

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

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

For the transition period from to

Commission file number 001-16317

CONTANGO OIL & GAS COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-4079863

(IRS Employer Identification No.)

**717 Texas Avenue, Suite 2900
Houston, Texas 77002**

(Address of principal executive offices)

(713) 236-7400

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
Common Stock, Par Value \$0.04 per share	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

At June 30, 2016, the aggregate market value of the registrant's common stock held by non-affiliates (based upon the closing sale price of shares of such common stock as reported on the NYSE MKT, was \$168.7 million. As of March 9, 2017, there were 25,244,682 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

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

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016
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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 this report 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;
- further or sustained declines in natural gas and oil prices;
- 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 acting as operator of deep high pressure and high 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;
- the need to take impairments on our properties due to lower commodity prices;
- the ability to post additional collateral for current bonds or comply with new supplemental bonding requirements imposed by the Bureau of Ocean Energy Management;
- operating hazards attendant to the natural gas and oil business including weather, environmental risks, accidental spills, blowouts and pipeline ruptures, and other risks;

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- downhole drilling and completion risks that are generally not recoverable from third parties or insurance;
- potential mechanical failure or under-performance of significant wells, production facilities, processing plants or pipeline mishaps;
- 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;
- 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
- ability to obtain insurance coverage on commercially reasonable terms.

Any of these factors and other factors contained 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, 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.

Reserve engineering is a process of estimating underground accumulations of oil, natural gas and natural gas liquids that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of oil, natural gas and natural gas liquids that are ultimately recovered.

All forward-looking statements, expressed or implied, in this report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or any person acting on our behalf may issue.

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.

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

PART I

Item 1. Business

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 properties in Texas and Wyoming and our offshore properties in the shallow waters of the Gulf of Mexico (“GOM”) and to use that cash flow to explore, develop, exploit, acquire and increase production from crude oil and natural gas properties in the onshore Texas and Rocky Mountain regions of the United States.

The following table lists our primary producing areas as of December 31, 2016:

<u>Location</u>	<u>Formation</u>
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
Texas Gulf Coast	Conventional formations
Sublette County, Wyoming	Jonah Field ⁽¹⁾

(1) Through a 37% equity investment in Exaro Energy III LLC (“Exaro”). Production from this investment is not included in our reported production results or in our reported reserves for any periods reported herein.

Since October 2013, upon the merger with Crimson Exploration Inc. (“Crimson”) (the “Merger”), the Company had focused its drilling efforts on liquids-rich horizontal resource plays, such as the Woodbine in Southeast Texas, the Eagle Ford and Buda in South Texas, and the Muddy Sandstone in Wyoming. Beginning in the second half of 2015, we limited our drilling program due to the challenging commodity price environment, and instead focused on: (i) the preservation of our strong and flexible financial position, including limiting our overall capital expenditure budget; (ii) the identification of opportunities for cost and production efficiencies in all areas of our operations; and (iii) the maintenance of core leases and the continued identification of new resource potential opportunities internally, and, where appropriate, through acquisition. As a result, our only drilling activity in early 2016 was in Weston County, Wyoming where we completed our third well targeting the Muddy Sandstone formation. During the third quarter of 2016, we acquired a 12,100 operated gross acre position (5,000 net) in the Southern Delaware Basin in Pecos County, Texas (the “Acquisition”), and as of December 31, 2016, had increased our acreage to 12,500 gross operated acres (6,250 net). We began drilling our initial well in the Southern Delaware Basin in October 2016, with first production from that well occurring in late January 2017. We currently have three subsequent Southern Delaware Basin wells in varying stages of drilling or completion. We expect that our Southern Delaware Basin position will be the primary focus of our drilling program for 2017.

The Company also has (i) operated producing properties in the Haynesville Shale, Mid Bossier and James Lime formations in East Texas and (ii) operated conventional producing properties in the south and southeast areas of Texas. In December 2016, the Company sold its operated producing properties in the Denver Julesburg Basin (“DJ Basin”) in Weld and Adams counties in Colorado.

During the quarter ended September 30, 2016, in conjunction with the purchase of our Southern Delaware Basin position, we completed an underwritten public offering of 5,360,000 shares of our common stock for net proceeds of approximately \$50.5 million, which were used to fund the initial purchase of this acreage and provide funding for the costs associated with drilling our initial wells in the Southern Delaware Basin.

Our production for the year ended December 31, 2016 was approximately 26.0 Bcfe (or 71.0 Mmcfe/d), was 68% from our offshore properties and was 70% natural gas. Our production for the three months ended December 31, 2016 was approximately 5.9 Bcfe (or 64.3 Mmcfe/d), was 70% from our offshore properties and was 71% natural gas. As of December 31, 2016, our proved reserves were approximately 85% proved developed, were 61% offshore, were 69% natural gas and were 95% attributed to wells and properties operated by us.

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As of December 31, 2016, our proved reserves, as estimated by Netherland, Sewell & Associates, Inc. (“NSAI”) and William M. Cobb and Associates (“Cobb”), our independent petroleum engineering firms for our onshore and offshore properties, respectively, in accordance with reserve reporting guidelines required by the Securities and Exchange Commission (“SEC”), were approximately 151.8 Bcfe, consisting of 105.1 Bcf of natural gas, 3.4 MMBbl of crude oil and condensate and 4.4 MMBbl of natural gas liquids (“NGLs”), with a present value, discounted at a 10% rate (PV-10), of \$166.2 million, and a Standardized Measure of Discounted Future Net Cash Flows (“Standardized Measure”) of \$166.2 million. PV-10 as of December 31, 2016 was based on adjusted prices of \$2.43 per MMBtu of natural gas, \$38.67 per barrel of oil, and \$13.62 per barrel of NGLs. PV-10 is not an accounting principle generally accepted in the United States of America (“GAAP”) and is therefore classified as a non-GAAP financial measure. A reconciliation of our Standardized Measure to PV-10 is provided under “Item 2. Properties - PV-10”.

The following summary table sets forth certain information with respect to our proved reserves as of December 31, 2016 (excluding reserves attributable to our investment in Exaro), as estimated by NSAI and Cobb, and our net average daily production for the year ended December 31, 2016:

Region	Estimated Proved Reserves (Bcfe)	% Crude Oil / Condensate	Natural % Gas	% Natural Gas Liquids	% Proved Developed	Average Daily Production (Mmcfe/d)
Offshore GOM	92.2	3 %	82 %	15 %	100 %	48.0
Southeast Texas	25.6	33 %	42 %	25 %	72 %	13.1
South Texas	32.5	26 %	55 %	19 %	53 %	7.5
Other ⁽¹⁾	1.5	68 %	28 %	4 %	100 %	2.4
Total	151.8					71.0

(1) East Texas, Mississippi, Louisiana and Wyoming

The following summary table sets forth certain information with respect to the proved reserves attributable to our investment in Exaro, as of December 31, 2016, as estimated by W.D. Von Gonten and Associates (“Von Gonten”), and our net share of Exaro’s average daily production for the year ended December 31, 2016:

Region	Estimated Proved Reserves (Bcfe)	% Crude Oil / Condensate	% Natural Gas	% Natural Gas Liquids	% Proved Developed	Average Daily Production (Mmcfe/d)
Investment in Exaro	32.6	7 %	93 %	— %	100 %	29.7

Our Strategy

Our long-term business strategy is:

- *Enhancing our portfolio by dedicating the majority of our drilling capital to our oil and liquids-rich opportunities.* A key element of our long term strategy is to continue to develop the oil and natural gas liquids resource potential that we believe exists in numerous formations within our various oil/liquids weighted resource plays, and where possible, to expand our presence in those plays. Due to the current superior economics of oil production, as compared to natural gas, we expect to focus on oil and liquids-weighted opportunities as we strive to transition from a heavily weighted natural gas production profile to a more balanced reserve and production profile between oil/liquids and natural gas. For the foreseeable future, we will focus our drilling capital on the recently acquired Southern Delaware Basin position, as we believe it provides excellent returns in the current oil price environment.

- *Pursuing accretive, opportunistic acquisitions that meet our strategic and financial objectives.* We intend to evaluate opportunistic acquisitions of crude oil and natural gas properties, both undeveloped and developed, in areas where we currently have a presence and/or specific operating expertise, and to pursue undeveloped acreage positions, at reasonable cost, in new areas that we believe to be complementary to our existing plays and feel have significant exploration, exploitation or operational upside. We believe that the ongoing depressed commodity price environment might provide growth opportunities for us through potential corporate combinations.

- *Selectively exploiting, in a higher commodity price environment, our existing onshore producing conventional natural gas property portfolio to generate additional cash flows.* We believe our multi-year drilling inventory of exploitation opportunities on our existing onshore conventional natural gas oriented producing properties provides us with a solid, dependable platform for future reserve and production growth. We will continuously monitor the

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commodity price environment and technical advancements, and if warranted, make adjustments to our investment strategy.

We will focus our 2017 capital program on our newly acquired Southern Delaware Basin acreage, which is expected to provide excellent 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, but 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 environment. We retain the flexibility to be more aggressive in our drilling plans should planned results exceed expectations and/or commodity prices improve, making increasing drilling an appropriate business decision. Our 2017 capital expenditure budget is initially expected to include the following:

- Pecos County, Texas – We forecast capital expenditures of approximately \$36.6 million for drilling in this area and another \$2.2 million for recycling and central facilities.
- Other – We forecast capital expenditures of approximately \$7.5 million for unproved leasehold acquisition costs.

Properties

Offshore Gulf of Mexico

As of December 31, 2016, our offshore assets consisted of seven federal and six state of Louisiana company-operated wells in the shallow waters of the GOM. These 13 wells are located in four fields. The following summary table sets forth certain information with respect to our offshore reserves as of December 31, 2016 and average daily offshore production for the year ended December 31, 2016:

Field	Estimated Proved Reserves (Bcfe)	% Crude Oil / Condensate	% Natural Gas	% Natural Gas Liquids	% Proved Developed	Average Daily Production (Mmcf/d)
Dutch and Mary Rose	85.1	3 %	82 %	15 %	100 %	42.0
Vermilion 170	7.1	2 %	84 %	14 %	100 %	5.4
Other Offshore	—	1 %	99 %	— %	100 %	0.6
Total	<u>92.2</u>					<u>48.0</u>

Dutch and Mary Rose Field

We operate five wells located in federal waters at Eugene Island 10 (“Dutch”), and five wells located in adjacent Louisiana state waters (“Mary Rose”). All Dutch and Mary Rose wells flow to a Company-owned and operated production platform at Eugene Island 11. While we do not own the lease for the Eugene Island 11 block, this does not impact our ability to operate our facilities located on that block. Operators in the GOM may place platforms and facilities on any location without having to own the lease, provided that permission and proper permits from the Bureau of Safety and Environmental Enforcement (“BSEE”) have been obtained. We have obtained such permission and permits. We installed our facilities at Eugene Island 11 because that was the optimal gathering location in proximity to our wells and marketing pipelines.

From our production platform we are able to access two separate markets thereby minimizing downtime risk and providing the ability to select the best sales price for our natural gas production. Oil and natural gas production can flow to third-party owned and operated onshore processing facilities near Patterson, Louisiana. Alternatively, natural gas can flow via our 8” pipeline, which has been designed with a capacity of 80 Mmcf/d, to a third-party owned and operated onshore processing facility at Burns Point, Louisiana. Production facilities include a turbine type compressor capable of servicing all ten Dutch and Mary Rose wells at the Eugene Island 11 platform. Condensate can also flow to onshore markets and multiple refineries.

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Vermilion 170 Field

We own and operate one well located in federal waters with a dedicated production facility at Vermilion 170. This platform, which includes compression equipment, services natural gas and condensate production, which flow via the Sea Robin Pipeline to a third-party owned and operated onshore processing plant.

Other Offshore

Our Ship Shoal 263 field, located in federal waters, and South Timbalier 17 field, located in Louisiana state waters, are included in "Other Offshore." In September 2015, our Ship Shoal 263 well reached the end of its estimated useful life and was permanently shut-in. We estimate approximately \$2.5 to \$2.9 million, net to Contango, to plug and abandon this well, which we expect to conclude in 2017.

We have a 75% working interest (53.3% net revenue interest) in a well located in the South Timbalier 17 field. Due to the low price environment, the net book value of this well exceeded the future undiscounted cash flows associated with its recoverable reserves, and we recognized an impairment expense of approximately \$7.7 million and \$0.5 million during the years ended December 31, 2014 and 2015, respectively. No impairment expense was recognized for the twelve months ended December 31, 2016.

Onshore Properties

Southern Delaware Basin

Since the closing of the Acquisition in late July 2016, we and our partner have increased our leasehold footprint to approximately 6,250 acres, net to Contango. As of December 31, 2016, 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 are scheduled to be completed in mid-March, with initial production from both wells expected to commence in April. 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 is also targeting production from the Upper Wolfcamp with extensive open hole logging analysis and rotary sidewall cores to be taken through the Bone Springs, Upper, Middle and Lower Wolfcamp for evaluation of productivity in a number of zones before drilling a 10,000 foot lateral within the Upper Wolfcamp. We have exercised our rig option for our fifth well, the Gunner #1H, which is planned to spud approximately two miles to the northeast after conclusion of the drilling of the Grim Reaper. The Grim Reaper is expected to be completed in April and the Gunner will follow soon thereafter.

Southeast Texas (Woodbine)

As of December 31, 2016, our Southeast Texas region included approximately 33,200 gross (20,000 net) acres, proven reserves of 25.6 Bcfe, and 78 gross (45.2 net) producing wells. While we had success in this area in 2014 and 2015, no drilling capital was allocated to this area in 2016 due to the low commodity price environment. For 2017, our current budget does not anticipate further drilling in this area, but should we experience sustained improvement in commodity prices, we could increase our activity. We currently have approximately 13,700 net acres in Madison and Grimes counties, with a multi-year inventory of potential drilling locations encompassing the Woodbine, Eagle Ford Shale and/or Georgetown/Buda formations.

Weston County, Wyoming (N. Cheyenne Project)

In 2014, we acquired the right to earn approximately 49,000 gross acres (44,000 net acres with a 90% to 100% working interest) in Weston County, Wyoming. During the fourth quarter of 2014, we sold a 20% working interest in this prospect to an independent oil and gas company, reducing our potential ownership to approximately 35,000 net acres with a 72% to 80% working interest. In 2015, we began drilling the first of three successful wells in this area targeting the Muddy Sandstone formation; the third of which was completed in the first quarter of 2016. Based on current results,

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a sustained improvement in oil prices will be needed to justify allocation of drilling capital to this area compared to our Southern Delaware Basin position. As a result of drilling these wells, we have satisfied the right to earn the 35,000 net acres (approximately 4% of which is held by production). We do not anticipate devoting any capital to this area in 2017.

South Texas (Buda/Eagle Ford)

As of December 31, 2016, our South Texas region included approximately 150,300 gross (76,800 net) acres, proven reserves of 32.5 Bcfe, and 260 gross (135.5 net) producing wells. We believe approximately 16,800 gross (7,900 net) acres to be prospective for the Buda and Eagle Ford Shale plays. While we had success drilling in the Buda formation in Zavala and Dimmit counties in 2014, and while core analysis indicates the viability of the Eagle Ford formation, no drilling activity was conducted in this area in 2015 and 2016 due to the reduction in our capital expenditure programs in response to the commodity price environment. We do not anticipate devoting any drilling capital to this area in 2017.

Our estimated net proven Buda/Eagle Ford reserves in this area were 11.0 Bcfe, comprised of 79% liquids, with 31 gross (15.8 net) producing wells, as of December 31, 2016.

South Texas (Elm Hill Project)

As of December 31, 2016, we held approximately 51,000 gross acres (24,600 net) in Fayette, Gonzales, Caldwell and Bastrop counties, Texas. Our last activity in this area was in 2014 and 2015, when we drilled five wells with mixed results. There was no drilling activity in 2016 and the Company and its partner have no plans to further test this area. As a result, we recognized an impairment expense of \$6.8 million for the year ended December 31, 2016.

The remaining 82,500 gross (44,300 net) acres in our South Texas region are located in our conventional fields that produce primarily from the Wilcox, Frio, and Vicksburg sands. Our estimated net proved conventional reserves in this region were 21.5 Bcfe, comprised of 72% gas, with 224 gross (117.5 net) producing wells, as of December 31, 2016.

Natrona County, Wyoming (FRAMS Project)

In 2014, we acquired the right to earn acreage in Natrona County, Wyoming and spud our first well targeting the Mowry Shale. This well proved to be unsuccessful. As a result, we recognized \$6.7 million in exploration expenses for the cost of drilling the well for the year ended December 31, 2015 and \$2.9 million in impairment expense in 2016 related to our unproved acreage in Natrona County, Wyoming.

Other (East Texas)

As of December 31, 2016, our East Texas region included approximately 5,900 gross (3,600 net) acres primarily in San Augustine County, with proven reserves of 0.4 Bcfe comprised of 76% gas, and 10 gross (5.1 net) producing wells. During 2014, we drilled two gross (1.2 net) wells targeting the shallower, liquids-rich James Lime formation on our acreage in San Augustine County. We believe that the further exploitation of our acreage in the Haynesville, Mid-Bossier and James Lime formations may provide long-term natural gas reserve and production growth potential in the future. There has been renewed interest in this area by offset operators as they experiment with new frac techniques and refracing of previously drilled wells. We will continue to monitor that activity and results; however, we do not anticipate devoting any capital to this area during 2017. As of December 31, 2016, substantially all of our acreage in our East Texas region was held by production.

Other (Colorado)

On December 30, 2016, we completed the sale of all of our Colorado assets to an independent oil and gas company for an aggregate purchase price of \$5.0 million, subject to normal post-closing adjustments. The sold properties consisted of approximately 16,000 gross (11,200 net) acres and associated producing vertical wells primarily in Adams and Weld counties. As of December 31, 2015, the sold properties had proved reserves of 4.2 Bcfe and during 2016 average net daily production was 0.4 Mmcfe/d.

Other

As of December 31, 2016, we held approximately 7,000 gross (5,800 net) mostly undeveloped acres in Louisiana, Mississippi, and North Texas.

Impairment of Long-Lived Assets

We recognized approximately \$10.4 million in non-cash impairment charges in 2016. Under US GAAP, an impairment charge is required when the unamortized capital cost of any individual property within the Company's proved property base exceeds the risked estimated future net cash flows from the proved, probable and possible reserves for that property. Included in the impairment charge for the year is approximately \$0.7 million related to proved property impairment. The 2016 impairment charges primarily consist of \$6.8 million related to our unproved properties in Fayette and Gonzales counties, Texas and \$2.9 million related to our unproved acreage in Natrona County, Wyoming.

If oil and/or natural gas prices decline from prices at December 31, 2016, we may be required to record additional non-cash impairment in the future, thereby impacting our financial results for that period.

Onshore Investments

Jonah Field – Sublette County, Wyoming

Our wholly-owned subsidiary, Contaro Company ("Contaro"), owns a 37% ownership interest in Exaro. As of December 31, 2016, we had invested approximately \$46.9 million in Exaro. We do not anticipate making any equity contributions during 2017, as our commitment to invest in Exaro expires on March 31, 2017. We account for Contaro's ownership in Exaro using the equity method of accounting, and therefore, do not include its share of individual operating results, reserves or production in those reported for our consolidated results.

As of December 31, 2016, Exaro had 645 wells on production over its 5,760 gross acres (1,040 net acres), with a working interest between 14.6% and 32.5%. These wells were producing at a rate of approximately 29.7 Mmcfe/d, 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 2017. For the year ended December 31, 2016, the Company recognized a net investment gain of approximately \$1.5 million, net of no tax expense, as a result of its investment in Exaro. As of December 31, 2016, reserves attributable to our investment in Exaro were 32.6 Bcfe. See Note 10 to our Financial Statements - "Investment in Exaro Energy III LLC" for additional details related to this investment.

Title to Properties

From time to time, we are involved in legal proceedings relating to claims associated with ownership interests in our properties. We believe we have satisfactory title to all of our producing properties in accordance with standards generally accepted in the oil and gas industry. Our properties are subject to customary royalty interests, liens incident to operating agreements, and liens for current taxes and other burdens, which we believe do not materially interfere with the use of or affect the value of such properties. As is customary in the industry in the case of undeveloped properties, little investigation of record title is made at the time of acquisition (other than a preliminary review of local records). Detailed investigations, including a title opinion rendered by a licensed independent third party attorney, are typically made before commencement of drilling operations.

We have granted mortgage liens on substantially all of our natural gas and crude oil properties to secure our senior secured revolving credit facility. These mortgages and the related credit agreement contain substantial restrictions and operating covenants that are customarily found in credit agreements of this type. See Note 12 to our Financial Statements - "Long-Term Debt" for further information.

Marketing and Pricing

We derive our revenue principally from the sale of natural gas and oil. As a result, our revenues are determined, to a large degree, by prevailing natural gas and oil prices. We sell a portion of our natural gas production to purchasers pursuant to sales agreements which contain a primary term of up to three years and crude oil and condensate production to purchasers under sales agreements with primary terms of up to one year. The sales prices for natural gas are tied to industry standard published index prices, subject to negotiated price adjustments, while the sale prices for crude oil are tied to industry standard posted prices subject to negotiated price adjustments.

We typically utilize commodity price hedge instruments to minimize exposure to declining prices on our crude oil, natural gas and natural gas liquids production, by using a series of swaps and/or costless collars. Unrealized gains or losses associated with hedges vary period to period, and will be a function of hedges in place, the strike prices of those hedges and the forward curve pricing for the commodities and interest rates being hedged.

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As of December 31, 2016, we had the following derivative contracts in place with members of our bank group:

<u>Commodity</u>	<u>Period</u>	<u>Derivative</u>	<u>Volume/Month</u>	<u>Price/Unit ⁽¹⁾</u>
Natural Gas	Jan - July 2017	Collar	400,000 MMBtus	\$ 2.65 - 3.00
Natural Gas	Aug - Oct 2017	Collar	200,000 MMBtus	\$ 2.65 - 3.00
Natural Gas	Nov - Dec 2017	Collar	400,000 MMBtus	\$ 2.65 - 3.00
Natural Gas	Jan - July 2017	Swap	300,000 MMBtus	\$ 3.51
Natural Gas	Aug - Oct 2017	Swap	70,000 MMBtus	\$ 3.51
Natural Gas	Nov - Dec 2017	Swap	300,000 MMBtus	\$ 3.51
Oil	Jan - July 2017	Swap	9,000 Bbls	\$ 53.95
Oil	Aug - Oct 2017	Swap	6,000 Bbls	\$ 53.95
Oil	Nov - Dec 2017	Swap	8,000 Bbls	\$ 53.95
Oil	Jan - Dec 2017	Swap	9,000 Bbls	\$ 56.20

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

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

- The domestic and foreign supply of natural gas and oil.
- Overall economic conditions.
- The level of consumer product demand.
- Adverse weather conditions and natural disasters.
- The price and availability of competitive fuels such as heating oil and coal.
- Political conditions in the Middle East and other natural gas and oil producing regions.
- The level of LNG imports/exports.
- Domestic and foreign governmental regulations.
- Special taxes on production.
- The loss of tax credits and deductions.

Historically, we have been dependent upon a few purchasers for a significant portion of our revenue. Major purchasers of our natural gas, oil and natural gas liquids for the year ended December 31, 2016, calculated on an equivalent basis, were ConocoPhillips Company (45.9%), Sunoco Inc. (14.2%), Shell Trading US Company (10.6%), Energy Transfer Company (5.1%) and Enterprise Products Operating LLC (3.6%). This concentration of purchasers may increase our overall exposure to credit risk, and our purchasers will likely be similarly affected by changes in economic and industry conditions. Our financial condition and results of operations could be materially adversely affected if one or more of our significant purchasers fails to pay us or ceases to acquire our production on terms that are favorable to us. However, we believe our current purchasers could be replaced by other purchasers under contracts with similar terms and conditions.

Competition

The oil and gas industry is highly competitive and we compete with numerous other companies. Our competitors in the exploration, development, acquisition and production business include major integrated oil and gas

companies as well as numerous independent companies, including many that have significantly greater financial resources.

The primary areas in which we encounter substantial competition are in locating and acquiring desirable leasehold acreage for our drilling and development operations, locating and acquiring attractive producing oil and gas properties and obtaining purchasers and transporters for the natural gas and crude oil we produce. There is also competition between producers of natural gas and crude oil and other industries producing alternative energy and fuel. Furthermore, competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by federal, state and local governments; however, it is not possible to predict the nature of any such legislation or regulation that may ultimately be adopted or its effects upon our future operations. Such laws and regulations may, however, substantially increase the costs of exploring for, developing or producing natural gas and crude oil and may prevent or delay the commencement or continuation of a given operation. The effect of these risks cannot be accurately predicted.

Governmental Regulations and Industry Matters

Industry Regulations

The availability of a ready market for crude oil, natural gas and natural gas liquids production depends upon numerous factors beyond our control. These factors include regulation of crude oil, natural gas and natural gas liquids production, federal, state and local regulations governing environmental quality and pollution control, state limits on allowable rates of production by well or proration unit, the amount of crude oil, natural gas and natural gas liquids available for sale, the availability of adequate pipeline and other transportation and processing facilities, and the marketing of competitive fuels. For example, a productive natural gas well may be “shut-in” because of an oversupply of natural gas or lack of an available natural gas pipeline in the area in which the well is located. State and federal regulations generally are intended to prevent waste of crude oil, natural gas and natural gas liquids, protect rights to produce crude oil, natural gas and natural gas liquids between owners in a common reservoir, control the amount of crude oil, natural gas and natural gas liquids produced by assigning allowable rates of production, and protect the environment. Pipelines are subject to the jurisdiction of various federal, state and local agencies. We are also subject to changing and extensive tax laws, the effects of which cannot be predicted.

The following discussion summarizes the regulation of the U.S. oil and gas industry. We believe that we are in substantial compliance with the various statutes, rules, regulations and governmental orders to which our operations may be subject, although there can be no assurance that this is or will remain the case. Moreover, such statutes, rules, regulations and government orders may be changed or reinterpreted from time to time in response to economic or political conditions, and there can be no assurance that such changes or reinterpretations will not materially adversely affect our results of operations and financial condition. The following discussion is not intended to constitute a complete discussion of the various statutes, rules, regulations and governmental orders to which our operations may be subject.

Regulation of Crude Oil, Natural Gas and Natural Gas Liquids Exploration and Production

Our operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes requiring permits for the drilling of wells, maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, the plugging and abandoning of wells and the disposal of fluids used in connection with operations. Our operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units and the density of wells that may be drilled in and the unitization or pooling of crude oil and natural gas properties. In this regard, some states allow the forced pooling or integration of tracts to facilitate exploration while other states rely primarily or exclusively on voluntary pooling of lands and leases. In areas where pooling is voluntary, it may be more difficult to form units, and therefore more difficult to develop a project, if the operator owns less than 100% of the leasehold. In addition, state conservation laws, which establish maximum rates of production from crude oil and natural gas wells, generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability of production. The effect of these regulations may limit the amount of crude oil, natural gas and natural gas liquids we can produce from our wells and may limit the number of wells or the locations at which we can drill. The regulatory burden on the oil and gas industry increases our costs of doing business and, consequently, affects our profitability. Inasmuch as such laws and regulations are frequently expanded, amended and interpreted, we are unable to predict the future cost or impact of complying with such regulations.

Regulation of Sales and Transportation of Natural Gas

Federal legislation and regulatory controls have historically affected the price of natural gas produced by us, and the manner in which such production is transported and marketed. Under the Natural Gas Act of 1938 (the “NGA”), the Federal Energy Regulatory Commission (the “FERC”) regulates the interstate transportation and the sale in interstate commerce for resale of natural gas. Effective January 1, 1993, the Natural Gas Wellhead Decontrol Act (the “Decontrol Act”) deregulated natural gas prices for all “first sales” of natural gas, including all sales by us of our own production. As a result, all of our domestically produced natural gas may now be sold at market prices, subject to the terms of any private contracts that may be in effect. However, the Decontrol Act did not affect the FERC’s jurisdiction over natural gas transportation.

Section 1(b) of the NGA exempts gas gathering facilities from the FERC’s jurisdiction. We believe that the gas gathering facilities we own meet the traditional tests the FERC has used to establish a pipeline system’s status as a non-jurisdictional gatherer. There is, however, no bright-line test for determining the jurisdictional status of pipeline facilities. Moreover, the distinction between FERC-regulated transmission services and federally unregulated gathering services is the subject of litigation from time to time, so the classification and regulation of some of our gathering facilities may be subject to change based on future determinations by the FERC and the courts. While we own some gas gathering facilities, we also depend on gathering facilities owned and operated by third parties to gather production from our properties, and therefore, we are affected by the rates charged by these third parties for gathering services. To the extent that changes in federal or state regulation affect the rates charged for gathering services, we also may be affected by these changes. Accordingly, we do not anticipate that we would be affected any differently than similarly situated gas producers.

Under the provisions of the Energy Policy Act of 2005 (the “2005 Act”), the NGA has been amended to prohibit market manipulation by any person, including marketers, in connection with the purchase or sale of natural gas, and the FERC has issued regulations to implement this prohibition. The Commodity Futures Trading Commission (the “CFTC”) also holds authority to monitor certain segments of the physical and futures energy commodities market including oil and natural gas. With regard to physical purchases and sales of natural gas and other energy commodities, and any related hedging activities that we undertake, we are thus required to observe anti-market manipulation laws and related regulations enforced by FERC and/or the CFTC. These agencies hold substantial enforcement authority, including the ability to assess civil penalties of up to \$1.2 million per day per violation.

Under the 2005 Act, the FERC has also established regulations that are intended to increase natural gas pricing transparency through, among other things, new reporting requirements and expanded dissemination of information about the availability and prices of gas sold. For example, on December 26, 2007, FERC issued a final rule on the annual natural gas transaction reporting requirements, as amended by subsequent orders on rehearing, or Order No. 704. Order No. 704 requires buyers and sellers of natural gas above a de minimis level, including entities not otherwise subject to FERC jurisdiction, to submit on May 1 of each year an annual report to FERC describing their aggregate volumes of natural gas purchased or sold at wholesale in the prior calendar year to the extent such transactions utilize, contribute to or may contribute to the formation of price indices. Order No. 704 also requires market participants to indicate whether they report prices to any index publishers and, if so, whether their reporting complies with FERC’s policy statement on price reporting. It is the responsibility of the reporting entity to determine which individual transactions should be reported based on the guidance of Order No. 704 as clarified in orders on clarification and rehearing. In addition, to the extent that we enter into transportation contracts with interstate pipelines that are subject to FERC regulation, we are subject to FERC requirements related to use of such interstate capacity. Any failure on our part to comply with the FERC’s regulations could result in the imposition of civil and criminal penalties.

Our natural gas sales are affected by intrastate and interstate gas transportation regulation. Following the Congressional passage of the Natural Gas Policy Act of 1978 (the “NGPA”), the FERC adopted a series of regulatory changes that have significantly altered the transportation and marketing of natural gas. Beginning with the adoption of Order No. 436, issued in October 1985, the FERC has implemented a series of major restructuring orders that have required interstate pipelines, among other things, to perform “open access” transportation of gas for others, “unbundle” their sales and transportation functions, and allow shippers to release their unneeded capacity temporarily and permanently to other shippers. As a result of these changes, sellers and buyers of gas have gained direct access to the particular interstate pipeline services they need and are better able to conduct business with a larger number of counterparties. We believe these changes generally have improved our access to markets while, at the same time, substantially increasing competition in the natural gas marketplace. It remains to be seen, however, what effect the FERC’s other activities will have on access to markets, the fostering of competition and the cost of doing business. We

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cannot predict what new or different regulations the FERC and other regulatory agencies may adopt, or what effect subsequent regulations may have on our activities. We do not believe that we will be affected by any such new or different regulations materially differently than any other seller of natural gas with which we compete.

In the past, Congress has been very active in the area of gas regulation. However, as discussed above, the more recent trend has been in favor of deregulation, or “lighter handed” regulation, and the promotion of competition in the gas industry. There regularly are other legislative proposals pending in the federal and state legislatures that, if enacted, would significantly affect the petroleum industry. At the present time, it is impossible to predict what proposals, if any, might actually be enacted by Congress or the various state legislatures and what effect, if any, such proposals might have on us. Similarly, and despite the trend toward federal deregulation of the natural gas industry, we cannot predict whether or to what extent that trend will continue, or what the ultimate effect will be on our sales of gas. Again, we do not believe that we will be affected by any such new legislative proposals materially differently than any other seller of natural gas with which we compete.

Oil Price Controls and Transportation Rates

Sales prices of crude oil, condensate and gas liquids by us are not currently regulated and are made at market prices. Our sales of these commodities are, however, subject to laws and to regulations issued by the Federal Trade Commission (the “FTC”) prohibiting manipulative or fraudulent conduct in the wholesale petroleum market. The FTC holds substantial enforcement authority under these regulations, including the ability to assess civil penalties of up to \$1.1 million per day per violation. Our sales of these commodities, and any related hedging activities, are also subject to CFTC oversight as discussed above.

The price we receive from the sale of these products may be affected by the cost of transporting the products to market. Much of the transportation is through interstate common carrier pipelines. Effective as of January 1, 1995, the FERC implemented regulations generally grandfathering all previously approved interstate transportation rates and establishing an indexing system for those rates by which adjustments are made annually based on the rate of inflation, subject to certain conditions and limitations. The FERC’s regulation of crude oil and natural gas liquids transportation rates may tend to increase the cost of transporting crude oil and natural gas liquids by interstate pipelines, although the annual adjustments may result in decreased rates in a given year. Every five years, the FERC must examine the relationship between the annual change in the applicable index and the actual cost changes experienced in the oil pipeline industry. We are not able at this time to predict the effects of these regulations or FERC proceedings, if any, on the transportation costs associated with crude oil production from our crude oil producing operations.

Environmental and Occupational Health and Safety Matters

Our crude oil and natural gas exploration, development and production operations are subject to stringent federal, regional, state and local laws and regulations governing occupational health and safety aspects of our operations, the discharge of materials into the environment, or otherwise relating to environmental protection. Numerous governmental authorities, including the U.S. Environmental Protection Agency (the “EPA”) and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them, which may cause us to incur significant capital expenditures or costly actions to achieve and maintain compliance. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial and corrective action obligations, the occurrence of delays or restrictions in permitting or performance of projects and the issuance of orders enjoining some or all of our operations in affected areas. Public interest in the protection of the environment has increased dramatically in recent years. The trend in environmental legislation and regulations is to place more and stringent restrictions and limitations on activities that may affect the environment, which is expected to result in increased costs of doing business and consequently affect profitability.

The Comprehensive Environmental Response, Compensation and Liability Act, as amended, (“CERCLA”), also known as the “Superfund Law”, and similar state laws, impose strict joint and several liability, without regard to fault or the legality of the original conduct, on certain classes of potentially responsible persons that are considered to have contributed to the release of a “hazardous substance” into the environment. These potentially responsible persons include the current or past owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances released at the site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs

of certain health studies, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We generate materials in the course of our operations that may be regulated as hazardous substances.

We also generate wastes that are subject to the federal Resource Conservation and Recovery Act, as amended (the “RCRA”), and comparable state statutes. The RCRA imposes strict requirements on the generation, storage, treatment, transportation and disposal of nonhazardous and hazardous wastes, and the EPA and analogous state agencies stringently enforce the approved methods of management and disposal of these wastes. While the RCRA currently exempts certain drilling fluids, produced waters, and other wastes associated with exploration, development and production of crude oil and natural gas from regulation as hazardous wastes, allowing us to manage these wastes under RCRA’s less stringent non-hazardous waste requirements, we can provide no assurance that this exemption will be preserved in the future. For example, following the filing of a lawsuit in the U.S. District Court for the District of Columbia in May 2016 by several non-governmental environmental groups against the EPA for the agency’s failure to timely assess its RCRA Subtitle D criteria regulations for oil and gas wastes, EPA and the environmental groups entered into an agreement that was finalized in a consent decree issued by the District Court on December 28, 2016. Under the decree, the EPA is required to propose no later than March 15, 2019, a rulemaking for revision of certain Subtitle D criteria regulations pertaining to oil and gas wastes or sign a determination that revision of the regulations is not necessary. If EPA proposes a rulemaking for revised oil and gas waste regulations, the Consent Decree requires that the EPA take final action following notice and comment rulemaking no later than July 15, 2021. Any removal of this exclusion could increase the amount of waste we are required to manage and dispose of as hazardous waste rather than non-hazardous waste, and could cause us to incur increased operating costs, which could have a significant impact on us as well as the natural gas and oil industry in general.

The Clean Air Act, as amended (the “CAA”), and comparable state laws restrict the emission of air pollutants from many sources and also impose various monitoring and reporting requirements. These laws and regulations may require us to obtain pre-approval for the construction or modification of certain projects or facilities expected to produce or significantly increase air emissions, obtain and strictly comply with stringent air permit requirements or utilize specific equipment or technologies to control emissions. Obtaining permits has the potential to delay the development of crude oil and natural gas projects. Over the next several years, we may be required to incur certain capital expenditures for air pollution control equipment or other air emissions-related issues.

Based on findings made by the EPA that emissions of carbon dioxide, methane and other greenhouse gases (“GHGs”) present an endangerment to public health and the environment, the EPA adopted regulations under existing provisions of the CAA that, among other things, impose permit reviews and restrict emissions of GHGs from certain large stationary sources. These EPA regulations could adversely affect our operations and restrict or delay our ability to obtain air permits for new or modified sources. In addition, the EPA has adopted rules requiring the monitoring and reporting of GHG emissions from specified sources in the United States on an annual basis, including certain onshore and offshore production facilities, which include the majority of our operations. We are monitoring and reporting on GHG emissions from certain of our operations.

While Congress has, from time to time considered legislation to reduce emissions of GHGs, there has not been significant activity in the form of adopted legislation to reduce GHG emissions at the federal level in recent years. In the absence of such federal climate legislation, a number of state and regional efforts have emerged that are aimed at tracking and/or reducing GHG emissions by means of cap and trade programs that typically require major sources of GHG emissions to acquire and surrender emission allowances in return for emitting those GHGs. Moreover, in December 2015, the United States joined other countries of the United Nations in preparing an agreement requiring member countries to review and establish goals for limiting GHG emissions. This “Paris Agreement” was signed by the United States in April 2016 and entered into force in November 2016; however, this agreement does not create any binding obligations for nations to limit their GHG emissions but, rather, includes pledges to voluntarily limit or reduce future emissions. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address GHG emissions would impact our business, any such future international, federal or state laws or regulations that impose reporting obligations on us with respect to, or require the elimination of GHG emissions from, our equipment or operations could require us to incur increased operating costs and could adversely affect demand for the oil and natural gas we produce.

The Federal Water Pollution Control Act, as amended (the “Clean Water Act”) and analogous state laws impose restrictions and strict controls regarding the discharge of pollutants into state waters and waters of the United States. Any such discharge of pollutants into regulated waters is prohibited except in accordance with the terms of an issued permit.

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Spill prevention, control and countermeasure plan requirements under federal law require appropriate containment berms and similar structures to help prevent the contamination of navigable waters in the event of a petroleum hydrocarbon tank spill, rupture or leak. In addition, the Clean Water Act and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. The Clean Water Act also prohibits the discharge of dredge and fill material in regulated waters, including wetlands, unless authorized by permit. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for noncompliance with discharge permits or other requirements of the Clean Water Act and analogous state laws and regulations.

Our oil and natural gas exploration and production operations generate produced water, drilling muds, and other waste streams, some of which may be disposed via injection in underground wells situated in non-producing subsurface formations. The disposal of oil and natural gas wastes into underground injection wells are subject to the Safe Drinking Water Act, as amended (the “SDWA”), and analogous state laws. The Underground Injection Well Program under the SDWA requires that we obtain permits from the EPA or analogous state agencies for our disposal wells, establishes minimum standards for injection well operations, restricts the types and quantities that may be injected, and prohibits the migration of fluid containing any contaminants into underground sources of drinking water. Any leakage from the subsurface portions of the injection wells may cause degradation of freshwater, potentially resulting in cancellation of operations of a well, issuance of fines and penalties from governmental agencies, incurrence of expenditures for remediation of the affected resource, and imposition of liability by third parties for alternative water supplies, property damages and personal injuries. Furthermore, in response to a growing concern that the injection of produced water and other fluids into belowground disposal wells triggers seismic activity in certain areas, some states, including Texas, where we operate, have imposed, and other states are considering imposing, additional requirements in the permitting or operation of produced water injection wells. In Texas, the Texas Railroad Commission (“TRC”) published a final rule governing permitting or re-permitting of disposal wells that would require, among other things, the submission of information on seismic events occurring within a specified radius of the disposal well location, as well as logs, geologic cross sections and structure maps relating to the disposal area in question. If the permittee or an applicant of a disposal well fails to demonstrate that the injected fluids are confined to the disposal zone or if scientific data indicates such a disposal well is likely to be or determined to be contributing to seismic activity, then the TRC may deny, modify, suspend or terminate the permit application or existing operating permit for that well. Increased regulation and attention given to induced seismicity could lead to greater opposition, including litigation, to oil and natural gas activities utilizing injection wells for produced water disposal. These existing and any new seismic requirements applicable to disposal wells that impose more stringent permitting or operational requirements could result in added costs to comply or, perhaps, may require alternative methods of disposing of produced water and other fluids, which could delay production schedules and also result in increased costs.

The Oil Pollution Act of 1990 (the “OPA”) and regulations thereunder impose a variety of regulations on “responsible parties” related to the prevention of oil spills and liability for damages resulting from such spills in U.S. waters. The OPA applies to vessels, onshore facilities, and offshore facilities, including exploration and production facilities that may affect waters of the United States. Under OPA, responsible parties including owners and operators of onshore facilities and lessees and permittees of offshore leases may be held strictly liable for oil cleanup costs and natural resource damages as well as a variety of public and private damages that may result from oil spills. While liability limits apply in some circumstances, a party cannot take advantage of liability limits if the spill was caused by gross negligence or willful misconduct or resulted from violation of federal safety, construction or operating regulations. Few defenses exist to the liability imposed by the OPA. In addition, to the extent the Company’s offshore lease operations affect state waters, the Company may be subject to additional state and local clean-up requirements or incur liability under state and local laws. The OPA also imposes ongoing requirements on responsible parties, including preparation of oil spill response plans for responding to a worst-case discharge of oil into waters of the United States, and proof of financial responsibility to cover at least some costs in a potential spill.

Hydraulic fracturing is an important and common practice that is used to stimulate production of natural gas and/or crude oil from dense subsurface rock formations. The hydraulic fracturing process involves the injection of water, sand and chemical additives under pressure into targeted subsurface formations to stimulate production. We routinely use hydraulic fracturing techniques in many of our completion programs. Hydraulic fracturing typically is regulated by state oil and natural gas commissions, or other similar state agencies, but federal agencies have also asserted regulatory authority over, or conducted investigations that focus upon, certain aspects of the process, including a suite of proposed rulemakings and final rules issued by the EPA and the federal Bureau of Land Management (the “BLM”), which legal requirements, to the extent in effect, may impose more stringent requirements relating to emissions and discharges from hydraulic fracturing, chemical disclosures, and performances of fracturing activities on federal and Indian lands. Also, in December 2016, the EPA released its final report on the potential impacts of hydraulic fracturing on drinking water

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resources, concluding that “water cycle” activities associated with hydraulic fracturing may impact drinking water under certain circumstances.

Congress has from time to time considered, but not enacted, legislation to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the hydraulic fracturing process while, at the state level, several states, including Texas and Wyoming, where we operate, have adopted, and other states are considering adopting legal requirements that could impose more stringent permitting, public disclosure, or well construction requirements on hydraulic fracturing activities. States could elect to prohibit high volume hydraulic fracturing altogether, following the approach taken by the State of New York. Local government may also seek to adopt ordinances within their jurisdictions regulating the time, place and manner of drilling activities in general or hydraulic fracturing activities in particular. If new or more stringent federal, state, or local legal restrictions relating to the hydraulic fracturing process are adopted in areas where we operate, we could incur potentially significant added costs to comply with such requirements, experience delays or curtailment in the pursuit of exploration, development, or production activities, and perhaps even be precluded from drilling or completing wells.

Oil and natural gas exploration, development and production activities on federal lands, including Indian lands and lands administered by the BLM, are subject to the National Environmental Policy Act, as amended (“NEPA”). NEPA requires federal agencies, including the BLM, to evaluate major agency actions having the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. Governmental permits or authorizations that are subject to the requirements of NEPA are required for exploration and development projects on federal and Indian lands. This process has the potential to delay, limit or increase the cost of developing oil and natural gas projects. Authorizations under NEPA are also subject to protest, appeal or litigation, any or all of which may delay or halt projects.

Environmental laws such as the Endangered Species Act, as amended (“ESA”), may impact exploration, development and production activities on public or private lands. The ESA provides broad protection for species of fish, wildlife and plants that are listed as threatened or endangered in the United States, and prohibits taking of endangered species. Similar protections are offered to migratory birds under the Migratory Bird Treaty Act. Some of our facilities may be located in areas that are designated as habitat for endangered or threatened species. If endangered species are located in areas of the underlying properties where we wish to conduct seismic surveys, development activities or abandonment operations, such work could be prohibited or delayed or expensive mitigation may be required. Moreover, as a result of one or more settlements entered into by the U.S. Fish and Wildlife Service (the “FWS”), the agency is required to make a determination on listing of numerous species as endangered or threatened under the ESA by specified timelines. For example, in 2014, the FWS announced the listing of the lesser prairie chicken, whose habitat is over a five-state region, including Texas, where we conduct operations, as a threatened species under the ESA but in 2015, a federal district court vacated the FWS’ rule listing the lesser prairie chicken in its entirety, concluding that the decision to list the species was arbitrary and capricious. Whether the lesser prairie chicken or other species will be listed in the future under the ESA is currently unknown but the designation of previously unprotected species as threatened or endangered in areas where underlying property operations are conducted could cause us to incur increased costs arising from species protection measures, time delays or limitations on our drilling program activities, which costs delays or limitation could have an adverse impact on our ability to develop and produce reserves.

We are subject to the requirements of the federal Occupational Safety and Health Act, as amended (“OSHA”), and comparable state statutes, whose purpose is to protect the health and safety of workers. In addition, the OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and comparable state statutes require that information be maintained concerning hazardous materials used or produced in our operations and that this information be provided to employees, state and local government authorities and citizens.

In recent years, the Bureau of Ocean Energy Management (the “BOEM”) and the BSEE, each agencies of the U.S. Department of the Interior, have imposed more stringent permitting procedures and regulatory safety and performance requirements for wells in federal waters. In addition, states may adopt and implement similar or more stringent legal requirements applicable to exploration and production activities in state waters. Compliance with these more stringent regulatory restrictions, together with any uncertainties or inconsistencies in current decisions and rulings by governmental agencies, delays in the processing and approval of drilling permits or exploration, development, oil spill-response and decommissioning plans, and possible additional regulatory initiatives could result in difficult and

more costly actions and adversely affect or delay new drilling and ongoing development efforts. In addition, new regulatory initiatives may be adopted or enforced by the BOEM or the BSEE in the future that could result in additional costs, delays, restrictions or obligations with respect to oil and natural gas exploration and production operations conducted offshore. Any new rules, regulations or legal initiatives could delay or disrupt our operations, increase the risk of expired leases due to the time required to develop new technology, result in increased supplemental bonding requirements and limit activities in certain areas, or cause us to incur penalties, fines, or shut-in production at one or more of our facilities. If the BOEM determines that increased financial assurance is required in connection with our offshore facilities but we are unable to provide the necessary supplemental bonds or other forms of financial assurance, the BOEM could impose monetary penalties or require our operations on federal leases to be suspended or cancelled. Also, if material spill incidents were to occur, the United States could elect to again issue directives to temporarily cease drilling activities and, in any event, may from time to time issue further safety and environmental laws and regulations regarding offshore oil and natural gas exploration and development, any of which developments could have a material adverse effect on our business. Any one or more of the offshore-related matters described above could have a material adverse effect on our business, financial condition and results of operations.

For example, in April 2016, the BOEM published a proposed rule that would update existing air-emissions requirements relating to offshore oil and natural-gas activity on federal Outer Continental Shelf (the “OCS”) waters including in the Central Gulf of Mexico. In addition, in September 2016, the BOEM issued a Notice to Lessees and Operators that would bolster supplemental bonding procedures for the decommissioning of offshore wells, platforms, pipelines, and other facilities. These regulatory actions, or any new rules, regulations, or legal initiatives could delay or disrupt our operations, increase the risk of expired leases due to the time required to develop new technology, result in increased supplemental bonding and costs, and limit activities in certain areas, or cause us to incur penalties, fines, or shut-in production at one or more of our facilities or result in the suspension or cancellation of leases. Moreover, under existing BOEM rules relating to assignment of offshore leases and other legal interests on the OCS, assignors of such interest may be held jointly and severally liable for decommissioning of OCS facilities existing at the time the assignment was approved by the BOEM, in the event that the assignee is unable or unwilling to conduct required decommissioning. In the event that we, in the role of assignor, receive orders from the BOEM to decommission OCS facilities that one of our assignees of offshore facilities is unwilling or unable to perform, we could incur costs to perform those decommissioning obligations, which costs could be material.

See “Item 1A. Risk Factors” for further discussion on hydraulic fracturing; ozone standards; climate change, including methane or other greenhouse gas emissions; releases of regulated substances; and other aspects of compliance with legal or financial assurance requirements or relating to environmental protection, including with respect to offshore leases.

Other Laws and Regulations

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

Whereas the BLM administers oil and natural gas leases held by the Company on federal onshore lands, the BOEM administers the natural gas and oil leases held by the Company on federal onshore lands and offshore tracts in the OCS. The Office of Natural Resources Revenue (the “ONRR”) collects a royalty interest in these federal leases on behalf of the federal government. While the royalty interest percentage is fixed at the time that the lease is entered into, from time to time the ONRR changes or reinterprets the applicable regulations governing its royalty interests, and such action can indirectly affect the actual royalty obligation that the Company is required to pay. However, the Company believes that the regulations generally do not impact the Company to any greater extent than other similarly situated producers.

To cover the various obligations of lessees on the OCS, such as the cost to plug and abandon wells, decommission or remove platforms and pipelines, and clear the seafloor of obstructions at the end of production (collectively, “decommissioning obligations”), the BOEM generally requires that lessees post supplemental bonds or other acceptable financial assurances that such obligations will be met. Historically, our financial assurance costs to satisfy decommissioning obligations have not had a material adverse effect on our results of operations; however, the

BOEM continues to consider imposing more stringent financial assurance requirements on offshore operators on the OCS. For example, in July 2016, the BOEM issued an updated Notice to Lessees and Operators (“NTL”) that went into effect on September 12, 2016 and augments requirements for the posting of additional financial assurance by offshore lessees, among others, to assure that sufficient funds are available to satisfy decommissioning obligations on the OCS. If the BOEM determines under this new NTL that a company does not satisfy the minimum requirements to qualify for providing self-insurance to meet its decommissioning and other obligations, that company will be required to post additional financial security as assurance. While we did not meet the requirements for self-insurance, we estimated the impact of the requirement to provide additional security for our operations in the Gulf of Mexico and do not believe that the revised policy will have a material impact on our operations in the Gulf of Mexico. If, however, we are unable to obtain the additional required bonds or assurances as requested, the BOEM may require certain of our operations on federal leases to be suspended or cancelled or otherwise impose monetary penalties.

Risk and Insurance Program

In accordance with industry practice, we maintain insurance against many, but not all, potential perils confronting our operations and in coverage amounts and deductible levels that we believe to be economic. Consistent with that profile, our insurance program is structured to provide us financial protection from significant losses resulting from damages to, or the loss of, physical assets or loss of human life, and liability claims of third parties, including such occurrences as well blowouts and weather events that result in oil spills and damage to our wells and/or platforms. Our goal is to balance the cost of insurance with our assessment of the potential risk of an adverse event. We maintain insurance at levels that we believe are appropriate and consistent with industry practice and we regularly review our risks of loss and the cost and availability of insurance and revise our insurance program accordingly.

We continuously monitor regulatory changes and regulatory responses and their impact on the insurance market and our overall risk profile, and adjust our risk and insurance program to provide protection at a level that we can afford considering the cost of insurance, against the potential and magnitude of disruption to our operations and cash flows. Changes in laws and regulations regarding exploration and production activities in the Gulf of Mexico could lead to tighter underwriting standards, limitations on scope and amount of coverage, and higher premiums, including possible increases in liability caps for claims of damages from oil spills.

Health, Safety and Environmental Program

Our Health, Safety and Environmental (“HS&E”) Program is supervised by an operating committee of senior management to insure compliance with all state and federal regulations. In support of the operating committee, we have contracted with J. Connor Consulting (“JCC”) to coordinate the regulatory process relative to our offshore assets. JCC is a regulatory consulting firm specializing in the offshore Gulf of Mexico. They provide preparation of incident response plans, safety and environmental services and facilitation of comprehensive oil spill response training and drills on behalf of oil and gas companies and pipeline operators.

Additionally, in support of our Gulf of Mexico operations, we have established a Regional Oil Spill Plan which has been approved by the BSEE. Our response team is trained annually and is tested through in-house spill drills. We have also contracted with Witt O’Brien’s Response Management (“Witt O’Brien’s”), who maintains an incident command center on 24-hour alert in Houston, TX. In the event of an oil spill, the Company’s response program is initiated by notifying Witt O’Brien’s of any incident while the Company response team is mobilized to focus on source control and containment of the spill. Witt O’Brien’s would coordinate communications with state and federal agencies and would provide subject matter expertise in support of the response team.

We also have contracted with Clean Gulf Associates (“CGA”) to assist with equipment and personnel needs in the event of a spill. CGA specializes in onsite control and cleanup and is on 24-hour alert with equipment currently stored at eight bases along the gulf coast, from South Texas to East Louisiana. The CGA equipment stockpile is available to serve member oil spill response needs and includes open seas skimmers, and shoreline protection boom, communications equipment, dispersants with application systems, wildlife rehabilitation and a forward command center. CGA has retainers with aerial dispersant and mechanical recovery equipment contractors for spill response.

In addition to our membership in CGA, the Company has contracted with Wild Well Control for source control at the wellhead, if required. Wild Well Control is one of the world’s leading providers of firefighting and well control services.

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We also have a full time health, safety and environmental professional who supports our operations and oversees the implementation of our onshore HS&E policies.

Safety and Environmental Management System

We have developed and implemented a Safety and Environmental Management System (“SEMS”) to address oil and gas operations in the OCS, as required by the BSEE. Our SEMS identifies and mitigates safety and environmental hazards and the impacts of these hazards on design, construction, start-up, operation, inspection, and maintenance of all new and existing facilities. The Company has established goals, performance measures, training and accountability for SEMS implementation. We also provide the necessary resources to maintain an effective SEMS and we review the adequacy and effectiveness of the SEMS program annually. Company facilities are designed, constructed, maintained, monitored, and operated in a manner compatible with industry codes, consensus standards, and all applicable governmental regulations. We have contracted with Island Technologies Inc. to coordinate our SEMS program and to track compliance for production operations.

The BSEE enforces the SEMS requirements through regular audits. Failure of an audit may result in an Incident of Non-Compliance and could ultimately require a shut-in our Gulf of Mexico operations if not resolved within the required time.

Employees

On December 31, 2016, we had 67 full time employees, of which 21 were field personnel. We have been able to attract and retain a talented team of industry professionals that have been successful in achieving significant growth and success in the past. As such, we are well-positioned to adequately manage and develop our existing assets and also to increase our proved reserves and production through exploitation of our existing asset base, as well as the continuing identification, acquisition, and development of new growth opportunities. None of our employees are covered by collective bargaining agreements. We believe our relationship with our employees is good.

In addition to our employees, we use the services of independent consultants and contractors to perform various professional services. As a working interest owner, we rely on certain outside operators to drill, produce and market our natural gas and oil where we are a non-operator. In prospects where we are the operator, we rely on drilling contractors to drill and sometimes rely on independent contractors to produce and market our natural gas and oil. In addition, we frequently utilize the services of independent contractors to perform field and on-site drilling and production operation services and independent third party engineering firms to evaluate our reserves.

Directors and Executive Officers

See “Item 10. Directors, Executive Officers and Corporate Governance”, which information is incorporated herein by reference.

Corporate Offices

Our corporate offices are located at 717 Texas Avenue in downtown Houston, Texas, under a lease that expires March 31, 2019. Rent, including parking, related to this office space for the year ended December 31, 2016 was approximately \$2.3 million. Beginning in January 2017, a portion of our space in the building is being subleased through the lease expiration date for \$0.5 million annually.

Code of Ethics

In January 2014, our board of directors adopted our current Code of Business Conduct and Ethics (“Code of Conduct”) which applies to all directors, officers and employees of the Company. Our Code of Conduct is available on the Company’s website at www.contango.com. Any shareholder who so requests may obtain a copy of the Code of Conduct by submitting a request to the Company’s corporate secretary at the address on the cover of this Form 10-K. Changes in and waivers to the Code of Conduct for the Company’s directors, chief executive officer and certain senior financial officers will be posted on the Company’s website within five business days and maintained for at least 12 months. Information on our website or any other website is not incorporated by reference into, and does not constitute a part of, this Report on Form 10-K.

Available Information

You may read and copy all or any portion of this report on Form 10-K, our quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports, without charge at the office of the Securities and Exchange Commission (the "SEC") in Public Reference Room, 100 F Street NE, Washington, DC, 20549. Information regarding the operation of the public reference rooms may be obtained by calling the SEC at 1-800-SEC-0330. In addition, filings made with the SEC electronically are publicly available through the SEC's website at <http://www.sec.gov>, and we make these documents available free of charge at our website at <http://www.contango.com> as soon as reasonably practicable after they are filed or furnished with the SEC. This report on Form 10-K, including all exhibits and amendments, has been filed electronically with the SEC.

Seasonal Nature of Business

The demand for oil and natural gas fluctuates depending on the time of year. Seasonal anomalies such as mild winters or cooler summers sometimes lessen this fluctuation. In addition, pipelines, utilities, local distribution companies, and industrial end users utilize oil and natural gas storage facilities and purchase some of their anticipated winter requirements during the summer, which can also lessen seasonal demand.

Item 1A. Risk Factors

In addition to the other information set forth elsewhere in this Form 10-K, you should carefully consider the following factors when evaluating the Company. An investment in the Company is subject to risks inherent in our business. The trading price of the shares of the Company is affected by the performance of our business relative to, among other things, competition, market conditions and general economic and industry conditions. The value of an investment in the Company may decrease, resulting in a loss.

RISK FACTORS RELATING TO OUR BUSINESS

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

Our revenues, profitability and future growth depend significantly on natural gas and crude oil prices. Natural gas and crude oil prices remained low through 2016 and have continued to remain low through 2017 to date. The markets for these commodities are volatile and prices received affect the amount of future cash flow available for capital expenditures and repayment of indebtedness and our ability to raise additional capital. Lower prices also affect the amount of natural gas and oil that we can economically produce. Factors that can cause price fluctuations include:

- Overall economic conditions, domestic and global.
- The domestic and foreign supply of natural gas and oil.
- The level of consumer product demand.
- Adverse weather conditions and natural disasters.
- The price and availability of competitive fuels such as LNG, heating oil and coal.
- Political conditions in the Middle East and other natural gas and oil producing regions.
- The ability of the members of the Organization of Petroleum Exporting Countries and other oil exporting nations to agree to and maintain oil price and production controls.
- The level of LNG imports and any LNG exports.
- Domestic and foreign governmental regulations.
- Special taxes on production.

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- Access to pipelines and gas processing plants.
- The loss of tax credits and deductions.

A substantial or extended decline in natural gas and oil prices could have a material adverse effect on our access to capital and the quantities of natural gas and oil that may be economically produced by us. The Company may utilize financial derivative contracts, such as swaps, costless collars and puts on commodity prices, to reduce exposure to potential declines in commodity prices, however, these derivative contracts may not be sufficient to mitigate the effect of lower commodity prices.

Part of our strategy involves drilling in new or emerging plays; therefore, our drilling results in these areas are not certain.

The results of our drilling in new or emerging plays, such as in our South Texas and Wyoming resource plays, are more uncertain than drilling results in areas that are more developed and with longer production history. Since new or emerging plays and new formations have limited production history, we are less able to use past drilling results in those areas to help predict our future drilling results. The ultimate success of these drilling and completion strategies and techniques in these formations will be better evaluated over time as more wells are drilled and production profiles are better established. Accordingly, our drilling results are subject to greater risks in these areas and could be unsuccessful. We may be unable to execute our expected drilling program in these areas because of disappointing drilling results, capital constraints, lease expirations, access to adequate gathering systems or pipeline take-away capacity, availability of drilling rigs and other services or otherwise, and/or crude oil, natural gas and natural gas liquids price declines. To the extent we are unable to execute our expected drilling program in these areas, our return on investment may not be as attractive as we anticipate and our common stock price may decrease. We could incur material write-downs of unevaluated properties, and the value of our undeveloped acreage could decline in the future if our drilling results are unsuccessful.

Initial production rates in shale plays tend to decline steeply in the first twelve months of production and are not necessarily indicative of sustained production rates.

Our future cash flows are subject to a number of variables, including the level of production from existing wells. Initial production rates in shale plays tend to decline steeply in the first twelve months of production and are not necessarily indicative of sustained production rates. As a result, we generally must locate and develop or acquire new crude oil or natural gas reserves to offset declines in these initial production rates. If we are unable to do so, these declines in initial production rates may result in a decrease in our overall production and revenue over time.

Our development and exploration operations require substantial capital, and we may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a loss of undeveloped acreage and/or a decline in our crude oil, natural gas and natural gas liquids reserves.

The oil and gas industry is capital intensive. We make and expect to continue to make substantial capital expenditures in our business and operations for the exploration, development, production and acquisition of crude oil, natural gas and natural gas liquids reserves. We intend to finance our future capital expenditures primarily with cash flow from operations and borrowings under our senior secured revolving credit agreement. Our cash flow from operations and access to capital is subject to a number of variables, including:

- Our proved reserves.
- The level of crude oil, natural gas and natural gas liquids we are able to produce from existing wells.
- The prices at which crude oil, natural gas and natural gas liquids are sold.
- Our ability to acquire, locate and produce new reserves.

If our revenues decrease as a result of lower crude oil, natural gas and natural gas liquids prices, operating difficulties, declines in reserves or for any other reason, we may have limited ability to obtain the capital necessary to sustain our operations at current levels, to further develop and exploit our current properties, or to conduct exploratory activity. In order to fund our capital expenditures, we may need to seek additional financing. Our credit agreements contain covenants restricting our ability to incur additional indebtedness without the consent of the lenders. Our lenders

may withhold this consent in their sole discretion. In addition, if our borrowing base redetermination results in a lower borrowing base under our senior secured revolving credit agreement, we may be unable to obtain financing otherwise currently available under our senior secured revolving credit agreement. As part of the regular redetermination schedule, the borrowing base on our revolving credit agreement was redetermined at \$140 million effective October 28, 2016 and through May 01, 2017. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity.”

In addition, our ability to comply with the financial and other restrictive covenants in our indebtedness is uncertain and will be affected by our future performance and events or circumstances beyond our control. Failure to comply with these covenants could result in an event of default under such indebtedness and the potential foreclosure on the collateral securing such debt, and could cause a cross-default under any of our other outstanding indebtedness.

Furthermore, we may not be able to obtain debt or equity financing on terms favorable to us, or at all. In particular, the cost of raising money in the debt and equity capital markets has increased substantially while the availability of funds from those markets generally has diminished significantly. Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets generally has increased as many lenders and institutional investors have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at maturity on terms that are similar to existing debt, and reduced, or in some cases ceased, to provide funding to borrowers. The failure to obtain additional financing could result in a curtailment of our operations relating to exploration and development of our prospects, which in turn could lead to a possible loss of properties and a decline in our crude oil, natural gas and natural gas liquids reserves.

We rely on third-party contract operators to drill, complete and manage some of our wells, production platforms, pipelines and processing facilities and, as a result, we have limited control over the daily operations of such equipment and facilities.

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

Failure of our working interest partners to fund their share of development costs could result in the delay or cancellation of future projects, which could have a materially adverse effect on our financial condition and results of operations.

Natural gas and crude oil prices remained low through 2016, and have continued to remain low through 2017 to date. An extended or more severe downturn could have material adverse effects on the liquidity of our working interest partners. Our working interest partners must be able to fund their share of investment costs through cash flow from operations, external credit facilities, or other sources. If our partners are not able to fund their share of costs, it could result in the delay or cancellation of future projects, resulting in a reduction of our reserves and production, which could have a materially adverse effect on our financial condition and results of operations.

We are exposed to the credit risks of our customers and derivative counterparties, and any material nonpayment or nonperformance by our customers or derivative counterparties could have a materially adverse effect on our financial condition and results of operations.

We are subject to risks of loss resulting from nonpayment or nonperformance by our customers, which risks may increase during periods of economic uncertainty. Furthermore, some of our customers may be highly leveraged and subject to their own operating and regulatory risks, which increases the risk that they may default on their obligations to us. To the extent one or more of our significant customers is in financial distress or commences bankruptcy proceedings, contracts with these customers may be subject to renegotiation or rejection under applicable provisions of the United States Bankruptcy Code. In addition, our risk management activities are subject to the risks that a counterparty may not perform its obligation under the applicable derivative instrument, the terms of the derivative instruments are imperfect, and our risk management policies and procedures are not properly followed. Any material nonpayment or

nonperformance by our customers or our derivative counterparties could have a materially adverse effect on our financial condition and results of operations.

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

Our offshore well bores are required to be shut-in from time to time due to a variety of issues, including a combination of weather, mechanical problems, sand production, bottom sediment, water and paraffin associated with our condensate production, as well as downstream third-party facility and pipeline shut-ins. In addition, shut-ins are necessary from time to time to upgrade and improve the production handling capacity at related downstream platform, gas processing and pipeline infrastructure. In addition to negatively impacting our near term revenues and cash flow, repeated production shut-ins may damage our well bores if repeated excessively or not executed properly. The loss of a well bore due to damage could require us to drill additional wells.

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

Our future natural gas and oil production depends on our success in finding or acquiring new reserves. If we fail to replace reserves, our level of production and cash flows will be adversely impacted. Production from natural gas and oil properties decline as reserves are depleted, with the rate of decline depending on reservoir characteristics. Our total proved reserves will decline as reserves are produced unless we conduct other successful exploration and development activities or acquire properties containing proved reserves, or both. Further, the majority of our reserves are proved developed producing. Accordingly, we do not have significant opportunities to increase our production from our existing proved reserves. Our ability to make the necessary capital investment to maintain or expand our asset base of natural gas and oil reserves would be impaired to the extent cash flow from operations is reduced and external sources of capital become limited or unavailable. We may not be successful in exploring for, developing or acquiring additional reserves. If we are not successful, our future production and revenues will be adversely affected.

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

There are numerous uncertainties in estimating crude oil and natural gas reserves and their value, including many factors that are beyond our control. It requires interpretations of available technical data and various assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities of reserves shown in this report.

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

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

Approximately 15% of our total estimated proved reserves at December 31, 2016 were proved undeveloped reserves. The development of our estimated proved undeveloped reserves may take longer and may require higher levels of capital expenditures than we currently anticipate. Therefore, our estimated proved undeveloped reserves may not be ultimately developed or produced.

Recovery of proved undeveloped reserves requires significant capital expenditures and successful drilling operations. The reserve data included in the reserve engineer reports assumes that substantial capital expenditures are required to develop such reserves. Although cost and reserve estimates attributable to our crude oil, natural gas and natural gas liquids reserves have been prepared in accordance with industry standards, we cannot be sure that the estimated costs are accurate, that development will occur as scheduled or that the results of such development will be as estimated. Delays in the development of our reserves, increases in costs to drill and develop such reserves, or decreases in commodity prices will reduce the PV-10 value of our estimated proved undeveloped reserves and future net revenues estimated for such reserves and may result in some projects becoming uneconomic. In addition, delays in the development of reserves could cause us to have to reclassify our proved undeveloped reserves as unproved reserves.

The present value of future net cash flows from our proved reserves will not necessarily be the same as the current market value of our estimated crude oil, natural gas and natural gas liquids reserves.

You should not assume that the present value of future net revenues from our proved reserves referred to in this report is the current market value of our estimated crude oil, natural gas and natural gas liquids reserves. In accordance with the requirements of the SEC, the estimated discounted future net cash flows from our proved reserves are based on prices and costs on the date of the estimate, held flat for the life of the properties. Actual future prices and costs may differ materially from those used in the present value estimate. The present value of future net revenues from our proved reserves as of December 31, 2016 was based on the 12-month unweighted arithmetic average of the first-day-of-the-month price for the period January through December 2016. For our condensate and natural gas liquids, the average West Texas Intermediate (Cushing) posted price was \$42.75 per barrel for offshore volumes and the average West Texas Intermediate (Plains) posted price was \$39.25 per barrel for onshore volumes. For our natural gas, the average Henry Hub spot price was \$2.49 per MMBtu for offshore volumes and the average Henry Hub spot price was \$2.481 per MMBtu for onshore volumes. Assuming strip pricing as of March 1, 2017 through 2021 and keeping pricing flat thereafter, instead of 2016 SEC pricing, while leaving all other parameters unchanged, the Company's proved reserves would have been 171.9 Bcfe and the PV-10 value of proved reserves would have been \$249.2 million. Any adjustments to the estimates of proved reserves or decreases in the price of crude oil or natural gas may decrease the value of our common stock. A reconciliation of our Standardized Measure to PV-10 is provided under "Item 2. Properties – PV-10".

Actual future net cash flows will also be affected by increases or decreases in consumption by oil and gas purchasers and changes in governmental regulations or taxation. The timing of both the production and the incurrence of expenses in connection with the development and production of oil and gas properties affects the timing of actual future net cash flows from proved reserves. The effective interest rate at various times and the risks associated with our business or the oil and gas industry in general will affect the accuracy of the 10% discount factor.

Our use of 2D and 3D seismic data is subject to interpretation and may not accurately identify the presence of crude oil, natural gas and natural gas liquids. In addition, the use of such technology requires greater predrilling expenditures, which could adversely affect the results of our drilling operations.

Our decisions to purchase, explore, develop and exploit prospects or properties depend in part on data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are uncertain. For example, we have over 4,000 square miles of 3D data in the South Texas and Gulf Coast regions. However, even when used and properly interpreted, 3D seismic data and visualization techniques only assist geoscientists and geologists in identifying subsurface structures and hydrocarbon indicators. They do not allow the interpreter to know if hydrocarbons are present or producible economically. Other geologists and petroleum professionals, when studying the same seismic data, may have significantly different interpretations than our professionals.

In addition, the use of 3D seismic and other advanced technologies requires greater predrilling expenditures than traditional drilling strategies, and we could incur losses due to such expenditures. As a result, our drilling activities may not be geologically successful or economical, and our overall drilling success rate or our drilling success rate for activities in a particular area may not improve.

