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PANHANDLE OIL AND GAS INC. REPORTS FOURTH QUARTER AND FISCAL 2009 RESULTS

Yearly Production Increases 28% to 9.9 Bcfe

OKLAHOMA CITY – PANHANDLE OIL AND GAS INC., the “Company”, (NYSE-PHX) today reported financial and operating results for the fiscal fourth quarter and twelve months ended September 30, 2009.

HIGHLIGHTS FOR THE THREE AND TWELVE MONTH PERIODS ENDED SEPTEMBER 30, 2009

- Record twelve month production of 9.9 Bcfe, a 28% increase compared to fiscal 2008.
- Produced 2.4 Bcfe during the fourth quarter of 2009, an 8% increase from the corresponding 2008 period.
- Maintained strong balance sheet with debt of \$10.4 million at September 30, 2009.
- Cash provided by operating activities remained strong at \$37.7 million for the year.
- Continued to convert Panhandle’s mineral rights ownership interests into producing working interest wells particularly in the Woodford Shale, the Fayetteville Shale and the newly emerging Anadarko (Cana) Woodford Shale.
- Generated a 97% success rate in 168 wells drilled with a working interest in 2009.

Fiscal Fourth Quarter 2009 Results

For the fourth fiscal quarter ended September 30, 2009, production increased 8% to 2,356,051 Mcfe as compared to 2,183,583 Mcfe for the 2008 quarter. The Company recorded a net income of \$343,376 or \$.04 per share as compared to net income of \$8,775,296 or \$1.04 per share for the 2008 fourth quarter. Capital expenditures for drilling and equipping wells decreased 63% to \$4,080,626, as compared to the corresponding 2008 quarter reflecting an overall industry reduction in drilling activity. Net cash provided by operating activities for the 2009 quarter was \$6,708,784 as compared to \$14,449,727 for the 2008 quarter. Total revenues for the 2009 quarter were \$10,983,290 as compared to \$24,214,890 for the 2008 quarter. For the 2009 quarter, the average realized sales price was \$3.95 per Mcfe as compared to \$9.31 per Mcfe for the 2008 period.

On December 8, 2009, Panhandle’s banks reaffirmed the Company’s \$35 million borrowing base and extended the maturity date of the credit facility to October 31, 2012. The outstanding balance on the Company’s bank line-of-credit at December 7, 2009 was \$7.1 million.

Fiscal Year 2009 Results

For the fiscal year ended September 30, 2009, the Company reported a production increase of 28% to 9.9 Bcfe as compared to 7.7 Bcfe for fiscal 2008. The Company recorded a net loss of \$2,405,021 or \$.29 per share as compared to net income for fiscal 2008 of \$21,555,769 or \$2.54 per share. Net cash provided by operating activities for 2009 was \$37,650,864 as compared to \$39,924,719 for 2008. Total revenues for 2009 were \$39,956,967 as compared to \$69,119,121 for 2008. Capital expenditures for drilling and equipping wells totaled \$39,915,051 in 2009, as compared to \$38,747,749 for 2008. For fiscal 2009, the average realized sales price was \$3.79 per Mcfe as compared to \$8.94 per Mcfe for 2008.

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Increases in production for both the three-month and twelve-month periods are principally the result of the Company's drilling efforts in the Woodford Shale in Southeast Oklahoma and the Fayetteville Shale in Arkansas. As of September 30, 2009, Panhandle had 116 producing working interest wells and 29 producing royalty interest wells in the Woodford as well as 74 producing working interest wells and 203 producing royalty interest wells in the Fayetteville. In addition, there were a total of 36 wells in these areas in various operational stages ranging from permitted and approved for drilling to completing and testing.

In a press release dated November 9, 2009, Panhandle announced a 10% increase to proved reserves for fiscal 2009. Total proved reserves increased to 59.6 Bcfe at September 30, 2009. In addition, the Company delivered a finding cost of \$1.81 per Mcfe for 2009 and an average finding cost of \$2.22 per Mcfe over the last three years.

For 2010, Panhandle intends to continue drilling in our Woodford and Fayetteville projects, and the Company anticipates increasing drilling activity in the newly developing Anadarko (Cana) Woodford in Western Oklahoma. Panhandle currently has six producing working interest wells and two producing royalty interest wells in the Cana play with an additional four wells in various stages. The Company's 1,365 mineral acres in the current core area of this play may generate up to 330 drilling locations at 80 acre spacing.

