UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(AMENDMENT NO. 1)

(Mark One)

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

For the fiscal year ended June 30, 2006

¨ **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	**95-4079863**
(State or other jurisdiction of incorporation or organization)	**(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 x

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 x

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 x 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. x

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The aggregate market value of the common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity at the close of business on December 31, 2005, was $133,853,434. As of August 31, 2006, there were 15,015,835 shares of the registrant s common stock outstanding.

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EXPLANATORY NOTE

Contango Oil & Gas Company (the Company , Contango , we , our , us) is hereby amending its previously filed Annual Report on Form 10-K the fiscal year ended June 30, 2006 (the Original Filing). This Amendment No. 1 (the Amendment) is being filed solely to amend the following items:

- Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations,* has been revised to replace the discussion in the Original Report that was based on activity of continuing and discontinued operations combined, which was presented without differentiation and was inconsistent with the financial statement presentation. The new discussion focuses on continuing operations apart from discontinued operations in accordance with generally accepted accounting principles (GAAP) and the provisions of Item 303(a) of Regulation S-K, and addresses the judgment and estimation attributes of our critical accounting policies;

- Footnote No. 2 to the Consolidated Financial Statements Summary of Significant Accounting Policies, *Principles of Consolidation,* has been revised to more clearly explain the consolidation policy of our non-wholly owned subsidiaries;

- Footnote No. 9 to the Consolidated Financial Statements Contango Venture Capital Corporation, has been revised to more clearly describe the accounting method applied to our alternative energy investments.

Other than as specified above, this Amendment does not modify or affect the financial statements in the Original Filing. As a result of this Amendment, the certifications filed as Exhibit 31.1 and Exhibit 32.1 have been re-executed as of the date of this Amendment. This Amendment does not reflect events occurring after the filing of the Original Filing or modify or update the disclosures therein in any way other than as described above. In accordance with Rule 12b-15 promulgated under the Securities Exchange Act of 1934, the complete text of each affected item, as amended, is included herein. Unaffected items have not been repeated in this Amendment.

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 core business is to explore, develop, produce and acquire natural gas and oil properties primarily offshore in the Gulf of Mexico and in the Arkansas Fayetteville Shale. Contango Operators, Inc. (COI), our wholly-owned subsidiary, acts as operator on certain offshore prospects. The Company also owns a 10% interest in a limited partnership formed to develop an LNG receiving terminal in Freeport, Texas, and holds investments in companies focused on commercializing environmentally preferred energy technologies.

As stated in the Explanatory Note above, we are revising the Results of Operations below to focus only on continuing operations, rather than combining continuing operations with the results of our discontinued operations. In addition to the changes in the narratives, the tabular information shown has also been revised to be consistent with our GAAP-based financial statements. We have also added a discontinued operations subsection near the end of our Results of Operations narrative to briefly discuss the activity in our financial statements that is associated with the discontinued operations. The Capital Sources and Liquidity section has also been revised to replace our non-GAAP measures of cash inflow and cash outflow with GAAP measures of cash flow for operating, investing and financing activities.

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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 and the completion and successful operation of our Freeport LNG project. 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 in the Arkansas Fayetteville Shale and 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, LNG and alternative energy investment 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 18 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 operations for the fiscal year ended June 30, 2006, compared to the fiscal year ended June 30, 2005 and for the fiscal year ended June 30, 2005, compared to the fiscal year ended June 30, 2004.

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 geological declines.

The table below sets forth revenue and production data for continuing operations for the fiscal years ended June 30, 2006, 2005 and 2004.