Drilling for and producing crude oil, natural gas and natural gas liquids are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Our drilling and operating activities are subject to many risks, including the risk that we will not discover commercially productive reservoirs. Drilling for crude oil, natural gas and natural gas liquids can be unprofitable, not only from dry holes, but from productive wells that do not produce sufficient revenues to return a profit. In addition, our drilling and producing operations may be curtailed, delayed or canceled as a result of other factors, including:

- unusual or unexpected geological formations and miscalculations;
- pressures;
- fires;
- explosions and blowouts;
- pipe or cement failures;
- environmental hazards, such as natural gas leaks, oil spills, pipeline and tank ruptures, encountering naturally occurring radioactive materials, and unauthorized discharges of toxic gases, brine, well stimulation and completion fluids, or other pollutants into the surface and subsurface environment;
- loss of drilling fluid circulation;
- title problems;
- facility or equipment malfunctions;
- unexpected operational events;
- shortages of skilled personnel;
- shortages or delivery delays of equipment and services or of water used in hydraulic fracturing activities;
- compliance with environmental and other regulatory requirements;
- shareholder activism and activities by non-governmental organizations to restrict the exploration, development and production of oil and natural gas so as to minimize emissions of GHGs;
- natural disasters; and
- adverse weather conditions.

Any of these risks can cause substantial losses, including personal injury or loss of life; severe damage to or destruction of property, natural resources and equipment, pollution, environmental contamination, clean-up responsibilities, loss of wells, repairs to resume operations; and regulatory fines or penalties.

Insurance against all operational risks is not available to us. Additionally, we may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the perceived risks presented. We carry limited environmental insurance, thus, losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not covered in full or in part by insurance could have a material adverse impact on our business activities, financial condition and results of operations.

The potential lack of availability of, or cost of, drilling rigs, equipment, supplies, personnel and crude oil field services could adversely affect our ability to execute on a timely basis our exploration and development plans within our budget.

When the prices of crude oil, natural gas and natural gas liquids increase, or the demand for equipment and services is greater than the supply in certain areas, such as the Southern Delaware Basin, we typically encounter an increase in the cost of securing drilling rigs, equipment and supplies. In addition, larger producers may be more likely to

secure access to such equipment by offering more lucrative terms. If we are unable to acquire access to such resources, or can obtain access only at higher prices, our ability to convert our reserves into cash flow could be delayed and the cost of producing those reserves could increase significantly, which would adversely affect our results of operations and financial condition.

Our hedging activities could result in financial losses or reduce our income.

To achieve a more predictable cash flow and to reduce our exposure to adverse fluctuations in the prices of crude oil, natural gas and natural gas liquids, as well as interest rates, we have, and may in the future, enter into derivative arrangements for a portion of our crude oil, natural gas and/or natural gas liquids production and our debt that could result in both realized and unrealized hedging losses. We typically utilize financial instruments to hedge commodity price exposure to declining prices on our crude oil, natural gas and natural gas liquids production. We typically use a combination of puts, swaps and costless collars.

Our production may be significantly higher or lower than we estimate at the time we enter into hedging transactions for such period. If the actual amount is higher than we estimate, we will have greater commodity price exposure than we intended. If the actual amount is lower than the nominal amount that is subject to our derivative financial instruments, we might be forced to satisfy all or a portion of our derivative transactions without the benefit of the cash flow from our sale or purchase of the underlying physical commodity, resulting in a substantial diminution of our liquidity. As a result of these factors, our hedging activities may not be as effective as we intend in reducing the volatility of our cash flows, and in certain circumstances may actually increase the volatility of our cash flows.

The enactment of derivatives legislation could have an adverse effect on our ability to use derivative instruments to reduce the effect of commodity price, interest rate, and other risks associated with our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in 2010, established federal oversight and regulation of the over-the-counter derivatives market and entities, such as us, that participate in that market. The Dodd-Frank Act requires the Commodities Futures Trading Commission (CFTC) and the SEC to promulgate rules and regulations implementing the Dodd-Frank Act. Although the CFTC has finalized certain regulations, others remain to be finalized or implemented and it is not possible at this time to predict when this will be accomplished.

In October 2011, the CFTC issued regulations to set position limits for certain futures and option contracts in the major energy markets and for swaps that are their economic equivalents. The initial position-limits rule was vacated by the U.S. District Court for the District of Columbia in September 2012. However, in November 2013, the CFTC proposed new rules that would place limits on positions in certain core futures and equivalent swaps contracts for or linked to certain physical commodities, subject to exceptions for certain bona fide hedging transactions. As these new position limit rules are not yet final, the impact of those provisions on us is uncertain at this time.

The CFTC has designated certain interest rate swaps and credit default swaps for mandatory clearing and the associated rules also will require us, in connection with covered derivative activities, to comply with clearing and trade-execution requirements or take steps to qualify for an exemption to such requirements. Although we expect to qualify for the end-user exception from the mandatory clearing requirements for swaps entered to hedge our commercial risks, the application of the mandatory clearing and trade execution requirements to other market participants, such as swap dealers, may change the cost and availability of the swaps that we use for hedging. In addition, for uncleared swaps, the CFTC or federal banking regulators may require end-users to enter into credit support documentation and/or post initial and variation margin. Posting of collateral could impact liquidity and reduce cash available to us for capital expenditures, therefore reducing our ability to execute hedges to reduce risk and protect cash flows. The proposed margin rules are not yet final, and therefore the impact of those provisions on us is uncertain at this time. The Dodd-Frank Act and regulations may also require the counterparties to our derivative instruments to spin off some of their derivatives activities to separate entities, which may not be as creditworthy as the current counterparties.

The full impact of the Dodd-Frank Act and related regulatory requirements upon our business will not be known until the regulations are implemented and the market for derivatives contracts has adjusted. The Dodd-Frank Act and regulations could significantly increase the cost of derivative contracts, materially alter the terms of derivative contracts, reduce the availability of derivatives to protect against risks we encounter, reduce our ability to monetize or restructure our existing derivative contracts or increase our exposure to less creditworthy counterparties. If we reduce our use of derivatives as a result of the Dodd-Frank Act and regulations, our results of operations may become more

volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures. Increased volatility may make us less attractive to certain types of investors.

Finally, the Dodd-Frank Act was intended, in part, to reduce the volatility of oil and natural gas prices, which some legislators attributed to speculative trading in derivatives and commodity instruments related to oil and natural gas. Our revenues could therefore be adversely affected if a consequence of the legislation and regulations is to lower commodity prices. Any of these consequences could have a material, adverse effect on us, our financial condition, and our results of operations.

If prices remain at current levels or decline further, we will likely incur further impairment of proved properties.

If management's estimates of the recoverable proved reserves on a property are revised downward or if oil and/or natural gas prices decline further in 2017, we will likely be required to record further non-cash impairment write-downs in the future, which would result in a negative impact to our financial results. Furthermore, any sustained decline in oil and/or natural gas prices may require us to make further impairments. We review our proved oil and gas properties for impairment on a depletable unit basis when circumstances suggest there is a need for such a review. To determine if a depletable unit is impaired, we compare the carrying value of the depletable unit to the undiscounted future net cash flows by applying management's estimates of future oil and natural gas prices to the estimated future production of oil and gas reserves over the economic life of the property. Future net cash flows are based upon our independent reservoir engineers' estimates of proved reserves. In addition, other factors such as probable and possible reserves are taken into consideration when justified by economic conditions. For each property determined to be impaired, we recognize an impairment loss equal to the difference between the estimated fair value and the carrying value of the property on a depletable unit basis.

Fair value is estimated to be the present value of expected future net cash flows. Any impairment charge incurred is recorded in accumulated depreciation, depletion, and amortization to reduce our recorded cost basis in the asset. Each part of this calculation is subject to a large degree of judgment, including the determination of the depletable units' estimated reserves, future cash flows and fair value.

Management's assumptions used in calculating oil and gas reserves or regarding the future cash flows or fair value of our properties are subject to change in the future. Any change could cause impairment expense to be recorded, impacting our net income or loss and our basis in the related asset. Any change in reserves directly impacts our estimate of future cash flows from the property, as well as the property's fair value. Additionally, as management's views related to future prices change, the change will affect the estimate of future net cash flows and the fair value estimates. Changes in either of these amounts will directly impact the calculation of impairment.

Production activities in the Gulf of Mexico increase our susceptibility to pollution and natural resource damage.

A blowout, rupture or spill of any magnitude would present serious operational and financial challenges. All of the Company's operations in the Gulf of Mexico shelf are in water depths of less than 300 feet and less than 50 miles from the coast. Such proximity to the shore-line increases the probability of a biological impact or damaging the fragile eco-system in the event of released condensate.

Climate change legislation and regulatory initiatives restricting emissions of greenhouse gases ("GHGs") could result in increased operating costs and reduced demand for the oil and natural gas that we produce.

Climate change continues to attract considerable public and scientific attention. As a result, numerous proposals have been made and may continue to be made at the international, national, regional and state levels of government to monitor and limit emissions of greenhouse gases ("GHGs"). While no comprehensive climate change legislation has been implemented to date at the federal level, the EPA and states and groupings of states have considered or pursued cap-and-trade programs, carbon taxes, GHG reporting and tracking programs and regulations that directly limit GHG emissions from certain sources. In particular, the EPA adopted regulations under existing provisions of the CAA that, among other things, establish Prevention of Significant Deterioration ("PSD") construction and Title V operating permit reviews for GHG emissions from certain large stationary sources that already are potential major sources of certain principal, or criteria, pollutant emissions. Facilities required to obtain PSD permits for their GHG emissions also will be required to meet "best available control technology" standards that typically will be established by the states. In addition, the EPA has adopted rules requiring the monitoring and annual reporting of GHG emissions from specified sources in the United States, including, among others, certain oil and natural gas production facilities, which includes certain of our operations.

Federal agencies also have begun directly regulating emissions of methane, a GHG, from oil and natural gas operations. In June 2016, the EPA published regulations that require certain new, modified or reconstructed facilities in the oil and natural gas sector to reduce these methane gas and volatile organic compound emissions. In November 2016, the EPA began seeking additional information on methane emissions from existing facilities and operations in the oil and natural gas sector that could be developed into federal guidelines that states must consider in developing their own rules for regulating sources within their borders. Moreover, in December 2015, the United States joined other countries of the United Nations in preparing an agreement requiring member countries to review and establish goals for limiting GHG emissions. This “Paris Agreement” was signed by the United States in April 2016 and entered into force in November 2016; however, this agreement does not create any binding obligations for nations to limit their GHG emissions but, rather, includes pledges to voluntarily limit or reduce future emissions. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address GHG emissions would impact our business, any such future international, federal or state laws or regulations that impose reporting obligations on us with respect to, or require the elimination of GHG emissions from, our equipment or operations could require us to incur increased operating costs and could adversely affect demand for the oil and natural gas we produce. Moreover, such new legislation or regulatory programs could also increase the cost to the consumer, which could reduce the demand for the oil and natural gas we produce and lower the value of our reserves.

Finally, it should be noted that some scientists have concluded that increasing concentrations of GHGs in the Earth’s atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events. If any such effects were to occur, they could have an adverse effect on our financial condition and results of operations. At this time, we have not developed a comprehensive plan to address the legal, economic, social or physical impacts of climate change on our operations.

Should we fail to comply with all applicable statutes, rules, regulations and orders of the FERC, the CFTC, or the FTC, we could be subject to substantial penalties and fines.

Section 1(b) of the NGA exempts natural gas gathering facilities from FERC’s jurisdiction. We believe that the gas gathering facilities we own meet the traditional tests the FERC has used to establish a pipeline system’s status as a non-jurisdictional gatherer. Under the 2005 Act and implementing regulations, the FERC prohibits market manipulation in connection with the purchase or sale of natural gas. The CFTC has similar authority under the Commodity Exchange Act and regulations it has promulgated thereunder with respect to certain segments of the physical and futures energy commodities market including oil and natural gas. The FTC also prohibits manipulative or fraudulent conduct in the wholesale petroleum market with respect to sales of commodities, including crude oil, condensate and natural gas liquids. These agencies have substantial enforcement authority, including the ability to impose penalties for current violations of up to \$1 million per day for each violation. The FERC has also imposed requirements related to reporting of natural gas sales volumes that may impact the formation of prices indices. Additional rules and legislation pertaining to these and other matters may be considered or adopted from time to time. Our failure to comply with these or other laws and regulations administered by these agencies could subject us to criminal and civil penalties, as described in Part I, Item 1: “Business—Governmental Regulations and Industry Matters.”

The natural gas and oil business involves many operating risks that can cause substantial losses and our insurance coverage may not be sufficient to cover some liabilities or losses that we may incur.

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

- Blowouts, fires and explosions.
- Surface cratering.
- Uncontrollable flows of underground natural gas, oil or formation water.
- Natural disasters.
- Pipe and cement failures.
- Casing collapses.
- Stuck drilling and service tools.

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- Reservoir compaction.
- Abnormal pressure formations.
- Environmental hazards such as natural gas leaks, oil spills, pipeline and tank ruptures or unauthorized discharges of brine, toxic gases, well stimulation and completion fluids, or other pollutants into the surface and subsurface environment.
- Capacity constraints, equipment malfunctions and other problems at third-party operated platforms, pipelines and gas processing plants over which we have no control.
- Repeated shut-ins of our well bores could significantly damage our well bores.
- Required workovers of existing wells that may not be successful.

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

- Injury or loss of life.
- Reservoir damage.
- Severe damage to and destruction of property or equipment.
- Pollution and other environmental and natural resources damage.
- Restoration, decommissioning or clean-up responsibilities.
- Regulatory investigations and penalties.
- Suspension of our operations or repairs necessary to resume operations.

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

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

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

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

If our access to sales markets is restricted, it could negatively impact our production, our income and ultimately our ability to retain our leases.

Market conditions or the unavailability of satisfactory crude oil, natural gas and natural gas liquids transportation arrangements may hinder our access to crude oil, natural gas and natural gas liquids markets or delay our production. The availability of a ready market for our crude oil, natural gas and natural gas liquids production depends on a number of factors, including the demand for and supply of crude oil, natural gas and natural gas liquids and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business. Our productive properties may be located in areas with limited or no access to pipelines, thereby necessitating delivery by other means, such as trucking, or requiring compression facilities. Such restrictions on our ability to sell our crude oil, natural gas and natural gas liquids may have several adverse effects, including higher transportation costs, fewer potential purchasers (thereby potentially resulting in a lower selling price) or, in the event we were unable to market and sustain production from a particular lease for an extended time, possible loss of a lease due to lack of production.

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

Our practice in acquiring exploration leases or undivided interests in natural gas and oil leases is to not incur the expense of retaining title lawyers to examine the title to the mineral interest prior to executing the lease. Instead, we rely upon the judgment of consultants and others to perform the field work in examining records in the appropriate governmental, county or parish clerk's office before leasing a specific mineral interest. This practice is widely followed in the industry. Prior to the drilling of an exploration well the operator of the well will typically obtain a preliminary title review of the drillsite lease and/or spacing unit within which the proposed well is to be drilled to identify any obvious deficiencies in title to the well and, if there are deficiencies, to identify measures necessary to cure those defects to the extent reasonably possible. However, such deficiencies may not have been cured by the operator of such wells. It does happen, from time to time, that the examination made by title lawyers reveals that the lease or leases are invalid, having been purchased in error from a person who is not the rightful owner of the mineral interest desired. In these circumstances, we may not be able to proceed with our exploration and development of the lease site or may incur costs to remedy a defect. It may also happen, from time to time, that the operator may elect to proceed with a well despite defects to the title identified in the preliminary title opinion.

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

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

Certain U.S. federal income tax deductions currently available with respect to natural gas and oil exploration and development may be eliminated as a result of future legislation.

In past years, legislation has been proposed that would, if enacted into law, make significant changes to U.S. tax laws, including to certain key U.S. federal income tax provisions currently available to oil and gas companies. Such legislative changes have included, but not been limited to, (i) the repeal of the percentage depletion allowance for oil and gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, (iii) the elimination of the deduction for certain domestic production activities, and (iv) an extension of the amortization period for certain geological and geophysical expenditures. Congress could consider, and could include, some or all of these proposals as part of tax reform legislation, to accompany lower federal income tax rates. Moreover, other more general features of tax reform legislation, including changes to cost recovery rules and to the deductibility of interest expense, may be developed that also would change the taxation of oil and gas companies. It is unclear whether these or similar

changes will be enacted and, if enacted, how soon any such changes could take effect. The passage of any legislation as a result of these proposals or any similar changes in U.S. federal income tax laws could eliminate or postpone certain tax deductions that currently are available with respect to oil and gas development, or increase costs, and any such changes could have an adverse effect on our business, financial condition, results of operations and cash flows.

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

Our oil and natural gas exploration, development and production operations are subject to stringent federal, regional, state and local laws and regulations governing the operation and maintenance of our facilities, the discharge of materials into the environment and environmental protection. Failure to comply with such rules and regulations could result in the assessment of sanctions, including administrative, civil and criminal penalties, investigatory, remedial and corrective action obligations, the occurrence of delays or restrictions in permitting or performance of projects and the issuance of orders limiting or prohibiting some or all of our operations in affected areas. These laws and regulations may:

- require that we obtain permits before commencing drilling or other regulated activities;
- restrict the substances that can be released into the environment in connection with drilling and production activities;
- limit or prohibit drilling activities on protected areas, such as wetlands or wilderness areas;
- require remedial measures to mitigate pollution from former operations, such as plugging abandoned wells; and
- impose substantial penalties for pollution resulting from drilling and production operations.

Under these laws and regulations, we could be liable for personal injury and clean-up costs and other environmental natural resource and property damages. We maintain insurance coverage for sudden and accidental environmental damages; however, it is possible that coverage might not be sufficient in a catastrophic event. Accordingly, we may be subject to liability, or we may be required to cease production from properties in the event of environmental damages. The trend in environmental laws and regulations is to place more stringent restrictions and limitations on activities that may affect the environment. For example, in October 2015, the EPA issued a final rule lowering the National Ambient Air Quality Standard for ground-level ozone to 70 parts per billion for the 8-hour primary and secondary ozone standards. The EPA is required to make attainment and non-attainment designations for specific geographic locations under the revised standards by October 1, 2017 and states are expected to implement regulations, which may be more stringent than required under federal law. Compliance with this final rule could, among other things, require installation of new emission controls on some of our equipment, result in longer permitting timelines, and significantly increase our capital or operating expenditures. In another example, the EPA issued a final rule in May 2015 that attempts to clarify the federal jurisdictional reach over waters of the United States but this rule has been stayed nationwide by the U.S. Sixth Circuit Court of Appeals as that appellate court and numerous district courts ponder lawsuits opposing implementation of the rule. In January 2017, the United States Supreme Court accepted review of the rule to determine whether jurisdiction rests with the federal district or appellate courts. Litigation surrounding this rule is ongoing. To the extent the rule expands the scope of the Clean Water Act's jurisdiction, we could face increased costs and delays with respect to obtaining permits for dredge and fill activities in wetland areas. Historically, our environmental compliance costs have not had a material adverse effect on our results of operations; however, we can provide no assurance that our future compliance with existing laws and regulations, these recently adopted rulemakings, or any new or amended legal requirements will not have a material adverse effect on our business, financial condition and results of operations.

An accidental release of pollutants into the environment may cause us to incur significant costs and liabilities.

We may incur significant environmental costs liabilities in our business as a result of our handling of petroleum hydrocarbons and wastes, because of air emissions and waste water discharges related to our operations, and due to historical industry operations and waste disposal practices. We currently own, operate or lease numerous properties that for many years have been used for the exploration and production of crude oil and natural gas. Many of these properties have been operated by third parties whose treatment and disposal or release of petroleum hydrocarbons or wastes was not under our control. For example, an accidental release resulting from the drilling of a well, could subject us to

substantial liabilities arising from environmental cleanup, restoration costs and natural resource damages, claims made by neighboring landowners and other third parties for personal injury and property and natural resource damages as well as monetary fines or penalties for related violations of environmental laws or regulations. Moreover, certain environmental statutes impose strict, joint and several liability for these costs and liabilities without regard to fault or the legality of our conduct. Under these environmental laws and regulations, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators) or property contamination (including groundwater contamination) or to perform remedial plugging or other decommissioning activities to prevent future contamination. We may not be able to recover some or any of these costs from insurance.

Federal, state and local legislative and regulatory initiatives relating to hydraulic fracturing, as well as governmental reviews of such activities, could result in increased costs, additional operating restrictions or delays, and adversely affect our production.

Hydraulic fracturing is an important and common practice that is used to stimulate production of natural gas and/or crude oil from dense subsurface rock formations. The hydraulic fracturing process involves the injection of water, sand and chemicals under pressure into targeted subsurface formations to fracture the surrounding rock and stimulate production. We routinely use hydraulic fracturing techniques in many of our drilling and completion programs. Hydraulic fracturing typically is regulated by state oil and natural gas commissions, or similar state agencies, but several federal agencies have asserted regulatory authority or pursued investigations over certain aspects of the process. For example, in February 2014, the EPA asserted regulatory authority pursuant to the SDWA Underground Injection Control program over hydraulic fracturing activities involving the use of diesel and issued guidance covering such activities. Also, beginning in 2012, the EPA issued a series of regulations under the Clean Air Act that include New Source Performance Standards for completions of hydraulically fractured natural gas wells and certain other plants and equipment and, more recently, in June 2016, new emissions standards for methane and additional standards for volatile organic compounds from certain new, modified and reconstructed equipment and processes in the oil and natural gas source category. The BLM published a final rule in March 2015 that established new or more stringent standards relating to hydraulic fracturing on federal and American Indian lands, which rule was struck down by a federal judge in June 2016 but that decision is currently being appealed by the federal government. Also, in December 2016, the EPA released its final report on the potential impacts of hydraulic fracturing on drinking water resources, concluding that “water cycle” activities associated with hydraulic fracturing may impact drinking water resources under certain circumstances, including as a result of water withdrawals for fracturing in times or areas of low water availability or due to surface spills during the management of fracturing fluids, chemicals or produced water.

Moreover, from time to time, Congress has considered, but not enacted, legislation intended to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the hydraulic fracturing process. In addition, certain states, including Texas and Wyoming, where we conduct operations, have adopted and other states are considering adopting legal requirements that could impose new or more stringent permitting, public disclosure, and well construction requirements on hydraulic fracturing activities. States could elect to prohibit high volume hydraulic fracturing altogether, following the approach of the State of New York in 2015. Local government also may seek to adopt ordinances within their jurisdictions regulating the time, place or manner of drilling activities in general or hydraulic fracturing activities in particular. In the event that new or more stringent federal, state, or local legal restrictions relating to the hydraulic fracturing process are adopted in areas where we currently or in the future plan to operate, we could incur potentially significant added costs to comply with such requirements, experience delays or curtailment in the pursuit of exploration, development, or production activities, and perhaps even be precluded from drilling wells.

We may be subject to additional supplemental bonding under the BOEM financial assurance requirements.

Energy companies conducting oil and natural gas lease operations offshore on the OCS are required by the BOEM, among other obligations, to conduct decommissioning within specified times following cessation of offshore producing activities, which decommissioning includes the plugging of wells, removal of platforms and other facilities, and the clearing of obstacles from the lease site sea floor. To cover a lease operator’s decommissioning obligations, the BOEM generally requires that lessees demonstrate financial strength and reliability according to regulations or otherwise post bonds or other acceptable financial assurances that such future obligations will be satisfied. As an operator, we are required to post surety bonds of \$200,000 per lease for exploration and \$500,000 per lease for developmental activities as part of our general bonding requirements, as well as the posting of additional supplemental bonds to cover, among other things, our decommissioning obligations. We typically post surety bonds with the BOEM to satisfy our general and supplemental bonding requirements.

The BOEM continues to consider the adoption or enforcement of more stringent financial assurance regulatory initiatives that could result in additional costs, delays, restrictions, or obligations with respect to oil and natural gas exploration and production operations conducted offshore on the federal OCS. In particular, on July 14, 2016, the BOEM issued an updated NTL bolstering the financial assurance requirements that offshore lessees on the OCS, including the Gulf of Mexico, must satisfy with respect to their decommissioning liabilities. This revised policy became effective on September 12, 2016. If the BOEM determines under this revised NTL that a company does not satisfy the minimum requirements to qualify for providing self-insurance to meet its decommissioning and other obligations, that company will be required to post additional financial security as assurance. If we fail to comply with the current or future orders of the BOEM to provide additional surety bonds or other financial assurances, the BOEM could commence enforcement proceedings or take other remedial action, including assessing civil penalties, ordering suspension of operations or production, or initiating procedures to cancel leases, which, if upheld, would have a material adverse effect on our business, properties, results of operations and financial condition. Moreover, under existing BOEM rules relating to assignment of offshore leases and other legal interests on the OCS, assignors of such interest may be held jointly and severally liable for decommissioning obligations at those OCS facilities existing at the time the assignment was approved by the BOEM, in the event that the assignee is unable or unwilling to conduct required decommissioning. In the event that we, in the role of assignor, receive orders from the BOEM to decommission OCS facilities that one of our assignees of offshore facilities is unwilling or unable to perform, we could incur costs to perform those decommissioning obligations, which costs could be material.

The BSEE has implemented much more stringent controls and reporting requirements that if not followed, could result in significant monetary penalties or a shut-in of all or a portion of our Gulf of Mexico operations.

The BSEE is the federal agency responsible for overseeing the safe and environmentally responsible development of energy and mineral resources on the OCS. The agency is responsible for leading the most aggressive and comprehensive reforms to offshore oil and natural gas regulation and oversight in U.S. history. Their reforms have tightened requirements for everything from well and blowout preventer design and workplace safety to corporate accountability.

Additionally, the Outer Continental Shelf Lands Act authorizes and requires the BSEE to provide for both an annual scheduled inspection and a periodic unscheduled (unannounced) inspection of all oil and natural gas operations on the OCS. In addition to examining all safety equipment designed to prevent blowouts, fires, spills, or other major accidents, the inspections focus on pollution, drilling operations, completions, workovers, production, and pipeline safety. Upon detecting a violation, the inspector issues an Incident of Noncompliance ("INC") to the operator and uses one of two main enforcement actions (warning or shut-in), depending on the severity of the violation. If the violation is not severe or threatening, a warning INC is issued. The warning INC must be corrected within a reasonable amount of time specified on the INC. The shut-in INC may be for a single component (a portion of the facility) or the entire facility. The violation must be corrected before the operator is allowed to resume the activity in question.

In addition to the enforcement actions specified above, the BSEE can assess a civil penalty of up to approximately \$40,000 per violation per day if: (i) the operator fails to correct the violation in the reasonable amount of time specified on the INC; or (ii) the violation resulted in a threat of serious harm or damage to human life or the environment. Operators with excessive INCs may be required to cease operations in the Gulf of Mexico.

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

The successful implementation of our business strategy and handling of other issues integral to the fulfillment of our business strategy is highly dependent on our management team, as well as certain key geoscientists, geologists, engineers and other professionals engaged by us. The loss of key members of our management team or other highly qualified technical professionals could adversely affect our ability to effectively manage our overall operations or successfully execute current or future business strategies which may have a material adverse effect on our business, financial condition and operating results. Our ability to manage our growth, if any, will require us to continue to train, motivate and manage our employees and to attract, motivate and retain additional qualified personnel. Competition for these types of personnel is intense and we may not be successful in attracting, assimilating and retaining the personnel required to grow and operate our business profitably.

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

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

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

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

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

We may be unable to successfully integrate the properties and assets we acquire with our existing operations.

Integration of the properties and assets we acquire may be a complex, time consuming and costly process. Failure to timely and successfully integrate these assets and properties with our operations may have a material adverse effect on our business, financial condition and result of operations. The difficulties of integrating these assets and properties present numerous risks, including:

- Acquisitions may prove unprofitable and fail to generate anticipated cash flows.
- We may need to (i) recruit additional personnel and we cannot be certain that any of our recruiting efforts will succeed and (ii) expand corporate infrastructure to facilitate the integration of our operations with those associated with the acquired properties, and failure to do so may lead to disruptions in our ongoing businesses or distract our management.
- Our management's attention may be diverted from other business concerns.

We are also exposed to risks that are commonly associated with acquisitions of this type, such as unanticipated liabilities and costs, some of which may be material. As a result, the anticipated benefits of acquiring assets and properties may not be fully realized, if at all.

When we acquire properties, in most cases, we are not entitled to contractual indemnification for pre-closing liabilities, including environmental liabilities.

We generally acquire interests in properties on an “as is” basis with limited remedies for breaches of representations and warranties, and in these situations we cannot assure you that we will identify all areas of existing or potential exposure. In those circumstances in which we have contractual indemnification rights for pre-closing liabilities, we cannot assure you that the seller will be able to fulfill its contractual obligations. In addition, the competition to acquire producing crude oil, natural gas and natural gas liquids properties is intense and many of our larger competitors have financial and other resources substantially greater than ours. We cannot assure you that we will be able to acquire producing crude oil, natural gas and natural gas liquids properties that have economically recoverable reserves for acceptable prices.

In connection with the Acquisition, we entered into a new area of exploration and development in which we have limited experience and facilities, and as a result we may experience inefficiencies, incur unanticipated or higher costs and expenses, or may not fully realize the benefits anticipated as a result of the Acquisition.

We have not historically operated in West Texas. As a result of the Acquisition, we will need to integrate the properties and operations relating thereto with our current oil and gas operations, which may increase the risk of inefficiencies in timing, coordination and staffing, unanticipated higher costs and expenses than we currently have projected or drilling results below our expectations. As a result, any desired benefits of the Acquisition may not be fully realized, if at all, and our future financial performance and results of operations could be negatively impacted.

Cybersecurity breaches and information technology failures could harm our business by increasing our costs and negatively impacting our operations.

We rely extensively on information technology systems, including Internet sites, computer software, data hosting facilities and other hardware and platforms, some of which are hosted by third parties, to assist in conducting our business. Our information technology systems, as well as those of third parties we use in our operations, may be vulnerable to a variety of evolving cybersecurity risks, such as those involving unauthorized access, malicious software, data privacy breaches by employees or others with authorized access, cyber or phishing-attacks, ransomware and other security issues.

Although we have implemented information technology controls and systems that are designed to protect information and mitigate the risk of data loss and other cybersecurity risks, such measures cannot entirely eliminate cybersecurity threats, and the enhanced controls we have installed may be breached. If our information technology systems cease to function properly or our cybersecurity is breached, we could suffer disruptions to our normal operations which may include drilling, completion, production and corporate functions. A cyber attack involving our information systems and related infrastructure, or that of our business associates, could negatively impact our operations in a variety of ways, including but not limited to, the following:

- Unauthorized access to seismic data, reserves information, strategic information, or other sensitive or proprietary information could have a negative impact on our ability to compete for oil and gas resources;
- Data corruption, communication interruption, or other operational disruption during drilling activities could result in failure to reach the intended target or a drilling incident;
- Data corruption or operational disruptions of production-related infrastructure could result in a loss of production, or accidental discharge;
- A cyber attack on a vendor or service provider could result in supply chain disruptions which could delay or halt our major development projects;
- A cyber attack on third party gathering, pipeline, or rail transportation systems could delay or prevent us from transporting and marketing our production, resulting in a loss of revenues;

- A cyber attack involving commodities exchanges or financial institutions could slow or halt commodities trading, thus preventing us from marketing our production or engaging in hedging activities, resulting in a loss of revenues;
- A cyber attack which halts activities at a power generation facility or refinery using natural gas as feed stock could have a significant impact on the natural gas market, resulting in reduced demand for our production, lower natural gas prices, and reduced revenues;
- A cyber attack on a communications network or power grid could cause operational disruption resulting in loss of revenues;
- A deliberate corruption of our financial or operating data could result in events of non-compliance which could then lead to regulatory fines or penalties; and
- A cyber attack resulting in the loss or disclosure of, or damage to, our or any of our customer's or supplier's data or confidential information could harm our business by damaging our reputation, subjecting us to potential financial or legal liability, and requiring us to incur significant costs, including costs to repair or restore our systems and data or to take other remedial steps.

All of the above could negatively impact our operational and financial results. Additionally, certain cyber incidents, such as surveillance, may remain undetected for an extended period. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

RISK FACTORS RELATED TO AN INVESTMENT IN OUR COMMON STOCK

The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your common stock at or above the price you paid for your common stock. The market price for our common stock could fluctuate significantly for various reasons, including:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry;
- conditions that impact demand for crude oil, natural gas and natural gas liquids, domestically and globally;
- future announcements concerning our business;
- changes in financial estimates and recommendations by securities analysts;
- actions of competitors;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in government and environmental regulation;
- general market, economic and political conditions, domestically and globally;
- changes in accounting standards, policies, guidance, interpretations or principles;
- sales of common stock by us, our significant stockholders or members of our management team; and
- natural disasters, terrorist attacks and acts of war.

Average natural gas and crude oil prices declined dramatically during 2015 and have declined even further through 2016. In addition, in recent years, the stock market has experienced significant price and volume

fluctuations. This decline in commodity prices and stock market volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our share price.

We have no plans to pay regular dividends on our common stock, so you may not receive funds without selling your common stock.

Our board of directors presently intends to retain all of our earnings for the expansion of our business; therefore, we have no plans to pay regular dividends on our common stock. Any payment of future dividends will be at the discretion of our board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations that our board of directors deems relevant. Also, the provisions of our senior secured revolving credit agreement and second lien credit agreement restrict the payment of dividends. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from your investment.

We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock.

Our board of directors is authorized, without further stockholder action, to issue preferred stock in one or more series and to designate the dividend rate, voting rights and other rights, preferences and restrictions of each such series. We are authorized to issue up to five million shares of preferred stock. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of shares of our common stock.

Future sales or the availability for sale of substantial amounts of our common stock in the public market could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities.

We may issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments. If any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be substantial. We may also grant registration rights covering those shares of our common stock or other securities in connection with any such acquisitions and investments.

As of December 31, 2016, we had 111,905 stock options outstanding to purchase shares of our common stock outstanding, all of which were fully vested.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares of our common stock issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Our organizational documents may impede or discourage a takeover, which could deprive our investors of the opportunity to receive a premium for their shares.

Provisions of our certificate of incorporation and bylaws may make it more difficult for, or prevent a third party from, acquiring control of us without the approval of our board of directors. These provisions:

- permit us to issue, without any further vote or action by the stockholders, shares of preferred stock in one or more series and, with respect to each such series, to fix the number of shares constituting the series and the designation of the series, the voting powers (if any) of the shares of the series, and the preferences and relative, participating, optional, and other special rights, if any, and any qualification, limitations or restrictions of the shares of such series;

- require special meetings of the stockholders to be called by the Chairman of the board of directors, the Chief Executive Officer, the President, or by resolution of a majority of the board of directors;
- require business at special meetings to be limited to the stated purpose or purposes of that meeting;
- require that stockholder action be taken at a meeting rather than by written consent, unless approved by our board of directors;
- require that stockholders follow certain procedures, including advance notice procedures, to bring certain matters before an annual meeting or to nominate a director for election; and
- permit directors to fill vacancies in our board of directors.

We are subject to the Delaware business combination law.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner.

Section 203 defines a “business combination” as a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholders. Section 203 defines an “interested stockholder” as a person who, together with affiliates and associates, owns, or, in some cases, within three years prior, did own, 15% or more of the corporation’s voting stock. Under Section 203, a business combination between us and an interested stockholder is prohibited unless:

- our board of directors approved either the business combination or the transaction that resulted in the stockholders becoming an interested stockholder prior to the date the person attained the status;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding, for purposes of determining the number of shares outstanding, shares owned by persons who are directors and also officers and issued employee stock plans, under which employee participants do not have the right to determine confidentially whether shares held under the plan will be tendered in a tender or exchange offer; or
- the business combination is approved by our board of directors on or subsequent to the date the person became an interested stockholder and authorized at an annual or special meeting of the stockholders by the affirmative vote of the holders of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

This provision has an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging takeover attempts that might result in a premium over the market price for the shares of our common stock. With approval of our stockholders, we could amend our certificate of incorporation in the future to elect not to be governed by the anti-takeover law.

Our business could be negatively affected by security threats, including cybersecurity threats and other disruptions.

As an oil and gas producer, we face various security threats, including cybersecurity threats to gain unauthorized access to sensitive information or to render data or systems unusable; threats to the security of our facilities and infrastructure or third party facilities and infrastructure, such as processing plants and pipelines; and threats from terrorist acts. The potential for such security threats has subjected our operations to increased risks that could have a material adverse effect on our business. In particular, our implementation of various procedures and controls to monitor and mitigate security threats and to increase security for our information facilities and infrastructure may result in increased capital and operating costs. Moreover, there can be no assurance that such procedures and controls will be sufficient to prevent security breaches from occurring. If any of these security breaches were to occur, they could lead to losses of sensitive information, critical infrastructure or capabilities essential to our operations and could have a material adverse effect on our reputation, financial position, results of operations or cash flows. Cybersecurity attacks in particular are becoming more sophisticated and include, but are not limited to, malicious software, attempts to gain

unauthorized access to data and systems and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. These events could lead to financial losses from remedial actions, loss of business or potential liability.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

As of December 31, 2016, we operated all of our offshore wells, with an average working interest of 59%, and operated 54% of our onshore wells with an average working interest of 74%. As of December 31, 2016, our properties were located in the following regions: Offshore Gulf of Mexico, Southeast Texas, South Texas, West Texas and Other.

Development, Exploration and Acquisition Expenditures

The following table presents information regarding our net costs incurred in the purchase of proved and unproved properties, exploration costs incurred in the search for new reserves from unproved properties and costs incurred in the development of those properties for the periods indicated (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Property acquisition costs:			
Unproved	\$ 29,767	\$ 11,453	\$ 22,087
Proved	—	—	—
Exploration costs	9,126	29,477	49,680
Development costs	1,890	20,120	120,630
Total costs	<u>\$ 40,783</u>	<u>\$ 61,050</u>	<u>\$ 192,397</u>

Included in unproved property acquisition costs for the year ended December 31, 2016, is \$27.0 million related to our acquisition of unproved property in the Southern Delaware Basin.

Included in unproved property acquisition costs for the year ended December 31, 2015, is \$5.0 million related to Natrona and Weston counties, Wyoming.

Included in unproved property acquisition costs for the year ended December 31, 2014, is \$7.0 million related to the acquisition of the right to earn acreage in Natrona and Weston counties, Wyoming. Included in the exploration costs for the year ended December 31, 2014, is \$28.0 million related to the drilling of our unsuccessful offshore Ship Shoal 255 prospect.

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

	Year Ended December 31,		
	2016	2015	2014
Property acquisition costs	\$ —	\$ —	\$ —
Exploration costs	—	—	—
Development costs	395	4,503	30,288
Total costs incurred	<u>\$ 395</u>	<u>\$ 4,503</u>	<u>\$ 30,288</u>

Drilling Activity

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

	Year Ended December 31,					
	2016		2015		2014	
	Gross	Net	Gross	Net	Gross	Net
Exploratory Wells:						
Productive (onshore)	1	0.8	5	2.9	3	1.3
Productive (offshore)	—	—	—	—	—	—
Non-productive (onshore)	—	—	1	0.8	1	0.6
Non-productive (offshore)	—	—	—	—	1	1.0
Total	1	0.8	6	3.7	5	2.9

Included in productive (onshore) exploratory wells for the year ended December 31, 2016, is one well completed on our Weston County, Wyoming.

	Year Ended December 31,					
	2016		2015		2014	
	Gross	Net	Gross	Net	Gross	Net
Development Wells:						
Productive (onshore)	—	—	9	5.3	24	13.1
Productive (offshore)	—	—	—	—	—	—
Non-productive (onshore)	—	—	—	—	1	0.7
Non-productive (offshore)	—	—	—	—	—	—
Total	—	—	9	5.3	25	13.8

Exploration and Development Acreage

Developed acreage is acreage spaced or assigned to productive wells. Undeveloped acreage is acreage on which wells have not been drilled or completed to a point that would form the basis to determine whether the property is capable of production of commercial quantities of crude oil, natural gas and natural gas liquids. Gross acres are the total acres in which we own a working interest. Net acres are the sum of the fractional working interests we own in gross acres.

The following table shows the approximate developed and undeveloped acreage that we have an interest in, by region, at December 31, 2016.

	Developed Acreage (1)		Undeveloped Acreage (1)	
	Gross	Net (2)	Gross	Net (2)
Offshore GOM	9,618	6,828	—	—
Southeast Texas	24,933	15,065	8,293	4,937
South Texas	90,197	45,265	60,082	31,565
West Texas	1,284	452	16,382	5,798
Other ⁽³⁾	8,750	5,406	68,872	46,460
Total	134,782	73,016	153,629	88,760

(1) Excludes any interest in acreage in which we have no working interest before payout or before initial production.

(2) Net acres represent the number of acres attributable to our proportionate working interest in a lease (e.g., a 50% working interest in a lease covering 320 acres is equivalent to 160 net acres).

(3) Other includes acreage in Louisiana, Mississippi, Wyoming, North Texas, and East Texas.

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Some of our offshore and onshore leases will expire over the next three years as follows, unless we establish production or take action to extend the terms of these leases:

	Year ending December 31,					
	2017		2018		2019	
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
Offshore GOM	—	—	—	—	—	—
Southeast Texas	1,429	1,273	328	245	272	264
South Texas	31,521	15,881	3,618	1,809	100	50
West Texas	536	268	3,454	1,727	4,595	2,294
Other ⁽¹⁾	7,456	5,966	14,282	10,116	7,880	6,039
Total	40,942	23,388	21,682	13,897	12,847	8,647

(1) Relates primarily to our acreage position in North Texas and Wyoming.

Production, Price and Cost History

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Productive Wells

Productive wells are producing wells and wells capable of producing commercial quantities. Completed but marginally producing wells are not considered here as a “productive” well. The following table sets forth the number of gross and net productive natural gas and oil wells in which we owned an interest as of December 31, 2016:

	Natural Gas Wells		Oil Wells	
	Gross Wells (1)	Net Wells (2)	Gross Wells (1)	Net Wells (2)
Offshore GOM	10	6.0	—	—
Southeast Texas	35	20.7	43	24.5
South Texas	212	113.2	48	22.3
Other	26	5.6	12	4.6
Total	283	145.5	103	51.4

(1) A gross well is a well in which we own an interest.

(2) The number of net wells is the sum of our fractional working interests owned in gross wells.

Natural Gas and Oil Reserves

Estimates of proved reserves and future net revenue as of December 31, 2016, 2015 and 2014 were prepared by NSAI and Cobb, our independent petroleum engineering firms in accordance with the definitions and regulations of the SEC. The technical persons responsible for preparing the reserve estimates are independent petroleum engineers and geoscientists that meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers (“SPE”). Approximately 61% and 39% of the proved reserves estimates shown herein at December 31, 2016 have been independently prepared by Cobb and NSAI, respectively. Cobb prepared the proved reserves estimates as of December 31, 2016, 2015 and 2014 for all of our offshore properties and NSAI prepared the proved reserves estimates as of December 31, 2016, 2015 and 2014 for our onshore properties.

The technical individual at NSAI responsible for the preparation of our reserve estimates as of December 31, 2016, 2015, and 2014 has over 15 years of experience in the estimation and evaluation of reserves; is a licensed professional engineer in the state of Texas; and holds a Bachelor of Science Degree in Petroleum Engineering from the University of Tulsa. The technical individual at Cobb responsible for overseeing the preparation of our reserve estimates as of December 31, 2016, 2015, and 2014 has 40 years of experience in the estimation and evaluation of reserves; is a registered professional engineer in the state of Texas; holds a Bachelor of Science Degree in Petroleum Engineering from Texas A&M University; is a member of the SPE; and is a member of the Society of Petroleum Evaluation Engineers.

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The estimates of proved reserves and future net revenue as of December 31, 2016, 2015 and 2014 were reviewed by our corporate reservoir engineering department that is independent of the operations department. The corporate reservoir engineering department interacts with geoscience, operating, accounting, and marketing departments to review the integrity, accuracy and timeliness of the data, methods, and assumptions used in the preparation of the reserves estimates. All relevant data is compiled in a computer database application to which only authorized personnel are given access rights. Our Senior Vice President - Engineering is the person primarily responsible for overseeing the preparation of our internal reserve estimates and for reviewing any reserves estimates prepared by our independent petroleum engineering firms. Our Senior Vice President - Engineering has a Bachelor of Science degree in Petroleum Engineering from the University of Texas and over 40 years of industry experience with positions of increasing responsibility. He reports directly to our President and Chief Executive Officer. Reserves are also reviewed internally with senior management and presented to our board of directors in summary form on a quarterly basis.

We maintain adequate and effective internal controls over the underlying data upon which reserves estimates are based. The primary inputs to the reserve estimation process are comprised of technical information, financial data, ownership interests and production data. All field and reservoir technical information, which is communicated to our reservoir engineers quarterly, is confirmed when our third-party reservoir engineers hold technical meetings with geologists, operations and land personnel to discuss field performance and to validate future development plans. Current revenue and expense information is obtained from our accounting records, which are subject to external quarterly reviews, annual audits and our own set of internal controls over financial reporting. Internal controls over financial reporting are assessed for effectiveness annually using criteria set forth in Internal Controls - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. All data such as commodity prices, lease operating expenses, production taxes, field level commodity price differentials, ownership percentages, and well production data are updated in the reserve database by our third-party reservoir engineers and then analyzed by management to ensure that they have been entered accurately and that all updates are complete. Once the reserve database has been entirely updated with current information, and all relevant technical support material has been assembled, our independent engineering firms prepare their independent reserve estimates and final report.

The following table reflects our estimated proved reserves as of the dates indicated:

	December 31,		
	2016	2015	2014
Crude Oil and Condensate (MBbl) ⁽¹⁾			
Developed	2,158	2,869	4,114
Undeveloped	1,266	1,922	4,301
Total	3,424	4,791	8,415
Natural Gas (MMcf) ⁽¹⁾			
Developed	95,396	113,952	150,235
Undeveloped	9,657	12,176	29,416
Total	105,053	126,128	179,651
Natural Gas Liquids (MBbl) ⁽¹⁾			
Developed	3,509	4,354	5,637
Undeveloped	850	1,040	1,872
Total	4,359	5,394	7,509
Total MMcf			
Developed	129,399	157,288	208,734
Undeveloped	22,351	29,950	66,459
Total ⁽²⁾	151,750	187,238	275,193
Proved developed reserves percentage	85 %	84 %	76 %
Prices utilized in estimates ⁽³⁾ :			
Crude oil (\$/Bbl)	\$ 38.67	\$ 44.53	\$ 92.89
Natural gas (\$/MMBtu)	\$ 2.43	\$ 2.63	\$ 4.38
Natural gas liquids (\$/Bbl)	\$ 13.62	\$ 14.41	\$ 33.45

(1) Excludes reserves attributable to our 37% interest in Exaro.

(2) During the year ended December 31, 2016, proved reserves decreased by approximately 35.5 Bcfe primarily due to 26.0 Bcfe of production, an 8.3 Bcfe negative revision of reserve estimates and 4.2 Bcfe due to the sale of our Colorado properties, partially offset by 2.5 Bcfe related to positive performance revisions.

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- (3) Under SEC rules, prices used in determining our proved reserves are based upon an unweighted 12-month first day of the month average price per MMBtu (Henry Hub spot) of natural gas and per barrel of oil (West Texas Intermediate posted). Prices for natural gas liquids in the table represent average prices for natural gas liquids used in the proved reserve estimates, calculated in accordance with applicable SEC rules. All prices were adjusted for quality, energy content, transportation fees and regional price differentials in determining proved reserves.

PV-10

PV-10 at year-end is a non-GAAP financial measure and represents the present value, discounted at 10% per year, of estimated future cash inflows from proved natural gas and crude oil reserves, less future development and production costs using pricing assumptions in effect at the end of the period. PV-10 differs from Standardized Measure of Discounted Net Cash Flows because it does not include the effects of income taxes on future net revenues. Neither PV-10 nor Standardized Measure of Discounted Net Cash Flows represents an estimate of fair market value of our natural gas and crude oil properties. PV-10 is used by the industry and by our management as an arbitrary reserve asset value measure to compare against past reserve bases and the reserve bases of other business entities that are not dependent on the taxpaying status of the entity.

The following table provides a reconciliation of our Standardized Measure to PV-10 (in thousands):

	December 31,	
	2016	2015
Pre-tax net present value, discounted at 10%	\$ 166,228	\$ 249,406
Future income taxes, discounted at 10%	—	—
Standardized measure of discounted future net cash flows	\$ 166,228	\$ 249,406

The following table reflects our estimated proved reserves by category as of December 31, 2016 (dollars in thousands):

	Crude Oil and Condensate (MBbl)	Natural Gas (MMcf)	Natural Gas Liquids (MBbl)	Total (MMcfe)	% of Total Proved	PV - 10
Proved developed producing	1,989	86,107	2,960	115,797	76 %	\$ 141,483
Proved developed non-producing	169	9,289	549	13,602	9 %	12,524
Proved undeveloped	1,266	9,657	850	22,351	15 %	12,221
Total	<u>3,424</u>	<u>105,053</u>	<u>4,359</u>	<u>151,750</u>	<u>100 %</u>	<u>\$ 166,228</u>

Our estimated net proved reserves as of December 31, 2016 were approximately 14% crude oil and condensate, 69% natural gas and 17% natural gas liquids.

Proved Developed Reserves

Total proved developed reserves decreased from 157.2 Bcfe at December 31, 2015 to 129.4 Bcfe at December 31, 2016. This decline is primarily due to 26.0 Bcfe of production during the year and a 3.2 Bcfe negative revision of reserves related to the reduction in the economic life of certain properties due to the decrease in commodity prices, partially offset by 2.5 Bcfe related to positive performance revisions.

The following table presents the changes in our total proved developed reserves for the year ended December 31, 2016:

	Proved Developed Reserves (Mmcfe)
Proved developed reserves at December 31, 2015	157,288
Revisions of previous estimates ⁽¹⁾	(3,184)
Extensions, discoveries and other additions	375
Purchase of minerals in place	—
Disposition of reserves in place ⁽²⁾	(1,639)
Production	(25,982)
Positive revisions related to performance	2,541
Proved developed reserves at December 31, 2016	<u>129,399</u>

(1) Substantially all of the negative revisions related to reduction in economic life of certain reserves due to lower commodity prices.

(2) Related to the sale of our Colorado properties at year end.

Proved Undeveloped Reserves

Total proved undeveloped reserves (“PUDs”) decreased from 30.0 Bcfe at December 31, 2015 to 22.4 Bcfe at December 31, 2016. As noted in the table below, this decrease was primarily attributable to negative revisions on certain 2015 PUDs that are no longer economical to develop under current commodity pricing and the sale of reserves associated with our Colorado properties.

Future drilling plans and timelines are re-evaluated at the end of each calendar year based on updated reserve reports, current drilling cost estimates and product price forecast. Our development plan prioritizes reserves based on the capital requirements and net present value of potential wells. Generally, our plan is to convert PUDs to developed reserves in an order that is based on their economic importance and impact on production and cash flow, but other factors may be considered such as technical merit, product type, location, and available working interest partners. The PUD conversion rate in 2016 and 2015 was 0% and 26%, respectively, of the total net present value of the Company’s total PUDs at the beginning of the applicable year.

The Company annually reviews any PUDs to ensure their development within five years from the date of originally adding the reserves. The Company’s financial resources are expected to be sufficient to drill all of the remaining 22.4 Bcfe of proved undeveloped reserves within the five year period. Development costs relating to the 22.4 Bcfe at December 31, 2016 are projected to be approximately \$34.1 million over the next five years.

The following table presents the changes in our total proved undeveloped reserves for the year ended December 31, 2016:

	Proved Undeveloped Reserves (Mmcfe)
Proved undeveloped reserves at December 31, 2015	29,950
Revisions of previous estimates ⁽¹⁾	(5,086)
Extensions, discoveries and other additions	—
Purchase of minerals in place	—
Disposition of reserves in place ⁽²⁾	(2,513)
Conversion to proved developed	—
Proved undeveloped reserves at December 31, 2016	22,351

(1) Substantially all of the negative revisions related to reduction in economic life of certain reserves due to lower commodity prices.

(2) Related to the sale of our Colorado properties at year end.

Significant Properties

Summary proved reserve information for our properties as of December 31, 2016, by region, is provided below (excluding reserves attributable to our investment in Exaro) (dollars in thousands):

Regions	Proved Reserves				
	Crude Oil (MBbl)	Natural Gas (MMcf)	Natural Gas Liquids (MBbl)	Total (Mmcfe)	PV - 10 ⁽¹⁾
Offshore GOM	454	76,018	2,241	92,190	\$ 112,677
Southeast Texas	1,403	10,815	1,067	25,633	28,787
South Texas	1,399	17,809	1,042	32,453	22,566
Other	168	411	9	1,474	2,198
Total	3,424	105,053	4,359	151,750	\$ 166,228

(1) Under SEC rules, prices used in determining our proved reserves are based upon an unweighted 12-month first day of the month average price per MMBtu (Henry Hub spot) of natural gas and per barrel of oil (West Texas Intermediate posted). Prices for natural gas liquids in the table represent average prices for natural gas liquids used in the proved reserve estimates, calculated in accordance with applicable SEC rules. All prices, using SEC rules, are adjusted for quality, energy content, transportation fees and regional price differentials in determining proved reserves.

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While we are reasonably certain of recovering our calculated reserves, the process of estimating natural gas and oil reserves is complex. It requires various assumptions, including natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Our third party engineers must project production rates, estimate timing and amount of development expenditures, analyze available geological, geophysical, production and engineering data, and the extent, quality and reliability of all of this data may vary. Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves most likely will vary from estimates. Any significant variance could materially affect the estimated quantities and net present value of reserves. In addition, estimates of proved reserves may be adjusted to reflect production history, results of exploration and development, prevailing natural gas and oil prices and other factors, many of which are beyond our control.

Reserves Attributable to our Investment in Exaro

Estimates of proved reserves and future net revenue as of December 31, 2016 and 2015 associated with our investment in Exaro, which we account for using the equity method, were prepared by Von Gonten in accordance with the definitions and regulations of the SEC. The technical persons responsible for preparing the reserve estimates are independent petroleum engineers and geoscientists that meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the SPE.

Reserves as of December 31, 2016 and 2015 were reviewed by our corporate reservoir engineering department as described above. The technical individual at Von Gonten responsible for overseeing the preparation of our reserve estimates as of December 31, 2016 and December 31, 2015 has over 16 years of practical experience in the estimation and evaluation of reserves; is a registered professional engineer in the state of Texas; holds a Bachelor of Science Degree in Petroleum Engineering from Texas A&M University; and is a member in good standing of the SPE.

The following table reflects the estimated proved reserves attributable to our Investment in Exaro:

	December 31, 2016	December 31, 2015	December 31, 2014
Crude Oil (MBbl)			
Developed	360	442	529
Undeveloped	—	—	262
Total	360	442	791
Natural Gas (MMcf)			
Developed	30,441	36,074	45,127
Undeveloped	—	—	20,285
Total	30,441	36,074	65,412
Total MMcf			
Developed	32,600	38,724	48,301
Undeveloped	—	—	21,857
Total ⁽¹⁾	32,600	38,724	70,158
Proved developed reserves percentage	100 %	100 %	69 %
Standardized measure ⁽¹⁾	\$ 19,778	\$ 31,298	\$ 100,607
Prices utilized in estimates ⁽²⁾			
Crude oil (\$/Bbl)	\$ 39.60	\$ 44.28	\$ 85.46
Natural gas (\$/MMBtu)	\$ 2.44	\$ 2.71	\$ 4.96

- (1) The Company's share of the standardized measure of discounted future net cash flows attributable to our investment in Exaro does not include the effect of income taxes because Exaro is treated a partnership for tax purposes. Exaro allocates any income or expense for tax purposes to its partners.
- (2) Under SEC rules, prices used in determining our proved reserves are based upon an unweighted 12-month first day of the month average price per MMBtu (Henry Hub spot) of natural gas and per barrel of oil (West Texas Intermediate posted). All prices are adjusted for quality, energy content, transportation fees and regional price differentials in determining proved reserves.
- (3) During the year ended December 31, 2016, the decrease in Exaro's proved reserves attributable to our Investment in Exaro was approximately 6.1 Bcfe. This decrease was attributable primarily to the impact of the significant reduction in capital spending in response to the low and uncertain commodity price environment.

Prior Year Reserves

Our estimated net proved natural gas, oil and natural gas liquids reserves as of December 31, 2015, 2014 and 2013 are disclosed in “Item 8. Financial Statements and Supplementary Data – Supplemental Oil and Gas Disclosures (Unaudited)”. Reserves as of December 31, 2015, 2014 and 2013 were based on reserve reports generated by NSAI and Cobb, while the reserves associated with our 37% investment in Exaro were prepared by Von Gonten.

Item 3. 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 the 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 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 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.

Mineral interest owners in South Louisiana filed suit against a subsidiary of the Company and several co-defendants in April 2013 in the 31st Judicial District Court situated in Jefferson Davis Parish, Louisiana alleging failure to act as a reasonably prudent operator, failure to explore, waste, breach of contract, etc. in connection with two wells located in Jefferson Davis Parish. The parties reached a settlement on terms favorable to the Company and its co-defendants in late 2016 and this case has been dismissed.

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

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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.

Item 4. *Mine Safety Disclosures*

Not applicable.

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

Our common stock is listed on the NYSE MKT under the symbol "MCF". The table below shows the high and low sales prices per share of our common stock for the periods indicated.

	High	Low
Year Ended December 31, 2016		
Quarter Ended March 31, 2016	\$ 12.84	\$ 3.68
Quarter Ended June 30, 2016	\$ 14.14	\$ 10.52
Quarter Ended September 30, 2016	\$ 12.85	\$ 8.25
Quarter Ended December 31, 2016	\$ 11.98	\$ 7.43
Year Ended December 31, 2015		
Quarter Ended March 31, 2015	\$ 33.17	\$ 20.25
Quarter Ended June 30, 2015	\$ 25.41	\$ 11.32
Quarter Ended September 30, 2015	\$ 12.34	\$ 6.60
Quarter Ended December 31, 2015	\$ 10.46	\$ 5.73

From the period from January 1, 2017 to March 9, 2017, our common stock traded at prices between \$6.30 and \$10.15 per share. During the quarter ended September 30, 2016, we completed an underwritten public offering of 5,360,000 shares for net proceeds of approximately \$50.5 million.

General

The following descriptions are summaries of material terms of our common stock, preferred stock, certificate of incorporation and bylaws. This summary is qualified by reference to our certificate of incorporation, bylaws and the designations of our preferred stock, which are filed as exhibits to this report on Form 10-K, and by the provisions of applicable law.

Common Stock

We are authorized to issue up to 50 million shares of common stock. As of March 9, 2017, there were approximately 30.6 million shares of common stock issued and 25.2 million shares of common stock outstanding held by approximately 121 registered shareholders.

Holders of common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders and, in the event of liquidation, to share ratably in the distribution of assets remaining after payment of liabilities (including preferential distribution and dividend rights of holders of preferred stock). Holders of common stock have no cumulative rights. The holders of a plurality of the outstanding shares of the common stock have the ability to elect all of the directors.

Holders of common stock have no preemptive or other rights to subscribe for shares. Holders of common stock are entitled to such dividends as may be declared by the board of directors out of funds legally available. Therefore, any decision to pay future dividends on our common stock will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, capital requirements and other factors our board of directors may deem relevant. We do not anticipate paying any cash dividends on our common stock in the foreseeable future, as we currently intend to retain all future earnings to fund the development and growth of our business. Our credit facility with Royal Bank of Canada and other lenders currently restricts our ability to pay cash dividends on our common stock, and we may also enter into credit agreements or other borrowing arrangements in the future that restrict or limit our ability to pay cash dividends on our common stock.

Preferred Stock

Our board of directors is authorized, without further stockholder action, to issue preferred stock in one or more series and to designate the dividend rate, voting rights and other rights, preferences and restrictions of each such series. We are authorized to issue up to five million shares of preferred stock. No preferred stock was outstanding at December 31, 2016.

Share-Based Compensation

The following table sets forth information about our equity compensation plans at December 31, 2016:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Amended and Restated 2009 Incentive Compensation Plan - approved by security holders	—	\$ —	323,172 *
2005 Stock Incentive Plan ("Crimson Plan")	111,905	\$ 55.53	—

* Excludes 291,199 Performance Stock Units granted in October and November 2016.

Amended and Restated 2009 Incentive Compensation Plan

On September 15, 2009, the Company's board of directors (the "Board") adopted the Contango Oil & Gas Company Equity Compensation Plan (the "Original 2009 Plan"), which was approved by shareholders on November 19, 2009. On April 10, 2014, the Board amended and restated the Original 2009 Plan through the adoption of the Contango Oil & Gas Company Amended and Restated 2009 Incentive Compensation Plan (the "2009 Plan"), which was approved by shareholders on May 20, 2014. The 2009 Plan provides for both cash awards and equity awards (such as restricted stock, performance stock units and options) to officers, directors, employees and consultants of the Company. Awards made under the 2009 Plan are subject to such restrictions, terms and conditions, including forfeitures, if any, as may be determined by the Board.

Under the terms of the 2009 Plan, up to 1,500,000 shares of the Company's common stock may be issued for plan awards. Stock options issued under the 2009 Plan must have an exercise price equal to or greater than the market price of the Company's common stock on the date of grant. The Company may grant officers and employees both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and stock options that are not qualified as incentive stock options. Stock option grants to non-employees, such as directors and consultants, can only be stock options that are not qualified as incentive stock options. Options granted generally expire after five or ten years. The vesting schedule for all equity awards varies from immediately to over a four-year period.

Effective January 1, 2014, the Company implemented performance-based long-term bonus plans under the 2009 Plan for the benefit of all employees through a Cash Incentive Bonus Plan ("CIBP") and a Long-Term Incentive Plan ("LTIP"). The specific targeted performance measures under these sub-plans are approved by the Compensation Committee and/or the Board. Upon achieving the performance levels established each year, bonus awards under the CIBP and LTIP will be calculated as a percentage of base salary of each employee for the plan year. The CIBP and LTIP plan awards for each year are expected to be disbursed in the first quarter of the following year. Employees must be employed by the Company at the time that awards are disbursed to be eligible.

The CIBP awards will be paid in cash while the LTIP awards will consist of restricted common stock and/or stock options that typically vest over three or four years. The number of shares of restricted common stock and the number of shares underlying the stock options granted will be determined based upon the fair market value of the common stock on the date of the grant.

Restricted Stock Awards

During the year ended December 31, 2016, the Company granted 580,141 restricted stock awards under the 2009 Plan to officers, employees and directors of the Company pursuant to the LTIP, while 17,864 restricted shares were forfeited by former employees and are available to be reissued. During the year ended December 31, 2015, 270,091 restricted stock awards were granted under the 2009 Plan to officers, employees and directors of the Company pursuant to the LTIP, while 12,534 restricted shares were forfeited by former employees and are available to be reissued. During the year ended December 31, 2014, 26,386 restricted stock awards were granted under the 2009 Plan to officers, employees and directors of the Company pursuant to the LTIP, while 7,230 restricted shares were forfeited by former

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employees and are available to be reissued. As of December 31, 2016, there were 628,830 shares of unvested restricted stock outstanding.

Performance Stock Units

In October 2016, the Company issued 285,800 Performance Stock Units (“PSUs”) to all employees as part of its LTIP, at a fair value of \$16.32 per unit, as determined using the Monte Carlo simulation method. In November 2016, the Company issued an additional 6,699 PSUs to new employees, at a fair value of \$13.06 per unit. PSUs represent a contractual right to receive shares of the Company's common stock. The settlement of PSUs may range from 0% to 200% of the targeted number of PSUs stated in the agreement 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 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.

2005 Stock Incentive Plan

The 2005 Plan was adopted by the Company's Board in conjunction with the Merger with Crimson. The plan expired on February 25, 2015 and therefore no additional shares are available for grant.

During the year ended December 31, 2016, 1,226 restricted stock awards issued under the 2005 Plan were forfeited by former employees, while 4,556 stock options previously issued were forfeited. During the year ended December 31, 2015, the Company granted 7,030 restricted stock awards under the 2005 Plan to a new employee, while 189 restricted stock awards were forfeited by former employees. Additionally, during the year ended December 31, 2015, 13,473 stock options previously issued were forfeited. During the year ended December 31, 2014, the Company did not issue any shares of restricted common stock under the 2005 Plan, but 7,019 restricted stock awards previously issued were forfeited by former employees, while 1,008 stock options previously issued were forfeited and another 4,165 stock options were exercised. As of December 31, 2016, there were 9,328 shares of restricted stock outstanding and 111,905 stock options vested and exercisable. The exercise price for such options range from \$28.96 to \$60.33 per share, with an average remaining contractual life of four years.

Share Repurchase Program

In September 2011, the Company's board of directors approved a \$50 million share repurchase program. All shares are to be purchased in the open market from time to time by the Company or through privately negotiated transactions. The purchases are subject to market conditions and certain volume, pricing and timing restrictions to minimize the impact of the purchases upon the market. In October 2014, the Company amended its revolving credit facility with Royal Bank of Canada to, among other things, allow for share repurchases under certain circumstances. No shares were purchased for the years ended December 31, 2015 and 2016. For the year ended December 31, 2014, we purchased the following shares under the \$50 million share repurchase program:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that may yet be Purchased Under Program
November 2014	205,457	\$ 35.89	403,334	\$ 31.8 million

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In addition, the Company repurchased the following shares, outside of the repurchase program, from employees for the payment of withholding taxes due on shares of restricted stock issued under our stock-based compensation plans:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that may yet be Purchased Under Program
October 2016	7,645	\$ 10.71	n/a	n/a
November 2016	23,901	\$ 9.18	n/a	n/a
December 2016	3,115	\$ 9.58	n/a	n/a

Stock Performance Graph

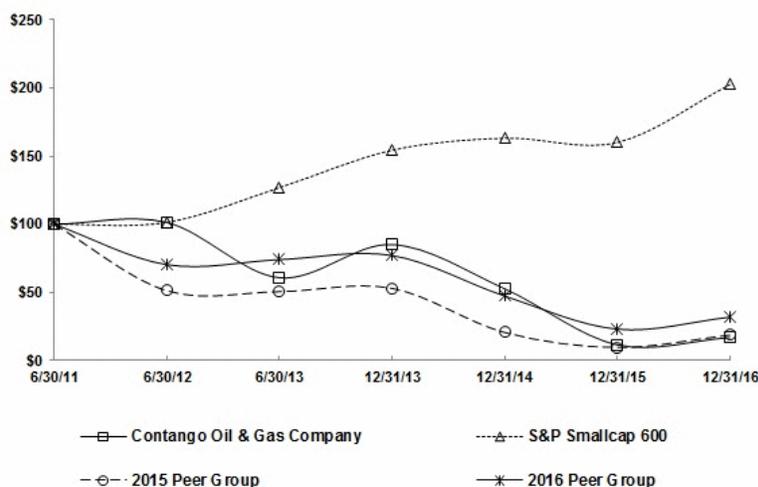
The following graph compares the yearly percentage change from June 30, 2011 until December 31, 2016 in the cumulative total stockholder return on our common stock to the cumulative total return on the S&P Smallcap 600 Index and a peer group of independent oil & gas exploration companies selected by us.

For the year ended December 31, 2015, the companies in our selected peer group included Resolute Energy, EXCO Resources, Comstock Resources, Sanchez Energy, Abraxas Petroleum and Gastar Exploration (the “2015 Peer Group”). Due to market capitalization changes caused by the recent low commodity price environment, we have selected a new peer group of companies. As of December 31, 2016, the companies in our selected peer group included Carrizo Oil & Gas, Matador Resources, Bill Barrett, Denbury Resources, Synergy Resources, Abraxas Petroleum, Sanchez Energy, EP Energy, Halcon Resources, W&T Offshore and Approach Energy (the “2016 Peer Group”).

Our common stock began trading on the NYSE MKT (previously American Stock Exchange) on January 19, 2001 and before that had traded on the Nasdaq over-the-counter Bulletin Board. The graph assumes that a \$100 investment was made in our common stock and each index on June 30, 2011, adjusted for stock splits and dividends. The stock performance for our common stock is not necessarily indicative of future performance.

COMPARISON OF 6 YEAR CUMULATIVE TOTAL RETURN

Among Contango Oil & Gas Company, the S&P Smallcap 600 Index, 2015 Peer Group and 2016 Peer Group



	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2013</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>
Contango Oil & Gas Company	100.00	101.30	60.78	85.10	52.65	11.54	16.82
S&P Smallcap 600	100.00	101.43	126.97	154.42	163.30	160.08	202.59
2015 Peer Group	100.00	51.27	50.59	52.98	20.62	9.61	18.76
2016 Peer Group	100.00	70.33	74.03	77.11	47.39	23.03	31.84

Item 6. Selected Financial Data

On October 1, 2013, the Company's board of directors approved a change in fiscal year end from June 30 to December 31. Unless otherwise noted, all references to "years" in this report refer to the twelve-month period which ends on December 31 of each year. The following selected financial data for the years ended December 31, 2016, 2015 and 2014 have been derived from the audited consolidated financial statements of Contango contained in this Form 10-K. The following selected financial data for the years ended December 31, 2013 and 2012 have been derived from the audited consolidated financial statements of Contango contained in our Form 10-K/A for the applicable fiscal year. The selected consolidated financial data (not including proved reserve information) set forth below is for continuing operations and should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the consolidated financial statements and notes to those consolidated financial statements included elsewhere in this Form 10-K.

Selected financial data for the years ended December 31, 2016, 2015, 2014 and 2013 include results of operations and cash flows of Crimson starting from October 1, 2013, the date of the Merger. Consolidated balance sheet and reserves information as of December 31, 2016, 2015, 2014 and 2013 include the balance sheet and reserves information of Crimson and its subsidiaries adjusted in accordance with the acquisition method of accounting, which requires that assets acquired and liabilities assumed in the Merger be recorded at their fair value at the date of acquisition with the difference between the purchase price and value of assets and liabilities be recorded as goodwill. No goodwill was recognized as a result of the Merger between Contango and Crimson.