Based on current monthly natural gas production levels, approximately 41% of the Company's fiscal 2010 first quarter natural gas production and approximately 49% of anticipated second, third and fourth fiscal quarter 2010 natural gas production is hedged at weighted average prices of \$3.76 per Mcf for the 2010 first quarter and \$5.30 per Mcf for the 2010 remaining quarters. These prices are net prices tied to specific Oklahoma pipelines, as opposed to NYMEX prices. In fiscal 2009, the Company received net cash payments of \$2,497,800 on its derivative contracts. These contracts continue to mitigate the Company's exposure to short-term fluctuations in the price of natural gas.

Management Comment

Michael C. Coffman, President and CEO said, "Fiscal 2009 was an extremely challenging year from an economic standpoint, but we have been able to adjust to the challenges and to manage the Company to maintain flexibility to capitalize on sustained market improvements when they materialize. The economic downturn coupled with high natural gas storage levels combined to place downward pressure on natural gas prices throughout the year. As a result, our total revenue decreased 42% and the Company recorded a net loss for the year. Despite the challenges, the Company delivered a 28% production increase, setting a Company record of 9.9 Bcfe; this is a testament to the strength of our asset base and the quality of our employees. Cash flow from operations remained strong at \$37.7 million. Capital expenditures were funded principally from cash flow, minimizing our bank line-of-credit increase to less than a net \$1 million for the year."

"While capital expenditure for the first six months of 2009 totaled \$30,271,588, in the second six months we reduced our capex 68% to \$9,643,463. The reduction was a result of fewer proposed wells in our core areas and reduced overall industry drilling activity in response to challenging gas market conditions. We were deliberately very judicious in selecting wells in which we participated with a working interest, focusing on participating in specific wells in which we were protecting our unit drilling rights."

Coffman concluded: "While today's market conditions are challenging, our strong balance sheet, world class operations in the Fayetteville and Woodford Shales and our ability to leverage our mineral rights ownership provide us with strong upside potential in 2010. Our current debt level of \$7.1 million is both manageable and flexible. Our strong balance sheet allows us to remain opportunistic in terms of either an acquisition or increasing our drilling activity as opportunities and market conditions warrant. And our 2010 hedging program should provide the Company with sufficient cash flow to drill additional wells on our mineral acreage. All of these factors are consistent with our ongoing corporate strategy and the momentum we have established over the last few years exploiting the capital efficiency advantage gained by drilling on Panhandle's mineral acres and developing positions in low-risk, high-reward plays and maintaining our commitment to our shareholders."

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OPERATING HIGHLIGHTS

	Fourth Quarter Ended <u>September 30, 2009</u>	Fourth Quarter Ended <u>September 30, 2008</u>	Fiscal Year Ended <u>September 30, 2009</u>	Fiscal Year Ended <u>September 30, 2008</u>
MCFE Sold	2,356,051	2,183,583	9,878,948	7,722,450
Average Sales Price per MCFE	\$3.95	\$9.31	\$3.79	\$8.94
Barrels Sold	29,011	31,375	128,160	132,402
Average Sales Price per Barrel	\$61.97	\$116.12	\$51.79	\$103.91
MCF Sold	2,181,985	1,995,333	9,109,988	6,928,038
Average Sales Price per MCF	\$3.44	\$8.37	\$3.38	\$7.98

Quarterly Production Levels

<u>Quarter ended</u>	<u>Barrels Sold</u>	<u>MCF Sold</u>	<u>MCFE</u>
9/30/09	29,011	2,181,985	2,356,051
6/30/09	34,145	2,442,604	2,647,474
3/31/09	34,744	2,171,660	2,380,124
12/31/08	30,260	2,313,739	2,495,299
9/30/08	31,375	1,995,333	2,183,583

Derivative contracts in place as of September 30, 2009
 (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>
March - December, 2009	60,000 mmbtu	CEGT	\$4.01
April - December, 2009	100,000 mmbtu	CEGT	\$3.71
May - December, 2009	70,000 mmbtu	CEGT	\$3.615
July - December, 2009	70,000 mmbtu	PEPL	\$3.745
January - December, 2010	100,000 mmbtu	CEGT	\$5.015
January - December, 2010	50,000 mmbtu	CEGT	\$5.050
January - December, 2010	100,000 mmbtu	PEPL	\$5.57
January - December, 2010	50,000 mmbtu	PEPL	\$5.56