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	Year ended June 30, 2006	2005	%	Year ended June 30, 2005	2004	%
	($000)			($000)		
Revenues:						
Natural gas and oil sales	$ 920	$ 1,089	-16%	$ 1,089	$ 107	918%
Gain from hedging activities			0%		58	-100%
Total revenues	$ 920	$ 1,089		$ 1,089	$ 165	
Production:						
Natural gas (million cubic feet)	91	71	28%	71	8	788%
Oil and condensate (thousand barrels)	4	8	-50%	8	2	300%
Total (million cubic feet equivalent)	115	119	-3%	119	20	495%
Natural gas (thousand cubic feet per day)	249	195	28%	195	22	786%
Oil and condensate (barrels per day)	11	22	-50%	22	5	340%
Total (thousand cubic feet per day equivalent)	315	327	-4%	327	52	529%
Average Sales Price:						
Natural gas (per thousand cubic feet)	$ 7.15	$ 8.40	-15%	$ 8.40	$ 5.29	59%
Oil and condensate (per barrel)	$ 61.53	$ 58.93	4%	$ 58.93	$ 29.21	102%
Operating expenses	$ 13	$ 20	-35%	$ 20	$ 90	-78%
Exploration expenses	$ 8,202	$ 5,870	40%	$ 5,870	$ 6,365	-8%
Depreciation, depletion and amortization	$ 233	$ 352	-34%	$ 352	$ 41	759%
Impairment of natural gas and oil properties	$ 708	$ 237	199%	$ 237	$ 43	451%
General and administrative expenses	$ 4,761	$ 3,571	33%	$ 3,571	$ 2,696	32%
Interest expense, net of interest capitalized	$ 54	$ 71	-24%	$ 71	$ 362	-80%
Interest income	$ 826	$ 432	91%	$ 432	$ 38	1037%
Gain on sale of marketable securities	$	$	0%	$	$ 710	-100%
Gain on sale of assets and other	$ 250	$ 705	-65%	$ 705	$ 6,188	-89%

Natural Gas and Oil Sales. We reported natural gas and oil sales of approximately $0.9 million for the year ended June 30, 2006, down from approximately $1.1 million reported for the year ended June 30, 2005. The slight decrease mainly reflects normal production declines and a decrease in the average price received for natural gas, partially offset by an increase in the average price received for our oil production and newly added reserves and production from our Arkansas Fayetteville Shale play that recently began producing.

We reported natural gas and oil sales of approximately $1.1 million for the year ended June 30, 2005, up from approximately $0.1 million reported for the year ended June 30, 2004. This increase reflects mainly added production from newly added reserves and production from our partially owned subsidiaries, REX and COE, along with an increase in average prices received for our natural gas and oil production.

Natural Gas and Oil Production and Average Sales Prices. Our net natural gas production for the year ended June 30, 2006 was approximately 249 Mcf/d, up from approximately 195 Mcf/d for the year ended June 30, 2005. Net oil production for the period was down from 22 barrels of oil per day to 11 barrels of oil per day. The increase in natural gas production was primarily the result of additional production from our Arkansas Fayetteville Shale play. The decrease in oil and condensate production is mainly attributable to normal production declines. For the year ended June 30, 2006, prices for natural gas and oil were $7.15 per Mcf and $61.53 per barrel, compared to $8.40 per Mcf and $58.93 per barrel for the year ended June 30, 2005.

For the year ended June 30, 2005, our net natural gas production was approximately 195 Mcf/d, up from approximately 22 Mcf/d for the year ended June 30, 2004. Net oil production for the period was up from 5 barrels of oil per day to 22 barrels of oil per day. These increases were primarily due to added production from newly added reserves and production from our partially owned subsidiaries, REX and COE. For the year ended June 30, 2005, prices for natural gas and oil were $8.40 per Mcf and $58.93 per barrel, up from $5.29 per Mcf and $29.21 per barrel for the year ended June 30, 2004.

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Gain (loss) from Hedging Activities. The Company did not engage in any hedging activity for the fiscal years ended June 30, 2006 and 2005. We reported a gain from hedging activities for the year ended June 30, 2004 of $58,171.

Operating Expenses. Operating expenses for the year ended June 30, 2006 were $13,350 which relate to continuing operations from our offshore activities and the Arkansas Fayetteville Shale play.

Operating expenses for the year ended June 30, 2005 and June 30, 2004 were $19,683 and $90,336, respectively, which related to continuing operations from our offshore activities.

