THE CONTANGO STORY

Since founding Contango Oil & Gas Company (NYSE Amex: MCF) in 1999, Mr. Peak has been guided by one simple philosophy, the power of the three I's…"Integrity, Intelligence and Incentives". The foundation for every successful company starts with employing and surrounding the company with people of integrity and intelligence. Nothing of lasting value is possible without these two traits. Everything is possible when integrity and intelligence are combined with the right incentives. Incentives drive behavior. More precisely, incentives must be aligned to focus employees, directors, and partners and service providers to always put the safety of everyone who works with us as our first priority. Our second priority is to be trustworthy custodians of the environment where we work and live. Our third priority is to increase per share shareholder value. This is who we are.

Contango was founded in 1999 when Ken Peak at age 54, took his entire life savings of $400,000 and formed Contango Oil & Gas Company. This "all in" bet was the necessary impetus and inspiration that drove a $5 million seed capital raise that when combined with early successes with the exploration drill bit, allowed an additional $55 million in equity raises over the next several years that funded the Company's early growth. This was all the equity raises Contango would need.

- The Company's stock price went from $.20 in 1999 to $45.00 today
- Revenues increased from $0.3 million in 2000 to $190 million in 2009
- Retained earnings increased from $0 in 1999 to $365 million by March 2010
- Shareholder's equity increased from $6 million in 2000 to $383 million in 2010
- The Company has never had a single "significant deficiency" under Sarbanes-Oxley
- The Company has never been issued an INC (incident of non-compliance) by the Minerals Management Service on its offshore Gulf of Mexico production facilities
- The Company has been audited by the IRS for the tax years 2004, 2005, 2006 and 2007. Since inception Contango has paid over $100 million in Federal and State income taxes.
- The Company is profitable, using conservative successful efforts accounting, in an industry that routinely reports GAAP losses
- Contango's 2009 all-in costs to find, develop and produce an Mcf were $2.45/Mcf compared to $5.29/Mcf for the industry (As per Credit Suisse)
- Since inception, the Company has repurchased 4.5 million shares for approximately $89 million and remains debt-free.

Contango has in large part funded its growth through a "build and sell" strategy in which the Company has sold approximately $500 million in assets since inception and has used the proceeds to drive value creation per share. The Company's goal is not to just grow assets, production, reserves, or simply "get bigger" – the one and only financial goal is to create value per share – and in that ratio – the denominator – fully diluted shares – is just as important as the numerator.

Contango has fewer shares outstanding today than it did in 2001. Further, Contango's seven employees are a testament to the efficiency and effectiveness of a hiring practice driven solely by integrity and intelligence – 7 employees; 4 women; 3 men; Backgrounds: East Indian, African-American, Vietnamese, Russian immigrant, Cuban first generation, and two white males. Not your typical "good ole boy" independent oil and gas company.

As Founder, Chairman and Chief Executive Officer, Mr. Peak has articulated four core beliefs:

1. *Equity ownership aligns the interests of the Company's management and board with stockholders.*

From inception in 1999 until 2009, Mr. Peak's salary was $150,000 per year. If and when Mr. Peak received a bonus, he used the proceeds to purchase additional shares of stock such that Mr. Peak is today the Company's largest shareholder with approximately 19% of its shares. The Company's directors and executive officers combined beneficially own approximately 23% of the Company's common stock.

Incentives are also aligned with our alliance partners - the geoscientists and "oil finders" who generate the Company's drilling prospects. These partners do not receive any compensation from the Company unless their prospects are successful. They also must fund their G&A costs. It's an interesting social contract when someone agrees to work for a Company exclusively on a $0 cash compensation basis and is compensated only through their own success. Contango's partners can become exceptionally wealthy, but never before or without Contango's shareholders coming along to enjoy the success.

As the Company's largest shareholder, Mr. Peak's incentives are exactly aligned with all other shareholders. Mr. Peak has not received any stock options for the last three years. Mr. Peak's focus on avoiding dilution and protecting equity value for the Company's shareholders carries over to its board of directors, who also are not compensated with stock options. Mr. Peak recognizes the importance of the "tone at the top" and for 2003 and 2010 did not ask for and did not receive a bonus because he didn't believe he deserved one.