Selected financial information for the five years ended December 31, 2016 is as follows (dollars in thousands, except per share amounts):

	Year Ended December 31				
	2016	2015	2014	2013	2012
Natural gas and oil sales ⁽¹⁾	\$ 78,183	\$ 116,505	\$ 276,458	\$ 164,121	\$ 145,868
Income (loss) from continuing operations ⁽²⁾	\$(58,029)	\$(335,048)	\$ (21,874)	\$ 41,362	\$ (907)
Discontinued operations, net of income taxes	—	—	—	—	(29)
Net income (loss) attributable to common stock	<u>\$(58,029)</u>	<u>\$(335,048)</u>	<u>\$ (21,874)</u>	<u>\$ 41,362</u>	<u>\$ (936)</u>
Net income (loss) per share:					
Basic					
Continuing operations	\$ (2.71)	\$ (17.67)	\$ (1.15)	\$ 2.56	\$ (0.06)
Discontinued operations	—	—	—	—	(0.00)
Total	<u>\$ (2.71)</u>	<u>\$ (17.67)</u>	<u>\$ (1.15)</u>	<u>\$ 2.56</u>	<u>\$ (0.06)</u>
Diluted					
Continuing operations	\$ (2.71)	\$ (17.67)	\$ (1.15)	\$ 2.56	\$ (0.06)
Discontinued operations	—	—	—	—	(0.00)
Total	<u>\$ (2.71)</u>	<u>\$ (17.67)</u>	<u>\$ (1.15)</u>	<u>\$ 2.56</u>	<u>\$ (0.06)</u>
Weighted average shares outstanding:					
Basic	21,424	18,965	19,059	16,156	15,295
Diluted	21,424	18,965	19,059	16,158	15,295

	Year Ended December 31				
	2016	2015	2014	2013	2012
Working capital (deficit) ⁽³⁾	\$ (43,835)	\$ (18,689)	\$ (65,975)	\$ (33,162)	\$ 100,901
Capital expenditures	\$ 38,966	\$ 55,565	\$ 188,529	\$ 62,552	\$ 78,549
Cash dividends ⁽⁴⁾	\$ —	\$ —	\$ —	\$ —	\$ 30,510
Long term debt ⁽⁵⁾	\$ 54,354	\$ 115,446	\$ 63,359	\$ 90,000	\$ —
Shareholders' equity	\$ 236,405	\$ 237,843	\$ 567,466	\$ 593,050	\$ 403,929
Total assets	\$ 376,514	\$ 416,756	\$ 843,415	\$ 910,304	\$ 561,106
Proved Reserve Data:					
Total proved reserves (Mmcf) ⁽⁶⁾	151,750	187,238	275,193	313,866	221,096
Pre-tax net present value (discounted 10%)	\$ 166,228	\$ 249,406	\$ 796,871	\$ 987,213	\$ 594,397
Standardized measure ⁽⁶⁾	\$ 166,228	\$ 249,406	\$ 648,016	\$ 771,443	\$ 388,012

(1) The decrease in natural gas and oil sales for the year ended December 31, 2016 is attributable to lower commodity prices during the year and lower production resulting from the significant reduction in our capital program. The decrease in natural gas and oil sales for the year ended December 31, 2015 is attributable to the decline in commodity prices during the fourth quarter of 2014 and during 2015, combined with lower production as a result of a reduction in our 2015 drilling program. The increase in natural gas and oil sales for the years ended December 31, 2014 and 2013 are attributable to the Merger with Crimson and new production from our 2013 and 2014 drilling program.

(2) During the year ended December 31, 2016, we recognized approximately \$0.7 million for impairment of proved properties, substantially all of which was directly related to the decline in commodity prices and the resulting impact on estimated future net cash flows from the associated reserves. Additionally, we recognized \$6.8 million related to our unproved properties in Fayette and Gonzales counties Texas and \$2.9 million related to our unproved acreage in Natrona County, Wyoming.

During the year ended December 31, 2015, we recognized approximately \$269.6 million for impairment of proved properties, substantially all of which was directly related to the decline in commodity prices and the resulting impact on estimated future net cash flows from the associated reserves. Additionally, we recognized approximately \$16.3 million for impairment and partial impairment of certain unproved properties and onshore prospects primarily due to the sustained low commodity price environment and expiring leases.

During the year ended December 31, 2014, we reached a total depth on our Ship Shoal 255 well, and no hydrocarbons were found. As a result, we recognized \$31.5 million in exploration expense for the cost of drilling the well and \$15.6 million in impairment expense, including \$3.5 million related to leasehold costs and \$12.1 million related to the platform located in Ship Shoal 263 block which was expected to be used by the Ship Shoal 255 had it been successful. Additionally, during the year ended December 31, 2014, we revised estimated proved reserves for South Timbalier 17 and our Tuscaloosa Marine Shale properties, resulting in non-cash impairment expenses of approximately \$11.4 million. During the year ended December 31, 2014, we also recognized impairment expense of approximately \$20.1 million related to full or partial impairment of certain unproved properties due to expiring leases and leases not likely to be drilled.

During the year ended December 31, 2013, we completed a workover on our Vermilion 170 well at a cost of approximately \$12.0 million. During the year ended December 31, 2012, we drilled two unsuccessful exploratory wells resulting in exploration expenses of approximately \$50.0 million, including leasehold costs. Also, during the year ended December 31, 2012, we revised estimated proved reserves at Ship Shoal 263, resulting in non-cash impairment expenses of approximately \$12.0 million.

(3) The increase in the deficit in working capital for the year ended December 31, 2016 was primarily related to our activity in West Texas during the quarter ended December 31, 2016. The decrease in the deficit in working capital during 2015 was a result of the decrease in drilling activity and the satisfaction of trade obligations existing at the beginning of the year, which were attributable to a more active 2014 drilling program. The increase in the working capital deficit for the year ended December 31, 2014 was primarily attributable to the higher trade obligations associated with the drilling program in late 2014 and a decrease in trade receivables associated with the decline in commodity prices during the fourth quarter of 2014. The decrease in working capital for the year ended December 31, 2013, compared to the balance at the end of 2012, was attributable to the utilization of cash on hand at the time of the Merger to retire Crimson debt assumed in the Merger.

(4) On November 29, 2012, the board of directors declared a one-time special dividend of \$2.00 per share of common stock which was paid on December 17, 2012.

(5) On October 1, 2013, in connection with the Merger, we entered into a revolving credit facility with Royal Bank of Canada and other lenders.

(6) During the year ended December 31, 2016, our proved reserves decreased by approximately 35.5 Bcfe and our standardized measure decreased by approximately \$83.2 million. This decrease is primarily due to 26.0 Bcfe of production, an 8.3 Bcfe negative revision of reserve estimates due to low commodity prices and 4.2 Bcfe due to the sale of our Colorado properties, partially offset by 2.5 Bcfe related to positive performance revisions.

During the year ended December 31, 2015, our proved reserves decreased by approximately 88.0 Bcfe and our standardized measure decreased by approximately \$398.6 million. This decrease is primarily attributable to the impact of the dramatic decline in commodity prices on the value and volume of our proved reserves and in part to the impact of the significant reduction in our capital spending in response to the low and uncertain commodity price environment.

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During the year ended December 31, 2014, our proved reserves decreased by approximately 38.7 Bcfe and our standardized measure decreased by approximately \$123.4 million. This decrease is primarily attributable to 40.3 Bcfe of production and a 22.4 Bcfe negative revision of proved developed producing reserves at our Eugene Island 11 field due to a change in forecasted condensate yield and ultimate field abandonment pressure; these decreases were partially offset by 36.1 Bcfe for extensions and discoveries.

During the year ended December 31, 2013, our proved reserves increased by approximately 92.8 Bcfe and our standardized measure increased by approximately \$383.4 million, primarily as a result of our Merger with Crimson. Also contributing to the increase was the exercise of our preferential right to purchase approximately 17.0 Bcfe related to our five Contango-operated Dutch wells, slightly offset by 28.2 Bcfe of production, a 19.2 Bcfe decrease in our Dutch and Mary Rose reserve estimates based upon additional pressure data, and a 2.5 Bcfe decrease in our Vermilion 170 reserve estimates, as determined by our reservoir engineer.

During the year ended December 31, 2012, our proved reserves decreased by approximately 40.1 Bcfe and our standardized measure decreased by approximately \$203.8 million. The major contributors to this decrease include normal production of 28.8 Bcfe during the year, a 9.2 Bcfe decrease in our Ship Shoal 263 reserve estimates, and an 11.5 Bcfe decrease in our Vermilion 170 reserve estimates, slightly offset by an increase in our Dutch and Mary Rose reserve estimates, all as determined by our reservoir engineer.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and the related notes and other information included elsewhere in this report. On October 1, 2013 the Company's board of directors approved a change in fiscal year end from June 30 to December 31. Unless otherwise noted, all references to "years" in this report refer to the twelve-month period which ends on December 31 of each year. This Form 10-K covers the three year period ended December 31, 2016.

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 onshore Texas Gulf Coast and Rocky Mountain regions of the United States.

On October 1, 2013, we completed a merger with Crimson Exploration Inc. ("Crimson") (the "Merger"). The Merger gave us access to high rate of return onshore prospects in known, prolific producing areas as well as long-life resource plays. In 2015, our drilling activity focused primarily on the Woodbine oil and liquids-rich play in Madison and Grimes counties, Texas (our Southeast Texas Region), in the Cretaceous Sands in Fayette and Gonzales counties, Texas (our South Texas Region) and Wyoming where we were targeting the Mowry Shale and the Muddy Sandstone formations. In early 2016 we limited our drilling program due to the challenging commodity price environment. Our only drilling activity in early 2016 was in Weston County, Wyoming where we completed our third well targeting the Muddy Sandstone formation. During the third quarter of 2016, we acquired a 12,100 operated gross acre position (5,000 net) in the Southern Delaware Basin in Pecos County, Texas, and as of December 31, 2016, had increased our acreage to 12,500 gross operated acres (6,250 net). We began drilling our initial well in October 2016, with first production from that well commencing in late January 2017. We currently have three subsequent Southern Delaware Basin wells in varying states of drilling or completion and expect that our Southern Delaware Basin position will be the primary focus of our drilling program for 2017.

Additionally, we have (i) a 37% equity investment in Exaro Energy III LLC ("Exaro"), which is primarily focused on the development of proved natural gas reserves in the Jonah Field in Wyoming; (ii) operated properties producing from various conventional formations in various counties along the Texas Gulf Coast; and (iii) operated producing properties in the Haynesville Shale, Mid Bossier and James Lime formations in East Texas. Until their sale in December 2016, we also had operated producing properties in the Denver Julesburg Basin ("DJ Basin") in Weld and Adams counties in Colorado.

Our production for the year ended December 31, 2016 was approximately 26.0 Bcfe (or 71.0 Mmcf/d) and was 68% offshore and 32% onshore. Our production for the three months ended December 31, 2016 was approximately 5.9 Bcfe (or 64.3 Mmcf/d) and was 70% offshore and 30% onshore. As of December 31, 2016, our proved reserves were approximately 61% offshore and 39% onshore and were 85% proved developed, which were approximately 72% offshore and 28% onshore.

Revenues and Profitability

Our revenues, profitability and future growth depend substantially on our ability to find, develop and acquire natural gas and oil reserves that are economically recoverable, as well as prevailing prices for natural gas and oil.

Reserve Replacement

Generally, producing properties offshore in the Gulf of Mexico have high initial production rates, followed by steep declines. Likewise, initial production rates on new wells in the onshore resource plays start out at a relatively high rate with a decline curve which results in 60% to 70% of the ultimate recovery of present value occurring in the first eighteen months of the well's life. We must locate and develop, or acquire, new natural gas and oil reserves to replace those being depleted by production. Substantial capital expenditures are required to find, develop and/or acquire natural gas and oil reserves. A prolonged period of depressed commodity prices could have a significant impact on the value and volumetric quantities of our proved reserve portfolio, assuming no other changes in our development plans. The Merger with Crimson allowed the Company to add significant proved developed and undeveloped reserves and provided the Company with access to several onshore resource plays which have substantial reserve growth potential, including in oil and liquids rich plays that position us to move to a more balanced oil/gas profile.

Use of Estimates

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

Related Party Transactions

Effective as of the close of business on December 31, 2015, the Company and the other members of Republic Exploration LLC ("REX") agreed to dissolve and liquidate REX. REX's assets were distributed proportionately to its members. See Note 16 to our Financial Statements - "Related Party Transactions" for a detailed description of our transactions with REX.

See "Item 1A. Risk Factors" for a more detailed discussion of a number of other factors that affect our business, financial condition and results of operations.

Results of Operations

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

	Three Months Ended							
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Offshore								
GOM								
Dutch and Mary Rose	53.3	50.8	49.5	48.6	45.9	43.3	39.3	39.5
Vermilion 170	7.7	6.3	7.0	6.9	6.5	6.2	4.0	4.9
Other offshore ⁽¹⁾	3.2	1.6	0.5	0.5	0.6	0.6	0.6	0.6
Southeast								
Texas ⁽²⁾	19.3	28.2	22.9	20.1	16.4	13.9	12.1	10.1
South								
Texas ⁽³⁾	10.8	9.3	8.9	8.1	7.4	7.4	7.5	7.5
Other ⁽⁴⁾	2.0	2.2	2.1	2.5	2.6	3.2	2.2	1.7
	<u>96.3</u>	<u>98.4</u>	<u>90.9</u>	<u>86.7</u>	<u>79.4</u>	<u>74.6</u>	<u>65.7</u>	<u>64.3</u>

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

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

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

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

Other Offshore

Other offshore includes our Ship Shoal 263 well for all periods presented, except for periods after it was shut-in in September 2015.

Southeast Texas

During 2015, we brought seven gross wells (3.9 net) on production targeting the Woodbine formation in our Chalktown area, which we initiated in late 2014, plus an additional one gross well (0.9 net) in our Iola/Grimes area. We also drilled and brought on production one gross (0.7 net) well in our Chalktown area during 2015. No wells were brought on production in this area in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015; and Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

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 continuing operations for the years ended December 31, 2016, 2015 and 2014. 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 Mcf of natural gas. Reported lease operating expenses include production taxes, such as ad valorem and severance.

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	%	2015	2014	%
Revenues (thousands):						
Oil and condensate sales	\$23,006	\$ 43,230	(47)%	\$ 43,230	\$130,238	(67)%
Natural gas sales	43,847	59,058	(26)%	59,058	112,695	(48)%
NGL sales	11,330	14,217	(20)%	14,217	33,525	(58)%
Total revenues	\$78,183	\$116,505	(33)%	\$116,505	\$276,458	(58)%
Production:						
Oil and condensate (thousand barrels)						
Dutch and Mary Rose	120	164	(27)%	164	220	(26)%
Vermilion 170	16	22	(27)%	22	37	(41)%
Southeast Texas	239	493	(52)%	493	734	(33)%
South Texas	128	178	(28)%	178	337	(47)%
Other	94	67	40 %	67	73	(8)%
Total oil and condensate	597	924	(35)%	924	1,401	(34)%
Natural gas (million cubic feet)						
Dutch and Mary Rose	12,375	14,736	(16)%	14,736	16,257	(9)%
Vermilion 170	1,616	2,050	(21)%	2,050	2,108	(3)%
Southeast Texas	2,059	3,136	(34)%	3,136	3,234	(3)%
South Texas	1,528	1,788	(15)%	1,788	2,541	(30)%
Other	525	904	(42)%	904	1,735	(48)%
Total natural gas	18,103	22,614	(20)%	22,614	25,875	(13)%
Natural gas liquids (thousand barrels)						
Dutch and Mary Rose	378	454	(17)%	454	501	(9)%
Vermilion 170	42	60	(30)%	60	68	(12)%
Southeast Texas	217	359	(40)%	359	304	18 %
South Texas	72	87	(17)%	87	124	(30)%
Other	7	8	(13)%	8	11	(27)%
Total natural gas liquids	716	968	(26)%	968	1,008	(4)%
Total (million cubic feet equivalent)						
Dutch and Mary Rose	15,364	18,443	(17)%	18,443	20,578	(10)%
Vermilion 170	1,965	2,545	(23)%	2,545	2,738	(7)%
Southeast Texas	4,792	8,249	(42)%	8,249	9,461	(13)%
South Texas	2,729	3,379	(19)%	3,379	5,309	(36)%
Other	1,132	1,345	(16)%	1,345	2,237	(40)%
Total production	25,982	33,961	(23)%	33,961	40,323	(16)%

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	Year Ended December 31,			Year Ended December 31,		
	2016	2015	%	2015	2014	%
Daily Production:						
Oil and condensate (thousand barrels per day)						
Dutch and Mary Rose	0.3	0.4	(27)%	0.4	0.6	(26)%
Vermilion 170	—	0.1	(27)%	0.1	0.1	(41)%
Southeast Texas	0.7	1.4	(52)%	1.4	2.0	(33)%
South Texas	0.4	0.5	(28)%	0.5	0.9	(47)%
Other	0.2	0.1	40 %	0.1	0.2	(8)%
Total oil and condensate	1.6	2.5	(35)%	2.5	3.8	(34)%
Natural gas (million cubic feet per day)						
Dutch and Mary Rose	33.8	40.4	(16)%	40.4	44.5	(9)%
Vermilion 170	4.4	5.6	(21)%	5.6	5.8	(3)%
Southeast Texas	5.6	8.6	(34)%	8.6	8.9	(3)%
South Texas	4.2	4.9	(15)%	4.9	7.0	(30)%
Other	1.5	2.4	(42)%	2.4	4.7	(48)%
Total natural gas	49.5	61.9	(20)%	61.9	70.9	(13)%
Natural gas liquids (thousand barrels per day)						
Dutch and Mary Rose	1.0	1.2	(17)%	1.2	1.4	(9)%
Vermilion 170	0.1	0.2	(30)%	0.2	0.2	(12)%
Southeast Texas	0.6	1.0	(40)%	1.0	0.8	18 %
South Texas	0.2	0.2	(17)%	0.2	0.3	(30)%
Other	0.1	—	(13)%	—	0.1	(27)%
Total natural gas liquids	2.0	2.6	(26)%	2.6	2.8	(4)%
Total (million cubic feet equivalent per day)						
Dutch and Mary Rose	42.0	50.5	(17)%	50.5	56.4	(10)%
Vermilion 170	5.4	7.0	(23)%	7.0	7.5	(7)%
Southeast Texas	13.1	22.6	(42)%	22.6	25.9	(13)%
South Texas	7.5	9.3	(19)%	9.3	14.5	(36)%
Other	3.0	3.6	(16)%	3.6	6.2	(40)%
Total production	71.0	93.0	(23)%	93.0	110.5	(16)%
Average Sales Price:						
Oil and condensate (per barrel)	\$ 38.52	\$ 46.80	(18)%	\$ 46.80	\$ 92.98	(50)%
Natural gas (per thousand cubic feet)	\$ 2.42	\$ 2.61	(7)%	\$ 2.61	\$ 4.36	(40)%
Natural gas liquids (per barrel)	\$ 15.79	\$ 14.68	8 %	\$ 14.68	\$ 33.27	(56)%
Total (per thousand cubic feet equivalent)	\$ 3.01	\$ 3.43	(12)%	\$ 3.43	\$ 6.86	(50)%
Expenses (thousands):						
Operating expenses	\$29,111	\$ 37,840	(23)%	\$ 37,840	\$ 47,236	(20)%
Exploration expenses	\$ 1,816	\$ 11,979	(85)%	\$ 11,979	\$ 33,387	(64)%
Depreciation, depletion and amortization	\$63,323	\$133,380	(53)%	\$133,380	\$156,117	(15)%
Impairment and abandonment of oil and gas properties	\$10,572	\$285,877	(96)%	\$285,877	\$ 47,693	499 %
General and administrative expenses	\$26,802	\$ 26,402	2 %	\$ 26,402	\$ 34,045	(22)%
Gain (Loss) from investment in affiliates (net of taxes)	\$ 1,545	\$ (30,582)	(105)%	\$ (30,582)	\$ 6,923	(542)%
Other (Income) Expense	\$ (5,791)	\$ (719)	705 %	\$ (719)	\$ (2,687)	(73)%
Selected data per Mcfe:						
Operating expenses	\$ 1.12	\$ 1.11	1 %	\$ 1.11	\$ 1.17	(5)%
General and administrative expenses	\$ 1.03	\$ 0.78	32 %	\$ 0.78	\$ 0.84	(7)%
Depreciation, depletion and amortization	\$ 2.44	\$ 3.93	(37)%	\$ 3.93	\$ 3.87	2 %

Natural Gas, Oil and NGL Sales and Production

All of our revenues are from the sale of our natural gas, crude oil and natural gas liquids production. Our revenues may vary significantly from year to year depending on changes in commodity prices, which fluctuate widely, and production volumes. Our production volumes are subject to wide swings as a result of new discoveries, weather and mechanical related problems. In addition, the production rate associated with our oil and gas properties declines over time as we produce our reserves.

We reported revenues of approximately \$78.2 million for the year ended December 31, 2016, compared to revenues of approximately \$116.5 million for the year ended December 31, 2015. This decrease in revenues was primarily attributable to lower oil and natural gas prices in 2016 and lower production resulting from the significant reduction in our capital program because of the dramatic decline in, and uncertain outlook for, commodity prices.

Total production for the year ended December 31, 2016 was approximately 26.0 Bcfe, or 71.0 Mmcfe/d, compared to approximately 34.0 Bcfe, or 93.0 Mmcfe/d, in the prior year, a decline attributable in large part to our limited drilling activity in 2016 due to the low commodity price environment. Net natural gas production for the year ended December 31, 2016 was approximately 49.5 Mmcf/d, compared with approximately 61.9 Mmcf/d for the year ended December 31, 2015, due to normal decline in production from our offshore properties. Net oil production declined from approximately 2,500 barrels per day to 1,600 barrels per day, while NGL production decreased from approximately 2,600 barrels per day to 2,000 barrels per day. Both decreases were a result of the first half of 2015 including initial oil production from our new wells brought on production in Madison and Grimes counties of our Southeast Texas Region which were not offset by new production in 2016 due to a limited capital program.

We reported revenues of approximately \$116.5 million for the year ended December 31, 2015, compared to revenues of approximately \$276.5 million for the year ended December 31, 2014. This decrease in revenues was primarily attributable to lower oil and natural gas prices in 2015 and lower production resulting from the significant reduction in our capital program because of the dramatic decline in, and uncertain outlook for, commodity prices.

Total production for the year ended December 31, 2015 was approximately 34.0 Bcfe, or 93.0 Mmcfe/d, compared to approximately 40.3 Bcfe, or 110.5 Mmcfe/d, for the year ended December 31, 2014, a decline attributable in large part to our limited drilling activity in 2015 due to the low commodity price environment. Our net natural gas production for the year ended December 31, 2015 was approximately 61.9 Mmcf/d, compared with approximately 70.9 Mmcf/d for the year ended December 31, 2014. Additionally, net oil production declined from 3,800 barrels per day to 2,500 barrels per day, while NGL production decreased from approximately 2,800 barrels per day to 2,600 barrels per day, both decreases as a result of normal decline that was not offset by new production from a limited 2015 capital program.

Average Sales Prices

The average equivalent sales price realized for the years ended December 31, 2016, 2015 and 2014 were \$3.01 per Mcfe, \$3.43 per Mcfe and \$6.86 per Mcfe, respectively. The price of natural gas for the years ended December 31, 2016, 2015 and 2014 were \$2.42 per Mcf, \$2.61 per Mcf and \$4.36 per Mcf, respectively. The price for oil for the years ended December 31, 2016, 2015 and 2014 were \$38.52 per barrel, \$46.80 per barrel and \$92.98 per barrel, respectively. The price for NGLs for the years ended December 31, 2016, 2015 and 2014 were \$15.79 per barrel, \$14.68 per barrel and \$33.27 per barrel, respectively.

Operating Expenses (including production taxes)

Operating expenses for the year ended December 31, 2016 were approximately \$29.1 million, or \$1.12 per Mcfe, compared to approximately \$37.8 million, or \$1.11 per Mcfe, for the year ended December 31, 2015. Operating expenses for the year ended December 31, 2014 were approximately \$47.2 million, or \$1.17 per Mcfe. The table below provides additional detail of operating expenses for the years ended December 31, 2016, 2015 and 2014.

	Twelve Months Ended December 31,					
	2016		2015		2014	
	(in thousands)	(per Mcfe)	(in thousands)	(per Mcfe)	(in thousands)	(per Mcfe)
Lease operating expenses	\$ 18,608	\$ 0.72	\$ 25,124	\$ 0.74	\$ 27,271	\$ 0.68
Production & ad valorem taxes	3,248	0.13	4,747	0.14	11,513	0.29
Transportation & processing costs	5,491	0.20	4,714	0.13	5,855	0.14
Workover costs	1,764	0.07	3,255	0.10	2,597	0.06
Total operating expenses	\$ 29,111	\$ 1.12	\$ 37,840	\$ 1.11	\$ 47,236	\$ 1.17

Lease operating expenses decreased by 26% for the year ended December 31, 2016, compared to the year ended December 31, 2015, as a direct result of our efforts to reduce costs during the second half of 2015 and in 2016 in response to the challenging commodity price environment. Production and ad valorem taxes decreased by 32% for the year ended December 31, 2016, compared to the prior year, primarily due to the decrease in revenues for the same period.

Lease operating expenses decreased by 8% for the year ended December 31, 2015, compared to the year ended December 31, 2014, as a direct result of our efforts to reduce costs during the second half of 2015. Production and ad valorem taxes decreased by 59% for the year ended December 31, 2015, compared to the prior year, primarily due to the decrease in revenues for the same period.

Exploration Expenses

We reported approximately \$1.8 million of exploration expenses for the year ended December 31, 2016, which were primarily related to geological and geophysical software, seismic data licensing fees and mapping services. We reported approximately \$12.0 million of exploration expenses for the year ended December 31, 2015, which included \$6.7 million in dry-hole costs related to our State #1H well in Natrona County, Wyoming, and \$2.8 million related to the early termination of a drilling rig contract. We reported \$33.4 million for the year ended December 31, 2014 that included \$31.5 million related to our exploratory dry hole at Ship Shoal 255 and \$1.9 million for geological and geophysical activities, seismic data and delay rentals.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the year ended December 31, 2016 was approximately \$63.3 million, or \$2.44 per Mcfe, compared to approximately \$133.4 million, or \$3.93 per Mcfe, for the year ended December 31, 2015, a decrease primarily attributable to lower production during 2016. The rate decrease is primarily attributable to the impairment recorded in 2015.

Depreciation, depletion and amortization for the year ended December 31, 2015 was approximately \$133.4 million, or \$3.93 per Mcfe, compared with approximately \$156.1 million, or \$3.87 per Mcfe, for the year ended December 31, 2014, a decrease primarily attributable to lower production during 2015. The rate was reduced substantially for the fourth quarter 2015 as a result of the impairment recorded in the quarter ended September 30, 2015, as discussed below.

Impairment and Abandonment of Oil and Gas Properties

Impairment and abandonment expenses for the year ended December 31, 2016 included proved property impairment of \$0.7 million related to the decline in commodity prices and the resulting impact on estimated future net cash flows from associated reserves. Impairment expenses for the year ended December 31, 2016 also included \$6.8 million impairment related to our unproved properties in Fayette and Gonzales counties, Texas and \$2.9 million related to our unproved acreage in Natrona County, Wyoming.

Impairment and abandonment expenses for the year ended December 31, 2015 included proved property impairment of \$269.6 million related to the decline in commodity prices and the resulting impact on estimated future net cash flows from associated reserves. Approximately \$235.8 million of the total proved property impairment for the year ended December 31, 2015 is attributable to the Madison/Grimes counties and Zavala/Dimmit/Karnes counties properties, our highest valued properties stemming from the Merger with Crimson. Impairment expenses for the year ended December 31, 2015 included a \$16.3 million impairment of certain unproved properties and onshore prospects due primarily to the sustained low commodity price environment and expiring leases. Approximately \$9.3 million of the total

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for the year ended December 31, 2015 is related to unproved lease cost amortization of the Elm Hill project in Fayette and Gonzales counties, Texas.

Impairment and abandonment expenses for the year ended December 31, 2014 included proved property impairments of \$7.7 million for South Timbalier 17 and \$3.7 million for the Tuscaloosa Marine Shale (“TMS”) due to performance and commodity price declines in 2014, \$3.5 million impairment of unproved leasehold cost related to the dry hole on our Ship Shoal 255 block and \$12.1 million for impairment of an existing platform which was expected to be used by the Ship Shoal 255 well if it had been successful. Impairment expenses for the year ended December 31, 2014 also included a \$20.1 million impairment charge for certain unproved prospects due to expiring leases and leases not likely to be drilled, primarily related to GOM leases and unproved TMS leases.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2016 were approximately \$26.8 million, compared to \$26.4 million for the year ended December 31, 2015. Included in our current year expense was approximately \$6.5 million in non-cash stock based compensation. Included in the prior year expense was approximately \$0.6 million in cash severance costs resulting from an August 2015 reduction in force and \$6.5 million in non-cash stock based compensation. Exclusive of the stock compensation and severance related costs, cash general and administrative expenses for the current year were \$20.3 million, compared to cash expenses of \$19.3 million for the prior year.

General and administrative expenses for the year ended December 31, 2015 were approximately \$26.4 million, compared to \$34.0 million for the year ended December 31, 2014. General and administrative expenses for the year ended December 31, 2015 included approximately \$0.6 million in cash severance costs resulting from an August 2015 reduction in force and \$6.5 million in non-cash stock based compensation. General and administrative expenses for the year ended December 31, 2014 included approximately \$4.5 million in non-cash stock based compensation and \$2.6 million in merger-related costs. Exclusive of the stock compensation and severance related costs, cash general and administrative expenses for the year ended December 31, 2015 were \$19.3 million, compared to cash expenses of \$29.5 million for the year ended December 31, 2014.

Gain (loss) from Affiliates

For the year ended December 31, 2016, the Company recorded a gain from affiliates of approximately \$1.5 million, net of no tax expense, related to our equity investment in Exaro, compared with a loss from affiliates of approximately \$30.6 million, net of tax benefit of \$16.5 million, for the year ended December 31, 2015.

For the year ended December 31, 2015, the Company recorded a loss from affiliates of approximately \$30.6 million, net of tax benefit of \$16.5 million, related to our equity investment in Exaro, compared with a gain from affiliates of approximately \$6.9 million, net of taxes of \$3.8 million, for the year ended December 31, 2014. The decline in 2015 was related primarily to an impairment of Exaro’s oil and gas properties as a result of the recent dramatic decline in commodity prices.

Other Income (Expense)

Other expense for the year ended December 31, 2016 was approximately \$5.8 million, which is primarily related to interest expense of \$3.8 million and realized loss on derivatives of \$1.6 million.

Other expense for the year ended December 31, 2015 was approximately \$0.7 million, which is primarily related to \$5.6 million of costs incurred in pursuit of an unsuccessful acquisition in the fourth quarter and interest expense of \$3.2 million, partially offset by \$6.1 million in proceeds related to favorable outcomes in two lawsuits and realized gains on derivatives of \$2.3 million.

Other expense for the year ended December 31, 2014 was approximately \$2.7 million, which is primarily related to interest expense.

Capital Resources and Liquidity

Our primary cash requirements are for capital expenditures, working capital, operating expenses, acquisitions and principal and interest payments on indebtedness. Our primary sources of liquidity are cash generated by operations, net of the realized effect of our hedging agreements, and amounts available to be drawn under our credit facility.

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The table below summarizes certain measures of liquidity and capital expenditures, as well as our sources of capital from internal and external sources, for the periods indicated, in thousands.

	Year ended December 31,		
	2016	2015	2014
Net cash provided by operating activities	\$ 32,011	\$ 24,955	\$ 209,960
Net cash used in investing activities	\$ (19,798)	\$ (76,806)	\$ (175,057)
Net cash provided by (used in) financing activities	\$ (12,213)	\$ 51,851	\$ (34,903)
Cash and cash equivalents at the end of the period	\$ —	\$ —	\$ —

Cash flow from operating activities, including changes in working capital, provided approximately \$32.0 million in cash for the year ended December 31, 2016 compared to \$25.0 million for the year ended December 31, 2015. The changes in working capital were approximately \$7.8 million during 2016, compared to a deficit in 2015 of approximately \$27.2 million. Cash flow from operating activities, excluding changes in working capital, provided approximately \$24.2 million in cash for the year ended December 31, 2016 compared to \$52.2 million for the year ended December 31, 2015. This decrease in cash provided by operating activities was primarily attributable to lower revenues associated with lower prices and lower production resulting from our reduced drilling activity in 2016 due to the low commodity price environment.

Cash flow from operating activities provided approximately \$25.0 million in cash for the year ended December 31, 2015 compared to \$210.0 million for the year ended December 31, 2014. This decrease in cash provided by operating activities was primarily attributable to lower oil and natural gas prices for 2015, as well as a decline attributable to our reduced drilling activity in 2015 due to the low commodity price environment.

Cash used in investing activities was approximately \$19.8 million for the year ended December 31, 2016, which included approximately \$24.9 million for capital expenditures partially offset by \$5.1 million for the sale of our Colorado properties.

Cash used in investing activities was approximately \$76.8 million for the year ended December 31, 2015, which included approximately \$77.8 million for capital expenditures, partially offset by approximately \$1.0 million in distributions from REX as a result the dissolution of that entity.

Cash used in investing activities was approximately \$175.1 million for the year ended December 31, 2014, which included approximately \$180.4 million for capital expenditures, partially offset by approximately \$5.4 million related to the sale of assets and distributions from affiliates.

Cash used in financing activities was approximately \$12.2 million for the year ended December 31, 2016 compared to \$51.9 million provided by financing activities in 2015. Included in 2016 activity was \$50.4 million in proceeds from our equity offering to fund the acquisition and early development of our Southern Delaware Basin acreage and approximately \$61.1 million in net repayments of outstandings under our RBC Credit Facility (defined below). 2015 activity included net borrowings under our RBC Credit Facility to reduce the working capital obligations at December 31, 2015.

Cash provided by financing activities was approximately \$51.9 million for the year ended December 31, 2015 compared to \$34.9 million used in financing activities in 2014. The cash provided by financing activities in 2015 was primarily attributable to net borrowings under our RBC Credit Facility (defined below) used to reduce the working capital obligations at December 31, 2014, while the cash used in financing activities in 2014 reflected the net repayment of borrowings under the RBC Credit Facility that existed at the beginning of that year.

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 (the "RBC Credit Facility"). Effective October 28, 2016, as part of the regular redetermination schedule, the borrowing base under the RBC Credit Facility was reaffirmed at \$140 million, which is unchanged from the redetermination amount on May 6, 2016. Also effective May 6, 2016, the RBC Credit Facility was amended to, among other things, extend the maturity of the facility from October 1, 2017 to October 1, 2019, increase the LIBOR, U.S. prime rate and federal funds rate margins to 2.5% - 4.0% and increase the commitment fee to 0.5%, regardless of the amount of the credit facility that is unused. The borrowing base under the facility is redetermined each November and May.

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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. Our compliance with these covenants is tested each quarter. At December 31, 2016, we were in compliance with the covenants under the RBC Credit Facility, and at current commodity prices, we 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. See Note 12 to our Financial Statements - "Long-Term Debt" for a more detailed description of terms and provisions of our credit agreement.

Future Capital Requirements

Our future crude oil, natural gas and natural gas liquids reserves and production, and therefore our cash flow and results of operations, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. We intend to grow our reserves and production by further exploiting our existing property base through drilling opportunities in our resource plays and in our conventional onshore inventory in the Texas Gulf Coast, with activity in any particular area and period of time to be a function of market and field economics. We anticipate that acquisitions, including those of undeveloped leasehold interests, will continue to play a role in our business strategy as those opportunities arise from time to time; however, there can be no assurance that we will be successful in consummating any acquisitions, or that any such acquisition entered into will be successful. These potential acquisitions are not part of our current capital budget and would require additional capital. Natural gas and oil prices continue to be volatile and our financial resources may be insufficient to fund any of these opportunities. While there are currently no unannounced agreements for the acquisition of any material businesses or assets, such transactions can be effected quickly and could occur at any time.

We believe that our internally generated cash flow, combined with availability under our RBC Credit Facility will be sufficient to meet the liquidity requirements necessary to fund our daily operations and planned capital development and to meet our debt service requirements for the next twelve months. We also possess the capacity, through forecasted excess cash flow and through our RBC Credit Facility, to increase and/or accelerate drilling on any particular area should we determine that market and project economics so warrant. Our ability to execute on our growth strategy will be determined, in large part, by our cash flow and the availability of debt and equity capital at that time. Any decision regarding a financing transaction, and our ability to complete such a transaction, will depend on prevailing market conditions and other factors.

Our 2017 capital budget will be focused primarily on the Southern Delaware Basin and: (i) the preservation of our healthy financial position, including limiting our initial 2017 capital expenditure budget to internally generated cash flow; (ii) focusing drilling expenditures on strategic projects that provide good investment returns in the current price environment; (iii) identification of opportunities for cost efficiencies in all areas of our operations; and (iv) continuing to identify new resource potential opportunities, internally and through acquisition. Our current capital budget for 2017 should allow us to meet our contractual requirements, remain in position to preserve our term acreage where appropriate and maintain our already healthy financial profile during this challenging period for our industry. We will continuously monitor the commodity price environment, and if warranted, make adjustments to our investment strategy as the year progresses.

Inflation and Changes in Prices

While the general level of inflation affects certain costs associated with the energy industry, factors unique to the industry result in independent price fluctuations. Such price changes have had, and will continue to have, a material effect on our operations; however, we cannot predict these fluctuations.

Income Taxes

During the year ended December 31, 2016, we received a refund of approximately \$2.1 million in federal and state income taxes. During the year ended December 31, 2015, we received a refund of approximately \$0.2 million in federal and state income taxes. During the year ended December 31, 2014 we paid approximately \$0.2 million in federal and state income taxes, net of cash refunds received.

Contractual Obligations

The following table summarizes our known contractual obligations as of December 31, 2016:

	Payment due by period (thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long term debt and interest ⁽¹⁾	\$60,628	\$ 2,283	\$ 58,345	\$ —	\$ —
Delay rentals	623	103	206	206	108
Asset retirement obligations	26,926	4,308	3,088	624	18,906
Employment agreements	4,086	1,610	2,476	—	—
Operating leases ⁽²⁾	4,893	2,696	2,197	—	—
Hardware/software	578	292	253	31	2
Uncertain income tax positions	360	—	360	—	—
Total	<u>\$98,094</u>	<u>\$11,292</u>	<u>\$ 66,925</u>	<u>\$ 861</u>	<u>\$ 19,016</u>

(1) Estimated interest is based on the outstanding debt at December 31, 2016 using the interest rate in effect at that time.

(2) Operating leases include contracts related to office space, compressors, vehicles, office equipment and other.

In addition to the above, we have a throughput agreement with a third party pipeline owner/operator through March 2020. See Note 13 to our Financial Statements – “Commitments and Contingencies” for further information.

Application of Critical Accounting Policies and Management’s Estimates

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

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.

Reserve Estimates

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

Actual production, revenues and expenditures with respect to the Company's reserves will likely vary from estimates, and such variances may be material. Holding all other factors constant, a reduction in the Company's proved reserve estimate at December 31, 2016 of 5%, 10% and 15% would affect depreciation, depletion and amortization expense by approximately \$0.7 million, \$1.4 million and \$2.2 million, respectively.

Impairment of Natural Gas and Oil Properties

The Company reviews its proved natural gas and oil properties for impairment whenever events and circumstances, such as the current low commodity price environment, indicate a potential decline in the recoverability of their carrying value. An impairment loss associated with an asset group is the amount by which the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. An asset's fair value is preferably indicated by a quoted market price in the asset's principal market. Unlike many businesses where independent appraisals can be obtained for items such as equipment, oil and gas proved reserves are unique assets. Most oil and gas valuations are based on a combination of the income approach and market approach methodologies. We utilize the income approach also known as the discounted cash flow ("DCF") approach. Under the DCF method in determining fair value, there are specific guidelines and ranges within the evaluation that we can consider and estimate.

The Company compares expected undiscounted future net cash flows from each field to the unamortized capitalized cost of the asset. If the future undiscounted net cash flows, based on the Company's estimate of future natural gas and oil prices and operating costs and anticipated production from proved reserves, are lower than the unamortized capitalized cost, then the capitalized cost is reduced to fair market value. The factors used to determine fair value include, but are not limited to, estimates of reserves, future commodity pricing, future production estimates, and anticipated capital expenditures. 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. Drilling activities in an area by other companies may also effectively impair leasehold positions. Given the complexities associated with natural gas and oil reserve estimates and the history of price volatility in the natural gas and oil markets, events may arise that will require the Company to record an impairment of its natural gas and oil properties and there can be no assurance that such impairments will not be required in the future nor that they will not be material. Assuming strip pricing as of March 1, 2017 through 2021 and keeping pricing flat thereafter, instead of 2016 SEC pricing, while leaving all other parameters unchanged, the Company's proved reserves would have been 171.9 Bcfe and the PV-10 value of proved reserves would have been \$249.2 million.

Derivative Instruments

The Company elected to not designate any of its derivative positions for hedge accounting. At the end of each reporting period we record on our balance sheet the mark-to-market valuation of our derivative instruments. The estimated change in fair value of the derivatives, along with the realized gain or loss for settled derivatives, is reported in Other Income (Expense) as Gain (loss) on derivatives, net.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently payable plus deferred income taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred income taxes are measured by applying currently enacted tax rates to the differences between financial statements and income tax reporting. Numerous judgments and assumptions are inherent in the determination of deferred income tax assets and liabilities as well as income taxes payable in the current period. We are subject to taxation in several jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions.

Accounting for uncertainty in income taxes prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of income tax positions taken or expected to be taken in an income tax return. For those benefits to be recognized, an income tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2016, we had federal net operating loss (“NOL”) carryforwards of \$198.3 million which occurred due to the Merger, and subsequent taxable losses in 2014, 2015 and 2016 due to lower commodity prices and impairment of oil and gas property. Generally, these NOLs are available to reduce future taxable income and the related income tax liability subject to the limitations set forth in Internal Revenue Code Section 382. Given the uncertainty of our ability to generate taxable income, a valuation allowance of \$77.5 million has been recorded for the year ended December 31, 2016 against the deferred tax assets, reduced by the amount of the deferred tax liability.

Our federal and state income tax returns are generally not filed before the consolidated financial statements are prepared. Therefore, we estimate the tax basis of our assets and liabilities at the end of each period as well as the effects of tax rate changes, tax credits and net operating and capital loss carryforwards and carrybacks. Adjustments related to differences between the estimates we used and actual amounts we reported are recorded in the period in which we file our income tax returns. See Note 15 - “Income Taxes” to our consolidated financial statements.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update 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 Accounting Standards Update 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 are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2016, the FASB issued Accounting Standards Update 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 August 2014, the FASB issued Accounting Standards Update No. 2014-15: Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (ASU 2014-15). ASU 2014-15 asserts that management should evaluate whether there are relevant conditions or events that are known and reasonably knowable that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued or are available to be issued when applicable. If conditions or events at the date the financial statements are issued raise substantial doubt about an entity’s ability to continue as a going concern, disclosures are required which will enable users of the financial statements to understand the conditions or events as well as management’s evaluation and plan to mitigate those conditions and events. ASU 2014-15 became effective for the annual period ending after December 15, 2016. The provisions of this accounting update did not have a material impact on our financial position or results of operations.

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.

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.

Off Balance Sheet Arrangements

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

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

Commodity Risk

We are exposed to various risks including energy commodity price risk for our oil, natural gas and natural gas liquids 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 for oil, natural gas and natural gas liquids produced and sold. 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

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received for oil, natural gas and natural gas liquids are volatile and unpredictable. For the year ended December 31, 2016, a 10% fluctuation in the prices received for oil, natural gas and natural gas liquids production would have had an approximate \$7.8 million impact on our revenues.

Derivative Instruments and Hedging Activity

We expect commodity 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 operations. 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, in recent years, our objective has generally been to potentially hedge approximately 50% of our current and anticipated production for the next 12 to 18 months, excluding offshore production during hurricane season. As of December 31, 2016, we had the following financial derivative contracts in place:

Commodity	Period	Derivative	Volume/Month	Price/Unit ⁽¹⁾
Natural Gas	Jan - July 2017	Collar	400,000 MMBtus	\$ 2.65 - 3.00
Natural Gas	Aug - Oct 2017	Collar	200,000 MMBtus	\$ 2.65 - 3.00
Natural Gas	Nov - Dec 2017	Collar	400,000 MMBtus	\$ 2.65 - 3.00
Natural Gas	Jan - July 2017	Swap	300,000 MMBtus	\$ 3.51
Natural Gas	Aug - Oct 2017	Swap	70,000 MMBtus	\$ 3.51
Natural Gas	Nov - Dec 2017	Swap	300,000 MMBtus	\$ 3.51
Oil	Jan - July 2017	Swap	9,000 Bbls	\$ 53.95
Oil	Aug - Oct 2017	Swap	6,000 Bbls	\$ 53.95
Oil	Nov - Dec 2017	Swap	8,000 Bbls	\$ 53.95
Oil	Jan - Dec 2017	Swap	9,000 Bbls	\$ 56.20

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

Our hedge strategy and objectives may change significantly as our operational profile changes and/or commodities prices change.

We are exposed to market risk on our open derivative contracts related to potential non-performance by our counterparties. It is our policy to enter into derivative contracts, including interest rate swaps, only with counterparties that are creditworthy institutions deemed by management as competent and competitive market makers. The counterparties to the Company's current and previous derivative contracts are large financial institutions and also lenders or affiliates of lenders in our RBC Credit Facility. We do not post collateral under any of these contracts as they are secured under our RBC Credit Facility. See Note 6 to our Financial Statements - "Derivative Instruments" for additional information.

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 6 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 the U.S. prime rate based and may result in reductions of earnings or cash flows due to increases in the interest rates we pay on these obligations. 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.

As of December 31, 2016, our total long-term debt was \$54.4 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 year ended December 31, 2016 our effective rate fluctuated between 2.3 percent and 6.8 percent, depending on the term of the specific debt drawdowns. At December 31, 2016, we did not have any outstanding interest rate swap agreements. As of December 31, 2016, the weighted average interest rate on our variable rate debt was 4.2% 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 \$0.5 million for a twelve month period.

Other Financial Instruments

As of December 31, 2016, we had no cash or cash equivalents. 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 to hedge any 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 may 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 December 31, 2016, an immediate 10% change in interest rates is not expected to have a material effect on our near-term financial condition or results of operations.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplemental information required to be filed under Item 8 of Form 10-K are presented on pages F-1 through F-35 of this Form 10-K.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's senior management of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2016, the end of the period covered by this report. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that the Company files under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Company's management, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There was no change in our internal controls over financial reporting during the fiscal quarter ended December 31, 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the

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participation of the Company's management, including the President and Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *2013 Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under the framework in *2013 Internal Control-Integrated Framework*, the Company's management concluded that its internal control over financial reporting was effective as of December 31, 2016.

Grant Thornton LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Form 10-K, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Contango Oil & Gas Company

We have audited the internal control over financial reporting of Contango Oil & Gas Company (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2016, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2016, and our report dated March 15, 2017 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Houston, Texas
March 15, 2017

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information regarding directors, executive officers, promoters and control persons required under Item 10 of Form 10-K will be contained in our Definitive Proxy Statement for our 2017 Annual Meeting of Stockholders (the “Proxy Statement”) under the headings “Proposal 1: Election of Directors”, “Executive Compensation”, “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance and our Board” and is incorporated herein by reference. The Proxy Statement will be filed with the SEC pursuant to Regulation 14A of the Exchange Act, not later than 120 days after December 31, 2016.

Item 11. Executive Compensation

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

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

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

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

The information required under Item 13 of Form 10-K will be contained in the Proxy Statement under the headings “Corporate Governance and our Board”, “Transactions with Related Persons” and “Executive Compensation” and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

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

GLOSSARY OF SELECTED TERMS

The following is a description of the meanings of some of the oil and gas industry terms used in this report.

2D seismic or *3D seismic*. Geophysical data that depict the subsurface strata in two dimensions or three dimensions, respectively. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D seismic.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, in reference to crude oil or other liquid hydrocarbons.

Bcf. Billion cubic feet of natural gas.

Bcfe. Billion cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

Boe. Barrel of oil equivalent per day determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

Boe/d. Boe per day.

Btu or *British thermal unit*. The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

Completion. The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

Condensate. Liquid hydrocarbons associated with the production of a primarily natural gas reserve.

Developed acreage. The number of acres that are allocated or assignable to productive wells or wells capable of production.

Development well. A well drilled into a proved natural gas or oil reservoir to the depth of a stratigraphic horizon known to be productive.

Dry hole. A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

Exploratory well. A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of natural gas or crude oil in another reservoir.

Field. An area consisting of either a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Gross acres or gross wells. The total acres or wells, as the case may be, in which a working interest is owned.

MBbls. Thousand barrels of crude oil or other liquid hydrocarbons.

Mcf. Thousand cubic feet of natural gas.

Mcfe. Thousand cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

MMBbls. million barrels of crude oil or other liquid hydrocarbons.

MMBtu. million British Thermal Units. One MMBtu equates to one Mcf.

MMcf. million cubic feet of natural gas.

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MMcfe. million cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

MMcfe/d. Mmcfe per day.

Net acres or net wells. The sum of the fractional working interest owned in gross acres or gross wells, as the case may be.

Plugging and abandonment. Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of all states require plugging of abandoned wells.

Productive well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

Prospect. A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.

Proved developed producing reserves. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved developed reserves. Has the meaning given to such term in Rule 4-10(a)(6) of Regulation S-X, which defines proved developed reserves as reserves that can be expected to be recovered through existing wells with existing equipment and operating methods, or in which the cost of the required equipment is relatively minor compared to the cost of a new well, and through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Proved reserves. Has the meaning given to such term in Rule 4-10(a)(22) of Regulation S-X, which defines proved reserves as the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be economically producible in future years from known reservoirs under existing economic conditions, operating methods and government regulations. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

The area of a reservoir considered proved includes (A) the area identified by drilling and limited by fluid contacts, if any, and (B) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil and gas on the basis of available geological and engineering data. In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geological, engineering or performance data and reliable technology establishes a lower contact with reasonable certainty.

Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when successful testing by a pilot project, the operation of an installed program in the reservoir or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and the project has been approved for development by all necessary parties and entities, including governmental entities.

Proved undeveloped reserves. Has the meaning given to such term in Rule 4-10(a)(31) of Regulation S-X, which defines proved undeveloped reserves as reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is

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contemplated, unless such techniques have been proved effective by actual projects in the same reservoir, or by other evidence using reliable technology establishing reasonable certainty.

PV-10. A non-GAAP financial measure that represents the present value, discounted at 10% per year, of estimated future cash inflows from proved natural gas and crude oil reserves, less future development and production costs using pricing assumptions in effect at the end of the period. PV-10 differs from Standardized Measure of Discounted Net Cash Flows because it does not include the effects of income taxes or non-property related expenses such as general and administrative expenses and debt service or depreciation, depletion and amortization on future net revenues. Neither PV-10 nor Standardized Measure of Discounted Net Cash Flows represents an estimate of fair market value of natural gas and crude oil properties. PV-10 is used by the industry as an arbitrary reserve asset value measure to compare against past reserve bases and the reserve bases of other business entities that are not dependent on the taxpaying status of the entity.

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

Trucking. The provision of trucks to move our drilling rigs from one well location to another and to deliver water and equipment to the field.

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of natural gas and oil regardless of whether such acreage contains proved reserves.

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and receive a share of production and requires the owner to pay a share of the costs of drilling and production operations.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Schedules:

The financial statements are set forth in pages F-1 to F-28 of this Form 10-K. Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

(b) Exhibits:

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

Exhibit Number	Description
2.1	Agreement and Plan of Merger, among Contango Oil & Gas Company, Contango Acquisition, Inc. and Crimson Exploration Inc., dated as of April 29, 2013. (11)
3.1	Certificate of Incorporation of Contango Oil & Gas Company. (2)
3.2	Third Amended and Restated Bylaws of Contango Oil & Gas Company. (21)
3.3	Amendment to the Certificate of Incorporation of Contango Oil & Gas Company. (3)
4.1	Facsimile of common stock certificate of Contango Oil & Gas Company. (1)
4.2	Registration Rights Agreement, dated as of April 29, 2013, among Contango Oil & Gas Company, OCM Crimson Holdings, LLC and OCM GW Holdings, LLC. (11)
10.1 *	Amended and Restated 2005 Stock Incentive Plan (15)
10.2 *	Contango Oil & Gas Company Amended and Restated 2009 Incentive Compensation Plan. (5)
10.3	First Amended and Restated Limited Liability Company Agreement dated as of March 31, 2012. (8)
10.4	Participation Agreement covering OCS-G 27927, Ship Shoal Block 263, South Addition, dated as of October 9, 2008 between Contango Offshore Exploration LLC and Contango Operators, Inc. (10)
10.5	Amendment to Participation Agreement covering OCS-G 27927, Ship Shoal Block 263, South Addition, dated as of October 7, 2009 between Contango Offshore Exploration LLC and Contango Operators, Inc. (10)
10.6	Amendment to Participation Agreement covering OCS-G 27927, Ship Shoal Block 263, South Addition, dated as of January 29, 2010 between Contango Offshore Exploration LLC and Contango Operators, Inc. (10)
10.7	Participation Agreement covering OCS-G 33596, Vermilion 170, dated as of July 1, 2010 between Republic Exploration LLC and Contango Operators, Inc. (10)
10.8	Participation Agreement covering Tuscaloosa Marine Shale, dated as of August 27, 2012 between Juneau Exploration LP and Contango Operators, Inc. (10)
10.9	Letter Agreement dated as of June 8, 2012 between Juneau Exploration LP and Contango Operators, Inc. (10)
10.10	Agreement to Purchase Overriding Royalty Interest, dated March 1, 2010 between Contango Offshore Exploration LLC and Juneau Exploration LP. (10)
10.11 *	Amended and Restated Employment Agreement, dated as of November 30, 2016, among Contango Oil & Gas Company and Allan D. Keel. †
10.12 *	Amended and Restated Employment Agreement, dated as of November 30, 2016, among Contango Oil & Gas Company and E. Joseph Grady. †
10.13 *	Employment Agreement, dated as of June 10, 2013, among Contango Oil & Gas Company and Jeffrey A. Sikora. (13)
10.14 *	Employment Agreement, dated as of June 7, 2013, among Contango Oil & Gas Company and A. Carl Isaac. (13)
10.15 *	Amendment and Extension of Employment Agreement, dated as of October 10, 2016, among Contango Oil & Gas Company and A. Carl Isaac. (23)
10.16 *	Employment Agreement, dated as of June 7, 2013, among Contango Oil & Gas Company and John A. Thomas. (13)

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Exhibit Number	Description
10.17 *	Amended and Restated Employment Agreement, dated as of November 30, 2016, among Contango Oil & Gas Company and Jay S. Mengle. †
10.18 *	Amended and Restated Employment Agreement, dated as of November 30, 2016, among Contango Oil & Gas Company and Thomas H. Atkins. †
10.19	Transition Agreement, dated as of June 10, 2013, between Contango Oil & Gas Company and Marc Duncan. (14)
10.20	Participation Agreement covering Central Gulf of Mexico Lease Sale 227, dated as of March 21, 2013 between Republic Exploration LLC and Contango Operators, Inc. (9)
10.21	Participation Agreement covering Timbalier Island Prospect, South Timbalier Area Block 17, S.L. 21906, dated April 3, 2013 between Republic Exploration LLC, Juneau Exploration, L.P. and Contango Operators, Inc. (9)
10.22	Credit Agreement among Contango Oil & Gas Company, as Borrower, Royal Bank of Canada, as Administrative Agent, and the Lenders Signatory Hereto dated October 1, 2013. (15)
10.23	First Amendment to Credit Agreement among Contango Oil & Gas Company, as Borrower, Royal Bank of Canada, as Administrative Agent, and the Lenders Signatory Hereto. (17)
10.24	Second Amendment to Credit Agreement among Contango Oil & Gas Company, as Borrower, Royal Bank of Canada, as Administrative Agent, and the Lenders Signatory Hereto. (18)
10.25	Third Amendment to Credit Agreement among Contango Oil & Gas Company, as Borrower, Royal Bank of Canada, as Administrative Agent, and the Lenders Signatory Hereto. (24)
10.26 *	Contango Oil & Gas Company Director Compensation Plan. (20)
10.27	Liquidation Agreement between Juneau Exploration LP, Contango Operators, Inc. and Fairfield Industries Incorporated, dated December 31, 2015. †
10.28 *	Employment Agreement, dated as of February 26, 2017, among Contango Oil & Gas Company and James J. Metcalf Jr. †
10.29 *	Form of Contango Oil and Gas Company Stock Award Agreement (employees). (22)
10.30 *	Form of Contango Oil and Gas Company Stock Award Agreement (executives). (22)
14.1	Code of Ethics. (16)
21.1	List of Subsidiaries. †
21.2	Organizational Chart. †
23.1	Consent of William M. Cobb & Associates, Inc. †
23.2	Consent of Netherland, Sewell & Associates, Inc. †
23.3	Consent of W.D. Von Gonten & Co. †
23.4	Consent of Grant Thornton LLP. †
23.5	Consent of BDO USA, LLP. †
24.1	Powers of Attorney (included on signature page). †
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. †
99.1	Report of William M. Cobb & Associates, Inc. †
99.2	Report of Netherland, Sewell & Associates. †
99.3	Report of W.D. Von Gonten and Company †

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Exhibit Number	Description
99.4	Exaro Energy III LLC Financial Statements as of and for the years ended December 31, 2016 and 2015 (Unaudited) †
99.5	Exaro Energy III LLC Financial Statements as of and for the year ended December 31, 2014 (Audited) †

* Indicates a management contract or compensatory plan or arrangement.

† Filed herewith

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1. Filed as an exhibit to the Company's Form 10-SB Registration Statement, as filed with the Securities and Exchange Commission on October 16, 1998.
2. Filed as an exhibit to the Company's report on Form 8-K, dated December 1, 2000, as filed with the Securities and Exchange Commission on December 15, 2000.
3. Filed as an exhibit to the Company's report on Form 10-QSB for the quarter ended December 31, 2002, dated November 14, 2002, as filed with the Securities and Exchange Commission.
4. Filed as an exhibit to the Company's report on Form 8-K, dated September 2, 2005, as filed with the Securities and Exchange Commission on September 8, 2005.
5. Filed as an exhibit to the Company's Schedule 14A on Definitive Proxy Statement for 2014, as filed with the Securities and Exchange Commission on April 11, 2014
6. Filed as an exhibit to the Company's report on Form 8-K, dated April 3, 2008, as filed with the Securities and Exchange Commission on April 9, 2008.
7. Filed as an exhibit to the Company's report on Form 10-Q for the quarter ended September 30, 2010, as filed with the Securities and Exchange Commission on November 9, 2010.
8. Filed as an exhibit to the Company's report on Form 8-K, dated as of March 31, 2012, as filed with the Securities and Exchange Commission on April 5, 2012.
9. Filed as an exhibit to the Company's report on Form 10-K for the fiscal year ended June 30, 2013, as filed with the Securities and Exchange Commission on August 29, 2013.
10. Filed as an exhibit to the Company's report on Form 10-K for the fiscal year ended June 30, 2012, as filed with the Securities and Exchange Commission on August 29, 2012.
11. Filed as an exhibit to the Company's report on Form 8-K, dated as of April 29, 2013, as filed with the Securities and Exchange Commission on May 1, 2013.
12. Filed as an exhibit to the Company's report on Form 10-Q for the quarter ended December 31, 2012, as filed with the Securities and Exchange Commission on February 11, 2013.
13. Filed as an exhibit to the Company's Registration Statement on Form S-4, as filed with the Securities and Exchange Commission on June 13, 2013.
14. Filed as an exhibit to the Company's report on Form 8-K, dated as of June 7, 2013, as filed with the Securities and Exchange Commission on June 14, 2013.
15. Filed as an exhibit to the Company's Current Report on Form 8-K dated as of October 1, 2013, as filed with the Securities and Exchange Commission on October 2, 2013.
16. Filed as an exhibit to the Company's report on Form 8-K dated as of January 30, 2014, as filed with the Securities and Exchange Commission on January 30, 2014
17. Filed as an exhibit to the Company's report on Form 8-K dated as of April 11, 2014, as filed with the Securities and Exchange Commission on April 15, 2014.
18. Filed as an exhibit to the Company's report on Form 8-K dated as of October 28, 2014, as filed with the Securities and Exchange Commission on October 31, 2014.
19. Filed as an exhibit to the Company's report on Form 10-Q for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on August 11, 2014.
20. Filed as an exhibit to the Company's Transition Report on Form 10-KT for the six months ended December 31, 2013, as filed with the Securities and Exchange Commission on March 28, 2014.
21. 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.
22. Filed as an exhibit to the Company's report on Form 10-Q for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on November 3, 2016.
23. Filed as an exhibit to the Company's report on Form 8-K dated as of October 10, 2016, as filed with the Securities and Exchange Commission on October 14, 2016.
24. Filed as an exhibit to the Company's report on Form 10-Q for the quarter ended March 31, 2016, as filed with the Securities and Exchange Commission on May 9, 2016.

SIGNATURES

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

CONTANGO OIL & GAS COMPANY

By: /s/ ALLAN D. KEEL Date: March 15, 2017

Allan D. Keel

Chief Executive Officer

POWER OF ATTORNEY

Know all men by these presents, that the undersigned constitutes and appoints Allan D. Keel as his true and lawful attorneys-in-fact and agent, with full power of substitution for him and in his name, place and stead, in any and all capacities to sign any and all amendments or supplements to this Annual Report on Form 10-K, and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ ALLAN D. KEEL</u> Allan D. Keel	Chief Executive Officer (principal executive officer) and Director	March 15, 2017
<u>/s/ E. JOSEPH GRADY</u> E. Joseph Grady	Chief Financial Officer (principal financial officer)	March 15, 2017
<u>/s/ DENISE DUBARD</u> Denise DuBard	Chief Accounting Officer (principal accounting officer)	March 15, 2017
<u>/s/ JOSEPH J. ROMANO</u> Joseph J. Romano	Director	March 15, 2017
<u>/s/ B. A. BERILGEN</u> B. A. Berilgen	Director	March 15, 2017
<u>/s/ B. JAMES FORD</u> B. James Ford	Director	March 15, 2017
<u>/s/ ELLIS L. MCCAIN</u> Ellis L. McCain	Director	March 15, 2017
<u>/s/ CHARLES M. REIMER</u> Charles M. Reimer	Director	March 15, 2017

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

Board of Directors and Shareholders
Contango Oil & Gas Company

We have audited the accompanying consolidated balance sheets of Contango Oil & Gas Company (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Contango Oil & Gas Company and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2017 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Houston, Texas
March 15, 2017

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

	December 31, 2016	December 31, 2015
CURRENT ASSETS:		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable, net	16,727	20,504
Prepaid expenses and other	1,787	1,228
Inventory	540	540
Total current assets	19,054	22,272
PROPERTY, PLANT AND EQUIPMENT:		
Natural gas and oil properties, successful efforts method of accounting:		
Proved properties	1,188,065	1,187,707
Unproved properties	38,338	16,439
Other property and equipment	1,265	1,081
Accumulated depreciation, depletion and amortization	(887,286)	(826,022)
Total property, plant and equipment, net	340,382	379,205
OTHER NON-CURRENT ASSETS:		
Investments in affiliates	15,767	14,222
Other	1,311	1,057
Total other non-current assets	17,078	15,279
TOTAL ASSETS	\$ 376,514	\$ 416,756
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 55,135	\$ 36,358
Current derivative liability	3,446	—
Current asset retirement obligations	4,308	4,603
Total current liabilities	62,889	40,961
NON-CURRENT LIABILITIES:		
Long-term debt	54,354	115,446
Asset retirement obligations	22,618	22,506
Other long term liabilities	248	—
Total non-current liabilities	77,220	137,952
Total liabilities	140,109	178,913
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
SHAREHOLDERS' EQUITY:		
Common stock, \$0.04 par value, 50 million shares authorized, 30,557,987 shares issued and 25,238,600 shares outstanding at December 31, 2016, 24,636,936 shares issued and 19,381,146 shares outstanding at December 31, 2015	1,211	974
Additional paid-in capital	296,439	239,524
Treasury shares at cost (5,319,387 shares at December 31, 2016 and 5,255,790 shares at December 31, 2015)	(128,321)	(127,760)
Retained earnings	67,076	125,105
Total shareholders' equity	236,405	237,843
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 376,514	\$ 416,756

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)

	Year Ended December 31,		
	2016	2015	2014
REVENUES:			
Oil and condensate sales	\$ 23,006	\$ 43,230	\$ 130,238
Natural gas sales	43,847	59,058	112,695
Natural gas liquids sales	11,330	14,217	33,525
Total revenues	<u>78,183</u>	<u>116,505</u>	<u>276,458</u>
EXPENSES:			
Operating expenses	29,111	37,840	47,236
Exploration expenses	1,816	11,979	33,387
Depreciation, depletion and amortization	63,323	133,380	156,117
Impairment and abandonment of oil and gas properties	10,572	285,877	47,693
General and administrative expenses	26,802	26,402	34,045
Total expenses	<u>131,624</u>	<u>495,478</u>	<u>318,478</u>
OTHER INCOME (EXPENSE):			
Gain (loss) from investment in affiliates (net of income taxes)	1,545	(30,582)	6,923
Interest expense	(3,802)	(3,164)	(2,658)
Gain (loss) on derivatives, net	(1,632)	2,348	(153)
Other income (expense)	(357)	97	124
Total other income (expense)	<u>(4,246)</u>	<u>(31,301)</u>	<u>4,236</u>
NET LOSS BEFORE INCOME TAXES	(57,687)	(410,274)	(37,784)
Income tax benefit (provision)	(342)	75,226	15,910
NET LOSS ATTRIBUTABLE TO COMMON STOCK	<u>\$ (58,029)</u>	<u>\$ (335,048)</u>	<u>\$ (21,874)</u>
NET LOSS PER SHARE:			
Basic	\$ (2.71)	\$ (17.67)	\$ (1.15)
Diluted	\$ (2.71)	\$ (17.67)	\$ (1.15)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	21,424	18,965	19,059
Diluted	21,424	18,965	19,059

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)

	Year Ended December 31,		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	(58,029)	(335,048)	(21,874)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation, depletion and amortization	63,323	133,380	156,117
Impairment of natural gas and oil properties	10,438	285,870	47,075
Exploration expenses (recovery)	(1)	6,494	31,488
Deferred income taxes	—	(92,329)	(12,284)
Loss on sale of assets	92	231	—
Loss (gain) from investment in affiliates	(1,545)	47,049	(10,651)
Stock-based compensation	6,457	6,516	4,515
Unrealized loss (gain) on derivative instruments	3,446	—	(1,131)
Changes in operating assets and liabilities:			
Decrease in accounts receivable & other	1,006	4,261	28,942
Decrease (increase) in prepaid expenses	(560)	714	(19)
Increase (decrease) in accounts payable & advances from joint owners	2,116	(28,672)	(8,322)
Increase (decrease) in other accrued liabilities	2,436	(5,711)	(4,236)
Decrease in income taxes receivable, net	2,590	886	884
Other	242	1,314	(544)
Net cash provided by operating activities	<u>\$ 32,011</u>	<u>\$ 24,955</u>	<u>\$ 209,960</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Natural gas and oil exploration and development expenditures	\$ (24,929)	\$ (77,820)	\$ (180,422)
Sale of oil and gas properties	5,120	—	—
Sale of furniture and equipment	11	—	—
Return of investment in affiliates	—	1,014	—
Distributions from affiliates	—	—	5,365
Net cash used in investing activities	<u>\$ (19,798)</u>	<u>\$ (76,806)</u>	<u>\$ (175,057)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under credit facility	\$ 148,881	\$ 356,102	\$ 491,257
Repayments under credit facility	(209,972)	(304,016)	(517,898)
Net proceeds from equity offering	50,435	—	—
Purchase of treasury stock	(561)	(235)	(8,344)
Proceeds from exercised options	—	—	120
Debt issuance costs	(996)	—	(38)
Net cash provided by (used in) financing activities	<u>\$ (12,213)</u>	<u>\$ 51,851</u>	<u>\$ (34,903)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>—</u>	<u>—</u>	<u>—</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ —</u>	<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 share amounts)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Shareholders' Equity
	Shares	Amount				
Balance at December 31, 2013	19,363,711	\$ 962	\$ 228,644	\$ (119,180)	\$ 482,624	\$ 593,050
Exercise of stock options	4,165	—	120	—	—	120
Treasury shares at cost	(232,013)	—	—	(8,345)	—	(8,345)
Restricted shares activity	12,137	1	(1)	—	—	—
Stock-based compensation	—	—	4,515	—	—	4,515
Net loss	—	—	—	—	(21,874)	(21,874)
Balance at December 31, 2014	<u>19,148,000</u>	<u>\$ 963</u>	<u>\$ 233,278</u>	<u>\$ (127,525)</u>	<u>\$ 460,750</u>	<u>\$ 567,466</u>
Treasury shares at cost	(31,252)	—	—	(235)	—	(235)
Restricted shares activity	264,398	11	(10)	—	—	1
Stock-based compensation	—	—	6,256	—	—	6,256
Dissolution of REX	—	—	—	—	(597)	(597)
Net loss	—	—	—	—	(335,048)	(335,048)
Balance at December 31, 2015	<u>19,381,146</u>	<u>\$ 974</u>	<u>\$ 239,524</u>	<u>\$ (127,760)</u>	<u>\$ 125,105</u>	<u>\$ 237,843</u>
Equity Offering	5,360,000	214	50,221	—	—	50,435
Treasury shares at cost	(63,597)	—	—	(561)	—	(561)
Restricted shares activity	561,051	23	(22)	—	—	1
Stock-based compensation	—	—	6,716	—	—	6,716
Net loss	—	—	—	—	(58,029)	(58,029)
Balance at December 31, 2016	<u>25,238,600</u>	<u>\$ 1,211</u>	<u>\$ 296,439</u>	<u>\$ (128,321)</u>	<u>\$ 67,076</u>	<u>\$ 236,405</u>

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

**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Organization and Business

Contango Oil & Gas Company (collectively with its subsidiaries, “Contango” or the “Company”) is a Houston, 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 onshore Texas Gulf Coast and Rocky Mountain regions of the United States.

On October 1, 2013, the Company completed a merger with Crimson Exploration Inc. (“Crimson”) (the “Merger”). The Company historically focused operations in the GOM, but the Merger with Crimson has given the Company access to lower risk, long life resource plays. Due to the current challenging commodity price environment, the Company focused its 2016 capital program on: (i) the preservation of its strong and flexible financial position, including limiting its overall capital expenditure budget to internally generated cash flow; (ii) the identification of opportunities for cost and production efficiencies in all areas of its operations; and (iii) maintaining core leases and continuing to identify new resource potential opportunities internally and, where appropriate, through acquisition. As a result, the Company’s activity was limited to completing its third well targeting the Muddy Sandstone formation. During the third quarter of 2016, the Company acquired acreage in the Southern Delaware Basin in Pecos County, Texas and began drilling its initial well in October 2016, with first production from that well occurring in late January 2017. The Company currently has three subsequent Southern Delaware Basin wells in varying stages of drilling or completion and expects the Southern Delaware Basin position to be the primary focus of its drilling program in 2017.

Additionally, the Company has (i) a 37% equity investment in Exaro Energy III LLC (“Exaro”) that is primarily focused on the development of proved natural gas reserves in the Jonah Field in Wyoming; (ii) operated properties producing from various conventional formations in various counties along the Texas Gulf Coast; and (iii) operated producing properties in the Haynesville Shale, Mid Bossier and James Lime formations in East Texas. On December 30, 2016, the Company completed the sale of all of its Colorado assets, primarily located in the Adams and Weld counties.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and 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. Oil and gas exploration and development affiliates which are not controlled by the Company, such as Republic Exploration LLC (“REX”), are proportionately consolidated. REX was dissolved as of December 31, 2015.

Other Investments

The Company has two seats on the board of directors of Exaro and has significant influence, but not control, over the company. As a result, the Company’s 37% ownership in Exaro is accounted for using the equity method. Under the equity method, the Company’s proportionate share of Exaro’s net income increases the balance of its investment in Exaro, while a net loss or payment of dividends decreases its investment. In the consolidated statement of operations, the Company’s proportionate share of Exaro’s net income or loss is reported as a single line-item in Gain (loss) from investment in affiliates (net of income taxes).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates include oil and gas revenues, income taxes, stock-based compensation, reserve estimates, impairment of natural gas and oil properties, valuation of derivatives and accrued liabilities. Actual results could differ from those estimates.