Exploration Expense. We reported approximately $8.2 million of exploration expenses for the year ended June 30, 2006. Of this amount, approximately $1.2 million was related to unsuccessful wells drilled during the period, approximately $5.9 million was related to unsuccessful wells drilled in the Gulf of Mexico during the period, approximately $0.5 million was attributable to the cost to acquire and reprocess 3-D seismic data both onshore along the Gulf Coast and offshore in the Gulf of Mexico, approximately $0.6 million was attributable to the cost of delay rentals.

We reported approximately $5.9 million of exploration expenses for the year ended June 30, 2005. Of this amount, approximately $3.1 million was related to unsuccessful wells drilled in south Texas, approximately $0.8 million was related to unsuccessful wells drilled in the Gulf of Mexico during the period, approximately $1.6 million was attributable to the cost to acquire and reprocess 3-D seismic data both onshore along the Gulf Coast and offshore in the Gulf of Mexico, and $0.4 million was attributable to the cost of delay rentals.

We reported approximately $6.4 million of exploration expenses for the year ended June 30, 2004. Of this amount, approximately $0.1 million was attributable to dry holes drilled in south Texas, approximately $2.7 million was attributable to seismic costs and delay rentals associated with activities onshore in south Texas and approximately $3.6 million was attributable to seismic costs and delay rentals associated with activities offshore in the Gulf of Mexico.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization for the year ended June 30, 2006 was approximately $0.2 million. For the year ended June 30, 2005, we recorded approximately $0.4 million of depreciation, depletion and amortization. The decrease in depreciation, depletion and amortization was primarily the result of normal production declines.

Depreciation, depletion and amortization for the fiscal years ended June 30, 2005 and 2004 were $352,114 and $40,807, respectively. This increase was primarily attributable to added production from newly added reserves and production from COE.

Impairment of Natural Gas and Oil Properties. 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.

We reported an impairment of natural gas and oil properties of approximately $0.2 million for the year ended June 30, 2005. This was attributable in part to a $0.1 million write-down of costs associated with offshore lease properties owned by our partially owned subsidiary MOE, of which Contango owns 50%. The remaining $0.1 million was attributable to a write-down of costs associated with a small Barnett Shale exploratory play undertaken during the summer of 2003 that had only marginal success.

Impairment expense for the year ended June 30, 2004 was approximately $43,000 which related to impairment of properties held by REX and MOE.

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General and Administrative Expenses. General and administrative expenses for the year ended June 30, 2006 were approximately $4.8 million, up from $3.6 million for the year ended June 30, 2005. 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.

General and administrative expenses for the year ended June 30, 2005 were approximately $3.6 million, up from $2.7 million for the year ended June 30, 2004. Major components of general and administrative expenses for the year ended June 30, 2005 included approximately $1.3 million in salaries, benefits and bonuses, $1.2 million in office administration and other expenses, $0.3 million in insurance costs, $0.4 million in legal and other professional fees and other administrative expenses, and $0.4 million in non-cash expenses related to the cost of expensing stock options.

General and administrative expenses for the year ended June 30, 2004 were approximately $2.7 million. Major components included approximately $0.7 million in salaries and benefits, $0.5 million of legal, accounting, engineering and other professional fees, $0.4 million of office administration and $0.3 million of insurance costs. Also included in total general and administrative expenses for the year ended June 30, 2004 was approximately $0.3 million related to the cost of expensing stock options, $0.2 million related to our Gulf of Mexico exploration activities, $0.1 million for compensation expense to our board of directors and $0.2 million in other expenses.

Interest Expense. Interest expense for the fiscal years ended June 30, 2006, 2005 and 2004 were approximately $54,488, $71,506, and $362,127, respectively. The higher level of interest expense for fiscal year 2004 was attributable to a higher level of bank debt outstanding during such period. The lower levels of interest expense in fiscal years 2005 and 2006 were attributable to the Company retiring all of its long term debt in the second quarter of fiscal year 2005. Interest of $149,365 was capitalized for unevaluated property for the fiscal year ended June 30, 2006.

