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PLEASE CONTACT:  
Michael C. Coffman  
405.948.1560  
Website: [www.panhandleoilandgas.com](http://www.panhandleoilandgas.com)

**PANHANDLE OIL AND GAS INC.  
REPORTS SECOND QUARTER AND SIX MONTHS 2011 RESULTS AND MID-YEAR RESERVE UPDATE**

**Company records Six Month Net Income of \$3,199,102, or \$.38 per Share**

OKLAHOMA CITY – May 6, 2011/PR Newswire - PANHANDLE OIL AND GAS INC. (NYSE-PHX-News) today reported financial and operating results for the Company's fiscal second quarter and six months ended March 31, 2011.

**HIGHLIGHTS FOR THE PERIODS ENDED MARCH 31, 2011**

- Recorded a quarterly net income of \$1,772,253
- Recorded a six-month net income of \$3,199,102
- Generated cash from operating activities of \$13,581,335 for the six-month period, well in excess of \$11,065,925 of capital expenditures
- Reported second quarter and six-month production of 2,152,011 Mcfe and 4,360,229 Mcfe, respectively
- Increased proved reserves 3% to 107.1 Bcfe at March 31, 2011 as compared to 103.7 Bcfe at September 30, 2010
- Maintained \$0 balance on credit facility at March 31, 2011
- Increased capital expenditures for the 2011 six month period 117% to \$11,065,925 as compared to the 2010 six month period

**FISCAL SECOND QUARTER 2011 RESULTS**

For the quarter ending March 31, 2011, the Company recorded a net income of \$1,772,253, \$.21 per share, as compared to a net income of \$5,163,566, \$.61 per share, for the 2010 second quarter. Total revenues for the 2011 quarter decreased 35% to \$10,977,459 as compared to the 2010 quarter. However, cash provided by operating activities totaled \$5,001,671, while capital expenditures totaled \$4,495,117. Production for the 2011 quarter increased 3% to 2,152,011 Mcfe as compared to 2,090,154 Mcfe for the 2010 quarter. The average per Mcfe sales price decreased 15% for the 2011 quarter to \$5.07, as compared to \$5.99 for the 2010 quarter. The Company recorded a pre-tax gain (realized and unrealized) on derivative contracts in the 2011 quarter of \$8,766 compared to \$4,226,309 for the 2010 quarter. The substantial decrease in our second quarter 2011 derivative contract gain as compared to the 2010 second quarter was the primary factor causing the drop in 2011 second quarter revenues and net income.

**SIX MONTHS 2011 RESULTS**

For the six months ended March 31, 2011, the Company recorded a net income of \$3,199,102, \$.38 per share, as compared to a net income of \$6,871,944, \$.82 per share, for the 2010 six months. Total revenues for the 2011 six months decreased 28% to \$20,879,007 as compared to the 2010 six months. Cash provided by operating activities totaled \$13,581,335, a 17% increase, which funded capital expenditures of \$11,065,925. Production for the 2011 six months totaled 4,360,229 Mcfe as compared to 4,368,287 Mcfe for the 2010 six months. The average per Mcfe sales price decreased 11% for the 2011 six months to \$4.73 as compared to \$5.34 for the 2010 six months. The pre-tax loss (realized and unrealized) on derivative contracts in the 2011 six months was \$12,673, compared to a \$5,629,649 gain for the 2010 period. As previously indicated, the decrease in our 2011 derivative contracts gain as compared to the 2010 quarter was the primary factor for the drop in 2011 six month revenues and net income.

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## RESERVES UPDATE

Mid-year proved reserves at March 31, 2011 were 107.1 Bcfe, as calculated by the Company's petroleum engineering consulting firm, DeGolyer and MacNaughton. This was an increase of 3%, compared to the 103.7 Bcfe of proved reserves at September 30, 2010. SEC prices used for the March 31, 2011 report averaged \$4.03 per Mcf for natural gas and \$78.46 per barrel for oil, as compared to \$4.33 per Mcf and \$69.23 per barrel for the September 30, 2010 report. Total proved developed reserves increased 3.7% to 64.8 Bcfe and proved undeveloped reserves increased 2.6% to 42.3 Bcfe.

