act. To the extent that Lender is now or hereafter becomes subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "**Act**"), Lender hereby notifies the Borrower that pursuant to the requirements of the Act, it may be required to obtain, verify and record information that identifies the Borrower and its Subsidiaries, which information includes the name and address of the Borrower and its Subsidiaries, and other information that will allow such Lender to identify the Borrower and its Subsidiaries in accordance with the Act.

[Signatures on Following Page]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER:

CONTANGO OIL & GAS COMPANY

By: /s/ KENNETH R. PEAK

Name: Kenneth R. Peak

Title: Chairman of the Board, Chief Executive Officer, President, Chief Financial Officer, and Secretary

LENDER:

CENTAURUS CAPITAL LLC

By: /s/ KAREN ARNOLD

Name: Karen Arnold

Title: Manager and Vice President

Signature Page to Term Loan Agreement

**FORM OF
NOTE**

\$30,000,000

_____ [_____], 2008

For value received, **Contango Oil & Gas Company**, a Delaware corporation (the "**Borrower**"), promises to pay to the order of **CENTAURUS CAPITAL LLC** (the "**Lender**"), the aggregate unpaid principal amount of the Loan made by the Lender to the Borrower pursuant to the Term Loan Agreement referred to below on the dates and in the amounts specified in such Term Loan Agreement. All capitalized terms used herein and not otherwise defined have the meanings set forth in the Term Loan Agreement.

The Borrower promises to pay interest on the unpaid principal amount of the Loan at the rate and on the dates set forth in the Term Loan Agreement. Both principal and interest are payable in same day funds at the office of the Lender set forth in the Term Loan Agreement.

This Note is the note referred to in, and is entitled to the benefits of, the Amended and Restated Term Loan Agreement dated as of June 5, 2008 (as amended, restated, modified, supplemented and in effect from time to time, the "**Term Loan Agreement**") between the Borrower and the Lender. The Term Loan Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events, for prepayments of principal hereof prior to the maturity hereof upon the terms and conditions therein specified, and for restrictions on the payment or collection of interest in excess of the Maximum Rate.

The Borrower and any and all endorsers, guarantors and sureties severally waive grace, demand, presentment for payment, notice of dishonor, default, acceleration or intent to accelerate, protest and notice of protest and diligence in collecting and bringing of suit against any party hereto, and agree to all renewals, extensions or partial payments hereon and to any release or substitution of security herefor, in whole or in part, with or without notice, before or after maturity.

This Note is given in renewal of, and in full substitution and replacement for, and not in novation or discharge of, the Note dated January 17, 2008, in the original principal amount of \$60,000,000, made by the Borrower and payable to the order of the Lender (the "**Original Note**") and any obligations or indebtedness owed by the Borrower to the Lender as of the date hereof under the Original Note shall be deemed to be obligations and indebtedness owed by the Borrower to the Lender under this Note.

This Note shall be governed by and construed under the laws of the State of New York.

Exhibit 1.1

CONTANGO OIL & GAS COMPANY

By: _____
Name: _____
Title: _____

Exhibit 1.1

**FORM OF
REQUEST FOR ADVANCE**

Centaurus Capital LLC

Attention: _____

_____, 200 _____

Dear Sirs:

Reference is made to the Amended and Restated Term Loan Agreement dated as of June 5, 2008 (as may be further amended and restated, and in effect on the date hereof, the "**Loan Agreement**"), between Contango Oil & Gas Company, a Delaware corporation, as Borrower, and Centaurus Capital LLC, as Lender. Terms defined in the Loan Agreement are used herein with the same meanings. This notice constitutes a Request for Advance and the Borrower hereby requests an advance under the Loan Agreement, and in that connection the Borrower specifies the following information with respect to the Borrowing requested hereby:

(A) Principal amount of advance: _____

(B) Date of advance (which is a Business Day): _____

(C) Location and number of Borrower's account to which proceeds of advance are to be disbursed:

Contango Oil & Gas Company
Guaranty FSB
ABA No. 314-970-664
Account No. 3801723259
For Further Credit To: Contango Oil & Gas Company

Exhibit 2.1
Page 1

The Borrower hereby represents and warrants that no Event of Default has occurred and is continuing under the Loan Agreement.

