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PANHANDLE OIL AND GAS INC. REPORTS FISCAL FIRST QUARTER 2011 RESULTS

Cash Flow From Operations Increases 78%, Company Records Net Income of \$1,426,849 or \$.17 Per Share

OKLAHOMA CITY – PANHANDLE OIL AND GAS INC. (NYSE-PHX) today reported financial and operating results for the fiscal 2011 first quarter ended December 31, 2010.

FIRST QUARTER 2011 HIGHLIGHTS

- Recorded net income of \$1,426,849 as compared to first quarter 2010 net income of \$1,708,378
- Generated cash flow from operations of \$8,579,664 an increase of 78% as compared to the 2010 quarter
- Reported first quarter production of 2,208,218 Mcfe
- Maintained \$0 balance outstanding on credit facility
- Increased capital expenditures to \$6,570,808 for the quarter, an increase of 147% over the 2010 quarter

For the quarter, the Company recorded net income of \$1,426,849, or \$.17 per share, as compared to a net income of \$1,708,378, or \$.20 per share, for the 2010 first quarter. Net cash provided by operating activities increased 78% to \$8,579,664 for the 2011 first quarter as compared to the 2010 first quarter. Capital expenditures for drilling and equipping wells and leasehold acquisitions increased 147% from the 2010 first quarter to \$6,570,808. Production for the first quarter of 2011 was 2,208,218 Mcfe. This was a 4.5% decrease in sequential quarterly production and a 3% decrease from the 2010 first quarter. The average sales price per Mcfe of production during the 2011 first quarter was \$4.41 as compared to \$4.75 for the 2010 first quarter.

Total revenues for the 2011 quarter decreased 19.6% to \$9,901,548, as compared to \$12,321,352 for the 2010 quarter. The decrease in revenues resulted from a slight decrease in production and in the price realized per Mcfe of production, and a loss from derivative contracts in the 2011 quarter of \$21,439 as compared to a gain of \$1,403,340 in the 2010 first quarter from derivative contracts.

MANAGEMENT COMMENTS

Michael C. Coffman, President and CEO said, “Cash flow remained strong allowing us to fully fund our increasing capital expenditures, pay our operating costs and overhead, make dividend payments, repurchase shares and still increase our cash position. Although net income was down \$281,529 for the first fiscal quarter of 2011 as compared to the 2010 first quarter, we are pleased with the Company’s progress so far in fiscal 2011.

“Capital expenditures increased 147% in the 2011 quarter, with a significant part of the increased drilling dollars going to oil and natural gas liquids-rich plays in Western Oklahoma. We expect this trend of increasing drilling opportunities in these plays to continue throughout 2011. Panhandle’s perpetual mineral acreage ownership in Western Oklahoma continues to allow the Company to benefit from this significant industry shift to oil and natural gas liquids-rich plays. We remain in an attractive financial position with significant capital available to take full advantage of these new drilling opportunities, as always we will maintain our sharp focus on investments that will generate shareholder value over time.”

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Paul Blanchard, Senior Vice President and COO said, “The reduction in our drilling activity in 2010, as operators shifted emphasis away from dry gas drilling, has resulted in moderately lower production levels thus far in fiscal 2011. However, as operators continue to shift drilling activity to oil and natural gas liquids-rich plays, particularly in Western Oklahoma, we anticipate production levels will increase. Drilling and completing these horizontal wells takes time, thus we expect additions to production beginning in the latter half of 2011 and into 2012.

“Panhandle owns approximately 41,000 net mineral acres in Western Oklahoma that present us with drilling opportunities for several years. These opportunities will allow us to capitalize on the current superior rates of return these areas generate. We continue to emphasize for investors the competitive advantage Panhandle enjoys because we do not need to expend resources to acquire additional acreage in order to grow our drilling opportunities in these new plays.”

FINANCIAL HIGHLIGHTS

Consolidated Statements of Operations

	Three Months Ended December 31,	
	2010	2009
Revenues:		
Oil and natural gas (and associated natural gas liquids) sales	\$ 9,731,574	\$ 10,810,432
Lease bonuses and rentals	113,365	30,828
Gains (losses) on derivative contracts	(21,439)	1,403,340
Income from partnerships	78,048	76,752
	9,901,548	12,321,352
Costs and expenses:		
Lease operating expenses	2,197,870	2,306,544
Production taxes	344,644	355,042
Exploration costs	287,104	576,261
Depreciation, depletion and amortization	3,434,811	5,292,695
Loss (gain) on asset sales, interest and other	(5,727)	(37,366)
General and administrative	1,639,997	1,416,798
	7,898,699	9,909,974
Income before provision for income taxes	2,002,849	2,411,378
Provision for income taxes	576,000	703,000
Net income	\$ 1,426,849	\$ 1,708,378
Basic and diluted earnings per common share	\$ 0.17	\$ 0.20
Basic and diluted weighted average shares outstanding:		
Common shares	8,301,811	8,311,636
Unissued, directors' deferred compensation shares	115,483	100,553
	8,417,294	8,412,189