## MANAGEMENT COMMENTS

Michael C. Coffman, President and CEO said, "Our second quarter and six month periods of 2011 were very comparable to the 2010 periods in terms of production, with an increase of 3% for the 2011 quarter, and flat production during the first half of our fiscal year. The decline in net income for both 2011 periods was due to Panhandle recording a \$4,226,309 gain on derivative contracts in the second quarter of 2010, compared to essentially breaking even on our derivative contracts in the 2011 periods. This again points to Panhandle's low cost structure and superior rates of return generated by drilling on our fee mineral acreage which allows the Company to be profitable even with the lower natural gas price environment we are experiencing in 2011."

Coffman continued: "We have fully funded our 2011 capital expenditures with cash flow through our first two fiscal 2011 quarters and have more than doubled 2010 capital expenditures levels. The majority of Panhandle's capital expenditures continue to be in Western Oklahoma natural gas liquids rich and oily projects during 2011. As these new wells in Western Oklahoma are completed and new production continues to come on line we anticipate our production volumes will begin a steady increase later this year. Drilling in the Southeast Oklahoma Woodford Shale is beginning to rebound as operators who purchased positions in the play over the past few years are beginning to accelerate the pace of drilling as reflected by the increasing number of well proposals Panhandle is receiving."

## OPERATIONS UPDATE

Paul Blanchard, Senior Vice President and COO said, "The increasing number of drilling proposals we are receiving from operators in Western Oklahoma, particularly in the Cana Woodford Shale and in the Granite Wash play, is a positive sign for Panhandle. With our substantial legacy mineral position in Western Oklahoma, we are extremely well positioned to participate in the development of these oil and liquids rich plays. These two plays represent 39% and 12% of Panhandle's drilling commitments thus far in 2011. We are also seeing evidence of a resurgence of activity in the highest quality areas of the Southeastern Oklahoma Woodford Shale and the Fayetteville Shale, by both existing operators and large companies who recently acquired substantial positions in the plays. These developments are expected to result in increased production and reserves in late 2011 and 2012."

Blanchard continued: "The first well in our Joiner City prospect, which is the first horizontal Woodford Shale well drilled in the Marietta Basin in Southern Oklahoma, was drilled and completed in our first fiscal quarter of 2011. The well is currently producing commercial quantities of oil and liquids rich natural gas as production volumes and methods are being evaluated. Costs on this well were extraordinarily high as they generally are for initial tests in new resource plays. The results from this well will continue to be analyzed in order to determine optimum drilling and completion procedures for possible future development of this Marietta Basin project."

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FINANCIAL HIGHLIGHTS

Consolidated Statements of Operations  
(unaudited)

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:				
Oil and natural gas (and associated natural gas liquids) sales	\$ 10,907,935	\$ 12,510,995	\$ 20,639,509	\$ 23,321,427
Lease bonuses and rentals	28,490	92,108	141,855	122,936
Gains (losses) on derivative contracts	8,766	4,226,309	(12,673)	5,629,649
Income from partnerships	32,268	27,472	110,316	104,224
	<u>10,977,459</u>	<u>16,856,884</u>	<u>20,879,007</u>	<u>29,178,236</u>
Costs and expenses:				
Lease operating expenses	2,081,579	2,177,576	4,279,449	4,484,120
Production taxes	422,428	449,903	767,072	804,945
Exploration costs	290,353	300,502	577,457	876,763
Depreciation, depletion and amortization	3,631,385	5,484,080	7,066,196	10,776,775
Provision for impairment	828,019	12,370	828,019	12,370
Loss (gain) on asset sales, interest and other	(13,499)	39,185	(19,226)	1,819
General and administrative	1,465,941	1,428,702	3,105,938	2,845,500
	<u>8,706,206</u>	<u>9,892,318</u>	<u>16,604,905</u>	<u>19,802,292</u>
Income before provision for income taxes	<u>2,271,253</u>	<u>6,964,566</u>	<u>4,274,102</u>	<u>9,375,944</u>
Provision for income taxes	<u>499,000</u>	<u>1,801,000</u>	<u>1,075,000</u>	<u>2,504,000</u>
Net income	<u>\$ 1,772,253</u>	<u>\$ 5,163,566</u>	<u>\$ 3,199,102</u>	<u>\$ 6,871,944</u>
Basic and diluted earnings per common share	<u>\$ 0.21</u>	<u>\$ 0.61</u>	<u>\$ 0.38</u>	<u>\$ 0.82</u>
Basic and diluted weighted average shares outstanding:				
Common shares	8,281,059	8,311,636	8,291,549	8,311,636
Unissued, directors' deferred compensation shares	119,943	110,041	119,652	102,268
	<u>8,401,002</u>	<u>8,421,677</u>	<u>8,411,201</u>	<u>8,413,904</u>
Dividends declared per share of common stock and paid in period	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ 0.14</u>	<u>\$ 0.14</u>