Very truly yours,

CONTANGO OIL & GAS COMPANY

By: _____
Kenneth R. Peak
Chairman of the Board, Chief Executive Officer,
President, Chief Financial Officer, and Secretary

By: _____
Sergio Castro
Vice President and Treasurer

Exhibit 2.1
Page 2

Schedule 3.12

Subsidiaries

Indirect and direct wholly-owned Subsidiaries of Contango Oil & Gas Company:

Contango Resources Company

Contango Energy Company

Contango Operators, Inc.

REX Offshore Corporation

COE Offshore, LLC

MOE Offshore Corporation

Contango Venture Capital Corporation

Partially-owned Subsidiaries of Contango Oil & Gas Company

Magnolia Offshore Exploration LLC (50% owned by MOE Offshore Corporation)

Schedule 3.12

Schedule 3.13
Environmental Matters

None.

Schedule 3.13

Schedule 3.16
Future Commitments

None.

Schedule 3.16

Schedule 6.1
Existing Debt

None.

Schedule 6.1

Schedule 6.2

Liens

None.

Schedule 6.2

Schedule 6.5

Loans, Advances and Investments

Loans and Advances

\$4,300,000 loan to Contango Offshore Exploration, LLC, made by Contango Energy Company

Investments

Investment by REX Offshore Corporation in Republic Exploration, LLC

Investment by COE Offshore, LLC in Contango Offshore Exploration, LLC

Investment by MOE Offshore Corporation in Magnolia Offshore Exploration, LLC

Schedule 6.5

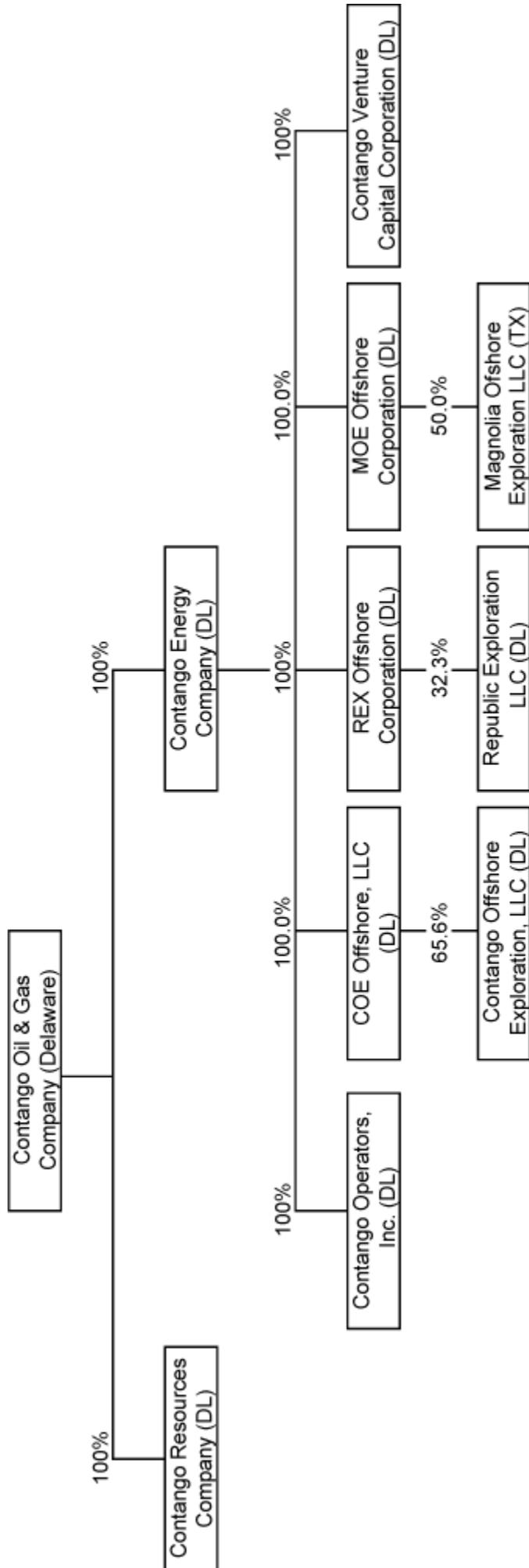
SUBSIDIARIES OF CONTANGO OIL & GAS COMPANY**At June 30, 2008****100% Owned Subsidiaries:**

