

# CONTANGO OIL & GAS CO

## FORM 10-Q (Quarterly Report)

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Address	717 TEXAS AVENUE SUITE 2900 HOUSTON, TX 77002
Telephone	7132367400
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Industry	Oil & Gas Exploration and Production
Sector	Energy
Fiscal Year	12/31

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2017

OR

**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)

717 TEXAS AVENUE, SUITE 2900  
HOUSTON, TEXAS  
(Address of principal executive offices)

95-4079863

(IRS Employer  
Identification No.)

77002  
(Zip Code)

(713) 236-7400

(Registrant's telephone number, including area code)

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 whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The total number of shares of common stock, par value \$0.04 per share, outstanding as of May 5, 2017 was 25,572,245 .

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**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE THREE MONTHS ENDED MARCH 31, 2017**

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*All references in this Quarterly Report on Form 10-Q to the "Company", "Contango", "we", "us" or "our" are to Contango Oil & Gas Company and its subsidiaries.*

**Item 1. Consolidated Financial Statements**

**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except shares)

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
<u>(unaudited)</u>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable, net	11,825	16,727
Prepaid expenses	796	1,787
Current derivative asset	931	—
Inventory	540	540
Total current assets	14,092	19,054
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Natural gas and oil properties, successful efforts method of accounting:		
Proved properties	1,193,574	1,188,065
Unproved properties	45,735	38,338
Other property and equipment	1,279	1,265
Accumulated depreciation, depletion and amortization	(895,946)	(887,286)
Total property, plant and equipment, net	344,642	340,382
<b>OTHER NON-CURRENT ASSETS:</b>		
Investments in affiliates	17,551	15,767
Other	1,193	1,311
Total other non-current assets	18,744	17,078
<b>TOTAL ASSETS</b>	<b>\$ 377,478</b>	<b>\$ 376,514</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 52,958	\$ 55,135
Current derivative liability	1,103	3,446
Current asset retirement obligations	4,826	4,308
Total current liabilities	58,887	62,889
<b>NON-CURRENT LIABILITIES:</b>		
Long-term debt	59,722	54,354
Asset retirement obligations	19,949	22,618
Other long term liabilities	248	248
Total non-current liabilities	79,919	77,220
Total liabilities	138,806	140,109
<b>COMMITMENTS AND CONTINGENCIES (NOTE 12)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, \$0.04 par value, 50 million shares authorized, 30,563,743 shares issued and 25,232,489 shares outstanding at March 31, 2017, 30,557,987 shares issued and 25,238,600 shares outstanding at December 31, 2016	1,211	1,211
Additional paid-in capital	297,895	296,439
Treasury shares at cost (5,331,254 shares at March 31, 2017 and 5,319,387 shares at December 31, 2016)	(128,395)	(128,321)
Retained earnings	67,961	67,076
Total shareholders' equity	238,672	236,405
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 377,478</b>	<b>\$ 376,514</b>

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

**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2017	2016
	(unaudited)	
<b>REVENUES:</b>		
Oil and condensate sales	\$ 5,542	\$ 5,247
Natural gas sales	11,140	9,935
Natural gas liquids sales	2,742	2,400
Total revenues	19,424	17,582
<b>EXPENSES:</b>		
Operating expenses	6,833	7,604
Exploration expenses	91	320
Depreciation, depletion and amortization	11,771	16,545
Impairment and abandonment of oil and gas properties	30	1,851
General and administrative expenses	6,596	5,902
Total expenses	25,321	32,222
<b>OTHER INCOME (EXPENSE):</b>		
Gain from investment in affiliates, net of income taxes	1,784	40
Gain from sale of assets	2,940	—
Interest expense	(759)	(878)
Gain on derivatives, net	3,096	4,204
Other expense	(88)	(40)
Total other income	6,973	3,326
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	1,076	(11,314)
Income tax provision	(191)	(90)
<b>NET INCOME (LOSS)</b>	\$ 885	\$ (11,404)
<b>NET INCOME (LOSS) PER SHARE:</b>		
Basic	\$ 0.04	\$ (0.60)
Diluted	\$ 0.04	\$ (0.60)
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>		
Basic	24,607	19,079
Diluted	24,641	19,079

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

**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Three Months Ended	
	March 31,	
	2017	2016
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 885	\$ (11,404)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	11,771	16,545
Impairment of natural gas and oil properties	—	1,872
Exploration recovery	(232)	(58)
Gain on sale of assets	(2,940)	—
Gain from investment in affiliates	(1,784)	(40)
Stock-based compensation	1,456	1,699
Unrealized gain on derivative instruments	(3,275)	(2,696)
Changes in operating assets and liabilities:		
Decrease in accounts receivable & other receivables	4,840	6,971
Decrease in prepaids	991	372
Increase (decrease) in accounts payable & advances from joint owners	3,869	(5,458)
Increase (decrease) in other accrued liabilities	(973)	175
Decrease in income taxes receivable, net	188	368
Other	61	(18)
Net cash provided by operating activities	<u>\$ 14,857</u>	<u>\$ 8,328</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Natural gas and oil exploration and development expenditures	\$ (20,807)	\$ (4,836)
Additions to furniture & equipment	\$ (14)	\$ —
Sale of oil & gas properties	\$ 670	\$ —
Net cash used in investing activities	<u>\$ (20,151)</u>	<u>\$ (4,836)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under credit facility	\$ 54,963	\$ 45,167
Repayments under credit facility	(49,595)	(48,431)
Purchase of treasury stock	(74)	(228)
Net cash provided by (used in) financing activities	<u>\$ 5,294</u>	<u>\$ (3,492)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>\$ —</u>	<u>\$ —</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>—</u>	<u>—</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ —</u>	<u>\$ —</u>

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

**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
(in thousands, except number of shares)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Shareholders' Equity
	Shares	Amount				
	(unaudited)					
Balance at December 31, 2016	25,238,600	\$ 1,211	\$ 296,439	\$ (128,321)	\$ 67,076	\$ 236,405
Treasury shares at cost	(11,867)	—	—	(74)	—	(74)
Restricted shares activity	5,756	—	—	—	—	—
Stock-based compensation	—	—	1,456	—	—	1,456
Net income	—	—	—	—	885	885
Balance at March 31, 2017	<u>25,232,489</u>	<u>\$ 1,211</u>	<u>\$ 297,895</u>	<u>\$ (128,395)</u>	<u>\$ 67,961</u>	<u>\$ 238,672</u>

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

**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Organization and Business**

Contango Oil & Gas Company (collectively with its subsidiaries, “Contango” or the “Company”) is a Houston, Texas based, independent oil and natural gas company. The Company’s business is to maximize production and cash flow from its onshore properties in Texas and Wyoming and offshore properties in the shallow waters of the Gulf of Mexico (“GOM”) and to use that cash flow to explore, develop, exploit, produce and acquire crude oil and natural gas properties in the Texas and Rocky Mountain regions of the United States.

The following table lists the Company’s primary producing areas as of March 31, 2017:

<b>Location</b>	<b>Formation</b>
Gulf of Mexico	Offshore Louisiana - water depths less than 300 feet
Madison and Grimes counties, Texas	Woodbine (Upper Lewisville)
Zavala and Dimmit counties, Texas	Buda / Austin Chalk
Weston County, Wyoming	Muddy Sandstone
Pecos County, Texas	Southern Delaware Basin (Wolfcamp)
Texas Gulf Coast	Conventional and unconventional formations
Sublette County, Wyoming	Jonah Field <sup>(1)</sup>

(1) Through a 37% equity investment in Exaro Energy III LLC (“Exaro”). Production associated with this investment is not included in the Company’s reported production results for the three months ended March 31, 2017.

In July 2016, the Company purchased approximately 12,100 gross operated undeveloped acres (5,000 net acres) in the Southern Delaware Basin in Pecos County, Texas (the “Acquisition”), which it began drilling during the fourth quarter of 2016, and as of March 31, 2017, had increased its acreage to 13,400 gross operated acres (6,700 net). The Company’s 2017 capital expenditure program is expected to be focused on its newly acquired West Texas acreage.

The Company’s 2017 capital program will focus on: (i) the development of its Southern Delaware Basin acreage; (ii) the preservation of its healthy financial position; (iii) identification of opportunities for cost efficiencies in all areas of its operations; and (iv) maintaining core leases and continuing to identify new resource potential opportunities internally and, where appropriate, through acquisition. The Company will continuously monitor the commodity price environment, stability and forecast, and, if warranted, make adjustments to its strategy as the year progresses.

**2. Summary of Significant Accounting Policies**

The accounting policies followed by the Company are set forth in the notes to the Company’s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”) filed with the Securities and Exchange Commission (“SEC”). Please refer to the notes to the financial statements included in the 2016 Form 10-K for additional details of the Company’s financial condition, results of operations and cash flows. No material items included in those notes have changed except as a result of normal transactions in the interim or as disclosed within this report.

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, pursuant to the rules and regulations of the SEC, including instructions to Quarterly Reports on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete annual financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the unaudited consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The consolidated financial statements should be read in conjunction with the 2016 Form 10-K. The



consolidated results of operations for the quarter ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The Company's consolidated financial statements include the accounts of Contango Oil & Gas Company and its subsidiaries, after elimination of all material intercompany balances and transactions. All wholly-owned subsidiaries are consolidated. The investment in Exaro by our wholly-owned subsidiary, Contaro Company ("Contaro") is accounted for using the equity method of accounting, and therefore, the Company does not include its share of individual operating results, reserves or production in those reported for the Company's consolidated results.

#### *Oil and Gas Properties - Successful Efforts*

Our application of the successful efforts method of accounting for our natural gas and oil exploration and production 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 natural gas and oil 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 natural gas and oil 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 natural gas and oil leasehold acquisition costs included in unproved properties requires management's judgment 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.

#### *Impairment of Long-Lived Assets*

Pursuant to GAAP, when circumstances indicate that proved properties may be impaired, the Company compares expected undiscounted future cash flows on a field by field basis to the unamortized capitalized cost of the asset. If the estimated future undiscounted cash flows based on the Company's estimate of future reserves, natural gas and oil prices, operating costs and production levels from oil and natural gas reserves, are lower than the unamortized capitalized cost, then the capitalized cost is reduced to fair value. The factors used to determine fair value include, but are not limited to, estimates of proved and probable reserves, future commodity prices, the timing of future production and capital expenditures and a discount rate commensurate with the risk reflective of the lives remaining for the respective oil and gas properties. Additionally, the Company may use appropriate market data to determine fair value. The Company recognized no impairment of proved properties for the quarter ended March 31, 2017 and approximately \$0.7 million impairment of proved properties for the quarter ended March 31, 2016. Substantially all of the non-cash impairment charge in the quarter ended March 31, 2016 was directly related to the decline in commodity prices and the resulting impact on estimated future net cash flows from associated reserves.

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. The Company recognized no impairment of unproved properties for the quarter ended March 31, 2017. The Company recognized impairment expense of approximately \$1.1 million for the quarter ended March 31, 2016, related to partial impairment of certain unproved properties due primarily to the sustained low commodity price environment and expiring leases; substantially all of which was related to unproved lease cost amortization of the properties in Fayette and Gonzales counties Texas.

#### *Net Income (Loss) Per Common Share*

Basic net income (loss) per common share is computed by dividing the net income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income (loss) 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. For the quarter ended March 31, 2017, the weighted average incremental shares for restricted stock were 33,475, and the weighted average incremental shares for Performance Stock Units ("PSUs") were 564 shares. Potential dilutive securities, including unexercised stock options, PSUs and unvested restricted stock, have not been considered when their effect would be antidilutive. For the quarter ended March 31, 2017,

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97,319 stock options, 553,019 restricted shares and 267,399 PSUs were excluded from dilutive shares as they were antidilutive. For the quarter ended March 31, 2016, 116,461 stock options and 284,528 restricted shares were excluded from dilutive shares due to the loss for the period.

### *Subsidiary Guarantees*

Contango Oil & Gas Company, as the parent company (the “Parent Company”), has filed a registration statement on Form S-3 with the SEC to register, among other securities, debt securities that the Parent Company may issue from time to time. Any such debt securities would likely be guaranteed on a full and unconditional basis by each of the Company’s current subsidiaries and any future subsidiaries specified in any future prospectus supplement (each a “Subsidiary Guarantor”). Each of the Subsidiary Guarantors is wholly-owned by the Parent Company, either directly or indirectly. The Parent Company has no assets or operations independent of the Subsidiary Guarantors, and there are no significant restrictions upon the ability of the Subsidiary Guarantors to distribute funds to the Parent Company. The Parent Company has one wholly-owned subsidiary that is inactive and not a Subsidiary Guarantor. Finally, the Parent Company’s wholly-owned subsidiaries do not have restricted assets that exceed 25% of net assets as of the most recent fiscal year end that may not be transferred to the Parent Company in the form of loans, advances or cash dividends by such subsidiary without the consent of a third party.

### *Recent Accounting Pronouncements*

In January 2017, the FASB issued ASU No. 2017-01: Business Combinations (Topic 805) Clarifying the Definition of a Business (ASU 2017-01). The amendments in this update are intended to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. Public business entities should apply the amendments in this update to annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments in this update should be applied prospectively on or after the effective date. No disclosures are required at transition. The provisions of this accounting update are not expected to have a material impact on the Company’s financial position or results of operations.

In August 2016, the FASB issued ASU No. 2016-15: Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. The main objective of this update is to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The eight cash flow updates relate to the following issues: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investees; 7) beneficial interest in securitization transactions; and 8) separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The provisions of this accounting update are not expected to have a material impact on the Company’s presentation of cash flows.