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Consolidated Balance Sheets

	<u>March 31, 2011</u>	<u>September 30, 2010</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,888,029	\$ 5,597,258
Oil and natural gas sales receivables, net of allowance for uncollectible accounts	8,097,015	9,063,002
Derivative contracts	63,984	1,481,527
Refundable income taxes	758,332	-
Refundable production taxes	379,893	804,120
Other	150,824	412,778
Total current assets	<u>15,338,077</u>	<u>17,358,685</u>
Properties and equipment, at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	216,268,053	207,928,578
Non-producing oil and natural gas properties	9,389,228	9,616,330
Furniture and fixtures	665,535	656,889
	<u>226,322,816</u>	<u>218,201,797</u>
Less accumulated depreciation, depletion and amortization	138,874,693	131,983,249
Net properties and equipment	<u>87,448,123</u>	<u>86,218,548</u>
Investments	641,902	754,208
Derivative contracts	57,819	138,799
Refundable production taxes	1,020,868	654,599
Total assets	<u>\$ 104,506,789</u>	<u>\$ 105,124,839</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,027,047	\$ 5,062,806
Deferred income taxes	167,100	354,100
Accrued income taxes and other liabilities	714,643	1,842,918
Total current liabilities	<u>4,908,790</u>	<u>7,259,824</u>
Deferred income taxes	23,206,650	22,552,650
Asset retirement obligations	1,743,749	1,730,369
Stockholders' equity:		
Class A voting common stock, \$.0166 par value; 24,000,000 shares authorized, 8,431,502 issued at March 31, 2011, and September 30, 2010	140,524	140,524
Capital in excess of par value	1,875,211	1,816,365
Deferred directors' compensation	2,458,077	2,222,127
Retained earnings	75,635,506	73,599,733
	<u>80,109,318</u>	<u>77,778,749</u>
Less treasury stock, at cost; 166,242 shares at March 31, 2011, and 120,560 at September 30, 2010	(5,461,718)	(4,196,753)
Total stockholders' equity	<u>74,647,600</u>	<u>73,581,996</u>
Total liabilities and stockholders' equity	<u>\$ 104,506,789</u>	<u>\$ 105,124,839</u>

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Condensed Consolidated Statements of Cash Flows  
(unaudited)