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

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FINANCIAL HIGHLIGHTS

Consolidated Statements of Operations

	Three Months Ended September 30,		Twelve Months Ended September 30,	
	2009	2008	2009	2008
Revenues:				
Oil and natural gas sales	\$ 9,306,699	\$ 20,339,225	\$ 37,421,688	\$ 69,026,785
Lease bonuses and rentals	6,887	57,095	188,906	167,559
Gains (losses) on derivative contracts	(874,406)	3,450,493	(661,828)	(940,823)
Gain on asset sales, interest and other	2,473,151	42,991	2,684,353	233,709
Income of partnerships	70,959	325,086	323,848	631,891
	<u>10,983,290</u>	<u>24,214,890</u>	<u>39,956,967</u>	<u>69,119,121</u>
Costs and expenses:				
Lease operating expenses	1,923,625	1,652,019	7,696,026	6,629,170
Production taxes	84,169	995,427	1,201,209	3,426,592
Exploration costs	396,737	58,818	711,582	455,943
Depreciation, depletion and amortization	7,286,528	6,408,314	28,168,933	19,784,660
Provision for impairment	340,387	140,708	2,464,520	526,380
Loss on sale of assets	-	802	-	204,189
General and administrative	1,144,974	1,014,946	4,866,044	5,006,512
Bad debt expense (recovery)	(185,272)	591,258	(185,272)	591,258
Interest expense	(61,234)	-	6,946	44,346
	<u>10,929,914</u>	<u>10,862,292</u>	<u>44,929,988</u>	<u>36,669,050</u>
Income (loss) before provision (benefit) for income taxes	<u>53,376</u>	<u>13,352,598</u>	<u>(4,973,021)</u>	<u>32,450,071</u>
Provision (benefit) for income taxes	<u>(290,000)</u>	<u>4,577,302</u>	<u>(2,568,000)</u>	<u>10,894,302</u>
Net income (loss)	<u>\$ 343,376</u>	<u>\$ 8,775,296</u>	<u>\$ (2,405,021)</u>	<u>\$ 21,555,769</u>
Earnings (loss) per common share	<u>\$ 0.04</u>	<u>\$ 1.04</u>	<u>\$ (0.29)</u>	<u>\$ 2.54</u>
Weighted average shares outstanding:				
Common shares	8,300,253	8,341,867	8,300,160	8,406,874
Unissued, vested directors' shares	99,242	86,853	97,177	85,504
	<u>8,399,495</u>	<u>8,428,720</u>	<u>8,397,337</u>	<u>8,492,378</u>
Dividends declared per share of common stock and paid in period	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>

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Consolidated Balance Sheets

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 639,908	\$ 895,708
Oil and natural gas sales receivables (net)	7,747,557	17,183,128
Deferred income taxes	1,934,900	-
Refundable income taxes	-	2,162,305
Refundable production taxes	616,668	78,882
Short-term derivative contracts	-	646,193
Other	68,817	143,272
Total current assets	<u>11,007,850</u>	<u>21,109,488</u>
Properties and equipment, at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	198,076,244	175,727,196
Non-producing oil and natural gas properties	10,332,537	11,216,103
Other	578,460	491,321
	<u>208,987,241</u>	<u>187,434,620</u>
Less accumulated depreciation, depletion and amortization	112,900,027	87,661,433
Net properties and equipment	<u>96,087,214</u>	<u>99,773,187</u>
Investments	682,391	736,314
Refundable production taxes and other	772,177	388,194
Total assets	<u>\$ 108,549,632</u>	<u>\$ 122,007,183</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,810,687	\$ 15,897,565
Short-term derivative contracts	1,726,901	-
Accrued liabilities	1,033,570	608,456
Total current liabilities	<u>7,571,158</u>	<u>16,506,021</u>
Long-term debt	10,384,722	9,704,100
Deferred income taxes	24,064,650	25,943,750
Asset retirement obligations	1,620,225	1,504,411
Long-term derivative contracts	786,534	-
Stockholders' equity:		
Class A voting common stock, \$.0166 par value; 24,000,000 shares authorized, 8,431,502 issued at September 30, 2009 and September 30, 2008	140,524	140,524
Capital in excess of par value	1,922,053	2,090,070
Deferred directors' compensation	1,862,499	1,605,811
Retained earnings	64,507,547	69,236,604
	<u>68,432,623</u>	<u>73,073,009</u>
Less treasury stock, at cost; 119,866 shares at September 30, 2009 and 131,374 shares at September 30, 2008	(4,310,280)	(4,724,108)
Total stockholders' equity	<u>64,122,343</u>	<u>68,348,901</u>
Total liabilities and stockholders' equity	<u>\$ 108,549,632</u>	<u>\$ 122,007,183</u>