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Revenue Recognition

Revenues from the sale of natural gas and oil produced are recognized upon the passage of title, net of royalties. Revenues from natural gas production are recorded using the sales method. When sales volumes exceed the Company's entitled share, production imbalance occurs. If production imbalance exceeds the Company's share of the remaining estimated proved natural gas reserves for a given property, the Company records a liability. As of December 31, 2016, 2015 and 2014, the Company had no significant imbalances.

Cash Equivalents

Cash equivalents are considered to be highly liquid investment grade debt investments having an original maturity of 90 days or less. As of December 31, 2016, the Company had no cash and cash equivalents, as cash balances at the end of each day are transferred to reduce outstanding debt under our revolving credit facility to minimize debt service costs. Under the Company's cash management system, checks issued but not yet presented to banks by the payee frequently result in book overdraft balances for accounting purposes and are classified in accounts payable in the consolidated balance sheets. At December 31, 2016, accounts payable included \$3.5 million representing outstanding checks that had not been presented for payment net of cash balance in the bank as of December 31, 2016. At December 31, 2015, accounts payable included \$6.8 million representing outstanding checks that had not been presented for payment net of cash balance in the bank as of December 31, 2015.

Accounts Receivable

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

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

Accounts receivable allowance for bad debt was \$0.7 million as of December 31, 2016 and 2015. At December 31, 2016 and 2015, the carrying value of the Company's accounts receivable approximated fair value.

Oil and Gas Properties - Successful Efforts

The Company follows the successful efforts method of accounting for its natural gas and oil activities. Under the successful efforts method, lease acquisition costs and all development costs are capitalized. Exploratory drilling costs are capitalized until the results are determined. If proved reserves are not discovered, the exploratory drilling costs are expensed. Other exploratory costs, such as seismic costs and other geological and geophysical expenses, are expensed as incurred. Depreciation, depletion and amortization is calculated on a field by field basis using the unit of production method, with lease acquisition costs amortized over total proved reserves and other capitalized costs amortized over proved developed reserves.

Depreciation, depletion and amortization ("DD&A") of capitalized drilling and development costs of producing natural gas and crude oil properties, including related support equipment and facilities net of salvage value, are computed using the unit-of-production method on a field basis based on total estimated proved developed natural gas and crude oil reserves. Amortization of producing leaseholds is based on the unit-of-production method using total estimated proved reserves. Upon sale or retirement of properties, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the accounts and the resulting gain or loss, if any, is recognized. Unit-of-production rates are revised whenever there is an indication of a need, but at least annually. Revisions are accounted for prospectively as changes in accounting estimates.

Other property and equipment are depreciated using the straight-line method over their estimated useful lives which range between three and 13 years.

Impairment of Oil and Gas Properties

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 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. For the year ended December 31, 2016, the Company recorded an impairment expense of approximately \$0.7 million related to proved properties. For the year ended December 31, 2015, the Company recorded an impairment expense of approximately \$269.6 million related to proved properties. Approximately \$235.8 million of this amount was attributable to the Madison/Grimes counties and Zavala/Dimmit/Karnes counties properties. For the year ended December 31, 2014, the Company recorded an impairment expense of approximately \$11.4 million related to proved properties. Of this amount, \$7.7 million related to South Timbalier 17 and \$3.7 million related to the Tuscaloosa Marine Shale ("TMS"), a shale play in central Louisiana and Mississippi.

Unproved properties are reviewed quarterly to determine if there has been an impairment of the carrying value, and any such impairment is charged to expense in the period. During the year ended December 31, 2016, the Company recognized impairment expense of approximately \$6.8 million related to unproved properties in Fayette and Gonzales counties, Texas and \$2.9 million related to unproved acreage in Natrona County, Wyoming. During the year ended December 31, 2015, the Company recognized impairment expense of approximately \$16.3 million related to impairment and partial impairment of certain unproved properties and onshore prospects due primarily to the sustained low commodity price environment and expiring leases. Approximately \$9.3 million of this amount related to unproved lease cost amortization of properties in Fayette and Gonzales counties, Texas.

On April 29, 2014, the Company reached total depth on its Ship Shoal 255 well, and no commercial hydrocarbons were found. As a result, for the year ended December 31, 2014, the Company recognized \$31.5 million in exploration expense for the cost of drilling the well and \$15.6 million in impairment expense, including \$3.5 million related to leasehold costs and \$12.1 million related to the platform located in Ship Shoal 263 block which was expected to be used by the Ship Shoal 255 well had it been successful.

During the year ended December 31, 2014, the Company also recognized impairment expense of approximately \$20.1 million related to impairment and partial impairment of certain unproved properties due to expiring leases and leases not likely to be drilled. Of this amount, approximately \$9.7 million relates to undrilled offshore leases and approximately \$9.7 million relates to undeveloped TMS acreage.

Asset Retirement Obligations

ASC 410, Asset Retirement and Environmental Obligations (ASC 410) requires that the fair value of an asset retirement cost, and corresponding liability, should be recorded as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company records asset retirement obligations to reflect the Company's legal obligations related to future plugging and abandonment of its oil and natural gas wells, platforms and associated pipelines and equipment. The Company estimates the expected cash flows associated with the obligation and discounts the amounts using a credit-adjusted, risk-free interest rate. At least annually, the Company reassesses the obligation to determine whether a change in the estimated obligation is necessary. The Company evaluates whether there are indicators that suggest the estimated cash flows underlying the obligation have materially changed. Should these indicators suggest the estimated obligation may have materially changed on an interim basis (quarterly), the Company will accordingly update its assessment. Additional retirement obligations increase the liability associated with new oil and natural gas wells, platforms, and associated pipelines and equipment as these obligations are incurred. The liability is accreted to its present value each period and the capitalized cost is depleted over the useful life of the related asset. The accretion expense is included in depreciation, depletion and amortization expense.

The estimated liability is based on historical experience in plugging and abandoning wells. The estimated remaining lives of the wells is based on reserve life estimates and federal and state regulatory requirements. The liability is discounted using an assumed credit-adjusted risk-free rate.

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Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs, changes in the risk-free rate or changes in the remaining lives of the wells or if federal or state regulators enact new plugging and abandonment requirements. At the time of abandonment, the Company recognizes a gain or loss on abandonment to the extent that actual costs do not equal the estimated costs. This gain or loss on abandonment is included in impairment and abandonment of oil and gas properties expense. See Note 11 - "Asset Retirement Obligation" for additional information.

Income Taxes

The Company follows the liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements and (ii) operating loss and tax credit carryforwards for tax purposes. Deferred tax assets are reduced by a valuation allowance when, based upon management's estimates, it is more likely than not that a portion of the deferred tax assets will not be realized in a future period. The Company reviews its tax positions quarterly for tax uncertainties. The Company did not have significant uncertain tax positions as of December 31, 2016. The amount of unrecognized tax benefits did not materially change from December 31, 2015. The amount of unrecognized tax benefits may change in the next twelve months; however, the Company does not expect the change to have a significant impact on its financial position or results of operations. The Company includes interest and penalties in interest income and general and administrative expenses, respectively, in its statement of operations.

The Company files income tax returns in the United States and various state jurisdictions. The Company's federal tax returns for 1998 – 2015, and state tax returns for 2010 – 2015, remain open for examination by the taxing authorities in the respective jurisdictions where those returns were filed.

Concentration of Credit Risk

Substantially all of the Company's accounts receivable result from natural gas and oil sales or joint interest billings to a limited number of third parties in the natural gas and oil industry. This concentration of customers and joint interest owners may impact the Company's overall credit risk in that these entities may be similarly affected by changes in economic and other conditions. See Note 3 - "Concentration of Credit Risk" for additional information.

Debt Issuance Costs

Debt issuance costs incurred are capitalized and subsequently amortized over the term of the related debt. During the year ended December 31, 2013, the Company initially incurred \$2.2 million of debt issuance costs relating to the new RBC credit facility entered into in conjunction with the Merger with Crimson. The debt issuance costs were to be amortized over the original four year term of the credit line. In connection with RBC Credit Facility amendment in May 2016, the Company incurred an additional \$1.0 million of debt issuance costs. As of December 31, 2016, the remaining balance of these debt issuance costs was \$1.3 million, which will be amortized through October 1, 2019, with amortization expense included in the DD&A line item in the Company's income statement for the years ended December 31, 2016, 2015 and 2014.

Stock-Based Compensation

The Company applies the fair value based method to account for stock based compensation. Under this method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the requisite service period, which generally aligns with the award vesting period. The Company classifies the benefits of tax deductions in excess of the compensation cost recognized for the options (excess tax benefit) as financing cash flows. The fair value of each restricted stock award is estimated as of the date of grant. The fair value of the Performance Stock Units is estimated as of the date of grant using the Monte Carlo simulation pricing model.

Inventory

Inventory primarily consists of casing and tubing which will be used for drilling or completion of wells. Inventory is recorded at the lower of cost or market using specific identification method.

Derivative Instruments and Hedging Activities

The Company accounts for its 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

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sheet as either an asset or liability measured at fair value. From time to time, the Company hedges a portion of its forecasted oil and natural gas production. Derivative contracts entered into by the Company have consisted of transactions in which the Company hedges the variability of cash flow related to a forecasted transaction using variable to fixed swaps and collars. The Company elected to not designate any of its derivative positions for hedge accounting. Accordingly, the net change in the mark-to-market valuation of these positions as well as all payments and receipts on settled derivative contracts are recognized in "Gain (loss) on derivatives, net" on the consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014. Derivative instruments with settlement dates within one year are included in current assets or liabilities, whereas derivative instruments with settlement dates exceeding one year are included in non-current assets or liabilities. The Company calculates a net asset or liability for current and non-current derivative instruments for each counterparty based on the settlement dates within the respective contracts. See Note 6 - "Derivative Instruments" for additional information.

Subsidiary Guarantees

Contango Oil & Gas Company, as the parent company (the "Parent Company"), 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. Crimson Exploration Inc., Crimson Exploration Operating, Inc., Contango Energy Company, Contango Operators, Inc., Contango Mining Company, Conterra Company, Contaro Company, Contango Alta Investments, Inc., Contango Venture Capital Corporation, Contango Rocky Mountain Inc. and any other of the Company's future subsidiaries specified in the prospectus supplement (each a "Subsidiary Guarantor") are Co-Registrants with the Parent Company under the registration statement, and the registration statement also registered guarantees of debt securities by the Subsidiary Guarantors. The Subsidiary Guarantors are wholly-owned by the Parent Company, either directly or indirectly, and any guarantee by the Subsidiary Guarantors will be full and unconditional. 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 other wholly-owned subsidiary that is inactive. 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 August 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update 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 Accounting Standards Update 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 are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In February 2016, the FASB issued Accounting Standards Update 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 August 2014, the FASB issued Accounting Standards Update No. 2014-15: Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (ASU 2014-15). ASU 2014-15 asserts that management should evaluate whether there are relevant conditions or events that are known and reasonably knowable that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued or are available to be issued when applicable. If conditions or events at the date the financial statements are issued raise substantial doubt about an entity’s ability to continue as a going concern, disclosures are required which will enable users of the financial statements to understand the conditions or events as well as management’s evaluation and plan to mitigate those conditions and events. ASU 2014-15 became effective for the annual period ending after December 15, 2016. The provisions of this accounting update did not have a material impact on the Company’s financial position or results of operations.

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.

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. Concentration of Credit Risk

The customer base for the Company is concentrated in the natural gas and oil industry. Major purchasers of the Company’s natural gas, oil and natural gas liquids for the year ended December 31, 2016 were ConocoPhillips Company (45.9%), Sunoco Inc. (14.2%), Shell Trading US Company (10.6%), Energy Transfer Company (5.1%) and Enterprise Products Operating LLC (3.6%). The Company’s sales to these companies are not secured with letters of credit and in the event of non-payment, the Company could lose up to two months of revenues. The loss of two months of revenues would have a material adverse effect on the Company’s financial position. There are numerous other potential purchasers of the Company’s production.

4. Acquisitions, Dispositions and Gains from Affiliates

Southern Delaware Basin Acquisition

In July 2016, 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 (the "Acquisition") 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 first six wells, plus, contingent upon success, \$5 million for spud bonuses to be paid over the next 14 wells, which would increase the total consideration to \$25 million. As of December 31, 2016, the Company has increased its acreage in this area to 12,500 gross operated acres (6,250 net).

Colorado Property Sale

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.

5. Fair Value Measurements

Pursuant to ASC 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.

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.

Derivatives are recorded at fair value at the end of each reporting period. The Company records the net change in the fair value of these positions in "Gain (loss) 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 6 - "Derivative Instruments" for additional discussion of derivatives.

During the year ended December 31, 2016, the Company's derivative contracts were with major financial institutions with investment grade credit ratings which were believed to have a minimal credit risk. As such, the Company was exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above; however, the Company did not anticipate any nonperformance. The counterparties to the Company's current and previous derivative contracts are lenders in the Company's RBC Credit Facility. The Company did not post collateral under any of these contracts as they were secured under the RBC Credit Facility.

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 have been 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 RBC Credit Facility approximates carrying value because

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the interest rate approximates current market rates and are re-set at least every three months. See Note 12 - "Long-Term Debt" for further information.

Fair value estimates used for non-financial assets are evaluated at fair value on a non-recurring basis include oil and gas properties evaluated for impairment when facts and circumstances indicate that there may be an impairment. If the unamortized cost of properties exceeds the undiscounted cash flows related to the properties, the value of the properties is compared to the fair value estimated as discounted cash flows related to the risk-adjusted proved, probable and possible reserves related to the properties. Fair value measurements based on these inputs are classified as Level 3.

Impairments

Contango tests proved oil and 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 ARO 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.

6. Derivative Instruments

The Company is exposed to certain risks relating to its ongoing business operations, such as commodity price risk. Derivative contracts are 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 believes that derivative arrangements, although not free of risk, allow us 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, the Company's derivative arrangements apply only to a portion of its production and provide only partial protection against declines in commodity prices. Such arrangements may expose us 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.

A costless collar consists of a sold call, which establishes a maximum price the Company will receive for the volumes under contract, and a purchased put that establishes a minimum price. A sold put option limits the exposure of the counterparty's risk should the price fall below the strike price. Sold put options limit the effectiveness of purchased put options at the low end of the put/call collars to market prices in excess of the strike price of the put option sold. 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.

It is the Company's practice to enter into derivative contracts only with counterparties that are creditworthy institutions deemed by management as competent and competitive market makers. The counterparties to the Company's current and previous derivative contracts are lenders or affiliates of lenders in the RBC Credit Facility. The Company does not post collateral under any of these contracts as they are secured under 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

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on settled derivative contracts, in "Gain (loss) on derivatives, net" on the consolidated statements of operations. See Note 5 – "Fair Value Measurements" for additional information.

There were no derivative contracts in place as of December 31, 2015 and 2014. The Company had the following financial derivative contracts in place as of December 31, 2016:

Commodity	Period	Derivative	Volume/Month	Price/Unit ⁽¹⁾
Natural Gas	Jan - July 2017	Collar	400,000 MMBtus	\$ 2.65 - 3.00
Natural Gas	Aug - Oct 2017	Collar	200,000 MMBtus	\$ 2.65 - 3.00
Natural Gas	Nov - Dec 2017	Collar	400,000 MMBtus	\$ 2.65 - 3.00
Natural Gas	Jan - July 2017	Swap	300,000 MMBtus	\$ 3.51
Natural Gas	Aug - Oct 2017	Swap	70,000 MMBtus	\$ 3.51
Natural Gas	Nov - Dec 2017	Swap	300,000 MMBtus	\$ 3.51
Oil	Jan - July 2017	Swap	9,000 Bbls	\$ 53.95
Oil	Aug - Oct 2017	Swap	6,000 Bbls	\$ 53.95
Oil	Nov - Dec 2017	Swap	8,000 Bbls	\$ 53.95
Oil	Jan - Dec 2017	Swap	9,000 Bbls	\$ 56.20

(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 December 31, 2016 (in thousands):

	Gross	Netting ⁽¹⁾	Total
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 years ended December 31, 2016, 2015 and 2014 (in thousands):

Contract Type	Year Ended December 31,		
	2016	2015	2014
Crude oil contracts	\$ 1,814	\$ 2,348	\$ 276
Natural gas contracts	—	—	(1,560)
Realized gain (loss)	\$ 1,814	\$ 2,348	\$ (1,284)
Crude oil contracts	\$ —	\$ —	\$ 1,183
Natural gas contracts	(3,446)	—	(52)
Unrealized gain (loss)	\$ (3,446)	\$ —	\$ 1,131
Gain (loss) on derivatives, net	\$ (1,632)	\$ 2,348	\$ (153)

7. Stock Based Compensation

As of December 31, 2016, the Company had in place the Contango Oil & Gas Company Amended and Restated 2009 Incentive Compensation Plan (“the 2009 Plan”) which allows for stock options, restricted stock or performance stock units to be awarded to officers, directors and employees as a performance-based award.

Amended and Restated 2009 Incentive Compensation Plan

On April 10, 2014, the Board amended and restated the Company’s then existing incentive compensation plan through the adoption of the 2009 Plan. The 2009 Plan provides for both cash awards and equity awards to officers, directors, employees or consultants of the Company. Awards made under the 2009 Plan are subject to such restrictions, terms and conditions, including forfeitures, if any, as may be determined by the Board.

Under the terms of the 2009 Plan, up to 1,500,000 shares of the Company’s common stock may be issued for plan awards. Stock options under the 2009 Plan must have an exercise price of each option equal to or greater than the market price of the Company’s common stock on the date of grant. The Company may grant officers and employees both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and stock options that are not qualified as incentive stock options. Stock option grants to non-employees, such as directors and consultants, can only be stock options that are not qualified as incentive stock options. Options granted generally expire after five or ten years. The vesting schedule for all equity awards varies from immediately to over a four-year period. Exclusive of Performance Stock Units, as of December 31, 2016, the Company had approximately 0.3 million shares of equity awards available for future grant under the 2009 Plan. We will need shareholder approval to amend the 2009 plan to authorize more shares.

Effective January 1, 2014, the Company implemented performance-based long-term bonus plans under the 2009 Plan for the benefit of all employees through a Cash Incentive Bonus Plan (“CIBP”) and a Long-Term Incentive Plan (“LTIP”). The specific targeted performance measures under these sub-plans are approved by the Compensation Committee and/or the Board. Upon achieving the performance levels established each year, bonus awards under the CIBP and LTIP will be calculated as a percentage of base salary of each employee for the plan year. The CIBP and LTIP plan awards for each year are expected to be disbursed in the first quarter of the following year. Employees must be employed by the Company at the time that awards are disbursed to be eligible.

The CIBP awards will be paid in cash while LTIP awards will consist of restricted common stock and/or stock options. The number of shares of restricted common stock and the number of shares underlying the stock options granted will be determined based upon the fair market value of the common stock on the date of the grant.

2005 Stock Incentive Plan

The 2005 Plan was adopted by the Company's Board in conjunction with the Merger with Crimson. This plan expired on February 25, 2015, and therefore, no additional shares are available for grant.

Stock Options

During the years ended December 31, 2016, 2015 and 2014, the Company did not issue any stock options.

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A summary of stock options as of and for the years ended December 31, 2016, 2015 and 2014 is presented in the table below (dollars in thousands, except per share data):

	Year Ended December 31,					
	2016		2015		2014	
	Shares Under Options	Weighted Average Exercise Price	Shares Under Options	Weighted Average Exercise Price	Shares Under Options	Weighted Average Exercise Price
Outstanding, beginning of the period	116,461	\$ 55.03	129,934	\$ 53.85	135,107	\$ 53.00
Exercised	—	\$ —	—	\$ —	(4,165)	\$ 28.93
Canceled / Forfeited	(4,556)	\$ 42.92	(13,473)	\$ 43.65	(1,008)	\$ 42.39
Outstanding, end of year	111,905	\$ 55.53	116,461	\$ 55.03	129,934	\$ 53.85
Aggregate intrinsic value	\$ —		\$ —		\$ 4	
Exercisable, end of year	111,905	\$ 55.53	116,461	\$ 55.03	129,934	\$ 53.85
Aggregate intrinsic value	\$ —		\$ —		\$ 4	
Available for grant, end of the period	323,172		885,449		1,143,006	
Weighted average fair value of options granted during the period	\$ —		\$ —		\$ —	

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 years ended December 31, 2016 and 2015, there was no excess tax benefit recognized. For the year ended December 31, 2014, there was an insignificant excess tax benefit recognized. See Note 2 – "Summary of Significant Accounting Policies".

Compensation expense related to employee 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.

During the years ended December 31, 2016, 2015 and 2014, the Company did not recognize any stock option expense. The aggregate intrinsic value of stock options exercised/forfeited during the years ended December 31, 2016, 2015 and 2014 was approximately zero, zero and \$59,009, respectively.

Restricted Stock

During the year ended December 31, 2016, the Company issued 489,805 restricted stock awards to new and existing employees, which vest over three or four years, an additional 49,460 restricted stock awards to the members of the board of directors which vest on the one-year anniversary of the date of grant, plus an additional 40,876 immediately vested shares to employees and board members as a result of temporarily deferring 10% of 2015 employee salaries and director fees. During the year ended December 31, 2016, 19,090 restricted stock awards were forfeited by former employees. The weighted average fair value of the restricted shares granted during the year was \$10.99, with a total grant date fair value of approximately \$6.4 million after adjustment for estimated weighted average forfeiture rate of 4.2%.

During the year ended December 31, 2015, the Company issued 249,917 restricted stock awards to new and existing employees, which vest over four years, plus an additional 27,204 restricted stock awards to the members of the board of directors which vest on the one-year anniversary of the date of grant. During the year ended December 31, 2015, 12,723 restricted stock awards were forfeited by former employees. The weighted average fair value of the restricted shares granted during the year was \$21.83, with a total grant date fair value of approximately \$6.1 million after adjustment for estimated weighted average forfeiture rate of 4.9%.

During the year ended December 31, 2014, the Company issued 10,714 restricted stock awards to new and existing employees, which vest over four years, plus an additional 15,672 restricted stock awards to the board of directors which vest on the one-year anniversary of the date of grant. During the year ended December 31, 2014, 14,249 restricted stock awards were forfeited by former employees. The weighted average fair value of the restricted shares granted during the year was \$40.83, with a total grant date fair value of approximately \$1.1 million after adjustment for estimated weighted average forfeiture rate of 2.2%.

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Restricted stock activity as of December 31, 2016, 2015 and 2014 and for the years then ended is presented in the table below (dollars in thousands, except per share data):

	2016			2015			2014		
	Restricted Shares	Weighted Average Fair Value	Aggregate Intrinsic Value	Restricted Shares	Weighted Average Fair Value	Aggregate Intrinsic Value	Restricted Shares	Weighted Average Fair Value	Aggregate Intrinsic Value
Outstanding, beginning of the period	337,165	\$ 28.16	\$ 2,161	209,962	\$ 43.86	\$ 6,139	292,632	\$ 44.38	\$ 13,830
Granted	580,141	10.99	6,375	277,121	21.83	6,049	26,386	40.83	1,073
Vested	(260,058)	24.51	2,422	(137,195)	39.35	1,169	(94,807)	44.11	3,454
Canceled / Forfeited	(19,090)	22.03	202	(12,723)	32.97	154	(14,249)	47.30	579
Not vested, end of the period	638,158	14.22	5,960	337,165	28.16	2,161	209,962	43.86	6,139
Vested, end of the period	—	—	—	—	—	—	—	—	—
Expected to vest, end of the period	590,511	14.28	5,515	312,986	28.17	2,006	192,570	43.84	5,631

The Company recognized approximately \$7.7 million, \$6.5 million and \$4.5 million in stock compensation expense during the years ended December 31, 2016, 2015 and 2014, respectively, for restricted shares granted to its officers, employees and directors. An additional \$6.7 million of compensation expense will be recognized over the remaining vesting period.

Performance Stock Units

In October 2016, the Company issued 285,800 Performance Stock Units (“PSUs”) to all employees as part of its LTIP, at a fair value of \$16.32 per unit, using the Monte Carlo simulation method. In November 2016, the Company issued an additional 6,699 PSUs to new employees, at a fair value of \$13.06 per unit using the Monte Carlo simulation model. PSUs represent a contractual right to receive shares of the Company's common stock. The settlement of PSUs may range from 0% to 200% of the targeted number of PSUs stated in the agreement 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 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.

8. Share Repurchase Program

In September 2011, the Company's board of directors approved a \$50 million share repurchase program. All shares are to be purchased in the open market or through privately negotiated transactions. Purchases are made subject to market conditions and certain volume, pricing and timing restrictions to minimize the impact of the purchases upon the market, and when the Company believes its stock price to be undervalued. Repurchased shares of common stock became authorized but unissued shares, and may be issued in the future for general corporate and other purposes. During the year ended December 31, 2014, the Company purchased 205,457 shares at an average price of \$35.89 per share, for a total of approximately \$7.4 million. No shares were purchased during the years ended December 31, 2016 and 2015. As of December 31, 2016, the Company had \$31.8 million available under the share repurchase program for future purchases.

In October 2014, the Company amended its revolving credit facility with Royal Bank of Canada to, among other things, allow for share repurchases subject to certain conditions. The Company is currently in compliance with these conditions.

9. Other Financial Information

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

	December 31, 2016	December 31, 2015
Accounts receivable:		
Trade receivables	\$ 8,424	\$ 7,530
Receivable for Alta Resources distribution	1,993	1,993
Joint interest billings	3,519	7,366
Income taxes receivable	91	2,868
Other receivables	3,395	1,448
Allowance for doubtful accounts	(695)	(701)
Total accounts receivable	<u>\$ 16,727</u>	<u>\$ 20,504</u>
Prepaid expenses and other:		
Prepaid insurance	\$ 1,086	\$ 900
Other	701	328
Total prepaid expenses and other	<u>\$ 1,787</u>	<u>\$ 1,228</u>
Accounts payable and accrued liabilities:		
Royalties and revenue payable	\$ 16,920	\$ 17,906
Advances from partners	5,792	950
Accrued exploration and development	11,176	3,659
Accrued carried well costs	7,155	—
Trade payables	5,406	8,053
Accrued general and administrative expenses	5,016	2,596
Other accounts payable and accrued liabilities	3,670	3,194
Total accounts payable and accrued liabilities	<u>\$ 55,135</u>	<u>\$ 36,358</u>

Included in the table below is supplemental information about non-cash transactions during the years ended December 31, 2016, 2015 and 2014, in thousands:

	Year Ended December 31,		
	2016	2015	2014
Cash payments:			
Interest payments	\$ 3,806	\$ 3,147	\$ 2,786
Income tax payments (refunds), net of cash refunds	(2,089)	(180)	241
Non-cash items excluded from investing activities in the consolidated statements of cash flows:			
Increase (decrease) in accrued capital expenditures	14,672	(22,879)	8,735
Assets acquired & liabilities assumed in the Merger:			
Proved natural gas and oil properties	—	—	2,517
Asset retirement obligations	—	—	(2,517)

10. Investment in Exaro Energy III LLC

Through the Company's wholly-owned subsidiary, Contaro Company ("Contaro"), the Company has committed to invest up to \$67.5 million in Exaro for an ownership interest of approximately 37%. The aggregate commitment of all the Exaro investors was approximately \$183 million. The Company did not make any contributions during the year ended December 31, 2016. As of December 31, 2016, the Company had invested approximately \$46.9 million. The Company has no plans to invest additional funds in Exaro, and the commitment to invest in Exaro expires on March 31, 2017.

The following table presents condensed balance sheet data for Exaro as of December 31, 2016 and December 31, 2015. The balance sheet data was derived from the Exaro balance sheet as of December 31, 2016 and December 31,

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2015 and was not adjusted to represent Contango's percentage of ownership interest in Exaro. Contango's share in the equity of Exaro at December 31, 2016 was approximately \$15.7 million.

	December 31, 2016	December 31, 2015
	(in thousands)	
Current assets ⁽¹⁾	\$ 25,296	\$ 23,664
Non-current assets:		
Net property and equipment	90,621	101,459
Gas processing deposit	1,150	—
Other non-current assets	8	486
Total non-current assets	91,779	101,945
Total assets	\$ 117,075	\$ 125,609
Current liabilities ⁽²⁾	\$ 65,694	\$ 5,272
Non-current liabilities:		
Long-term debt	—	78,500
Other non-current liabilities	8,106	2,891
Total non-current liabilities	8,106	81,391
Members' equity	43,275	38,946
Total liabilities & members' equity	\$ 117,075	\$ 125,609

(1) Approximately \$19.6 million of current assets as of December 31, 2016 is cash.

(2) Approximately \$59.3 million of current liabilities as of December 31, 2016 is the Senior Loan facility maturing September 26, 2017.

The following table presents the condensed results of operations for Exaro for the years ended December 31, 2016, 2015 and 2014. The results of operations for the years ended December 31, 2016, 2015 and 2014 were derived from Exaro's financial statements for the respective periods. The income statement data below was not adjusted to represent Contango'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 years ended December 31, 2016, 2015 and 2014 was a gain of \$1.5 million, net of no tax expense; a loss of \$30.6 million, net of tax benefit of \$16.5 million; and a gain of \$6.9 million, net of tax expense of \$3.8 million, respectively.

	Year Ended December 31,		
	2016	2015	2014
	(\$ in thousands)		
Production:			
Oil (MBbls)	127	166	170
Gas (MMcf)	10,626	13,059	13,355
Total (Mmcf)	11,388	14,055	14,375
Oil and natural gas sales	\$ 30,028	\$ 40,474	\$ 79,536
Other gain (loss)	(3,889)	6,358	5,069
Less:			
Lease operating expenses	15,846	20,922	22,452
Depreciation, depletion, amortization & accretion	10,644	29,417	26,036
Impairment expense	—	118,000	—
General & administrative expense	3,123	3,255	3,484
Income (loss) from continuing operations	(3,474)	(124,762)	32,633
Net other income (expense)	7,900	(2,910)	(3,861)
Net income (loss)	\$ 4,426	\$ (127,672)	\$ 28,772

Included in Other gain (loss) are realized and unrealized gain (losses) attributable to derivatives, whose value is likely to change based on future oil and gas prices. Exaro's results of operations do not include income taxes, because Exaro is treated as a partnership for tax purposes.

11. Asset Retirement Obligation

The Company accounts for its retirement obligation of long lived assets by recording the net present value of a liability for an asset retirement obligation (“ARO”) in the period in which it is incurred. When the liability is initially recorded, a company increases the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

Activities related to the Company’s ARO during the year ended December 31, 2016 and 2015 were as follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Balance as of the beginning of the period	\$ 27,109	\$ 25,746
Liabilities incurred during period	69	349
Liabilities settled during period	(707)	(254)
Accretion	1,187	1,219
Sales	(851)	—
Change in estimate	119	167
Other adjustments	—	(118)
Balance as of the end of the period	<u>\$ 26,926</u>	<u>\$ 27,109</u>

All of the total liabilities incurred during the years ended December 31, 2016 and 2015 were related to new wells drilled during the period. All of the total liabilities settled during the years ended December 31, 2016 and 2015 were related to wells plugged and abandoned during the period.

12. Long-Term Debt

RBC Credit Facility

In October 2013, the Company entered into a \$500 million four-year secured revolving credit facility with Royal Bank of Canada and other lenders. The borrowing base under the facility is redetermined each November 1 and May 1. Effective May 6, 2016, the RBC Credit Facility was amended to, among other things, extend the maturity of the facility from October 1, 2017 to October 1, 2019, increase the LIBOR, U.S. prime rate and federal funds rate margins to 2.5% - 4.0% and increase the commitment fee to 0.5%, regardless of the amount of the credit facility that is unused. Effective October 28, 2016, the Company’s bank group redetermined the Company’s borrowing base at \$140 million, which is unchanged from the redetermination amount on May 6, 2016. Proceeds of the RBC Credit Facility were, or may be used (i) to finance working capital and for general corporate purposes, (ii) for permitted acquisitions, and (iii) to finance transaction expenses in connection with the facility and the Merger.

Initially, the Company incurred \$2.2 million of arrangement and upfront fees in connection with the RBC Credit Facility which was to be amortized over the original four-year term of the facility. In May 2016, in connection with the amendment, the Company incurred an additional \$1.0 million of arrangement and upfront fees. As of December 31, 2016, the remaining balance of these fees was \$1.3 million, which will be amortized through October 1, 2019.

As of December 31, 2016, the Company had \$54.4 million outstanding under the RBC Credit Facility, which matures on October 1, 2019, and \$1.9 million in outstanding letters of credit. As of December 31, 2015, the Company had \$115.4 million outstanding under the RBC Credit Facility and \$1.9 million in outstanding letters of credit. As of December 31, 2016, borrowing availability under the RBC Credit Facility was \$83.7 million.

The RBC Credit Facility is collateralized by a lien on substantially all the producing assets of the Company and its subsidiaries, including a security interest in the stock of Contango’s subsidiaries and a lien on the Company’s oil and gas properties.

Borrowings under the RBC Credit Facility bear interest at LIBOR, the U.S. prime rate, or the federal funds rate, plus a 2.5% to 4.0% margin, dependent upon the amount outstanding. Additionally, the Company must pay a 0.5% commitment fee regardless of the amount of the credit facility that is unused. Total interest expense under the RBC

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Credit Facility, including commitment fees, for the years ended December 31, 2016, 2015 and 2014 was approximately \$3.8 million, \$3.2 million and \$2.7 million, respectively.

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 December 31, 2016, the Company was in compliance with all covenants under the RBC Credit Facility, and at current commodity prices, we 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.

13. Commitments and Contingencies

Contango pays delay rentals on its offshore leases and leases its office space and certain other equipment. Effective October 1, 2013, the Company moved its corporate offices to 717 Texas Avenue in downtown Houston, Texas, under a lease that expires March 31, 2019. The Company remained responsible for the rent at its previous corporate office at 3700 Buffalo Speedway in Houston, Texas, through February 29, 2016; however, effective January 1, 2014, it subleased the previous corporate offices through February 29, 2016 and recovered the substantial majority of the rent it paid at that location.

As of December 31, 2016, minimum future lease payments for delay rentals and operating leases for Contango's fiscal years are as follows (in thousands):

Fiscal years ending December 31,	
2017	\$ 3,092
2018	2,105
2019	551
2020	127
2021	110
2022 and thereafter	109
Total	<u>\$ 6,094</u>

The amounts incurred under operating leases and delay rentals during the years ended December 31, 2016, 2015, and 2014 were approximately \$5.4 million, \$6.3 million and \$6.0 million, respectively. As of December 31, 2016, the Company's commitment for potential future equity contributions with Exaro Energy III, LLC to develop onshore natural gas assets, was \$20.6 million, which expires on March 31, 2017.

Throughput Contract Commitment

The Company signed a throughput agreement with a third party pipeline owner/operator that constructed a line in our Southeast Texas area that allows us to defray the cost of building a pipeline. The Company currently forecasts that monthly gas volume deliveries through this line in our 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 March of each calendar year. As of December 31, 2016, the Company estimates that the net deficiency fee will be in the range of \$0.7 to \$1.2 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 \$1.2 million as of December 31, 2016. The Company will continue to assess this commitment in light of our drilling and development plans for this area.

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.

Mineral interest owners in South Louisiana filed suit against a subsidiary of the Company and several co-defendants in April 2013 in the 31st Judicial District Court situated in Jefferson Davis Parish, Louisiana alleging failure to act as a reasonably prudent operator, failure to explore, waste, breach of contract, etc. in connection with two wells located in Jefferson Davis Parish. The parties reached a settlement on terms favorable to the Company and its co-defendants in late 2016 and this case has been dismissed.

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.

Employment Agreements

In connection with the successful completion of the Merger, Contango entered into employment agreements with each of Allan D. Keel, E. Joseph Grady, A. Carl Isaac, Jay S. Mengle and Thomas H. Atkins, all of which became effective on October 1, 2013. On November 30, 2016, the Company and Mr. Keel, Mr. Grady, Mr. Mengle and Mr. Atkins entered into Amended and Restated Employment Agreements ("Employment Agreements"). The Employment Agreements provide for an initial term of three years for Messrs. Keel and Grady and an initial term of two years for Messrs. Mengle and Atkins. Each of the Employment Agreements will automatically renew for additional one year terms, unless Contango or the executive provides prior notice of intention not to extend the agreement.

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Under the Employment Agreements, Mr. Keel is entitled to a base salary of \$600,000, Mr. Grady is entitled to a base salary of \$400,000, Mr. Mengle is entitled to a base salary of \$300,000 and Mr. Atkins is entitled to a base salary of \$310,000. The Employment Agreements provide that each executive shall participate in the Company's CIBP and LTIP. With respect to the CIBP, the Employment Agreements provide that the executives are eligible to receive an annual cash incentive bonus with a target award level of 100% for Messrs. Keel and Grady and 80% for Messrs. Mengle and Atkins, of such executive's base salary, under such terms and conditions as the Company may determine each applicable year. With respect to the LTIP, the Employment Agreements provide that the executives are eligible to participate in the Company's equity compensation plan for each calendar year in which the executive is employed by the Company, under such terms and conditions as the Company may determine in each applicable year.

14. Net Loss Per Common Share

A reconciliation of the components of basic and diluted net loss per common share for the years ended December 31, 2016, 2015 and 2014 is presented below (in thousands):

	<u>Year Ended December 31, 2016</u>		
	<u>Net Loss</u>	<u>Shares</u>	<u>Per Share</u>
Basic Earnings per Share:			
Net loss attributable to common stock	\$ (58,029)	21,424	\$ (2.71)
Diluted Earnings per Share:			
Effect of potential dilutive securities:			
Stock options, weighted average of incremental shares	—	—	—
Net loss attributable to common stock	\$ (58,029)	21,424	\$ (2.71)
	<u>Year Ended December 31, 2015</u>		
	<u>Net Loss</u>	<u>Shares</u>	<u>Per Share</u>
Basic Earnings per Share:			
Net loss attributable to common stock	\$ (335,048)	18,965	\$ (17.67)
Diluted Earnings per Share:			
Effect of potential dilutive securities:			
Stock options, weighted average of incremental shares	—	—	—
Net loss attributable to common stock	\$ (335,048)	18,965	\$ (17.67)
	<u>Year Ended December 31, 2014</u>		
	<u>Net Loss</u>	<u>Shares</u>	<u>Per Share</u>
Basic Earnings per Share:			
Net loss attributable to common stock	\$ (21,874)	19,059	\$ (1.15)
Diluted Earnings per Share:			
Effect of potential dilutive securities:			
Stock options, weighted average of incremental shares	—	—	—
Net loss attributable to common stock	\$ (21,874)	19,059	\$ (1.15)

The numerator for basic earnings per share is net loss attributable to common stockholders. The numerator for diluted earnings per share is net loss available to common stockholders.

Potential dilutive securities (stock options and PSUs) have not been considered when their effect would be antidilutive. The potentially dilutive shares, including both stock options, restricted shares and PSUs would have been 1,282,957 shares for the year ended December 31, 2016. The potentially dilutive shares, including both stock options and restricted shares, would have been 453,626 shares for the year ended December 31, 2015. The potentially dilutive shares, including both stock options and restricted stock, would have been 339,896 shares for the year ended December 31, 2014.

15. Income Taxes

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 35 percent to pretax income as follows (dollars in thousands):

	Year Ended December 31,					
	2016		2015		2014	
Provision/(benefit) at statutory tax rate	\$ (20,190)	35.00 %	\$ (148,925)	35.00 %	\$ (11,920)	35.00 %
State income tax provision, net of federal benefit	(774)	1.34 %	(116)	0.03 %	1,028	(3.00)%
Permanent differences	67	(0.12)%	30	(0.01)%	202	(0.60)%
State depletion deductions	—	— %	—	— %	(1,723)	5.10 %
Stock based compensation	1,599	(2.77)%	—	— %	—	— %
Valuation allowance	20,026	(34.72)%	55,310	(13.00)%	—	— %
Other	(386)	0.68 %	2,008	(0.47)%	230	(0.70)%
Income tax provision /(benefit)	<u>\$ 342</u>	<u>(0.59)%</u>	<u>\$ (91,693)</u>	<u>21.55 %</u>	<u>\$ (12,183)</u>	<u>35.80 %</u>

The effective tax rate for the years ended December 31, 2016 and 2015 varies from the statutory rate primarily as a result of recording a valuation allowance.

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

	Year Ended December 31,		
	2016	2015	2014
Current tax provision (benefit):			
Federal	\$ (91)	\$ —	\$ (392)
State	433	636	478
Total	<u>\$ 342</u>	<u>\$ 636</u>	<u>\$ 86</u>
Deferred tax provision (benefit):			
Federal	\$ —	\$ (92,329)	\$ (11,518)
State	—	—	(751)
Total	<u>\$ —</u>	<u>\$ (92,329)</u>	<u>\$ (12,269)</u>
Total tax provision (benefit):			
Federal	\$ (91)	\$ (92,329)	\$ (11,910)
State	433	636	(273)
Total	<u>\$ 342</u>	<u>\$ (91,693)</u>	<u>\$ (12,183)</u>
Included in gain (loss) from investment in affiliates	<u>\$ —</u>	<u>\$ (16,467)</u>	<u>\$ 3,727</u>
Total income tax provision (benefit)	<u>\$ 342</u>	<u>\$ (75,226)</u>	<u>\$ (15,910)</u>

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The net deferred tax is comprised of the following (in thousands):

	December 31,	
	2016	2015
Deferred tax assets:		
Net operating loss carryforward	\$ 69,828	\$ 49,249
Income tax credits	908	1,010
Derivative instruments	1,208	—
Deferred compensation	308	498
Oil and gas properties	6,806	12,941
Other	1,477	1,007
Total deferred tax assets before valuation allowance	\$ 80,535	\$ 64,705
Valuation allowance	(77,497)	(57,471)
Net deferred tax assets	<u>\$ 3,038</u>	<u>\$ 7,234</u>
Deferred tax liability:		
Oil and gas properties	\$ —	\$ —
Investment in affiliates	(3,038)	(7,234)
Other	—	—
Deferred tax liability	<u>\$ (3,038)</u>	<u>\$ (7,234)</u>
Total net deferred tax	<u>\$ —</u>	<u>\$ —</u>

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the amount of deferred tax liabilities, level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company believes it is not more-likely-than-not that it will realize the benefits of these deductible differences and has recorded a valuation allowance of \$77.5 million.

As of December 31, 2016, the Company had federal net operating loss (“NOL”) carryforwards of approximately \$198.3 million and state NOLs of \$20.5 million. The federal NOL carryforwards reported as of December 31, 2014 were acquired in the 2013 Merger with Crimson. A valuation allowance was recorded at the time of the Merger to reflect the impact of Internal Revenue Code Section 382 limitations on the use of the federal NOLs acquired. The federal NOL carryforwards expire at various dates beginning in 2018 and ending in 2036.

ASC 740, Income Taxes (“ASC 740”) prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of income tax positions taken or expected to be taken in an income tax return. For those benefits to be recognized, an income tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. As a result of the Merger, the Company acquired certain tax positions taken by Crimson in prior years. These positions are not expected to have a material impact on results of operations, financial position or cash flows. A reconciliation of the beginning and ending amount of unrecognized income tax benefits is as follows (in thousands):

	Unrecognized Tax Benefits
Balance at December 31, 2015	\$ 360
Additions based on tax positions related to the current year	—
Additions based on tax positions related to prior years	—
Additions due to acquisitions	—
Reductions due to a lapse of the applicable statute of limitations	—
Balance at December 31, 2016	<u>\$ 360</u>

The Company's policy is to recognize interest and penalties related to uncertain tax positions as income tax benefit (expense) in the Company's Consolidated Statements of Operations. The Company had no interest or penalties related to unrecognized tax benefits for the year ended December 31, 2016 or any prior years. The total amount of unrecognized tax benefit if recognized that would affect the effective tax rate was zero.

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The Company's tax returns are subject to periodic audits by the various jurisdictions in which the Company operates. These audits can result in adjustments of taxes due or adjustments of the NOL carryforwards that are available to offset future taxable income. The Company does not anticipate that the total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations prior to December 31, 2016.

Generally, the Company's income tax years of 1998 through the current year remain open and subject to examination by Federal tax authorities, and the tax years of 2010 through current remain open and subject to examination by the tax authorities in Texas and Louisiana which are the jurisdictions where the Company carries its principal operations.

16. Related Party Transactions

Olympic Energy Partners

Mr. Joseph J. Romano was elected President and Chief Executive Officer of the Company in December 2012, and named Chairman of the Company in April 2013. Upon the Merger with Crimson on October 1, 2013, Mr. Romano resigned as President and Chief Executive Officer, but continued as Chairman. Mr. Romano is also the President and Chief Executive Officer of Olympic Energy Partners LLC ("Olympic"). Olympic has historically participated with the Company in the drilling and development of certain prospects through participation agreements and joint operating agreements, which specify each participant's working interest ("WI"), net revenue interest ("NRI") and describe when such interests are earned. Olympic last participated with the Company in the drilling of wells in March 2010, and its ownership in Company-operated wells is limited to its Dutch and Mary Rose wells as follows:

	Olympic	
	WI	NRI
Dutch #1 - #5	3.53%	2.84%
Mary Rose #1	3.61%	2.70%
Mary Rose #2 - #3	3.61%	2.58%
Mary Rose #4	2.34%	1.70%
Mary Rose #5	2.56%	1.87%

During the year ended December 31, 2016, Mr. Romano earned \$56 thousand for his service as a director of the Company. During the year ended December 31, 2015, Mr. Romano earned \$79 thousand for his service as a director of the Company. Additionally, during the year ended December 31, 2016, Mr. Romano received 261 shares of restricted stock, pursuant to the Salary Replacement Program, and an additional 9,892 shares of restricted stock, which vest in one year, as part of Mr. Romano's board of director compensation. During the year ended December 31, 2015, Mr. Romano received 4,534 shares of restricted stock, which also vest 100% on the one-year anniversary of the date of grant, as part of his board of director compensation. The Company recognized compensation expense of \$99 thousand and \$99 thousand related to shares granted to Mr. Romano during the years ended December 31, 2016 and 2015, respectively.

Below is a summary of payments the Company received from (paid to) Olympic in the ordinary course of business in its 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):

	Year Ended December 31,		
	2016	2015	2014
Revenue payments as well owners	\$ (2,485)	\$ (4,115)	\$ (7,349)
Joint interest billing receipts	323	531	673

In the year ended December 31, 2014 the Company paid to Olympic approximately \$54,000 as a result of reimbursement of certain costs between the Company and Olympic. There was no reimbursement of costs between the Company and Olympic for the years ended December 31, 2015 and 2016.

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As of December 31, 2016 and 2015, the Company's consolidated balance sheets reflected the following balances relating to Olympic (in thousands):

	Year Ended December 31,	
	2016	2015
Accounts receivable:		
Joint interest billing	\$ 59	\$ 26
Accounts payable:		
Royalties and revenue payable	(557)	(451)

Oaktree Capital Management L.P.

Oaktree Capital Management L.P. ("Oaktree"), through various funds, owns approximately 5.1% of the Company's stock. On October 1, 2013 following the closing of the Merger, Mr. James Ford, a Managing Director and Portfolio Manager within Oaktree at the time, was elected to the Company's board of directors. Mr. Ford was previously a member of Crimson's board of directors from February 2005 until the closing of the Merger. 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 October 1, 2016, all cash and equity awards payable to Mr. Ford were paid to him directly. During the year ended December 31, 2016, Mr. Ford directly earned \$18 thousand for his service. During the year ended December 31, 2015 and 2016, the affiliate of Oaktree earned \$61 thousand and \$48 thousand, respectively, as a result of Mr. Ford's participation. During the year ended December 31, 2016, the affiliate of Oaktree received 313 shares of restricted stock, pursuant to the Salary Replacement Program, and Mr. Ford earned 9,892 shares of restricted stock, which vest in one year, as part of Mr. Ford's board of director compensation. During the year ended December 31 2015, the affiliate of Oaktree received 4,534 shares of restricted stock, which vest 100% on the one-year anniversary of the date of the grant. During the years ended December 31, 2015 and 2016, the Company recognized compensation expense of \$100 thousand and \$99 thousand, respectively, related to the shares granted to an affiliate of Oaktree and Mr. Ford.

17. Subsequent Events

The Company has evaluated subsequent events through the date the financial statements were available to be issued. Nothing that would require recognition or disclosure in the financial statements was identified in addition to the items disclosed in the financial statements.

**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
SUPPLEMENTAL OIL AND GAS DISCLOSURE (Unaudited)**

In accordance with U.S. GAAP for disclosures regarding oil and gas producing activities, and SEC rules for oil and gas reporting disclosures, we are making the following disclosures regarding our natural gas and oil reserves and exploration and production activities.

Capitalized Costs Related to Oil and Gas Producing Activities

The following table presents information regarding our net capitalized costs related to oil and gas producing activities as of the date indicated (in thousands):

	December 31,	
	2016	2015
Proved oil and gas properties	\$ 1,188,065	\$ 1,187,707
Unproved oil and gas properties	38,338	16,439
	1,226,403	1,204,146
Less accumulated depreciation, depletion, amortization and impairment	(886,303)	(825,201)
Net capitalized costs	<u>\$ 340,100</u>	<u>\$ 378,945</u>

Costs Incurred

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

	Year Ended December 31,		
	2016	2015	2014
Property acquisition costs:			
Unproved	\$ 29,767	\$ 11,453	\$ 22,087
Proved	—	—	—
Exploration costs	9,126	29,477	49,680
Development costs	1,890	20,120	120,630
Total costs incurred	<u>\$ 40,783</u>	<u>\$ 61,050</u>	<u>\$ 192,397</u>

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

	Year Ended December 31,		
	2016	2015	2014
Property acquisition costs	\$ —	\$ —	\$ —
Exploration costs	—	—	—
Development costs	395	4,503	30,288
Total costs incurred	<u>\$ 395</u>	<u>\$ 4,503</u>	<u>\$ 30,288</u>

Natural Gas and Oil Reserves

Proved reserves are the estimated quantities of natural gas, oil and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions and current regulatory practices. Proved developed reserves are proved reserves which are expected to be produced from existing completion intervals with existing equipment and operating methods.

Proved natural gas and oil reserve quantities at December 31, 2016, 2015, 2014 and 2013, and the related discounted future net cash flows before income taxes are based on estimates prepared by William M. Cobb & Associates, Inc. and Netherland, Sewell & Associates, Inc. All estimates have been prepared in accordance with guidelines established by the Securities and Exchange Commission.

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The below table summarizes the Company's net ownership interests in estimated quantities of proved natural gas, oil and natural gas liquids ("NGLs") reserves and changes in net proved reserves as of December 31, 2016, 2015, 2014 and 2013, all of which are located in the continental United States.

	Oil and Condensate (MBbls)	NGLs (MBbls)	Natural Gas (MMcfe)	Total (MMcfe)
Proved Developed and Undeveloped Reserves as of:				
December 31, 2013	9,698	7,958	207,930	313,866
Sale of minerals in place	(1)	—	(161)	(164)
Extensions and discoveries	2,940	932	12,899	36,130
Revisions of previous estimates	(2,821)	(373)	(15,142)	(34,316)
Production	(1,401)	(1,008)	(25,875)	(40,323)
December 31, 2014	<u>8,415</u>	<u>7,509</u>	<u>179,651</u>	<u>275,193</u>
Sale of minerals in place	—	—	—	—
Extensions and discoveries	460	81	543	3,788
Revisions of previous estimates	(3,160)	(1,229)	(31,451)	(57,782)
Production	(924)	(967)	(22,615)	(33,961)
December 31, 2015	<u>4,791</u>	<u>5,394</u>	<u>126,128</u>	<u>187,238</u>
Sale of minerals in place	(250)	(101)	(2,045)	(4,151)
Extensions and discoveries	63	—	—	375
Revisions of previous estimates	(583)	(218)	(927)	(5,730)
Production	(597)	(716)	(18,103)	(25,982)
December 31, 2016	<u>3,424</u>	<u>4,359</u>	<u>105,053</u>	<u>151,750</u>
Proved Developed Reserves as of:				
December 31, 2013	5,223	6,453	185,535	255,591
December 31, 2014	4,114	5,637	150,235	208,734
December 31, 2015	2,869	4,354	113,952	157,288
December 31, 2016	2,158	3,509	95,396	129,399
Proved Undeveloped Reserves as of:				
December 31, 2013	4,475	1,505	22,395	58,275
December 31, 2014	4,301	1,872	29,416	66,459
December 31, 2015	1,922	1,040	12,176	29,950
December 31, 2016	1,266	850	9,657	22,351

During the year ended December 31, 2016, our proved reserves decreased by approximately 35.5 Bcfe. This decrease is attributable primarily to the impact of the dramatic decline in commodity prices on the value and volume of our proved reserves, and in part to the impact of the significant reduction in our capital spending in response to the low and uncertain commodity price environment.

During the year ended December 31, 2015, our proved reserves decreased by approximately 88.0 Bcfe attributable primarily to the impact of the dramatic decline in commodity prices on the value and volume of our proved reserves, and in part to the impact of the significant reduction in our capital spending in response to the low and uncertain commodity price environment.

During the year ended December 31, 2014, our proved reserves decreased by approximately 38.7 Bcfe. This decrease is primarily attributable to 40.3 Bcfe of production and a 22.4 Bcfe negative revision of proved developed producing reserves at our Eugene Island 11 field due to a change in forecasted condensate yield and ultimate field abandonment pressure; these decreases were partially offset by 36.1 Bcfe for extensions and discoveries.

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The below table summarizes the Company's net ownership interests in estimated quantities of proved natural gas and oil reserves and changes in net proved reserves as of December 31, 2016, 2015, 2014 and 2013, attributable to its Investment in Exaro.

	Oil and Condensate (MBbls)	Natural Gas (MMcf)	Total (MMcfe)
Proved Developed and Undeveloped Reserves as of:			
December 31, 2013	439	39,068	41,702
Sale of minerals in place	—	—	—
Extensions and discoveries	329	26,173	28,147
Revisions of previous estimates	86	5,102	5,617
Production	(63)	(4,931)	(5,308)
December 31, 2014	<u>791</u>	<u>65,412</u>	<u>70,158</u>
Sale of minerals in place	—	—	—
Extensions and discoveries	1	120	128
Revisions of previous estimates	(289)	(24,637)	(26,373)
Production	(61)	(4,821)	(5,189)
December 31, 2015	<u>442</u>	<u>36,074</u>	<u>38,724</u>
Sale of minerals in place	—	—	—
Extensions and discoveries	—	—	—
Revisions of previous estimates	(35)	(1,710)	(1,919)
Production	(47)	(3,923)	(4,205)
December 31, 2016	<u>360</u>	<u>30,441</u>	<u>32,600</u>
Proved Developed Reserves as of:			
December 31, 2013	439	39,068	41,702
December 31, 2014	529	45,127	48,301
December 31, 2015	442	36,074	38,724
December 31, 2016	360	30,441	32,600
Proved Undeveloped Reserves as of:			
December 31, 2013	—	—	—
December 31, 2014	262	20,285	21,857
December 31, 2015	—	—	—
December 31, 2016	—	—	—

During the year ended December 31, 2016, the decrease in Exaro's proved reserves attributable to our Investment in Exaro was approximately 6.1 Bcf. This decrease was primarily attributable to the impact of the significant reduction in capital spending in response to the low and uncertain commodity price environment.

During the year ended December 31, 2015, the decrease in Exaro's proved reserves attributable to our Investment in Exaro was approximately 31.4 Bcf. This decrease was attributable to the impact of the dramatic decline in commodity prices on the value and volume of proved reserves and the impact of the significant reduction in capital spending in response to the low and uncertain commodity price environment.

The increase in Exaro's extensions and discoveries in 2014 is due to the increase in the number of wells drilled in conjunction with higher development costs spent in 2013 and 2014.

[Table of Contents](#)*Standardized Measure*

The standardized measure of discounted future net cash flows relating to the Company's ownership interests in proved natural gas and oil reserves as of December 31, 2016, 2015 and 2014 are shown below (in thousands):

	As of December 31,		
	2016	2015	2014
Future cash inflows	\$ 447,417	\$ 623,014	\$ 1,820,954
Future production costs	(154,249)	(200,953)	(412,607)
Future development costs	(51,573)	(69,147)	(219,598)
Future income tax expenses ⁽¹⁾	—	—	(232,648)
Future net cash flows	241,595	352,914	956,101
10% annual discount for estimated timing of cash flows	(75,367)	(103,508)	(308,085)
Standardized measure of discounted future net cash flows	<u>\$ 166,228</u>	<u>\$ 249,406</u>	<u>\$ 648,016</u>

(1) No future taxes payable has been included in the determination of discounted future net cash flows for 2015 and 2016 due to existing tax loss carry forwards and property tax basis exceeding future net cash flows.

Future cash inflows represent expected revenues from production and are computed by applying certain prices of natural gas and oil to estimated quantities of proved natural gas and oil reserves. Prices are based on the first-day-of-the-month prices for the previous 12 months. As of December 31, 2016, future cash inflows were based on unadjusted prices of \$2.49 per MMBtu of natural gas, \$39.72 per barrel of oil, and \$13.62 per barrel of NGLs. As of December 31, 2015, future cash inflows were based on unadjusted prices of \$2.59 per MMBtu of natural gas, \$47.36 per barrel of oil, and \$14.41 per barrel of NGLs. As of December 31, 2014, future cash inflows were based on unadjusted prices of \$4.32 per MMBtu of natural gas, \$93.32 per barrel of oil, and \$33.45 per barrel of NGLs.

The standardized measure of discounted future net cash flows relating to the Company's ownership interests in proved natural gas and oil reserves as of December 31, 2016, 2015 and 2014 attributable to its Investment in Exaro are shown below (in thousands):

	As of December 31,		
	2016	2015	2014
Future cash inflows	\$ 88,398	\$ 117,211	\$ 392,238
Future production costs	(55,610)	(65,042)	(147,473)
Future development costs	(2,380)	(2,399)	(39,523)
Future income tax expenses ⁽¹⁾	—	—	—
Future net cash flows	30,408	49,770	205,242
10% annual discount for estimated timing of cash flows	(10,630)	(18,472)	(104,635)
Standardized measure of discounted future net cash flows	<u>\$ 19,778</u>	<u>\$ 31,298</u>	<u>\$ 100,607</u>

(1) Exaro does not include the effect of income taxes because Exaro is treated as a partnership for tax purposes.

Realized Prices

The average realized prices for the year ended December 31, 2016 production were \$2.42 per MCF of gas, \$38.52 per barrel of oil, and \$3.01 per barrel of NGL. Sales are based on market prices and do not include the effects of realized derivative hedging gains of \$1.8 million for the year ended December 31, 2016.

The average realized prices for the year ended December 31, 2015 production were \$2.61 per MCF of gas, \$46.80 per barrel of oil, and \$14.68 per barrel of NGL. Sales are based on market prices and do not include the effects of realized derivative hedging gains of \$2.3 million for the year ended December 31, 2015.

Future production and development costs are estimated expenditures to be incurred in developing and producing the Company's proved natural gas and oil reserves based on historical costs and assuming continuation of existing economic conditions. Future development costs relate to compression charges at our platforms, abandonment costs, recompletion costs, and additional development costs for new facilities.

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

Change in Standardized Measure

Changes in the standardized measure of future net cash flows relating to proved natural gas and oil reserves are summarized below (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Changes in standardized measure due to current year operation:			
Sales of natural gas and oil produced during the period, net of production expenses	\$ (49,046)	\$ (78,651)	\$ (229,222)
Extensions and discoveries	911	8,584	102,024
Net change in prices and production costs	(44,033)	(420,890)	(43,214)
Changes in estimated future development costs	10,751	23,771	7,064
Revisions in quantity estimates	(8,236)	(156,249)	(107,934)
Purchase of reserves	—	—	—
Sale of reserves	(2,509)	—	(195)
Accretion of discount	24,940	79,687	98,721
Changes in income taxes	—	148,854	66,918
Change in the timing of production rates and other	(15,956)	(3,716)	(17,588)
Net change	(83,178)	(398,610)	(123,426)
Beginning of year	249,406	648,016	771,442
End of year	<u>\$ 166,228</u>	<u>\$ 249,406</u>	<u>\$ 648,016</u>

During the year ended December 31, 2016, our proved reserves decreased by approximately 35.5 Bcfe and our standardized measure decreased by approximately \$83.2 million. This decrease is attributable primarily to the impact of the dramatic decline in commodity prices on the value and volume of our proved reserves, and in part to the impact of the significant reduction in our capital spending in response to the low and uncertain commodity price environment.

During the year ended December 31, 2015, our proved reserves decreased by approximately 88.0 Bcfe and our standardized measure decreased by approximately \$398.6 million. This decrease is attributable primarily to the impact of the dramatic decline in commodity prices on the value and volume of our proved reserves, and in part to the impact of the significant reduction in our capital spending in response to the low and uncertain commodity price environment.

During the year ended December 31, 2014, our proved reserves decreased by approximately 38.7 Bcfe and our standardized measure decreased by approximately \$123.4 million. This decrease is primarily attributable to 40.3 Bcfe of production and a 22.4 Bcfe negative revision of proved developed producing reserves at our Eugene Island 11 field due to a change in forecasted condensate yield and ultimate field abandonment pressure; these decreases were partially offset by 36.1 Bcfe for extensions and discoveries.

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Changes in the standardized measure of future net cash flows relating to proved natural gas and oil reserves attributable to the Company's investment in Exaro are summarized below (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Changes in standardized measure due to current year operation:			
Sales of natural gas and oil produced during the period, net of production expenses	\$ (5,531)	\$ (8,745)	\$ (21,356)
Extensions and discoveries	—	161	26,241
Net change in prices and production costs	(7,160)	(49,933)	18,040
Changes in estimated future development costs	—	3,958	354
Revisions in quantity estimates	(1,616)	(22,973)	9,379
Purchase of reserves	—	—	—
Sale of reserves	—	—	—
Accretion of discount	3,130	10,061	6,391
Changes in income taxes	—	—	—
Change in the timing of production rates and other	(343)	(1,838)	(2,348)
Net change	(11,520)	(69,309)	36,701
Beginning of year	31,298	100,607	63,906
End of year	<u>\$ 19,778</u>	<u>\$ 31,298</u>	<u>\$ 100,607</u>

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
QUARTERLY RESULTS OF OPERATIONS (Unaudited)

Quarterly Results of Operations

The following table sets forth the results of operations by quarter for the fiscal years ended December 31, 2016 and 2015, (in thousands, except per share amounts):

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Year ended December 31, 2016:				
Revenues	\$ 17,582	\$ 19,362	\$ 19,576	\$ 21,663
Net loss attributable to common stock ⁽¹⁾	\$(11,404)	\$(17,296)	\$ (12,485)	\$ (16,844)
Net loss per share ⁽²⁾ :				
Basic:	\$ (0.60)	\$ (0.90)	\$ (0.55)	\$ (0.69)
Diluted:	\$ (0.60)	\$ (0.90)	\$ (0.55)	\$ (0.69)
Year ended December 31, 2015:				
Revenues	\$ 30,647	\$ 35,334	\$ 29,035	\$ 21,489
Net loss attributable to common stock ⁽¹⁾	(18,564)	(19,528)	(185,685)	(111,271)
Net loss per share ⁽²⁾ :				
Basic:	\$ (0.98)	\$ (1.03)	\$ (9.79)	\$ (5.85)
Diluted:	\$ (0.98)	\$ (1.03)	\$ (9.79)	\$ (5.85)

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

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

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (this “**AGREEMENT**”) is made and entered into on November 30, 2016 (the “**EFFECTIVE DATE**”) by and between Allan D. Keel (“**EXECUTIVE**”) and Contango Oil & Gas Company (the “**COMPANY**”).

WHEREAS, the Company and Executive entered into an Employment Agreement (the “**ORIGINAL EMPLOYMENT AGREEMENT**”) dated April 29, 2013 in connection with Executive entering the employment of the Company.

WHEREAS, the Company and the Executive agree that certain terms of the Original Employment Agreement should be amended and restated as set forth below.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein:

ARTICLE 1

EMPLOYMENT; RESPONSIBILITIES; COMPENSATION

Section 1.1 EMPLOYMENT. Subject to ARTICLE 3, the Company hereby agrees to employ Executive and Executive hereby agrees to be employed by the Company, in accordance with this Agreement, for the period commencing as of the Effective Date and ending on the third anniversary of the Effective Date (“**INITIAL TERM**”); PROVIDED, HOWEVER, that beginning on the day immediately preceding the third anniversary of the Effective Date of this Agreement and on the day immediately preceding each subsequent anniversary of this Agreement, the Initial Term shall automatically be extended for one (1) additional year unless either party gives written notice to the other party 90 days prior to the next anniversary of this Agreement that it or he, as applicable, does not wish to extend this Agreement. Executive’s continued employment after the expiration of the Initial Term shall be in accordance with and governed by this Agreement, unless modified by the parties to this Agreement in writing.

Section 1.2 RESPONSIBILITIES; LOYALTY.

(a) Subject to the terms of this Agreement, Executive is employed in the position of President and Chief Executive Officer of the Company, and shall perform the functions and responsibilities of that position. Additional or different duties may be assigned by the Company from time to time. Executive’s position, job descriptions, duties and responsibilities maybe modified from time to time in the sole discretion of the Company.

(b) Executive shall devote the whole of Executive’s professional time, attention and energies to the performance of Executive’s work responsibilities and shall not, either directly or indirectly, alone or in partnership, consult with, advise, work for or have any interest in any other similar business or pursuit during the term of Executive’s employment with the Company. During the term of Executive’s employment with the Company, it shall not be a violation of this Agreement for Executive to serve on corporate, civic or charitable boards or committees; deliver lectures or fulfill speaking engagements; and subject to SECTION 2.3, manage personal investments, in each case, so long as such activities do not materially interfere with the

performance of Executive's responsibilities as an Executive of the Company in accordance with this Agreement. Executive further agrees to comply with all policies of the Company in effect from time to time, and to comply with all laws, rules and regulations, including those applicable to the Company

Section 1.3 COMPENSATION. As consideration for the services and covenants described in this Agreement, the Company agrees to compensate Executive in the following manner:

(a) The Company will pay Executive an annualized base salary of \$600,000 per year ("**BASE SALARY**"), as may be increased from time to time by action of the Board of Directors of the Company (the "**BOARD**") or the Compensation Committee of the Board.

(b) Executive shall be eligible for employment benefits including holidays, leaves of absence, health insurance, dental insurance, 401(k) plan participation, etc., if any, available to employees of the Company generally, in accordance with any policies, procedures or benefit plans adopted by the Company from time to time during the existence of this Agreement. In addition, Executive shall be entitled to vacation in accordance with the Company's vacation policy as adopted from time to time. Executive's rights or those of Executive's dependents under any such benefits policies or plans shall be governed solely by the terms of such policies or plans. The Company reserves to itself, or its designated administrators, exclusive authority and discretion to determine all issues of eligibility, interpretation and administration of each such benefit plan or policy. The Company's employment benefits, and policies related thereto, are subject to termination, modification or limitation at the Company's sole discretion.

(c) Executive shall be eligible to participate in the Company's cash incentive bonus plan for each calendar year in which Executive is employed by the Company hereunder with an annual target bonus amount equal to 100% of the Executive's Base Salary (the "**TARGET BONUS**"), under such terms and conditions as the Company may determine each applicable year (the "**CASH INCENTIVE BONUS**").

(d) Executive shall be eligible to participate in the Company's equity compensation plan for each calendar year in which Executive is employed by the Company hereunder, under such terms and conditions as the Company may determine each applicable year.

(e) Payment of all compensation to Executive shall be made in accordance with the terms of this Agreement, applicable state or federal law, and applicable Company policies in effect from time to time, including normal payroll practices, and shall be subject to all applicable withholdings and taxes.

Section 1.4 BUSINESS EXPENSES. The Company shall reimburse Executive for all business expenses that are reasonable and necessary and incurred by Executive while performing his duties under this Agreement, upon presentation of expense statements, receipts and/or vouchers or such other information and documentation as the Company may reasonably require. Executive will be subject to the same business expense policy applicable to other Company employees generally.

ARTICLE 2

CONFIDENTIAL INFORMATION; POST-EMPLOYMENT OBLIGATIONS; COMPANY PROPERTY

Section 2.1 COMPANY PROPERTY. As used in this Article 2, the term the “Company” refers to the Company and each of its direct and indirect subsidiaries. All written materials, records, data and other documents relating to Company business, products or services prepared or possessed by Executive during Executive’s employment by the Company are the Company’s property. All information, ideas, concepts, improvements, discoveries and inventions that are conceived, made, developed or acquired by Executive individually or in conjunction with others during Executive’s employment (whether during business hours and whether on Company’s premises or otherwise) that relate to Company business, products or services are the Company’s sole and exclusive property. All memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps and all other documents, data or materials of any type embodying such information, ideas, concepts, improvements, discoveries and inventions are Company property. At the termination of Executive’s employment with the Company for any reason, Executive shall return all of the Company’s documents, data or other Company property to the Company.

Section 2.2 CONFIDENTIAL INFORMATION; NON-DISCLOSURE.

(a) Executive acknowledges that the business of the Company is highly competitive and that the Company will provide Executive with access to Confidential Information. Executive acknowledges that this Confidential Information constitutes a valuable, special and unique asset used by the Company in its business to obtain a competitive advantage over competitors. Executive further acknowledges that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to the Company in maintaining its competitive position. Executive agrees that Executive will not, at any time during or after Executive’s employment with the Company, make any unauthorized disclosure of any Confidential Information of the Company, or make any use thereof, except in the carrying out of Executive’s employment responsibilities to the Company. Executive also agrees to preserve and protect the confidentiality of third party Confidential Information to the same extent, and on the same basis, as the Company’s Confidential Information.

(b) For purposes hereof, “**CONFIDENTIAL INFORMATION**” includes all non-public information regarding the Company’s business operations and methods, existing and proposed investments and investment strategies, seismic, well-log and other geologic and oil and gas operating and exploratory data, financial performance, compensation arrangements and amounts (whether relating to the Company or to any of its employees), contractual relationships, business partners and relationships (including customers and suppliers), strategies, business plans and other confidential information that is used in the operation, technology and business dealings of the Company, regardless of the medium in which any of the foregoing information is contained, so long as such information is actually confidential and proprietary to the Company.

(c) Notwithstanding the foregoing, nothing in this Agreement will prevent Executive from:
(i) making a good faith report of possible violations of applicable law to any governmental

agency or entity; or (ii) making disclosures that are protected under the whistleblower provisions of applicable law. Further, an individual (including Executive) shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer of reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (x) files any document containing the trade secret under seal; and (y) does not disclose the trade secret, except pursuant to court order.

Section 2.3 NON-COMPETITION OBLIGATIONS.

(a) Executive acknowledges and agrees that as an employee and representative of the Company, Executive will have access to Confidential Information and be responsible for building and maintaining business relationships and goodwill with current and future operating partners, investors, partners and prospects on a personal level. Executive acknowledges and agrees that this responsibility creates a special relationship of trust and confidence between the Company, Executive and these persons or entities. Executive also acknowledges that this creates a high risk and opportunity for Executive to misappropriate these relationships and the goodwill existing between the Company and such persons. Executive acknowledges and agrees that it is fair and reasonable for the Company to take steps to protect itself from the risk of such misappropriation.

(b) Executive acknowledges and agrees that, in exchange for his agreement in SECTION 2.3(c) below, he will receive substantial, valuable consideration from the Company upon the execution of this Agreement and during the course of this Agreement, including, Confidential Information and access to Confidential Information, compensation and other benefits and access to the Company's prospects.