2. *The only competitive advantage in the natural gas and oil business is to be among the lowest cost producers.*

Contango recognizes that all hydrocarbon molecules are essentially the same, and therefore the only way to successfully compete in a commodity business is to be the lowest cost producer. With only 7 employees, the Company's general and administrative costs are the lowest in the industry. Contango is "allergic" to debt, so its interest costs are zero. The Company believes that shareholders want exposure to upside commodity price potential and does not hedge away price downside or upside. Our "hedge" is being the low cost producer and thus remaining profitable even during the industry's periodic downward price spirals.

3. *The "value creation " event in the oil and gas business is when a company takes risk capital and turns a drill bit to the right and discovers reserves that didn't exist yesterday.*

The value chain for exploration and production companies is as follows:

Value Chain	**Gather**	**Organize**	**Select**	**Drill**	**Produce**
Function	Sub-surface data Shoot new 3-D Re-process 3-D seismic	Generate prospects	Lease Farm-in AFE	**FUND**[1] Evaluate Complete Hook-up	Operate Sell Collect
Personnel needed	Geologist Geophysicist Geotech Landman	Geologist Geophysicist Geotech Landman	Geologist Geophysicist Geotech Landman Lawyer Accountant Engineer	Geologist Geophysicist Geotech Landman Lawyer Accountant Engineer	Geologist Geophysicist Geotech Landman Lawyer Accountant Engineer Field personnel Marketing

[1]The riskiest, most expensive and most value added link. The goal of Contango is to focus on this link exclusively and outsource everything else.

Question:	What functions should a firm perform internally?
Contango's answer:	Only those activities that cannot be performed more efficiently and effectively by another entity.

4. *The whole point of business in our capitalist system is only and always to maximize value creation PER SHARE.*

In September 2008, the Company implemented a $100 million share repurchase program. The Company, through organic growth, has increased shareholder value year after year. Book value per share increased 36% from 2006 to 2007. It increased 257% from 2007 to 2008, and it increased 9% from 2008 to 2009. The Company will also be profitable for its fiscal year ending June 30, 2010. The Company has fewer fully diluted shares today (15.97 million) than it did in June 2001 (16.7 million).

Contango is not followed by any investment banks – on purpose. Mr. Peak has declined requests for "coverage" of Contango because he considers the attention paid to quarterly results to be a distraction in a three to five year time horizon business. In addition, the focus on sequential production growth and "cash flow" detract from the only financial metric that counts – to long term investors - net profits per share.

Because no metric in the financial literature completely captures and rewards growth in retained earnings (R/E), dividends and share repurchases and "punishes" issuances of equity – Mr. Peak developed the following two ratios to determine a portion of his bonus.

- Peak Ratio Defined:

$$\frac{\text{Shareholder Earnings}}{\text{Net Invested Capital}} = \frac{\text{R/E + Dividends}}{\text{Equity – (R/E + Dividends + Share Repurchases)}}$$

- Peak Ratio as at 3/31/10:

$$\frac{\text{Shareholder Earnings}}{\text{Net Invested Capital}} = \frac{\$365.2 + \$5.4}{\$443.1 - (\$365.2 + \$5.4 + \$60.3)} = \frac{\$370.6}{\$12.2} = 30.4\text{X}$$

- Peak Market Cap Ratio:

$$\frac{\text{Market Cap}}{\text{Net Invested Capital}} = \frac{\text{Shares O/S x Price}}{\text{Net Invested Capital}} = \frac{\$810}{\$12.2} = 66\text{X}$$

- **CONTANGO'S NON-CORE ALLOCATION OF CAPITAL**

  - In 2002 Contango Oil & Gas Company was a founding investor in the first grass roots LNG facility in America in over 30 years. The Company's $2 million investment, representing a 10% ownership interest, was sold for $68 million in 2008.

  - In 2005, the Company invested in two hydrogen fuel cell companies – and lost $6 million. The jury is still out on a $1 million investment in a hardware/software technology company that facilitates real-time data gathering on oil rigs. As a result of the BP spill, this product is now in great demand.

  - In 2006, the Company was one of the early investors in "shale" plays. The Company sold its $38 million investment for $327 million in 2008.

  - In 2009, Contango invested in a gold exploration play in Alaska – the jury is still out on this investment.