Interest Income. Interest income for the fiscal years ended June 30, 2006, 2005 and 2004 were approximately $0.8 million, $0.4 million and $38,182, respectively. The higher level of interest income for fiscal year 2005 was attributable to six months of interest earned on the proceeds from the sale of our south Texas natural gas and oil interests to Edge Petroleum in December 2004. The even higher level of interest income in fiscal year 2006 was attributable to 12 months of interest on the remaining proceeds from the sale of our south Texas natural gas and oil interest to Edge Petroleum, plus interest earned on the proceeds from property sales effective February 1, 2006 and April 1, 2006.

Gain on Sale of Assets and Other. 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.

We reported gain on sale of assets and other of approximately $0.7 million for the year ended June 30, 2005, which represented a $0.8 million unrealized gain recorded as a result of a mark-to-market increase in the value of our alternative energy investments, offset by approximately $0.1 million in operating losses related to our alternative energy investments.

For the year ended June 30, 2004, we reported an approximate $6.2 million gain on the sale of assets and other. In December 2003, Contango and its 42.7%-owned subsidiary, REX, sold their producing Gulf of Mexico leases for approximately $12.0 million. As a result of this sale, Contango recorded a gain of approximately $6.2 million as of June 30, 2004. Properties included in the sale were Eugene Island 110, Grand Isle 28 and High Island 25-L. Because the interests sold were unearned back-in working interests, Contango had no proved reserves attributable to the properties sold.

Discontinued Operations. The table and discussions above, along with our financial statements, discuss only continuing operations. Not reflected are the Company s sold producing properties which generated 84.1%, 93.3% and 99.6% of combined revenues for the fiscal years ended June 30, 2006, 2005 and 2004, respectively. Please see Note 3 Sale of Properties Discontinued Operations, for a discussion of our discontinued operations.

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Capital Resources and Liquidity

The Company, since its inception in September 1999, has raised $80.0 million in proceeds from seven 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 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 property sales in each of the fiscal years ended June 30, 2004, 2005 and 2006, 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-28 and F-29 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
2004	$ 7,766,379	1,322	17,415	$ 44,978,752
2005	40,131,428	16,015	1,373	5,250,600
2006	12,892,916	2,294	3,430	7,734,106

For fiscal year 2006, the Company realized $8.3 million in operating cash flows from discontinued operations, $9.9 million in investing cash flows from discontinued operations and $1.6 million in financing cash flows from discontinued operations.

Operating Activities. Our operating activities provided approximately $9.5 million in cash for the year ended June 30, 2006 compared to $4.9 million for the same period in 2005. The increase in cash from operating activities is primarily attributable to increased production as we redeployed the money raised in our December 2004 property sale to Edge Petroleum Corporation (Edge) to drill and develop new onshore wells.

Our operating activities provided approximately $4.9 million in cash for the year ended June 30, 2005 compared to $13.1 million for the same period in 2004. This decrease in cash from operating activities is primarily attributable to the sale of approximately 16 billion cubic feet equivalent of proven reserves to Edge in December 2004.

Investing Activities. Cash flows used in investing activities for the year ended June 30, 2006 were approximately $23.7 million, compared to cash flows provided by investing activities for the year ended June 30, 2005 of approximately $4.2 million. This increase in capital expenditures is primarily attributable to investing $34.1 million in natural gas and oil properties with funds received from our sale to Edge in December 2004, slightly offset by selling approximately $7.0 million of short-term investments. Additionally, we invested $2.4 million in our Freeport LNG project and alternative energy companies, and $8.5 million on acquiring additional offshore interests and ownership interests in REX and COE.

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Cash flows provided by investing activities for the year ended June 30, 2005 were approximately $4.3 million, compared to cash flows used in investing activities for the year ended June 30, 2004 of approximately $4.9 million. This increase in cash flow is primarily attributable to the $40.1 million received from our sale of natural gas and oil properties to Edge in December 2004, partially offset by purchasing $25.5 million of short-term investments.

Financing Activities. Cash flows provided by financing activities for the year ended June 30, 2006 were approximately $20.5 million, compared to cash flows used in financing activities for the year ended June 30, 2005 of approximately $5.6 million. This increase in cash flow is primarily attributable to borrowing $10.0 million of long term debt and raising approximately $9.6 million from the issuance of our Series D convertible preferred equity securities, net of issuance costs.