In March 2016, the FASB issued ASU No. 2016-09: Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 is part of an initiative to reduce complexity in accounting standards. The areas of simplification in ASU 2016-09 involve several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years; early application is permitted. The provisions of this accounting update did not have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02: Leases (Topic 842) (ASU 2016-02). The main objective of ASU 2016-02 is to increase transparency and comparability among organizations by recognizing lease assets and

lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. ASU 2016-02 requires lessees to recognize assets and liabilities arising from leases on the balance sheet. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. For public entities, ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; early application is permitted. The Company will continue to assess the impact this may have on its financial position, results of operations, and cash flows.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. Several additional standards related to revenue recognition have been issued that amend the original standard, with most providing additional clarification. The provisions of this accounting update are not expected to have a material impact on the Company's financial position or results of operations.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 by one year. That new standard is now effective for annual reporting periods beginning after December 15, 2017. The Company is currently determining the impact of the new revenue recognition standard on its contracts. The Company's revenue contracts are primarily normal purchase/sale contracts and as such, the Company does not expect that the new revenue recognition standard will have a material impact on the Company's financial statements upon adoption. The Company expects to use the modified retrospective method to adopt the standard, meaning the cumulative effect of initially applying the standard will be recognized at the date of the adoption of the standard.

### **3. Acquisitions and Dispositions**

In the July 2016 Acquisition, the Company purchased one-half of the seller's interest in approximately 12,100 gross undeveloped acres (approximately 5,000 net acres) in the Southern Delaware Basin of Texas for up to \$25 million. The purchase price was comprised of \$10 million in cash paid on July 26, 2016, plus \$10 million in carried well costs expected to be paid over the period of drilling and completion of the first six wells, plus, contingent upon success, \$5 million for spud bonuses to be paid ratably over the next 14 wells actually drilled, which would increase the total consideration to \$25 million. As of March 31, 2017, the Company had increased its acreage to 13,400 gross operated acres (6,700 net).

On December 30, 2016, all of the Company's non-core Colorado assets were sold to an independent oil and gas company for an aggregate purchase price of \$5.0 million, subject to normal post-closing adjustments. The properties consisted of the Company's approximately 16,000 gross (11,200 net) acres primarily in Adams and Weld counties, Colorado and associated producing vertical wells.

Effective February 1, 2017, the Company sold to a third party all of its assets in the Bob West North area and its operated assets in the Escobas area, both located in Southeast Texas. The Company recorded a net gain of \$2.9 million after removal of the asset retirement obligations associated with the sold properties.

### **4. Fair Value Measurements**

Pursuant to Accounting Standards Codification 820, Fair Value Measurements and Disclosures (ASC 820), the Company's determination of fair value incorporates not only the credit standing of the counterparties involved in transactions with the Company resulting in receivables on the Company's consolidated balance sheets, but also the impact of the Company's nonperformance risk on its own liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2

measurements are inputs that are observable for assets or liabilities, either directly or indirectly, other than quoted prices included within Level 1. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs.

The following table sets forth, by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value as of March 31, 2017. As required by ASC 820, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There have been no transfers between Level 1, Level 2 or Level 3.

Fair value information for financial assets and liabilities was as follows as of March 31, 2017 (in thousands):

	Total Carrying Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Derivatives</b>				
Commodity price contracts - assets	\$ 931	\$ —	\$ 931	\$ —
Commodity price contracts - liabilities	\$ (1,103)	\$ —	\$ (1,103)	\$ —

Derivatives listed above are recorded in "Current and long-term derivative asset or liability" on the Company's consolidated balance sheet and include swaps and costless collars that are carried at fair value. The Company records the net change in the fair value of these positions in "Gain on derivatives, net" in the Company's consolidated statements of operations. The Company is able to value the assets and liabilities based on observable market data for similar instruments, which resulted in the Company reporting its derivatives as Level 2. This observable data includes the forward curves for commodity prices based on quoted markets prices and implied volatility factors related to changes in the forward curves. See Note 5 - "Derivative Instruments" for additional discussion of derivatives.

As of March 31, 2017, the Company's derivative contracts were with certain members of its bank group which are major financial institutions with investment grade credit ratings which are believed to have minimal credit risk. As such, the Company is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above; however, the Company does not anticipate such nonperformance.

Estimates of the fair value of financial instruments are made in accordance with the requirements of ASC 825, Financial Instruments. The estimated fair value amounts are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash, accounts receivable and accounts payable approximates their carrying value due to their short-term nature. The estimated fair value of the Company's credit facility with the Royal Bank of Canada and other lenders (the "RBC Credit Facility") approximates carrying value because the facility interest rate approximates current market rates and is reset at least every six months. See Note 9 - "Long-Term Debt" for further information.

#### *Impairments*

Contango tests proved oil and natural gas properties for impairment when events and circumstances indicate a decline in the recoverability of the carrying value of such properties, such as a downward revision of the reserve estimates or lower commodity prices. The Company estimates the undiscounted future cash flows expected in connection with the oil and gas properties on a field by field basis and compares such future cash flows to the unamortized capitalized costs of the properties. If the estimated future undiscounted cash flows are lower than the unamortized capitalized cost, the capitalized cost is reduced to its fair value. The factors used to determine fair value include, but are not limited to, estimates of proved and probable reserves, future commodity prices, the timing of future production and capital expenditures and a discount rate commensurate with the risk reflective of the lives remaining for the respective oil and gas properties. Additionally, the Company may use appropriate market data to determine fair value. Because these significant fair value inputs are typically not observable, impairments of long-lived assets are classified as a Level 3 fair value measure.

*Asset Retirement Obligations*

The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with oil and gas properties. The factors used to determine fair value include, but are not limited to, estimated future plugging and abandonment costs and expected lives of the related reserves.

**5. Derivative Instruments**

The Company is exposed to certain risks relating to its ongoing business operations, such as commodity price risk. Derivative contracts are typically utilized to hedge the Company's exposure to price fluctuations and reduce the variability in the Company's cash flows associated with anticipated sales of future oil and natural gas production. The Company typically hedges a substantial, but varying, portion of anticipated oil and natural gas production for future periods. The Company believes that these derivative arrangements, although not free of risk, allow it to achieve a more predictable cash flow and to reduce exposure to commodity price fluctuations. However, derivative arrangements limit the benefit of increases in the prices of crude oil, natural gas and natural gas liquids sales. Moreover, because its derivative arrangements apply only to a portion of its production, the Company's strategy provides only partial protection against declines in commodity prices. Such arrangements may expose the Company to risk of financial loss in certain circumstances. The Company continuously reevaluates its hedging programs in light of changes in production, market conditions and commodity price forecasts.

As of March 31, 2017, the Company's natural gas and oil derivative positions consisted of "swaps" and "costless collars". Swaps are designed so that the Company receives or makes payments based on a differential between fixed and variable prices for crude oil and natural gas. A costless collar consists of a purchased put option and a sold call option, which establishes a minimum and maximum price, respectively, that the Company will receive for the volumes under the contract.

It is the Company's policy to enter into derivative contracts only with counterparties that are creditworthy institutions deemed by management as competent and competitive market makers. The Company does not post collateral, nor is exposed to potential margin calls, under any of these contracts as they are secured under the RBC Credit Facility. See Note 9 - "Long-Term Debt" for further information regarding the RBC Credit Facility.

The Company has elected not to designate any of its derivative contracts for hedge accounting. Accordingly, derivatives are carried at fair value on the consolidated balance sheets as assets or liabilities, with the changes in the fair value included in the consolidated statements of operations for the period in which the change occurs. The Company records the net change in the mark-to-market valuation of these derivative contracts, as well as all payments and receipts on settled derivative contracts, in "Gain on derivatives, net" on the consolidated statements of operations.

The following derivative instruments were in place at March 31, 2017 (fair value in thousands):

<b>Commodity</b>	<b>Period</b>	<b>Derivative</b>	<b>Volume/Month</b>	<b>Price/Unit <sup>(1)</sup></b>	<b>Fair Value</b>
Natural Gas	Apr - July 2017	Collar	400,000 MMBtu	\$ 2.65 - 3.00	(442)
Natural Gas	Aug 2017 - Oct 2017	Collar	200,000 MMBtu	\$ 2.65 - 3.00	(246)
Natural Gas	Nov 2017 - Dec 2017	Collar	400,000 MMBtu	\$ 2.65 - 3.00	(415)
Natural Gas	Apr - July 2017	Swap	300,000 MMBtu	\$ 3.51	326
Natural Gas	Aug 2017 - Oct 2017	Swap	70,000 MMBtu	\$ 3.51	37
Natural Gas	Nov 2017 - Dec 2017	Swap	300,000 MMBtu	\$ 3.51	45
Oil	Apr - July 2017	Swap	9,000 Bbls	\$ 53.95	96
Oil	Aug 2017 - Oct 2017	Swap	6,000 Bbls	\$ 53.95	35
Oil	Nov 2017 - Dec 2017	Swap	8,000 Bbls	\$ 53.95	29
Oil	Apr - Dec 2017	Swap	9,000 Bbls	\$ 56.20	363
Total net fair value of derivative instruments					\$ (172)

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(1) Commodity price derivatives are based on Henry Hub NYMEX natural gas prices and West Texas Intermediate oil prices, as applicable.

The following summarizes the fair value of commodity derivatives outstanding on a gross and net basis as of March 31, 2017 (in thousands):

	<b>Gross</b>	<b>Netting <sup>(1)</sup></b>	<b>Total</b>
Assets	\$ 931	\$ (931)	\$ —
Liabilities	\$ (1,103)	\$ 931	\$ (172)

(1) Represents counterparty netting under agreements governing such derivatives.

The following summarizes the fair value of commodity derivatives outstanding on a gross and net basis as of December 31, 2016 (in thousands):

	<b>Gross</b>	<b>Netting <sup>(1)</sup></b>	<b>Total</b>
Assets	\$ —	\$ —	\$ —
Liabilities	\$ (3,446)	\$ —	\$ (3,446)

(1) Represents counterparty netting under agreements governing such derivatives.

The following table summarizes the effect of derivative contracts on the consolidated statements of operations for the quarters ended March 31, 2017 and 2016 (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Crude oil contracts	\$ 170	\$ —
Natural gas contracts	(349)	1,508
Realized gain (loss)	\$ (179)	\$ 1,508
Crude oil contracts	\$ 524	\$ —
Natural gas contracts	2,751	2,696
Unrealized gain (loss)	\$ 3,275	\$ 2,696
Gain on derivatives, net	\$ 3,096	\$ 4,204

## 6. Stock-Based Compensation

### *Stock Options*

Under the fair value method of accounting for stock options, cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) are classified as financing cash flows. For the quarters ended March 31, 2017 and 2016, there was no excess tax benefit recognized.

Compensation expense related to stock option grants are recognized over the stock option's 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. No stock options were granted during the quarters ended March 31, 2017 or 2016.

During the quarter ended March 31, 2017, no stock options were exercised and 14,586 stock options were forfeited by former employees. During the quarter ended March 31, 2016, no stock options were exercised or forfeited.

### *Restricted Stock*

During the quarter ended March 31, 2017, the Company granted 30,000 shares of restricted common stock, which vest over three years, to a newly hired employee as part of his overall compensation package. The weighted average fair value of the restricted shares granted during the quarter ended March 31, 2017, was \$7.78 with a total fair value of approximately \$0.2 million after adjustment for an estimated weighted average forfeiture rate of 5.8%. During the quarter ended March 31, 2017, 24,244 restricted shares were forfeited by former employees. The aggregate intrinsic

value of restricted shares forfeited during the quarter ended March 31, 2017 was approximately \$256 thousand. Approximately 0.3 million shares remained available for grant under the Amended and Restated 2009 Incentive Compensation Plan as of March 31, 2017, excluding 297,399 PSUs outstanding.

During the quarter ended March 31, 2016, the Company granted 40,688 immediately vested shares of restricted common stock. Of these, 38,943 shares were granted to employees and 1,745 shares were granted to directors, all of which were issued pursuant to the Company's salary replacement program (the "Salary Replacement Program") which temporarily deferred 10% of 2015 employee salaries and director fees. The weighted average fair value of the restricted shares granted during the quarter ended March 31, 2016, was \$6.40 with a total fair value of approximately \$0.3 million after adjustment for an estimated weighted average forfeiture rate of 0.0%. During the quarter ended March 31, 2016, 40 restricted shares were forfeited by former employees. The aggregate intrinsic value of restricted shares forfeited during the quarter ended March 31, 2016 was approximately \$1 thousand.

The Company recognized approximately \$1.5 million and \$1.7 million in stock compensation expense during the quarters ended March 31, 2017 and 2016, respectively, for restricted shares granted to its officers, employees and directors. As of March 31, 2017, an additional \$5.6 million of compensation expense remained to be recognized over the remaining weighted-average vesting period of 3.9 years.

Additionally, in April 2017, the Company granted 338,560 restricted stock awards to employees as part of their overall compensation package.

### ***Performance Stock Units***

During the quarter ended March 31, 2017, the Company issued 30,000 PSUs to a new employee, at a fair value of \$8.32 per unit using the Monte Carlo simulation model. No PSUs were issued during the quarter ended March 31, 2016. PSUs represent the opportunity to receive shares of the Company's common stock at the time of settlement. The number of shares to be awarded upon settlement of these PSUs may range from 0% to 200% of the number of PSUs awarded contingent upon the achievement of certain share price appreciation targets as compared to a peer group index. The PSUs vest and settlement is determined after a three year period.

Compensation expense associated with PSUs is based on the grant date fair value of a single PSU as determined using the Monte Carlo simulation model which utilizes a stochastic process to create a range of potential future outcomes given a variety of inputs. As the Compensation Committee of the Company's board of directors intends to settle the PSUs with shares of the Company's common stock after three years, the PSU awards are accounted for as equity awards and the fair value is calculated on the grant date. The simulation model calculates the payout percentage based on the stock price performance over the performance period. The concluded fair value is based on the average achievement percentage over all the iterations. The resulting fair value expense is amortized over the life of the PSU award.

Additionally, in April 2017, the Company granted 160,908 PSUs to executives as part of their overall compensation package.