	Six months ended March 31,	
	2011	2010
<b>Operating Activities</b>		
Net income	\$ 3,199,102	\$ 6,871,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and impairment	7,894,215	10,789,145
Provision for deferred income taxes	467,000	240,000
Exploration costs	577,457	876,763
Net (gain) loss on sale of assets	(139,955)	(227,568)
Income from partnerships	(110,316)	(104,224)
Distributions received from partnerships	175,813	155,343
Directors' deferred compensation expense	235,950	272,733
Restricted stock awards	58,846	-
Cash provided by changes in assets and liabilities:		
Oil and natural gas sales receivables	965,987	(2,529,261)
Fair value of derivative contracts	1,498,523	(5,818,249)
Refundable production taxes	57,958	183,387
Other current assets	261,954	(69,448)
Accounts payable	325,408	(181,418)
Income taxes receivable	(758,332)	-
Income taxes payable	(922,136)	1,147,436
Accrued liabilities	(206,139)	(28,171)
Total adjustments	10,382,233	4,706,468
Net cash provided by operating activities	13,581,335	11,578,412
<b>Investing Activities</b>		
Capital expenditures, including dry hole costs	(11,065,925)	(5,109,510)
Proceeds from leasing of fee mineral acreage	155,908	165,589
Investments in partnerships	46,809	-
Proceeds from sales of assets	938	104,858
Net cash used in investing activities	(10,862,270)	(4,839,063)
<b>Financing Activities</b>		
Borrowings under debt agreement	-	9,567,559
Payments of loan principal	-	(15,007,223)
Purchase of treasury stock	(1,264,965)	-
Payments of dividends	(1,163,329)	(1,163,630)
Net cash provided by (used in) financing activities	(2,428,294)	(6,603,294)
Increase (decrease) in cash and cash equivalents	290,771	136,055
Cash and cash equivalents at beginning of period	5,597,258	639,908
Cash and cash equivalents at end of period	\$ 5,888,029	\$ 775,963
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Additions to asset retirement obligations	\$ 13,380	\$ 15,270
Gross additions to properties and equipment	\$ 9,704,758	\$ 4,483,954
Net (increase) decrease in accounts payable for properties and equipment additions	1,361,167	625,556
Capital expenditures, including dry hole costs	\$ 11,065,925	\$ 5,109,510

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OPERATING HIGHLIGHTS

	Second Quarter Ended <u>March 31, 2011</u>	Second Quarter Ended <u>March 31, 2010</u>	Six Months Ended <u>March 31, 2011</u>	Six Months Ended <u>March 31, 2010</u>
Mcf Sold	2,152,011	2,090,154	4,360,229	4,368,287
Average Sales Price per Mcfe	\$5.07	\$5.99	\$4.73	\$5.34
Barrels Sold	26,376	21,998	51,341	49,452
Average Sales Price per Barrel	\$88.20	\$74.87	\$84.10	\$72.89
Mcf Sold	1,993,755	1,958,166	4,052,183	4,071,575
Average Sales Price per Mcf	\$4.30	\$5.55	\$4.03	\$4.84

Quarterly Production Levels

<u>Quarter ended</u>	<u>Barrels Sold</u>	<u>Mcf Sold</u>	<u>Mcf Sold</u>
3/31/11	26,376	1,993,755	2,152,011
12/31/10	24,965	2,058,428	2,208,218
9/30/10	26,054	2,155,769	2,312,093
6/30/10	26,873	2,074,998	2,236,236
3/31/10	21,998	1,958,166	2,090,154

Proved Reserves

	<u>SEC Pricing</u>	
	<u>March 31, 2011</u>	<u>September 30, 2010</u>
<u>Net Proved Developed Reserves:</u>		
Barrels of Oil	827,463	861,240
Mcf of Gas	59,832,087	57,344,190
Mcf *	64,796,865	62,511,630
<u>Net Proved Undeveloped Reserves:</u>		
Barrels of Oil	66,142	63,769
Mcf of Gas	41,879,403	40,826,265
Mcf *	42,276,255	41,208,879
<u>Net Total Proved Reserves:</u>		
Barrels of Oil	893,605	925,009
Mcf of Gas	101,711,490	98,170,455
Mcf *	107,073,120	103,720,509
10% Discounted Estimated Future Net Cash Flows (before federal income taxes)		
Proved Developed	\$104,938,907	\$103,270,565
Proved Undeveloped	24,637,134	21,960,347
Total	<u>\$129,576,041</u>	<u>\$125,230,912</u>
Pricing		
Oil/Barrel (constant)	\$78.46	\$69.23
Gas/Mcf (constant)	\$4.03	\$4.33

\*Crude oil converted to natural gas on a one barrel of crude oil equals six Mcf of natural gas basis