Cash flows used in financing activities for the year ended June 30, 2005 were approximately $5.6 million compared to $8.1 million for the same period in 2004. The decrease in expenditures is primarily attributable to repaying approximately $9.3 million of debt in 2005, compared to $37.5 million in 2004. The repayments were slightly offset by borrowing $2.2 million of long term debt in 2005, compared to $22.2 million in 2004.

Capital Budget. For fiscal year 2007, our capital expenditure budget calls for us to invest a total of $58.3 million, as we anticipate significantly increasing our capital commitment for developing our Arkansas Fayetteville Shale play, drilling our Eugene Island 10 (Dutch) exploration well, and bringing our Grand Isle 72 (Liberty) discovery to production.

Of the $58.3 million fiscal year 2007 capital expenditure budget, $13.0 million is anticipated to be invested in offshore activities. Our budget calls for us to invest approximately $2.2 million for production and pipeline facilities for developing Grand Isle 72, approximately $3.7 million for our share of the dry hole drilling costs for Eugene Island 10, our Dutch prospect, approximately $3.6 million for our share of the drilling and casing costs for Grand Isle 70, our Red Queen discovery, and $3.5 million in projected future exploration costs, seismic and delay rentals. We have not yet identified the offshore prospects we intend to drill during the remainder of fiscal year 2007, but in the event we have exploration success at our Dutch prospect, our capital budget will be significantly increased as we will incur additional costs to complete the well and pay for production facilities in addition to follow-on development wells. In addition, depending on how we choose to develop our Grand Isle 70 discovery, our capital budget could be further increased.

Of the $58.3 million fiscal year 2007 capital expenditure budget, $45.3 million is expected to be invested in onshore activities. In the Arkansas Fayetteville Shale, our partners and we have acquired or received commitments on approximately 44,000 net mineral acres and we have received AFEs and committed to a total of 69 wells in this play as of August 31, 2006. Of these 69 wells, 15 are operated by Alta and 54 are operated by a third party independent oil and gas exploration company (Integrated Wells). We have an average working interest of 15.19%, and a net revenue interest of 12.04% in these 69 wells.

Of the 15 Alta wells, one well was drilled during fiscal year 2006. We are budgeting to receive an additional six AFEs from Alta for wells to be drilled during fiscal year 2007, and therefore expect to drill 20 Alta wells during fiscal year 2007 at a cost of $23.3 million. This includes drilling, frac, completion and hookup costs for the wells. Additionally, we expect to invest $3.2 million in infrastructure, seismic and additional leasehold costs for the Arkansas Fayetteville Shale. We estimate we will have an average working interest of 43%, and a net revenue interest of 34% in these 21 Alta wells.

Of the 54 Integrated Wells for which we have received an AFE, 16 wells are producing, 19 wells have already been spud, and 19 wells have yet to be drilled. In addition to these 54 Integrated Wells, we are budgeting to receive 57 additional AFEs for Integrated Wells during the remainder of fiscal year 2007 for a total of 111 Integrated Wells. We anticipate having between 40 to 50 producing Integrated Wells by December 2006. Our capital budget for Integrated Wells assumes we will invest $16.6 million in Integrated Wells during fiscal year 2007, assuming we drill the 76 wells currently budgeted. We estimate we will have an average working interest of 7.0%, and a net revenue interest of 6.0% in these 111 Integrated Wells.

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Our capital budget also calls for us to invest $2.2 million with Alta in other onshore prospects in Texas, Louisiana, and Alabama.

Freeport LNG closed a $383.0 million private placement note issuance in December 2005, and we believe the LNG project will continue through Phase I construction and Phase II pre-development expansion with no further significant funds being required from Contango.

As of August 31, 2006, we have approximately $12.5 million in cash, cash equivalents, and short term investments. We have $10.0 million in long-term debt outstanding and $10.0 million of unutilized borrowing capacity available. The Company has estimated production during August 2006 of approximately 1.4 MMcfe/d.