## 7. Other Financial Information

The following table provides additional detail for accounts receivable, prepaid expenses and other, and accounts payable and accrued liabilities which are presented on the consolidated balance sheets (in thousands):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>Accounts receivable:</b>		
Trade receivables	\$ 6,533	\$ 8,424
Receivable for Alta Resources Distribution	1,993	1,993
Joint interest billings	3,269	3,519
Income taxes receivable	91	91
Other receivables	695	3,395
Allowance for doubtful accounts	(756)	(695)
Total accounts receivable	<u>\$ 11,825</u>	<u>\$ 16,727</u>
<b>Prepaid expenses and other:</b>		
Prepaid insurance	\$ 357	\$ 1,086
Other	439	701
Total prepaid expenses and other	<u>\$ 796</u>	<u>\$ 1,787</u>
<b>Accounts payable and accrued liabilities:</b>		
Royalties and revenue payable	\$ 16,384	\$ 16,920
Advances from partners	9,756	5,792
Accrued exploration and development	9,737	11,176
Accrued carried well costs	3,333	7,155
Trade payables	6,934	5,406
Accrued LOE & workover expense	1,390	1,867
Accrued G&A and legal expense	2,918	5,016
Other accounts payable and accrued liabilities	2,506	1,803
Total accounts payable and accrued liabilities	<u>\$ 52,958</u>	<u>\$ 55,135</u>

Included in the table below is supplemental information about certain cash and non-cash transactions during the three months ended March 31, 2017 and 2016 (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash payments:</b>		
Interest payments	\$ 760	\$ 879
Income tax payments (refunds)	\$ 3	\$ (351)
<b>Non-cash investing activities in the consolidated statements of cash flows:</b>		
Decrease in accrued capital expenditures	\$ (5,261)	\$ (1,222)

## 8. Investment in Exaro Energy III LLC

The Company maintains an ownership interest in Exaro of approximately 37%.



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The following table (in thousands) presents condensed balance sheet data for Exaro as of March 31, 2017 and December 31, 2016. The balance sheet data was derived from Exaro's balance sheet as of March 31, 2017 and December 31, 2016 and was not adjusted to represent the Company's percentage of ownership interest in Exaro. The Company's share in the equity of Exaro at March 31, 2017 was approximately \$17.5 million.

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Current assets <sup>(1)</sup>	\$ 22,500	\$ 25,296
Non-current assets:		
Net property and equipment	88,545	90,621
Gas processing deposit	1,150	1,150
Other non-current assets	430	8
Total non-current assets	<u>90,125</u>	<u>91,779</u>
Total assets	<u>\$ 112,625</u>	<u>\$ 117,075</u>
Current liabilities <sup>(2)</sup>	\$ 61,328	\$ 65,694
Non-current liabilities:		
Long-term debt	—	—
Other non-current liabilities	3,370	8,106
Total non-current liabilities	<u>3,370</u>	<u>8,106</u>
Members' equity	47,927	43,275
Total liabilities & members' equity	<u>\$ 112,625</u>	<u>\$ 117,075</u>

- (1) Approximately \$18.8 million and \$19.6 million of current assets as of March 31, 2017 and December 31, 2016, respectively, is cash.  
(2) Approximately \$54.4 million and \$59.3 million of current liabilities as of March 31, 2017 and December 31, 2016, respectively, are attributable to the senior loan facility maturing September 26, 2017.

The following table (in thousands) presents the condensed results of operations for Exaro for the quarter ended March 31, 2017 and 2016. The results of operations for the quarter ended March 31, 2017 and 2016 were derived from Exaro's financial statements for the respective periods. The income statement data below was not adjusted to represent the Company's ownership interest but rather reflects the results of Exaro as a company. The Company's share in Exaro's results of operations recognized for the quarter ended March 31, 2017 and 2016 was a gain of \$1.8 million, net of no tax expense, and a gain of \$40 thousand, net of an insignificant tax expense, respectively.

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Production:		
Oil (thousand barrels)	25	36
Gas (million cubic feet)	2,308	2,774
Total (million cubic feet equivalent)	<u>2,460</u>	<u>2,991</u>
Oil and natural gas sales	\$ 9,171	\$ 6,312
Gain on derivatives	2,562	—
Other gain	—	2,102
Less:		
Lease operating expenses	3,219	3,557
Depreciation, depletion, amortization & accretion	2,343	3,006
General & administrative expense	733	808
Income from continuing operations	<u>5,438</u>	<u>1,043</u>
Net interest expense	(624)	(693)
Net income	<u>\$ 4,814</u>	<u>\$ 350</u>

Exaro's results of operations do not include income taxes because Exaro is treated as a partnership for tax purposes.

## 9. Long-Term Debt

### *RBC Credit Facility*

In October 2013, the Company entered into a \$500 million four-year revolving credit facility with Royal Bank of Canada and other lenders, which currently has an October 1 2019 maturity date. The borrowing base under the facility is redetermined each November 1 and May 1. As of March 31, 2017, the borrowing base under the RBC Credit Facility was \$140 million. Effective May 4, 2017, as part of the regular redetermination schedule, the borrowing base under the RBC Credit Facility was redetermined at \$125 million.

As of March 31, 2017, the Company had approximately \$59.7 million outstanding under the RBC Credit Facility and \$1.9 million in outstanding letters of credit. As of December 31, 2016, the Company had approximately \$54.4 million outstanding under the RBC Credit Facility and \$1.9 million in outstanding letters of credit. As of March 31, 2017, borrowing availability under the RBC Credit Facility was \$78.4 million.

Total interest expense under the RBC Credit Facility, including commitment fees, for the quarter ended March 31, 2017 was approximately \$0.8 million. Total interest expense under the RBC Credit Facility, including commitment fees, for the quarter ended March 31, 2016 was approximately \$0.9 million.

The RBC Credit Facility contains restrictive covenants which, among other things, restrict the declaration or payment of dividends by Contango and require a Current Ratio of greater than or equal to 1.0 and a Leverage Ratio of less than or equal to 3.50, both as defined in the RBC Credit Facility Agreement. As of March 31, 2017, the Company was in compliance with all financial covenants under the RBC Credit Facility, and at current commodity prices, does not expect any covenant compliance issues over the next twelve months. The RBC Credit Facility also contains events of default that may accelerate repayment of any borrowings and/or termination of the facility. Events of default include, but are not limited to, payment defaults, breach of certain covenants, bankruptcy, insolvency or change of control events.

The weighted average interest rate in effect at March 31, 2017 and December 31, 2016 was 4.3% and 4.2%, respectively. The RBC Credit Facility matures on October 1, 2019, at which time any outstanding balances will be due.

## 10. Income Taxes

The Company's income tax provision for continuing operations consists of the following (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Current tax provision:		
Federal	\$ —	\$ —
State	191	90
Total	<u>\$ 191</u>	<u>\$ 90</u>
Total tax provision:		
Federal	\$ —	\$ —
State	191	90
Total	<u>\$ 191</u>	<u>\$ 90</u>
Included in gain from investment in affiliates	<u>\$ —</u>	<u>\$ —</u>
Total income tax provision	<u>\$ 191</u>	<u>\$ 90</u>

In recording deferred income tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those deferred income tax assets would be deductible. The Company believes that after considering all the available objective evidence, both positive and negative, historical and prospective, with greater weight given to historical evidence, management is not able to determine that it is more likely than not that the deferred tax assets will be realized and, therefore, established a full valuation allowance at September 30, 2015. For the quarter ended March 31, 2017, the Company continues to fully value the net deferred tax asset. The Company will continue to assess the valuation allowance against deferred tax assets considering all available information obtained in future reporting periods.

## 11. Related Party Transactions

### *Olympic Energy Partners*

Mr. Joseph J. Romano, the Chairman of the Company's board of directors, is also the President and Chief Executive Officer of Olympic Energy Partners LLC ("Olympic"). Olympic participated with the Company in the drilling of wells in March 2010, and its ownership in Company-operated wells is limited to our Dutch and Mary Rose wells.

During the quarters ended March 31, 2016 and 2017 Mr. Romano earned \$14 thousand for his service as a director of the Company.

During the quarter ended March 31, 2016, Mr. Romano received 261 shares of restricted stock, which vested immediately, pursuant to the Salary Replacement Program. The Company recognized compensation expense of approximately \$19 thousand related to the shares granted to Mr. Romano for the quarter ended March 31, 2016. No restricted stock was issued during the quarter ended March 31, 2017.

Below is a summary of payments received from (paid to) Olympic in the ordinary course of business in the Company's capacity as operator of the wells and platforms for the periods indicated. The Company made and received similar types of payments with other well owners (in thousands):

	Three Months Ended March 31,	
	2017	2016
Revenue payments as well owners	\$ (764)	\$ (648)
Joint interest billing receipts	113	62

As of March 31, 2017 and December 31, 2016, the Company's consolidated balance sheets reflected the following balances relating to Olympic (in thousands):

	March 31, 2017	December 31, 2016
Accounts receivable:		
Joint interest billing	\$ 42	\$ 59
Accounts payable:		
Royalties and revenue payable	(456)	(557)

### *Oaktree Capital Management L.P.*

As of March 31, 2017, Oaktree Capital Management L.P. ("Oaktree"), through various funds, owned approximately 5.1% of the Company's stock. On October 1, 2013, Mr. James Ford, then a Managing Director and Portfolio Manager within Oaktree, was elected to the Company's board of directors. Mr. Ford is currently a Senior Advisor to Oaktree.

Historically, all cash and equity awards payable to Mr. Ford were instead granted to an affiliate of Oaktree. Beginning in 2016, all cash and equity awards payable to Mr. Ford were paid to him directly. During the quarter ended March 31, 2017, Mr. Ford earned \$17 thousand in cash as a result of his board participation. During the quarter ended March 31, 2016, an affiliate of Oaktree earned \$17 thousand in cash as a result of Mr. Ford's board participation.

During the quarter ended March 31, 2016, an affiliate of Oaktree received 313 shares of restricted stock, which vested immediately, pursuant to the Salary Replacement Program. The Company recognized compensation expense of approximately \$19 thousand related to the shares granted to an affiliate of Oaktree for the quarter ended March 31, 2016. No restricted stock was issued to Mr. Ford during the quarter ended March 31, 2017.

## 12. Commitments and Contingencies

### *Legal Proceedings*

From time to time, the Company is involved in legal proceedings relating to claims associated with its properties, operations or business or arising from disputes with vendors in the normal course of business, including the material matters discussed below.

In July 2010, several parties associated with a limited partnership, formed to invest in oil and gas properties, that was dissolved in 1995 filed suit against a subsidiary of the Company and several co-defendants in district court for Madison County in Texas. The plaintiffs claim to own or have rights in certain oil and gas properties situated in Madison County, Texas by virtue of the partnership having interests in addition to those it held of record at the time of its dissolution, which were distributed to the partners in connection with such dissolution. A predecessor of the subsidiary of the Company involved in this case acquired a portion of the interests now claimed by the plaintiffs from a successor to the general partner of the aforementioned partnership in 2000. The plaintiffs' expert has provided a range of estimated monetary damages of up to approximately \$9.4 million as to the Company's subsidiary. The Company is vigorously defending this lawsuit and believes that it has meritorious defenses.

In November 2010, a subsidiary of the Company, several predecessor operators and several product purchasers were named in a lawsuit filed in the District Court for Lavaca County in Texas by an entity alleging that it owns a working interest in two wells that has not been recognized by the Company or by predecessor operators to which the Company had granted indemnification rights. In dispute is whether ownership rights were transferred through a number of decade-old poorly documented transactions. Based on prior summary judgments, the trial court has entered a final judgment in the case in favor of the plaintiffs for approximately \$5.3 million, plus post-judgment interest. The Company is vigorously defending this lawsuit, believes that it has meritorious defenses and is appealing the trial court's decision to the applicable state Court of Appeals.

In September 2012, a subsidiary of the Company was named as defendant in a lawsuit filed in district court for Harris County in Texas involving a title dispute over a 1/16th mineral interest in the producing intervals of certain wells operated by the Company in the Catherine Henderson "A" Unit in Liberty County in Texas. This case was subsequently transferred to the district court for Liberty County, Texas and combined with a suit filed by other parties against the plaintiff claiming ownership of the disputed interest. The plaintiff has alleged that, based on its interpretation of a series of 1972 deeds, it owns an additional 1/16th unleased mineral interest in the producing intervals of these wells on which it has not been paid (this claimed interest is in addition to a 1/16th unleased mineral interest on which it has been paid). The Company has made royalty payments with respect to the disputed interest in reliance, in part, upon leases obtained from successors to the grantors under the aforementioned deeds, who claim to have retained the disputed mineral interests thereunder. The plaintiff previously alleged damages of approximately \$10.7 million although the plaintiff's claim increases as additional hydrocarbons are produced from the subject wells. The trial court has entered judgment in favor of the Company's subsidiary and the successors to the grantors under the aforementioned deeds. The plaintiff is appealing the trial court's decision to the applicable state Court of Appeals. The Company is vigorously defending this lawsuit and believes that it has meritorious defenses. The Company believes if this matter were to be determined adversely, amounts owed to the plaintiff could be partially offset by recoupment rights the Company may have against other working interest and/or royalty interest owners in the unit.

While many of these matters involve inherent uncertainty and the Company is unable at the date of this filing to estimate an amount of possible loss with respect to certain of these matters, the Company believes that the amount of the liability, if any, ultimately incurred with respect to these proceedings or claims will not have a material adverse effect on its consolidated financial position as a whole or on its liquidity, capital resources or future annual results of operations. The Company maintains various insurance policies that may provide coverage when certain types of legal proceedings are determined adversely.

### *Throughput Contract Commitment*

The Company signed a throughput agreement with a third party pipeline owner/operator that constructed a natural gas gathering pipeline in the Company's Southeast Texas area that allows the Company to defray the cost of building the pipeline itself. The Company currently forecasts that monthly gas volume deliveries through this line in its Southeast Texas area will not meet minimum throughput requirements under the agreement. Without further

development in that area, the volume deficiency will continue through the expiration of the throughput commitment in March 2020. The throughput deficiency fee is paid in April of each calendar year. As of March 31, 2017, the Company estimates that the net deficiency fee will be in the range of \$1.5 to \$1.6 million annually for the remaining contract period, based upon forecasted production volumes from existing proved producing reserves only, assuming no future development during this commitment period. Based upon the current commodity price market and our short term strategic drilling plans, the Company recorded a loss contingency of \$1.5 million as of March 31, 2017. The Company will continue to assess this commitment in light of its development plans for this area.

## Available Information

General information about us can be found on our website at [www.contango.com](http://www.contango.com). Our Annual Report 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 (“SEC”). We are not including the information on our website as a part of, or incorporating it by reference into, this Report.