(c) During the Non-Compete Term and provided that the Company has made all severance payments provided for herein (to the extent applicable), Executive will not, directly or indirectly, provide the same or substantially the same services that he provides to the Company to any Business Enterprise in the Market Area (as defined below) without prior written consent, which will not be unreasonably withheld. This includes working as an agent, consultant, employee, officer, director, partner or independent contractor or being a shareholder, member, joint venturer or equity owner in, any such Business Enterprise; PROVIDED, HOWEVER, that the foregoing shall not restrict Executive from holding up to 5% of the voting power or equity of one or more Business Enterprises.

(d) For purposes of hereof:

(i) **"BUSINESS ENTERPRISE"** means any corporation, partnership, limited liability company, sole proprietorship, joint venture or other business association or entity (other than the Company) engaged in the business of exploring for, developing,

operating or acquiring oil and gas properties that is in direct competition with the Company's operations in the Market Area;

(ii) "MARKET AREA" means the 10 mile radius surrounding any geographical location in which the Company is conducting any material amount of oil and gas exploration and production activities during the Initial Term, and for which he has material responsibilities or about which he has material Confidential Information; and

(iii) "NON-COMPETE TERM" means the period from the Effective Date to the date ending: (A) on the date of termination if Executive's employment with the Company is terminated by the Company for Cause, or (B) in the case of termination for any reason other than that provided for in clause (A) above, 12 months following the date of termination.

Section 2.4 NON-SOLICITATION OF EXECUTIVES. During the Non-Compete Term, Executive will not, either directly or indirectly, call on, solicit or induce any other executive or officer of the Company or its affiliates with whom Executive had contact, knowledge of, or association with in the course of employment with the Company to terminate his employment, and will not assist any other person or entity in such a solicitation; PROVIDED, HOWEVER, that with respect to soliciting any executive or officer whose employment was terminated by the Company or its affiliates, or general solicitations for employment not targeted at current officers or employees of the Company or its affiliates, the foregoing restriction shall not apply.

Section 2.5 ACKNOWLEDGEMENT. Executive acknowledges that the Confidential Information provided to Executive pursuant to this Agreement, and the Company's need to protect its goodwill, gives rise to the Company's interest in these restrictive covenants, and that any limitations as to time, geographic scope and scope of activity to be restrained defined herein are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the Company. Executive further agrees that if, at some later date, a court of competent jurisdiction determines that certain covenants are unenforceable to any extent, then those covenants shall be reformed by the court to the least extent necessary to make them enforceable. Executive acknowledges and recognizes that the enforcement of any of the provisions in this Agreement by the Company will not interfere with Executive's ability to pursue a proper livelihood.

Section 2.6 EARLY RESOLUTION CONFERENCE. The parties are entering into this Agreement with the express understanding that this Agreement is clear and fully enforceable as written. If Executive ever decides later to contend that any restriction on activities imposed by this Agreement no longer is enforceable as written or does not apply to an activity in which Executive intends to engage, Executive first will notify the Company in writing and meet with a company representative at least 14 days before engaging in any activity that foreseeably could fall within the questioned restriction to discuss resolution of such claims.

Section 2.7 EQUITABLE AND OTHER RELIEF. Executive understands and agrees that, if Executive breaches provisions of this section of this Agreement, the Company will suffer immediate and irreparable harm which cannot be accurately calculated in monetary

damages. Consequently, the Company shall be entitled to immediate injunctive relief, either by temporary or permanent injunction, to prevent such violation. This injunctive relief shall be in addition to any other legal and/or equitable relief to which the Company would be entitled. If a bond is required to be posted for the Company to secure an injunction or other equitable remedy, threatened or actual, Executive agrees that the bond need not be more than a nominal sum. The Company shall be entitled to recover its attorneys' fees and costs from Executive should a court determine that Executive has breached provisions of this section of this Agreement. In addition, in the event of a breach or violation of provisions of this section of this Agreement, the time periods set forth above will be tolled until such breach or violation has been cured.

ARTICLE 3

TERMINATION OF EMPLOYMENT

Section 3.1 TERMINATION OF EMPLOYMENT.

(a) Executive's employment with the Company shall be terminated immediately upon the death of Executive without further action by the Company, upon Executive's Permanent Disability without further action by the Company, by the Company for Cause, by Executive for Good Reason, by the Company without Cause or by Executive without Good Reason, PROVIDED that the terminating party must (in the case of clause (v)) give at least 30 days' advance written notice of such termination. For purposes of this ARTICLE 3, "date of termination" means the date of Executive's death, the date of Executive's Permanent Disability, or the date of Executive's "separation from service" (as defined in Code Section 409A and Treas. Reg. §1.409A-1(h)) with the Company, as applicable.

(b) For purposes hereof:

(i) "**PERMANENT DISABILITY**" shall mean either Executive's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, Executive's receiving income replacement benefits for a period of not less than three months under an accident and health plan covering the Company's employees. Executive will be deemed permanently disabled if determined to be totally disabled by the Social Security Administration or if determined to be disabled in accordance with a disability insurance program that applies a definition of disability that complies with the requirements of this paragraph.

(ii) "**GOOD REASON**" shall mean one or more of the following conditions arising not more than six months before Executive's termination date without Executive's consent: a material breach by the Company of any provision of this Agreement; assignment by the Board or a duly authorized committee thereof to Executive of any duties that materially and adversely alter the nature or status of Executive's position, job descriptions, duties, title or responsibilities from those of a President and Chief Executive

Officer, or eligibility for Company compensation plans; requirement by the Company for Executive to relocate anywhere other than the greater Houston, Texas metropolitan area, except for required travel on Company business to an extent substantially consistent with Executive's obligations under this Agreement; a material reduction in Executive's Base Salary in effect at the relevant time; or exclusion of the Executive from eligibility for the Company's active bonus or benefits plans as described above, or a material reduction in the Executive's award levels under those plans as noted above. Notwithstanding anything herein to the contrary, Good Reason will exist only if Executive provides notice to the Company of the existence of the condition otherwise constituting Good Reason within 90 days of the initial existence of the condition, and the Company fails to remedy the condition on or before the 30th day following its receipt of such notice.

(iii) "CAUSE" shall include continued failure by Executive to perform substantially Executive's duties and responsibilities (other than a failure resulting from Permanent Disability) that is materially injurious to the Company and that remains uncorrected for 10 days after receipt of appropriate written notice from the Board; reliable, written third-party documentary evidence of engagement in willful, reckless or grossly negligent misconduct that is materially injurious to Company or any of its affiliates, monetarily or otherwise; except as provided by (D), the indictment of Executive with a crime involving moral turpitude or a felony, provided that if the criminal charge is dismissed with prejudice or if Executive is acquitted at trial or on appeal, Executive will be deemed to have been terminated without Cause; the indictment of Executive for an act of criminal fraud, misappropriation or personal dishonesty, provided that if the criminal charge is subsequently dismissed with prejudice or the Executive is acquitted at trial or on appeal then the Executive will be deemed to have been terminated without Cause; or a material breach by Executive of any provision of this Agreement that is materially injurious to the Company and that remains uncorrected for 10 days following written notice of such breach by the Company to Executive identifying the provision of this Agreement that Company determined has been breached.

(c) If Executive's employment is terminated under any of the foregoing circumstances, all future compensation to which Executive is otherwise entitled and all future benefits for which Executive is eligible, other than that already earned but which is unpaid, shall cease and terminate as of the date of termination, except as specifically provided in this ARTICLE 3. Any other payments or benefits by or on behalf of Company are limited to those which may be payable pursuant to the terms of Company's Executive benefit plans or required by any applicable federal, state or local law.

Section 3.2 SEVERANCE.

(a) For purposes of clarity, in the event that this Agreement is terminated due to non-renewal of the Agreement by either party in accordance with SECTION 1.1 above, then no severance or equity acceleration will become due to the Executive pursuant to this SECTION 3.2.

(b) TERMINATION BY COMPANY WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON

(i) If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason outside of the Protection Period (defined below), and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year's Base Salary plus 1.0 times the greater of (1) the average amount of the Cash Incentive Bonuses paid to the Executive during the two full calendar years immediately prior to the year in which the Executive's separation from service occurs (the "**AVERAGE BONUS**") or (2) the Target Bonus for the year in which the separation from service occurs, reimbursement of COBRA health insurance premiums as described below for up to 36 months from the date of termination, pro-rata acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive, 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 the Executive 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; and (D) pro-rata adjustment of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "**CODE**")), with pro-rata adjustment applicable only to the target number of shares subject to the applicable award in accordance with the same formula set forth in clause (C) above, with the resulting reduced number of performance-based awards remaining subject to all applicable performance metrics during the full performance period applicable to such award.

(ii) For purposes of this Agreement, the "**PROTECTION PERIOD**" shall mean 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 18th month immediately following the consummation of the Change of Control transaction. If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason within Protection Period, and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive will not be entitled to the compensation provided in subsection (i) above, but instead shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year's Base Salary plus 2.0 times the greater of (1) the Average Bonus or (2) the Target Bonus for the year in which the separation from service occurs, reimbursement of COBRA health insurance premiums as described below for up to 36 months from the date of termination, 100% full acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive; and (D) full acceleration of any time-based component of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of Code), with actual performance for the performance-based portion of the award calculated as if the end of the applicable performance period was the date of the Executive's separation from service.

(iii) If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason (whether or not in connection with a Protection Period), and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a prorated Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals. The prorated bonus will be an amount in cash equal to the Executive's Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals, multiplied by a fraction, the numerator of which is the number of days that Executive was employed by the Company during the year of termination and the denominator of which is three hundred and sixty five (365). Payment of the prorated Cash Incentive Bonus will be made in a lump sum at the same time that other employees of the Company are paid their Cash Incentive Bonuses for the calendar year to which the Cash Incentive Bonus relates.

(iv) Payment of the entire cash severance amount under subsection (i) or (ii) above will be made in a lump sum on the 60th day after Executive's applicable date of termination.

(v) If Executive timely elects continued coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), the Company will reimburse Executive for the monthly COBRA cost of continued health coverage paid by Executive under the applicable health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the period during which the Executive elects continued coverage under COBRA, but not in excess of 36 months. If Executive is eligible for continued COBRA reimbursement, when COBRA coverage would otherwise end, Executive may elect to extend the COBRA continued coverage under the Company's health plan until the date that is 36 months from the date of termination, provided that the Company's health plan permits such extension and such extension will not cause adverse tax consequences to the Company or Executive. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(vi) Executive shall not be under any duty or obligation to seek or accept other employment following a termination of employment pursuant to which a severance payment under this SECTION 3.2 is payable and the amounts due Executive pursuant to this SECTION 3.2 shall not be reduced or suspended if Executive accepts subsequent employment or earns any amounts as a self-employed individual.

(c) **DEATH OR DISABILITY**

If Executive's employment is terminated because of death or Permanent Disability, Executive, in the case of Permanent Disability, or his surviving spouse (or his estate if Executive's spouse does not survive him), in the case of Executive's death, shall be entitled to: his pro rata Base Salary and pro rata Target Bonus through the date of termination for the year

in which the termination occurs, plus a lump sum amount equal to the greater of: the remainder of the Base Salary that would have been earned by Executive under this Agreement between the time of his Death or Permanent Disability and the expiration of the then-current term of this Agreement, or 12 months of Base Salary plus his Target Bonus for the year of termination; and full acceleration of vesting for all stock, stock option and other equity awards. If Executive's employment is terminated because of death or Permanent Disability, if a member of Executive's family provides timely notice to the health plan administrator of Executive's death or Permanent Disability, and if Executive's family members who are covered by a health plan of the Company timely elect continued coverage under COBRA, the Company will reimburse such family members for the monthly COBRA cost of continued health coverage paid by such family members under the health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the applicable period during which the family member is eligible for continued coverage under COBRA, but not in excess of 36 months. When COBRA coverage would otherwise end for the family member, the family member may elect to extend the COBRA continuation coverage under the Company's health plan until the date that is 36 months from Executive's date of termination, provided that the Company's health plan permits such extension and such extension will not cause adverse tax consequences to the Company, Executive or Executive's family member or estate. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive's family member demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(d) **SECTION 280G**

(i) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "**PAYMENTS**"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code, the Company shall reduce (but not below zero) the aggregate present value of the Payments under this Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide Executive with a greater net after-tax amount than would be the case if no reduction was made. The Payments shall be reduced as described in the preceding sentence only if the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this subsection (i). The "**REDUCED AMOUNT**" shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with Section 280G(d)(4) of the Code. The term "**EXCISE TAX**" means the excise tax imposed under Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax. For purposes of

the calculations under this SECTION 3.2(d), the severance payments to be made under this Agreement shall be allocated as consideration for the noncompetition covenant under SECTION 2.3 to the maximum extent allowable under Section 280G of the Code and the regulations thereunder.

(ii) All determinations to be made under this SECTION 3.2(d) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a Change of Control (or other such transaction that is considered to be a change in control transaction pursuant to Section 280G of the Code and the regulations promulgated thereunder), which shall provide its determinations and any supporting calculations both to the Company and Executive within ten days of the applicable transaction. Any such determination by such firm shall be binding upon the Company and the Executive. All of the fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section shall be borne solely by the Company.

(e) “**CHANGE OF CONTROL**” means the occurrence of any one or more of the following events that occurs after the Effective Date:

(i) Any “person” (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “**EXCHANGE ACT**”)) becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 25% of the voting power of the then outstanding securities of the Company; provided that a Change of Control shall not be deemed to occur as a result of a transaction in which the Company becomes a subsidiary of another corporation and in which the stockholders of the Company, immediately prior to the transaction, will beneficially own, immediately after the transaction, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the parent corporation would be entitled in the election of directors;

(ii) The consummation of a merger or consolidation of the Company with another corporation where the stockholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the surviving corporation would be entitled in the election of directors, a sale or other disposition of all or substantially all of the assets of the Company, or a liquidation or dissolution of the Company; or

(iii) After the Effective Date, directors are elected such that a majority of the members of the Board shall have been members of the Board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

(f) SECTION 3.2 and this Agreement shall be administered and interpreted to maximize the short-term deferral exception to Code Section 409A, and Executive shall not, directly or indirectly, designate the taxable year of a payment made under this Agreement. The

portion of any payment under this Agreement that is paid within the short-term deferral period (within the meaning of Code Section 409A and Treas. Reg. § 1.409A-1(b)(4)) will be treated as a short term deferral and not aggregated with other plans or payments. Any other portion of the payment that does not meet the short-term deferral requirement will, to the maximum extent possible, be deemed to satisfy the exception from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) for involuntary separation pay and shall not be aggregated with any other payment. Any right to a series of installment payments pursuant to this Agreement is to be treated as a right to a series of separate payments. Any amount that is paid as a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) or within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will be treated as a separate payment. Payment dates provided for in this Agreement are deemed to incorporate “grace periods” within the meaning of Code Section 409A and the regulations thereunder. If a Change of Control does not meet the requirements of a “change of control event” under Section 409A of the Code, the cash severance amount shall be paid to Executive in the same form as if no Change of Control had occurred, if required by Code Section 409A. Notwithstanding anything herein to the contrary, if Executive is, as of the date of termination, a “specified employee” for purposes of Code Section 409A and Treas. Reg. § 1.409A-1(i), then any amount payable to Executive pursuant to SECTION 3.2(b)(i)(A), SECTION 3.2(b)(ii)(A), or 3.2(d) that is neither a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b) (4) nor within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will not be paid before the date that is the first day of the seventh month after the date of termination, or if earlier, the date of Executive’s death. Any payments to which Executive would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to Executive on the first day of the seventh month following such date of termination, or if earlier, within 30 days of Executive’s death to his surviving spouse (or to his estate if Executive’s spouse does not survive him). All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code.

(g) If Executive terminates his employment without Good Reason or is terminated for Cause, he shall not be entitled to the severance payments provided for in this Agreement.

Section 3.3 CONDITIONS FOR SEVERANCE.

(a) The severance payment payable to Executive pursuant to SECTION 3.2 shall be in consideration of, and subject to, Executive’s continuing obligations hereunder after such termination, including Executive’s obligations under ARTICLE 2.

(b) As a condition to the receipt of any severance payment, Executive agrees to execute and deliver, by the Release Expiration Date, a mutually acceptable severance and release agreement, including a waiver of all claims except for any claims relating to benefits due under the plans described in SECTION 1.3(b) and any accrued vested amount which may be payable as a deferred bonus. The severance and release agreement shall be in a form reasonably acceptable to the Board; provided that such release shall not provide for a release of Executive’s right to indemnification under the Company’s organizational documents, indemnification agreement, if any, or directors and officers insurance against third party claims. The “**RELEASE EXPIRATION DATE**” is that date that is 21 days following the date upon which the Company delivers the Release to Executive (which shall occur no later than seven days after the

Executive's termination date), or in the event that such termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967, as amended), the date that is 45 days following such delivery date.

(c) As a condition to the receipt of any severance payment, Executive agrees that any and all claims and any and all causes of action of any kind or character, including all claims and causes of action arising out of Executive's employment with the Company, the termination of such employment, any claims or demands against the Company based upon Executive's employment for any monies other than those specified in SECTION 3.2, and the actions by the officers, directors, executives and agents of Company shall be resolved through a dispute resolution process as provided in SECTION 4.11; PROVIDED, HOWEVER, that any determination as to whether and as of what date Executive has suffered a Permanent Disability are delegated to the Board and any objection by Executive with any such determination shall be limited to whether the Board reached such decision in good faith.

(d) Except as expressly provided herein, Executive shall not be entitled to any other severance payment or benefit. The severance payments provided for herein are Executive's sole remedy for termination of his employment at the Company.

Section 3.4 TRANSITION PERIOD. Upon termination of this Agreement, and for 90 consecutive calendar days thereafter (the "**TRANSITION PERIOD**"), Executive agrees to make himself available to assist the Company with transition projects assigned to him by the Board. Executive will be paid at a reasonable, agreed upon hourly rate for any work performed for the Company during the Transition Period.

Section 3.5 CONTINUING OBLIGATIONS OF EXECUTIVE. Termination of the employment relationship does not terminate those obligations of Executive imposed by ARTICLE 2 and SECTIONS 3.4 through 3.5, which are continuing obligations.

ARTICLE 4

MISCELLANEOUS

Section 4.1 NOTICES. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, mailed by certified mail (return receipt requested) or sent by overnight delivery service, or electronic mail, or facsimile transmission (with electronic confirmation of successful transmission) to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice, in order of preference of the recipient:

To the Company:

Contango Oil & Gas Company
Attn: Joseph Romano, Chairman of the Board
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

To Executive:

Allan D. Keel
c/o Crimson Exploration Inc.
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

Notice so given shall, in the case of mail, be deemed to be given and received on the fifth calendar day after posting, in the case overnight delivery service, on the date of actual delivery and, in the case of facsimile transmission, telex or personal delivery, on the date of actual transmission or, as the case may be, personal delivery. Any such notice or communication shall be delivered by hand or by courier or sent certified or registered mail, return receipt requested, postage prepaid, addressed as above (or to such other address as such party may designate in a notice duly delivered as described above), and the third business day after the actual date of mailing (or, if earlier, the actual date of receipt) shall constitute the time at which notice was given.

Section 4.2 SEVERABILITY AND REFORMATION . If any one or more of the terms, provisions, covenants or restrictions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions shall remain in full force and effect, and the invalid, void or unenforceable provisions shall be deemed severable. Moreover, if any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it shall be reformed by limiting and reducing it to the minimum extent necessary, so as to be enforceable to the extent compatible with the applicable law as it shall then appear.

Section 4.3 ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs and legal representatives of Executive and the permitted assigns and successors of the Company, but neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by Executive (except by will or by operation of the laws of intestate succession) or by the Company, except that the Company may assign this Agreement to any successor (whether by merger, purchase or otherwise), if such successor expressly agrees to assume the obligations of the Company hereunder.

Section 4.4 AMENDMENT. This Agreement may be amended only by writing signed by Executive and by a duly authorized representative of the Company (other than Executive).

Section 4.5 ASSISTANCE IN LITIGATION. Executive shall reasonably cooperate with the Company in the defense or prosecution of any claims or actions now in existence or that may be brought in the future against or on behalf of the Company that relate to events or occurrences that transpired while Executive was employed by the Company. Executive's cooperation in connection with such claims or actions shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company at mutually convenient times. Executive also shall cooperate fully with the Company in connection with any investigation or review by any federal, state or local regulatory authority as any such investigation or review relates, to events or occurrences that transpired while Executive was employed by the Company. The Company will pay Executive an agreed upon reasonable hourly rate for Executive's cooperation pursuant to this Section.

Section 4.6 BENEFICIARIES; REFERENCES. Executive shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death, and may change such election, in either case by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of his incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative. Any reference to the masculine gender in this Agreement shall include, where appropriate, the feminine.

Section 4.7 USE OF NAME; LIKENESS AND BIOGRAPHY. The Company may use, publish and broadcast, and to authorize others to do so, the name, approved likeness and approved biographical material of Executive to advertise, publicize and promote the business of the Company and its affiliates, but not for the purposes of direct endorsement without Executive's consent. This right shall terminate upon the termination of this Agreement. An "approved likeness" and "approved biographical material" shall be, respectively, any photograph or other depiction of Executive, or any biographical information or life story concerning the professional career of Executive.

Section 4.8 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED, INTERPRETED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO RULES RELATING TO CONFLICTS OF LAW.

Section 4.9 ENTIRE AGREEMENT. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes in all respects any prior or other agreement or understanding, written or oral, between the Company or any affiliate of the Company and Executive with respect to such subject matter, other than as specifically noted in SECTION 4.14 below.

Section 4.10 COUNTERPARTS; NO ELECTRONIC SIGNATURES. This Agreement may be executed in two or more counterparts, each of which will be deemed an original. For purposes of determining whether a party has signed this Agreement or any document contemplated hereby or any amendment or waiver hereof, only a handwritten signature on a paper document or a facsimile transmission of a handwritten original signature will constitute a signature, notwithstanding any law relating to or enabling the creation, execution or delivery of any contract or signature by electronic means.

Section 4.11 ARBITRATION. With the exception of any proceeding to obtain emergency, temporary restraining or preliminary injunctive relief as permitted by ARTICLE 2 and/or ARTICLE 3, the parties agree that any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be resolved by arbitration administered by the American Arbitration Association (“AAA”) under its then existing Employment Arbitration Rules. All disputes shall be resolved by one arbitrator within 120 days of the date arbitration is initiated. The arbitrator will have the authority to award the same remedies, damages and costs that a court could award, and will have the additional authority to award those remedies set forth in ARTICLE 2. The arbitrator shall issue a reasoned award explaining the decision, the reasons for the decision and any damages awarded, including those set forth in ARTICLE 2.7, where the arbitrator finds either party violated ARTICLE 2 or ARTICLE 3. The arbitrator’s decision will be final and binding. The judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitration proceedings, any record of the same, and the award shall be considered Confidential Information under this Agreement. This provision can be enforced under the Federal Arbitration Act. BY ENTERING INTO THIS SECTION 4.11, THE PARTIES ARE KNOWINGLY AND VOLUNTARILY WAIVING THEIR RIGHTS TO A JURY TRIAL.

Section 4.12 NON-WAIVER. The failure by either party to insist upon the performance of any one or more terms, covenants or conditions of this Agreement shall not be construed as a waiver or relinquishment of any right granted hereunder or of any future performance of any such term, covenant or condition, and the obligation of either party with respect hereto shall continue in full force and effect, unless such waiver shall be in writing signed by the Company (other than Executive) and Executive.

Section 4.13 ANNOUNCEMENT. The Company may make public announcements concerning the execution of this Agreement and the terms contained herein, at the Company’s discretion.

Section 4.14 PRIOR AGREEMENTS. This Agreement supersedes and replaces all previous employment agreements between the Executive and the Company, other than with respect to that certain Amendment and Extension of Employment Agreement entered into as of October 10, 2016 between the Executive and the Company (the “*Extension Agreement*”), as modified as follows: (a) the parties acknowledge their agreement as of November 15, 2016 to suspend, pending execution and delivery of this Agreement, the equity compensation award vesting that could occur under Section 2 of the Extension Agreement and no such vesting occurred, and (b) the parties further acknowledge their agreement as of November 15, 2016 to provide the benefit set forth in Section 3 of the Extension Agreement to the Executive without regard to the date of execution of this Agreement.

Section 4.15 COMPANY POLICIES. Executive agrees that all incentive compensation payable to him by the Company and its subsidiaries, under this Agreement or otherwise, shall be subject to any applicable clawback or recoupment policies, share ownership policies, anti-hedging policies and other applicable policies as finally adopted by the Board.

Section 4.16 CONSTRUCTION. The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting

this Agreement. The language in all parts of this Agreement shall be in all cases construed in accordance to its fair meaning and not strictly for or against the Company or Executive. The words “include,” “includes,” and “including” will be deemed to be followed by “without limitation.”

Section 4.17 RIGHT TO INSURE. The Company shall have the right to secure, in its own name or otherwise, and at its own expense, life, health, accident or other insurance covering Executive, and Executive shall have no right, title or interest in and to such insurance. Executive shall assist the Company in procuring such insurance by submitting to examinations and by signing such applications and other instruments as may be required by the insurance carriers to which application is made for any such insurance.

Section 4.18 NO INCONSISTENT OBLIGATIONS. Executive represents and warrants that to his knowledge he has no obligations, legal, in contract or otherwise, inconsistent with the terms of this Agreement or with his undertaking employment with the Company to perform the duties described herein. Executive will not disclose to the Company, or use or induce the Company to use, any confidential, proprietary or trade secret information of others. Executive represents and warrants that to his knowledge he has returned all property and confidential information belonging to all prior employers, if he is obligated to do so.

Section 4.19 VOLUNTARY AGREEMENT. Each party to this Agreement has read and fully understands the terms and provisions hereof, has reviewed this Agreement with legal counsel, has executed this Agreement based upon such party’s own judgment and advice of counsel, and knowingly, voluntarily, and without duress, agrees to all of the terms set forth in this Agreement. The parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the parties and no presumption or burden of proof will arise favoring or disfavoring any party because of authorship of any provision of this Agreement. Except as expressly set forth in this Agreement, neither the parties nor their affiliates, advisors and/or their attorneys have made any representation or warranty, express or implied, at law or in equity with respect of the subject matter contained herein. Without limiting the generality of the previous sentence, the Company, its affiliates, advisors and/or attorneys have made no representation or warranty to Executive concerning the state or federal tax consequences to Executive regarding the transactions contemplated by this Agreement.

Section 4.20 LEGAL FEES AND EXPENSES. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which Executive may reasonably incur as a result of any contest by the Company, the Executive or others of the validity or enforceability of, or liability or entitlement under, any provision of this Agreement or any guarantee of performance thereof (whether such contest is between the Company and Executive or between either of them and any third party, and including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code. The Company’s obligations under this SECTION 4.20 shall apply without regard to the outcome of any such contest.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first written above:

CONTANGO OIL & GAS COMPANY

/s/ E. JOSEPH GRADY _____

Name: E. Joseph Grady

Title: Senior Vice President & CFO

ALLAN D. KEEL

/s/ Allan D. Keel _____

[Signature Page to Keel Employment Agreement]

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (this “**AGREEMENT**”) is made and entered into on November 30, 2016 (the “**EFFECTIVE DATE**”) by and between E. Joseph Grady (“**EXECUTIVE**”) and Contango Oil & Gas Company (the “**COMPANY**”).

WHEREAS, the Company and Executive entered into an Employment Agreement (the “**ORIGINAL EMPLOYMENT AGREEMENT**”) dated April 29, 2013 in connection with Executive entering the employment of the Company.

WHEREAS, the Company and the Executive agree that certain terms of the Original Employment Agreement should be amended and restated as set forth below.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein:

ARTICLE 1

EMPLOYMENT; RESPONSIBILITIES; COMPENSATION

Section 1.1 EMPLOYMENT. Subject to ARTICLE 3, the Company hereby agrees to employ Executive and Executive hereby agrees to be employed by the Company, in accordance with this Agreement, for the period commencing as of the Effective Date and ending on the third anniversary of the Effective Date (“**INITIAL TERM**”); **PROVIDED, HOWEVER**, that beginning on the day immediately preceding the third anniversary of the Effective Date of this Agreement and on the day immediately preceding each subsequent anniversary of this Agreement thereafter, the Initial Term shall automatically be extended for one (1) additional year unless either party gives written notice to the other party 90 days prior to the next anniversary of this Agreement that it or he, as applicable, does not wish to extend this Agreement. Executive’s continued employment after the expiration of the Initial Term shall be in accordance with and governed by this Agreement, unless modified by the parties to this Agreement in writing.

Section 1.2 RESPONSIBILITIES; LOYALTY.

(a) Subject to the terms of this Agreement, Executive is employed in the position of Senior Vice President and Chief Financial Officer of the Company, and shall perform the functions and responsibilities of that position. Additional or different duties may be assigned by the Company from time to time. Executive’s position, job descriptions, duties and responsibilities maybe modified from time to time in the sole discretion of the Company.

(b) Executive shall devote the whole of Executive’s professional time, attention and energies to the performance of Executive’s work responsibilities and shall not, either directly or indirectly, alone or in partnership, consult with, advise, work for or have any interest in any other similar business or pursuit during the term of Executive’s employment with the Company. During the term of Executive’s employment with the Company, it shall not be a violation of this Agreement for Executive to serve on corporate, civic or charitable boards or committees; deliver lectures or fulfill speaking engagements; and subject to SECTION 2.3, manage personal investments, in each case, so long as such activities do not materially interfere with the

performance of Executive's responsibilities as an Executive of the Company in accordance with this Agreement. Executive further agrees to comply with all policies of the Company in effect from time to time, and to comply with all laws, rules and regulations, including those applicable to the Company

Section 1.3 COMPENSATION. As consideration for the services and covenants described in this Agreement, the Company agrees to compensate Executive in the following manner:

(a) The Company will pay Executive an annualized base salary of \$400,000 per year ("**BASE SALARY**"), as may be increased from time to time by action of the Board of Directors of the Company (the "**BOARD**") or the Compensation Committee of the Board.

(b) Executive shall be eligible for employment benefits including holidays, leaves of absence, health insurance, dental insurance, 401(k) plan participation, etc., if any, available to employees of the Company generally, in accordance with any policies, procedures or benefit plans adopted by the Company from time to time during the existence of this Agreement. In addition, Executive shall be entitled to vacation in accordance with the Company's vacation policy as adopted from time to time. Executive's rights or those of Executive's dependents under any such benefits policies or plans shall be governed solely by the terms of such policies or plans. The Company reserves to itself, or its designated administrators, exclusive authority and discretion to determine all issues of eligibility, interpretation and administration of each such benefit plan or policy. The Company's employment benefits, and policies related thereto, are subject to termination, modification or limitation at the Company's sole discretion.

(c) Executive shall be eligible to participate in the Company's cash incentive bonus plan for each calendar year in which Executive is employed by the Company hereunder with an annual target bonus amount equal to 100% of the Executive's Base Salary (the "**TARGET BONUS**"), under such terms and conditions as the Company may determine each applicable year (the "**CASH INCENTIVE BONUS**").

(d) Executive shall be eligible to participate in the Company's equity compensation plan for each calendar year in which Executive is employed by the Company hereunder, under such terms and conditions as the Company may determine each applicable year.

(e) Payment of all compensation to Executive shall be made in accordance with the terms of this Agreement, applicable state or federal law, and applicable Company policies in effect from time to time, including normal payroll practices, and shall be subject to all applicable withholdings and taxes.

Section 1.4 BUSINESS EXPENSES. The Company shall reimburse Executive for all business expenses that are reasonable and necessary and incurred by Executive while performing his duties under this Agreement, upon presentation of expense statements, receipts and/or vouchers or such other information and documentation as the Company may reasonably require. Executive will be subject to the same business expense policy applicable to other Company employees generally.

ARTICLE 2

CONFIDENTIAL INFORMATION; POST-EMPLOYMENT OBLIGATIONS; COMPANY PROPERTY

Section 2.1 COMPANY PROPERTY. As used in this Article 2, the term the “Company” refers to the Company and each of its direct and indirect subsidiaries. All written materials, records, data and other documents relating to Company business, products or services prepared or possessed by Executive during Executive’s employment by the Company are the Company’s property. All information, ideas, concepts, improvements, discoveries and inventions that are conceived, made, developed or acquired by Executive individually or in conjunction with others during Executive’s employment (whether during business hours and whether on Company’s premises or otherwise) that relate to Company business, products or services are the Company’s sole and exclusive property. All memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps and all other documents, data or materials of any type embodying such information, ideas, concepts, improvements, discoveries and inventions are Company property. At the termination of Executive’s employment with the Company for any reason, Executive shall return all of the Company’s documents, data or other Company property to the Company.

Section 2.2 CONFIDENTIAL INFORMATION; NON-DISCLOSURE.

(a) Executive acknowledges that the business of the Company is highly competitive and that the Company will provide Executive with access to Confidential Information. Executive acknowledges that this Confidential Information constitutes a valuable, special and unique asset used by the Company in its business to obtain a competitive advantage over competitors. Executive further acknowledges that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to the Company in maintaining its competitive position. Executive agrees that Executive will not, at any time during or after Executive’s employment with the Company, make any unauthorized disclosure of any Confidential Information of the Company, or make any use thereof, except in the carrying out of Executive’s employment responsibilities to the Company. Executive also agrees to preserve and protect the confidentiality of third party Confidential Information to the same extent, and on the same basis, as the Company’s Confidential Information.

(b) For purposes hereof, “**CONFIDENTIAL INFORMATION**” includes all non-public information regarding the Company’s business operations and methods, existing and proposed investments and investment strategies, seismic, well-log and other geologic and oil and gas operating and exploratory data, financial performance, compensation arrangements and amounts (whether relating to the Company or to any of its employees), contractual relationships, business partners and relationships (including customers and suppliers), strategies, business plans and other confidential information that is used in the operation, technology and business dealings of the Company, regardless of the medium in which any of the foregoing information is contained, so long as such information is actually confidential and proprietary to the Company.

(c) Notwithstanding the foregoing, nothing in this Agreement will prevent Executive from:
(i) making a good faith report of possible violations of applicable law to any governmental

agency or entity; or (ii) making disclosures that are protected under the whistleblower provisions of applicable law. Further, an individual (including Executive) shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer of reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (x) files any document containing the trade secret under seal; and (y) does not disclose the trade secret, except pursuant to court order.

Section 2.3 NON-COMPETITION OBLIGATIONS.

(a) Executive acknowledges and agrees that as an employee and representative of the Company, Executive will have access to Confidential Information and be responsible for building and maintaining business relationships and goodwill with current and future operating partners, investors, partners and prospects on a personal level. Executive acknowledges and agrees that this responsibility creates a special relationship of trust and confidence between the Company, Executive and these persons or entities. Executive also acknowledges that this creates a high risk and opportunity for Executive to misappropriate these relationships and the goodwill existing between the Company and such persons. Executive acknowledges and agrees that it is fair and reasonable for the Company to take steps to protect itself from the risk of such misappropriation.

(b) Executive acknowledges and agrees that, in exchange for his agreement in SECTION 2.3(c) below, he will receive substantial, valuable consideration from the Company upon the execution of this Agreement and during the course of this Agreement, including, Confidential Information and access to Confidential Information, compensation and other benefits and access to the Company's prospects.

(c) During the Non-Compete Term and provided that the Company has made all severance payments provided for herein (to the extent applicable), Executive will not, directly or indirectly, provide the same or substantially the same services that he provides to the Company to any Business Enterprise in the Market Area (as defined below) without prior written consent, which will not be unreasonably withheld. This includes working as an agent, consultant, employee, officer, director, partner or independent contractor or being a shareholder, member, joint venturer or equity owner in, any such Business Enterprise; PROVIDED, HOWEVER, that the foregoing shall not restrict Executive from holding up to 5% of the voting power or equity of one or more Business Enterprises.

(d) For purposes of hereof:

(i) **"BUSINESS ENTERPRISE"** means any corporation, partnership, limited liability company, sole proprietorship, joint venture or other business association or entity (other than the Company) engaged in the business of exploring for, developing,

operating or acquiring oil and gas properties that is in direct competition with the Company's operations in the Market Area;

(ii) "MARKET AREA" means the 10 mile radius surrounding any geographical location in which the Company is conducting any material amount of oil and gas exploration and production activities during the Initial Term, and for which he has material responsibilities or about which he has material Confidential Information; and

(iii) "NON-COMPETE TERM" means the period from the Effective Date to the date ending: on the date of termination if Executive's employment with the Company is terminated by the Company for Cause, or in the case of termination for any reason other than that provided for in clause (A) above, 12 months following the date of termination.

Section 2.4 NON-SOLICITATION OF EXECUTIVES. During the Non-Compete Term, Executive will not, either directly or indirectly, call on, solicit or induce any other executive or officer of the Company or its affiliates with whom Executive had contact, knowledge of, or association with in the course of employment with the Company to terminate his employment, and will not assist any other person or entity in such a solicitation; PROVIDED, HOWEVER, that with respect to soliciting any executive or officer whose employment was terminated by the Company or its affiliates, or general solicitations for employment not targeted at current officers or employees of the Company or its affiliates, the foregoing restriction shall not apply.

Section 2.5 ACKNOWLEDGEMENT. Executive acknowledges that the Confidential Information provided to Executive pursuant to this Agreement, and the Company's need to protect its goodwill, gives rise to the Company's interest in these restrictive covenants, and that any limitations as to time, geographic scope and scope of activity to be restrained defined herein are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the Company. Executive further agrees that if, at some later date, a court of competent jurisdiction determines that certain covenants are unenforceable to any extent, then those covenants shall be reformed by the court to the least extent necessary to make them enforceable. Executive acknowledges and recognizes that the enforcement of any of the provisions in this Agreement by the Company will not interfere with Executive's ability to pursue a proper livelihood.

Section 2.6 EARLY RESOLUTION CONFERENCE. The parties are entering into this Agreement with the express understanding that this Agreement is clear and fully enforceable as written. If Executive ever decides later to contend that any restriction on activities imposed by this Agreement no longer is enforceable as written or does not apply to an activity in which Executive intends to engage, Executive first will notify the Company in writing and meet with a company representative at least 14 days before engaging in any activity that foreseeably could fall within the questioned restriction to discuss resolution of such claims.

Section 2.7 EQUITABLE AND OTHER RELIEF. Executive understands and agrees that, if Executive breaches provisions of this section of this Agreement, the Company will suffer immediate and irreparable harm which cannot be accurately calculated in monetary

damages. Consequently, the Company shall be entitled to immediate injunctive relief, either by temporary or permanent injunction, to prevent such violation. This injunctive relief shall be in addition to any other legal and/or equitable relief to which the Company would be entitled. If a bond is required to be posted for the Company to secure an injunction or other equitable remedy, threatened or actual, Executive agrees that the bond need not be more than a nominal sum. The Company shall be entitled to recover its attorneys' fees and costs from Executive should a court determine that Executive has breached provisions of this section of this Agreement. In addition, in the event of a breach or violation of provisions of this section of this Agreement, the time periods set forth above will be tolled until such breach or violation has been cured.

ARTICLE 3

TERMINATION OF EMPLOYMENT

Section 3.1 TERMINATION OF EMPLOYMENT.

(a) Executive's employment with the Company shall be terminated immediately upon the death of Executive without further action by the Company, upon Executive's Permanent Disability without further action by the Company, by the Company for Cause, by Executive for Good Reason, by the Company without Cause or by Executive without Good Reason, PROVIDED that the terminating party must (in the case of clause (v)) give at least 30 days' advance written notice of such termination. For purposes of this ARTICLE 3, "date of termination" means the date of Executive's death, the date of Executive's Permanent Disability, or the date of Executive's "separation from service" (as defined in Code Section 409A and Treas. Reg. §1.409A-1(h)) with the Company, as applicable.

(b) For purposes hereof:

(i) "**PERMANENT DISABILITY**" shall mean either Executive's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, Executive's receiving income replacement benefits for a period of not less than three months under an accident and health plan covering the Company's employees. Executive will be deemed permanently disabled if determined to be totally disabled by the Social Security Administration or if determined to be disabled in accordance with a disability insurance program that applies a definition of disability that complies with the requirements of this paragraph.

(ii) "**GOOD REASON**" shall mean one or more of the following conditions arising not more than six months before Executive's termination date without Executive's consent: a material breach by the Company of any provision of this Agreement; assignment by the Board or a duly authorized committee thereof to Executive of any duties that materially and adversely alter the nature or status of Executive's position, job descriptions, duties, title or responsibilities from those of a President and Chief Executive

Officer, or eligibility for Company compensation plans; requirement by the Company for Executive to relocate anywhere other than the greater Houston, Texas metropolitan area, except for required travel on Company business to an extent substantially consistent with Executive's obligations under this Agreement; a material reduction in Executive's Base Salary in effect at the relevant time; or exclusion of the Executive from eligibility for the Company's active bonus or benefits plans as described above, or a material reduction in the Executive's award levels under those plans as noted above. Notwithstanding anything herein to the contrary, Good Reason will exist only if Executive provides notice to the Company of the existence of the condition otherwise constituting Good Reason within 90 days of the initial existence of the condition, and the Company fails to remedy the condition on or before the 30th day following its receipt of such notice.

(iii) "CAUSE" shall include continued failure by Executive to perform substantially Executive's duties and responsibilities (other than a failure resulting from Permanent Disability) that is materially injurious to the Company and that remains uncorrected for 10 days after receipt of appropriate written notice from the Board; reliable, written third-party documentary evidence of engagement in willful, reckless or grossly negligent misconduct that is materially injurious to Company or any of its affiliates, monetarily or otherwise; except as provided by (D), the indictment of Executive with a crime involving moral turpitude or a felony, provided that if the criminal charge is dismissed with prejudice or if Executive is acquitted at trial or on appeal, Executive will be deemed to have been terminated without Cause; the indictment of Executive for an act of criminal fraud, misappropriation or personal dishonesty, provided that if the criminal charge is subsequently dismissed with prejudice or the Executive is acquitted at trial or on appeal then the Executive will be deemed to have been terminated without Cause; or a material breach by Executive of any provision of this Agreement that is materially injurious to the Company and that remains uncorrected for 10 days following written notice of such breach by the Company to Executive identifying the provision of this Agreement that Company determined has been breached.

(c) If Executive's employment is terminated under any of the foregoing circumstances, all future compensation to which Executive is otherwise entitled and all future benefits for which Executive is eligible, other than that already earned but which is unpaid, shall cease and terminate as of the date of termination, except as specifically provided in this ARTICLE 3. Any other payments or benefits by or on behalf of Company are limited to those which may be payable pursuant to the terms of Company's Executive benefit plans or required by any applicable federal, state or local law.

Section 3.2 SEVERANCE.

(a) For purposes of clarity, in the event that this Agreement is terminated due to non-renewal of the Agreement by either party in accordance with SECTION 1.1 above, then no severance or equity acceleration will become due to the Executive pursuant to this SECTION 3.2.

(b) TERMINATION BY COMPANY WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON

(i) If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason outside of the Protection Period (defined below), and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year's Base Salary plus 1.0 times the greater of (1) the average amount of the Cash Incentive Bonuses paid to the Executive during the two full calendar years immediately prior to the year in which the Executive's separation from service occurs (the "**AVERAGE BONUS**") or (2) the Target Bonus for the year in which the separation from service occurs, reimbursement of COBRA health insurance premiums as described below for up to 36 months from the date of termination, pro-rata acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive, 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 the Executive 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; and (D) pro-rata adjustment of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "**CODE**")), with pro-rata adjustment applicable only to the target number of shares subject to the applicable award in accordance with the same formula set forth in clause (C) above, with the resulting reduced number of performance-based awards remaining subject to all applicable performance metrics during the full performance period applicable to such award.

(ii) For purposes of this Agreement, the "**PROTECTION PERIOD**" shall mean 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 18th month immediately following the consummation of the Change of Control transaction. If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason within Protection Period, and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive will not be entitled to the compensation provided in subsection (i) above, but instead shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year's Base Salary plus 2.0 times the greater of (1) the Average Bonus or (2) the Target Bonus for the year in which the separation from service occurs, reimbursement of COBRA health insurance premiums as described below for up to 36 months from the date of termination, 100% full acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive; and (D) full acceleration of any time-based component of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of Code), with actual performance for the performance-based portion of the award calculated as if the end of the applicable performance period was the date of the Executive's separation from service.

(iii) If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason (whether or not in connection with a Protection Period), and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a prorated Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals. The prorated bonus will be an amount in cash equal to the Executive's Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals, multiplied by a fraction, the numerator of which is the number of days that Executive was employed by the Company during the year of termination and the denominator of which is three hundred and sixty five (365). Payment of the prorated Cash Incentive Bonus will be made in a lump sum at the same time that other employees of the Company are paid their Cash Incentive Bonuses for the calendar year to which the Cash Incentive Bonus relates.

(iv) Payment of the entire cash severance amount under subsection (i) or (ii) will be made in a lump sum on the 60th day after Executive's applicable date of termination.

(v) If Executive timely elects continued coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), the Company will reimburse Executive for the monthly COBRA cost of continued health coverage paid by Executive under the applicable health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the period during which the Executive elects continued coverage under COBRA, but not in excess of 36 months. If Executive is eligible for continued COBRA reimbursement, when COBRA coverage would otherwise end, Executive may elect to extend the COBRA continued coverage under the Company's health plan until the date that is 36 months from the date of termination, provided that the Company's health plan permits such extension and such extension will not cause adverse tax consequences to the Company or Executive. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(vi) Executive shall not be under any duty or obligation to seek or accept other employment following a termination of employment pursuant to which a severance payment under this SECTION 3.2 is payable and the amounts due Executive pursuant to this SECTION 3.2 shall not be reduced or suspended if Executive accepts subsequent employment or earns any amounts as a self-employed individual.

(c) **DEATH OR DISABILITY**

If Executive's employment is terminated because of death or Permanent Disability, Executive, in the case of Permanent Disability, or his surviving spouse (or his estate if Executive's spouse does not survive him), in the case of Executive's death, shall be entitled to: his pro rata Base Salary and pro rata Target Bonus through the date of termination for the year

in which the termination occurs, plus a lump sum amount equal to the greater of: the remainder of the Base Salary that would have been earned by Executive under this Agreement between the time of his Death or Permanent Disability and the expiration of the then-current term of this Agreement, or 12 months of Base Salary plus his Target Bonus for the year of termination; and full acceleration of vesting for all stock, stock option and other equity awards. If Executive's employment is terminated because of death or Permanent Disability, if a member of Executive's family provides timely notice to the health plan administrator of Executive's death or Permanent Disability, and if Executive's family members who are covered by a health plan of the Company timely elect continued coverage under COBRA, the Company will reimburse such family members for the monthly COBRA cost of continued health coverage paid by such family members under the health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the applicable period during which the family member is eligible for continued coverage under COBRA, but not in excess of 36 months. When COBRA coverage would otherwise end for the family member, the family member may elect to extend the COBRA continuation coverage under the Company's health plan until the date that is 36 months from Executive's date of termination, provided that the Company's health plan permits such extension and such extension will not cause adverse tax consequences to the Company, Executive or Executive's family member or estate. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive's family member demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(d) **SECTION 280G**

(i) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "**PAYMENTS**"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code, the Company shall reduce (but not below zero) the aggregate present value of the Payments under this Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide Executive with a greater net after-tax amount than would be the case if no reduction was made. The Payments shall be reduced as described in the preceding sentence only if the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this subsection (i). The "**REDUCED AMOUNT**" shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with Section 280G(d)(4) of the Code. The term "**EXCISE TAX**" means the excise tax imposed under Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax. For purposes of

the calculations under this SECTION 3.2(d), the severance payments to be made under this Agreement shall be allocated as consideration for the noncompetition covenant under SECTION 2.3 to the maximum extent allowable under Section 280G of the Code and the regulations thereunder.

(ii) All determinations to be made under this SECTION 3.2(d) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a Change of Control (or other such transaction that is considered to be a change in control transaction pursuant to Section 280G of the Code and the regulations promulgated thereunder), which shall provide its determinations and any supporting calculations both to the Company and Executive within ten days of the applicable transaction. Any such determination by such firm shall be binding upon the Company and the Executive. All of the fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section shall be borne solely by the Company.

(e) “**CHANGE OF CONTROL**” means the occurrence of any one or more of the following events that occurs after the Effective Date:

(i) Any “person” (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “**EXCHANGE ACT**”)) becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 25% of the voting power of the then outstanding securities of the Company; provided that a Change of Control shall not be deemed to occur as a result of a transaction in which the Company becomes a subsidiary of another corporation and in which the stockholders of the Company, immediately prior to the transaction, will beneficially own, immediately after the transaction, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the parent corporation would be entitled in the election of directors;

(ii) The consummation of a merger or consolidation of the Company with another corporation where the stockholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the surviving corporation would be entitled in the election of directors, a sale or other disposition of all or substantially all of the assets of the Company, or a liquidation or dissolution of the Company; or

(iii) After the Effective Date, directors are elected such that a majority of the members of the Board shall have been members of the Board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

(f) SECTION 3.2 and this Agreement shall be administered and interpreted to maximize the short-term deferral exception to Code Section 409A, and Executive shall not, directly or indirectly, designate the taxable year of a payment made under this Agreement. The

portion of any payment under this Agreement that is paid within the short-term deferral period (within the meaning of Code Section 409A and Treas. Reg. § 1.409A-1(b)(4)) will be treated as a short term deferral and not aggregated with other plans or payments. Any other portion of the payment that does not meet the short-term deferral requirement will, to the maximum extent possible, be deemed to satisfy the exception from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) for involuntary separation pay and shall not be aggregated with any other payment. Any right to a series of installment payments pursuant to this Agreement is to be treated as a right to a series of separate payments. Any amount that is paid as a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) or within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will be treated as a separate payment. Payment dates provided for in this Agreement are deemed to incorporate “grace periods” within the meaning of Code Section 409A and the regulations thereunder. If a Change of Control does not meet the requirements of a “change of control event” under Section 409A of the Code, the cash severance amount shall be paid to Executive in the same form as if no Change of Control had occurred, if required by Code Section 409A. Notwithstanding anything herein to the contrary, if Executive is, as of the date of termination, a “specified employee” for purposes of Code Section 409A and Treas. Reg. § 1.409A-1(i), then any amount payable to Executive pursuant to SECTION 3.2(b)(i)(A), SECTION 3.2(b)(ii)(A) or 3.2(d) that is neither a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b) (4) nor within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will not be paid before the date that is the first day of the seventh month after the date of termination, or if earlier, the date of Executive’s death. Any payments to which Executive would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to Executive on the first day of the seventh month following such date of termination, or if earlier, within 30 days of Executive’s death to his surviving spouse (or to his estate if Executive’s spouse does not survive him). All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code.

(g) If Executive terminates his employment without Good Reason or is terminated for Cause, he shall not be entitled to the severance payments provided for in this Agreement.

Section 3.3 CONDITIONS FOR SEVERANCE.

(a) The severance payment payable to Executive pursuant to SECTION 3.2 shall be in consideration of, and subject to, Executive’s continuing obligations hereunder after such termination, including Executive’s obligations under ARTICLE 2.

(b) As a condition to the receipt of any severance payment, Executive agrees to execute and deliver, by the Release Expiration Date, a mutually acceptable severance and release agreement, including a waiver of all claims except for any claims relating to benefits due under the plans described in SECTION 1.3(b) and any accrued vested amount which may be payable as a deferred bonus. The severance and release agreement shall be in a form reasonably acceptable to the Board; provided that such release shall not provide for a release of Executive’s right to indemnification under the Company’s organizational documents, indemnification agreement, if any, or directors and officers insurance against third party claims. The “**RELEASE EXPIRATION DATE**” is that date that is 21 days following the date upon which the Company delivers the Release to Executive (which shall occur no later than seven days after the

Executive's termination date), or in the event that such termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967, as amended), the date that is 45 days following such delivery date.

(c) As a condition to the receipt of any severance payment, Executive agrees that any and all claims and any and all causes of action of any kind or character, including all claims and causes of action arising out of Executive's employment with the Company, the termination of such employment, any claims or demands against the Company based upon Executive's employment for any monies other than those specified in SECTION 3.2, and the actions by the officers, directors, executives and agents of Company shall be resolved through a dispute resolution process as provided in SECTION 4.11; PROVIDED, HOWEVER, that any determination as to whether and as of what date Executive has suffered a Permanent Disability are delegated to the Board and any objection by Executive with any such determination shall be limited to whether the Board reached such decision in good faith.

(d) Except as expressly provided herein, Executive shall not be entitled to any other severance payment or benefit. The severance payments provided for herein are Executive's sole remedy for termination of his employment at the Company.

Section 3.4 TRANSITION PERIOD. Upon termination of this Agreement, and for 90 consecutive calendar days thereafter (the "**TRANSITION PERIOD**"), Executive agrees to make himself available to assist the Company with transition projects assigned to him by the Board. Executive will be paid at a reasonable, agreed upon hourly rate for any work performed for the Company during the Transition Period.

Section 3.5 CONTINUING OBLIGATIONS OF EXECUTIVE. Termination of the employment relationship does not terminate those obligations of Executive imposed by ARTICLE 2 and SECTIONS 3.4 through 3.5, which are continuing obligations.

ARTICLE 4

MISCELLANEOUS

Section 4.1 NOTICES. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, mailed by certified mail (return receipt requested) or sent by overnight delivery service, or electronic mail, or facsimile transmission (with electronic confirmation of successful transmission) to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice, in order of preference of the recipient:

To the Company:

Contango Oil & Gas Company
Attn: Joseph Romano, Chairman of the Board
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

To Executive:

E. Joseph Grady
c/o Crimson Exploration Inc.
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

Notice so given shall, in the case of mail, be deemed to be given and received on the fifth calendar day after posting, in the case overnight delivery service, on the date of actual delivery and, in the case of facsimile transmission, telex or personal delivery, on the date of actual transmission or, as the case may be, personal delivery. Any such notice or communication shall be delivered by hand or by courier or sent certified or registered mail, return receipt requested, postage prepaid, addressed as above (or to such other address as such party may designate in a notice duly delivered as described above), and the third business day after the actual date of mailing (or, if earlier, the actual date of receipt) shall constitute the time at which notice was given.

Section 4.2 SEVERABILITY AND REFORMATION . If any one or more of the terms, provisions, covenants or restrictions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions shall remain in full force and effect, and the invalid, void or unenforceable provisions shall be deemed severable. Moreover, if any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it shall be reformed by limiting and reducing it to the minimum extent necessary, so as to be enforceable to the extent compatible with the applicable law as it shall then appear.

Section 4.3 ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs and legal representatives of Executive and the permitted assigns and successors of the Company, but neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by Executive (except by will or by operation of the laws of intestate succession) or by the Company, except that the Company may assign this Agreement to any successor (whether by merger, purchase or otherwise), if such successor expressly agrees to assume the obligations of the Company hereunder.

Section 4.4 AMENDMENT. This Agreement may be amended only by writing signed by Executive and by a duly authorized representative of the Company (other than Executive).

Section 4.5 ASSISTANCE IN LITIGATION. Executive shall reasonably cooperate with the Company in the defense or prosecution of any claims or actions now in existence or that may be brought in the future against or on behalf of the Company that relate to events or occurrences that transpired while Executive was employed by the Company. Executive's cooperation in connection with such claims or actions shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company at mutually convenient times. Executive also shall cooperate fully with the Company in connection with any investigation or review by any federal, state or local regulatory authority as any such investigation or review relates, to events or occurrences that transpired while Executive was employed by the Company. The Company will pay Executive an agreed upon reasonable hourly rate for Executive's cooperation pursuant to this Section.

Section 4.6 BENEFICIARIES; REFERENCES. Executive shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death, and may change such election, in either case by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of his incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative. Any reference to the masculine gender in this Agreement shall include, where appropriate, the feminine.

Section 4.7 USE OF NAME; LIKENESS AND BIOGRAPHY. The Company may use, publish and broadcast, and to authorize others to do so, the name, approved likeness and approved biographical material of Executive to advertise, publicize and promote the business of the Company and its affiliates, but not for the purposes of direct endorsement without Executive's consent. This right shall terminate upon the termination of this Agreement. An "approved likeness" and "approved biographical material" shall be, respectively, any photograph or other depiction of Executive, or any biographical information or life story concerning the professional career of Executive.

Section 4.8 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED, INTERPRETED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO RULES RELATING TO CONFLICTS OF LAW.

Section 4.9 ENTIRE AGREEMENT. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes in all respects any prior or other agreement or understanding, written or oral, between the Company or any affiliate of the Company and Executive with respect to such subject matter, other than as specifically noted in SECTION 4.14 below.

Section 4.10 COUNTERPARTS; NO ELECTRONIC SIGNATURES. This Agreement may be executed in two or more counterparts, each of which will be deemed an original. For purposes of determining whether a party has signed this Agreement or any document contemplated hereby or any amendment or waiver hereof, only a handwritten signature on a paper document or a facsimile transmission of a handwritten original signature will constitute a signature, notwithstanding any law relating to or enabling the creation, execution or delivery of any contract or signature by electronic means.

Section 4.11 ARBITRATION. With the exception of any proceeding to obtain emergency, temporary restraining or preliminary injunctive relief as permitted by ARTICLE 2 and/or ARTICLE 3, the parties agree that any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be resolved by arbitration administered by the American Arbitration Association (“AAA”) under its then existing Employment Arbitration Rules. All disputes shall be resolved by one arbitrator within 120 days of the date arbitration is initiated. The arbitrator will have the authority to award the same remedies, damages and costs that a court could award, and will have the additional authority to award those remedies set forth in ARTICLE 2. The arbitrator shall issue a reasoned award explaining the decision, the reasons for the decision and any damages awarded, including those set forth in ARTICLE 2.7, where the arbitrator finds either party violated ARTICLE 2 or ARTICLE 3. The arbitrator’s decision will be final and binding. The judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitration proceedings, any record of the same, and the award shall be considered Confidential Information under this Agreement. This provision can be enforced under the Federal Arbitration Act. BY ENTERING INTO THIS SECTION 4.11, THE PARTIES ARE KNOWINGLY AND VOLUNTARILY WAIVING THEIR RIGHTS TO A JURY TRIAL.

Section 4.12 NON-WAIVER. The failure by either party to insist upon the performance of any one or more terms, covenants or conditions of this Agreement shall not be construed as a waiver or relinquishment of any right granted hereunder or of any future performance of any such term, covenant or condition, and the obligation of either party with respect hereto shall continue in full force and effect, unless such waiver shall be in writing signed by the Company (other than Executive) and Executive.

Section 4.13 ANNOUNCEMENT. The Company may make public announcements concerning the execution of this Agreement and the terms contained herein, at the Company’s discretion.

Section 4.14 PRIOR AGREEMENTS. This Agreement supersedes and replaces all previous employment agreements between the Executive and the Company, other than with respect to that certain Amendment and Extension of Employment Agreement entered into as of October 10, 2016 between the Executive and the Company (the “*Extension Agreement*”), as modified as follows: (a) the parties acknowledge their agreement as of November 15, 2016 to suspend, pending execution and delivery of this Agreement, the equity compensation award vesting that could occur under Section 2 of the Extension Agreement and no such vesting occurred, and (b) the parties further acknowledge their agreement as of November 15, 2016 to provide the benefit set forth in Section 3 of the Extension Agreement to the Executive without regard to the date of execution of this Agreement.

Section 4.15 COMPANY POLICIES. Executive agrees that all incentive compensation payable to him by the Company and its subsidiaries, under this Agreement or otherwise, shall be subject to any applicable clawback or recoupment policies, share ownership policies, anti-hedging policies and other applicable policies as finally adopted by the Board.

Section 4.16 CONSTRUCTION. The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting

this Agreement. The language in all parts of this Agreement shall be in all cases construed in accordance to its fair meaning and not strictly for or against the Company or Executive. The words “include,” “includes,” and “including” will be deemed to be followed by “without limitation.”

Section 4.17 RIGHT TO INSURE. The Company shall have the right to secure, in its own name or otherwise, and at its own expense, life, health, accident or other insurance covering Executive, and Executive shall have no right, title or interest in and to such insurance. Executive shall assist the Company in procuring such insurance by submitting to examinations and by signing such applications and other instruments as may be required by the insurance carriers to which application is made for any such insurance.

Section 4.18 NO INCONSISTENT OBLIGATIONS. Executive represents and warrants that to his knowledge he has no obligations, legal, in contract or otherwise, inconsistent with the terms of this Agreement or with his undertaking employment with the Company to perform the duties described herein. Executive will not disclose to the Company, or use or induce the Company to use, any confidential, proprietary or trade secret information of others. Executive represents and warrants that to his knowledge he has returned all property and confidential information belonging to all prior employers, if he is obligated to do so.

Section 4.19 VOLUNTARY AGREEMENT. Each party to this Agreement has read and fully understands the terms and provisions hereof, has reviewed this Agreement with legal counsel, has executed this Agreement based upon such party’s own judgment and advice of counsel, and knowingly, voluntarily, and without duress, agrees to all of the terms set forth in this Agreement. The parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the parties and no presumption or burden of proof will arise favoring or disfavoring any party because of authorship of any provision of this Agreement. Except as expressly set forth in this Agreement, neither the parties nor their affiliates, advisors and/or their attorneys have made any representation or warranty, express or implied, at law or in equity with respect of the subject matter contained herein. Without limiting the generality of the previous sentence, the Company, its affiliates, advisors and/or attorneys have made no representation or warranty to Executive concerning the state or federal tax consequences to Executive regarding the transactions contemplated by this Agreement.

Section 4.20 LEGAL FEES AND EXPENSES. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which Executive may reasonably incur as a result of any contest by the Company, the Executive or others of the validity or enforceability of, or liability or entitlement under, any provision of this Agreement or any guarantee of performance thereof (whether such contest is between the Company and Executive or between either of them and any third party, and including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code. The Company’s obligations under this SECTION 4.20 shall apply without regard to the outcome of any such contest.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first written above:

CONTANGO OIL & GAS COMPANY

/s/ ALLAN D. KEEL

Name: Allan D. Keel

Title: President and Chief Executive Officer

E. JOSEPH GRADY

/s/ E. JOSEPH GRADY

[Signature Page to Grady Employment Agreement]

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (this “**AGREEMENT**”) is made and entered into on November 30, 2016 (the “**EFFECTIVE DATE**”) by and between Jay S. Mengle (“**EXECUTIVE**”) and Contango Oil & Gas Company (the “**COMPANY**”).

WHEREAS, the Company and Executive entered into an Employment Agreement (the “**ORIGINAL EMPLOYMENT AGREEMENT**”) dated June 7, 2013.

WHEREAS, the Company and the Executive agree that certain terms of the Original Employment Agreement should be amended and restated as set forth below.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein:

ARTICLE 1

EMPLOYMENT; RESPONSIBILITIES; COMPENSATION

Section 1.1 EMPLOYMENT. Subject to ARTICLE 3, the Company hereby agrees to employ Executive and Executive hereby agrees to be employed by the Company, in accordance with this Agreement, for the period commencing as of the Effective Date and ending on the second anniversary of the Effective Date (“**INITIAL TERM**”); PROVIDED, HOWEVER, that beginning on the day immediately preceding the second anniversary of the Effective Date of this Agreement and on the day immediately preceding each subsequent anniversary of this Agreement, the Initial Term shall automatically be extended for one (1) additional year unless either party gives written notice to the other party 90 days prior to the next anniversary of this Agreement that it or he, as applicable, does not wish to extend this Agreement. Executive’s continued employment after the expiration of the Initial Term shall be in accordance with and governed by this Agreement, unless modified by the parties to this Agreement in writing.

Section 1.2 RESPONSIBILITIES; LOYALTY.

(a) Subject to the terms of this Agreement, Executive is employed in the position of Senior Vice President Engineering, and shall perform the functions and responsibilities of that position. Additional or different duties may be assigned by the Company from time to time. Executive’s position, job descriptions, duties and responsibilities may be modified from time to time in the sole discretion of the Company.

(b) Executive shall devote the whole of Executive’s professional time, attention and energies to the performance of Executive’s work responsibilities and shall not, either directly or indirectly, alone or in partnership, consult with, advise, work for or have any interest in any other similar business or pursuit during the term of Executive’s employment with the Company. During the term of Executive’s employment with the Company, it shall not be a violation of this Agreement for Executive to serve on corporate, civic or charitable boards or committees; deliver lectures or fulfill speaking engagements; and subject to SECTION 2.3, manage personal investments, in each case, so long as such activities do not materially interfere with the

performance of Executive's responsibilities as an Executive of the Company in accordance with this Agreement. Executive further agrees to comply with all policies of the Company in effect from time to time, and to comply with all laws, rules and regulations, including those applicable to the Company

Section 1.3 COMPENSATION. As consideration for the services and covenants described in this Agreement, the Company agrees to compensate Executive in the following manner:

(a) The Company will pay Executive an annualized base salary of \$300,000 per year ("**BASE SALARY**"), as may be increased from time to time by action of the Board of Directors of the Company (the "**BOARD**") or the Compensation Committee of the Board.

(b) Executive shall be eligible for employment benefits including holidays, leaves of absence, health insurance, dental insurance, 401(k) plan participation, etc., if any, available to employees of the Company generally, in accordance with any policies, procedures or benefit plans adopted by the Company from time to time during the existence of this Agreement. In addition, Executive shall be entitled to vacation in accordance with the Company's vacation policy as adopted from time to time. Executive's rights or those of Executive's dependents under any such benefits policies or plans shall be governed solely by the terms of such policies or plans. The Company reserves to itself, or its designated administrators, exclusive authority and discretion to determine all issues of eligibility, interpretation and administration of each such benefit plan or policy. The Company's employment benefits, and policies related thereto, are subject to termination, modification or limitation at the Company's sole discretion.

(c) Executive shall be eligible to participate in the Company's cash incentive bonus plan for each calendar year in which Executive is employed by the Company hereunder with an annual target bonus amount equal to 80% of the Executive's Base Salary (the "**TARGET BONUS**"), under such terms and conditions as the Company may determine each applicable year (the "**CASH INCENTIVE BONUS**").

(d) Executive shall be eligible to participate in the Company's equity compensation plan for each calendar year in which Executive is employed by the Company hereunder, under such terms and conditions as the Company may determine each applicable year.

(e) Payment of all compensation to Executive shall be made in accordance with the terms of this Agreement, applicable state or federal law, and applicable Company policies in effect from time to time, including normal payroll practices, and shall be subject to all applicable withholdings and taxes.

Section 1.4 BUSINESS EXPENSES. The Company shall reimburse Executive for all business expenses that are reasonable and necessary and incurred by Executive while performing his duties under this Agreement, upon presentation of expense statements, receipts and/or vouchers or such other information and documentation as the Company may reasonably require. Executive will be subject to the same business expense policy applicable to other Company employees generally.

ARTICLE 2

CONFIDENTIAL INFORMATION; POST-EMPLOYMENT OBLIGATIONS; COMPANY PROPERTY

Section 2.1 COMPANY PROPERTY. As used in this Article 2, the term the “Company” refers to the Company and each of its direct and indirect subsidiaries. All written materials, records, data and other documents relating to Company business, products or services prepared or possessed by Executive during Executive’s employment by the Company are the Company’s property. All information, ideas, concepts, improvements, discoveries and inventions that are conceived, made, developed or acquired by Executive individually or in conjunction with others during Executive’s employment (whether during business hours and whether on Company’s premises or otherwise) that relate to Company business, products or services are the Company’s sole and exclusive property. All memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps and all other documents, data or materials of any type embodying such information, ideas, concepts, improvements, discoveries and inventions are Company property. At the termination of Executive’s employment with the Company for any reason, Executive shall return all of the Company’s documents, data or other Company property to the Company.

Section 2.2 CONFIDENTIAL INFORMATION; NON-DISCLOSURE.

(a) Executive acknowledges that the business of the Company is highly competitive and that the Company will provide Executive with access to Confidential Information. Executive acknowledges that this Confidential Information constitutes a valuable, special and unique asset used by the Company in its business to obtain a competitive advantage over competitors. Executive further acknowledges that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to the Company in maintaining its competitive position. Executive agrees that Executive will not, at any time during or after Executive’s employment with the Company, make any unauthorized disclosure of any Confidential Information of the Company, or make any use thereof, except in the carrying out of Executive’s employment responsibilities to the Company. Executive also agrees to preserve and protect the confidentiality of third party Confidential Information to the same extent, and on the same basis, as the Company’s Confidential Information.

(b) For purposes hereof, “**CONFIDENTIAL INFORMATION**” includes all non-public information regarding the Company’s business operations and methods, existing and proposed investments and investment strategies, seismic, well-log and other geologic and oil and gas operating and exploratory data, financial performance, compensation arrangements and amounts (whether relating to the Company or to any of its employees), contractual relationships, business partners and relationships (including customers and suppliers), strategies, business plans and other confidential information that is used in the operation, technology and business dealings of the Company, regardless of the medium in which any of the foregoing information is contained, so long as such information is actually confidential and proprietary to the Company.

(c) Notwithstanding the foregoing, nothing in this Agreement will prevent Executive from:
(i) making a good faith report of possible violations of applicable law to any governmental

agency or entity; or (ii) making disclosures that are protected under the whistleblower provisions of applicable law. Further, an individual (including Executive) shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer of reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (x) files any document containing the trade secret under seal; and (y) does not disclose the trade secret, except pursuant to court order.

Section 2.3 NON-COMPETITION OBLIGATIONS.

(a) Executive acknowledges and agrees that as an employee and representative of the Company, Executive will have access to Confidential Information and will be responsible for building and maintaining business relationships and goodwill with current and future operating partners, investors, partners and prospects on a personal level. Executive acknowledges and agrees that this responsibility creates a special relationship of trust and confidence between the Company, Executive and these persons or entities. Executive also acknowledges that this creates a high risk and opportunity for Executive to misappropriate these relationships and the goodwill existing between the Company and such persons. Executive acknowledges and agrees that it is fair and reasonable for the Company to take steps to protect itself from the risk of such misappropriation.

(b) Executive acknowledges and agrees that, in exchange for his agreement in SECTION 2.3(c) below, he will receive substantial, valuable consideration from the Company upon the execution of this Agreement and during the course of this Agreement, including, Confidential Information and access to Confidential Information, compensation and other benefits and access to the Company's prospects.

(c) During the Non-Compete Term and provided that the Company has made all severance payments provided for herein (to the extent applicable), Executive will not, directly or indirectly, provide the same or substantially the same services that he provides to the Company to any Business Enterprise in the Market Area (as defined below) without prior written consent, which will not be unreasonably withheld. This includes working as an agent, consultant, employee, officer, director, partner or independent contractor or being a shareholder, member, joint venturer or equity owner in, any such Business Enterprise; PROVIDED, HOWEVER, that the foregoing shall not restrict Executive from holding up to 5% of the voting power or equity of one or more Business Enterprises.

(d) For purposes of hereof:

(i) **"BUSINESS ENTERPRISE"** means any corporation, partnership, limited liability company, sole proprietorship, joint venture or other business association or entity (other than the Company) engaged in the business of exploring for, developing,

operating or acquiring oil and gas properties that is in direct competition with the Company's operations in the Market Area;

(ii) "MARKET AREA" means the 10 mile radius surrounding any geographical location in which the Company is conducting any material amount of oil and gas exploration and production activities during the Initial Term, and for which he has material responsibilities or about which he has material Confidential Information; and

(iii) "NON-COMPETE TERM" means the period from the Effective Date to the date ending: on the date of termination if Executive's employment with the Company is terminated by the Company for Cause, or in the case of termination for any reason other than that provided for in clause (A) above, twelve (12) months following the date of termination.