<u>Name of Subsidiary</u>	<u>State or Country in Which Organized</u>
Contango Operators, Inc.	Delaware
REX Offshore Corporation	Delaware
MOE Offshore Corporation	Delaware
COE Offshore, LLC	Delaware
Contango Venture Capital Corporation	Delaware
Contango Resources Company	Delaware
Contango Energy Company	Delaware

Partially Owned Subsidiaries:

<u>Name of Subsidiary</u>	<u>State or Country in Which Organized</u>
Republic Exploration LLC (32.3% owned by REX Offshore Corporation)	Delaware
Magnolia Offshore Exploration LLC (50% owned by MOE Offshore Corporation)	Delaware
Contango Offshore Exploration LLC (65.6% owned by COE Offshore Corporation)	Delaware

CONTANGO OIL & GAS COMPANY
Corporate Structure



WILLIAM M. COBB & ASSOCIATES, INC.

August 29, 2008

Contango Oil & Gas Company
3700 Buffalo Speedway, Suite 960
Houston, Texas 77098

Re: Contango Oil & Gas Company, 2008 Annual Report on Form 10-K

Gentlemen:

The firm of William M. Cobb & Associates, Inc. consents to the use of its name and to the use of its report regarding Contango Oil & Gas Company' s Proved Reserves and Future Net Revenue as of June 30, 2008 in Contango' s 2008 Annual Report on Form 10-K.

William M. Cobb & Associates, Inc. has no interests in Contango Oil & Gas Company or in any affiliated companies or subsidiaries and is not to receive any such interest as payment for such reports and has no director, officer, or employee otherwise connected with Contango Oil & Gas Company. Contango Oil & Gas Company does not employ us on a contingent basis.

Yours very truly,

WILLIAM M. COBB & ASSOCIATES, INC.

/s/ F. J. MAREK

F. J. MAREK, P.E.
Senior Vice President

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated August 29, 2008, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Contango Oil & Gas Company and subsidiaries on Form 10-K for the year ended June 30, 2008. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Contango Oil & Gas Company on Forms S-3 (File No. 333-113042, effective March 18, 2004, File No. 333-115901, effective June 15, 2004, File No. 333-127096, effective October 26, 2005, and File No. 333-144459, effective September 12, 2007).

/s/ GRANT THORNTON LLP

Houston, Texas
August 29, 2008

W.D. VON GONTEN & CO.

August 29, 2008

Contango Oil & Gas Company
3700 Buffalo Speedway, Suite 960
Houston, Texas 77098

Re: Contango Oil & Gas Company, 2008 Annual Report on Form 10-K

Gentlemen:

The firm of W.D. Von Gonten & Co. consents to the use of its name and to the use of its report regarding Contango Oil & Gas Company' s Proved Reserves and Future Net Revenue as of June 30, 2008 in Contango' s 2008 Annual Report on Form 10-K.

W.D. Von Gonten & Co. has no interests in Contango Oil & Gas Company or in any affiliated companies or subsidiaries and is not to receive any such interest as payment for such reports and has no director, officer, or employee otherwise connected with Contango Oil & Gas Company. Contango Oil & Gas Company does not employ us on a contingent basis.

Yours very truly,

W.D. VON GONTEN & CO.

/s/ WILLIAM D. VON GONTEN, JR.

William D. Von Gonten, Jr.
President

CONTANGO OIL & GAS COMPANY

Certification Required by Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934

I, Kenneth R. Peak, Chairman, Chief Executive Officer and Chief Financial Officer of Contango Oil & Gas Company (the "Company"), certify that:

1. I have reviewed this Annual Report on Form 10-K of the Company;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
2. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
3. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: August 29, 2008

/s/ KENNETH R. PEAK

Kenneth R. Peak

Chairman, Chief Executive officer and Chief Financial Officer

CONTANGO OIL & GAS COMPANY
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Contango Oil & Gas Company (the "Company") on Form 10-K for the period ending June 30, 2008 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Kenneth R. Peak, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 29, 2008

/s/ KENNETH R. PEAK_____

Kenneth R. Peak

Chairman, Chief Executive Officer and Chief Financial Officer