## Cautionary Statement about Forward-Looking Statements

Certain statements contained 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. Although we believe the expectations reflected in such forward-looking statements are reasonable, such expectations may not occur. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated. Risks and uncertainties that could cause or contribute to such differences include, without limitation, those discussed in the section entitled “Risk Factors” included in our Annual Report on Form 10-K and those factors summarized below:

- our ability to successfully develop our recent acquisition of undeveloped acreage in the Southern Delaware Basin, integrate the operations relating thereto with our existing operations and realize the benefits of such acquisition;
- our financial position;
- our business strategy, including outsourcing;
- meeting our forecasts and budgets;
- expectations regarding natural gas and oil markets in the United States;
- 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 natural gas processing facilities;
- the risks associated with operating deep high pressure and temperature wells, including well blowouts and explosions;
- the risks associated with exploration, including cost overruns and the drilling of non-economic wells or dry holes, especially in prospects in which we have made a large capital commitment relative to the size of our 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 and cost of rigs and other materials and operating equipment;
- 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 including weather, environmental risks, accidental spills, blowouts and pipeline ruptures, and other risks;
- 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;
- actions or inactions of third-party operators of our properties;
- actions or inactions of third-party operators of pipelines or processing facilities;
- the ability to find and retain skilled personnel;
- strength and financial resources of competitors;
- federal and state legislative and regulatory developments and approvals;
- worldwide economic conditions;
- the ability to construct and operate infrastructure, including pipeline and production facilities;

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- the continued compliance by us with various pipeline and gas processing plant specifications for the gas and condensate produced by us;
- operating costs, production rates and ultimate reserve recoveries of our natural gas and oil discoveries;
- expanded rigorous monitoring and testing requirements; and
- our ability to obtain insurance coverage on commercially reasonable terms.

Any of these factors and other factors described in this report could cause our actual results to differ materially from the results implied by these or any other forward-looking statements made by us or on our behalf. Although we believe our estimates and assumptions to be reasonable when made, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. Our assumptions about future events may prove to be inaccurate. We caution you that the forward-looking statements contained in this report are not guarantees of future performance, and we cannot assure you that those statements will be realized or the forward-looking events and circumstances will occur. All forward-looking statements speak only as of the date of this report.

We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as required by law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

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.

**Item 2. 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 consolidated financial statements and the accompanying notes and other information included elsewhere in this Quarterly Report on Form 10-Q and in our 2016 Form 10-K, previously filed with the Securities and Exchange Commission ("SEC").

**Overview**

We are a Houston, Texas based, independent oil and natural gas company. Our business is to maximize production and cash flow from our onshore Texas and Wyoming properties and our offshore properties in the shallow waters of the Gulf of Mexico ("GOM") and to use that cash flow to explore, develop, exploit and acquire crude oil and natural gas properties in the Texas and Rocky Mountain regions of the United States.

The following table lists our primary producing areas as of March 31, 2017:

<b>Location</b>	<b>Formation</b>
Gulf of Mexico	Offshore Louisiana - water depths less than 300 feet
Madison and Grimes counties, Texas	Woodbine (Upper Lewisville)
Zavala and Dimmit counties, Texas	Buda / Austin Chalk
Weston County, Wyoming	Muddy Sandstone
Pecos County, Texas	Southern Delaware Basin (Wolfcamp)
Texas Gulf Coast	Conventional and unconventional formations
Sublette County, Wyoming	Jonah Field <sup>(1)</sup>

(1) Through a 37% equity investment in Exaro Energy III LLC ("Exaro"). Production associated with this investment is not included in our reported production results for the three months ended March 31, 2017.

In July 2016, we purchased approximately 12,100 gross operated undeveloped acres (5,000 net acres) in the Southern Delaware Basin in Pecos County, Texas (the "Acquisition"), which we began drilling during the fourth quarter of 2016, and increased our acreage to 13,400 gross operated acres (6,700 net) as of March 31, 2017. Our 2017 capital expenditure program is expected to be focused on our newly acquired West Texas acreage.

Our 2017 capital program will focus on: (i) the development of our Southern Delaware Basin acreage; (ii) the preservation of our healthy financial position; (iii) identification of opportunities for cost efficiencies in all areas of our operations; and (iv) maintaining core leases and continuing to identify new resource potential opportunities internally and, where appropriate, through acquisition. We will continuously monitor the commodity price environment, stability and forecast, and, if warranted, make adjustments to our strategy as the year progresses.

**Capital Expenditures**

Our newly acquired Southern Delaware Basin acreage is expected to generate positive returns on drilling investment, even in the current price environment. Assuming results are as expected and market conditions are accommodating, we will proceed to drill throughout the year. Until a sustained improvement in commodity prices occurs, we do not currently expect to devote meaningful capital to our other areas, and will devote capital in those areas only to fulfill commitments, preserve core acreage and, where determined appropriate to do so, expand our presence in existing areas. We will continue to make balance sheet strength a priority in 2017 by limiting capital expenditures to internally generated cash flow, will continue to evaluate new organic opportunities for growth and will continue to evaluate pursuing stressed or distressed acquisition opportunities that may arise in this low price commodity environment. We retain the flexibility to be more aggressive in our drilling plans should planned results exceed expectations and/or commodity prices improve, thereby making increased drilling an appropriate business decision.

*Southern Delaware Basin*

Since the closing of the Acquisition in late July 2016, we and our partner have increased our leasehold footprint to approximately 6,700 operated acres, net to Contango. As of March 31, 2017, we currently estimate that we have close to 200 gross drilling locations, initially targeting the Wolfcamp A, Wolfcamp B and Second Bone Spring formations. Substantially all of the locations can accommodate 10,000 foot laterals. In late November, we completed drilling the



Lonestar-Gunfighter #1H, an Upper Wolfcamp test in the northwest portion of our acreage position. The well initiated flow back in January 2017, on a controlled flow basis, reaching a maximum 24-hour IP rate of an estimated 966 Boed (72% oil).

In December 2016, the next two wells, the Rude Ram #1H and the Ripper State #1H, were drilled from a common surface location one mile south of the Lonestar-Gunfighter, each well also targeting the Upper Wolfcamp. Both wells were completed in April 2017, with 30 day initial rate expected in late May. In February 2017, we spud our fourth well, the Grim Reaper #1H, approximately 1.5 miles to the southeast of the Rude Ram and Ripper State. The Grim Reaper was initially drilled as a vertical pilot well through the Lower Wolfcamp, and after experiencing casing problems in the intermediate hole section, logs were run, and the well was completed vertically with multistage fracs in the Lower Wolfcamp to evaluate future potential. Testing is scheduled to begin in early May. We spud our fifth well, the Gunner #1H, in April, approximately two miles to the northeast of the Grim Reaper. The Gunner is expected to be completed in mid to late May of 2017.

### Impairment of Long-Lived Assets

We recognized no impairment of proved properties during the quarter ended March 31, 2017. Under the accounting principles generally accepted in the United States of America, an impairment charge is required when the unamortized capital cost of any individual property within the company's producing property base exceeds the risked estimated future net cash flows from the proved, probable and possible reserves for that property. We recognized no impairment of unproved properties for the quarter ended March 31, 2017.

If oil and/or natural gas prices continue to decline, we may be required to record additional non-cash impairment in the future, thereby impacting our financial results for that period.

### Summary Production Information

Our production for the quarter ended March 31, 2017 was approximately 70% offshore and 30% onshore, and was comprised of 72% natural gas, 13% oil and 15% natural gas liquids. Our production for the quarter ended March 31, 2016 was 67% offshore and 33% onshore, and was comprised of approximately 68% natural gas, 15% oil and 17% natural gas liquids.

The table below sets forth our average net daily production data in Mmcfe/d for each of our fields for each of the periods indicated:

	Three Months Ended				
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017
Offshore GOM					
Dutch and Mary Rose <sup>(1)</sup>	45.9	43.3	39.3	39.5	35.4
Vermilion 170	6.5	6.2	4.0	4.9	4.6
Other offshore <sup>(2)</sup>	0.6	0.6	0.6	0.6	0.5
Southeast Texas <sup>(3)</sup>	16.4	13.9	12.1	10.1	8.6
South Texas <sup>(4)</sup>	7.4	7.4	7.5	7.5	6.4
Other <sup>(5)</sup>	2.6	3.2	2.2	1.7	2.1
	<u>79.4</u>	<u>74.6</u>	<u>65.7</u>	<u>64.3</u>	<u>57.6</u>

(1) Includes 26 day shut in for compressor repair during three months ended March 31, 2017.

(2) Includes Ship Shoal 263 and South Timbalier 17.

(3) Includes Madison and Grimes counties, among others.

(4) Includes Zavala and Dimmit counties, among others.

(5) Includes onshore wells in East Texas, Wyoming and Tuscaloosa Marine Shale regions, among others.

### Other Investments

#### *Jonah Field - Sublette County, Wyoming*

Our wholly-owned subsidiary, Contaro Company ("Contaro") currently has a 37% ownership interest in Exaro. As of March 31, 2017, Exaro had 645 wells on production over its 5,760 gross acres (1,040 net), with a working interest between 2.4 and 32.5%. These wells were producing at a rate of approximately 29 Mmcfd, net to Exaro. Due to the

current natural gas prices, the operator does not expect to have any drilling rigs running on this project during the remainder of 2017. For the quarter ended March 31, 2017 and 2016, we recognized a net investment gain of approximately \$1.8 million, net of no tax expense, and a gain of approximately \$40 thousand, with an insignificant tax benefit, respectively, as a result of our investment in Exaro. See Note 8 to our Financial Statements - "Investment in Exaro Energy III LLC" for additional details related to this investment.

*Other*

We intend to continue to evaluate potential acquisition opportunities to expand our presence in resource plays, to exploit our oil and liquids-rich positions and to continue to develop exploration and exploitation opportunities where commodity price-justified. Acquisition efforts will typically be focused on areas in which we can leverage our geographic and geological expertise to exploit identified drilling opportunities and where we can develop an inventory of additional drilling prospects that we believe will enable us to grow production and add reserves.

**Results of Operations for the Quarter Ended March 31, 2017 and 2016**

The table below sets forth revenue, production data, average sales prices and average production costs associated with our sales of natural gas, oil and natural gas liquids ("NGLs") from operations for the quarter ended March 31, 2017 and 2016. 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. Reported lease operating expenses include production taxes, such as ad valorem and severance taxes.

	<b>Three Months Ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>%</b>
<b>Revenues (thousands):</b>			
Oil and condensate sales	\$ 5,542	\$ 5,247	6 %
Natural gas sales	11,140	9,935	12 %
NGL sales	2,742	2,400	14 %
Total revenues	\$ 19,424	\$ 17,582	10 %
<b>Production:</b>			
<u>Oil and condensate (thousand barrels)</u>			
Offshore GOM	22	51	(57)%
Southeast Texas	44	74	(41)%
South Texas	26	34	(24)%
Other	22	26	(15)%
Total oil and condensate	114	185	(38)%
<u>Natural gas (million cubic feet)</u>			
Offshore GOM	3,008	3,838	(22)%
Southeast Texas	335	643	(48)%
South Texas	328	363	(10)%
Other	57	76	(25)%
Total natural gas	3,728	4,920	(24)%
<u>Natural gas liquids (thousand barrels)</u>			
Offshore GOM	84	113	(26)%
Southeast Texas	29	67	(57)%
South Texas	15	17	(12)%
Other	—	2	(100)%
Total natural gas liquids	128	199	(36)%
<u>Total (million cubic feet equivalent)</u>			
Offshore GOM	3,646	4,821	(24)%
Southeast Texas	770	1,490	(48)%
South Texas	574	670	(14)%
Other	190	245	(22)%
Total production	5,180	7,226	(28)%
<b>Daily Production:</b>			
<u>Oil and condensate (thousand barrels per day)</u>			
Offshore GOM	0.2	0.6	(57)%
Southeast Texas	0.5	0.8	(41)%
South Texas	0.3	0.4	(24)%
Other	0.3	0.2	(15)%
Total oil and condensate	1.3	2.0	(38)%
<u>Natural gas (million cubic feet per day)</u>			
Offshore GOM	33.4	42.2	(22)%
Southeast Texas	3.7	7.1	(48)%
South Texas	3.7	4.0	(10)%
Other	0.6	0.8	(25)%
Total natural gas	41.4	54.1	(24)%

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	<b>Three Months Ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>%</b>
<b>Natural gas liquids (thousand barrels per day)</b>			
Offshore GOM	0.9	1.2	(26)%
Southeast Texas	0.3	0.7	(57)%
South Texas	0.2	0.2	(12)%
Other	—	0.1	(100)%
Total natural gas liquids	<u>1.4</u>	<u>2.2</u>	<u>(36)%</u>
<b>Total (million cubic feet equivalent per day)</b>			
Offshore GOM	40.5	53.0	(24)%
Southeast Texas	8.6	16.4	(48)%
South Texas	6.4	7.4	(14)%
Other	2.1	2.6	(22)%
Total production	<u>57.6</u>	<u>79.4</u>	<u>(28)%</u>
<b>Average Sales Price:</b>			
Oil and condensate (per barrel)	\$ 48.71	\$ 28.39	72 %
Natural gas (per thousand cubic feet)	\$ 2.99	\$ 2.02	48 %
Natural gas liquids (per barrel)	\$ 21.36	\$ 11.99	78 %
Total (per thousand cubic feet equivalent)	\$ 3.75	\$ 2.43	54 %
<b>Expenses (thousands):</b>			
Operating expenses	\$ 6,833	\$ 7,604	(10)%
Exploration expenses	\$ 91	\$ 320	(72)%
Depreciation, depletion and amortization	\$ 11,771	\$ 16,545	(29)%
Impairment and abandonment of oil and gas properties	\$ 30	\$ 1,851	(98)%
General and administrative expenses	\$ 6,596	\$ 5,902	12 %
Gain from investment in affiliates (net of taxes)	\$ 1,784	\$ 40	* %
<b>Selected data per Mcfe:</b>			
Operating expenses	\$ 1.32	\$ 1.05	26 %
General and administrative expenses	\$ 1.27	\$ 0.82	55 %
Depreciation, depletion and amortization	\$ 2.27	\$ 2.29	(1)%

\* Greater than 1000%

**Quarter Ended March 31, 2017 Compared to Quarter Ended March 31, 2016**

*Natural Gas, Oil and NGL Sales and Production*

All of our revenues are from the sale of our natural gas, oil and NGL production. Our revenues may vary significantly from year to year depending on production volumes and changes in commodity prices, each of which may fluctuate widely. Our production volumes are subject to wide swings as a result of new operations, weather events, transportation and processing constraints and mechanical issues. In addition, our production naturally declines over time as we produce our reserves.