Section 2.4 NON-SOLICITATION OF EXECUTIVES. During the Non-Compete Term, Executive will not, either directly or indirectly, call on, solicit or induce any other executive or officer of the Company or its affiliates with whom Executive had contact, knowledge of, or association with in the course of employment with the Company to terminate his employment, and will not assist any other person or entity in such a solicitation; PROVIDED, HOWEVER, that with respect to soliciting any executive or officer whose employment was terminated by the Company or its affiliates, or general solicitations for employment not targeted at current officers or employees of the Company or its affiliates, the foregoing restriction shall not apply.

Section 2.5 ACKNOWLEDGEMENT. Executive acknowledges that the Confidential Information provided to Executive pursuant to this Agreement, and the Company's need to protect its goodwill, gives rise to the Company's interest in these restrictive covenants, and that any limitations as to time, geographic scope and scope of activity to be restrained defined herein are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the Company. Executive further agrees that if, at some later date, a court of competent jurisdiction determines that certain covenants are unenforceable to any extent, then those covenants shall be reformed by the court to the least extent necessary to make them enforceable. Executive acknowledges and recognizes that the enforcement of any of the provisions in this Agreement by the Company will not interfere with Executive's ability to pursue a proper livelihood.

Section 2.6 EARLY RESOLUTION CONFERENCE. The parties are entering into this Agreement with the express understanding that this Agreement is clear and fully enforceable as written. If Executive ever decides later to contend that any restriction on activities imposed by this Agreement no longer is enforceable as written or does not apply to an activity in which Executive intends to engage, Executive first will notify the Company in writing and meet with a company representative at least 14 days before engaging in any activity that foreseeably could fall within the questioned restriction to discuss resolution of such claims.

Section 2.7 EQUITABLE AND OTHER RELIEF. Executive understands and agrees that, if Executive breaches provisions of this section of this Agreement, the Company will suffer immediate and irreparable harm which cannot be accurately calculated in monetary

damages. Consequently, the Company shall be entitled to immediate injunctive relief, either by temporary or permanent injunction, to prevent such violation. This injunctive relief shall be in addition to any other legal and/or equitable relief to which the Company would be entitled. If a bond is required to be posted for the Company to secure an injunction or other equitable remedy, threatened or actual, Executive agrees that the bond need not be more than a nominal sum. The Company shall be entitled to recover its attorneys' fees and costs from Executive should a court determine that Executive has breached provisions of this section of this Agreement. In addition, in the event of a breach or violation of provisions of this section of this Agreement, the time periods set forth above will be tolled until such breach or violation has been cured.

ARTICLE 3

TERMINATION OF EMPLOYMENT

Section 3.1 TERMINATION OF EMPLOYMENT.

(a) Executive's employment with the Company shall be terminated immediately upon the death of Executive without further action by the Company, upon Executive's Permanent Disability without further action by the Company, by the Company for Cause, by Executive for Good Reason, by the Company without Cause or by Executive without Good Reason, PROVIDED that the terminating party must (in the case of clause (v)) give at least 30 days' advance written notice of such termination. For purposes of this ARTICLE 3, "date of termination" means the date of Executive's death, the date of Executive's Permanent Disability, or the date of Executive's "separation from service" (as defined in Code Section 409A and Treas. Reg. §1.409A-1(h)) with the Company, as applicable.

(b) For purposes hereof:

(i) "**PERMANENT DISABILITY**" shall mean either Executive's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, Executive's receiving income replacement benefits for a period of not less than three months under an accident and health plan covering the Company's employees. Executive will be deemed permanently disabled if determined to be totally disabled by the Social Security Administration or if determined to be disabled in accordance with a disability insurance program that applies a definition of disability that complies with the requirements of this paragraph.

(ii) "**GOOD REASON**" shall mean one or more of the following conditions arising not more than six months before Executive's termination date without Executive's consent: a material breach by the Company of any provision of this Agreement; assignment by the Board or a duly authorized committee thereof to Executive of any duties that materially and adversely alter the nature or status of Executive's position, job descriptions, duties, title or responsibilities from those of a Senior Vice President

Acquisitions, or eligibility for Company compensation plans; requirement by the Company for Executive to relocate anywhere other than the greater Houston, Texas metropolitan area, except for required travel on Company business to an extent substantially consistent with Executive's obligations under this Agreement; a material reduction in Executive's Base Salary in effect at the relevant time; or exclusion of the Executive from eligibility for the Company's active bonus or benefits plans as described above, or a material reduction in the Executive's award levels under those plans as noted above. Notwithstanding anything herein to the contrary, Good Reason will exist only if Executive provides notice to the Company of the existence of the condition otherwise constituting Good Reason within 90 days of the initial existence of the condition, and the Company fails to remedy the condition on or before the 30th day following its receipt of such notice.

(iii) "CAUSE" shall include continued failure by Executive to perform substantially Executive's duties and responsibilities (other than a failure resulting from Permanent Disability) that is materially injurious to the Company and that remains uncorrected for 10 days after receipt of appropriate written notice from the Board; reliable, written third-party documentary evidence of engagement in willful, reckless or grossly negligent misconduct that is materially injurious to Company or any of its affiliates, monetarily or otherwise; except as provided by (D), the indictment of Executive for a crime involving moral turpitude or a felony, provided that if the criminal charge is dismissed with prejudice or if Executive is acquitted at trial or on appeal, Executive will be deemed to have been terminated without Cause; the indictment of Executive with an act of criminal fraud, misappropriation or personal dishonesty, provided that if the criminal charge is subsequently dismissed with prejudice or the Executive is acquitted at trial or on appeal then the Executive will be deemed to have been terminated without Cause; or a material breach by Executive of any provision of this Agreement that is materially injurious to the Company and that remains uncorrected for 10 days following written notice of such breach by the Company to Executive identifying the provision of this Agreement that Company determined has been breached.

(c) If Executive's employment is terminated under any of the foregoing circumstances, all future compensation to which Executive is otherwise entitled and all future benefits for which Executive is eligible, other than that already earned but which is unpaid, shall cease and terminate as of the date of termination, except as specifically provided in this ARTICLE 3. Any other payments or benefits by or on behalf of Company are limited to those which may be payable pursuant to the terms of Company's Executive benefit plans or required by any applicable federal, state or local law.

Section 3.2 SEVERANCE.

(a) For purposes of clarity, in the event that this Agreement is terminated due to non-renewal of the Agreement by either party in accordance with SECTION 1.1 above, then no severance or equity acceleration will become due to the Executive pursuant to this SECTION 3.2.

(b) TERMINATION BY COMPANY WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON.

(i) If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason outside of the Protection Period (defined below), and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year's Base Salary plus 1.0 times the greater of (1) the average amount of the Cash Incentive Bonuses paid to the Executive during the two full calendar years immediately prior to the year in which the Executive's separation from service occurs (the "**AVERAGE BONUS**") or (2) the Target Bonus for the year in which the separation from service occurs, reimbursement of COBRA health insurance premiums as described below for up to 30 months from the date of termination, pro-rata acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive, 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 the Executive 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; and (D) pro-rata adjustment of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "**CODE**")), with pro-rata adjustment applicable only to the target number of shares subject to the applicable award in accordance with the same formula set forth in clause (C) above, with the resulting reduced number of performance-based awards remaining subject to all applicable performance metrics during the full performance period applicable to such award.

(ii) For purposes of this Agreement, the "**PROTECTION PERIOD**" shall mean 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 18th month immediately following the consummation of the Change of Control transaction. If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason within Protection Period, and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive will not be entitled to the compensation provided in subsection (i) above, but instead shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year's Base Salary plus 2.0 times the greater of (1) the Average Bonus or (2) the Target Bonus for the year in which the separation from service occurs, reimbursement of COBRA health insurance premiums as described below for up to 30 months from the date of termination, 100% full acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive; and (D) full acceleration of any time-based component of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of Code), with actual performance for the performance-based portion of the award calculated as if the end of the applicable performance period was the date of the Executive's separation from service.

(iii) If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason (whether or not in connection with a Protection Period), and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a prorated Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals. The prorated bonus will be an amount in cash equal to the Executive's Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals, multiplied by a fraction, the numerator of which is the number of days that Executive was employed by the Company during the year of termination and the denominator of which is three hundred and sixty five (365). Payment of the prorated Cash Incentive Bonus will be made in a lump sum at the same time that other employees of the Company are paid their Cash Incentive Bonuses for the calendar year to which the Cash Incentive Bonus relates.

(iv) Payment of the entire cash severance amount under subsection (i) or (ii) will be made in a lump sum on the 60th day after Executive's applicable date of termination.

(v) If Executive timely elects continued coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), the Company will reimburse Executive for the monthly COBRA cost of continued health coverage paid by Executive under the applicable health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the period during which the Executive elects continued coverage under COBRA, but not in excess of 30 months. If Executive is eligible for continued COBRA reimbursement, when COBRA coverage would otherwise end, Executive may elect to extend the COBRA continued coverage under the Company's health plan until the date that is 30 months from the date of termination, provided that the Company's health plan permits such extension and such extension will not cause adverse tax consequences to the Company or Executive. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(vi) Executive shall not be under any duty or obligation to seek or accept other employment following a termination of employment pursuant to which a severance payment under this SECTION 3.2 is payable and the amounts due Executive pursuant to this SECTION 3.2 shall not be reduced or suspended if Executive accepts subsequent employment or earns any amounts as a self-employed individual.

(c) DEATH OR DISABILITY

If Executive's employment is terminated because of death or Permanent Disability, Executive, in the case of Permanent Disability, or his surviving spouse (or to his estate if Executive's spouse does not survive him), in the case of Executive's death, shall be entitled to: his pro rata Base Salary and pro rata Target Bonus through the date of termination for the year

in which the termination occurs, plus a lump sum amount equal to the greater of: the remainder of the Base Salary that would have been earned by Executive under this Agreement between the time of his Death or Permanent Disability and the expiration of the then-current term of this Agreement, or 12 months of Base Salary plus his Target Bonus for the year of termination; and full acceleration of vesting for all stock, stock option and other equity awards. If Executive's employment is terminated because of death or Permanent Disability, if a member of Executive's family provides timely notice to the health plan administrator of Executive's death or Permanent Disability, and if Executive's family members who are covered by a health plan of the Company timely elect continued coverage under COBRA, the Company will reimburse such family members for the monthly COBRA cost of continued health coverage paid by such family members under the health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the applicable period during which the family member is eligible for continued coverage under COBRA, but not in excess of 24 months. When COBRA coverage would otherwise end for the family member, the family member may elect to extend the COBRA continuation coverage under the Company's health plan until the date that is 24 months from Executive's date of termination, provided that the Company's health plan permits such extension and such extension will not cause adverse tax consequences to the Company, Executive or Executive's family member or estate. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive's family member demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(d) **SECTION 280G.**

(i) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "**PAYMENTS**"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code, the Company shall reduce (but not below zero) the aggregate present value of the Payments under this Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide Executive with a greater net after-tax amount than would be the case if no reduction was made. The Payments shall be reduced as described in the preceding sentence only if the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this subsection (i). The "**REDUCED AMOUNT**" shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with Section 280G(d)(4) of the Code. The term "**EXCISE TAX**" means the excise tax imposed under Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax. For purposes of

the calculations under this SECTION 3.2(d), the severance payments to be made under this Agreement shall be allocated as consideration for the noncompetition covenant under SECTION 2.3 to the maximum extent allowable under Section 280G of the Code and the regulations thereunder.

(ii) All determinations to be made under this SECTION 3.2(d) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a Change of Control (or other such transaction that is considered to be a change in control transaction pursuant to Section 280G of the Code and the regulations promulgated thereunder), which shall provide its determinations and any supporting calculations both to the Company and Executive within ten days of the applicable transaction. Any such determination by such firm shall be binding upon the Company and the Executive. All of the fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section shall be borne solely by the Company.

(e) “**CHANGE OF CONTROL**” means the occurrence of any one or more of the following events that occurs after the Effective Date:

(i) Any “person” (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “**EXCHANGE ACT**”)) becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 25% of the voting power of the then outstanding securities of the Company; provided that a Change of Control shall not be deemed to occur as a result of a transaction in which the Company becomes a subsidiary of another corporation and in which the stockholders of the Company, immediately prior to the transaction, will beneficially own, immediately after the transaction, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the parent corporation would be entitled in the election of directors;

(ii) The consummation of a merger or consolidation of the Company with another corporation where the stockholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the surviving corporation would be entitled in the election of directors, a sale or other disposition of all or substantially all of the assets of the Company, or a liquidation or dissolution of the Company; or

(iii) After the Effective Date, directors are elected such that a majority of the members of the Board shall have been members of the Board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

(f) SECTION 3.2 and this Agreement shall be administered and interpreted to maximize the short-term deferral exception to Code Section 409A, and Executive shall not, directly or indirectly, designate the taxable year of a payment made under this Agreement. The

portion of any payment under this Agreement that is paid within the short-term deferral period (within the meaning of Code Section 409A and Treas. Reg. § 1.409A-1(b)(4)) will be treated as a short term deferral and not aggregated with other plans or payments. Any other portion of the payment that does not meet the short-term deferral requirement will, to the maximum extent possible, be deemed to satisfy the exception from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) for involuntary separation pay and shall not be aggregated with any other payment. Any right to a series of installment payments pursuant to this Agreement is to be treated as a right to a series of separate payments. Any amount that is paid as a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) or within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will be treated as a separate payment. Payment dates provided for in this Agreement are deemed to incorporate “grace periods” within the meaning of Code Section 409A and the regulations thereunder. If a Change of Control does not meet the requirements of a “change of control event” under Section 409A of the Code, the cash severance amount shall be paid to Executive in the same form as if no Change of Control had occurred, if required by Code Section 409A. Notwithstanding anything herein to the contrary, if Executive is, as of the date of termination, a “specified employee” for purposes of Code Section 409A and Treas. Reg. § 1.409A-1(i), then any amount payable to Executive pursuant to SECTION 3.2(b)(i)(A), SECTION 3.2(b)(ii)(A) or 3.2(d) that is neither a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) nor within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will not be paid before the date that is the first day of the seventh month after the date of termination, or if earlier, the date of Executive’s death. Any payments to which Executive would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to Executive on the first day of the seventh month following such date of termination, or if earlier, within 30 days of Executive’s death to his surviving spouse (or to his estate if Executive’s spouse does not survive him). All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code.

(g) If Executive terminates his employment without Good Reason or is terminated for Cause, he shall not be entitled to the severance payments provided for in this Agreement.

Section 3.3 CONDITIONS FOR SEVERANCE.

(a) The severance payment payable to Executive pursuant to SECTION 3.2 shall be in consideration of, and subject to, Executive’s continuing obligations hereunder after such termination, including Executive’s obligations under ARTICLE 2.

(b) As a condition to the receipt of any severance payment, Executive agrees to execute and deliver, by the Release Expiration Date, a mutually acceptable severance and release agreement, including a waiver of all claims except for any claims relating to benefits due under the plans described in SECTION 1.3(b) and any accrued vested amount which may be payable as a deferred bonus. The severance and release agreement shall be in a form reasonably acceptable to the Board; provided that such release shall not provide for a release of Executive’s right to indemnification under the Company’s organizational documents, indemnification agreement, if any, or directors and officers insurance against third party claims. The “**RELEASE EXPIRATION DATE**” is that date that is 21 days following the date upon which the Company delivers the Release to Executive (which shall occur no later than seven days after the

Executive's termination date), or in the event that such termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967, as amended), the date that is 45 days following such delivery date.

(c) As a condition to the receipt of any severance payment, Executive agrees that any and all claims and any and all causes of action of any kind or character, including all claims and causes of action arising out of Executive's employment with the Company, the termination of such employment, any claims or demands against the Company based upon Executive's employment for any monies other than those specified in SECTION 3.2, and the actions by the officers, directors, executives and agents of Company shall be resolved through a dispute resolution process as provided in SECTION 4.11; PROVIDED, HOWEVER, that any determination as to whether and as of what date Executive has suffered a Permanent Disability are delegated to the Board and any objection by Executive with any such determination shall be limited to whether the Board reached such decision in good faith.

(d) Except as expressly provided herein, Executive shall not be entitled to any other severance payment or benefit. The severance payments provided for herein are Executive's sole remedy for termination of his employment at the Company.

Section 3.4 TRANSITION PERIOD. Upon termination of this Agreement, and for 90 consecutive calendar days thereafter (the "**TRANSITION PERIOD**"), Executive agrees to make himself available to assist the Company with transition projects assigned to him by the Board. Executive will be paid at a reasonable, agreed upon hourly rate for any work performed for the Company during the Transition Period.

Section 3.5 CONTINUING OBLIGATIONS OF EXECUTIVE. Termination of the employment relationship does not terminate those obligations of Executive imposed by ARTICLE 2 and SECTIONS 3.4 through 3.5, which are continuing obligations.

ARTICLE 4

MISCELLANEOUS

Section 4.1 NOTICES. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, mailed by certified mail (return receipt requested) or sent by overnight delivery service, or electronic mail, or facsimile transmission (with electronic confirmation of successful transmission) to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice, in order of preference of the recipient:

To the Company:

Contango Oil & Gas Company
Attn: Joseph Romano, Chairman of the Board
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

To Executive:

Jay S. Mengle
c/o Crimson Exploration Inc.
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

Notice so given shall, in the case of mail, be deemed to be given and received on the fifth calendar day after posting, in the case overnight delivery service, on the date of actual delivery and, in the case of facsimile transmission, telex or personal delivery, on the date of actual transmission or, as the case may be, personal delivery. Any such notice or communication shall be delivered by hand or by courier or sent certified or registered mail, return receipt requested, postage prepaid, addressed as above (or to such other address as such party may designate in a notice duly delivered as described above), and the third business day after the actual date of mailing (or, if earlier, the actual date of receipt) shall constitute the time at which notice was given.

Section 4.2 SEVERABILITY AND REFORMATION . If any one or more of the terms, provisions, covenants or restrictions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions shall remain in full force and effect, and the invalid, void or unenforceable provisions shall be deemed severable. Moreover, if any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it shall be reformed by limiting and reducing it to the minimum extent necessary, so as to be enforceable to the extent compatible with the applicable law as it shall then appear.

Section 4.3 ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs and legal representatives of Executive and the permitted assigns and successors of the Company, but neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by Executive (except by will or by operation of the laws of intestate succession) or by the Company, except that the Company may assign this Agreement to any successor (whether by merger, purchase or otherwise), if such successor expressly agrees to assume the obligations of the Company hereunder.

Section 4.4 AMENDMENT. This Agreement may be amended only by writing signed by Executive and by a duly authorized representative of the Company (other than Executive).

Section 4.5 ASSISTANCE IN LITIGATION. Executive shall reasonably cooperate with the Company in the defense or prosecution of any claims or actions now in existence or that may be brought in the future against or on behalf of the Company that relate to events or occurrences that transpired while Executive was employed by the Company. Executive's cooperation in connection with such claims or actions shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company at mutually convenient times. Executive also shall cooperate fully with the Company in connection with any investigation or review by any federal, state or local regulatory authority as any such investigation or review relates, to events or occurrences that transpired while Executive was employed by the Company. The Company will pay Executive an agreed upon reasonable hourly rate for Executive's cooperation pursuant to this Section.

Section 4.6 BENEFICIARIES; REFERENCES. Executive shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death, and may change such election, in either case by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of his incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative. Any reference to the masculine gender in this Agreement shall include, where appropriate, the feminine.

Section 4.7 USE OF NAME; LIKENESS AND BIOGRAPHY. The Company may use, publish and broadcast, and to authorize others to do so, the name, approved likeness and approved biographical material of Executive to advertise, publicize and promote the business of the Company and its affiliates, but not for the purposes of direct endorsement without Executive's consent. This right shall terminate upon the termination of this Agreement. An "approved likeness" and "approved biographical material" shall be, respectively, any photograph or other depiction of Executive, or any biographical information or life story concerning the professional career of Executive.

Section 4.8 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED, INTERPRETED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO RULES RELATING TO CONFLICTS OF LAW.

Section 4.9 ENTIRE AGREEMENT. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes in all respects any prior or other agreement or understanding, written or oral, between the Company or any affiliate of the Company and Executive with respect to such subject matter, other than as specifically noted in SECTION 4.14 below.

Section 4.10 COUNTERPARTS; NO ELECTRONIC SIGNATURES. This Agreement may be executed in two or more counterparts, each of which will be deemed an original. For purposes of determining whether a party has signed this Agreement or any document contemplated hereby or any amendment or waiver hereof, only a handwritten signature on a paper document or a facsimile transmission of a handwritten original signature will constitute a signature, notwithstanding any law relating to or enabling the creation, execution or delivery of any contract or signature by electronic means.

Section 4.11 ARBITRATION. With the exception of any proceeding to obtain emergency, temporary restraining or preliminary injunctive relief as permitted by ARTICLE 2 and/or ARTICLE 3, the parties agree that any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be resolved by arbitration administered by the American Arbitration Association (“AAA”) under its then existing Employment Arbitration Rules. All disputes shall be resolved by one arbitrator within 120 days of the date arbitration is initiated. The arbitrator will have the authority to award the same remedies, damages and costs that a court could award, and will have the additional authority to award those remedies set forth in ARTICLE 2. The arbitrator shall issue a reasoned award explaining the decision, the reasons for the decision and any damages awarded, including those set forth in ARTICLE 2.7, where the arbitrator finds either party violated ARTICLE 2 or ARTICLE 3. The arbitrator’s decision will be final and binding. The judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitration proceedings, any record of the same, and the award shall be considered Confidential Information under this Agreement. This provision can be enforced under the Federal Arbitration Act. BY ENTERING INTO THIS SECTION 4.11, THE PARTIES ARE KNOWINGLY AND VOLUNTARILY WAIVING THEIR RIGHTS TO A JURY TRIAL.

Section 4.12 NON-WAIVER. The failure by either party to insist upon the performance of any one or more terms, covenants or conditions of this Agreement shall not be construed as a waiver or relinquishment of any right granted hereunder or of any future performance of any such term, covenant or condition, and the obligation of either party with respect hereto shall continue in full force and effect, unless such waiver shall be in writing signed by the Company (other than Executive) and Executive.

Section 4.13 ANNOUNCEMENT. The Company may make public announcements concerning the execution of this Agreement and the terms contained herein, at the Company’s discretion.

Section 4.14 PRIOR AGREEMENTS. This Agreement supersedes and replaces all previous employment agreements between the Executive and the Company, other than with respect to that certain Amendment and Extension of Employment Agreement entered into as of October 10, 2016 between the Executive and the Company (the “*Extension Agreement*”), as modified as follows: (a) the parties acknowledge their agreement as of November 15, 2016 to suspend, pending execution and delivery of this Agreement, the equity compensation award vesting that could occur under Section 2 of the Extension Agreement and no such vesting occurred, and (b) the parties further acknowledge their agreement as of November 15, 2016 to provide the benefit set forth in Section 3 of the Extension Agreement to the Executive without regard to the date of execution of this Agreement.

Section 4.15 COMPANY POLICIES. Executive agrees that all incentive compensation payable to him by the Company and its subsidiaries, under this Agreement or otherwise, shall be subject to any applicable clawback or recoupment policies, share ownership policies, anti-hedging and other applicable policies as finally adopted by the Board.

Section 4.16 CONSTRUCTION. The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting

this Agreement. The language in all parts of this Agreement shall be in all cases construed in accordance to its fair meaning and not strictly for or against the Company or Executive. The words “include,” “includes,” and “including” will be deemed to be followed by “without limitation.”

Section 4.17 RIGHT TO INSURE. The Company shall have the right to secure, in its own name or otherwise, and at its own expense, life, health, accident or other insurance covering Executive, and Executive shall have no right, title or interest in and to such insurance. Executive shall assist the Company in procuring such insurance by submitting to examinations and by signing such applications and other instruments as may be required by the insurance carriers to which application is made for any such insurance.

Section 4.18 NO INCONSISTENT OBLIGATIONS. Executive represents and warrants that to his knowledge he has no obligations, legal, in contract or otherwise, inconsistent with the terms of this Agreement or with his undertaking employment with the Company to perform the duties described herein. Executive will not disclose to the Company, or use or induce the Company to use, any confidential, proprietary or trade secret information of others. Executive represents and warrants that to his knowledge he has returned all property and confidential information belonging to all prior employers, if he is obligated to do so.

Section 4.19 VOLUNTARY AGREEMENT. Each party to this Agreement has read and fully understands the terms and provisions hereof, has reviewed this Agreement with legal counsel, has executed this Agreement based upon such party’s own judgment and advice of counsel, and knowingly, voluntarily, and without duress, agrees to all of the terms set forth in this Agreement. The parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the parties and no presumption or burden of proof will arise favoring or disfavoring any party because of authorship of any provision of this Agreement. Except as expressly set forth in this Agreement, neither the parties nor their affiliates, advisors and/or their attorneys have made any representation or warranty, express or implied, at law or in equity with respect of the subject matter contained herein. Without limiting the generality of the previous sentence, the Company, its affiliates, advisors and/or attorneys have made no representation or warranty to Executive concerning the state or federal tax consequences to Executive regarding the transactions contemplated by this Agreement.

Section 4.20 LEGAL FEES AND EXPENSES. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which Executive may reasonably incur as a result of any contest by the Company, the Executive or others of the validity or enforceability of, or liability or entitlement under, any provision of this Agreement or any guarantee of performance thereof (whether such contest is between the Company and Executive or between either of them and any third party, and including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code. The Company’s obligations under this SECTION 4.20 shall apply without regard to the outcome of any such contest.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first written above:

CONTANGO OIL & GAS COMPANY

/s/ E. JOSEPH GRADY_____

By: E. Joseph Grady
Senior Vice President & CFO

Jay S. Mengle

/s/ JAY S. MENGLE_____

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (this “**AGREEMENT**”) is made and entered into on November 30, 2016 (the “**EFFECTIVE DATE**”) by and between Thomas H. Atkins (“**EXECUTIVE**”) and Contango Oil & Gas Company (the “**COMPANY**”).

WHEREAS, the Company and Executive entered into an Employment Agreement (the “**ORIGINAL EMPLOYMENT AGREEMENT**”) dated June 7, 2013.

WHEREAS, the Company and the Executive agree that certain terms of the Original Employment Agreement should be amended and restated as set forth below.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein:

ARTICLE 1**EMPLOYMENT; RESPONSIBILITIES; COMPENSATION**

Section 1.1 EMPLOYMENT. Subject to ARTICLE 3, the Company hereby agrees to employ Executive and Executive hereby agrees to be employed by the Company, in accordance with this Agreement, for the period commencing as of the Effective Date and ending on the second anniversary of the Effective Date (“**INITIAL TERM**”); PROVIDED, HOWEVER, that beginning on the day immediately preceding the second anniversary of the Effective Date of this Agreement and on the day immediately preceding each subsequent anniversary of this Agreement, the Initial Term shall automatically be extended for one (1) additional year unless either party gives written notice to the other party 90 days prior to the next anniversary of this Agreement that it or he, as applicable, does not wish to extend this Agreement. Executive’s continued employment after the expiration of the Initial Term shall be in accordance with and governed by this Agreement, unless modified by the parties to this Agreement in writing.

Section 1.2 RESPONSIBILITIES; LOYALTY.

(a) Subject to the terms of this Agreement, Executive is employed in the position of Senior Vice President Exploration, and shall perform the functions and responsibilities of that position. Additional or different duties may be assigned by the Company from time to time. Executive’s position, job descriptions, duties and responsibilities may be modified from time to time in the sole discretion of the Company.

(b) Executive shall devote the whole of Executive’s professional time, attention and energies to the performance of Executive’s work responsibilities and shall not, either directly or indirectly, alone or in partnership, consult with, advise, work for or have any interest in any other similar business or pursuit during the term of Executive’s employment with the Company. During the term of Executive’s employment with the Company, it shall not be a violation of this Agreement for Executive to serve on corporate, civic or charitable boards or committees; deliver lectures or fulfill speaking engagements; and subject to SECTION 2.3, manage personal investments, in each case, so long as such activities do not materially interfere with the

performance of Executive's responsibilities as an Executive of the Company in accordance with this Agreement. Executive further agrees to comply with all policies of the Company in effect from time to time, and to comply with all laws, rules and regulations, including those applicable to the Company

Section 1.3 COMPENSATION. As consideration for the services and covenants described in this Agreement, the Company agrees to compensate Executive in the following manner:

(a) The Company will pay Executive an annualized base salary of \$310,000 per year ("**BASE SALARY**"), as may be increased from time to time by action of the Board of Directors of the Company (the "**BOARD**") or the Compensation Committee of the Board.

(b) Executive shall be eligible for employment benefits including holidays, leaves of absence, health insurance, dental insurance, 401(k) plan participation, etc., if any, available to employees of the Company generally, in accordance with any policies, procedures or benefit plans adopted by the Company from time to time during the existence of this Agreement. In addition, Executive shall be entitled to vacation in accordance with the Company's vacation policy as adopted from time to time. Executive's rights or those of Executive's dependents under any such benefits policies or plans shall be governed solely by the terms of such policies or plans. The Company reserves to itself, or its designated administrators, exclusive authority and discretion to determine all issues of eligibility, interpretation and administration of each such benefit plan or policy. The Company's employment benefits, and policies related thereto, are subject to termination, modification or limitation at the Company's sole discretion.

(c) Executive shall be eligible to participate in the Company's cash incentive bonus plan for each calendar year in which Executive is employed by the Company hereunder with an annual target bonus amount equal to 80% of the Executive's Base Salary (the "**TARGET BONUS**"), under such terms and conditions as the Company may determine each applicable year (the "**CASH INCENTIVE BONUS**").

(d) Executive shall be eligible to participate in the Company's equity compensation plan for each calendar year in which Executive is employed by the Company hereunder, under such terms and conditions as the Company may determine each applicable year.

(e) Payment of all compensation to Executive shall be made in accordance with the terms of this Agreement, applicable state or federal law, and applicable Company policies in effect from time to time, including normal payroll practices, and shall be subject to all applicable withholdings and taxes.

Section 1.4 BUSINESS EXPENSES. The Company shall reimburse Executive for all business expenses that are reasonable and necessary and incurred by Executive while performing his duties under this Agreement, upon presentation of expense statements, receipts and/or vouchers or such other information and documentation as the Company may reasonably require. Executive will be subject to the same business expense policy applicable to other Company employees generally.

ARTICLE 2

CONFIDENTIAL INFORMATION; POST-EMPLOYMENT OBLIGATIONS; COMPANY PROPERTY

Section 2.1 COMPANY PROPERTY. As used in this Article 2, the term the “Company” refers to the Company and each of its direct and indirect subsidiaries. All written materials, records, data and other documents relating to Company business, products or services prepared or possessed by Executive during Executive’s employment by the Company are the Company’s property. All information, ideas, concepts, improvements, discoveries and inventions that are conceived, made, developed or acquired by Executive individually or in conjunction with others during Executive’s employment (whether during business hours and whether on Company’s premises or otherwise) that relate to Company business, products or services are the Company’s sole and exclusive property. All memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps and all other documents, data or materials of any type embodying such information, ideas, concepts, improvements, discoveries and inventions are Company property. At the termination of Executive’s employment with the Company for any reason, Executive shall return all of the Company’s documents, data or other Company property to the Company.

Section 2.2 CONFIDENTIAL INFORMATION; NON-DISCLOSURE.

(a) Executive acknowledges that the business of the Company is highly competitive and that the Company will provide Executive with access to Confidential Information. Executive acknowledges that this Confidential Information constitutes a valuable, special and unique asset used by the Company in its business to obtain a competitive advantage over competitors. Executive further acknowledges that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to the Company in maintaining its competitive position. Executive agrees that Executive will not, at any time during or after Executive’s employment with the Company, make any unauthorized disclosure of any Confidential Information of the Company, or make any use thereof, except in the carrying out of Executive’s employment responsibilities to the Company. Executive also agrees to preserve and protect the confidentiality of third party Confidential Information to the same extent, and on the same basis, as the Company’s Confidential Information.

(b) For purposes hereof, “**CONFIDENTIAL INFORMATION**” includes all non-public information regarding the Company’s business operations and methods, existing and proposed investments and investment strategies, seismic, well-log and other geologic and oil and gas operating and exploratory data, financial performance, compensation arrangements and amounts (whether relating to the Company or to any of its employees), contractual relationships, business partners and relationships (including customers and suppliers), strategies, business plans and other confidential information that is used in the operation, technology and business dealings of the Company, regardless of the medium in which any of the foregoing information is contained, so long as such information is actually confidential and proprietary to the Company.

(c) Notwithstanding the foregoing, nothing in this Agreement will prevent Executive from:
(i) making a good faith report of possible violations of applicable law to any governmental

agency or entity; or (ii) making disclosures that are protected under the whistleblower provisions of applicable law. Further, an individual (including Executive) shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer of reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (x) files any document containing the trade secret under seal; and (y) does not disclose the trade secret, except pursuant to court order.

Section 2.3 NON-COMPETITION OBLIGATIONS.

(a) Executive acknowledges and agrees that as an employee and representative of the Company, Executive will have access to Confidential Information and will be responsible for building and maintaining business relationships and goodwill with current and future operating partners, investors, partners and prospects on a personal level. Executive acknowledges and agrees that this responsibility creates a special relationship of trust and confidence between the Company, Executive and these persons or entities. Executive also acknowledges that this creates a high risk and opportunity for Executive to misappropriate these relationships and the goodwill existing between the Company and such persons. Executive acknowledges and agrees that it is fair and reasonable for the Company to take steps to protect itself from the risk of such misappropriation.

(b) Executive acknowledges and agrees that, in exchange for his agreement in SECTION 2.3(c) below, he will receive substantial, valuable consideration from the Company upon the execution of this Agreement and during the course of this Agreement, including, Confidential Information and access to Confidential Information, compensation and other benefits and access to the Company's prospects.

(c) During the Non-Compete Term and provided that the Company has made all severance payments provided for herein (to the extent applicable), Executive will not, directly or indirectly, provide the same or substantially the same services that he provides to the Company to any Business Enterprise in the Market Area (as defined below) without prior written consent, which will not be unreasonably withheld. This includes working as an agent, consultant, employee, officer, director, partner or independent contractor or being a shareholder, member, joint venturer or equity owner in, any such Business Enterprise; PROVIDED, HOWEVER, that the foregoing shall not restrict Executive from holding up to 5% of the voting power or equity of one or more Business Enterprises.

(d) For purposes of hereof:

(i) **"BUSINESS ENTERPRISE"** means any corporation, partnership, limited liability company, sole proprietorship, joint venture or other business association or entity (other than the Company) engaged in the business of exploring for, developing,

operating or acquiring oil and gas properties that is in direct competition with the Company's operations in the Market Area;

(ii) "MARKET AREA" means the 10 mile radius surrounding any geographical location in which the Company is conducting any material amount of oil and gas exploration and production activities during the Initial Term, and for which he has material responsibilities or about which he has material Confidential Information; and

(iii) "NON-COMPETE TERM" means the period from the Effective Date to the date ending: on the date of termination if Executive's employment with the Company is terminated by the Company for Cause, or in the case of termination for any reason other than that provided for in clause (A) above, twelve (12) months following the date of termination.

Section 2.4 NON-SOLICITATION OF EXECUTIVES. During the Non-Compete Term, Executive will not, either directly or indirectly, call on, solicit or induce any other executive or officer of the Company or its affiliates with whom Executive had contact, knowledge of, or association with in the course of employment with the Company to terminate his employment, and will not assist any other person or entity in such a solicitation; PROVIDED, HOWEVER, that with respect to soliciting any executive or officer whose employment was terminated by the Company or its affiliates, or general solicitations for employment not targeted at current officers or employees of the Company or its affiliates, the foregoing restriction shall not apply.

Section 2.5 ACKNOWLEDGEMENT. Executive acknowledges that the Confidential Information provided to Executive pursuant to this Agreement, and the Company's need to protect its goodwill, gives rise to the Company's interest in these restrictive covenants, and that any limitations as to time, geographic scope and scope of activity to be restrained defined herein are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the Company. Executive further agrees that if, at some later date, a court of competent jurisdiction determines that certain covenants are unenforceable to any extent, then those covenants shall be reformed by the court to the least extent necessary to make them enforceable. Executive acknowledges and recognizes that the enforcement of any of the provisions in this Agreement by the Company will not interfere with Executive's ability to pursue a proper livelihood.

Section 2.6 EARLY RESOLUTION CONFERENCE. The parties are entering into this Agreement with the express understanding that this Agreement is clear and fully enforceable as written. If Executive ever decides later to contend that any restriction on activities imposed by this Agreement no longer is enforceable as written or does not apply to an activity in which Executive intends to engage, Executive first will notify the Company in writing and meet with a company representative at least 14 days before engaging in any activity that foreseeably could fall within the questioned restriction to discuss resolution of such claims.

Section 2.7 EQUITABLE AND OTHER RELIEF. Executive understands and agrees that, if Executive breaches provisions of this section of this Agreement, the Company will suffer immediate and irreparable harm which cannot be accurately calculated in monetary

damages. Consequently, the Company shall be entitled to immediate injunctive relief, either by temporary or permanent injunction, to prevent such violation. This injunctive relief shall be in addition to any other legal and/or equitable relief to which the Company would be entitled. If a bond is required to be posted for the Company to secure an injunction or other equitable remedy, threatened or actual, Executive agrees that the bond need not be more than a nominal sum. The Company shall be entitled to recover its attorneys' fees and costs from Executive should a court determine that Executive has breached provisions of this section of this Agreement. In addition, in the event of a breach or violation of provisions of this section of this Agreement, the time periods set forth above will be tolled until such breach or violation has been cured.

ARTICLE 3

TERMINATION OF EMPLOYMENT

Section 3.1 TERMINATION OF EMPLOYMENT.

(a) Executive's employment with the Company shall be terminated immediately upon the death of Executive without further action by the Company, upon Executive's Permanent Disability without further action by the Company, by the Company for Cause, by Executive for Good Reason, by the Company without Cause or by Executive without Good Reason, PROVIDED that the terminating party must (in the case of clause (v)) give at least 30 days' advance written notice of such termination. For purposes of this ARTICLE 3, "date of termination" means the date of Executive's death, the date of Executive's Permanent Disability, or the date of Executive's "separation from service" (as defined in Code Section 409A and Treas. Reg. §1.409A-1(h)) with the Company, as applicable.

(b) For purposes hereof:

(i) "**PERMANENT DISABILITY**" shall mean either Executive's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, Executive's receiving income replacement benefits for a period of not less than three months under an accident and health plan covering the Company's employees. Executive will be deemed permanently disabled if determined to be totally disabled by the Social Security Administration or if determined to be disabled in accordance with a disability insurance program that applies a definition of disability that complies with the requirements of this paragraph.

(ii) "**GOOD REASON**" shall mean one or more of the following conditions arising not more than six months before Executive's termination date without Executive's consent: a material breach by the Company of any provision of this Agreement; assignment by the Board or a duly authorized committee thereof to Executive of any duties that materially and adversely alter the nature or status of Executive's position, job descriptions, duties, title or responsibilities from those of a Senior Vice President

Exploration, or eligibility for Company compensation plans; requirement by the Company for Executive to relocate anywhere other than the greater Houston, Texas metropolitan area, except for required travel on Company business to an extent substantially consistent with Executive's obligations under this Agreement; a material reduction in Executive's Base Salary in effect at the relevant time; or exclusion of the Executive from eligibility for the Company's active bonus or benefits plans as described above, or a material reduction in the Executive's award levels under those plans as noted above. Notwithstanding anything herein to the contrary, Good Reason will exist only if Executive provides notice to the Company of the existence of the condition otherwise constituting Good Reason within 90 days of the initial existence of the condition, and the Company fails to remedy the condition on or before the 30th day following its receipt of such notice.

(iii) "CAUSE" shall include continued failure by Executive to perform substantially Executive's duties and responsibilities (other than a failure resulting from Permanent Disability) that is materially injurious to the Company and that remains uncorrected for 10 days after receipt of appropriate written notice from the Board; reliable, written third-party documentary evidence of engagement in willful, reckless or grossly negligent misconduct that is materially injurious to Company or any of its affiliates, monetarily or otherwise; except as provided by (D), the indictment of Executive for a crime involving moral turpitude or a felony, provided that if the criminal charge is dismissed with prejudice or if Executive is acquitted at trial or on appeal, Executive will be deemed to have been terminated without Cause; the indictment of Executive with an act of criminal fraud, misappropriation or personal dishonesty, provided that if the criminal charge is subsequently dismissed with prejudice or the Executive is acquitted at trial or on appeal then the Executive will be deemed to have been terminated without Cause; or a material breach by Executive of any provision of this Agreement that is materially injurious to the Company and that remains uncorrected for 10 days following written notice of such breach by the Company to Executive identifying the provision of this Agreement that Company determined has been breached.

(c) If Executive's employment is terminated under any of the foregoing circumstances, all future compensation to which Executive is otherwise entitled and all future benefits for which Executive is eligible, other than that already earned but which is unpaid, shall cease and terminate as of the date of termination, except as specifically provided in this ARTICLE 3. Any other payments or benefits by or on behalf of Company are limited to those which may be payable pursuant to the terms of Company's Executive benefit plans or required by any applicable federal, state or local law.

Section 3.2 SEVERANCE.

(a) For purposes of clarity, in the event that this Agreement is terminated due to non-renewal of the Agreement by either party in accordance with SECTION 1.1 above, then no severance or equity acceleration will become due to the Executive pursuant to this SECTION 3.2.

(b) TERMINATION BY COMPANY WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON

(i) If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason outside of the Protection Period (defined below), and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year's Base Salary plus 1.0 times the greater of (1) the average amount of the Cash Incentive Bonuses paid to the Executive during the two full calendar years immediately prior to the year in which the Executive's separation from service occurs (the "**AVERAGE BONUS**") or (2) the Target Bonus for the year in which the separation from service occurs, reimbursement of COBRA health insurance premiums as described below for up to 30 months from the date of termination, pro-rata acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive, 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 the Executive 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; and (D) pro-rata adjustment of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "**CODE**")), with pro-rata adjustment applicable only to the target number of shares subject to the applicable award in accordance with the same formula set forth in clause (C) above, with the resulting reduced number of performance-based awards remaining subject to all applicable performance metrics during the full performance period applicable to such award.

(ii) For purposes of this Agreement, the "**PROTECTION PERIOD**" shall mean 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 18th month immediately following the consummation of the Change of Control transaction. If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason within Protection Period, and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive will not be entitled to the compensation provided in subsection (i) above, but instead shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year's Base Salary plus 2.0 times the greater of (1) the Average Bonus or (2) the Target Bonus for the year in which the separation from service occurs, reimbursement of COBRA health insurance premiums as described below for up to 30 months from the date of termination, 100% full acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive; and (D) full acceleration of any time-based component of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of Code), with actual performance for the performance-based portion of the award calculated as if the end of the applicable performance period was the date of the Executive's separation from service.

(iii) If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason (whether or not in connection with a Protection Period), and subject to Executive's compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a prorated Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals. The prorated bonus will be an amount in cash equal to the Executive's Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals, multiplied by a fraction, the numerator of which is the number of days that Executive was employed by the Company during the year of termination and the denominator of which is three hundred and sixty five (365). Payment of the prorated Cash Incentive Bonus will be made in a lump sum at the same time that other employees of the Company are paid their Cash Incentive Bonuses for the calendar year to which the Cash Incentive Bonus relates.

(iv) Payment of the entire cash severance amount under subsection (i) or (ii) above will be made in a lump sum on the 60th day after Executive's applicable date of termination.

(v) If Executive timely elects continued coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), the Company will reimburse Executive for the monthly COBRA cost of continued health coverage paid by Executive under the applicable health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the period during which the Executive elects continued coverage under COBRA, but not in excess of 30 months. If Executive is eligible for continued COBRA reimbursement, when COBRA coverage would otherwise end, Executive may elect to extend the COBRA continued coverage under the Company's health plan until the date that is 30 months from the date of termination, provided that the Company's health plan permits such extension and such extension will not cause adverse tax consequences to the Company or Executive. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(vi) Executive shall not be under any duty or obligation to seek or accept other employment following a termination of employment pursuant to which a severance payment under this SECTION 3.2 is payable and the amounts due Executive pursuant to this SECTION 3.2 shall not be reduced or suspended if Executive accepts subsequent employment or earns any amounts as a self-employed individual.

(c) DEATH OR DISABILITY

If Executive's employment is terminated because of death or Permanent Disability, Executive, in the case of Permanent Disability, or his surviving spouse (or to his estate if Executive's spouse does not survive him), in the case of Executive's death, shall be entitled to: his pro rata Base Salary and pro rata Target Bonus through the date of termination for the year

in which the termination occurs, plus a lump sum amount equal to the greater of: the remainder of the Base Salary that would have been earned by Executive under this Agreement between the time of his Death or Permanent Disability and the expiration of the then-current term of this Agreement, or 12 months of Base Salary plus his Target Bonus for the year of termination; and full acceleration of vesting for all stock, stock option and other equity awards. If Executive's employment is terminated because of death or Permanent Disability, if a member of Executive's family provides timely notice to the health plan administrator of Executive's death or Permanent Disability, and if Executive's family members who are covered by a health plan of the Company timely elect continued coverage under COBRA, the Company will reimburse such family members for the monthly COBRA cost of continued health coverage paid by such family members under the health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the applicable period during which the family member is eligible for continued coverage under COBRA, but not in excess of 24 months. When COBRA coverage would otherwise end for the family member, the family member may elect to extend the COBRA continuation coverage under the Company's health plan until the date that is 24 months from Executive's date of termination, provided that the Company's health plan permits such extension and such extension will not cause adverse tax consequences to the Company, Executive or Executive's family member or estate. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive's family member demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(d) **SECTION 280G.**

(i) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "**PAYMENTS**"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code, the Company shall reduce (but not below zero) the aggregate present value of the Payments under this Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide Executive with a greater net after-tax amount than would be the case if no reduction was made. The Payments shall be reduced as described in the preceding sentence only if the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this subsection (i). The "**REDUCED AMOUNT**" shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with Section 280G(d)(4) of the Code. The term "**EXCISE TAX**" means the excise tax imposed under Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax. For purposes of

the calculations under this SECTION 3.2(d), the severance payments to be made under this Agreement shall be allocated as consideration for the noncompetition covenant under SECTION 2.3 to the maximum extent allowable under Section 280G of the Code and the regulations thereunder.

(ii) All determinations to be made under this SECTION 3.2(d) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a Change of Control (or other such transaction that is considered to be a change in control transaction pursuant to Section 280G of the Code and the regulations promulgated thereunder), which shall provide its determinations and any supporting calculations both to the Company and Executive within ten days of the applicable transaction. Any such determination by such firm shall be binding upon the Company and the Executive. All of the fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section shall be borne solely by the Company.

(e) “**CHANGE OF CONTROL**” means the occurrence of any one or more of the following events that occurs after the Effective Date:

(i) Any “person” (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “**EXCHANGE ACT**”)) becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 25% of the voting power of the then outstanding securities of the Company; provided that a Change of Control shall not be deemed to occur as a result of a transaction in which the Company becomes a subsidiary of another corporation and in which the stockholders of the Company, immediately prior to the transaction, will beneficially own, immediately after the transaction, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the parent corporation would be entitled in the election of directors;

(ii) The consummation of a merger or consolidation of the Company with another corporation where the stockholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the surviving corporation would be entitled in the election of directors, a sale or other disposition of all or substantially all of the assets of the Company, or a liquidation or dissolution of the Company; or

(iii) After the Effective Date, directors are elected such that a majority of the members of the Board shall have been members of the Board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

(f) SECTION 3.2 and this Agreement shall be administered and interpreted to maximize the short-term deferral exception to Code Section 409A, and Executive shall not, directly or indirectly, designate the taxable year of a payment made under this Agreement. The

portion of any payment under this Agreement that is paid within the short-term deferral period (within the meaning of Code Section 409A and Treas. Reg. § 1.409A-1(b)(4)) will be treated as a short term deferral and not aggregated with other plans or payments. Any other portion of the payment that does not meet the short-term deferral requirement will, to the maximum extent possible, be deemed to satisfy the exception from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) for involuntary separation pay and shall not be aggregated with any other payment. Any right to a series of installment payments pursuant to this Agreement is to be treated as a right to a series of separate payments. Any amount that is paid as a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) or within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will be treated as a separate payment. Payment dates provided for in this Agreement are deemed to incorporate “grace periods” within the meaning of Code Section 409A and the regulations thereunder. If a Change of Control does not meet the requirements of a “change of control event” under Section 409A of the Code, the cash severance amount shall be paid to Executive in the same form as if no Change of Control had occurred, if required by Code Section 409A. Notwithstanding anything herein to the contrary, if Executive is, as of the date of termination, a “specified employee” for purposes of Code Section 409A and Treas. Reg. § 1.409A-1(i), then any amount payable to Executive pursuant to SECTION 3.2(b)(i)(A), SECTION 3.2(b)(ii)(A) or 3.2(d) that is neither a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) nor within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will not be paid before the date that is the first day of the seventh month after the date of termination, or if earlier, the date of Executive’s death. Any payments to which Executive would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to Executive on the first day of the seventh month following such date of termination, or if earlier, within 30 days of Executive’s death to his surviving spouse (or to his estate if Executive’s spouse does not survive him). All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code.

(g) If Executive terminates his employment without Good Reason or is terminated for Cause, he shall not be entitled to the severance payments provided for in this Agreement.

Section 3.3 CONDITIONS FOR SEVERANCE.

(a) The severance payment payable to Executive pursuant to SECTION 3.2 shall be in consideration of, and subject to, Executive’s continuing obligations hereunder after such termination, including Executive’s obligations under ARTICLE 2.

(b) As a condition to the receipt of any severance payment, Executive agrees to execute and deliver, by the Release Expiration Date, a mutually acceptable severance and release agreement, including a waiver of all claims except for any claims relating to benefits due under the plans described in SECTION 1.3(b) and any accrued vested amount which may be payable as a deferred bonus. The severance and release agreement shall be in a form reasonably acceptable to the Board; provided that such release shall not provide for a release of Executive’s right to indemnification under the Company’s organizational documents, indemnification agreement, if any, or directors and officers insurance against third party claims. The “**RELEASE EXPIRATION DATE**” is that date that is 21 days following the date upon which the Company delivers the Release to Executive (which shall occur no later than seven days after the

Executive's termination date), or in the event that such termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967, as amended), the date that is 45 days following such delivery date.

(c) As a condition to the receipt of any severance payment, Executive agrees that any and all claims and any and all causes of action of any kind or character, including all claims and causes of action arising out of Executive's employment with the Company, the termination of such employment, any claims or demands against the Company based upon Executive's employment for any monies other than those specified in SECTION 3.2, and the actions by the officers, directors, executives and agents of Company shall be resolved through a dispute resolution process as provided in SECTION 4.11; PROVIDED, HOWEVER, that any determination as to whether and as of what date Executive has suffered a Permanent Disability are delegated to the Board and any objection by Executive with any such determination shall be limited to whether the Board reached such decision in good faith.

(d) Except as expressly provided herein, Executive shall not be entitled to any other severance payment or benefit. The severance payments provided for herein are Executive's sole remedy for termination of his employment at the Company.

Section 3.4 TRANSITION PERIOD. Upon termination of this Agreement, and for 90 consecutive calendar days thereafter (the "**TRANSITION PERIOD**"), Executive agrees to make himself available to assist the Company with transition projects assigned to him by the Board. Executive will be paid at a reasonable, agreed upon hourly rate for any work performed for the Company during the Transition Period.

Section 3.5 CONTINUING OBLIGATIONS OF EXECUTIVE. Termination of the employment relationship does not terminate those obligations of Executive imposed by ARTICLE 2 and SECTIONS 3.4 through 3.5, which are continuing obligations.

ARTICLE 4

MISCELLANEOUS

Section 4.1 NOTICES. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, mailed by certified mail (return receipt requested) or sent by overnight delivery service, or electronic mail, or facsimile transmission (with electronic confirmation of successful transmission) to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice, in order of preference of the recipient:

To the Company:

Contango Oil & Gas Company
Attn: Joseph Romano, Chairman of the Board
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

To Executive:

Thomas H. Atkins
c/o Crimson Exploration Inc.
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

Notice so given shall, in the case of mail, be deemed to be given and received on the fifth calendar day after posting, in the case overnight delivery service, on the date of actual delivery and, in the case of facsimile transmission, telex or personal delivery, on the date of actual transmission or, as the case may be, personal delivery. Any such notice or communication shall be delivered by hand or by courier or sent certified or registered mail, return receipt requested, postage prepaid, addressed as above (or to such other address as such party may designate in a notice duly delivered as described above), and the third business day after the actual date of mailing (or, if earlier, the actual date of receipt) shall constitute the time at which notice was given.

Section 4.2 SEVERABILITY AND REFORMATION . If any one or more of the terms, provisions, covenants or restrictions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions shall remain in full force and effect, and the invalid, void or unenforceable provisions shall be deemed severable. Moreover, if any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it shall be reformed by limiting and reducing it to the minimum extent necessary, so as to be enforceable to the extent compatible with the applicable law as it shall then appear.

Section 4.3 ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs and legal representatives of Executive and the permitted assigns and successors of the Company, but neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by Executive (except by will or by operation of the laws of intestate succession) or by the Company, except that the Company may assign this Agreement to any successor (whether by merger, purchase or otherwise), if such successor expressly agrees to assume the obligations of the Company hereunder.

Section 4.4 AMENDMENT. This Agreement may be amended only by writing signed by Executive and by a duly authorized representative of the Company (other than Executive).

Section 4.5 ASSISTANCE IN LITIGATION. Executive shall reasonably cooperate with the Company in the defense or prosecution of any claims or actions now in existence or that may be brought in the future against or on behalf of the Company that relate to events or occurrences that transpired while Executive was employed by the Company. Executive's cooperation in connection with such claims or actions shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company at mutually convenient times. Executive also shall cooperate fully with the Company in connection with any investigation or review by any federal, state or local regulatory authority as any such investigation or review relates, to events or occurrences that transpired while Executive was employed by the Company. The Company will pay Executive an agreed upon reasonable hourly rate for Executive's cooperation pursuant to this Section.

Section 4.6 BENEFICIARIES; REFERENCES. Executive shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death, and may change such election, in either case by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of his incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative. Any reference to the masculine gender in this Agreement shall include, where appropriate, the feminine.

Section 4.7 USE OF NAME; LIKENESS AND BIOGRAPHY. The Company may use, publish and broadcast, and to authorize others to do so, the name, approved likeness and approved biographical material of Executive to advertise, publicize and promote the business of the Company and its affiliates, but not for the purposes of direct endorsement without Executive's consent. This right shall terminate upon the termination of this Agreement. An "approved likeness" and "approved biographical material" shall be, respectively, any photograph or other depiction of Executive, or any biographical information or life story concerning the professional career of Executive.

Section 4.8 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED, INTERPRETED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO RULES RELATING TO CONFLICTS OF LAW.

Section 4.9 ENTIRE AGREEMENT. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes in all respects any prior or other agreement or understanding, written or oral, between the Company or any affiliate of the Company and Executive with respect to such subject matter, other than as specifically set forth in SECTION 4.14 below.

Section 4.10 COUNTERPARTS; NO ELECTRONIC SIGNATURES. This Agreement may be executed in two or more counterparts, each of which will be deemed an original. For purposes of determining whether a party has signed this Agreement or any document contemplated hereby or any amendment or waiver hereof, only a handwritten signature on a paper document or a facsimile transmission of a handwritten original signature will constitute a signature, notwithstanding any law relating to or enabling the creation, execution or delivery of any contract or signature by electronic means.

Section 4.11 ARBITRATION. With the exception of any proceeding to obtain emergency, temporary restraining or preliminary injunctive relief as permitted by ARTICLE 2 and/or ARTICLE 3, the parties agree that any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be resolved by arbitration administered by the American Arbitration Association (“AAA”) under its then existing Employment Arbitration Rules. All disputes shall be resolved by one arbitrator within 120 days of the date arbitration is initiated. The arbitrator will have the authority to award the same remedies, damages and costs that a court could award, and will have the additional authority to award those remedies set forth in ARTICLE 2. The arbitrator shall issue a reasoned award explaining the decision, the reasons for the decision and any damages awarded, including those set forth in ARTICLE 2.7, where the arbitrator finds either party violated ARTICLE 2 or ARTICLE 3. The arbitrator’s decision will be final and binding. The judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitration proceedings, any record of the same, and the award shall be considered Confidential Information under this Agreement. This provision can be enforced under the Federal Arbitration Act. BY ENTERING INTO THIS SECTION 4.11, THE PARTIES ARE KNOWINGLY AND VOLUNTARILY WAIVING THEIR RIGHTS TO A JURY TRIAL.

Section 4.12 NON-WAIVER. The failure by either party to insist upon the performance of any one or more terms, covenants or conditions of this Agreement shall not be construed as a waiver or relinquishment of any right granted hereunder or of any future performance of any such term, covenant or condition, and the obligation of either party with respect hereto shall continue in full force and effect, unless such waiver shall be in writing signed by the Company (other than Executive) and Executive.

Section 4.13 ANNOUNCEMENT. The Company may make public announcements concerning the execution of this Agreement and the terms contained herein, at the Company’s discretion.

Section 4.14 PRIOR AGREEMENTS. This Agreement supersedes and replaces all previous employment agreements between the Executive and the Company, other than with respect to that certain Amendment and Extension of Employment Agreement entered into as of October 10, 2016 between the Executive and the Company (the “*Extension Agreement*”), as modified as follows: (a) the parties acknowledge their agreement as of November 15, 2016 to suspend, pending execution and delivery of this Agreement, the equity compensation award vesting that could occur under Section 2 of the Extension Agreement and no such vesting occurred, and (b) the parties further acknowledge their agreement as of November 15, 2016 to provide the benefit set forth in Section 3 of the Extension Agreement to the Executive without regard to the date of execution of this Agreement.

Section 4.15 COMPANY POLICIES. Executive agrees that all incentive compensation payable to him by the Company and its subsidiaries, under this Agreement or otherwise, shall be subject to any applicable clawback or recoupment policies, share ownership policies, anti-hedging policies and other applicable policies as finally adopted by the Board.

Section 4.16 CONSTRUCTION. The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting

this Agreement. The language in all parts of this Agreement shall be in all cases construed in accordance to its fair meaning and not strictly for or against the Company or Executive. The words “include,” “includes,” and “including” will be deemed to be followed by “without limitation.”

Section 4.17 RIGHT TO INSURE. The Company shall have the right to secure, in its own name or otherwise, and at its own expense, life, health, accident or other insurance covering Executive, and Executive shall have no right, title or interest in and to such insurance. Executive shall assist the Company in procuring such insurance by submitting to examinations and by signing such applications and other instruments as may be required by the insurance carriers to which application is made for any such insurance.

Section 4.18 NO INCONSISTENT OBLIGATIONS. Executive represents and warrants that to his knowledge he has no obligations, legal, in contract or otherwise, inconsistent with the terms of this Agreement or with his undertaking employment with the Company to perform the duties described herein. Executive will not disclose to the Company, or use or induce the Company to use, any confidential, proprietary or trade secret information of others. Executive represents and warrants that to his knowledge he has returned all property and confidential information belonging to all prior employers, if he is obligated to do so.

Section 4.19 VOLUNTARY AGREEMENT. Each party to this Agreement has read and fully understands the terms and provisions hereof, has reviewed this Agreement with legal counsel, has executed this Agreement based upon such party’s own judgment and advice of counsel, and knowingly, voluntarily, and without duress, agrees to all of the terms set forth in this Agreement. The parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the parties and no presumption or burden of proof will arise favoring or disfavoring any party because of authorship of any provision of this Agreement. Except as expressly set forth in this Agreement, neither the parties nor their affiliates, advisors and/or their attorneys have made any representation or warranty, express or implied, at law or in equity with respect of the subject matter contained herein. Without limiting the generality of the previous sentence, the Company, its affiliates, advisors and/or attorneys have made no representation or warranty to Executive concerning the state or federal tax consequences to Executive regarding the transactions contemplated by this Agreement.

Section 4.20 LEGAL FEES AND EXPENSES. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which Executive may reasonably incur as a result of any contest by the Company, the Executive or others of the validity or enforceability of, or liability or entitlement under, any provision of this Agreement or any guarantee of performance thereof (whether such contest is between the Company and Executive or between either of them and any third party, and including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code. The Company’s obligations under this SECTION 4.20 shall apply without regard to the outcome of any such contest.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first written above:

CONTANGO OIL & GAS COMPANY

/s/ E. JOSEPH GRADY

By: E. Joseph Grady
Senior Vice President & CFO

Thomas H. Atkins

/s/ THOMAS H. ATKINS

LIQUIDATION AGREEMENT

THIS LIQUIDATION AGREEMENT (the "Liquidation Agreement") is dated effective as of the close of business on December 31, 2015 by and among **Juneau Exploration, L.P.** ("Juneau"), **Contango Operators, Inc.** ("Contango") and **Fairfield Industries Incorporated** ("Fairfield"), each a member ("Member").

RECITALS

A. Juneau, REX Offshore Corporation ("REX"), Fairfield and CGM II, L.P. ("CGM II") entered into that certain Amended and Restated Limited Liability Company Agreement dated as of April 1, 2008, as amended by the First Amendment to Amended and Restated Limited Liability Company Agreement dated October 1, 2008 (the "Agreement") for Republic Exploration LLC (the "Company").

B. CGM II's interest in the Company was assigned to Juneau and REX's interest in the Company was assigned to Contango.

C. The Members now wish to dissolve and liquidate the Company pursuant to Article 15 of the Agreement and this Liquidation Agreement and distribute its assets to the Members in the same percentage as their interests in the profits of the Company as set forth in Section 8 of the Agreement.

NOW, THEREFORE, in consideration of the promises made herein, the Members agree as follows:

1. DEFINITIONS. Capitalized terms used in this Liquidation Agreement not otherwise defined herein shall have the meaning set forth in the Agreement.

2. APPLICATION OF AGREEMENT.

2.1 Except as set forth herein, the Agreement shall continue in full force and effect until the dissolution and winding up of the affairs of the Company is complete.

2.2 The restrictions and limitations upon the Members set forth in Section 12 of the Agreement shall terminate as of the date upon which the dissolution and winding up of the affairs of the Company is complete.

2.3 Notwithstanding anything to the contrary in the Agreement or this Liquidation Agreement (a) the provisions of Section 11(e) of the Agreement shall apply to the dissolution and liquidation of the Company and the Members rights thereunder shall continue for a period of one (1) year following the completion of dissolution and liquidation of the Company, and (b) the provisions of Section 16 of the Agreement shall apply to the dissolution and liquidation of the Company and the Members' rights thereunder shall continue for a period of five (5) years following completion of dissolution and liquidation of the Company..

3. LIQUIDATION.

3.1 The Members hereby agree to dissolve and liquidate the Company and wind up the affairs of the Company, including, without limitation, satisfaction of the outstanding liabilities of the Company and the assignment and distribution to each of the Members its share of all remaining cash of the Company (currently approximately \$3,235,000) and all other assets of the Company, including the Company's interests in the leases set forth on Part 1 of Exhibit A, subject to all the burdens, agreements, encumbrances and obligations relating to such assets including those associated with the agreements listed on Part 1 of Exhibit B, in the same percentage as their interests in the profits of the Company (as set forth in Section 8 of the Agreement) in accordance with Section 15 of the Agreement as promptly as possible, subject to the payment of the costs and expenses incurred in connection with the dissolution and liquidation (currently estimated \$75,000) . In the event the Company would have become entitled in the future to an election to own a working interest after payout in all or a portion of the leases set forth on Part 2 of Exhibit A pursuant to the agreement listed on Part 2 of Exhibit B, the election to which the Company would have otherwise been entitled shall be proportionately offered to the Members in the same percentage as their interests in the profits of the Company. Fairfield hereby designates GOM 2013 LLC as the entity to receive distributions to Fairfield pursuant to this Agreement.

3.2 Juneau shall complete the winding-up of the business and affairs of the Company promptly following the date hereof and thereupon file the Certificate of Termination with the Secretary of State of the State of Delaware (with a filed copy thereof to be provided to each Member).

3.3 In connection with the dissolution, liquidation and termination described in the preceding subsections of this Section 3, the Company and those Members that are parties to the agreements listed in Part 3 of Exhibit B hereby terminate such agreements, effective as of the date upon which the dissolution and winding up of the affairs of the Company is complete, and agree that such agreements shall thereafter be of no further force or effect. The Company hereby withdraws from being a party to any joint operating or similar agreement with respect to any lease, block or prospect to which any of the agreements listed in Part 3 of Exhibit B relate.

3.4 As of the date the dissolution and winding up of the affairs of the Company is complete, the Company's right to possess and use Data will expire, except each Member may continue to possess and use Data in connection with the ownership, operation and development of the leases set forth on Part 1 and Part 2 of Exhibit A (the "Continued Use"). The Company and each Member, except Fairfield will destroy all Data or return all Data to Fairfield except for the Continued Use. Each Member, except Fairfield, agrees not to (i) use any Data in the future, or (ii) disclose any Data or make any Data available to any other party except for the Continued Use.

4. PERSONS AND ENTITIES AFFECTED. To the fullest extent legally possible, this Liquidation Agreement and the covenants, terms and conditions contained herein shall apply to, be binding upon and inure to the sole benefit of each Member; no other person, corporation, partnership or other entity shall have any rights hereunder as a third party beneficiary or otherwise, except to the extent specifically provided for herein.

5. CONSTRUCTION OF LIQUIDATION AGREEMENT. This Liquidation Agreement shall not be construed against the Member preparing the same, shall be construed without regard to the identity of the person who drafted such and shall be construed as if all Members had jointly prepared this Liquidation Agreement and it shall be deemed their joint

work product; each and every provision of this Liquidation Agreement shall be construed as though all of the Members hereto participated equally in the drafting hereof; and any uncertainty or ambiguity shall not be interpreted against any one Member. As a result of the foregoing, any rule of construction that a document is to be construed against the drafting Member shall not be applicable.

6. TITLES AND CAPTIONS. The Members have inserted the recitals and section titles in this Liquidation Agreement only as a matter of convenience and for reference, and the recitals and section titles in no way define, limit, extend or describe the scope of this Liquidation Agreement or the intent of the Members in including any particular provision in this Liquidation Agreement.

7. RESERVED.

8. ADVICE OF COUNSEL AND VOLUNTARY EXECUTION. Each Member has freely and voluntarily read and executed this Liquidation Agreement. Each Member has been advised to consult with its attorney prior to executing this Liquidation Agreement. Each Member has done so. The Members have had this Liquidation Agreement and its meaning, effect, significance and consequences fully explained to them by their attorneys of choice and acknowledge that they fully understand the meaning, effect, significance and consequences thereof.

9. PERFORMANCE OF ADDITIONAL ACTS. Each Member agrees that it shall execute and deliver any and all documents and perform any and all acts required on its part or those which may be reasonably necessary to effectuate and complete and facilitate the provisions of this Liquidation Agreement.

10. NOTICES. The Members shall send all notices or other communication necessary under this Liquidation Agreement in writing by personal service, express mail, Federal Express, DHL, UPS or any other similar form of airborne/overnight delivery service, or mailing in the United States mail, postage prepaid, certified and return receipt requested, addressed to the Members at their respective addresses as follows:

If to Juneau: Juneau Exploration, L.P.
3700 Buffalo Speedway, Suite 925
Houston, TX 77098
Attention: Brad Juneau

If to Contango: Contango Operators, Inc.
717 Texas Avenue, Suite 2900
Houston, TX 77002
Attention: John Thomas

If to Fairfield: Fairfield Industries Incorporated
14100 Southwest Freeway, Suite 600
Sugar Land, TX 77478
Attention: Roy Duff

Any such notice shall be deemed to have been given upon delivery or two business days after deposit in the mail as aforesaid. Any Member may change the address at which it desires to receive notice upon given written notice of such request to the other Members.

11. MODIFICATION IN WRITING. This Liquidation Agreement may be modified only by written agreement of all Members.

12. WAIVER. A failure of any Member to this Liquidation Agreement to enforce the Liquidation Agreement upon a breach or default shall not waive any other breach or default. All waivers shall be in writing.

13. GOVERNING LAW; VENUE. This Liquidation Agreement is made and entered into in the State of Delaware and shall in all respects be construed, interpreted, enforced and governed under and by the laws of the State of Delaware without reference to choice of law rules. The Members agree that venue in any and all actions and proceedings related to the subject matter of this Liquidation Agreement shall be in the State and Federal Courts in the State of Delaware, which courts have exclusive jurisdiction for such purpose, and the Members hereto irrevocably submit to the exclusive jurisdiction of such courts and irrevocably waive the defense of an inconvenient forum to the maintenance of any such action or proceeding. Service of process may be made in any manner recognized by such courts. Each of the Members hereto irrevocably waives its right to a jury trial with respect to any action or claim

arising out of any dispute in connection with this Liquidation Agreement or the transactions contemplated hereby.

14. SEVERABILITY. Should any part, term, condition or provision of this Liquidation Agreement be declared or determined by any court to be illegal or unenforceable, the validity of the remaining parts, terms conditions or provisions shall not be affected thereby and said illegal, invalid or unenforceable part, term, condition or provision shall be deemed not to be a part of this Liquidation Agreement.

15. ATTORNEY'S FEES. In the event of any action or proceeding brought by any Member against another Member under this Liquidation Agreement or arising out of this Liquidation Agreement, the prevailing Member shall be entitled to recover the fees of its attorneys and its costs in such amount as the court may adjudge reasonable.

16. ENFORCEMENT OF AGREEMENT. Nothing contained herein is intended to, or shall, affect or limit any Member's right to enforce any provision of this Liquidation Agreement. This Liquidation Agreement is admissible in any judicial proceeding to enforce its terms despite any confidentiality provisions contained herein.

17. EXECUTION IN COUNTERPARTS. This Liquidation Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which shall constitute one agreement to be effective on the date first above written.

18. EXECUTION BY FACSIMILE. The Members agree that this Liquidation Agreement may be executed and delivered by facsimile and that any such facsimile signature shall be effective and binding on the Member so signing.

19. ENTIRE AGREEMENT. The Members agree that this Liquidation Agreement (including, for purposes of certainty, the Exhibits attached hereto) and the Agreement constitute the entire agreement between the Members pertaining to the subject matter hereof, and supersede all prior agreements, understandings, negotiations, and discussions, whether oral or written, of the Members pertaining to the subject matter hereof.

20. SUCCESSORS AND ASSIGNS. This Liquidation Agreement shall be binding upon, and inure for the benefit of, each Member and its respective successors and assigns.

[Signature page follows]

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IN WITNESS WHEREOF, this Liquidation Agreement is executed on the date first above written.

CONTANGO OPERATORS, INC.

**FAIRFIELD INDUSTRIES
INCORPORATED**

By: /s/ E. JOSEPH GRADY

By: /s/ KEVIN J. CROSBY

Name: E. Joseph Grady

Name: Kevin J. Crosby

Its: Senior Vice President and CFO

Its: CFO

JUNEAU EXPLORATION, L.P.

