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**PANHANDLE OIL AND GAS INC.  
REPORTS THIRD QUARTER AND NINE MONTHS 2011 RESULTS**

**Company delivers Nine-Month Net Income of \$5,849,531, or \$.70 per Share  
Company drilling with cash flow, which exceeds capital expenditures by 20%**

OKLAHOMA CITY – August 8, 2011/PR Newswire - PANHANDLE OIL AND GAS INC. (NYSE-PHX-News) today reported financial and operating results for the Company's fiscal third quarter and nine months ended June 30, 2011.

**HIGHLIGHTS FOR THE PERIODS ENDED JUNE 30, 2011**

- Recorded a quarterly net income of \$2,650,429
- Recorded a nine-month net income of \$5,849,531
- Generated cash from operating activities of \$20,841,594 for the nine-month period, well in excess of nine-month capital expenditures of \$17,358,890
- Reported third-quarter and nine-month production of 2,129,160 Mcfe and 6,489,389 Mcfe, respectively
- Increased capital expenditures for the 2011 nine-month period 112% to \$17,358,890 as compared to the 2010 nine-month period of \$8,189,105
- Maintained \$0 balance on credit facility at June 30, 2011

**FISCAL THIRD-QUARTER 2011 RESULTS**

For the quarter ending June 30, 2011, the Company recorded a net income of \$2,650,429 (\$.32 per share) as compared to a net income of \$1,511,300 (\$.18 per share) for the 2010 third quarter. Total revenues for the 2011 quarter increased 12% to \$11,688,417 as compared to the 2010 quarter. Cash provided by operating activities totaled \$7,260,259, which exceeded capital expenditures of \$6,292,965. Production for the 2011 quarter decreased 5% to 2,129,160 Mcfe as compared to 2,236,236 Mcfe for the 2010 quarter. The average per Mcfe sales price increased 22% for the 2011 quarter to \$5.26, as compared to \$4.32 for the 2010 quarter. The Company recorded a pre-tax gain (realized and unrealized) on derivative contracts in the 2011 quarter of \$344,856 compared to a loss of \$218,935 for the 2010 quarter.

**NINE MONTHS 2011 RESULTS**

For the nine months ended June 30, 2011, the Company recorded a net income of \$5,849,531 (\$.70 per share) as compared to a net income of \$8,383,244 (\$1.00 per share) for the 2010 nine months. Total revenues for the 2011 nine months decreased 18% to \$32,567,424 as compared to the 2010 nine months. Cash provided by operating activities totaled \$20,841,594, a 3% increase, which exceeded capital expenditures of \$17,358,890. Production for the 2011 nine months totaled 6,489,389 Mcfe as compared to 6,604,523 Mcfe for the 2010 nine months. The average per Mcfe sales price decreased 2% for the 2011 nine months to \$4.90 as compared to \$4.99 for the 2010 nine months. The pre-tax gain (realized and unrealized) on derivative contracts in the 2011 nine months was \$332,183, compared to a \$5,410,714 gain for the 2010 period. The decrease in 2011 derivative contracts gain as compared to the 2010 nine-months gain was the primary factor for the decrease in 2011 nine-month revenues and net income.

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MANAGEMENT COMMENTS

Michael C. Coffman, President and CEO said, “Panhandle continues to demonstrate that our low cost structure and our core strategy of drilling on our owned mineral acreage allows us to be profitable even during this low natural gas price environment. Our oil and gas sales revenue is currently generated approximately 74% from natural gas sales, 21% from oil sales and 5% from natural gas liquids sales. We are focusing our drilling capital on oil and natural gas liquids-rich projects and as industry wide drilling continues to shift to these projects, our revenue from these projects will increase and add to our profitability.”

Coffman continued: “Our cash flow remains strong and was in excess of capital expenditures through the nine months of 2011, which allows Panhandle to remain debt-free. We expect capital expenditures for drilling expenditures to continue to increase in the coming quarters. Further, our strong balance sheet and cash flow provide the Company with sufficient capital to invest in additional opportunities to increase shareholder value. As a result we are allocating capital to add to our mineral acreage ownership through strategic purchases of additional fee mineral acreage including acreage in established shale gas plays.”

OPERATIONS UPDATE

Paul Blanchard, Senior Vice President and COO said, “We continue to receive increasing numbers of drilling proposals in the oil and liquids-rich plays of Western Oklahoma, which reflects the ongoing acceleration of drilling activity on our mineral acreage. We are on track to more than double our drilling capital expenditures for fiscal 2011 as compared to 2010. The 2% decline in production thus far in 2011 is attributable to the dramatic drop in capital expenditures in late 2009 and 2010. We believe this highlights the strength of our mineral acreage in that the dramatic decrease in capital expenditures and drilling activity in 2009 and 2010 is reflected in a relatively modest 2% production decrease. Our increasing capital expenditure level in 2011 will translate in production increasing as these new wells are drilled and new production comes on line.”