We reported revenues of \$19.4 million for the quarter ended March 31, 2017, compared to revenues of \$17.6 million for the quarter ended March 31, 2016. The increase in revenues was attributable to higher commodity prices, which offset the decline in production caused by limited drilling in 2016 due to the low and uncertain commodity price environment.

Total equivalent production was 57.6 Mmcfed for the quarter ended March 31, 2017, compared to 79.4 Mmcfed in the prior year quarter. The decrease was attributable primarily to a 10.5 Mmcfed decline in production from the Dutch and Mary Rose Field as a result of normal field decline and a 26 day shut in for compressor repair and normal field decline in our onshore properties that was not offset by new production from drilling.

[Table of Contents](#)*Average Sales Prices*

The average equivalent sales price realized for the quarter ended March 31, 2017 was \$3.75 per Mcfe compared to \$2.43 per Mcfe for the quarter ended March 31, 2016. This increase was attributable primarily to the increase in the realized price of oil to \$48.71 per barrel, compared to \$28.39 per barrel for the quarter ended March 31, 2016, and to the increase in the realized price of natural gas to \$2.99 per Mcf, compared to \$2.02 per Mcf for the quarter ended March 31, 2016.

*Operating Expenses*

Operating expenses for the quarter ended March 31, 2017 were approximately \$6.8 million, or \$1.32 per Mcfe, compared to \$7.6 million, or \$1.05 per Mcfe, for the quarter ended March 31, 2016. The table below provides additional detail of operating expenses for the quarter ended March 31, 2017 and 2016:

	Three Months Ended March 31,			
	2017		2016	
	(in thousands)	(per Mcfe)	(in thousands)	(per Mcfe)
Lease operating expenses	\$ 4,648	0.90	\$ 5,151	\$ 0.71
Production & ad valorem taxes	659	0.13	894	0.12
Transportation & processing costs	1,041	0.20	1,419	0.20
Workover costs	485	0.09	140	0.02
Total operating expenses	\$ 6,833	1.32	\$ 7,604	\$ 1.05

Lease operating expenses decreased by 10% for the quarter ended March 31, 2017, compared to the quarter ended March 31, 2016, as a result of our efforts to reduce costs during this challenging commodity price environment and the sale of our Colorado properties in December 2016.

Transportation & processing costs decreased by 27% for the quarter ended March 31, 2017, compared to the quarter ended March 31, 2016, due to additional costs in one of our Texas fields during the quarter ended March 31, 2016.

*Exploration Expenses*

Exploration expenses for the quarter ended March 31, 2017 were \$0.1 million compared to \$0.3 million for the quarter ended March 31, 2016.

*Impairment Expenses*

No impairment expense was recorded during the quarter ended March 31, 2017. Impairment expense for the quarter ended March 31, 2016 included proved property impairments of \$0.7 million, substantially all of which was directly related to the decline in commodity prices and the resulting impact on estimated future net cash flows from associated reserves. Impairment expense for the quarter ended March 31, 2016 also included a \$1.1 million impairment and partial impairment of certain unproved properties and onshore prospects due primarily to the sustained low commodity price environment and expiring leases, substantially all of which was related to unproved lease cost amortization of properties in Fayette and Gonzales counties Texas.

*Depreciation, Depletion and Amortization*

Depreciation, depletion and amortization for the quarter ended March 31, 2017 was approximately \$11.8 million, or \$2.27 per Mcfe. This compares to approximately \$16.5 million, or \$2.29 per Mcfe, for the quarter ended March 31, 2016. The lower depletion for the quarter ended March 31, 2017 was primarily attributable to lower production.

*General and Administrative Expenses*

General and administrative expenses for the quarter ended March 31, 2017 were approximately \$6.6 million, compared to \$5.9 million for the quarter ended March 31, 2016. General and administrative expenses are primarily

related to cash compensation and benefits, stock based compensation, professional fees and office costs. General and administrative expenses included approximately \$1.5 million and \$1.7 million in non-cash stock based compensation, for the current and prior year quarters, respectively.

#### *Gain (loss) from Affiliates*

For the quarter ended March 31, 2017, the Company recorded a gain from affiliates of approximately \$1.8 million, net of no tax expense, related to our investment in Exaro, compared to a gain of \$40 thousand, with an insignificant tax expense, for the quarter ended March 31, 2016.

#### **Capital Resources and Liquidity**

During the quarter ended March 31, 2017, we incurred expenditures of \$19.3 million on capital projects, including \$3.0 million in paid and accrued leasehold acquisition costs in the Southern Delaware Basin and \$16.1 million for the drilling and completion of wells in the Southern Delaware Basin.

Our capital expenditure budget for 2017 was originally forecasted to be \$46.3 million, including \$36.6 million to drill and/or complete nine gross wells (4.0 net) on our Southern Delaware Basin acreage. As a result of the success of our first well in the Southern Delaware Basin acreage, and other factors, we have revised our 2017 budget to include an additional \$11.2 million in drilling and completion costs on one gross well (0.5 net), which increases our forecast for the year to \$57.5 million.

Additionally, the Company often reviews acquisitions and prospects presented to us by third parties, and we may decide to invest in one or more of these opportunities. There can be no assurance that we will invest or that any investment we enter into will be successful. These potential investments are not part of our current capital budget and could require us to invest additional capital. Natural gas and oil prices continue to be volatile and our resources may not be sufficient to fund these opportunities.

#### *Cash From Operating Activities*

Cash flows from operating activities provided approximately \$14.9 million in cash for the quarter ended March 31, 2017 compared to \$8.3 million provided by operating activities for the same period in 2016. The table below provides additional detail of cash flows from operating activities for the three months ended March 31, 2017 and 2016:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Cash flows from operating activities, exclusive of changes in working capital accounts	\$ 5,881	\$ 5,918
Changes in operating assets and liabilities	8,976	2,410
Net cash provided by operating activities	<u>\$ 14,857</u>	<u>\$ 8,328</u>

#### *Cash From Investing Activities*

Cash flows used in investing activities for the quarter ended March 31, 2017 were approximately \$20.2 million, substantially all of which was used for capital expenditures related to drilling and/or completing wells in the Southern Delaware Basin and acquiring unproved leases in our areas of focus. Cash flows used in investing activities for the quarter ended March 31, 2016 were approximately \$4.8 million all of which was used for capital expenditures related to completing a well in our Wyoming area and acquiring unproved leases in our areas of focus. Amounts presented include cash payments for accrued amounts at the beginning of each period.

#### *Cash From Financing Activities*

Cash flows provided by financing activities for the quarter ended March 31, 2017 were approximately \$5.3 million, primarily related to net borrowings under our credit facility with the Royal Bank of Canada and other lenders (the "RBC Credit Facility"). Cash flows used in financing activities for the quarter ended March 31, 2016 were approximately \$3.5 million, primarily related to the repayment of net borrowings under our RBC Credit Facility.

### *RBC Credit Facility*

In October 2013, the Company entered into a \$500 million four-year revolving credit facility with Royal Bank of Canada and other lenders, which currently has an October 1, 2019 maturity date. The borrowing base is redetermined each November and May. Effective May 4, 2017, as part of the regular redetermination schedule, the borrowing base under the RBC Credit Facility was redetermined at \$125 million.

The RBC Credit Facility contains restrictive covenants which, among other things, restrict the declaration or payment of dividends by Contango and require a Current Ratio of greater than or equal to 1.0 and a Leverage Ratio of less than or equal to 3.50, both as defined in the RBC Credit Facility Agreement. As of March 31, 2017, we were in compliance with all covenants under the RBC Credit Facility, and at current commodity prices, do not expect any covenant compliance issues over the next twelve months. The RBC Credit Facility also contains events of default that may accelerate repayment of any borrowings and/or termination of the facility. Events of default include, but are not limited to, payment defaults, breach of certain covenants, bankruptcy, insolvency or change of control events.

### **Application of Critical Accounting Policies and Management's Estimates**

Significant accounting policies that we employ and information about the nature of our most critical accounting estimates, our assumptions or approach used and the effects of hypothetical changes in the material assumptions used to develop each estimate are presented in Note 2 to our Financial Statements – “Summary of Significant Accounting Policies” of this report and in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – “Application of Critical Accounting Policies and Management's Estimates” in our 2016 Form 10-K.

### **Recent Accounting Pronouncements**

For a discussion of recent accounting pronouncements, see Note 2 to our Financial Statements – “Summary of Significant Accounting Policies.”

### **Off Balance Sheet Arrangements**

We may enter into off-balance sheet arrangements that can give rise to off-balance sheet obligations. As of March 31, 2017, the primary off-balance sheet arrangements that we have entered into are operating lease agreements, which are customary in the oil and gas industry. Other than the off-balance sheet arrangements shown under operating leases in the commitments and contingencies table included in our 2016 Form 10-K, we have no other off-balance sheet arrangements that are reasonably likely to materially affect our liquidity or availability of or requirements for capital resources.

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

#### *Commodity Risk*

We are exposed to various risks including energy commodity price risk for our natural gas and oil production. When oil, natural gas and natural gas liquids prices decline significantly, our ability to finance our capital budget and operations may be adversely impacted. Our major commodity price risk exposure is to the prices received. 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 and unpredictable. For the three months ended March 31, 2017, a 10% fluctuation in the prices received for natural gas and oil production would have had an approximate \$1.9 million impact on our revenues.

#### *Derivative Instruments and Hedging Activity*

We expect energy prices to remain volatile and unpredictable, therefore we have designed a risk management strategy which provides for the use of derivative instruments to provide partial protection against declines in oil and natural gas prices by reducing the risk of price volatility and the affect it could have on our cash flows. The types of derivative instruments that we typically utilize include swaps and costless collars. The total volumes which we hedge through the use of our derivative instruments varies from period to period, however, generally our objective is to hedge approximately 50% of forecasted production from proved developed producing reserves (excluding forecasted offshore

production during hurricane season), at the time of hedging, for the following twelve to eighteen months. Our hedge strategy and objectives may change significantly as our operational profile changes and/or commodity prices change.

We are exposed to market risk on our open derivative contracts related to potential nonperformance by our counterparties. It is our policy to enter into derivative contracts, including interest rate swaps, only with counterparties that are creditworthy financial institutions deemed by management as competent and competitive market makers. The counterparties to the Company's current derivative contracts are large financial institutions and also lenders or affiliates of lenders in its RBC Credit Facility. We are not required to post collateral, or pay margin calls, under any of these contracts as they are secured under our RBC Credit Facility.

We have also been exposed to interest rate risk on our variable interest rate debt. If interest rates increase, our interest expense would increase and our available cash flow would decrease. Currently, we do not have any derivative contracts to reduce the exposure to market rate fluctuations. At March 31, 2017, we did not have any open positions that converted our variable interest rate debt to fixed interest rates. We continue to monitor our risk exposure as we incur future indebtedness at variable interest rates and will look to continue our risk management policy as situations present themselves.

We account for our derivative activities under the provisions of ASC 815, Derivatives and Hedging, ("ASC 815"). ASC 815 establishes accounting and reporting that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. The estimated fair values for financial instruments under ASC 825, Financial Instruments ("ASC 825") are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash, cash equivalents, accounts receivable and accounts payable approximates their carrying value due to their short-term nature. See Note 5 to our Financial Statements - "Derivative Instruments" for more details.

#### *Interest Rate Sensitivity*

We are exposed to market risk related to adverse changes in interest rates. Our interest rate risk exposure results primarily from fluctuations in short-term rates, which are LIBOR and US Prime based and may result in reductions of earnings or cash flows due to increases in the interest rates we pay on these obligations.

As of March 31, 2017, our total long-term debt was \$59.7 million, which bears interest at a floating or market interest rate that is tied to the prime rate or LIBOR. Fluctuations in market interest rates will cause our annual interest costs to fluctuate. During the quarter ended March 31, 2017, our effective rates fluctuated between 4.0% and 6.5%, depending on the term of the specific debt drawdowns. At March 31, 2017, we did not have any outstanding interest rate swap agreements. As of March 31, 2017, the weighted average interest rate on our variable rate debt was 4.27% per year. Assuming our current level of borrowings, a 100 basis point increase in the interest rates we pay under our RBC Credit Facility would result in an increase of our interest expense by \$0.1 million for the three month period.

#### *Other Financial Instruments*

As of March 31, 2017, we had no cash or cash equivalents based on our cash management policy. Investments in fixed-rate, interest-earning instruments carry a degree of interest rate and credit rating risk. Fixed-rate securities may have their fair market value adversely impacted because of changes in interest rates and credit ratings. Additionally, the value of our investments may be impaired temporarily or permanently. Due in part to these factors, our investment income may decline and we may suffer losses in principal. Currently, we do not use any derivative or other financial instruments or derivative commodity instruments to hedge any market risks, including changes in interest rates or credit ratings, and we do not plan to employ these instruments in the future. Because of the nature of the issuers of the securities that we invest in, we do not believe that we have any cash flow exposure arising from changes in credit ratings. Based on a sensitivity analysis performed on the financial instruments held as of March 31, 2017, an immediate 10% change in interest rates would result in a \$0.3 million change on our near-term financial condition or results of operations.

#### **Item 4. Controls and Procedures**

Our President and Chief Executive Officer, together with our Chief Financial Officer and Chief Accounting Officer, carried out an evaluation 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, as amended (the “Exchange Act”), as of March 31, 2017. Based upon that evaluation, the Company’s management concluded that, as of March 31, 2017, the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. *Legal Proceedings***

For a discussion of legal proceedings, see Note 12 to our Financial Statements – “Commitments and Contingencies.”

### **Item 1A. *Risk Factors***

There have been no material changes from the risk factors disclosed in Item 1A of Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2016.

### **Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds***

None.

### **Item 3. *Defaults upon Senior Securities***

None.

### **Item 4. *Mine Safety Disclosures***

Not applicable.