By: /s/ JOHN B. JUNEAU

Name: John B. Juneau

Its: President

EXHIBIT A

Leases

Part 1

	Area	Block	Lease #	
1	VR	170	G 33596	
2	EI	10	G 23851	Depths between 15, 693' TVD and 16,800' TVD
3	EI	10 & 11	SL 18640	Depths below 15,753' TVD
4	EI	6	SL 18860	Depths below 15,753' TVD
5	EI	11	SL 19261	Depths below 15,753' TVD
6	EI	10, 11, 6 & 7	SL 19266	Depths below 15,753' TVD

Part 2

	Area	Block	Lease #
1	ST	17	G 21906

EXHIBIT B

Agreements

Part 1

(G 33596)

1. Joint Operating Agreement, dated July 1, 2010, among Juneau Exploration, L.P., Republic Exploration LLC and Contango Operators, Inc., as amended by that certain Amendment to Joint Operating Agreement dated as of June 29, 2011 and effective July 1, 2010, as amended to the date hereof

2. Participation Agreement, dated July 1, 2010, by and among Republic Exploration LLC, Juneau Exploration, L.P. and Contango Operators, Inc., as amended as of June 29, 2011 and effective July 1, 2010, as amended to the date hereof

3. Assignment of Overriding Royalty Interest ("ORRI") granted by Contango Operators, Inc. of 3.33333% of 8/8ths allocated as follows: John Miller an ORRI of 2.00000% and John W. Burke an ORRI of 1.33333%

4. All other documents of record in the offices of Bureau of Safety and Environmental Enforcement, New Orleans, Louisiana

(G 23851)

1. Farmout Agreement, executed by and between Devon Louisiana Corporation and Union Oil Company of California, as Farmor, and Republic Exploration LLC and Contango Operators, Inc., as Farmees, dated April 1, 2005 (the "Farmout Agreement"). Pursuant to the Farmout Agreement, any further transfers of the Assigned Interest require the written consent of the Farmor. All of the provisions of the Farmout Agreement are incorporated herein by reference thereto

2. Area of Mutual Interest Agreement (Eugene Island Area Block 10), executed by and between Contango Operators, Inc., Republic Exploration LLC, CGM, L.P., Olympic Energy Partners, LLC, and Union Oil Company of California, dated February 7, 2007, the terms of which are incorporated by reference thereto

3. Assignment of Operating Rights Interest in Federal OCS Oil and Gas Lease, dated effective as of November 19, 2006, executed by Devon Energy Production, L.P. in favor of Republic Exploration LLC

4. Assignment of Operating Rights Interest in Federal OCS Oil and Gas Lease, dated effective as of November 19, 2006, executed by Union Oil Company of California in favor of Republic Exploration LLC

5. Assignment of Overriding Royalty Interest, dated effective as of November 20, 2006, executed by Republic Exploration LLC in favor of Linda G. Ferszt, Dutch Royalty Investments, Land and Leasing, LP, Mark A. Stephens, Gary Clack, and Contango Operators, Inc.

6. All other documents of record in the offices of Bureau of Safety and Environmental Enforcement, New Orleans, Louisiana

(SL 18640, 18660, 19261 and 19266)

1. Joint Operating Agreement executed by and between Contango Operators, Inc., as Operator, and Republic Exploration LLC, CGM, L.P., Olympic Energy Partners, LLC and Union Oil Company of California, as Non-Operators, dated February 7, 2007, the provisions of which are incorporated herein by reference, as amended to the date hereof

2. Area of Mutual Interest Agreement (Eugene Island Area Block 10), by and between Contango Operators, Inc., Republic Exploration LLC, CGM, L.P., Olympic Energy Partners, LLC, and Union Oil Company of California, dated February 7, 2007, the provisions of which are incorporated herein by reference

3. Assignment of Overriding Royalty Interest dated effective as of July 13, 2005, executed by Republic Exploration LLC in favor of Linda G. Ferszt, et al., conveying an overriding royalty interest as more particularly described therein, pertaining to State Lease No. 18640

4. Assignment of Overriding Royalty Interest dated effective as of January 11, 2006, executed by Republic Exploration LLC in favor of Linda G. Ferszt, et al., conveying an overriding royalty interest as more particularly described therein, pertaining to State Lease No. 18860

5. Assignment of Overriding Royalty Interest dated effective as of February 14, 2007, executed by Republic Exploration LLC in favor of Linda G. Ferszt, et al., conveying an overriding royalty interest as more particularly described therein, pertaining to State Lease No. 19261

6. Assignment of Overriding Royalty Interest dated effective as of February 14, 2007, executed by Republic Exploration LLC in favor of Linda G. Ferszt, et al., conveying an overriding royalty interest as more particularly described therein, pertaining to State Lease No. 19266

Part 2

1. Participation Agreement, dated April 3, 2013, by and among Contango Operators, Inc., Juneau Exploration, L.P. and Republic Exploration LLC (relating to OCS lease 21906) , as amended to the date hereof

Part 3

1. Participation Agreement, dated as of August 27, 2012, by and between Republic Exploration LLC and Contango Operators, Inc. (relating to OCS leases 34226, 34288, 34305, 34315 and 34334), as amended to the date hereof

2. Participation Agreement, dated and effective as of March 21, 2013, by and between Republic Exploration LLC and Contango Operators, Inc. (relating to OCS leases 34813, 34826 and 34827), as amended to the date hereof

EMPLOYMENT AGREEMENT

This Employment Agreement (this “**AGREEMENT**”) is made and entered into on February 6, 2017 (the “**EFFECTIVE DATE**”) by and between James J. Metcalf Jr. (“**EXECUTIVE**”) and Contango Oil & Gas Company (the “**COMPANY**”).

ARTICLE 1**EMPLOYMENT; RESPONSIBILITIES; COMPENSATION**

Section 1.1 EMPLOYMENT. Subject to ARTICLE 3, the Company hereby agrees to employ Executive and Executive hereby agrees to be employed by the Company, in accordance with this Agreement, for the period commencing as of the Effective Date and ending on the second anniversary of the Effective Date (“**INITIAL TERM**”); PROVIDED, HOWEVER, that beginning on the day immediately preceding the second anniversary of the Effective Date of this Agreement and on the day immediately preceding each subsequent anniversary of this Agreement, the Initial Term shall automatically be extended for one (1) additional year unless either party gives written notice to the other party 90 days prior to the next anniversary of this Agreement that it or he, as applicable, does not wish to extend this Agreement. Executive’s continued employment after the expiration of the Initial Term shall be in accordance with and governed by this Agreement, unless modified by the parties to this Agreement in writing.

Section 1.2 RESPONSIBILITIES; LOYALTY.

(a) Subject to the terms of this Agreement, Executive is employed in the position of Senior Vice President of Operations, and shall perform the functions and responsibilities of that position. Additional or different duties may be assigned by the Company from time to time. Executive’s position, job descriptions, duties and responsibilities may be modified from time to time in the sole discretion of the Company.

(b) Executive shall devote the whole of Executive’s professional time, attention and energies to the performance of Executive’s work responsibilities and shall not, either directly or indirectly, alone or in partnership, consult with, advise, work for or have any interest in any other similar business or pursuit during the term of Executive’s employment with the Company. During the term of Executive’s employment with the Company, it shall not be a violation of this Agreement for Executive to serve on corporate, civic or charitable boards or committees; deliver lectures or fulfill speaking engagements; and subject to SECTION 2.3, manage personal investments, in each case, so long as such activities do not materially interfere with the performance of Executive’s responsibilities as an Executive of the Company in accordance with this Agreement. Executive further agrees to comply with all policies of the Company in effect from time to time, and to comply with all laws, rules and regulations, including those applicable to the Company

Section 1.3 COMPENSATION. As consideration for the services and covenants described in this Agreement, the Company agrees to compensate Executive in the following manner:

(a) The Company will pay Executive an annualized base salary of \$330,000.00 (“**BASE SALARY**”), as may be increased from time to time by action of the Board of Directors of the Company (the “**BOARD**”) or the Compensation Committee of the Board.

(b) Executive shall be eligible for employment benefits including holidays, leaves of absence, health insurance, dental insurance, 401(k) plan participation, etc., if any, available to employees of the Company generally, in accordance with any policies, procedures or benefit plans adopted by the Company from time to time during the existence of this Agreement. In addition, Executive shall be entitled to vacation in accordance with the Company’s vacation policy as adopted from time to time. Executive’s rights or those of Executive’s dependents under any such benefits policies or plans shall be governed solely by the terms of such policies or plans. The Company reserves to itself, or its designated administrators, exclusive authority and discretion to determine all issues of eligibility, interpretation and administration of each such benefit plan or policy. The Company’s employment benefits, and policies related thereto, are subject to termination, modification or limitation at the Company’s sole discretion.

(c) Executive shall be eligible to participate in the Company’s cash incentive bonus plan for each calendar year in which Executive is employed by the Company hereunder with an annual target bonus amount equal to 80% of the Executive’s Base Salary (the “**TARGET BONUS**”), under such terms and conditions as the Company may determine each applicable year (the “**CASH INCENTIVE BONUS**”).

(d) Executive shall be eligible to participate in the Company’s equity compensation plan for each calendar year in which Executive is employed by the Company hereunder, under such terms and conditions as the Company may determine each applicable year.

(e) Payment of all compensation to Executive shall be made in accordance with the terms of this Agreement, applicable state or federal law, and applicable Company policies in effect from time to time, including normal payroll practices, and shall be subject to all applicable withholdings and taxes.

Section 1.4 BUSINESS EXPENSES. The Company shall reimburse Executive for all business expenses that are reasonable and necessary and incurred by Executive while performing his duties under this Agreement, upon presentation of expense statements, receipts and/or vouchers or such other information and documentation as the Company may reasonably require. Executive will be subject to the same business expense policy applicable to other Company employees generally.

ARTICLE 2

CONFIDENTIAL INFORMATION; POST-EMPLOYMENT OBLIGATIONS; COMPANY PROPERTY

Section 2.1 COMPANY PROPERTY. As used in this Article 2, the term the “Company” refers to the Company and each of its direct and indirect subsidiaries. All written materials, records, data and other documents relating to Company business, products or services prepared or possessed by Executive during Executive’s employment by the Company are the

Company's property. All information, ideas, concepts, improvements, discoveries and inventions that are conceived, made, developed or acquired by Executive individually or in conjunction with others during Executive's employment (whether during business hours and whether on Company's premises or otherwise) that relate to Company business, products or services are the Company's sole and exclusive property. All memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps and all other documents, data or materials of any type embodying such information, ideas, concepts, improvements, discoveries and inventions are Company property. At the termination of Executive's employment with the Company for any reason, Executive shall return all of the Company's documents, data or other Company property to the Company.

Section 2.2 CONFIDENTIAL INFORMATION; NON-DISCLOSURE.

(a) Executive acknowledges that the business of the Company is highly competitive and that the Company will provide Executive with access to Confidential Information. Executive acknowledges that this Confidential Information constitutes a valuable, special and unique asset used by the Company in its business to obtain a competitive advantage over competitors. Executive further acknowledges that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to the Company in maintaining its competitive position. Executive agrees that Executive will not, at any time during or after Executive's employment with the Company, make any unauthorized disclosure of any Confidential Information of the Company, or make any use thereof, except in the carrying out of Executive's employment responsibilities to the Company. Executive also agrees to preserve and protect the confidentiality of third party Confidential Information to the same extent, and on the same basis, as the Company's Confidential Information.

(b) For purposes hereof, "**CONFIDENTIAL INFORMATION**" includes all non-public information regarding the Company's business operations and methods, existing and proposed investments and investment strategies, seismic, well-log and other geologic and oil and gas operating and exploratory data, financial performance, compensation arrangements and amounts (whether relating to the Company or to any of its employees), contractual relationships, business partners and relationships (including customers and suppliers), strategies, business plans and other confidential information that is used in the operation, technology and business dealings of the Company, regardless of the medium in which any of the foregoing information is contained, so long as such information is actually confidential and proprietary to the Company.

(c) Notwithstanding the foregoing, nothing in this Agreement will prevent Executive from: (i) making a good faith report of possible violations of applicable law to any governmental agency or entity; or (ii) making disclosures that are protected under the whistleblower provisions of applicable law. Further, an individual (including Executive) shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer of reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (x)

files any document containing the trade secret under seal; and (y) does not disclose the trade secret, except pursuant to court order.

Section 2.3 NON-COMPETITION OBLIGATIONS.

(a) Executive acknowledges and agrees that as an employee and representative of the Company, Executive will have access to Confidential Information and be responsible for building and maintaining business relationships and goodwill with current and future operating partners, investors, partners and prospects on a personal level. Executive acknowledges and agrees that this responsibility creates a special relationship of trust and confidence between the Company, Executive and these persons or entities. Executive also acknowledges that this creates a high risk and opportunity for Executive to misappropriate these relationships and the goodwill existing between the Company and such persons. Executive acknowledges and agrees that it is fair and reasonable for the Company to take steps to protect itself from the risk of such misappropriation.

(b) Executive acknowledges and agrees that, in exchange for his agreement in SECTION 2.3(c) below, he will receive substantial, valuable consideration from the Company upon the execution of this Agreement and during the course of this Agreement, including, Confidential Information and access to Confidential Information, compensation and other benefits and access to the Company's prospects.

(c) During the Non-Compete Term and provided that the Company has made all severance payments provided for herein (to the extent applicable), Executive will not, directly or indirectly, provide the same or substantially the same services that he provides to the Company to any Business Enterprise in the Market Area (as defined below) without prior written consent, which will not be unreasonably withheld. This includes working as an agent, consultant, employee, officer, director, partner or independent contractor or being a shareholder, member, joint venturer or equity owner in, any such Business Enterprise; PROVIDED, HOWEVER, that the foregoing shall not restrict Executive from holding up to 5% of the voting power or equity of one or more Business Enterprises.

(d) For purposes of hereof:

(i) **"BUSINESS ENTERPRISE"** means any corporation, partnership, limited liability company, sole proprietorship, joint venture or other business association or entity (other than the Company) engaged in the business of exploring for, developing, operating or acquiring oil and gas properties that is in direct competition with the Company's operations in the Market Area;

(ii) **"MARKET AREA"** means the 10 mile radius surrounding any geographical location in which the Company is conducting any material amount of oil and gas exploration and production activities during the Initial Term, and for which he has material responsibilities or about which he has material Confidential Information; and

(iii) **"NON-COMPETE TERM"** means the period from the Effective Date to the date ending: on the date of termination if Executive's employment with the Company is terminated by the Company for Cause, or in the case of termination for

any reason other than that provided for in clause (A) above, twelve (12) months following the date of termination.

Section 2.4 NON-SOLICITATION OF EXECUTIVES. During the Non-Compete Term, Executive will not, either directly or indirectly, call on, solicit or induce any other executive or officer of the Company or its affiliates with whom Executive had contact, knowledge of, or association with in the course of employment with the Company to terminate his employment, and will not assist any other person or entity in such a solicitation; PROVIDED, HOWEVER, that with respect to soliciting any executive or officer whose employment was terminated by the Company or its affiliates, or general solicitations for employment not targeted at current officers or employees of the Company or its affiliates, the foregoing restriction shall not apply.

Section 2.5 ACKNOWLEDGEMENT. Executive acknowledges that the Confidential Information provided to Executive pursuant to this Agreement, and the Company's need to protect its goodwill, gives rise to the Company's interest in these restrictive covenants, and that any limitations as to time, geographic scope and scope of activity to be restrained defined herein are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the Company. Executive further agrees that if, at some later date, a court of competent jurisdiction determines that certain covenants are unenforceable to any extent, then those covenants shall be reformed by the court to the least extent necessary to make them enforceable. Executive acknowledges and recognizes that the enforcement of any of the provisions in this Agreement by the Company will not interfere with Executive's ability to pursue a proper livelihood.

Section 2.6 EARLY RESOLUTION CONFERENCE. The parties are entering into this Agreement with the express understanding that this Agreement is clear and fully enforceable as written. If Executive ever decides later to contend that any restriction on activities imposed by this Agreement no longer is enforceable as written or does not apply to an activity in which Executive intends to engage, Executive first will notify the Company in writing and meet with a company representative at least 14 days before engaging in any activity that foreseeably could fall within the questioned restriction to discuss resolution of such claims.

Section 2.7 EQUITABLE AND OTHER RELIEF. Executive understands and agrees that, if Executive breaches provisions of this section of this Agreement, the Company will suffer immediate and irreparable harm which cannot be accurately calculated in monetary damages. Consequently, the Company shall be entitled to immediate injunctive relief, either by temporary or permanent injunction, to prevent such violation. This injunctive relief shall be in addition to any other legal and/or equitable relief to which the Company would be entitled. If a bond is required to be posted for the Company to secure an injunction or other equitable remedy, threatened or actual, Executive agrees that the bond need not be more than a nominal sum. The Company shall be entitled to recover its attorneys' fees and costs from Executive should a court determine that Executive has breached provisions of this section of this Agreement. In addition, in the event of a breach or violation of provisions of this section of this Agreement, the time periods set forth above will be tolled until such breach or violation has been cured.

ARTICLE 3

TERMINATION OF EMPLOYMENT

Section 3.1 TERMINATION OF EMPLOYMENT.

(a) Executive's employment with the Company shall be terminated immediately upon the death of Executive without further action by the Company, upon Executive's Permanent Disability without further action by the Company, by the Company for Cause, by Executive for Good Reason, by the Company without Cause or by Executive without Good Reason, PROVIDED that the terminating party must (in the case of clause (v)) give at least 30 days' advance written notice of such termination. For purposes of this ARTICLE 3, "date of termination" means the date of Executive's death, the date of Executive's Permanent Disability, or the date of Executive's "separation from service" (as defined in Code Section 409A and Treas. Reg. §1.409A-1(h)) with the Company, as applicable.

(b) For purposes hereof:

(i) "**PERMANENT DISABILITY**" shall mean either Executive's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, Executive's receiving income replacement benefits for a period of not less than three months under an accident and health plan covering the Company's employees. Executive will be deemed permanently disabled if determined to be totally disabled by the Social Security Administration or if determined to be disabled in accordance with a disability insurance program that applies a definition of disability that complies with the requirements of this paragraph.

(ii) "**GOOD REASON**" shall mean one or more of the following conditions arising not more than six months before Executive's termination date without Executive's consent: a material breach by the Company of any provision of this Agreement; assignment by the Board or a duly authorized committee thereof to Executive of any duties that materially and adversely alter the nature or status of Executive's position, job descriptions, duties, title or responsibilities from those of a Senior Vice President Operations, or eligibility for Company compensation plans; requirement by the Company for Executive to relocate anywhere other than the greater Houston, Texas metropolitan area, except for required travel on Company business to an extent substantially consistent with Executive's obligations under this Agreement; a material reduction in Executive's Base Salary in effect at the relevant time; or exclusion of the Executive from eligibility for the Company's active bonus or benefits plans as described above, or a material reduction in the Executive's award levels under those plans as noted above. Notwithstanding anything herein to the contrary, Good Reason will exist only if Executive provides notice to the Company of the existence of the condition otherwise constituting Good Reason within 90 days of the initial existence of the condition, and the

Company fails to remedy the condition on or before the 30th day following its receipt of such notice.

(iii) “**CAUSE**” shall include continued failure by Executive to perform substantially Executive’s duties and responsibilities (other than a failure resulting from Permanent Disability) that is materially injurious to the Company and that remains uncorrected for 10 days after receipt of appropriate written notice from the Board; reliable, written third-party documentary evidence of engagement in willful, reckless or grossly negligent misconduct that is materially injurious to Company or any of its affiliates, monetarily or otherwise; except as provided by (D), the indictment of Executive for a crime involving moral turpitude or a felony, provided that if the criminal charge is dismissed with prejudice or if Executive is acquitted at trial or on appeal, Executive will be deemed to have been terminated without Cause; the indictment of Executive with an act of criminal fraud, misappropriation or personal dishonesty, provided that if the criminal charge is subsequently dismissed with prejudice or the Executive is acquitted at trial or on appeal then the Executive will be deemed to have been terminated without Cause; or a material breach by Executive of any provision of this Agreement that is materially injurious to the Company and that remains uncorrected for 10 days following written notice of such breach by the Company to Executive identifying the provision of this Agreement that Company determined has been breached.

(c) If Executive’s employment is terminated under any of the foregoing circumstances, all future compensation to which Executive is otherwise entitled and all future benefits for which Executive is eligible, other than that already earned but which is unpaid, shall cease and terminate as of the date of termination, except as specifically provided in this ARTICLE 3. Any other payments or benefits by or on behalf of Company are limited to those which may be payable pursuant to the terms of Company’s Executive benefit plans or required by any applicable federal, state or local law.

Section 3.2 SEVERANCE.

(a) For purposes of clarity, in the event that this Agreement is terminated due to non-renewal of the Agreement by either party in accordance with SECTION 1.1 above, then no severance or equity acceleration will become due to the Executive pursuant to this SECTION 3.2.

(b) TERMINATION BY COMPANY WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON.

(i) If Executive’s employment is terminated by the Company without Cause or by Executive for Good Reason outside of the Protection Period (defined below), and subject to Executive’s compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year’s Base Salary plus 1.0 times the greater of (1) the average amount of the Cash Incentive Bonuses paid to the Executive during the two full calendar years immediately prior to the year in which the Executive’s separation from service occurs (the “**AVERAGE BONUS**”) or (2) the Target Bonus for the year in which the separation from service occurs,

reimbursement of COBRA health insurance premiums as described below for up to 30 months from the date of termination, pro-rata acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive, 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 the Executive 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; and (D) pro-rata adjustment of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of the Internal Revenue Code of 1986, as amended (the “**CODE**”)), with pro-rata adjustment applicable only to the target number of shares subject to the applicable award in accordance with the same formula set forth in clause (C) above, with the resulting reduced number of performance-based awards remaining subject to all applicable performance metrics during the full performance period applicable to such award.

(ii) For purposes of this Agreement, the “**PROTECTION PERIOD**” shall mean 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 18th month immediately following the consummation of the Change of Control transaction. If Executive’s employment is terminated by the Company without Cause or by Executive for Good Reason within Protection Period, and subject to Executive’s compliance with the conditions set forth in SECTION 3.3, Executive will not be entitled to the compensation provided in subsection (i) above, but instead shall, subject to the provisions of this SECTION 3.2, be entitled to a severance payment consisting of a cash amount equal to 2.0 times the current calendar year’s Base Salary plus 2.0 times the greater of (1) the Average Bonus or (2) the Target Bonus for the year in which the separation from service occurs, reimbursement of COBRA health insurance premiums as described below for up to 30 months from the date of termination, 100% full acceleration for all time-based vesting stock, stock option and other equity awards currently held by Executive; and (D) full acceleration of any time-based component of all performance-based equity awards currently held by Executive (whether or not such awards are subject to Section 162(m) of Code), with actual performance for the performance-based portion of the award calculated as if the end of the applicable performance period was the date of the Executive’s separation from service.

(iii) If Executive’s employment is terminated by the Company without Cause or by Executive for Good Reason (whether or not in connection with a Protection Period), and subject to Executive’s compliance with the conditions set forth in SECTION 3.3, Executive shall, subject to the provisions of this SECTION 3.2, be entitled to a prorated Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals. The prorated bonus will be an amount in cash equal to the Executive’s Cash Incentive Bonus for the year in which the date of termination occurs, based on attainment of any applicable performance goals, multiplied by a fraction, the numerator of which is the number of days that Executive was employed by the Company during the year of termination and the denominator of which is three hundred and sixty five (365). Payment of the prorated Cash Incentive Bonus will be made in a lump sum at the same time that other employees of the Company are paid their Cash Incentive Bonuses for the calendar year to which the Cash Incentive Bonus relates.

(iv) Payment of the entire cash severance amount under subsection (i) or (ii) above will be made in a lump sum on the 60th day after Executive's applicable date of termination.

(v) If Executive timely elects continued coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), the Company will reimburse Executive for the monthly COBRA cost of continued health coverage paid by Executive under the applicable health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the period during which the Executive elects continued coverage under COBRA, but not in excess of 30 months. If Executive is eligible for continued COBRA reimbursement, when COBRA coverage would otherwise end, Executive may elect to extend the COBRA continued coverage under the Company's health plan until the date that is 30 months from the date of termination, provided that the Company's health plan permits such extension and such extension will not cause adverse tax consequences to the Company or Executive. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(vi) Executive shall not be under any duty or obligation to seek or accept other employment following a termination of employment pursuant to which a severance payment under this SECTION 3.2 is payable and the amounts due Executive pursuant to this SECTION 3.2 shall not be reduced or suspended if Executive accepts subsequent employment or earns any amounts as a self-employed individual.

(c) DEATH OR DISABILITY

If Executive's employment is terminated because of death or Permanent Disability, Executive, in the case of Permanent Disability, or his surviving spouse (or his estate if Executive's spouse does not survive him), in the case of Executive's death, shall be entitled to: his pro rata Base Salary and pro rata Target Bonus through the date of termination for the year in which the termination occurs, plus a lump sum amount equal to the greater of: the remainder of the Base Salary that would have been earned by Executive under this Agreement between the time of his Death or Permanent Disability and the expiration of the then-current term of this Agreement, or 12 months of Base Salary plus his Target Bonus for the year of termination; and full acceleration of vesting for all stock, stock option and other equity awards. If Executive's employment is terminated because of death or Permanent Disability, if a member of Executive's family provides timely notice to the health plan administrator of Executive's death or Permanent Disability, and if Executive's family members who are covered by a health plan of the Company timely elect continued coverage under COBRA, the Company will reimburse such family members for the monthly COBRA cost of continued health coverage paid by such family members under the health plan of the Company pursuant to Section 4980B of the Code. Such reimbursements shall continue for the applicable period during which the family member is eligible for continued coverage under COBRA, but not in excess of 24 months. When COBRA coverage would otherwise end for the family member, the family member may elect to extend the COBRA continuation coverage under the Company's health plan until the date that is 24 months from Executive's date of termination, provided that the Company's health plan permits such

extension and such extension will not cause adverse tax consequences to the Company, Executive or Executive's family member or estate. These reimbursements will commence on the 60th day following the date of termination and will be paid on the first payroll date of each month, provided that Executive's family member demonstrates proof of payment of the applicable premium prior to the applicable reimbursement payment date.

(d) **SECTION 280G.**

(i) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "**PAYMENTS**"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code, the Company shall reduce (but not below zero) the aggregate present value of the Payments under this Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide Executive with a greater net after-tax amount than would be the case if no reduction was made. The Payments shall be reduced as described in the preceding sentence only if the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this subsection (i). The "**REDUCED AMOUNT**" shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with Section 280G(d)(4) of the Code. The term "**EXCISE TAX**" means the excise tax imposed under Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax. For purposes of the calculations under this SECTION 3.2(d), the severance payments to be made under this Agreement shall be allocated as consideration for the noncompetition covenant under SECTION 2.3 to the maximum extent allowable under Section 280G of the Code and the regulations thereunder.

(ii) All determinations to be made under this SECTION 3.2(d) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a Change of Control (or other such transaction that is considered to be a change in control transaction pursuant to Section 280G of the Code and the regulations promulgated thereunder), which shall provide its determinations and any supporting calculations both to the Company and Executive within ten days of the applicable transaction. Any such determination by such firm shall be binding upon the Company and the Executive. All of the fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section shall be borne solely by the Company.

(e) “CHANGE OF CONTROL” means the occurrence of any one or more of the following events that occurs after the Effective Date:

(i) Any “person” (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “EXCHANGE ACT”)) becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 25% of the voting power of the then outstanding securities of the Company; provided that a Change of Control shall not be deemed to occur as a result of a transaction in which the Company becomes a subsidiary of another corporation and in which the stockholders of the Company, immediately prior to the transaction, will beneficially own, immediately after the transaction, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the parent corporation would be entitled in the election of directors;

(ii) The consummation of a merger or consolidation of the Company with another corporation where the stockholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, shares entitling such stockholders to more than 50% of all votes to which all stockholders of the surviving corporation would be entitled in the election of directors, a sale or other disposition of all or substantially all of the assets of the Company, or a liquidation or dissolution of the Company; or

(iii) After the Effective Date, directors are elected such that a majority of the members of the Board shall have been members of the Board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

(f) SECTION 3.2 and this Agreement shall be administered and interpreted to maximize the short-term deferral exception to Code Section 409A, and Executive shall not, directly or indirectly, designate the taxable year of a payment made under this Agreement. The portion of any payment under this Agreement that is paid within the short-term deferral period (within the meaning of Code Section 409A and Treas. Reg. § 1.409A-1(b)(4)) will be treated as a short term deferral and not aggregated with other plans or payments. Any other portion of the payment that does not meet the short-term deferral requirement will, to the maximum extent possible, be deemed to satisfy the exception from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) for involuntary separation pay and shall not be aggregated with any other payment. Any right to a series of installment payments pursuant to this Agreement is to be treated as a right to a series of separate payments. Any amount that is paid as a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) or within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will be treated as a separate payment. Payment dates provided for in this Agreement are deemed to incorporate “grace periods” within the meaning of Code Section 409A and the regulations thereunder. If a Change of Control does not meet the requirements of a “change of control event” under Section 409A of the Code, the cash severance amount shall be paid to Executive in the same form as if no Change of Control had occurred, if required by Code Section 409A. Notwithstanding anything herein to the contrary, if Executive is, as of the date of termination, a “specified employee” for purposes of Code Section 409A and

Treas. Reg. § 1.409A-1(i), then any amount payable to Executive pursuant to SECTION 3.2(b)(i)(A), SECTION 3.2(b)(ii)(A) or 3.2(d) that is neither a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) nor within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will not be paid before the date that is the first day of the seventh month after the date of termination, or if earlier, the date of Executive's death. Any payments to which Executive would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to Executive on the first day of the seventh month following such date of termination, or if earlier, within 30 days of Executive's death to his surviving spouse (or to his estate if Executive's spouse does not survive him). All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code.

(g) If Executive terminates his employment without Good Reason or is terminated for Cause, he shall not be entitled to the severance payments provided for in this Agreement.

Section 3.3 CONDITIONS FOR SEVERANCE.

(a) The severance payment payable to Executive pursuant to SECTION 3.2 shall be in consideration of, and subject to, Executive's continuing obligations hereunder after such termination, including Executive's obligations under ARTICLE 2.

(b) As a condition to the receipt of any severance payment, Executive agrees to execute and deliver, by the Release Expiration Date, a mutually acceptable severance and release agreement, including a waiver of all claims except for any claims relating to benefits due under the plans described in SECTION 1.3(b) and any accrued vested amount which may be payable as a deferred bonus. The severance and release agreement shall be in a form reasonably acceptable to the Board; provided that such release shall not provide for a release of Executive's right to indemnification under the Company's organizational documents, indemnification agreement, if any, or directors and officers insurance against third party claims. The "**RELEASE EXPIRATION DATE**" is that date that is 21 days following the date upon which the Company delivers the Release to Executive (which shall occur no later than seven days after the Executive's termination date), or in the event that such termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967, as amended), the date that is 45 days following such delivery date.

(c) As a condition to the receipt of any severance payment, Executive agrees that any and all claims and any and all causes of action of any kind or character, including all claims and causes of action arising out of Executive's employment with the Company, the termination of such employment, any claims or demands against the Company based upon Executive's employment for any monies other than those specified in SECTION 3.2, and the actions by the officers, directors, executives and agents of Company shall be resolved through a dispute resolution process as provided in SECTION 4.11; PROVIDED, HOWEVER, that any determination as to whether and as of what date Executive has suffered a Permanent Disability are delegated to the Board and any objection by Executive with any such determination shall be limited to whether the Board reached such decision in good faith.

(d) Except as expressly provided herein, Executive shall not be entitled to any other severance payment or benefit. The severance payments provided for herein are Executive's sole remedy for termination of his employment at the Company.

Section 3.4 TRANSITION PERIOD. Upon termination of this Agreement, and for 90 consecutive calendar days thereafter (the "**TRANSITION PERIOD**"), Executive agrees to make himself available to assist the Company with transition projects assigned to him by the Board. Executive will be paid at a reasonable, agreed upon hourly rate for any work performed for the Company during the Transition Period.

Section 3.5 CONTINUING OBLIGATIONS OF EXECUTIVE. Termination of the employment relationship does not terminate those obligations of Executive imposed by ARTICLE 2 and SECTIONS 3.4 through 3.5, which are continuing obligations.

ARTICLE 4

MISCELLANEOUS

Section 4.1 NOTICES. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, mailed by certified mail (return receipt requested) or sent by overnight delivery service, or electronic mail, or facsimile transmission (with electronic confirmation of successful transmission) to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice, in order of preference of the recipient:

To the Company:

Contango Oil & Gas Company
Attn: Joseph Romano, Chairman of the Board
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

To Executive:

James J. Metcalf, Jr.

Contango Oil & Gas Company
717 Texas Avenue, Suite 2900
Houston, Texas 77002
Facsimile: (713) 236-4424

Notice so given shall, in the case of mail, be deemed to be given and received on the fifth calendar day after posting, in the case of overnight delivery service, on the date of actual delivery and, in the case of facsimile transmission, telex or personal delivery, on the date of actual transmission or, as the case may be, personal delivery. Any such notice or communication shall be delivered by hand or by courier or sent certified or registered mail, return receipt requested, postage prepaid, addressed as above (or to such other address as such party may designate in a notice duly delivered

as described above), and the third business day after the actual date of mailing (or, if earlier, the actual date of receipt) shall constitute the time at which notice was given.

Section 4.2 SEVERABILITY AND REFORMATION. If any one or more of the terms, provisions, covenants or restrictions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions shall remain in full force and effect, and the invalid, void or unenforceable provisions shall be deemed severable. Moreover, if any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it shall be reformed by limiting and reducing it to the minimum extent necessary, so as to be enforceable to the extent compatible with the applicable law as it shall then appear.

Section 4.3 ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs and legal representatives of Executive and the permitted assigns and successors of the Company, but neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by Executive (except by will or by operation of the laws of intestate succession) or by the Company, except that the Company may assign this Agreement to any successor (whether by merger, purchase or otherwise), if such successor expressly agrees to assume the obligations of the Company hereunder.

Section 4.4 AMENDMENT. This Agreement may be amended only by writing signed by Executive and by a duly authorized representative of the Company (other than Executive).

Section 4.5 ASSISTANCE IN LITIGATION. Executive shall reasonably cooperate with the Company in the defense or prosecution of any claims or actions now in existence or that may be brought in the future against or on behalf of the Company that relate to events or occurrences that transpired while Executive was employed by the Company. Executive's cooperation in connection with such claims or actions shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company at mutually convenient times. Executive also shall cooperate fully with the Company in connection with any investigation or review by any federal, state or local regulatory authority as any such investigation or review relates, to events or occurrences that transpired while Executive was employed by the Company. The Company will pay Executive an agreed upon reasonable hourly rate for Executive's cooperation pursuant to this Section.

Section 4.6 BENEFICIARIES; REFERENCES. Executive shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death, and may change such election, in either case by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of his incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative. Any reference to the masculine gender in this Agreement shall include, where appropriate, the feminine.

Section 4.7 USE OF NAME; LIKENESS AND BIOGRAPHY. The Company may use, publish and broadcast, and to authorize others to do so, the name, approved likeness and

approved biographical material of Executive to advertise, publicize and promote the business of the Company and its affiliates, but not for the purposes of direct endorsement without Executive's consent. This right shall terminate upon the termination of this Agreement. An "approved likeness" and "approved biographical material" shall be, respectively, any photograph or other depiction of Executive, or any biographical information or life story concerning the professional career of Executive.

Section 4.8 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED, INTERPRETED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO RULES RELATING TO CONFLICTS OF LAW.

Section 4.9 ENTIRE AGREEMENT. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes in all respects any prior or other agreement or understanding, written or oral, between the Company or any affiliate of the Company and Executive with respect to such subject matter, other than as specifically noted in SECTION 4.14 below.

Section 4.10 COUNTERPARTS; NO ELECTRONIC SIGNATURES. This Agreement may be executed in two or more counterparts, each of which will be deemed an original. For purposes of determining whether a party has signed this Agreement or any document contemplated hereby or any amendment or waiver hereof, only a handwritten signature on a paper document or a facsimile transmission of a handwritten original signature will constitute a signature, notwithstanding any law relating to or enabling the creation, execution or delivery of any contract or signature by electronic means.

Section 4.11 ARBITRATION. With the exception of any proceeding to obtain emergency, temporary restraining or preliminary injunctive relief as permitted by ARTICLE 2 and/or ARTICLE 3, the parties agree that any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be resolved by arbitration administered by the American Arbitration Association ("AAA") under its then existing Employment Arbitration Rules. All disputes shall be resolved by one arbitrator within 120 days of the date arbitration is initiated. The arbitrator will have the authority to award the same remedies, damages and costs that a court could award, and will have the additional authority to award those remedies set forth in ARTICLE 2. The arbitrator shall issue a reasoned award explaining the decision, the reasons for the decision and any damages awarded, including those set forth in ARTICLE 2.7, where the arbitrator finds either party violated ARTICLE 2 or ARTICLE 3. The arbitrator's decision will be final and binding. The judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitration proceedings, any record of the same, and the award shall be considered Confidential Information under this Agreement. This provision can be enforced under the Federal Arbitration Act. BY ENTERING INTO THIS SECTION 4.11, THE PARTIES ARE KNOWINGLY AND VOLUNTARILY WAIVING THEIR RIGHTS TO A JURY TRIAL.

Section 4.12 NON-WAIVER. The failure by either party to insist upon the performance of any one or more terms, covenants or conditions of this Agreement shall not be construed as a waiver or relinquishment of any right granted hereunder or of any future performance of any such term, covenant or condition, and the obligation of either party with respect hereto shall continue in

full force and effect, unless such waiver shall be in writing signed by the Company (other than Executive) and Executive.

Section 4.13 ANNOUNCEMENT. The Company may make public announcements concerning the execution of this Agreement and the terms contained herein, at the Company's discretion.

Section 4.14 PRIOR AGREEMENTS. This Agreement supersedes and replaces all previous employment agreements between the Executive and the Company, other than with respect to that certain Amendment and Extension of Employment Agreement entered into as of October 10, 2016 between the Executive and the Company (the "*Extension Agreement*"), as modified as follows: (a) the parties acknowledge their agreement as of November 15, 2016 to suspend, pending execution and delivery of this Agreement, the equity compensation award vesting that could occur under Section 2 of the Extension Agreement and no such vesting occurred, and (b) the parties further acknowledge their agreement as of November 15, 2016 to provide the benefit set forth in Section 3 of the Extension Agreement to the Executive without regard to the date of execution of this Agreement.

Section 4.15 COMPANY POLICIES. Executive agrees that all incentive compensation payable to him by the Company and its subsidiaries, under this Agreement or otherwise, shall be subject to any applicable clawback or recoupment policies, share ownership policies, anti-hedging policies and other applicable policies as finally adopted by the Board.

Section 4.16 CONSTRUCTION. The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting this Agreement. The language in all parts of this Agreement shall be in all cases construed in accordance to its fair meaning and not strictly for or against the Company or Executive. The words "include," "includes," and "including" will be deemed to be followed by "without limitation."

Section 4.17 RIGHT TO INSURE. The Company shall have the right to secure, in its own name or otherwise, and at its own expense, life, health, accident or other insurance covering Executive, and Executive shall have no right, title or interest in and to such insurance. Executive shall assist the Company in procuring such insurance by submitting to examinations and by signing such applications and other instruments as may be required by the insurance carriers to which application is made for any such insurance.

Section 4.18 NO INCONSISTENT OBLIGATIONS. Executive represents and warrants that to his knowledge he has no obligations, legal, in contract or otherwise, inconsistent with the terms of this Agreement or with his undertaking employment with the Company to perform the duties described herein. Executive will not disclose to the Company, or use or induce the Company to use, any confidential, proprietary or trade secret information of others. Executive represents and warrants that to his knowledge he has returned all property and confidential information belonging to all prior employers, if he is obligated to do so.

Section 4.19 VOLUNTARY AGREEMENT. Each party to this Agreement has read and fully understands the terms and provisions hereof, has reviewed this Agreement with legal counsel, has executed this Agreement based upon such party's own judgment and advice of

counsel, and knowingly, voluntarily, and without duress, agrees to all of the terms set forth in this Agreement. The parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the parties and no presumption or burden of proof will arise favoring or disfavoring any party because of authorship of any provision of this Agreement. Except as expressly set forth in this Agreement, neither the parties nor their affiliates, advisors and/or their attorneys have made any representation or warranty, express or implied, at law or in equity with respect of the subject matter contained herein. Without limiting the generality of the previous sentence, the Company, its affiliates, advisors and/or attorneys have made no representation or warranty to Executive concerning the state or federal tax consequences to Executive regarding the transactions contemplated by this Agreement.

Section 4.20 LEGAL FEES AND EXPENSES. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which Executive may reasonably incur as a result of any contest by the Company, the Executive or others of the validity or enforceability of, or liability or entitlement under, any provision of this Agreement or any guarantee of performance thereof (whether such contest is between the Company and Executive or between either of them and any third party, and including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code. The Company's obligations under this SECTION 4.20 shall apply without regard to the outcome of any such contest.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first written above:

CONTANGO OIL & GAS COMPANY

/s/ E. JOSEPH GRADY
By: E. Joseph Grady, SVP & CFO

James J. Metcalf Jr.

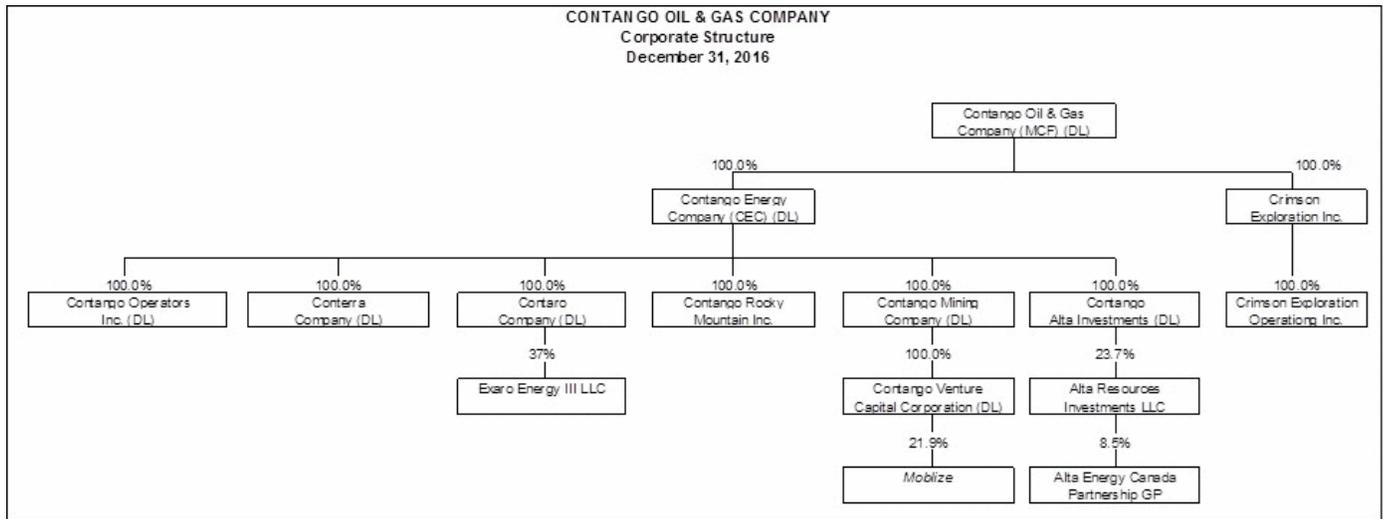
/s/ JAMES J. METCALF JR.

**CONTANGO OIL AND GAS COMPANY
LIST OF WHOLLY-OWNED SUBSIDIARIES
DECEMBER 31, 2016**

Wholly-Owned Subsidiaries of Contango Oil & Gas Company as of 12/31/16

Crimson Exploration Inc.
Crimson Exploration Operating, Inc.
Contango Energy Company
Contango Rocky Mountain Inc.
Contango Operators, Inc.
Contango Mining Company
Conterra Company
Contaro Company
Contango Alta Investments, Inc.
Contango Venture Capital Corporation
LTW Pipeline Co.

Exhibit 21.2



WILLIAM M. COBB & ASSOCIATES, INC.

March 15, 2017

Contango Oil & Gas Company
717 Texas Avenue, Suite 2900
Houston, Texas 77002

Re: Contango Oil & Gas Company, Annual Report on Form 10-K

Gentlemen:

The firm of William M. Cobb & Associates, Inc. consents to the use of its name and to the use of its projections for Contango Oil & Gas Company's Proved Reserves and Future Net Revenue in Contango's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

William M. Cobb & Associates, Inc. has no interests in Contango Oil & Gas Company or in any affiliated companies or subsidiaries and is not to receive any such interest as payment for such reports and has no director, officer, or employee otherwise connected with Contango Oil & Gas Company. Contango Oil & Gas Company does not employ us on a contingent basis.

Yours very truly,

WILLIAM M. COBB & ASSOCIATES, INC.

/s/ F.J. MAREK

F.J. Marek, P.E.
Senior Vice President

ENGINEERS AND GEOLOGISTS CONSENT OF INDEPENDENT PETROLEUM

The firm of Netherland, Sewell & Associates, Inc. consents to the use of its name and to the use of its projections for Contango Oil & Gas Company's Proved Reserves and Future Net Revenue in Contango's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Netherland, Sewell & Associates, Inc. has no interests in Contango Oil & Gas Company or in any affiliated companies or subsidiaries and is not to receive any such interest as payment for such reports and has no director, officer, or employee otherwise connected with Contango Oil & Gas Company. Contango Oil & Gas Company does not employ us on a contingent basis.

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: /s/ Danny D. Simmons
Danny D. Simmons, P.E.
President and Chief Executive Officer

Houston, Texas
March 15, 2017

W.D. VON GONTEN & CO.

March 15, 2017

Contango Oil & Gas Company
717 Texas Avenue, Suite 2900
Houston, Texas 77002

Re: Contango Oil & Gas Company, Annual Report on Form 10-K

Gentlemen:

The firm of W.D. Von Gonten & Co. consents to the use of its name and to the use of its report regarding Contango Oil & Gas Company's Proved Reserves and Future Net Revenue associated with its 37% ownership interest in Exaro Energy III LLC, in Contango's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

W.D. Von Gonten & Co. has no interests in Contango Oil & Gas Company or in any affiliated companies or subsidiaries and is not to receive any such interest as payment for such reports and has no director, officer, or employee otherwise connected with Contango Oil & Gas Company. Contango Oil & Gas Company does not employ us on a contingent basis.

Yours very truly,

W.D. VON GONTEN & CO.

/s/ W.D. VON GONTEN JR _____

Name: W.D. Von Gonten JR

Title: President

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 15, 2017, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Contango Oil & Gas Company and subsidiaries on Form 10-K for the year ended December 31, 2016. We hereby consent to the incorporation by reference of said reports in the following Registration Statements of Contango Oil & Gas Company and subsidiaries on Form S-3 (File No. 333-215784), effective January 27, 2017, Form S-3 (File No. 333-193613), effective May 20, 2015, Form S-8 (File No. 333-189302), effective October 8, 2013 and Form S-8 (File No. 333-170236), effective October 29, 2010.

/s/ GRANT THORNTON LLP

Houston, Texas

March 15, 2017

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Contango Oil & Gas Company

Houston, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-215784 and 333-193613) and Form S-8 (Nos. 333-189302 and 333-170236) of Contango Oil & Gas Company of our report dated March 31, 2015, relating to Exaro Energy III LLC's 2014 consolidated financial statements, which appear in Exhibit 99.5 of this Annual Report of Contango Oil & Gas Company.

/s/ BDO USA, LLP

Houston, Texas

March 15, 2017

CONTANGO OIL & 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 Annual Report on Form 10-K 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: March 15, 2017

By: _____ /s/ E. JOSEPH GRADY

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

CONTANGO OIL & GAS COMPANY

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Contango Oil & Gas Company (the "Company") on Form 10-K for the year ended December 31, 2016 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Allan D. Keel, President and Chief Executive 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: March 15, 2017

By: _____ /s/ ALLAN D. KEEL
Allan D. Keel
President and Chief Executive Officer
(Principal Executive Officer)

WILLIAM M. COBB & ASSOCIATES, INC.

Worldwide Petroleum Consultants

12770 Coit Road, Suite 907 (972) 385-
 0354
 Dallas, Texas Fax: (972) 788-
 5165

E-Mail: office@wmcobb.com

January 17, 2017

Mr. Steve Mengle
 Contango Oil & Gas Company
 717 Texas Avenue, Suite 2900
 Houston, TX 77002

Dear Mr. Mengle:

In accordance with your request, William M. Cobb & Associates, Inc. (Cobb & Associates) has estimated the proved reserves and future income as of January 1, 2017, attributable to the interest of Contango Oil & Gas Company and its subsidiaries (Contango) in certain oil and gas properties located in state and federal waters of the Gulf of Mexico and onshore in Mississippi. This report was completed on January 13, 2017.

Table 1 summarizes our estimate of the proved oil and gas reserves and their pre-federal income tax value undiscounted and discounted at ten percent. Values shown are determined utilizing constant oil and gas prices and well operating expenses. The discounted present worth of future income values shown in Table 1 are not intended to necessarily represent an estimate of fair market value. These estimates were prepared in accordance with the definitions and regulations of the U.S. Securities and Exchange Commission (SEC) and, with the exception of the exclusion of future income taxes, conform to the FASB Accounting Standards Certification Topic 932, Extraction Activities – Oil and Gas.

TABLE 1

**CONTANGO - NET RESERVES AND VALUE
 AS OF JANUARY 1, 2017
 CONSTANT SEC OIL AND GAS PRICES**

<u>Reserve Category</u>	<u>Net Gas (MMCF)</u>	<u>Net NGL (MBBL)</u>	<u>Net Oil (MBBL)</u>	<u>Future Net Pre-Tax Income – M\$</u>	
				<u>Undiscounted</u>	<u>Discounted at 10%</u>
Proved Producing	76,018	2,241	458	156,908	112,711
Total Proved	76,018	2,241	458	156,908	112,711

Total proved reserves as of January 1, 2017 are 92,212 MMCFE. This amount is calculated using a six MCF per barrel ratio applied to condensate and NGL volumes.

Oil and NGL volumes are expressed in thousands of stock tank barrels (MBBL). A stock tank barrel is equivalent to 42 United States gallons. Gas volumes are expressed in millions of standard cubic feet (MMCF) as determined at 60° Fahrenheit and the legal pressure base for the specific location of the gas reserves.

Our report, which was prepared for Contango's use in filing with the SEC and will be filed with Contango's Form 10-K for fiscal year ended December 31, 2016 (the "Form 10-K"), covers 92,212 MMCFE, or 60.8 percent of the total reserves presented in Contango's Form 10-K. We have used all assumptions, data, methods, and procedures considered necessary and appropriate to prepare this report.

DISCUSSION

Eugene Island 10

Eugene Island 10 is located in federal and state waters of the Gulf of Mexico, at a water depth of approximately 13 feet. Production is primarily from a single CibOp sand, the JRM-1 sand, at a depth of approximately 15,000 feet. The field was discovered in September, 2006 by the Contango Operators Dutch 1 well. Contango has since drilled four more wells, the Dutch 2, 3, 4 and 5, on Federal acreage.

Contango's Louisiana State leases in this field are referred to as the Mary Rose prospect. Five Mary Rose wells have been drilled to date. Four Mary Rose wells, numbers 1 through 4, produce from the main CibOp sand. The Mary Rose 5 well produces from a separate, and much smaller, CibOp reservoir.

All wells now produce to the Contango 'H' platform located in Eugene Island Block 11. The Dutch 1, 2, and 3 wells previously produced to the Chevron EI-24 platform but were switched to the Contango 'H' platform in 2013.

Proved reserves for the Eugene Island 10 main CibOp sand are based on P/Z performance plots, supplemented by volumetric calculations of original-gas-in-place (OGIP) using all available well log data coupled with 3D seismic data. The reservoir has been effectively drilled to the lowest structural datum and no significant aquifer has been found. Performance to date indicates a depletion drive system. All Dutch and Mary Rose wells now flow to compression on the 'H' platform, allowing for a decrease in producing flowing tubing pressures. Contango plans to install a second stage of compression in the third quarter of 2017, which will lower the compressor inlet pressure to 200 psig or below. The Mary Rose 3 and 4 wells have forecasts that are modeled to increase at the time that the second stage is expected online. There are no remaining capital or start up costs for compression on the 'H' platform. The custody transfer meter is downstream of the compressor and other supply and fuel gas, so engineered and forecasted volumes already have these compressor and other fuel volumes removed, at an estimated total of 1,493 MCFD. The P/Z analysis was performed prior to compression being installed, so those ultimate reserves are reduced by a fuel volume allocated to each well based on its proportion of current gas production to the field total.

Contango's working interest ownership is approximately 55 percent in the Dutch wells and 53 percent in the Mary Rose 1 through 3 wells. The Contango working interest in the Mary Rose 4 and 5 wells is approximately 35 and 38 percent, respectively. Based on future net income, discounted at ten percent (PV10), approximately 99.7 percent of the evaluated Contango proved reserve value is attributable to the Eugene Island 10 wells.

Two wells on the State acreage originally produced from gas reservoirs separate from the main CibOp reservoir. The Eloise 3 well produced and depleted a lower RobL sand and was recompleted to an isolated CibOp sand during the last quarter of 2011. This stray CibOp producer, now called the Mary Rose 5, began producing in January 2012. The Eloise 5 well has also produced and depleted a lower RobL sand and was recompleted to the main CibOp reservoir mid-year 2011. The Eloise 5 was renamed the Dutch 5 well and began producing from the main CibOp reservoir in July 2011.

Ship Shoal 263

Contango drilled the Ship Shoal 263 B-1 well in 2009 and completed the well for production in a gas sand at 15,850 feet. The well began producing on June 30, 2010 and has produced approximately 8.5 BCF of gas and 561 MBBL of condensate to date. The well is currently shut-in and is expected to be plugged and abandoned in mid-2017.

Vermilion 170

Contango drilled the OCS-G-33596 #1 in March of 2011 and successfully completed the well in the Big A sand at a depth of approximately 13,800 feet. Production started in September 2011 upon installation of a production platform in 87 feet of water. Current production rates are 7.3 MMCF per day with 61 barrels of condensate. Cumulative production to date is approximately 20.5 BCF of gas and 437 MBBL of condensate. Proved producing reserves, which include benefits of recently installed compression, are based on a reservoir simulation model history matched to actual production and pressure performance.

South Timbalier 17-1

In mid to late-2013, Contango drilled and tested a well on its South Timbalier 17 lease. The South Timbalier 17-1 was drilled to a total measured depth of 11,432 feet, and was completed in a sand from 11,174 - 11,200 feet. The well tested in September of 2013 at a rate of 12.7 MMCF per day, but required facilities to be brought to normal production. Facilities were installed in 2014 and the well commenced production in July of 2014, with peak daily rates of 15.0 MMCF per day with 166 BBL of condensate. Current production rates are 1.1 MMCF per day with 2 barrels of condensate. Cumulative production to date is approximately 3.1 BCF of gas and 19.6 MBBL of condensate. Proved reserves included in this report are based on volumetric calculations to lowest known gas (LKG) in the 17-1 wellbore.

Tuscaloosa Marine Shale Wells

Contango owns a working interest in four Tuscaloosa Marine Shale (TMS) wells drilled from 2012 to 2014, which are operated by Goodrich Petroleum. The wells are located in Wilkinson and Amite Counties, Mississippi, and they produce from the Cretaceous aged TMS at a true vertical depth of approximately 12,000 feet. The wells were drilled horizontally with variable lateral lengths that

average approximately 6,000'. The wells were hydraulically fracture stimulated to increase well deliverability. Peak oil rates for the wells ranged from 225 to 875 BBL of oil per day, and averaged 585 BBL of oil per day. The wells are on hydraulic pump and in September of 2016, they produced at a combined rate of approximately 168 BBL of oil per day with 166 MCF of solution gas per day. The wells have a combined cumulative recovery through September of 2016 of approximately 555 MBBL of oil and 407 MMCF of solution gas. The TMS wells no longer flow gas to sales, so their only revenue streams are provided by oil sales.

OIL AND GAS PRICING

Projections of proved reserves contained in this report utilize constant product prices of \$2.49 per MMBTU of gas and \$42.75 per barrel of oil. These are the average first-of-month prices for the prior 12-month period for Henry Hub gas and West Texas Intermediate (WTI) oil. Appropriate oil and gas pricing differentials, residue gas shrink, NGL yields, and NGL pricing as a fraction of WTI were calculated for each field. Table 2 summarizes these values.

TABLE 2

CONTANGO – PRODUCT PRICE DIFFERENTIALS AND NGL YIELD BY FIELD

Field	Oil/Cond Differential (\$/BBL)	Residue Gas Differential (\$/MMBTU)	Residue Gas Fraction after Fuel & NGL	NGL Yield (B/MM)	NGL Fraction of WTI Price
Eugene Island 10 Federal	-1.956	0.020	0.8855	26.360	0.450
Eugene Island 10 State	-2.000	0.020	0.8867	26.308	0.451
Vermilion 170	-0.867	-0.448	0.8908	23.682	0.420
South Timbalier 17-1	-4.020	-0.299	0.9645	0.000	0.000
Average of TMS Wells	-2.170	0.000	0.0000	0.000	0.000

OPERATING COSTS

Future operating costs for each of the Contango wells are held constant at current values for the life of the property. Following is a brief description of the gross operating cost projections for each of the Contango properties:

For the 11 months of lease operating expense (LOE) data analyzed, the five Dutch wells had an average monthly operating cost of \$345,479, or \$69,096 per producing well. The Mary Rose 1 through 4 wells had an average monthly operating cost of \$297,792, or \$74,448 per producing well, and were assumed to carry the expenses for the low rate Mary Rose 5 well.

Certain transportation and processing fees are applied to the wells producing to the 'H' platform, which were calculated using 11 months of LOE data. For the Dutch wells, transportation and processing fees of \$6.170 per net barrel of oil and \$2.422 per net barrel of NGL were scheduled. A gas

processing fee of \$0.083 per net produced MCF was also scheduled. For the Mary Rose wells, transportation and processing fees of \$5.606 per net barrel of oil and \$2.222 per net barrel of NGL were scheduled. A gas processing fee of \$0.075 per net produced MCF was also scheduled.

For Ship Shoal 263, a fixed operating cost of \$25,000 per month was estimated as the cost for insurance and a weekly platform visit, while the well awaits plugging and platform abandonment.

For Vermilion 170, operating costs were determined using the available historical expense data provided by Contango. A fixed monthly operating cost of \$135,153 was scheduled. Variable costs of \$0.053 per net MCF of produced gas, \$1.570 per net barrel of oil, and \$5.371 per net barrel of NGL were scheduled.

For South Timbalier 17-1, an operating cost of \$14,282 per month was calculated from available historical expense data, with additional production and handling fees (PHA) applied. Total PHA fees applied to historical gas volumes resulted in a modeled PHA fee of \$0.471 per MCF of produced gas. In addition to the PHA fees, product transportation and processing fees of \$0.631 per net MCF of produced gas and \$0.097 per net barrel of oil were scheduled.

The Crosby Minerals 12-1, Foster Creek 20-7, Foster Creek 24-13, and Huff 18-7 had fixed operating costs of \$22,457, \$21,110, \$21,840, and \$25,161 per month, respectively. There were no variable costs as all costs were considered fixed; additional history and LOE detail may allow for some fixed costs to be moved to variable.

CAPITAL COSTS

All of the Contango properties are classified as developed-producing. Therefore, no development costs are required. However, abandonment costs, as provided by Contango, have been scheduled. Platform abandonment costs are net of anticipated salvage value. No salvage value for the individual wells has been considered.

PROFESSIONAL GUIDELINES

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years, from known reservoirs under expected economic and operating conditions. Reserves are considered proved if economic productivity is supported by either actual production or conclusive formation tests.

Probable reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves, but more certain to be recovered than possible reserves. Possible reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than probable reserves.

The reserve definitions used by Cobb & Associates are consistent with definitions set forth in the PRMS and approved by the Society of Petroleum Engineers and other professional organizations.

The reserves included in this report are estimates only and should not be construed as being exact quantities. Governmental policies, uncertainties of supply and demand, the prices actually received for the reserves, and the costs incurred in recovering such reserves, may vary from the price and cost assumptions in this report. Estimated reserves using price escalations may vary from values obtained using constant price scenarios. In any case, estimates of reserves, resources, and revenues may increase or decrease as a result of future operations.

Cobb & Associates has not examined titles to the appraised properties nor has the actual degree of interest owned been independently confirmed. The data used in this evaluation were obtained from Contango Oil & Gas Company and the non-confidential files of Cobb & Associates and were considered accurate.

We have not made a field examination of the Contango properties, therefore, operating ability and condition of the production equipment have not been considered. Also, environmental liabilities, if any, caused by Contango or any other operator have not been considered, nor has the cost to restore the property to acceptable conditions, as may be required by regulation, been taken into account.

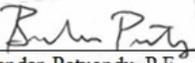
In evaluating available information concerning this appraisal, Cobb & Associates has excluded from its consideration all matters as to which legal or accounting interpretation, rather than engineering, may be controlling. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering data and conclusions necessarily represent only informed professional judgments.

William M. Cobb & Associates, Inc. is an independent consulting firm founded in 1983. Its compensation is not contingent on the results obtained or reported. This report was prepared by associates of the firm who are licensed professional engineers with 14 to 40 years of experience in the estimation, assessment, and evaluation of oil and gas reserves. Frank J. Marek, a Registered Texas Professional Engineer and President of William M. Cobb & Associates, Inc., is primarily responsible for overseeing the preparation of the reserve report. His professional qualifications meet or exceed the qualifications of reserve estimators set forth in the "Standards Pertaining to Estimation and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers. His qualifications include: Bachelor of Science degree in Petroleum Engineering from Texas A&M University 1977; member of the Society of Petroleum Engineers; member of the Society of Petroleum Evaluation Engineers; and 40 years of experience in estimating and evaluating reserve information and estimating and evaluating reserves.

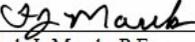
Cobb & Associates appreciates the opportunity to be of service to you. If you have any questions regarding this report, please do not hesitate to contact us.

Sincerely,

WILLIAM M. COBB & ASSOCIATES, INC.
Texas Registered Engineering Firm F-84


Brendan Potyondy, P.E.
Vice President




Frank J. Marek, P.E.
President



January 18, 2017

Mr. Jay S. Mengle
Contango Oil & Gas Company
717 Texas Avenue, Suite 2900
Houston, Texas 77002

Dear Mr. Mengle:

In accordance with your request, we have estimated the proved reserves and future revenue, as of December 31, 2016, to the Contango Oil & Gas Company (Contango) interest in certain oil and gas properties located in Louisiana, Mississippi, Texas, and Wyoming. We completed our evaluation on or about the date of this letter. It is our understanding that the proved reserves estimated in this report constitute approximately 39 percent of all proved reserves owned by Contango. The estimates in this report have been prepared in accordance with the definitions and regulations of the U.S. Securities and Exchange Commission (SEC) and conform to the FASB Accounting Standards Codification Topic 932, *Extractive Activities—Oil and Gas*, except that future income taxes are excluded for all properties and, as requested, per-well overhead expenses are excluded for the operated properties and abandonment costs have not been included in our estimates of future net revenue. Definitions are presented immediately following this letter. This report has been prepared for Contango's use in filing with the SEC, in our opinion the assumptions, data, methods, and procedures used in the preparation of this report are appropriate for such purpose.

We estimate the net reserves and future net revenue to the Contango interest in these properties, as of December 31, 2016, to be:

Category	Net Reserves			Future Net Revenue (M\$)	
	Oil (MBBL)	NGL (MBBL)	Gas (MMCF)	Total	Present Worth at 10%
Proved Developed Producing	1,530.6	718.7	10,088.7	40,303.5	28,772.3
Proved Developed Non-Producing	169.5	549.3	9,289.0	18,620.5	12,523.6
Proved Undeveloped	1,265.3	850.2	9,657.8	25,763.8	12,221.7
Total Proved	2,965.4	2,118.3	29,035.4	84,687.7	53,517.5

Totals may not add because of rounding.

The oil volumes shown include crude oil and condensate. Oil and natural gas liquids (NGL) volumes are expressed in thousands of barrels (MBBL); a barrel is equivalent to 42 United States gallons. Gas volumes are expressed in millions of cubic feet (MMCF) at standard temperature and pressure bases.

The estimates shown in this report are for proved reserves. As requested, probable and possible reserves that exist for these properties have not been included. This report does not include any value that could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated. Reserves categorization conveys the relative degree of certainty; reserves subcategorization is based on development and production status. The estimates of reserves and future revenue included herein have not been adjusted for risk.

Gross revenue is Contango's share of the gross (100 percent) revenue from the properties prior to any deductions. Future net revenue is after deductions for Contango's share of production taxes, ad valorem taxes, capital costs, and operating expenses but before consideration of any income taxes. The future net revenue has been discounted at an annual rate of 10 percent to determine its present worth, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.

Prices used in this report are based on the 12-month unweighted arithmetic average of the first-day-of-the-month price for each month in the period January through December 2016. For oil and NGL volumes, the average West Texas Intermediate posted price of \$39.25 per barrel is adjusted by field for quality, transportation fees, and market differentials. For gas volumes, the average Henry Hub spot price of \$2.481 per MMBTU is adjusted by field for energy content, transportation fees, and market differentials. All prices are held constant throughout the lives of the properties. The average adjusted product prices weighted by production over the remaining lives of the properties are \$38.33 per barrel of oil, \$7.75 per barrel of NGL, and \$2.330 per MCF of gas.

Operating costs used in this report are based on operating expense records of Contango. For the nonoperated properties, these costs include the per-well overhead expenses allowed under joint operating agreements along with estimates of costs to be incurred at and below the district and field levels. As requested, operating costs for the operated properties include only direct lease- and field-level costs. Operating costs have been divided into per-well costs and per-unit-of-production costs. For all properties, headquarters general and administrative overhead expenses of Contango are not included. Operating costs are not escalated for inflation.

Capital costs used in this report were provided by Contango and are based on authorizations for expenditure and actual costs from recent activity. Capital costs are included as required for workovers, new development wells, and production equipment. Based on our understanding of future development plans, a review of the records provided to us, and our knowledge of similar properties, we regard these estimated capital costs to be reasonable. Capital costs are not escalated for inflation. As requested, our estimates do not include any salvage value for the lease and well equipment or the cost of abandoning the properties.

For the purposes of this report, we did not perform any field inspection of the properties, nor did we examine the mechanical operation or condition of the wells and facilities. We have not investigated possible environmental liability related to the properties; therefore, our estimates do not include any costs due to such possible liability.

We have made no investigation of potential volume and value imbalances resulting from overdelivery or underdelivery to the Contango interest. Therefore, our estimates of reserves and future revenue do not include adjustments for the settlement of any such imbalances; our projections are based on Contango receiving its net revenue interest share of estimated future gross production. Additionally, we have made no investigation of any firm transportation contracts that may be in place for these properties; no adjustments have been made to our estimates of future revenue to account for such contracts.

The reserves shown in this report are estimates only and should not be construed as exact quantities. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be economically producible; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves. Estimates of reserves may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance. In addition to the primary economic assumptions discussed herein, our estimates are based on certain assumptions including, but not limited to, that the properties will be developed consistent with current development plans as provided to us by Contango, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the interest owner to recover the reserves, and that our projections of future production will prove consistent with actual performance. If the reserves are recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

The following definitions are set forth in U.S. Securities and Exchange Commission (SEC) Regulation S-X Section 210.4-10(a). Also included is supplemental information from (1) the 2007 Petroleum Resources Management System approved by the Society of Petroleum Engineers, (2) the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas, and (3) the SEC's Compliance and Disclosure Interpretations.

(1) *Acquisition of properties.* Costs incurred to purchase, lease or otherwise acquire a property, including costs of lease bonuses and options to purchase or lease properties, the portion of costs applicable to minerals when land including mineral rights is purchased in fee, brokers' fees, recording fees, legal costs, and other costs incurred in acquiring properties.

(2) *Analogous reservoir.* Analogous reservoirs, as used in resources assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, an "analogous reservoir" refers to a reservoir that shares the following characteristics with the reservoir of interest:

- (i) Same geological formation (but not necessarily in pressure communication with the reservoir of interest);
- (ii) Same environment of deposition;
- (iii) Similar geological structure; and
- (iv) Same drive mechanism.

Instruction to paragraph (a)(2): Reservoir properties must, in the aggregate, be no more favorable in the analog than in the reservoir of interest.

(3) *Bitumen.* Bitumen, sometimes referred to as natural bitumen, is petroleum in a solid or semi-solid state in natural deposits with a viscosity greater than 10,000 centipoise measured at original temperature in the deposit and atmospheric pressure, on a gas free basis. In its natural state it usually contains sulfur, metals, and other non-hydrocarbons.

(4) *Condensate.* Condensate is a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

(5) *Deterministic estimate.* The method of estimating reserves or resources is called deterministic when a single value for each parameter (from the geoscience, engineering, or economic data) in the reserves calculation is used in the reserves estimation procedure.

(6) *Developed oil and gas reserves.* Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

- (i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and
- (ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Supplemental definitions from the 2007 Petroleum Resources Management System:

Developed Producing Reserves – Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves – Developed Non-Producing Reserves include shut-in and behind-pipe Reserves. Shut-in Reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future recompletion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(7) *Development costs.* Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (i) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines, and power lines, to the extent necessary in developing the proved reserves.
- (ii) Drill and equip development wells, development-type stratigraphic test wells, and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment, and the wellhead assembly.
- (iii) Acquire, construct, and install production facilities such as lease flow lines, separators, treaters, heaters, manifolds, measuring devices, and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems.
- (iv) Provide improved recovery systems.

(8) *Development project.* A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field, or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.

(9) *Development well.* A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

(10) *Economically producible.* The term economically producible, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. The value of the products that generate revenue shall be determined at the terminal point of oil and gas producing activities as defined in paragraph (a)(16) of this section.

(11) *Estimated ultimate recovery (EUR).* Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.

(12) *Exploration costs.* Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as prospecting costs) and after acquiring the property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies. Collectively, these are sometimes referred to as geological and geophysical or "G&G" costs.
- (ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.
- (iii) Dry hole contributions and bottom hole contributions.
- (iv) Costs of drilling and equipping exploratory wells.
- (v) Costs of drilling exploratory-type stratigraphic test wells.

(13) *Exploratory well.* An exploratory well is a well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well, or a stratigraphic test well as those items are defined in this section.

(14) *Extension well.* An extension well is a well drilled to extend the limits of a known reservoir.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(15) *Field*. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms "structural feature" and "stratigraphic condition" are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

(16) *Oil and gas producing activities*.