Blanchard continued: “In addition to capital expenditures for drilling and equipping wells, we have begun an acquisition program to purchase additional mineral acreage in our major activity areas of the Fayetteville Shale, the Southeastern Oklahoma Woodford Shale and in Western Oklahoma, including the Cana Woodford Shale and the horizontal Granite Wash plays. This is a carefully considered strategy in which we are pursuing additional mineral acreage principally in gas plays to position the Company for what we believe will be improving gas market conditions in the coming years. We expect to ramp up our mineral rights acquisition effort for the remainder of this year and to continue this acquisition program through fiscal 2012.”

OPERATING HIGHLIGHTS

	Third Quarter Ended June 30, 2011	Third Quarter Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Mcf Sold	2,129,160	2,236,236	6,489,389	6,604,523
Average Sales Price per Mcfe	\$5.26	\$4.32	\$4.90	\$4.99
Barrels Sold	25,382	26,873	76,723	76,325
Average Sales Price per Barrel	\$96.18	\$73.65	\$88.10	\$73.16
Mcf Sold	1,976,868	2,074,998	6,029,051	6,146,573
Average Sales Price per Mcf	\$4.43	\$3.70	\$4.16	\$4.46

Quarterly Production Levels

Quarter Ended	Barrels Sold	Mcf Sold	Mcfe Sold
6/30/11	25,382	1,976,868	2,129,160
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

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FINANCIAL HIGHLIGHTS

Consolidated Statements of Operations

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
	(unaudited)		(unaudited)	
Revenues:				
Oil and natural gas (and associated natural gas liquids) sales	\$ 11,190,482	\$ 9,659,803	\$ 31,829,991	\$ 32,981,230
Lease bonuses and rentals	83,485	934,532	225,340	1,057,468
Gains (losses) on derivative contracts	344,856	(218,935)	332,183	5,410,714
Income from partnerships	69,594	86,470	179,910	190,694
	<u>11,688,417</u>	<u>10,461,870</u>	<u>32,567,424</u>	<u>39,640,106</u>
Costs and expenses:				
Lease operating expenses	2,212,181	1,681,982	6,491,630	6,166,102
Production taxes	268,425	236,793	1,035,497	1,041,738
Exploration costs	418,055	538,262	995,512	1,415,025
Depreciation, depletion and amortization	3,716,460	5,221,723	10,782,656	15,998,498
Provision for impairment	2,927	-	830,946	12,370
Loss (gain) on asset sales, interest and other	(44,279)	(989,152)	(63,505)	(987,333)
General and administrative	1,423,219	1,507,962	4,529,157	4,353,462
	<u>7,996,988</u>	<u>8,197,570</u>	<u>24,601,893</u>	<u>27,999,862</u>
Income before provision for income taxes	<u>3,691,429</u>	<u>2,264,300</u>	<u>7,965,531</u>	<u>11,640,244</u>
Provision for income taxes	<u>1,041,000</u>	<u>753,000</u>	<u>2,116,000</u>	<u>3,257,000</u>
Net income	<u>\$ 2,650,429</u>	<u>\$ 1,511,300</u>	<u>\$ 5,849,531</u>	<u>\$ 8,383,244</u>
Basic and diluted earnings per common share	<u>\$ 0.32</u>	<u>\$ 0.18</u>	<u>\$ 0.70</u>	<u>\$ 1.00</u>
Basic and diluted weighted average shares outstanding:				
Common shares	8,256,252	8,311,636	8,279,784	8,311,636
Unissued, directors' deferred compensation shares	123,310	112,160	119,943	110,640
	<u>8,379,562</u>	<u>8,423,796</u>	<u>8,399,727</u>	<u>8,422,276</u>
Dividends declared per share of common stock and paid in period	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ 0.21</u>	<u>\$ 0.21</u>