### **Item 5. *Other Information***

None.

### **Item 6. *Exhibits***

#### **(a) Exhibits:**

The exhibits listed on the accompanying Exhibit Index are filed, furnished or incorporated by reference as part of this report, and such Exhibit Index is incorporated herein by reference.



<b>Exhibit Number</b>	<b>Description</b>
3.1	Certificate of Incorporation of Contango Oil & Gas Company. (1)
3.2	Amendment to the Certificate of Incorporation of Contango Oil & Gas Company. (2)
3.3	Third Amended and Restated Bylaws of Contango Oil & Gas Company. (3)
10.1*	Employment Agreement, dated as of February 26, 2017, among Contango Oil & Gas Company and James J. Metcalf Jr. (4)
10.2*	Form of Contango Oil and Gas Company Stock Award Agreement (employees) †
10.3*	Form of Contango Oil and Gas Company Stock Award Agreement (executives) †
10.4*	Contango Oil and Gas Director Compensation Plan †
31.1	Certification of Chief Executive Officer required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934. †
31.2	Certification of Chief Financial Officer required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934. †
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †
101	Interactive Data Files †

† Filed herewith.

\* Indicates a management contract or compensatory plan or arrangement.

1. Filed as an exhibit to the Company's Current Report on Form 8-K dated December 1, 2000, as filed with the Securities and Exchange Commission on December 15, 2000.
2. Filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002, as filed with the Securities and Exchange Commission on November 14, 2002.
3. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on March 3, 2015.
4. Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on March 15, 2017.



**CONTANGO OIL & GAS COMPANY**  
**STOCK AWARD AGREEMENT**

This Stock Award Agreement (this "Agreement") is made as of \_\_\_\_\_ (the "Effective Date"), by and between Contango Oil & Gas Company, a Delaware corporation (the "Company" or "MCF"), and \_\_\_\_\_ (the "Participant"). Unless otherwise defined herein, capitalized terms used in this Agreement shall have the same meaning ascribed to them in the Amended and Restated 2009 Incentive Compensation Plan as adopted (as the same may be further amended, restated or otherwise modified from time to time (the "Plan")).

WHEREAS, the Participant is an Employee, and the Participant's continued participation is considered by the Company to be important for the Company's continued growth; and

WHEREAS, the Board has determined that the Company shall make certain Grants to the Participant under the Plan, in furtherance of the purposes of the Plan of strengthening the desire of Employees to continue their employment with the Company and by securing other benefits for the Company;

WHEREAS, this Agreement shall represent the Grant of a Stock Award (referred to herein as "Restricted Stock" or "Award");

WHEREAS, the Company desires to confirm the Grants and to set forth the terms and conditions of such Grants, and the Participant desires to accept such Grants and agree to the terms and conditions thereof, as set forth in this Agreement;

NOW THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

- 1) Grant of Restricted Stock. The Company hereby confirms a Grant, under and pursuant to the Plan, to the Participant as of the Effective Date of \_\_\_\_\_ shares of Restricted Stock (the "Restricted Stock") in consideration for the services which the Participant is to render the Company over the vesting period set forth in Section 2 of this Agreement. The Restricted Stock is subject to all of the terms and conditions set forth in this Agreement and the Plan.
- 2) Vesting. Except as set forth in Section 6 below, provided Participant continues to provide continuous service as an employee of the Company, the Restricted Stock will vest as follows:

First anniversary of the date of grant	33%
Second anniversary of the date of grant	33%
Third anniversary of the date of grant	34%

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- 3) Participant's Rights. Subject to the terms hereof, the Participant shall have all of the rights of a shareholder with respect to the Restricted Stock while they are held in escrow (or held in book-entry form with the Company's transfer agent), including without limitation, the right to vote the Company Stock and to receive any cash dividends declared thereon. All cash dividends shall be paid to the Participant within thirty (30) days of the vesting described in Section 2 of this Agreement (i.e., 33% of the dividend after the first anniversary of the grant, 33% after the second anniversary of the grant, and 34% after the third anniversary of the grant).
- 4) Restrictions; Forfeiture. The Restricted Stock are restricted in that they may not be sold, transferred or otherwise alienated or hypothecated until these restrictions are removed or expire as contemplated within this Agreement. The Restricted Stock are also restricted in the sense that they may be forfeited to the Company. Participant hereby agrees that if the Restricted Stock are forfeited pursuant to this Agreement the Company shall have the right to deliver the Restricted Stock to the Company's transfer agent for, at the Company's election, cancellation or transfer to the Company.
- 5) Separation from Service.
  - a) For Cause or Voluntary Termination. In the event Participant's employment is terminated by the Company for Cause or by the Participant's voluntary resignation for any reason, the Participant shall forfeit any or all of the shares of the Restricted Stock which have not vested, and the Participant shall have no further rights with respect to the Award. For purposes hereof, "Cause" means (i) with respect to any Participant who is a party to an employment or service agreement or employment policy manual with the Company or its affiliates and such agreement or policy manual provides for a definition of Cause, as defined therein and (ii) with respect to all other Participants, (A) the commission of, or plea of guilty or no contest to, a felony or a crime involving moral turpitude or the commission of any other act involving willful malfeasance or material fiduciary breach with respect to the Company or an affiliate, (B) conduct tending to bring the Company or an affiliate into substantial public disgrace, or disrepute, or (C) gross negligence or willful misconduct with respect to the Company or an affiliate. The Plan administrator, in its absolute discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause.
  - b) Without Cause. In the event Participant's employment is terminated by the Company without Cause not within the Protection Period (defined below), for purposes of determining vesting under this Section 6 (b), vesting shall be pro-rata accelerated and a portion of the shares of Restricted Stock subject to this agreement shall become immediately vested, with pro-rata acceleration calculated by multiplying the number of outstanding shares by a fraction, the numerator of which will be the number of full calendar months during the applicable vesting period that Participant was actively employed by the Company, plus one, and the denominator of which is the number of full calendar months within the applicable vesting period.

In the event Participant's employment is terminated by the Company without Cause during the Protection Period (defined below), vesting shall be accelerated and the shares of Restricted Stock subject to this agreement shall become immediately vested with respect to one hundred percent (100%) of the shares of Restricted Stock subject to this Agreement without regard to the Participant's number of years of continuous service as an employee of the Company.

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The "Protection Period" is defined as the period of time that begins on the date that a Change of Control transaction is consummated, and ends on the last day of the twelfth month immediately following the consummation of the Change of Control transaction.

- c) Death and Disability. In the event Participant's employment is terminated on account of death or Disability (defined below), for purposes of determining vesting under this Section 6 (c), Participant shall be deemed to continue employment through the date that is the anniversary of the date of grant of the Restricted Stock awarded under this Agreement coincident with or next following the date of such termination and vesting of the Shares that would have vested on such anniversary shall be accelerated and shall become immediately vested at termination. As used herein, "Disability" means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment. The determination of whether an individual has a Disability shall be determined under procedures established by the Plan administrator. The Plan administrator may rely on any determination that a Participant is disabled for purposes of benefits under any long-term disability plan maintained by the Company or any affiliate in which a Participant participates.
  - 6) Delivery of Stock. Promptly following the expiration of the restrictions on the Restricted Stock as contemplated by this Agreement, the Company shall cause to be issued and delivered to Participant a certificate or other evidence of the number of Restricted Stock as to which restrictions have lapsed, free of any restrictive legend relating to the lapsed restrictions, upon receipt by the Company of any tax withholding as may be requested pursuant to this Agreement. The value of such Restricted Stock shall not bear any interest owing to the passage of time.
  - 7) Tax Elections for Restricted Stock. The Participant understands that under Section 83 of the Code, the difference between the purchase price, if any, paid for the shares of Restricted Stock subject to this Agreement and the fair market value on the date the forfeiture restrictions applicable to such shares lapse will be reportable as ordinary income at that time. The Participant understands that the Participant may elect to be taxed at the time the shares of Restricted Stock are acquired to the extent the fair market value of those shares of Restricted Stock exceeds the purchase price, if any, paid for the shares, rather than when and as such shares of Restricted Stock cease to be subject to forfeiture restrictions, by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days after the date of acquisition of the Restricted Stock. The form for making this election is attached hereto as Exhibit A. Participant understands that failure to make this filing within the thirty (30) day period will result in the recognition of ordinary income by the Participant as the forfeiture restrictions lapse.
    - a) In the event that the Participant files, under Section 83(b) of the Code, an election to be taxed on his receipt of the Restricted Stock as the receipt of ordinary income at the date of grant of the Restricted Stock, the Participant shall at the time of such filing notify the Company of the making of such election and furnish a copy of the notice to the Company.
    - b) THE PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON PARTICIPANT'S BEHALF. PARTICIPANT IS RELYING SOLELY ON PARTICIPANT'S ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE AN 83(b) ELECTION.
  - 8) Restriction on Transfer. Except for the transfer of the shares subject to this Agreement to the Company or its assignees contemplated by this Agreement, no portion of the Award or any beneficial interest
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therein shall be transferred, encumbered or otherwise disposed of in any way until such shares subject to this Agreement vest and are thereby released from all forfeiture provisions in accordance with the provisions of this Agreement.

- 9) Tax Withholding. The Company may require the Participant to pay to the Company (or the Company's subsidiary if the Participant is an employee of a subsidiary of the Company), an amount the Company deems necessary to satisfy its (or its subsidiary's) current or future obligation to withhold federal, state or local income or other taxes that the Participant incurs as a result of the Award. With respect to any required tax withholding, the Participant may (a) direct the Company to withhold from the shares of Company Stock to be issued to the Participant under this Agreement the number of shares necessary to satisfy the Company's obligation to withhold taxes; which determination will be based on the shares' Fair Market Value at the time such determination is made; (b) deliver to the Company shares of Company Stock sufficient to satisfy the Company's tax withholding obligations, based on the shares' Fair Market Value at the time such determination is made; or (c) deliver cash to the Company sufficient to satisfy its tax withholding obligations. If the Participant desires to elect to use the stock withholding option described in subparagraph (a), the Participant must make the election at the time and in the manner the Company prescribes. The Company, in its discretion, may deny your request to satisfy its tax withholding obligations using a method described under subparagraph (a) or (b). In the event the Company determines that the aggregate Fair Market Value of the shares of Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then the Participant must pay to the Company, in cash, the amount of that deficiency immediately upon the Company's request.
  - 10) Investor Representations. Participant represents that he/she is acquiring the Award for his/her own account for investment and has no present intent to resell or distribute all or any portion of the Award. Participant agrees that any Company Stock received pursuant to this Agreement will be sold or otherwise disposed of only in accordance with applicable federal and state statutes, rules and regulations.
  - 11) Legends. The share certificate evidencing the Company Stock, if any, issued hereunder shall be endorsed with the following legend (in addition to any legend required under applicable state securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON TRANSFER AND FORFEITURE PROVISIONS AS SET FORTH IN THAT CERTAIN RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE COMPANY AND THE PARTICIPANT, AS THE SAME MAY BE AMENDED FROM TIME TO TIME, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY, AND, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, NO SALE, ASSIGNMENT, TRANSFER OR OTHER DISPOSITION OF THESE SHARES SHALL BE VALID OR EFFECTIVE UNLESS MADE IN COMPLIANCE WITH ALL OF THE TERMS AND CONDITIONS OF SUCH AGREEMENT.
  - 12) Adjustment for Stock Split. All references to the number of shares of the Award in this Agreement shall be appropriately adjusted to reflect any stock split, stock dividend or other change in the shares that may be made by the Company after the date of this Agreement as set forth in Section 17 of the Plan.
  - 13) Cash in Lieu. At the sole discretion of the Compensation Committee of the Company's Board of Directors, upon the vesting of any portion of the Restricted Stock, the Compensation Committee of the Company's Board of Directors may make a cash payment to the Participant
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in an amount equal to the fair market value of the number of shares that would have otherwise been issued upon such vesting, net of any applicable taxes.

- 14) No Guarantee of Employment. Nothing contained in this Agreement shall be deemed to require the Company to maintain the Participant's status as an Employee. Except as may be provided in a written employment contract executed by a duly authorized officer of the Company and approved by the Committee or the Board, the Participant shall at all times be an employee-at-will of the Company and the Company may discharge the Participant at any time for any reason, with or without cause, and with or without severance compensation.
  - 15) Indemnification. The Participant agrees to hold harmless and indemnify the Company for any and all liabilities resulting to it through violation by the Participant of the warranties and representations made by the Participant in, and other provisions of, this Agreement.
  - 16) Securities Laws. Participant represents and warrants that Participant understands that Rule 144 promulgated under the Securities Act of 1933 (the "Securities Act") may indefinitely restrict transfer of an Award so long as Participant remains an "affiliate" of the Company or if "current public information" about the Company (as defined in Rule 144) is not publicly available. Notwithstanding any provision of this Agreement to the contrary, the issuance of Company Stock will be subject to compliance with all applicable requirements of federal, state, or foreign law with respect to such securities and with the requirements of any stock exchange or market system upon which the Stock may then be listed. No Company Stock will be issued hereunder if such issuance would constitute a violation of any applicable federal, state, or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Company Stock may then be listed. In addition, Company Stock will not be issued hereunder unless (a) a registration statement under the Securities Act is, at the time of issuance, in effect with respect to the shares issued or (b) in the opinion of legal counsel to the Company, the shares issued may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Award will relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority has not been obtained. As a condition to any issuance hereunder, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect to such compliance as may be requested by the Company. From time to time, the Board of Directors and appropriate officers of the Company are authorized to take the actions necessary and appropriate to file required documents with governmental authorities, stock exchanges, and other appropriate persons to make shares of Company Stock available for issuance. The Participant agrees to take any action the Company reasonably deems necessary in order to comply with federal and state laws, or the rules and regulations of the National Association of Securities Dealers, Inc. (the "NASD") or any stock exchange or quotation system, or any other obligation of the Company or the Participant relating to the Award or this Agreement.
  - 17) General Provisions.
    - a) This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of Delaware.
    - b) If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully
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severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