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Derivative contracts in place as of March 31, 2011  
 (prices below reflect the Company's net price from the listed Oklahoma pipelines)

<u>Contract period</u>	<u>Production volume covered per month</u>	<u>Indexed (1) Pipeline</u>	<u>Fixed price</u>
Fixed price swaps			
April - October 2011	50,000 Mmbtu	NYMEX Henry Hub	\$4.65
April - October 2011	50,000 Mmbtu	NYMEX Henry Hub	\$4.65
April - October 2011	50,000 Mmbtu	NYMEX Henry Hub	\$4.70
April - October 2011	50,000 Mmbtu	NYMEX Henry Hub	\$4.75
May - October 2011	50,000 Mmbtu	NYMEX Henry Hub	\$4.50
May - October 2011	50,000 Mmbtu	NYMEX Henry Hub	\$4.60
Basis protection swaps			
January - December 2011	50,000 Mmbtu	CEGT	NYMEX -\$0.27
January - December 2011	50,000 Mmbtu	CEGT	NYMEX -\$0.27
January - December 2011	50,000 Mmbtu	PEPL	NYMEX -\$0.26
January - December 2011	50,000 Mmbtu	PEPL	NYMEX -\$0.27
January - December 2011	70,000 Mmbtu	PEPL	NYMEX -\$0.36
January - December 2012	50,000 Mmbtu	CEGT	NYMEX -\$0.29
January - December 2012	40,000 Mmbtu	CEGT	NYMEX -\$0.30
January - December 2012	50,000 Mmbtu	PEPL	NYMEX -\$0.29
January - December 2012	50,000 Mmbtu	PEPL	NYMEX -\$0.30
Oil costless collars			
April - December 2011	5,000 Bbls	NYMEX WTI	\$100 floor/\$112 ceiling

- (1) CEGT - Centerpoint Energy Gas Transmission's East pipeline in Oklahoma  
 PEPL - Panhandle Eastern Pipeline Company's Texas/Oklahoma mainline

**Panhandle Oil and Gas Inc. (NYSE-PHX)** is engaged in the exploration for and production of natural gas and oil. Additional information on the Company can be found at [www.panhandleoilandgas.com](http://www.panhandleoilandgas.com).

**Forward-Looking Statements and Risk Factors** – This report includes “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. Forward-looking statements include current expectations or forecasts of future events. They may include estimates of oil and gas reserves, expected oil and gas production and future expenses, projections of future oil and gas prices, planned capital expenditures for drilling, leasehold acquisitions and seismic data, statements concerning anticipated cash flow and liquidity and Panhandle’s strategy and other plans and objectives for future operations. Although Panhandle believes the expectations reflected in these and other forward-looking statements are reasonable, we can give no assurance they will prove to be correct. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Factors that could cause actual results to differ materially from expected results are described under “Risk Factors” in Part 1, Item 1 of Panhandle’s 2010 Form 10-K filed with the Securities and Exchange Commission. These “Risk Factors” include the worldwide economic recession’s continuing negative effects on the natural gas business; our hedging activities may reduce the realized prices received for natural gas sales; the volatility of oil and gas prices; Panhandle’s ability to compete effectively against strong independent oil and gas companies and majors; the availability of capital on an economic basis to fund reserve replacement costs; Panhandle’s ability to replace reserves and sustain production; uncertainties inherent in estimating quantities of oil and gas reserves and projecting future rates of production and the amount and timing of development expenditures; uncertainties in evaluating oil and gas reserves; unsuccessful exploration and development drilling; decreases in the values of our oil and gas properties resulting in write-downs; the negative impact lower oil and gas prices could have on our ability to borrow; drilling and operating risks; and we cannot control activities on our properties as the Company is a non-operator.

Do not place undue reliance on these forward-looking statements, which speak only as of the date of this release. Panhandle undertakes no obligation to update this information. Panhandle urges you to carefully review and consider the disclosures made in this presentation and Panhandle’s filings with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect Panhandle’s business.

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