Consolidated Balance Sheets

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	<u>December 31, 2010</u>	<u>September 30, 2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,622,178	\$ 5,597,258
Oil and natural gas sales receivables, net of allowance for uncollectible accounts	6,924,477	9,063,002
Refundable production taxes	435,073	804,120
Derivative contracts	-	1,481,527
Other	171,827	412,778
Total current assets	<u>14,153,555</u>	<u>17,358,685</u>
Properties and equipment, at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	211,911,838	207,928,578
Non-producing oil and natural gas properties	10,309,142	9,616,330
Furniture and fixtures	664,135	656,889
	<u>222,885,115</u>	<u>218,201,797</u>
Less accumulated depreciation, depletion and amortization	135,304,688	131,983,249
Net properties and equipment	<u>87,580,427</u>	<u>86,218,548</u>
Investments	670,577	754,208
Derivative contracts	53,334	138,799
Refundable production taxes	863,938	654,599
Total assets	<u>\$ 103,321,831</u>	<u>\$ 105,124,839</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,667,736	\$ 5,062,806
Deferred income taxes	250,100	354,100
Derivative contracts	30,947	-
Accrued income taxes and other liabilities	1,221,549	1,842,918
Total current liabilities	<u>5,170,332</u>	<u>7,259,824</u>
Deferred income taxes	22,995,650	22,552,650
Asset retirement obligations	1,733,805	1,730,369
Stockholders' equity:		
Class A voting common stock, \$.0166 par value; 24,000,000 shares authorized, 8,431,502 issued at December 31, 2010 and September 30, 2010	140,524	140,524
Capital in excess of par value	1,828,393	1,816,365
Deferred directors' compensation	2,363,440	2,222,127
Retained earnings	73,863,253	73,599,733
	<u>78,195,610</u>	<u>77,778,749</u>
Less treasury stock, at cost; 142,412 shares at December 31, 2010 and 120,560 at September 30, 2010	<u>(4,773,566)</u>	<u>(4,196,753)</u>
Total stockholders' equity	<u>73,422,044</u>	<u>73,581,996</u>
Total liabilities and stockholders' equity	<u>\$ 103,321,831</u>	<u>\$ 105,124,839</u>

Condensed Consolidated Statements of Cash Flows

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	Three months ended December 31,	
	2010	2009
Operating Activities		
Net income	\$ 1,426,849	\$ 1,708,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and impairment	3,434,811	5,292,695
Provision for deferred income taxes	339,000	383,000
Exploration costs	287,104	576,161
Net (gain) loss on sale of assets	(111,478)	(133,192)
Income from partnerships	(78,048)	(76,752)
Distributions received from partnerships	110,743	104,391
Directors' deferred compensation expense	141,313	49,031
Restricted stock awards	12,028	-
Cash provided by changes in assets and liabilities:		
Oil and natural gas sales receivables	2,138,525	(1,253,808)
Fair value of derivative contracts	1,597,939	(1,648,940)
Refundable production taxes	159,708	295,244
Other current assets	240,951	(96,725)
Accounts payable	83,242	(102,443)
Income taxes payable	(725,070)	(51,770)
Accrued liabilities	(477,953)	(222,373)
Total adjustments	<u>7,152,815</u>	<u>3,114,519</u>
Net cash provided by operating activities	8,579,664	4,822,897
Investing Activities		
Capital expenditures, including dry hole costs	(6,570,808)	(2,658,662)
Proceeds from leasing of fee mineral acreage	122,678	56,004
Investments in partnerships	50,936	(1,971)
Proceeds from sales of assets	938	102,881
Net cash used in investing activities	<u>(6,396,256)</u>	<u>(2,501,748)</u>
Financing Activities		
Borrowings under debt agreement	-	5,000,388
Payments of loan principal	-	(6,862,879)
Purchase of treasury stock	(576,813)	-
Payments of dividends	(581,675)	(581,815)
Net cash provided by (used in) financing activities	<u>(1,158,488)</u>	<u>(2,444,306)</u>
Increase (decrease) in cash and cash equivalents	1,024,920	(123,157)
Cash and cash equivalents at beginning of period	5,597,258	639,908
Cash and cash equivalents at end of period	<u>\$ 6,622,178</u>	<u>\$ 516,751</u>
Supplemental Schedule of Noncash Investing and Financing Activities		
Dividends declared and unpaid	<u>\$ 581,654</u>	<u>\$ -</u>
Additions to asset retirement obligations	<u>\$ 3,436</u>	<u>\$ 9,693</u>
Gross additions to properties and equipment	\$ 5,092,496	\$ 1,736,461
Net (increase) decrease in accounts payable for properties and equipment additions	<u>1,478,312</u>	<u>922,201</u>
Capital expenditures, including dry hole costs	<u>\$ 6,570,808</u>	<u>\$ 2,658,662</u>

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PRODUCTION

	<u>First Quarter Ended December 31, 2010</u>	<u>First Quarter Ended December 31, 2009</u>
Mcf Sold	2,208,218	2,278,133
Average Sales Price per Mcfe	\$4.41	\$4.75
Barrels Sold	24,965	27,454
Average Sales Price per Barrel	\$79.77	\$71.30
Mcf Sold	2,058,428	2,113,409
Average Sales Price per Mcf	\$3.76	\$4.19

<u>Quarter ended</u>	<u>Barrels Sold</u>	<u>Mcf Sold</u>	<u>Mcf Sold</u>
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
12/31/09	27,454	2,113,409	2,278,133

The Company's derivative contracts in place for natural gas at December 31, 2010 are outlined in its Form 10-Q for the period ending December 31, 2010.

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.

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, and 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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