- c) Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to the Participant at his address shown on the Company's employment records and to the Company at the address of its principal corporate offices (attention: President) or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto.
    - i) Any notice to the Escrow Agent shall be sent to the Company's address with a copy to the other party hereto.
  - d) The rights of the Company under this Agreement shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of the Participant under this Agreement may not be assigned; however, such rights and obligations shall inure to the benefit of, and be binding upon, the heirs, executors, or administrators of the Participant's estate.
  - e) Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, nor prevent that party from thereafter enforcing any other provision of this Agreement. The rights granted both parties hereunder are cumulative and shall not constitute a waiver of either party's right to assert any other legal remedy available to it.
  - f) The Participant agrees upon request to execute any further documents or instruments necessary or desirable to carry out the purposes or intent of this Agreement.
  - g) The Award has been granted to the Participant under the Plan, a copy of which has been previously provided to the Participant. All of the terms, conditions, and other provisions of the Plan are hereby incorporated by reference into this Agreement. If there is any conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan shall govern. The Participant hereby acknowledges such prior receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof (as presently in effect or hereafter amended), rules and regulations adopted from time to time thereunder, and by all decisions and determinations of the Board and the Committee made from time to time thereunder.
  - h) This Award shall be subject to any clawback or other recovery policy maintained by the Company and its subsidiaries, including, without limitation, any clawback policies required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Sarbanes-Oxley Act of 2002, or any other applicable law. The Company may seek recovery of an Award to the fullest extent required by any such clawback policy.
  - i) The amounts payable pursuant to this Award are intended to comply with the short term deferral exception to Section 409A of the Code, set forth in Treasury Regulation § 1.409A-1(b)(4), or are intended to be exempt from Section 409A of the Code, and this Agreement shall be interpreted accordingly. However, to the extent that a Participant is a "specified employee" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code as of the Participant's date of a separation from service (which, for purposes of this Agreement, shall have the meaning given such phrase within Section 409A of the Code) no amount that may constitute a deferral of compensation and is not otherwise exempt from Section 409A of the Code which is
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payable on account of the Participant's separation from service shall be paid to the Participant before the date (the "Delayed Payment Date") which is first day of the seventh month after the Participant's date of termination or, if earlier, the date of the Participant's death following such date of termination. All such amounts that would, but for this paragraph, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date. No interest will be paid by the Company with respect to any such delayed payments. For purposes of Section 409A of the Code, each payment or amount due under this Plan shall be considered a separate payment.

- j) Captions in this Agreement are for convenience of reference only and shall not be considered in the construction hereof. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires. Any requirement of time made hereinabove shall be of the essence of this Agreement.
- k) This Agreement shall be binding upon the heirs, executors, administrators, and successors of the parties. This Agreement and the Plan constitute the entire agreement between the parties with respect to the Award, and supersede any prior agreements or documents with respect thereto. No amendment, alteration, suspension, discontinuation, or termination of this Agreement, which may impose any additional obligation upon the Company or materially impair the rights of Employee with respect to the Award, shall be valid unless in each instance such amendment, alteration, suspension, discontinuation, or termination is expressed in a written instrument duly executed in the name and on behalf of the Company and by the Participant.
- l) In the event of any conflict or inconsistency between the terms of this Agreement and the terms of an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, the terms contained in such employment agreement shall govern and control.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first written above.

**CONTANGO OIL & GAS COMPANY**

**PARTICIPANT**



\_\_\_\_\_  
E. Joseph Grady, Senior Vice President and CFO

\_\_\_\_\_  
NAME – Signature

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**CONTANGO OIL & GAS COMPANY**  
**STOCK AWARD AGREEMENT**

This Stock Award Agreement (this "Agreement") is made as of \_\_\_\_\_ (the "Effective Date"), by and between Contango Oil & Gas Company, a Delaware corporation (the "Company" or "MCF"), and \_\_\_\_\_ (the "Participant"). Unless otherwise defined herein, capitalized terms used in this Agreement shall have the same meaning ascribed to them in the Amended and Restated 2009 Incentive Compensation Plan, as adopted (as the same may be further amended, restated or otherwise modified from time to time, (the "Plan").

WHEREAS, the Participant is an Employee, and the Participant's continued participation is considered by the Company to be important for the Company's continued growth; and

WHEREAS, the Board has determined that the Company shall make certain Grants to the Participant under the Plan, in furtherance of the purposes of the Plan of strengthening the desire of Employees to continue their employment with the Company and by securing other benefits for the Company;

WHEREAS, this Agreement shall represent the Grant of a Stock Award (referred to herein as "Restricted Stock") as well as the Grant of a Performance Stock Unit Award (referred to herein as "Performance Stock") (the Restricted Stock and the Performance Stock referred to collectively herein as the "Award");

WHEREAS, the Company desires to confirm the Grants and to set forth the terms and conditions of such Grants, and the Participant desires to accept such Grants and agree to the terms and conditions thereof, as set forth in this Agreement;

NOW THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

**Part I: Grant of Time-Based Restricted Stock Award**

- 1) Grant of Restricted Stock. The Company hereby confirms a Grant, under and pursuant to the Plan, to the Participant as of the Effective Date of \_\_\_\_\_ shares of Restricted Stock (the "Restricted Stock") in consideration for the services which the Participant is to render the Company over the vesting period set forth in Section 2 of this Agreement. The Restricted Stock is subject to all of the terms and conditions set forth in this Agreement and the Plan.
- 2) Vesting: Except as set forth in Section 6 below, provided Participant continues to provide continuous service as an employee of the Company, the Restricted Stock will vest as follows:

First anniversary of the date of grant	33%
Second anniversary of the date of grant	33%
Third anniversary of the date of grant	34%

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- 3) Participant's Rights. Subject to the terms hereof, the Participant shall have all of the rights of a shareholder with respect to the Restricted Stock while they are held in escrow (or held in book-entry form with the Company's transfer agent), including without limitation, the right to vote the Company Stock and to receive any cash dividends declared thereon. All cash dividends shall be paid to the Participant within thirty (30) days of the vesting described in Section 2 of this Agreement (i.e., 33% of the dividend after the first anniversary of the grant, 33% after the second anniversary of the grant, and 34% after the third anniversary of the grant).
  - 4) Restrictions; Forfeiture. The Restricted Stock are restricted in that they may not be sold, transferred or otherwise alienated or hypothecated until these restrictions are removed or expire as contemplated within this Agreement. The Restricted Stock are also restricted in the sense that they may be forfeited to the Company. Participant hereby agrees that if the Restricted Stock are forfeited pursuant to this Agreement the Company shall have the right to deliver the Restricted Stock to the Company's transfer agent for, at the Company's election, cancellation or transfer to the Company.
  - 5) Separation from Service.
    - a) For Cause or Voluntary Termination. In the event Participant's employment is terminated by the Company for Cause (as such term is defined in an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, or, otherwise, by the Plan), or by the Participant's voluntary resignation, the Participant shall forfeit any or all of the shares of the Restricted Stock which have not vested, and the Participant shall have no further rights with respect to the Award.
    - b) Without Cause or by Participant for Good Reason. In the event Participant's employment is terminated by the Company without Cause or by the Participant for Good Reason not during a Protection Period (as such terms are defined in an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, or, otherwise, by the Plan), vesting shall be pro-rata accelerated and a portion of the shares of Restricted Stock subject to this agreement shall become immediately vested as detailed in the employment agreement between Participant and the Company.

In the event Participant's employment is terminated by the Company without Cause or by the Participant for Good Reason during the Protection Period (as such terms are defined in an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, or, otherwise, by the Plan), vesting shall be accelerated and the shares of Restricted Stock subject to this agreement shall become immediately vested with respect to one hundred percent (100%) of the shares of Restricted Stock subject to this Agreement without regard to the Participant's number of years of continuous service as an employee of the Company.
    - c) Death and Disability. In the event Participant's employment is terminated on account of death or Permanent Disability (as such term is defined in an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, or, otherwise, by the Plan), for purposes of determining vesting under this Section 6 (c), Participant shall become immediately vested with respect to one hundred percent (100%) of the shares of Restricted Stock subject to this Agreement without regard to the Participant's number of years of continuous service as an employee of the Company.
  - 6) Delivery of Stock. Promptly following the expiration of the restrictions on the Restricted Stock as contemplated by this Agreement, the Company shall cause to be issued and delivered to Participant a
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certificate or other evidence of the number of Restricted Stock as to which restrictions have lapsed, free of any restrictive legend relating to the lapsed restrictions, upon receipt by the Company of any tax withholding as may be requested pursuant to this Agreement. The value of such Restricted Stock shall not bear any interest owing to the passage of time.

- 7) Tax Elections for Restricted Stock. The Participant understands that under Section 83 of the Code, the difference between the purchase price, if any, paid for the shares of Restricted Stock subject to this Agreement and the fair market value on the date the forfeiture restrictions applicable to such shares lapse will be reportable as ordinary income at that time. The Participant understands that the Participant may elect to be taxed at the time the shares of Restricted Stock are acquired to the extent the fair market value of those shares of Restricted Stock exceeds the purchase price, if any, paid for the shares, rather than when and as such shares of Restricted Stock cease to be subject to forfeiture restrictions, by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days after the date of acquisition of the Restricted Stock. The form for making this election is attached hereto as Exhibit A. Participant understands that failure to make this filing within the thirty (30) day period will result in the recognition of ordinary income by the Participant as the forfeiture restrictions lapse.
- a) In the event that the Participant files, under Section 83(b) of the Code, an election to be taxed on his receipt of the Restricted Stock as the receipt of ordinary income at the date of grant of the Restricted Stock, the Participant shall at the time of such filing notify the Company of the making of such election and furnish a copy of the notice to the Company.
- b) THE PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON PARTICIPANT'S BEHALF. PARTICIPANT IS RELYING SOLELY ON PARTICIPANT'S ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE AN 83(b) ELECTION.

## **Part II: Grant of Performance-Based Restricted Stock Unit Award**

- 8) Grant of Restricted Performance Stock Units. The Company hereby confirms a grant, under and pursuant to the Plan, to the Participant as of the Effective Date of \_\_\_\_\_ Restricted Stock Units that will conditionally vest based on the performance conditions noted below (the "Performance Stock"). The Performance Stock is also intended to constitute a Qualified Performance-Based Compensation Award under Section 12 of the Plan, even if the Participant is not deemed to be a "covered employee" as defined within Section 162(m) of the Code on the Effective Date.
- 9) Performance Vesting Terms. The Performance Stock is conditionally granted as a target award (the "Target Award") subject to a performance period (the "Performance Period" described below), and in consideration for the services which the Participant is to render the Company over the vesting period during the Performance Period. The Performance Stock is subject to all of the terms and conditions set forth in this Agreement and the Plan.
- a) The Performance Period begins \_\_\_\_\_ and ends \_\_\_\_\_. During this period, the Company's Total Shareholder Return ("TSR") will be measured against the TSR of the following 21 peer companies (the "Peer Companies"):
- Carrizo Oil & Gas, Inc.
  - Matador Resources Co.
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- WPX Energy, Inc.
- QEP Resources, Inc.
- Oasis Petroleum, Inc.
- Whiting Petroleum Corp.
- SM Energy Co.
- Bill Barrett Corp.
- Murphy Oil Corp.
- Energen Corp.
- Extraction Oil & Gas Inc.
- Denbury Resources, Inc.
- Synergy Resources Corp.
- Sanchez Energy Corp.
- W&T Offshore, Inc.
- Abraxas Petroleum Corp.
- Approach Resources, Inc.
- EP Energy Corp.
- Callon Petroleum Co.
- Halcon Resources Corp.
- Laredo Petroleum, Inc.

- b) Any Peer Company filing for bankruptcy during the Performance Period shall be moved to the bottom of the group (i.e. -100% TSR). Any Peer Company that is acquired during the Performance Period shall be removed from the comparison group.
- c) At the end of the Performance Period, the TSR for MCF and each of the Peer Companies is calculated and ranked highest to lowest, with a percentile rank assigned to each Peer Company, and Payout as % of Target as set forth in the table below. For performance ranks between those listed below, a proportionate fraction of the Payout as % of Target will be applied.

<i>MCF Percentile Rank</i>	<i>Payout as % of Target Award (Adjusted Target Award)</i>
90 <sup>th</sup> percentile or above more	200%
70 <sup>th</sup> percentile	150%
50 <sup>th</sup> percentile	100%
30 <sup>th</sup> percentile	50%
Less than 30 <sup>th</sup> percentile	0%

$$\text{TSR} = \frac{\text{End of Period Share Price}^{(1)} - \text{Beginning of Period Share Price}^{(2)} + \text{Dividends}^{(3)}}{\text{Beginning of Period Share Price}^{(2)}}$$

(1) Calculated as the twenty-day volume weighted average of the high and low stock price (VWAP) during the last twenty days of the Performance Period.

(2) Calculated as the twenty-day volume weighted average of the high and low stock price (VWAP) during the last twenty days immediately preceding the Performance Period.

- (3) Assumes dividends are reinvested on a daily basis.
- d) A Participant's earned award (if any) shall be equal to the Adjusted Target Award multiplied by the below multiplier for the applicable Performance Period after completion thereof, as reviewed and approved by the Board of Directors or a committee thereof (the "Earned Performance Stock"), as follows:

<i>Annualized MCF TSR</i>	<i>Multiplier</i>
<0%	50%
0-15%	100%
➤ 15%	150%

- e) Continuous Performance Required: Provided Participant continues to provide continuous service as an employee of the Company through the end of the Performance Period, the Earned Performance Stock will be vested on the last day of the Performance Period.

10) Adjustments to Performance Stock

- a) The Board of Directors or a committee thereof may make adjustments to the performance goals set forth above as set forth in the Plan, *provided*, *however*, that in no event will an adjustment be made to any award that is intended to be a Qualified Performance-based Compensation Award pursuant to Section 12 of the Plan that could increase the amount of the Performance Stock from its actual results or otherwise violate the regulations promulgated pursuant to Section 162(m) of the Code.