Income Taxes. During the year ended June 30, 2006, we paid $1.0 million in estimated income taxes, in large part related to the $50.0 million sale of our onshore producing south Texas wells to Edge Petroleum Corporation.

Off Balance Sheet Arrangements

None.

Contractual Obligations

The following table summarizes our known contractual obligations as of June 30, 2006:

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt	$ 10,000,000	$	$ 10,000,000		$
Operating leases	72,954	51,219	21,735		
Total	$ 10,072,954	$ 51,219	$ 10,021,735	$	$

We intend to borrow the remaining $10.0 million under our loan agreement with The Royal Bank of Scotland (RBS) at anytime prior to October 27, 2006. This additional borrowing will be due in April 2009.

Long-Term Debt

On April 27, 2006, the Company completed the arrangement of a new three-year $20.0 million secured term loan agreement with RBS. The term loan agreement is secured with the stock of Contango Sundance, Inc. (Sundance), our wholly-owned subsidiary. Sundance owns a 10% limited partnership interest in Freeport LNG Development, LP, which owns the Freeport LNG facility. The Company has borrowed the first $10.0 million under the term loan agreement and intends to borrow the remaining $10.0 million at anytime prior to October 27, 2006. Borrowings under the term loan agreement bear interest, at the Company s option, at either (i) 30 day LIBOR, (ii) 60 day LIBOR, (iii) 90 day LIBOR or (iv) 6 month LIBOR, all plus 6.5%. Interest is due at the end of the LIBOR period chosen. The average interest rate charged as of June 30, 2006 was 11.69%. The principal is due April 27, 2009, but we may prepay after April 27, 2008 with no prepayment penalty. The term loan agreement required an arrangement fee of 2%, or $400,000, which was paid upon closing.

The term loan agreement requires a minimum level of working capital, as defined in the term loan agreement. Additionally, the term loan agreement 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 the term loan agreement s covenants could result in a default and acceleration of all indebtedness under the term loan agreement. As of June 30, 2006, the Company was in compliance with its financial covenants, ratios and other provisions of the term loan agreement.

The Company also maintains a $0.1 million credit facility with Guaranty Bank, FSB that matures on June 29, 2008. As of June 30, 2006 and June 30, 2005, the Company had no long term debt outstanding under the Guaranty Bank facility.

Any future borrowings under the Guaranty Bank facility will bear interest, at the Company s option, at either (i) LIBOR plus two percent (2%) or (ii) the bank s base rate plus one-fourth percent (1/4%) per annum. Additionally, the Company pays a quarterly commitment fee of three-eighths percent (3/8%) per annum on the average availability.

The hydrocarbon borrowing base under the Guaranty Bank facility is subject to semi-annual redetermination based primarily on the value of our proved reserves. The credit facility requires the maintenance of certain ratios, including those related to working capital and debt service coverage, as defined in the credit agreements. Additionally, the credit agreement contains certain negative covenants that, among other things, restrict or limit our ability to incur indebtedness, sell assets, pay dividends and reacquire or otherwise acquire or redeem capital stock. Failure to maintain required financial ratios or comply with the credit facility s covenants can result in a default and acceleration of all indebtedness under the credit facility and the inability to borrow under the facility. As of June 30, 2006, the Company was in compliance with its financial covenants, ratios and other provisions of its credit facility.

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 to the consolidated financial statements included in this Annual Report on 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.

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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 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, 2006 of 1% would not have a material effect on DD&A 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.

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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, 2006 and 2005, and the related consolidated statements of operations, shareholders equity and cash flows for each of the three years in the period ended June 30, 2006. 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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2006 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), the effectiveness of Contango Oil & Gas Company and subsidiaries internal control over financial reporting as of June 30, 2006, 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 September 8, 2006 expressed an unqualified opinion on management s assertion of the effectiveness of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

GRANT THORNTON LLP

Houston, Texas

September 8, 2006

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CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,274,950	$ 3,985,775
Short-term investments	18,472,327	25,499,869
Inventory tubulars	194,825	
Accounts receivable:		
Trade receivable	481,593	1,423,094
Advances to affiliates	256,180	
Joint interest billings receivable		