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Condensed Consolidated Statements of Cash Flows

	Year ended September 30,		
	2009	2008	2007
Operating Activities			
Net income (loss)	\$ (2,405,021)	\$ 21,555,769	\$ 6,343,464
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion, amortization, and impairment	30,633,453	20,311,040	19,053,457
Deferred income taxes (net)	(3,814,000)	9,116,000	1,329,000
Exploration costs	711,582	455,943	1,050,069
Net (gain) loss on sales of assets	(2,654,759)	20,632	22,856
Income from partnerships	(323,848)	(631,891)	(383,391)
Distributions received from partnerships	373,063	585,588	465,535
Other	4,708	-	(45,954)
Common stock contributed to ESOP	245,811	218,733	221,633
Common stock (unissued) to Directors' Deferred Compensation Plan	256,688	247,033	156,209
Bad debt expense (recovery)	(185,272)	591,258	-
Cash provided (used) by changes in assets and liabilities:			
Oil and natural gas sales receivables	9,620,843	(9,671,136)	(1,631,627)
Fair value of derivative contracts	3,159,628	(539,277)	(106,916)
Refundable income taxes	2,162,305	(2,162,305)	1,772,987
Refundable production taxes	(537,786)	(78,882)	-
Other current assets	74,455	(25,927)	3,767
Other non-current assets	(383,983)	(388,194)	(140,901)
Accounts payable	287,883	59,921	(118,012)
Income taxes payable	338,511	(211,155)	211,155
Accrued liabilities	86,603	471,569	(96,831)
Total adjustments	40,055,885	18,368,950	21,763,036
Net cash provided by operating activities	37,650,864	39,924,719	28,106,500
Investing Activities			
Capital expenditures, including dry hole costs	(39,915,051)	(38,747,749)	(27,785,431)
Proceeds from leasing of fee mineral acreage	209,930	200,356	188,417
Proceeds from sales of assets	3,441,871	840,398	656,335
Net cash used in investing activities	(36,263,250)	(37,706,995)	(26,940,679)

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Condensed Consolidated Statements of Cash Flows (continued)

	Year ended September 30,		
	2009	2008	2007
Financing Activities			
Borrowings under debt agreement	\$ 49,027,225	\$ 47,281,411	\$ 18,046,213
Payments of loan principal	(48,346,603)	(42,238,782)	(16,551,395)
Purchases of treasury stock	-	(4,998,842)	-
Payments of dividends	(2,324,036)	(2,355,163)	(2,105,632)
Net cash used in financing activities	<u>(1,643,414)</u>	<u>(2,311,376)</u>	<u>(610,814)</u>
Increase (decrease) in cash and cash equivalents	(255,800)	(93,652)	555,007
Cash and cash equivalents at beginning of year	895,708	989,360	434,353
Cash and cash equivalents at end of year	<u>\$ 639,908</u>	<u>\$ 895,708</u>	<u>\$ 989,360</u>

Supplemental Disclosures of Cash Flow Information

Interest paid (net of capitalized interest)	\$ -	\$ 23,212	\$ 140,350
Income taxes paid, net of refunds received	\$ (1,261,808)	\$ 4,145,122	\$ (952,221)

Supplemental schedule of noncash investing and financing activities:

Additions and revisions, net, to asset retirement obligations	\$ 95,076	\$ 151,998	\$ (213,759)
Gross additions to properties and equipment	\$ 28,540,290	\$ 52,812,138	\$ 28,112,522
Net (increase) decrease in accounts payable for properties and equipment additions	<u>11,374,761</u>	<u>(14,064,389)</u>	<u>(327,091)</u>
Capital expenditures, including dry hole costs	<u>\$ 39,915,051</u>	<u>\$ 38,747,749</u>	<u>\$ 27,785,431</u>

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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 2009 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; declines 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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