- 11) Rights of Performance Stock Holders. Performance Stock are not shares of Company Stock and have no voting rights or, except as described in this paragraph, dividend rights. With respect to each share of Performance Stock, the Participant is also awarded Dividend Equivalents with respect to one share of Company Stock, which means that, in the event that the Company declares and pays a cash dividend on its outstanding Company Stock and, on the record date for such dividend, the Participant holds Performance Stock that has not been settled or forfeited pursuant to the terms of this Agreement, then the Participant will be credited on the books and records of the Company with an amount equal to the amount per share of any such cash dividend for each outstanding share of Performance Stock. The Participant will be credited with such Dividend Equivalents for the Performance Period or, if earlier, the date the Participant forfeits his rights with respect to the Performance Stock. The Company will pay in cash to the Participant an amount equal to the Dividend Equivalents credited to such Participant, adjusted as necessary to reflect the number of Earned shares of Performance Stock as promptly as may be practicable after (a) the Board of Directors or an applicable committee thereof certifies the attainment of the applicable performance goals, or (b) if a Change of Control has occurred, the earlier to occur of the last day of the Performance Period and the date of the Change of Control, as applicable, and in any event no later than the 15th day of the third month following the end of the first taxable year in which the Dividend Equivalents are no longer subject to a substantial risk of forfeiture. For purposes of clarity, if Performance Stock is forfeited by the Participant, then the Participant shall also forfeit the Dividend Equivalents accrued with respect to such Performance Stock.

12) Separation of Service .

- a) For Cause or Voluntary Termination . In the event Participant's employment is terminated by the Company for Cause (as such term is defined in an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, or, otherwise, by the Plan), or by the Participant's voluntary resignation without Good Reason, the Participant shall forfeit any or all of the shares of the Performance Stock which have not vested as of the date of the separation from service.
- b) Without Cause or by Participant for Good Reason . In the event Participant's employment is terminated by the Company without Cause or by the Participant for Good Reason not during a Protection Period (as such terms are defined in an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, or, otherwise, by the Plan), the target number of shares of Performance Stock shall receive pro-rata adjustment in accordance with the formula detailed in the employment agreement between Participant and the Company, with the resulting reduced number of Performance Stock remaining subject to all applicable performance metrics during the full performance period applicable to such award.

In the event Participant's employment is terminated by the Company without Cause or by the Participant for Good Reason during the Protection Period (as such terms are defined in an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, or, otherwise, by the Plan), actual performance shall be calculated as if the end of the performance period was the date of the separation of service.

- c) Death and Disability . In the event Participant's employment is terminated on account of death or Permanent Disability (as such term is defined in an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, or, otherwise, by the Plan), actual performance shall be calculated as if the end of the performance period was the date of the separation of service.
- 13) Payment of Performance Stock . Payment for Earned Performance Stock will be made solely in shares of Company Stock, which will be issued to the Participant as promptly as practicable after the Board of Directors (or a committee thereof) has certified the attainment of the Company's performance (which such payment and certification shall occur no later than sixty (60) days following the end of the Performance Period) or the occurrence of a Change of Control (which such payment shall occur no later than sixty (60) days following the date of the Change of Control), as applicable, and in any event no later than the fifteenth (15<sup>th</sup>) day of the third month following the end of the first taxable year in which the Performance Stock is no longer subject to a substantial risk of forfeiture.

**Part III: Provisions Applicable to the Award**

- 14) Restriction on Transfer . Except for the transfer of the shares subject to this Agreement to the Company or its assignees contemplated by this Agreement, no portion of the Award or any beneficial interest therein shall be transferred, encumbered or otherwise disposed of in any way until such shares subject to this Agreement vest and are thereby released from all forfeiture provisions in accordance with the provisions of this Agreement.
  - 15) Tax Withholding . The Company may require the Participant to pay to the Company (or the Company's subsidiary if the Participant is an employee of a subsidiary of the Company), an amount
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the Company deems necessary to satisfy its (or its subsidiary's) current or future obligation to withhold federal, state or local income or other taxes that the Participant incurs as a result of the Award. With respect to any required tax withholding, the Participant may (a) direct the Company to withhold from the shares of Company Stock to be issued to the Participant under this Agreement the number of shares necessary to satisfy the Company's obligation to withhold taxes; which determination will be based on the shares' Fair Market Value at the time such determination is made; (b) deliver to the Company shares of Company Stock sufficient to satisfy the Company's tax withholding obligations, based on the shares' Fair Market Value at the time such determination is made; or (c) deliver cash to the Company sufficient to satisfy its tax withholding obligations. If the Participant desires to elect to use the stock withholding option described in subparagraph (a), the Participant must make the election at the time and in the manner the Company prescribes. The Company, in its discretion, may deny your request to satisfy its tax withholding obligations using a method described under subparagraph (a) or (b). In the event the Company determines that the aggregate Fair Market Value of the shares of Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then the Participant must pay to the Company, in cash, the amount of that deficiency immediately upon the Company's request.

16) Investor Representations. Participant represents that he/she is acquiring the Award for his/her own account for investment and has no present intent to resell or distribute all or any portion of the Award. Participant agrees that any Company Stock received pursuant to this Agreement will be sold or otherwise disposed of only in accordance with applicable federal and state statutes, rules and regulations.

17) Legends. The share certificate evidencing the Company Stock, if any, issued hereunder shall be endorsed with the following legend (in addition to any legend required under applicable state securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON TRANSFER AND FORFEITURE PROVISIONS AS SET FORTH IN THAT CERTAIN RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE COMPANY AND THE PARTICIPANT, AS THE SAME MAY BE AMENDED FROM TIME TO TIME, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY, AND, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, NO SALE, ASSIGNMENT, TRANSFER OR OTHER DISPOSITION OF THESE SHARES SHALL BE VALID OR EFFECTIVE UNLESS MADE IN COMPLIANCE WITH ALL OF THE TERMS AND CONDITIONS OF SUCH AGREEMENT.

18) Adjustment for Stock Split. All references to the number of shares of the Award in this Agreement shall be appropriately adjusted to reflect any stock split, stock dividend or other change in the shares that may be made by the Company after the date of this Agreement as set forth in Section 17 of the Plan.

19) Cash in Lieu. At the sole discretion of the Committee, upon the vesting of any portion of the Restricted Stock or Performance Stock, the Committee may make a cash payment to the Participant in an amount equal to the fair value of the number of shares that would have otherwise been issued upon such vesting, net of any applicable taxes.

20) No Guarantee of Employment. Nothing contained in this Agreement shall be deemed to require the Company to maintain the Participant's status as an Employee. Except as may be provided in a written employment contract executed by a duly authorized officer of the Company and approved by the Committee or the Board, the Participant shall at all times be an employee-at-will of the Company and

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the Company may discharge the Participant at any time for any reason, with or without cause, and with or without severance compensation.

- 21) Indemnification. The Participant agrees to hold harmless and indemnify the Company for any and all liabilities resulting to it through violation by the Participant of the warranties and representations made by the Participant in, and other provisions of, this Agreement.
- 22) Securities Laws. Participant represents and warrants that Participant understands that Rule 144 promulgated under the Securities Act of 1933 (the "Securities Act") may indefinitely restrict transfer of an Award so long as Participant remains an "affiliate" of the Company or if "current public information" about the Company (as defined in Rule 144) is not publicly available. Notwithstanding any provision of this Agreement to the contrary, the issuance of Company Stock will be subject to compliance with all applicable requirements of federal, state, or foreign law with respect to such securities and with the requirements of any stock exchange or market system upon which the Stock may then be listed. No Company Stock will be issued hereunder if such issuance would constitute a violation of any applicable federal, state, or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Company Stock may then be listed. In addition, Company Stock will not be issued hereunder unless (a) a registration statement under the Securities Act is, at the time of issuance, in effect with respect to the shares issued or (b) in the opinion of legal counsel to the Company, the shares issued may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Award will relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority has not been obtained. As a condition to any issuance hereunder, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect to such compliance as may be requested by the Company. From time to time, the Board of Directors and appropriate officers of the Company are authorized to take the actions necessary and appropriate to file required documents with governmental authorities, stock exchanges, and other appropriate persons to make shares of Company Stock available for issuance. The Participant agrees to take any action the Company reasonably deems necessary in order to comply with federal and state laws, or the rules and regulations of the National Association of Securities Dealers, Inc. (the "NASD") or any stock exchange or quotation system, or any other obligation of the Company or the Participant relating to the Award or this Agreement.
- 23) General Provisions.
- a) This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of Delaware.
  - b) If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.
  - c) Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to the Participant at his address shown on the Company's employment records and to the Company at the address of its
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principal corporate offices (attention: President) or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto.

- i) Any notice to the Escrow Agent shall be sent to the Company's address with a copy to the other party hereto.
  - d) The rights of the Company under this Agreement shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of the Participant under this Agreement may not be assigned; however, such rights and obligations shall inure to the benefit of, and be binding upon, the heirs, executors, or administrators of the Participant's estate.
  - e) Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, nor prevent that party from thereafter enforcing any other provision of this Agreement. The rights granted both parties hereunder are cumulative and shall not constitute a waiver of either party's right to assert any other legal remedy available to it.
  - f) The Participant agrees upon request to execute any further documents or instruments necessary or desirable to carry out the purposes or intent of this Agreement.
  - g) The Award has been granted to the Participant under the Plan, a copy of which has been previously provided to the Participant. All of the terms, conditions, and other provisions of the Plan are hereby incorporated by reference into this Agreement. If there is any conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan shall govern. The Participant hereby acknowledges such prior receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof (as presently in effect or hereafter amended), rules and regulations adopted from time to time thereunder, and by all decisions and determinations of the Board and the Committee made from time to time thereunder.
  - h) This Award shall be subject to any clawback or other recovery policy maintained by the Company and its subsidiaries, including, without limitation, any clawback policies required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Sarbanes-Oxley Act of 2002, or any other applicable law. The Company may seek recovery of an Award to the fullest extent required by any such clawback policy.
  - i) The amounts payable pursuant to this Award are intended to comply with the short term deferral exception to Section 409A of the Code, set forth in Treasury Regulation § 1.409A-1(b)(4), or are intended to be exempt from Section 409A of the Code, and this Agreement shall be interpreted accordingly. However, to the extent that a Participant is a "specified employee" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code as of the Participant's date of a separation from service (which, for purposes of this Agreement, shall have the meaning given such phrase within Section 409A of the Code) no amount that may constitute a deferral of compensation and is not otherwise exempt from Section 409A of the Code which is payable on account of the Participant's separation from service shall be paid to the Participant before the date (the "Delayed Payment Date") which is first day of the seventh month after the Participant's date of termination or, if earlier, the date of the Participant's death following such date of termination. All such amounts that would, but for this paragraph, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date. No interest will be paid by the Company with respect to any such delayed payments. For purposes of
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Section 409A of the Code, each payment or amount due under this Plan shall be considered a separate payment.

- j) Captions in this Agreement are for convenience of reference only and shall not be considered in the construction hereof. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires. Any requirement of time made hereinabove shall be of the essence of this Agreement.
- k) This Agreement shall be binding upon the heirs, executors, administrators, and successors of the parties. This Agreement and the Plan constitute the entire agreement between the parties with respect to the Award, and supersede any prior agreements or documents with respect thereto. No amendment, alteration, suspension, discontinuation, or termination of this Agreement, which may impose any additional obligation upon the Company or materially impair the rights of Employee with respect to the Award, shall be valid unless in each instance such amendment, alteration, suspension, discontinuation, or termination is expressed in a written instrument duly executed in the name and on behalf of the Company and by the Participant.
- l) In the event of any conflict or inconsistency between the terms of this Agreement and the terms of an employment agreement between Participant and the Company, the terms of which have been approved by the Committee or the Board, the terms contained in such employment agreement shall govern and control.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first written above.

**PARTICIPANT**

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**CONTANGO OIL & GAS COMPANY**

By:



Name: E. Joseph Grady  
Title: Senior Vice President and CFO

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**CONTANGO OIL & GAS COMPANY****Director Compensation Plan**

(Effective 5/11/17)

**Cash Compensation**

- Annual Retainer Fees (all payable quarterly, in arrears, with appropriate adjustments for partial periods)
  - Board membership - \$50,000 per year
  - Non-Executive Board Chairman - \$50,000 per year
  - Audit Committee Chairman - \$15,000 per year
  - Compensation Committee Chairman - \$10,000 per year
  - Nominating & Governance Committee Chairman - \$9,500 per year
  - No separate retainer fee for Investment Committee Chairman
  
- Meeting Fees (all payable quarterly, in arrears)
  - Regular Board
    - \$1,000 per meeting attended (whether in person or telephonic)
    - No maximum per year
  - Committee Meetings
    - \$1,000 per meeting attended (whether in person or telephonic)
    - No maximum per year
    - Payable in addition to regular board meetings, even if on same day

**Equity Compensation**

- Annual grants (with appropriate adjustments for partial periods)
  - \$110,000 in Restricted Stock, vesting on the first anniversary of the date of grant
  - Pro-rated amount granted upon initial election for new members
  - All pro-rated grants based on portion of service year remaining between date of grant and the next May 31<sup>st</sup>

**Other**

- Each Director is required to maintain ownership of at least fifty percent (50%) of the equity granted within the last three calendar years for service on the Board. The Compensation Committee is expected to confirm compliance annually.
  
  - Payment of reasonable travel expenses associated with Board and Committee Meeting attendance.
  
  - No Director who is an employee of the Company will be compensated for service as a member of the Board of Directors or any committee of the Board of Directors.
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## CONTANGO OIL &amp; GAS COMPANY

## Certification Required by Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934

I, E. Joseph Grady, Chief Financial Officer of Contango Oil & Gas Company (the "Company"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Company;
2. 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;
3. 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;
4. The registrant's other certifying officer and I are 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 our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us 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 our 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 our 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
5. The registrant's other certifying officer and I have disclosed, based on our 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: May 10, 2017

By: \_\_\_\_\_ / s / E. JOSEPH GRADY

**E. Joseph Grady**  
**Senior Vice President and Chief Financial Officer**  
**(Principal Financial Officer)**

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## CONTANGO OIL &amp; 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 Quarterly Report of Contango Oil & Gas Company (the "Company") on Form 10-Q for the quarter ended March 31, 2017 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, E. Joseph Grady, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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 results of operations of the Company.

Date: May 10, 2017

By: \_\_\_\_\_ / s / E. JOSEPH GRADY

**E. Joseph Grady**  
**Senior Vice President and Chief Financial Officer**  
**(Principal Financial Officer)**

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