(i) Oil and gas producing activities include:

- (A) The search for crude oil, including condensate and natural gas liquids, or natural gas ("oil and gas") in their natural states and original locations;
- (B) The acquisition of property rights or properties for the purpose of further exploration or for the purpose of removing the oil or gas from such properties;
- (C) The construction, drilling, and production activities necessary to retrieve oil and gas from their natural reservoirs, including the acquisition, construction, installation, and maintenance of field gathering and storage systems, such as:
 - (1) Lifting the oil and gas to the surface; and
 - (2) Gathering, treating, and field processing (as in the case of processing gas to extract liquid hydrocarbons); and
- (D) Extraction of saleable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

Instruction 1 to paragraph (a)(16)(i): The oil and gas production function shall be regarded as ending at a "terminal point", which is the outlet valve on the lease or field storage tank. If unusual physical or operational circumstances exist, it may be appropriate to regard the terminal point for the production function as:

- a. The first point at which oil, gas, or gas liquids, natural or synthetic, are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal; and
- b. In the case of natural resources that are intended to be upgraded into synthetic oil or gas, if those natural resources are delivered to a purchaser prior to upgrading, the first point at which the natural resources are delivered to a main pipeline, a common carrier, a refinery, a marine terminal, or a facility which upgrades such natural resources into synthetic oil or gas.

Instruction 2 to paragraph (a)(16)(i): For purposes of this paragraph (a)(16), the term *saleable hydrocarbons* means hydrocarbons that are saleable in the state in which the hydrocarbons are delivered.

(ii) Oil and gas producing activities do not include:

- (A) Transporting, refining, or marketing oil and gas;
- (B) Processing of produced oil, gas, or natural resources that can be upgraded into synthetic oil or gas by a registrant that does not have the legal right to produce or a revenue interest in such production;
- (C) Activities relating to the production of natural resources other than oil, gas, or natural resources from which synthetic oil and gas can be extracted; or
- (D) Production of geothermal steam.

(17) *Possible reserves*. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.

- (i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

- (ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain. Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.
 - (iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.
 - (iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.
 - (v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.
 - (vi) Pursuant to paragraph (a)(22)(iii) of this section, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.
- (18) *Probable reserves.* Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.
- (i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.
 - (ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.
 - (iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.
 - (iv) See also guidelines in paragraphs (a)(17)(iv) and (a)(17)(vi) of this section.
- (19) *Probabilistic estimate.* The method of estimation of reserves or resources is called probabilistic when the full range of values that could reasonably occur for each unknown parameter (from the geoscience and engineering data) is used to generate a full range of possible outcomes and their associated probabilities of occurrence.
- (20) *Production costs.*
- (i) Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. They become part of the cost of oil and gas produced. Examples of production costs (sometimes called lifting costs) are:
 - (A) Costs of labor to operate the wells and related equipment and facilities.
 - (B) Repairs and maintenance.
 - (C) Materials, supplies, and fuel consumed and supplies utilized in operating the wells and related equipment and facilities.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

- (D) Property taxes and insurance applicable to proved properties and wells and related equipment and facilities.
- (E) Severance taxes.

- (ii) Some support equipment or facilities may serve two or more oil and gas producing activities and may also serve transportation, refining, and marketing activities. To the extent that the support equipment and facilities are used in oil and gas producing activities, their depreciation and applicable operating costs become exploration, development or production costs, as appropriate. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs are not production costs but also become part of the cost of oil and gas produced along with production (lifting) costs identified above.

(21) *Proved area.* The part of a property to which proved reserves have been specifically attributed.

(22) *Proved oil and gas reserves.* Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation.

The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

- (i) The area of the reservoir considered as proved includes:

- (A) The area identified by drilling and limited by fluid contacts, if any, and
- (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

- (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

- (iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

- (iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

- (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and
- (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

- (v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

(23) *Proved properties.* Properties with proved reserves.

(24) *Reasonable certainty.* If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90%

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

(25) *Reliable technology.* Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

(26) *Reserves.* Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

<i>Excerpted from the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas:</i>	
<i>932-235-50-30 A standardized measure of discounted future net cash flows relating to an entity's interests in both of the following shall be disclosed as of the end of the year:</i>	
<i>a.</i>	<i>Proved oil and gas reserves (see paragraphs 932-235-50-3 through 50-11B)</i>
<i>b.</i>	<i>Oil and gas subject to purchase under long-term supply, purchase, or similar agreements and contracts in which the entity participates in the operation of the properties on which the oil or gas is located or otherwise serves as the producer of those reserves (see paragraph 932-235-50-7).</i>

The standardized measure of discounted future net cash flows relating to those two types of interests in reserves may be combined for reporting purposes.

<i>932-235-50-31 All of the following information shall be disclosed in the aggregate and for each geographic area for which reserve quantities are disclosed in accordance with paragraphs 932-235-50-3 through 50-11B:</i>	
<i>a.</i>	<i>Future cash inflows. These shall be computed by applying prices used in estimating the entity's proved oil and gas reserves to the year-end quantities of those reserves. Future price changes shall be considered only to the extent provided by contractual arrangements in existence at year-end.</i>
<i>b.</i>	<i>Future development and production costs. These costs shall be computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. If estimated development expenditures are significant, they shall be presented separately from estimated production costs.</i>
<i>c.</i>	<i>Future income tax expenses. These expenses shall be computed by applying the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, to the future pretax net cash flows relating to the entity's proved oil and gas reserves, less the tax basis of the properties involved. The future income tax expenses shall give effect to tax deductions and tax credits and allowances relating to the entity's proved oil and gas reserves.</i>
<i>d.</i>	<i>Future net cash flows. These amounts are the result of subtracting future development and production costs and future income tax expenses from future cash inflows.</i>
<i>e.</i>	<i>Discount. This amount shall be derived from using a discount rate of 10 percent a year to reflect the timing of the future net cash flows relating to proved oil and gas reserves.</i>
<i>f.</i>	<i>Standardized measure of discounted future net cash flows. This amount is the future net cash flows less the computed discount.</i>

(27) *Reservoir.* A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(28) *Resources*. Resources are quantities of oil and gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable, and another portion may be considered to be unrecoverable. Resources include both discovered and undiscovered accumulations.

(29) *Service well*. A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.

(30) *Stratigraphic test well*. A stratigraphic test well is a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intent of being completed for hydrocarbon production. The classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic tests are classified as "exploratory type" if not drilled in a known area or "development type" if drilled in a known area.

(31) *Undeveloped oil and gas reserves*. Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

- (i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
- (ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

From the SEC's Compliance and Disclosure Interpretations (October 26, 2009):

Although several types of projects — such as constructing offshore platforms and development in urban areas, remote locations or environmentally sensitive locations — by their nature customarily take a longer time to develop and therefore often do justify longer time periods, this determination must always take into consideration all of the facts and circumstances. No particular type of project per se justifies a longer time period, and any extension beyond five years should be the exception, and not the rule.

Factors that a company should consider in determining whether or not circumstances justify recognizing reserves even though development may extend past five years include, but are not limited to, the following:

The company's level of ongoing significant development activities in the area to be developed (for example, drilling only the minimum number of wells necessary to maintain the lease generally would not constitute significant development activities);

The company's historical record at completing development of comparable long-term projects;

The amount of time in which the company has maintained the leases, or booked the reserves, without significant development activities;

The extent to which the company has followed a previously adopted development plan (for example, if a company has changed its development plan several times without taking significant steps to implement any of those plans, recognizing proved undeveloped reserves typically would not be appropriate); and

The extent to which delays in development are caused by external factors related to the physical operating environment (for example, restrictions on development on Federal lands, but not obtaining government permits), rather than by internal factors (for example, shifting resources to develop properties with higher priority).

- (iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

(32) *Unproved properties*. Properties with no proved reserves.

99.3

February 14, 2017

Mr. John P. Atwood
 Senior Vice President
 Exaro Energy III, LLC
 1800 Bering Drive, Suite 540
 Houston, Texas 77057

Re: Engineering Evaluation
 Estimate of Reserves & Revenues
 SEC Year End 2016 Pricing
 "As of" January 1, 2017

Dear Mr. Atwood:

At your request, W.D. Von Gonten & Co. has estimated future reserves and projected net revenues attributable to certain oil and gas interests currently owned by Exaro Energy III, LLC (Exaro). The properties represented herein are located in the Jonah field of Sublette County, Wyoming. A summary of the discounted future net revenue attributable to Exaro's Proven reserves, "As of" January 1, 2017, is as follows:

SEC Year End 2016 Pricing	Net to Exaro Energy III, LLC					
	Proved Dev. Producing			Proved Dev. Non Producing		Total Proved
	New Wells	Old Wells	Total	Old Wells	Total	
Reserve Estimates						
Oil Cond., Mbbl	453.6	519.1	972.7	2.1	2.1	974.7
Gas, MMcf	32,833.2	49,375.4	82,208.6	240.1	240.1	82,448.7
Gas Equivalent, MMcf	35,554.5	52,490.3	88,044.8	252.4	252.4	88,297.2
Revenues						
Oil \$ (16.1)%	17,960,580	20,558,132	38,518,708	81,300	81,300	38,600,008
Gas, \$ (83.9)%	71,822,608	128,376,024	200,198,656	624,306	624,306	200,822,944
Total, \$	89,783,188	148,934,156	238,717,364	705,606	705,606	239,422,952
Expenditures						
AdValorem Taxes, \$	4,759,378	8,129,928	12,889,305	38,517	38,517	12,927,824
Severance Taxes, \$	4,336,528	7,297,774	11,634,302	34,575	34,575	11,668,876
Direct Operating Expense, \$	23,516,964	47,758,224	71,275,184	0	0	71,275,184
Variable Operating Expense, \$	22,033,148	32,523,482	54,556,634	190,027	190,027	54,746,663
Total, \$	54,646,018	95,709,408	150,355,425	263,119	263,119	150,618,547
Investments						
Capital, \$	1,690,621	4,558,051	6,248,671	196,185	196,185	6,444,856
Estimated Future Net Revenues (FNR)						
Undiscounted FNR	33,446,544	48,668,724	82,113,272	246,302	246,302	82,359,568
FNR Disc. @ 10%	21,519,656	31,929,862	53,449,516	118,393	118,393	53,567,920
Allocation Percentage by Classification						
FNR Disc. @ 10%	40.2%	59.6%	99.8%	0.2%	0.2%	100.0%

*Due to computer rounding, numbers in the above table may not sum exactly.

Report Preparation

Purpose of Report – The purpose of this report is to provide Exaro with a projection of future reserves and revenues attributable to certain Proved oil and gas interests presently owned.

Scope of Report – W.D. Von Gonten & Co. was engaged by Exaro to estimate the reserves and revenues associated with the properties included in this report. Once reserves were estimated, future revenue projections were generated utilizing SEC pricing guidelines.

Reporting Requirements – Securities and Exchange Commission (SEC) Regulation S-X 210, Rule 4-10 and Regulation S-K 229, Item 1200 (as revised in December 2008, effective 1-1-10), and Financial Accounting Standards Board (FASB) Statement No. 69 require oil and gas reserve information to be reported by publicly held companies as supplemental financial data. These regulations and standards provide for estimates of Proved reserves and revenues discounted at 10% and based on unescalated prices and costs. Revenues based on alternate product price scenarios may be reported in addition to the current pricing case. Reporting probable and possible reserves is optional. Probable and possible reserves must be reported separately from proved reserves.

The Society of Petroleum Engineers (SPE) requires Proved reserves to be economically recoverable with prices and costs in effect on the “as of” date of the report. In conjunction with the World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), the SPE has issued *Petroleum Resources Management System (2007 ed.)*, which sets forth the definitions and requirements associated with the classification of both reserves and resources. In addition, the SPE has issued *Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information*, which sets requirements for the qualifications and independence of reserve estimators and auditors.

The estimated Proved reserves herein have been prepared in conformance with all SEC, SPE, WPC, AAPG, and SPEE definitions and requirements.

Projections – The reserve and revenue projections represented herein are on a calendar year basis, with the first time period beginning January 1, 2017 and ending December 31, 2017.

Property Discussion

Exaro signed an Earning and Development Agreement (EDA) with Encana Oil & Gas (Encana) in April 2012 that allowed them to gradually obtain increasing levels of ownership in the Jonah field. As part of the EDA, Exaro's interest in each well drilled prior to the April 2012 agreement (old Proved Developed Producing (PDP) wells) continued to increase as Encana drilled additional wells (new wells) within the field. Exaro's interest in the new wells stayed constant for the life of the well. For each new well drilled within the EDA, Exaro paid for 100% of the capital costs and earned 32.5% of Encana's interest in the new wellbore until Exaro was fully earned into their devoted interest. In addition, for each new well drilled, Exaro earned 0.40% interest in the old PDP wells and related leasehold if Encana's working interest in the new well location was 100% and a proportional share if not.

As of the date of this report, Encana has sold its ownership to Jonah Energy, LLC (Jonah Energy). Exaro notified Jonah Energy of its intent to terminate the EDA effective May 12, 2014, and thereafter participate under the existing Joint Operating Agreements (JOA's) going forward. Exaro currently has no locations left under the EDA. All wells are proposed under the JOA and Exaro has the right to participate for its working interest in each well. At the current time, there are no rigs running within Exaro's acreage and there is no indication when Jonah Energy might restore drilling. Due to the uncertainty of timing and the current pricing scenario, there are no upside locations scheduled to be drilled within this report.

Within the PNP category, Jonah Energy and Exaro have scheduled 39 currently producing wells for their artificial lift program. The goal is to lower tubing into the active perms of each well to more efficiently lift the produced liquids. The total gross cost of each will be approximately \$24,000 and the average expected reserve uplift around 50 MMcf. W.D. Von Gonten & Co. was able to calculate the reserve uplift based on wells with tubing lowered in 2015 and 2016.

Production in this area is primarily from the Lance sand which can range from 8,000' to 11,000' in depth and approach 3000' in interval thickness.

Exaro has divided the Jonah field into three areas based on location and production performance characteristics. The Updip area covers the western portion of Exaro's acreage. The Downdip area covers the central and northern acreage. The Antelope area covers the acreage in the eastern portion of the field. Since the signing of the original EDA, Encana drilled 158 wells in the Jonah field. These wells were spread across the Antelope, Downdip, and Updip areas of the field. W.D. Von Gonten & Co. originally developed three type curves for these areas. Due to an increasing amount of production history, W.D. Von Gonten & Co. decided to further divide the Updip and Antelope sections into several parts and adjust the type curves as necessary.

At the beginning of 2014, Jonah Energy drilled a horizontal well in section 29 of the Antelope area. This well may have suffered damage caused by an altered frac fluid. It is currently producing at a gross rate of 2.1 MMcf/day with an EUR of 8.0 Bcf. Mid 2015, a second horizontal with a longer lateral and more frac stages was drilled to the north of the original horizontal well. The horizontal portion was drilled approximately 400' below the original and is only producing at a gross rate of 0.68 MMcf/day. There are no horizontal locations scheduled to be drilled within this report.

Starting in February 2015, Jonah Energy began line pressure reduction projects in the field on varying groups of wells. They started by lowering the pressure from 200 psi to 50 psi in 17 wells located in section 35 and named the project 10-35. Lowering the pressure caused an increase in the production rate and reserves on most of the connected wells. Based on provided daily production data, W.D. Von Gonten & Co. was able to give these wells a brief uplift in the production projections. Jonah Energy has since begun and maintained several projects throughout the updip sections. Though other similar projects are reportedly planned, there are no future projects scheduled in the non-producing categories of this report. As Exaro is not the operator of the field and therefore has no control over the implementation of such projects, intent and/or timing cannot be determined.

Figure 1 displays the comparison of Exaro's historical monthly net production and W.D. Von Gonten & Co.'s forecasted net monthly production beginning January 1, 2017.

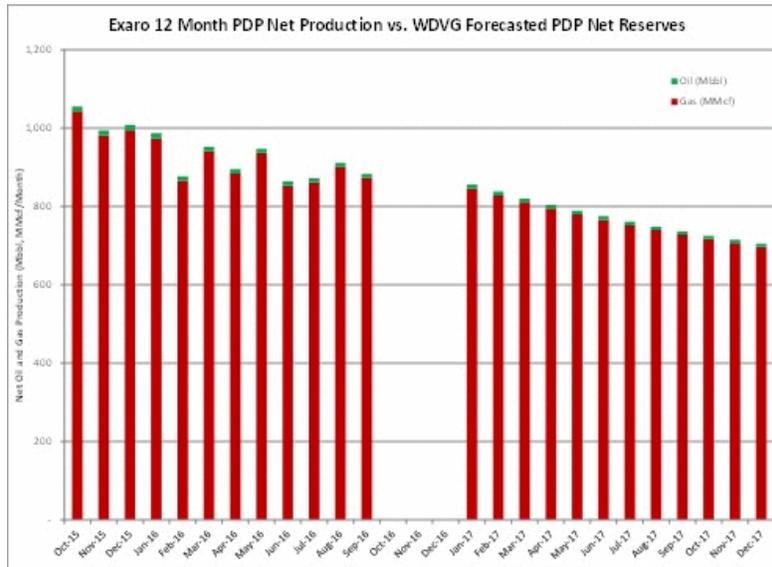


Figure 1: Historical Net Production and PDP Reserves Forecast as of January 1, 2017

Figure 2 below is a graphical comparison of Exaro's October 2015 through September 2016 historical net revenue and W.D. Von Gonten & Co.'s forecasted net revenue beginning in January 2017.

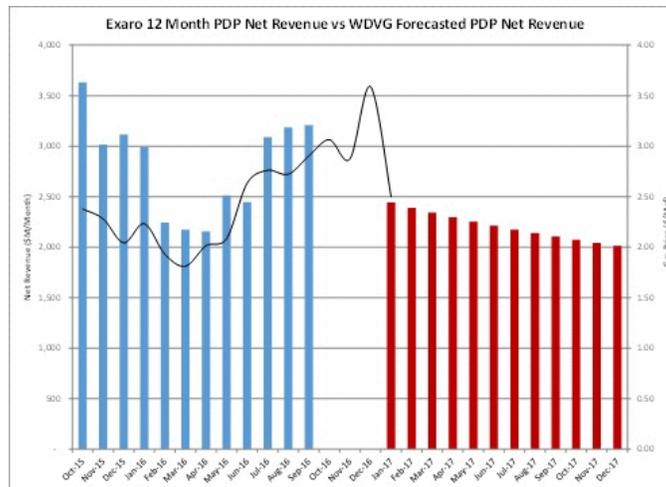


Figure 2: Historical Net Revenue and Forecasted Net Revenue as of January 1, 2017

Reserves Discussion

Reserves estimates represented herein were generally determined through the implementation of various methods including, but not limited to, performance decline, analogy and type curve analysis. Based on the amount of available data, one or more of the above methods was utilized as deemed appropriate.

Reserves and schedules of production included in this report are only estimates. The amount of available data, reservoir and geological complexity, reservoir drive mechanism, and mechanical aspects can have a material effect on the accuracy of these reserve estimates. Due to inherent uncertainties in future production rates, commodity prices, and geologic conditions, it should be realized that the reserve estimates, the reserves actually recovered, the revenue derived therefrom and the actual cost incurred could be more or less than the estimated amounts.

Product Prices Discussion

SEC pricing is determined by averaging the first day of each month's closing price for the previous calendar year using published benchmark oil and gas prices. This method, as applied for the purposes of this report, renders a price of \$42.60 per barrel of oil and \$2.50 per MMBtu of gas. These prices were held constant throughout the life of the properties, as per SEC guidelines.

Pricing differentials were applied on a field basis to reflect the actual prices received at the wellhead. Differentials typically account for transportation costs, geographical differentials, marketing bonuses or deductions, and any other factors that may affect the price actually received at the wellhead. W.D. Von Gonten & Co. originally determined historical pricing differentials from lease operating data provided by Exaro representing the time period of October 2015 through September 2016. At the request of Exaro, only data from April 2016 through September 2016 was used to calculate the oil differential in part due to the rapidly changing pricing environment. The oil differential, as a result, has been decreased from -\$4.00/bbl to -\$3.00/bbl.

Figures 3 and 4 illustrate the comparison between historical differentials versus what is being projected in the report.

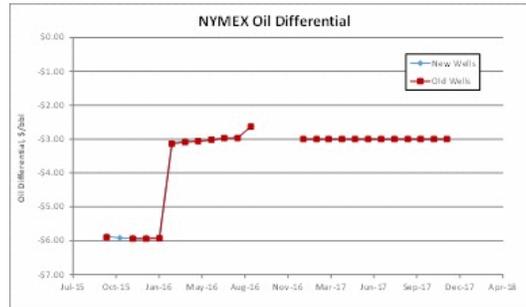


Figure 3: Historical and Forecasted Oil Differential

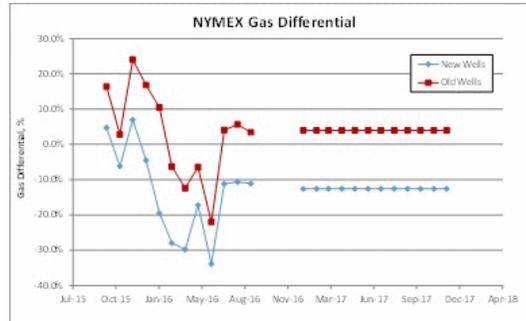


Figure 4: Historical and Forecasted Gas Differential

W.D. Von Gonten & Co. has included the historical NGL revenue and processing fees within the gas price differential for the new wells only. Due to existing and new contracts, the old wells do not include any NGL revenue or fees.

Operating Expenses and Capital Costs Discussion

Projected monthly operating expenses associated with the Jonah properties were based on the review of lease operating data provided by Exaro for the time period of October 2015 through September 2016. Using the supplied data, W.D. Von Gonten & Co. applied a gross direct expense to each well based on its classification of new and old. If the well was involved in a line pressure reduction project, the operating expenses for those wells were higher. The horizontal wells also have an increased monthly operating cost which is based on their historical numbers. All new wells have a net variable revenue deduct of \$0.58 per Mcf and \$0.57 per Mcf on the old wells. In addition, all wells have a \$4.16/bbl salt water disposal (SWD) variable cost. All direct and variable operating expenses were held constant for the economic life of the properties.

Figure 5 below is a graphical comparison of historical net lease operating expenses for October 2015 through September 2016 versus comparable forecasted expenses for January through December 2017. October 2015 is irregularly high due to revenue adjustments, increased water disposal and handling costs, and capital costs billing for prior periods.

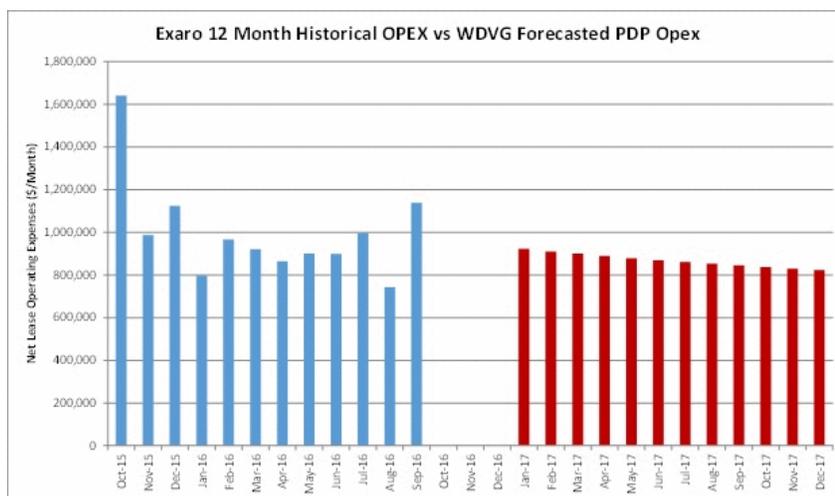


Figure 5: Historical and Forecasted Lease Operating Expense

Capital costs necessary to perform well completion operations and to drill undeveloped locations were supplied by Exaro. These costs were not verified from actual recent work in the area of interest, and therefore W.D. Von Gonten & Co. expresses no warranties as to the accuracy or reasonableness of these assumptions.

Other Considerations

Abandonment Costs – Cost estimates regarding future plugging and abandonment liabilities associated with these properties were supplied by Exaro for the purposes of this report. As we have not inspected the properties personally, W.D. Von Gonten & Co. expresses no warranties as to the accuracy or reasonableness of Exaro’s estimates regarding abandonment. A third party study would be necessary in order to accurately estimate all future abandonment liabilities.

Data Sources – Data furnished by Exaro included basic well information, lease operating statements, ownership, pricing, and production information on certain leases. IHS Energy archives was utilized to view the monthly production for some of the wells included in this report.

Context – We specifically advise that any particular reserve estimate for a specific property not be used out of context with the overall report. **The revenues and present worth of future net revenues are not represented to be market value either for individual properties or on a total property basis.**

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant’s ability to recover its oil and gas reserves, we are not aware of any such governmental actions which would restrict the recovery of the estimated oil and gas volumes represented herein. The reserves in this report can be produced under current regulatory guidelines. Actual future commodity prices may differ substantially from the utilized pricing scenario which may or may not extend or limit the estimated reserve and revenue quantities presented in this report.

We have not inspected the properties included in this report, nor have we conducted independent well tests. W.D. Von Gonten & Co. and our employees have no direct ownership in any of the properties included in this report. Our fees are based on hourly expenses, and are not related to the reserve and revenue estimates produced in this report.

Thank you for the opportunity to assist Exaro Energy III, LLC with this project.



W.D. Von Gonten & Co.
Petroleum Engineering
TX Lic # F-1855

Respectfully submitted,

Phillip R. Hunter

Phillip Hunter, P.E.
TX #96590

Jamie Foster

Jamie Foster

Reviewed by:

W.D. Von Gonten, Jr.

W.D. Von Gonten, Jr., P.E.
TX #73244

Exaro Energy III LLC and Subsidiaries

Consolidated Financial Report

(Unaudited)

December 31, 2016

Exaro Energy III LLC and Subsidiaries

Consolidated Balance Sheets

December 31, 2016 and 2015

(Unaudited)

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 19,568,166	\$ 14,487,329
Accounts receivable	5,229,794	4,371,034
Derivative assets		4,824,015
Prepaid expenses	471,720	89,310
Due from related parties	25,849	18,435
Total current assets	25,295,529	23,790,123
PROPERTY AND EQUIPMENT		
Oil and gas properties - successful efforts method of accounting	291,862,030	293,042,154
Furniture, fixtures and equipment	114,852	113,123
	291,976,882	293,155,277
Less: accumulated depletion, depreciation, amortization and impairment	(201,355,290)	(191,611,508)
Total property and equipment, net	90,621,592	101,543,769
OTHER ASSETS		
Gas processing deposit	1,150,000	-
Other	7,512	7,512
Total other assets	1,157,512	7,512
TOTAL ASSETS	\$ 117,074,633	\$ 125,341,404

Exaro Energy III LLC and Subsidiaries

Consolidated Balance Sheets Continued

December 31, 2016 and 2015

(Unaudited)

LIABILITIES AND MEMBERS' EQUITY CURRENT	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 6,030,946	\$ 5,407,419
Short- term derivative liability	175,535	-
Current debt maturities, net of deferred financing costs of \$204,104	59,295,896	-
Interest payable	191,958	172,665
Total current liabilities	<u>65,694,335</u>	<u>5,580,084</u>
NON-CURRENT LIABILITIES		
Asset retirement obligations	3,293,020	2,850,270
Long-term debt, net of deferred financing costs of \$478,346	-	78,021,654
Derivative liability	4,782,093	-
Deferred rent	30,174	40,345
Total non-current liabilities	<u>8,105,287</u>	<u>80,912,269</u>
Total liabilities	<u>73,799,622</u>	<u>86,492,353</u>
 MEMBERS' EQUITY	 <u>43,275,011</u>	 <u>38,849,051</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 117,074,633</u>	 <u>\$ 125,341,404</u>

The Notes to the Consolidated Financial Statements are an integral part of these statements.

Exaro Energy III LLC and Subsidiaries

Consolidated Statements of Operations
 Years Ended December 31, 2016 and 2015

(Unaudited)

	2016	2015
REVENUES, net		
Natural gas	\$ 26,896,259	\$ 37,182,504
Oil	5,004,693	7,022,185
Liquids, net of processing fees	(1,872,708)	(3,730,439)
(Loss) gain on derivative contracts, net	(3,889,447)	6,358,051
	<hr/>	<hr/>
Total revenues, net	26,138,797	46,832,301
	<hr/>	<hr/>
OPERATING EXPENSES		
Lease operating	11,135,739	13,156,277
Termination fee for gas marketing contract	-	3,000,000
Marketing expense	264,466	33,394
Impairment of oil and gas properties	-	118,000,000
Production taxes	3,556,445	3,829,921
Workovers	889,707	1,102,235
Geological and geophysical	-	42,397
Depreciation, depletion and amortization	10,450,554	29,331,666
Accretion	192,750	124,670
General and administrative	3,123,164	3,263,616
	<hr/>	<hr/>
Total operating expenses	29,612,825	171,884,176
	<hr/>	<hr/>
LOSS FROM OPERATIONS	(3,474,028)	(125,051,875)
	<hr/>	<hr/>
OTHER INCOME (EXPENSE)		
Gain on arbitration settlement	10,483,686	-
Interest income	-	4,523
Interest expense	(2,583,698)	(2,913,891)
	<hr/>	<hr/>
Total other income (expense)	7,899,988	(2,909,368)
	<hr/>	<hr/>
NET INCOME (LOSS)	\$ 4,425,960	\$ (127,961,243)

The Notes to the Consolidated Financial Statements are an integral part of these statements.

Exaro Energy III LLC and Subsidiaries
 Consolidated Statements of Changes in Members Equity
 Years Ended December 31, 2016 and 2015

(Unaudited)

	Members'		Notes	
	Equity		Receivable	Total
BALANCE, January 1, 2015	\$ 167,237,794	\$	(427,500)	\$ 166,810,294
Net loss	(127,961,243)		-	(127,961,243)
BALANCE, December 31, 2015	39,276,551		(427,500)	38,849,051
Net income	4,425,960			4,425,960
BALANCE, December 31, 2016	\$ 43,702,511	\$	(427,500)	\$ 43,275,011

The Notes to the Consolidated Financial Statements are an integral part of these statements.

Exaro Energy III LLC and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(Unaudited)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 4,425,960	\$ (127,961,243)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation, depletion and amortization	10,450,554	29,331,666
Impairment of oil and gas properties	-	118,000,000
Amortization of deferred loan costs	274,242	438,759
Accretion	192,750	124,670
Unrealized gain (loss) on derivative contracts	3,889,448	(6,358,051)
Settlements on derivative contracts	5,892,195	7,154,317
Changes in operating assets and liabilities		
Accounts receivable	(1,521,132)	5,031,999
Due from related parties	(7,414)	37,988
Prepaid expenses	(382,087)	9,583
Other assets	(1,150,000)	100,000
Accounts payable and accrued liabilities	4,459,303	(2,588,384)
Deferred rent	(10,171)	(8,636)
Interest payable	19,293	(14,688)
Net cash provided by operating activities	<u>26,532,941</u>	<u>23,297,980</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures - oil and gas properties	(2,452,104)	(14,159,037)
Disposal of oil and gas property and equipment	-	(19,568)
Decrease in restricted cash		577,344
Net cash used in investing activities	<u>\$ (2,452,104)</u>	<u>\$ (13,601,261)</u>

integral part of these statements.

Exaro Energy III LLC and Subsidiaries
 Consolidated Statements of Cash Flows Continued
 Years Ended December 31, 2016 and 2015
 (Unaudited)

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	\$ (19,000,000)	\$ (16,000,000)
Payments for deferred loan costs	-	(22,094)
Net cash used in financing activities	(19,000,000)	(16,022,094)
Net increase (decrease) in cash and cash equivalents	5,080,837	(6,325,375)
CASH AND CASH EQUIVALENTS, beginning of year	14,487,329	20,812,704
CASH AND CASH EQUIVALENTS, end of year	\$ 19,568,166	\$ 14,487,329
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 2,262,514	\$ 2,330,536
NON CASH INVESTING AND FINANCING ACTIVITIES		
Establishment of asset retirement obligations	\$ 250,000	\$ 1,691,000
Change in accrued capital expenditures	\$ (3,173,727)	\$ 3,836,099
Offset accounts receivable / payable	\$ 662,372	\$-

The Notes to the Consolidated Financial Statements are an integral part of these statements.

Exaro Energy III LLC and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Nature of Business

Exaro Energy III LLC and Subsidiaries (the Company) is a privately-held Delaware Limited Liability Company headquartered in Houston, Texas with offices in Houston and Denver, Colorado. The Company was formed on March 19, 2012 to pursue oil and gas exploration and production opportunities.

On April 1, 2012, the Company entered into its initial project, an Earning and Development Agreement (the Development Agreement) between the Company and Encana Oil & Gas (USA) Inc. (Encana) relating to a development drilling program within a defined area of Encana's Jonah Field asset located in Sublette County, Wyoming. Under the terms of the Development Agreement, the Company agreed to fund up to \$380,000,000 towards the costs of drilling, completing, and plugging and abandonment of wells to be drilled in the defined area of the Jonah Field. The Company was to receive up to 32.5% of Encana's working interest in the wells drilled and funded under the agreement as well as in Encana's existing producing wells and leases in the defined area.

Effective May 12, 2014, the Development Agreement was assigned to Jonah Energy LLC (Jonah Energy) in conjunction with their purchase of Encana's interests in the Jonah Field. Exaro notified Jonah Energy, effective May 12, 2014, that it was electing to terminate the Development Agreement. Under the Development Agreement, there is a 90-day wind-down period once a termination notice has been given, which resulted in an August 12, 2014 formal end date for the Development Agreement. Effective August 13, 2014, Exaro is continuing to participate in additional drilling in the Jonah Field, with working interests ranging from 14.62% to 32.5%, under the terms of the Joint Operating Agreement that was also assigned by Encana to Jonah Energy.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Exaro Energy III, LLC and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly-liquid investments purchased with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable at December 31, 2016 and 2015 primarily consists of amounts due from oil and gas purchasers. The Company's allowance is determined based upon reviews of individual accounts, historical losses, existing economic conditions and other pertinent factors. The Company has not provided for an allowance for doubtful accounts, based on management's expectations that all receivables at year-end will be fully collected.

Revenue Recognition

The Company recognizes oil and gas sales under the entitlement method and when delivery to the purchaser has occurred and title has transferred. At December 31, 2016 and 2015, the Company had no significant imbalance asset or liability.

Exaro Energy III LLC and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Oil and Gas Properties

The Company uses the successful efforts method of accounting for oil and gas operations. Costs incurred by the Company related to the acquisition of oil and gas properties and the cost of drilling development wells and successful exploratory wells are capitalized, while the cost of unsuccessful exploratory wells are expensed when determined to be unsuccessful.

Costs incurred to maintain wells and related equipment, lease and well operating costs and other exploration costs are charged to expense as incurred. Gains and losses arising from sales of properties are generally included in income.

Capitalized acquisition costs attributable to proved oil and gas properties are depleted by field, using the unit-of-production method based on proved reserves. Capitalized well costs and development costs are amortized similarly by field, based on proved developed reserves.

Capitalized costs are evaluated for impairment in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 360 (ASC Topic 360), Accounting for the Impairment or Disposal of Long Lived Assets, whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable.

To determine if a depletable unit is impaired, the Company compares the carrying value of the depletable unit to the undiscounted future net cash flow estimates over the economic life of the property. Future net cash flows are based upon reservoir engineers' estimates of proved reserves. For a property determined to be impaired, an impairment loss equal to the difference between the carrying value and the estimated fair value of the impaired property will be recognized. Fair value, on a depletable unit basis, is estimated to be the present value of the aforementioned expected future net cash flows. The Company recognized an impairment expense of \$118,000,000 for the year ended December 31, 2015.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost. Major improvements or betterments are capitalized, while repairs that do not improve or extend the life of the respective assets are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in the results of operations for the period. Depreciation is provided for using straight-line method over three to five years. Depreciation expense for furniture, fixtures and equipment totaled \$26,832 and \$49,666 for the years ended December 31, 2016 and 2015, respectively.

Derivative Financial Instruments

Financial derivatives are used as part of the Company's overall risk management strategy in order to reduce the effects of price fluctuations on anticipated future sales of natural gas. These derivative contracts require financial settlements with counterparties based on the differential between a fixed price and a market price for a fixed quantity of natural gas without the exchange of underlying volumes. The notional amounts of these derivative contracts are based on expected production from existing wells. At December 31, 2016, the Company had several open positions on natural gas commodity swaps. As of December 31, 2016, the total notional amount of the derivative instruments was 6,810,800 mmbtu, with contract dates running from January 2017 through December 2018.

Exaro Energy III LLC and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

In accordance with FASB Accounting Standards Codification (ASC) 815-30, *Accounting for Derivatives and Hedging*, as amended, all derivative instruments are measured periodically and at year-end are recorded on the consolidated balance sheets at fair value. Derivative contracts that are designated as part of a qualifying cash flow hedge, per the requirements of FASB ASC 815-30, are granted hedge accounting thereby allowing the Company to treat the effective changes in the fair value of the derivative instrument in accumulated other comprehensive income, while recording the ineffective portion as an adjustment to unrealized gain (loss). Derivative contracts that are not designated as part of a valid qualifying hedge or fail to meet the requirements of the pronouncement as a highly effective hedge, are treated by recording the changes in the fair value from period-to-period, through earnings. The amounts paid or received upon each monthly settlement, are recorded as derivative gain (loss) with the offset recorded to cash. These monthly settlements are included in total revenues on the Company's consolidated statements of operations.

The Company elected not to designate any of its derivative contracts as qualifying hedges for financial reporting purposes, therefore all of the derivative instruments are categorized as standalone derivatives and are being marked-to-market with unrealized gains and losses recorded in the consolidated statements of operations. At December 31, 2016, the following contracts were outstanding:

Period	Volume	Contract Price	Average Liability	
Natural gasMMBTU				
Swap - Sell				
1/1/17 - 12/31/17		730,000	\$ 2.50	\$ 640,746
1/1/17 - 12/31/17		1,095,000	\$ 2.48	982,903
1/1/17 - 12/31/17		365,000	\$ 2.50	320,373
1/1/17 - 12/31/17		365,000	\$ 2.50	320,373
1/1/17 - 12/31/17		365,000	\$ 2.48	329,449
1/1/17 - 12/31/17		365,000	\$ 2.49	325,819
1/1/17 - 12/31/17		365,000	\$ 2.46	334,896
1/1/17 - 12/31/17		365,000	\$ 2.46	336,617
1/1/17 - 12/31/17		365,000	\$ 2.40	357,604
1/1/17 - 12/31/17		365,000	\$ 2.40	360,342
1/1/17-4/30/17		120,000	\$ 2.34	132,606
1/1/17 - 12/31/17		334,000	\$ 2.74	340,365
1/1/18 - 12/31/18		1,611,800	\$ 2.74	175,535
Total swaps		6,810,800	\$	4,957,628

Exaro Energy III LLC and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

The following table summarizes the fair value and classification of the Company's derivative instruments, all of which have not been designated as hedging instruments under FASB ASC 815 at December 31, 2016 and 2015, respectively:

	Consolidated	Fair Value at December 31,	
Balance Sheet Location	2016	2015	2014
Natural gas swaps 4,824,015 and collars	Derivative (liability) asset - current	\$ (4,782,093)	\$ -
	Derivative (liability) asset - non-current	\$ (175,535)	\$ -

The following table summarizes the effect of the Company's derivative instruments in the consolidated statements of operations:

Derivatives not Designated as Hedging Instruments Under ASC 815	Location of (Loss) Gain	Year Ended December 31,	
		2016	2015
Natural gas swaps and collars	(Loss) gain on derivative contracts	\$(3,889,447)	\$6,358,051

Income Taxes

A limited liability company is not subject to the payment of federal income taxes as components of its income and expenses flow through directly to the members. Accordingly, no provision for federal income taxes has been reflected in these consolidated financial statements. However, the Company may be subject to certain state income taxes.

Effective March 12, 2012, the date of inception, the Company implemented the provisions of FASB ASC Topic 740, Income Taxes (ASC Topic 740) regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

The income tax position taken by the Company for any years open under the various statutes of limitations is that the Company continues to be exempt from federal income taxes by virtue of being a limited liability company pass-through entity. Management believes this tax position meets the more-likely-than-not threshold and, accordingly, the tax benefits of this income tax position (no income tax expense or liability) have been recognized for the years ended December 31, 2016 and 2015.

The Company records income tax related interest and penalties as a component of the provision for income tax expense. No interest and penalties were recognized in the statements of operations for 2016 and 2015.

Exaro Energy III LLC and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

The Company believes that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date.

None of the Company's federal or state income tax returns are currently under examination by the Internal Revenue Service (IRS) or state authorities. However, fiscal year 2012 and forward remain subject to examination by the IRS and respective states.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions that, in the opinion of management of the Company, are significant include oil and natural gas reserves, amortization relating to oil and natural gas properties, impairment of proved oil and gas properties, asset retirement obligations and valuations of derivatives. The Company evaluates its estimates and assumptions on a regular basis. Estimates are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In addition, alternatives can exist among various accounting methods. In such cases, the choice of accounting method can have a significant impact on reported amounts.

Concentrations of Credit Risk

The Company maintains cash balances at financial institutions in the United States of America, which exceed federally insured amounts. The Company has not experienced any losses in such accounts.

The Company had sales to five customers which accounted for 100% of both oil and gas revenues and oil and gas receivables as of December 31, 2016 and 2015. All of the Company's production is located in Wyoming.

Environmental

The Company's operations are subject to risks normally incident to the exploration for and the production of oil and gas, including blowouts, fires, and environmental risks such as oil spills or gas leaks that could expose the Company to liabilities associated with these risks.

In the Company's acquisition of existing or previously drilled well bores, the Company may not be aware of what environmental safeguards were taken at the time such wells were drilled or during such time the wells were operated. The Company and the operator of the properties maintain comprehensive insurance coverage that the Company believes is adequate to mitigate the risk of any adverse financial effects associated with these risks.

Exaro Energy III LLC and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

However, should it be determined that a liability exists with respect to any environmental cleanup or restoration, the liability to cure such a violation could still fall upon the Company. No claim has been made, nor is the Company aware of any liability which the Company may have, as it relates to any environmental cleanup, restoration, or the violation of any rules or regulations relating thereto.

In addition, the Company is subject to extensive regulation at the federal and state levels that may materially affect its operations.

Asset Retirement Obligations

The Company follows ASC 410, *Asset Retirement and Environmental Obligations*. ASC 410 requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which a legal obligation is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. The cost of the tangible asset, including the initially recognized ARO is depreciated such that the cost of ARO is recognized over the useful life of the asset. The ARO is recorded at fair value, and accretion expense will be recognized over time as the discounted liability is accreted to its expected settlement value. The fair value of the ARO is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate.

Inherent in the fair value calculation of ARO are numerous assumptions and judgments, including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance.

The following table is a roll-forward of the asset retirement obligations for the years ended December 31, 2016 and 2015, respectively:

Asset retirement obligations, January 1, 2015	\$	1,034,600
Liabilities incurred		100,000
Accretion expense		124,670
Revisions in estimated liabilities		<u>1,591,000</u>
Asset retirement obligations, December 31, 2015		2,850,270
Liabilities incurred		250,000
Accretion expense		<u>192,750</u>
Asset retirement obligations, December 31, 2016	\$	<u>3,293,020</u>

Exaro Energy III LLC and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Deferred Loan Costs

Debt issuance costs consist of fees incurred to secure debt financing and are amortized over the life of the related loans using the straight line method. Amortization of debt issuance costs is recorded in interest expense in the consolidated statement of operations. The Company recognized amortization expense of \$274,242 and \$438,759 for the years ended December 31, 2016 and 2015, respectively. Debt issuance costs are presented with the term loan facility, net, on the consolidated balance sheet, as a reduction of the carrying amount of the debt facility.

Recently Issued Pronouncements

In August 2014, the FASB issued ASU 2014-15, 'Presentation of Financial Statements-Going Concern' which was codified as ASC 205-40. FASB now requires management to evaluate an entity's ability to continue as a going concern within one year after the date that the financial statements are issued.

The update is effective for financial statements with fiscal years beginning after December 15, 2016 with early adoption permitted. No disclosures are required at transition.

On January 5, 2017, FASB issued ASU 2017-01, which clarifies 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 as a business combination. Under the ASU, an entity first determines whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set is not a business. The definition of a business also affects many other areas of accounting including disposals, consolidation, and segment changes. The guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 with early adoption allowed. Upon adoption, entities would apply the new guidance prospectively on or after the effective date. No disclosures are required at transition. The company has not elected early adoption and is currently evaluating the impact of the pronouncement on the consolidated financial statements.

Note 3. Oil and Gas Operations

Capitalized costs related to the Company's producing activities and the related amounts of accumulated depreciation, depletion, amortization and impairment as of December 31, 2016 and 2015, respectively, are as follows:

	2016	2015
Oil and gas properties		
Proved	\$ 291,862,030	\$ 293,042,154
Less accumulated depreciation, depletion amortization and impairment	(201,269,950)	(191,553,000)
Net property costs	\$ 90,592,080	\$ 101,489,154

Depreciation, depletion and amortization expense for oil and gas properties was \$10,427,571 and \$29,292,042 in 2016 and 2015, respectively. Impairment expense for oil and gas properties was \$0 and \$118,000,000 in 2016 and 2015, respectively.

Exaro Energy III LLC and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 4. Fair Value Disclosure

The Company follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

ASC Topic 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. ASC Topic 820 provides a framework for measuring fair value, establishes a three level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and requires consideration of the counterparty's creditworthiness when valuing certain assets.

Level 1 inputs: Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs: Inputs, other than quoted prices in active markets, that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 inputs: Prices or valuations that require unobservable inputs that are both significant to the fair value measurement and unobservable. Valuation under Level 3 generally involves a significant degree of judgment from management.

A financial instrument's categorization within the valuation hierarchy is based upon 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 in its entirety requires judgment and considers factors specific to the asset or liability. The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as of December 31, 2016 and 2015:

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Current assets (liability) -				
Derivative contracts	\$	-\$ (4,782,093)	\$	-\$ (4,782,093)
Non-current assets (liability) -				
Derivative contracts	\$	-\$ (175,535)	\$	-\$ (175,535)
	Level 1	Level 2	Level 3	Total
December 31, 2015				
Current assets (liability) -				
Derivative contracts	-	\$ 4,824,015	\$ -	\$ 4,824,015

Exaro Energy III LLC and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 5. Members' Equity

Through December 31, 2016, the members have contributed \$127,395,000 to the Company, excluding notes receivable. The remaining commitment, excluding the notes receivable, still to be received at December 31, 2016 is \$55,000,000. The balance on the notes receivable for contributions due in April 2017 is \$427,500 at December 31, 2016 and 2015. See Note 9 for further details.

Note 6. Long-Term Debt

The Company entered into two credit facilities with lenders on September 26, 2013. The Senior Loan Credit Agreement (Senior Loan), expiring September 26, 2017 has a maximum credit amount of \$300,000,000. The Second Lien Credit Agreement (Second Lien), expiring March 26, 2018 had a commitment of \$20,000,000. These credit facilities are secured by the oil and gas properties and other security interests of the Company.

Effective August 15, 2014, the Senior Loan was amended to increase the borrowing base to facilitate the payoff of the Second Lien. The \$20,000,000 outstanding on the Second Lien facility was paid off on August 19, 2014 with funds borrowed against the Senior Loan. The liens against the oil and gas properties and other security interests of the Company held by the Second Lien lender were released when the Second Lien was paid off. Effective January 14, 2016, the first lien borrowing base was amended to \$75,000,000. The Company has had no new liens as of December 31, 2016.

The Senior Loan facility bears interest at varying rates based on the London Interbank Offered (LIBO) rate or an Alternate Base Rate (ABR) in effect on the date of the borrowing plus an applicable margin ranging from .75% to 2.75%. The average interest rate during 2016 and 2015 was 3.39% and 2.73%, respectively. The Senior Loan contains financial and non-financial covenants. The Company was in compliance with the covenants at December 31, 2016.

At December 31, 2016, the Company is negotiating with the bank to extend the maturity date through 2019.

Note 7. Commitments and Contingencies

As of December 31, 2016, there are no known environmental or other regulatory matters related to the Company's operations that are reasonably expected to result in a material liability to the Company. Compliance with environmental laws and regulations has not had, and is not expected to have, a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Since the Company's major products are commodities, changes in the prices of oil and natural gas could have a significant impact on the Company's results of operations in any particular year. The Company's liquidity is dependent on its operating performance, which is closely related to market conditions in the oil and gas industry, and its source of financing.

In the event that market conditions deteriorate, causing a decrease in operating profits, and the Company is unable to secure additional financing sources to fund its operations, additional development of oil and gas properties and other activities may be curtailed.

Exaro Energy III LLC and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

The Company leases office space under non-cancelable lease agreements expiring through September 2018, which are accounted for as operating leases. At December 31, 2016, the Company's future minimum payments under the agreements are as follows:

Year Ending December 31,

2017\$ 192,098

2018113,091

\$ 305,189

Rent expense totaled \$124,732 and \$116,805 for the years ended December 31, 2016 and 2015, respectively.

The Company initiated an arbitration on December 18, 2014 asserting certain claims against a third party related to an agreement that was active at that time. The arbitration was settled on June 29, 2016, in which the Company received a net amount of \$10,483,686 which is recorded in the consolidated statement of operations.

Note 8. Management Incentive Units

The Company has a Management Incentive Plan (the "Incentive Plan") to award management incentive units ("MIU's") to key employees and independent contractors of the Company, its Subsidiaries and Affiliates. The Incentive Plan is administered by the Company's Board of Managers (the "Board") and is subject to termination, at any time, as determined by the Board. The maximum number of authorized MIUs under the Plan is 1,000,000. As of December 31, 2016 and 2015, 650,000 MIUs have been issued. These MIUs vest and are conditioned upon a contingency event, in accordance with the terms of the Incentive Plan.

Note 9. Related Party Transactions

The Company has a receivable from a related party due in April 2017 totaling \$427,500 at December 31, 2016 and 2015 classified as a reduction of equity on the consolidated balance sheets. Interest income is immaterial to the consolidated statements of operations.

Note 10. Subsequent Events

The Company has evaluated events and transactions occurring after the consolidated balance sheet date, for either recognition or disclosure, through February 28, 2017, which is the date these consolidated financial statements were available for issuance. The following events occurred after December 31, 2016:

On January 25, 2017, the Company made a payment on their borrowings in the amount of \$5,000,000 in principal.

On February 24, 2017, the Company executed an agreement with Wells Fargo Bank, in which their borrowing base was adjusted to \$62,000,000, with an approved draw amount of \$57,000,000.

**EXARO ENERGY III LLC
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

EXARO ENERGY III LLC AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

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Independent Auditor's Report

To the Members of
Exaro Energy III LLC and Subsidiaries
Houston, Texas

We have audited the accompanying consolidated financial statements of Exaro Energy III LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations, changes in members' equity, and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Exaro Energy III LLC and Subsidiaries as of December 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Houston, Texas
March 31, 2015

EXARO ENERGY III LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 20,812,704
Accounts receivable	9,403,033
Derivative assets	4,843,601
Prepaid expenses	98,893
Due from related parties	56,423
TOTAL CURRENT ASSETS	<u>35,214,654</u>

PROPERTY AND EQUIPMENT

Oil and gas properties - successful efforts method of accounting	279,152,392
Furniture, fixtures and equipment	198,737
	<u>279,351,129</u>
Less: accumulated depreciation, depletion and amortization	<u>(44,385,022)</u>
NET PROPERTY AND EQUIPMENT	234,966,107

OTHER ASSETS

Restricted cash	577,344
Deferred loan costs, net of accumulated amortization of \$339,684	895,011
Derivative assets	776,680
Derivatives deposit	100,000
Other	7,512
TOTAL OTHER ASSETS	<u>2,356,547</u>

TOTAL ASSETS \$ 272,537,308

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 9,956,080
Interest payable	187,353
TOTAL CURRENT LIABILITIES	<u>10,143,433</u>

LONG-TERM DEBT 94,500,000

ASSET RETIREMENT OBLIGATIONS 1,034,600

DEFERRED RENT 48,981

TOTAL LIABILITIES 105,727,014

COMMITMENTS AND CONTINGENCIES

MEMBERS' EQUITY 166,810,294

TOTAL LIABILITIES AND MEMBERS' EQUITY \$ 272,537,308

See accompanying notes to consolidated financial statements.

EXARO ENERGY III LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2014

REVENUES

Oil and natural gas sales:	
Oil	\$ 14,104,428
Natural gas	65,391,393
Natural gas liquids	120,622
Total oil and natural gas sales	<u>79,616,443</u>
Gain on derivative contracts	5,068,600
TOTAL REVENUES	<u>84,685,043</u>

OPERATING EXPENSES

Lease operating	12,662,361
Production taxes	8,857,875
Workovers	621,796
Geological and geophysical	134,328
Depreciation, depletion and amortization	26,012,122
Accretion	63,000
General and administrative	3,367,634
TOTAL OPERATING EXPENSES	<u>51,719,116</u>

INCOME FROM OPERATIONS 32,965,927

OTHER INCOME (EXPENSE)

Interest income	8,251
Interest expense	(3,869,287)
TOTAL OTHER INCOME (EXPENSE)	<u>(3,861,036)</u>

NET INCOME \$ 29,104,891

See accompanying notes to consolidated financial statements.

EXARO ENERGY III LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2014

	<u>Members'</u> <u>Equity</u>	<u>Notes</u> <u>Receivable</u>	<u>Total</u>
Balance at January 1, 2014	\$ 138,132,903	\$ (427,500)	\$ 137,705,403
Net income	<u>29,104,891</u>	<u>—</u>	<u>29,104,891</u>
Balance at December 31, 2014	<u>\$ 167,237,794</u>	<u>\$ (427,500)</u>	<u>\$ 166,810,294</u>

See accompanying notes to consolidated financial statements.

EXARO ENERGY III LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 29,104,891
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation, depletion and amortization	26,012,122
Amortization of deferred loan costs	356,144
Accretion	63,000
Gain on derivative contracts	(5,068,600)
Settlements on derivative contracts	(329,455)
Changes in operating assets and liabilities:	
Accounts receivable	(730,533)
Due from related parties	(47,343)
Prepaid expenses	(53,423)
Accounts payable and accrued liabilities	(1,867,995)
Deferred rent	(5,358)
Interest payable	170,269
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>47,603,719</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures - oil and gas properties	(80,491,643)
Capital expenditures - furniture, fixtures and equipment	(32,750)
Decrease in restricted cash	8,154,601
NET CASH USED IN INVESTING ACTIVITIES	<u>(72,369,792)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings on long-term debt	54,500,000
Payment on long-term debt	(30,000,000)
Payments for deferred loan costs	(255,967)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>24,244,033</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(522,040)

CASH AND CASH EQUIVALENTS, beginning of year

21,334,744

CASH AND CASH EQUIVALENTS, end of year

\$ 20,812,704

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	<u>\$ 3,142,872</u>
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NON CASH INVESTING AND FINANCING ACTIVITIES

Establishment of asset retirement obligations	<u>\$ 103,010</u>
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Property and equipment financed by accounts payable and accrued liabilities

\$ (1,875,830)

See accompanying notes to consolidated financial statements.

EXARO ENERGY III LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - NATURE OF BUSINESS

Exaro Energy III LLC and Subsidiaries (the “Company”) is a privately-held Delaware Limited Liability Company headquartered in Houston, Texas with offices in Houston and Denver, Colorado. The Company was formed on March 19, 2012 to pursue oil and gas exploration and production opportunities.

On April 1, 2012, the Company entered into its initial project, an Earning and Development Agreement (the “Development Agreement”) between the Company and Encana Oil & Gas (USA) Inc. (“Encana”) relating to a development drilling program within a defined area of Encana’s Jonah Field asset located in Sublette County, Wyoming. Under the terms of the Development Agreement, the Company agreed to fund up to \$380,000,000 towards the costs of drilling, completing, and plugging and abandonment of wells to be drilled in the defined area of the Jonah Field. The Company was to receive up to 32.5% of Encana’s working interest in the wells drilled and funded under the agreement as well as in Encana’s existing producing wells and leases in the defined area.

Effective May 12, 2014, the Development Agreement was assigned to Jonah Energy LLC (“Jonah Energy”) in conjunction with their purchase of Encana’s interests in the Jonah Field. Exaro notified Jonah Energy, effective May 12, 2014, that it was electing to terminate the Development Agreement. Under the Development Agreement, there is a 90-day wind-down period once a termination notice has been given, which resulted in an August 12, 2014 formal end date for the Development Agreement. Effective August 13, 2014, Exaro is continuing to participate in additional drilling in the Jonah Field, with working interests ranging from 14.62% to 32.5%, under the terms of the Joint Operating Agreement that was also assigned by Encana to Jonah Energy.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Exaro Energy III LLC and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

Cash Equivalents: For purposes of the statement of cash flows, the Company considers all highly-liquid investments purchased with original maturities of three months or less to be cash equivalents.

Accounts Receivable: Accounts receivable at December 31, 2014 primarily consists of revenue receivables. A provision is made when receivables are deemed uncollectible. There is no provision for bad debts at December 31, 2014.

Property and Equipment: The Company uses the successful efforts method of accounting for oil and gas operations. Under this method of accounting, costs to acquire oil and gas properties, to drill and equip development wells, including development dry holes, and to drill and equip exploratory wells that find proved reserves are capitalized. The Company capitalizes interest, if debt is outstanding, on expenditures for significant development projects until such projects are ready for their intended use. Depreciation, depletion and amortization of capitalized costs for producing oil and gas properties (excluding wells-in-progress) is provided using the unit-of-production method based on estimates of proved oil and gas reserves on a field-by-field basis. Costs of significant nonproducing properties, wells in the process of being drilled and development projects are excluded from depletion until such time as the related project is developed and proved reserves are established or impairment is determined.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of unproved leaseholds and mineral interests are capitalized pending the results of exploration efforts. In addition, unproved leasehold costs are assessed periodically, on a property-by-property basis, and a loss is recognized to the extent, if any, for the cost of the property that has been impaired. This impairment will generally be based on geophysical and geological data. As unproved leaseholds are determined to be productive, the related costs are transferred to proved leaseholds. The costs associated with unproved leaseholds and mineral interests that have been allowed to expire are charged to exploration costs on the consolidated statements of operations. There were no exploration costs during the year ended December 31, 2014.

Exploration costs, including exploratory dry holes, annual delay rentals and geological and geophysical costs are charged to expense when incurred.

Proceeds from the sales of individual properties and the capitalized costs of individual properties sold or abandoned are credited and charged, respectively, to accumulated depletion and depreciation. Generally, no gain or loss is recognized until the entire amortization base is sold. However, gain or loss is recognized from the sale of less than an entire amortization base if the disposition is significant enough to materially impact the depletion rate of the remaining properties in the amortization base.

The Company evaluates impairment of its oil and gas properties in accordance with guidance issued by the Financial Accounting Standards Board (“FASB”) in accounting for the impairment or disposal of long-lived assets. This standard requires that long-lived assets that are held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When it is determined that an asset’s estimated undiscounted future net cash flows will not be sufficient to recover its carrying amount, an impairment charge must be recorded to reduce the carrying amount of the asset to its estimated fair value. Fair value is determined by reference to the present value of estimated future net cash flows of such properties.

Other property and equipment is stated at cost. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in the results of operations for the period.

Derivative Financial Instruments: Financial derivatives are used as part of the Company’s overall risk management strategy in order to reduce the effects of price fluctuations on anticipated future sales of natural gas. At December 31, 2014, the Company had several open positions on natural gas commodity swaps and collars. As of December 31, 2014, the total notional amount of the derivative instruments was 8,496,700mmbtu, with contract dates running from January 2015 through April 2016.

In accordance with FASB Accounting Standards Codification (“ASC”) 815-30, *Derivatives and Hedging*, as amended, all derivative instruments are measured periodically and at year end and are recorded on the consolidated balance sheet at fair value. Derivative contracts that are designated as part of a qualifying cash flow hedge, per the requirements of FASB ASC 815-30, are granted hedge accounting thereby allowing the Company to treat the effective changes in the fair value of the derivative instrument in accumulated other comprehensive income, while recording the ineffective portion as an adjustment to unrealized gain (loss). Derivative contracts that are not designated as part of a valid qualifying hedge or fail to meet the requirements of the pronouncement as a highly effective hedge, are treated by recording the changes in the fair value from period to period, through earnings. The amounts paid or received upon each monthly settlement, are recorded as derivative gain (loss) with the offset recorded to cash. These monthly settlements are included in total revenues on the Company’s statement of operations.

EXARO ENERGY III LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company elected not to designate any of its derivative contracts as qualifying hedges for financial reporting purposes, therefore all of the derivative instruments are categorized as standalone derivatives and are being marked-to-market with unrealized gains and losses recorded in the consolidated statement of operations.

At December 31, 2014, the following contracts were outstanding:

Period	Volume	Average Contract Price	Asset
<u>Natural Gas</u>	<u>MMBTU</u>		
Swap - Sell:			
1/1/2015 - 4/30/2016	3,673,400	\$3.58	\$ 2,317,668
11/1/2015 - 4/30/2016	1,304,000	\$3.75	638,079
Total Swaps	4,977,400		\$ 2,955,747
Collars - Put/Call:			
1/1/2015 - 3/31/2015	1,710,000	\$4.00 / \$5.86	\$ 1,876,796
4/1/2015 - 12/31/2015	1,809,300	\$3.00 / \$3.66	787,738
Total Collars	3,519,300		\$ 2,664,534
Total Swaps and Collars	8,496,700		\$ 5,620,281

The following table summarizes the fair value and classification of the Company's derivative instruments, all of which have not been designated as hedging instruments under FASB ASC 815:

	Balance Sheet Location	Fair Value at December 31, 2014
Natural gas swaps and collars	Derivative assets - current	\$ 4,843,601
	Derivative assets - non-current	\$ 776,680

The following table summarizes the effect of the Company's derivative instruments in the consolidated statement of operations:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain	Year Ended December 31, 2014
Natural gas swaps and collars	Gain on derivative contracts	\$ 5,068,600

Depreciation and Amortization: Other property and equipment is depreciated using the straight-line method over the estimated useful lives typically ranging from 3 to 7 years. Depreciation expense amounted to \$51,565 in 2014.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition: The Company recognizes oil and gas revenues from its interests in oil and natural gas producing activities as hydrocarbons are produced and sold.

Income Taxes: A limited liability company is not subject to the payment of federal income taxes as components of its income and expenses flow through directly to the members. Accordingly, no provision for federal income taxes has been reflected in these consolidated financial statements. However, the Company may be subject to certain state income taxes.

The Company follows guidance issued by the FASB regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. Each income tax position is assessed using a two step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

The income tax position taken by the Company for any years open under the various statutes of limitations is that the Company continues to be exempt from income taxes by virtue of it being a limited liability company pass-through entity. Management believes this tax position meets the more-likely-than-not threshold and, accordingly, the tax benefits of this income tax position (no income tax expense or liability) have been recognized for the year ended December 31, 2014.

The Company records income tax related interest and penalties as component of the provision for income tax expense. No interest and penalties were recognized in the statement of operations for 2014.

The Company believes that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date.

None of the Company's federal or state income tax returns are currently under examination by the Internal Revenue Service ("IRS") or state authorities. However, fiscal year 2012 and forward remain subject to examination by the IRS and respective states.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions that, in the opinion of management of the Company, are significant include oil and natural gas reserves, amortization relating to oil and natural gas properties and asset retirement obligations. The Company evaluates its estimates and assumptions on a regular basis. Estimates are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In addition, alternatives can exist among various accounting methods. In such cases, the choice of accounting method can have a significant impact on reported amounts.

EXARO ENERGY III LLC AND SUBSIDIARIES
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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Oil and Natural Gas Reserve Quantities: Estimates of the Company's producing and non-producing oil and natural gas reserves as of December 31, 2014 were based on a report prepared by an independent, third party engineering firm.

Estimates of proved reserves are based on the quantities of oil and natural gas that engineering and geological analyses demonstrate, with reasonable certainty, to be recoverable from established reservoirs in the future under current operating and economic parameters.

Reserves and their relation to estimated future net cash flows impact the depletion and impairment calculations. As a result, adjustments to depletion and impairment are made concurrently with changes to reserve estimates. The accuracy of the Company's reserve estimates is a function of many factors including the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions, and the judgments of the individuals preparing the estimates, all of which could deviate significantly from actual results. As such, reserve estimates may materially vary from the ultimate quantities of oil, natural gas, and natural gas liquids eventually recovered.

Concentrations of Credit Risk: The Company maintains cash balances at financial institutions in the United States of America, which exceed federally insured amounts. The Company has not experienced any losses in such accounts. Additionally, the Company's accounts receivable are from one entity.

Asset Retirement Obligations: The Company follows ASC 410, *Asset Retirement and Environmental Obligations*. ASC 410 requires that an asset retirement obligation ("ARO") associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which a legal obligation is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. The cost of the tangible asset, including the initially recognized ARO is depreciated such that the cost of ARO is recognized over the useful life of the asset. The ARO is recorded at fair value, and accretion expense will be recognized over time as the discounted liability is accreted to its expected settlement value. The fair value of the ARO is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate.

Inherent in the fair value calculation of ARO are numerous assumptions and judgments, including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the recorded amount of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance.

The following table is a roll-forward of the asset retirement obligations:

Asset retirement obligations, January 1, 2014	\$	868,590
Liabilities incurred		103,010
Accretion expense		63,000
Asset retirement obligations, December 31, 2014	\$	<u>1,034,600</u>

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Escrow Deposit: Under the original terms of the Development Agreement, the Company was required to maintain \$40,000,000 in an escrow deposit to fund future capital expenditures. The Development Agreement was amended and the escrow deposit was reduced to \$20,000,000 on September 27, 2013 after the Company had drilled and completed 52 “Net Earning Wells”. A Net Earning Well is defined in the Development Agreement as a well in which the Encana Existing Interest is One Hundred Percent (100%) or in cases where Encana owns less than a 100% working interest, then multiple wells together with the Encana Existing Interests adding up to 100%.

Since the termination of the Development Agreement, Jonah Energy has been withdrawing funds from the escrow account to cover the capital expenditures for those earning wells drilled under the Development Agreement. The balance in the escrow account at December 31, 2014 was \$577,344.

Deferred Loan Costs: Deferred loan costs are capitalized and amortized over the term of the loan which approximates the interest method. Amortization of deferred loan costs is included in interest expense.

Fair Value of Financial Instruments: The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, derivative instruments and long-term debt. The carrying amounts of these accounts approximate fair value either due to the short-term nature of the instruments or such instruments are subject to market rates of interest.

NOTE C - RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09 (ASU 2014-09), which creates Topic 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU 2014-09 requires enhanced financial statement disclosures over revenue recognition as part of the new accounting guidance. ASU 2014-09 is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the provisions of ASU 2014-09, as well as its early adoption provisions and method of adoption, and assessing the impact, if any, it may have on its financial position and results of operations.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 (ASU 2014-15), which creates Subtopic 205-40, *Presentation of Financial Statements - Going Concern*. ASU 2014-15 requires management to assess the entity’s ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company is currently evaluating the provisions of ASU 2014-15, as well as its early adoption provision, and assessing the impact, if any, it may have on its financial position and results of operations. Upon adoption, the Company will use this guidance to evaluate going concern.

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NOTE D - OIL AND GAS OPERATIONS

Capitalized costs related to the Company's producing activities and the related amounts of accumulated depreciation, depletion, and amortization as of December 31, 2014 are as follows:

Oil and gas properties:	
Proved	\$ 278,218,230
Less: accumulated depreciation, depletion and amortization	<u>(44,271,000)</u>
	233,947,230
Wells in progress not subject to depreciation, depletion and amortization	<u>934,162</u>
Net property costs	<u>\$ 234,881,392</u>

Depreciation, depletion and amortization expense for oil and gas properties was \$25,960,557 in 2014.

NOTE E - FAIR VALUE DISCLOSURE

The Company follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The implementation of FASB ASC 820 did not cause a change in the method of calculating fair value of assets or liabilities, with the exception of incorporating a measure of the Company's own credit risk or that of its counterparties as appropriate, which was not material. The primary impact from adoption was additional disclosures.

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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NOTE E - FAIR VALUE DISCLOSURE (Continued)

A financial instrument's categorization within the valuation hierarchy is based upon 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 in its entirety requires judgment and considers factors specific to the asset or liability. The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Current assets -				
Derivative contracts	\$ —	\$ 4,843,601	\$ —	\$ 4,843,601
Non-current assets -				
Derivative contracts	\$ —	\$ 776,680	\$ —	\$ 776,680

NOTE F - MEMBERS' EQUITY

As of December 31, 2014, the members have contributed \$127,822,500 to the Company. The remaining commitment, excluding the notes receivable, still to be received at December 31, 2014 is \$55,000,000. The balance on the notes receivable for contributions is \$427,500 at December 31, 2014.

NOTE G - LONG-TERM DEBT

Effective September 26, 2013, the Company paid off the \$60,000,000 in outstanding loans against the credit agreement dated August 10, 2012 with Wells Fargo Energy Capital, Inc. The Company replaced the August 10, 2012 agreement with two new credit agreements dated September 26, 2013. These credit facilities are secured by the oil and gas properties and other security interests of the Company.

The Senior Loan Credit Agreement ("Senior Loan"), expiring September 26, 2017, is with Wells Fargo Bank, National Association and has a maximum credit amount of \$300,000,000. The Second Lien Credit Agreement ("Second Lien"), expiring March 26, 2018, was with Wells Fargo Energy Capital, Inc. and had a commitment of \$20,000,000.

Effective August 15, 2014, the Senior Loan was amended to increase the borrowing base to facilitate the payoff of the Second Lien. The \$20,000,000 outstanding on the Second Lien facility was paid off on August 19, 2014 with funds borrowed against the Senior Loan. The liens against the oil and gas properties and other security interests of the Company filed by Wells Fargo Energy Capital, Inc. were released when the Second Lien was paid off.

The Senior Loan facility bears interest at varying rates based on the London Interbank Offered ("LIBO") rate or an Alternate Base Rate ("ABR") in effect on the date of the borrowing plus an applicable margin ranging from .75% to 2.75% (the interest rate was 2.74% at December 31, 2014). The Senior Loan contains financial and non-financial covenants. The Company was in compliance with the covenants at December 31, 2014.

At December 31, 2014, the Company had outstanding borrowings of \$94,500,000. On January 26, 2015, the Company repaid an additional \$5,000,000.

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NOTE H - COMMITMENTS AND CONTINGENCIES

The Company leases office space and certain other equipment under non-cancelable lease agreements expiring from March 2015 through September 2018, which are accounted for as operating leases. At December 31, 2014, the Company's future minimum payments under the agreements are as follows:

<u>Year Ending December 31,</u>			
2015		\$	166,500
2016			145,100
2017			148,400
2018			113,100
			<u>113,100</u>
		\$	<u>573,100</u>

Rent expense amounted to approximately \$113,200 in 2014.

NOTE I - MANAGEMENT INCENTIVE UNITS

The Company has a Management Incentive Plan (the "Incentive Plan") to award management incentive units ("MIUs") to key employees and independent contractors of the Company, its Subsidiaries and Affiliates. The Incentive Plan is administered by the Company's Board of Managers (the "Board") and is subject to termination, at any time, as determined by the Board. The maximum number of authorized MIUs under the Plan is 1,000,000. As of December 31, 2014, 650,000 MIUs have been issued. These MIUs vest, conditioned upon a contingency event at which time the expense will be recognized, and in accordance with the terms of the Incentive Plan.

NOTE J - SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring after the balance sheet date, for either recognition or disclosure, through March 31, 2015, which is the date these consolidated financial statements were available for issuance.

There were no items to be recognized or disclosed, other than as disclosed in Note G.