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Consolidated Balance Sheets

	<u>June 30, 2011</u>	<u>September 30, 2010</u>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,623,125	\$ 5,597,258
Oil and natural gas sales receivables, net of allowance for uncollectible accounts	8,409,724	9,063,002
Derivative contracts	292,759	1,481,527
Refundable income taxes	878,860	-
Refundable production taxes	284,730	804,120
Other	77,845	412,778
Total current assets	<u>15,567,043</u>	<u>17,358,685</u>
Properties and equipment, at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	222,650,712	207,928,578
Non-producing oil and natural gas properties	10,686,973	9,616,330
Furniture and fixtures	667,432	656,889
	<u>234,005,117</u>	<u>218,201,797</u>
Less accumulated depreciation, depletion and amortization	142,590,914	131,983,249
Net properties and equipment	<u>91,414,203</u>	<u>86,218,548</u>
Investments	625,341	754,208
Derivative contracts	-	138,799
Refundable production taxes	1,214,795	654,599
Total assets	<u>\$ 108,821,382</u>	<u>\$ 105,124,839</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,558,643	\$ 5,062,806
Deferred income taxes	19,100	354,100
Accrued income taxes	-	922,136
Other liabilities	962,583	920,782
Total current liabilities	<u>6,540,326</u>	<u>7,259,824</u>
Deferred income taxes	24,235,650	22,552,650
Asset retirement obligations	1,750,938	1,730,369
Derivative contracts	21,310	-
Stockholders' equity:		
Class A voting common stock, \$.0166 par value; 24,000,000 shares authorized, 8,431,502 issued at June 30, 2011, and September 30, 2010	140,524	140,524
Capital in excess of par value	1,922,029	1,816,365
Deferred directors' compensation	2,552,459	2,222,127
Retained earnings	77,706,189	73,599,733
	<u>82,321,201</u>	<u>77,778,749</u>
Less treasury stock, at cost; 186,041 shares at June 30, 2011, and 120,560 at September 30, 2010	(6,048,043)	(4,196,753)
Total stockholders' equity	<u>76,273,158</u>	<u>73,581,996</u>
Total liabilities and stockholders' equity	<u>\$ 108,821,382</u>	<u>\$ 105,124,839</u>

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Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30,	
	2011	2010
	(unaudited)	
<b>Operating Activities</b>		
Net income	\$ 5,849,531	\$ 8,383,244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	10,782,656	15,998,498
Impairment	830,946	12,370
Provision for deferred income taxes	1,348,000	613,000
Exploration costs	995,512	1,039,905
Net (gain) loss on sale of assets	(223,587)	(1,139,072)
Income from partnerships	(40,722)	(190,694)
Distributions received from partnerships	289,582	270,817
Directors' deferred compensation expense	330,332	319,151
Restricted stock awards	105,664	-
Other	-	64,555
Cash provided by changes in assets and liabilities:		
Oil and natural gas sales receivables	653,278	(458,037)
Fair value of derivative contracts	1,348,877	(4,301,814)
Refundable production taxes	(40,806)	12,876
Other current assets	334,933	(1,153,067)
Accounts payable	36,593	143,270
Income taxes receivable	(878,860)	-
Income taxes payable	(922,136)	360,966
Accrued liabilities	41,801	259,172
Total adjustments	<u>14,992,063</u>	<u>11,851,896</u>
Net cash provided by operating activities	<u>20,841,594</u>	<u>20,235,140</u>
<b>Investing Activities</b>		
Capital expenditures, including dry hole costs	(17,358,890)	(8,189,105)
Proceeds from leasing of fee mineral acreage	256,583	1,256,102
Investments in partnerships	(119,993)	(43,413)
Proceeds from sales of assets	938	401,168
Net cash used in investing activities	<u>(17,221,362)</u>	<u>(6,575,248)</u>
<b>Financing Activities</b>		
Borrowings under debt agreement	-	10,799,814
Payments of loan principal	-	(21,184,536)
Purchase of treasury stock	(1,851,290)	-
Payments of dividends	(1,743,075)	(1,745,444)
Net cash provided by (used in) financing activities	<u>(3,594,365)</u>	<u>(12,130,166)</u>
Increase (decrease) in cash and cash equivalents	25,867	1,529,726
Cash and cash equivalents at beginning of period	5,597,258	639,908
Cash and cash equivalents at end of period	<u>\$ 5,623,125</u>	<u>\$ 2,169,634</u>
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Additions to asset retirement obligations	<u>\$ 20,569</u>	<u>\$ 18,950</u>
Gross additions to properties and equipment	\$ 17,818,134	\$ 7,541,102
Net (increase) decrease in accounts payable for properties and equipment additions	<u>(459,244)</u>	<u>648,003</u>
Capital expenditures, including dry hole costs	<u>\$ 17,358,890</u>	<u>\$ 8,189,105</u>

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Derivative contracts in place as of June 30, 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>
Natural gas 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
June - October 2011	50,000 Mmbtu	NYMEX Henry Hub	\$4.63
Natural gas 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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