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**PANHANDLE OIL AND GAS INC. REPORTS  
FISCAL FIRST QUARTER 2010 RESULTS**

**Company Records Net Income of \$1,708,378 or \$.20 Per Share**

OKLAHOMA CITY – PANHANDLE OIL AND GAS INC. (NYSE-PHX) today reported financial and operating results for the fiscal first quarter ended December 31, 2009.

**FIRST QUARTER 2010 HIGHLIGHTS**

- Recorded net income of \$1,708,378 as compared to first quarter 2009 net loss of \$874,629
- Generated a 9.8% increase in total revenues
- Reported first quarter production of 2,278,144 Mcfe
- Strengthened balance sheet by reducing debt to \$8.5 million at December 31, 2009

For the quarter, the Company recorded net income of \$1,708,378, or \$.20 per share as compared to a net loss of \$874,629, or \$.10 per share, for the 2009 first quarter. Total revenues for the 2010 quarter increased 9.8% to \$12,424,503, as compared to \$11,319,702 for the 2009 quarter. Capital expenditures for drilling and equipping wells and leasehold acquisitions decreased 86% from the 2009 first quarter to \$2,658,662. Net cash provided by operating activities was \$4,820,926 for the 2010 first quarter.

Production for the first quarter of 2010 was 2,278,144 Mcfe. This was a 3% decrease in sequential quarterly production and a 9% decrease from the 2009 first quarter. The average sales price per Mcfe of production during the 2010 first quarter was \$4.75 as compared to \$4.25 for the 2009 first quarter.

**FINANCIAL REVIEW**

Michael C. Coffman, President and CEO said, "After a challenging year in fiscal 2009 Panhandle recorded a profit of \$1,708,378 for the first quarter of fiscal 2010. The first quarter average sales price per Mcfe of \$4.75 was an increase of \$.96 per Mcfe over the 2009 full fiscal year per Mcfe sales price of \$3.79. In addition, our natural gas hedging contracts contributed \$1.4 million to first quarter revenues. Current natural gas futures prices point to an average realized price in the \$5.00 - \$5.50 range during 2010, which is equivalent to the prices used to develop our 2010 capital and operational program and should allow us to have a profitable year."

"For the quarter cash provided by operating activities totaled \$4,820,926 while capital expenditures for drilling and completion costs were \$2,658,662. Our cash flow both funded drilling costs and enabled us to reduce our debt approximately \$1.9 million during the quarter to \$8.5 million at December 31, 2009. We expect capital expenditures to increase as the year progresses as most operators in the shale plays in which we are involved have announced plans to ramp up drilling activity in calendar 2010. With our strong financial position, we will participate in those drilling opportunities which are economically viable in the expected price environment."

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OPERATIONS REVIEW

Paul Blanchard, Vice President and COO said, “The reduction in our drilling activity in Panhandle’s principal plays was evident from our significantly lower capital expenditure level in the first quarter. Our production, however, decreased only 3% from the fourth quarter of fiscal 2009. This very modest production decrease, given the capital deployed, indicates the quality of our drilling opportunities in several world class shale plays. The completion of five wells in the Southeastern Oklahoma Woodford Shale in late November added an average of 2,240 Mcf per day to our production for one month of the 2010 first quarter. These wells are expected to be on-line for the entire second quarter of 2010. Also, three additional Woodford Shale wells in which our net revenue interest is approximately 11% per well, are drilled and should be completed and on line in late February or early March. In addition, one well in the Anadarko Basin “Cana” Woodford Shale went on production in mid-December and this well is projected to contribute approximately 300 Mcf per day to our production in the second quarter. We currently have seven wells producing in the “Cana” and one well drilling in which we have a 9.5% net revenue interest. That well should come on-line in late March 2010. Currently we have two additional wells scheduled to be drilled and four wells proposed for drilling in the play. In the Arkansas Fayetteville Shale, three wells in which our net revenue interest is approximately 10% were placed on production in early January and are expected to be on-line for the entire quarter. Key operators in the Company’s resource plays have announced plans to increase drilling activity in 2010. As a result, we project increases in capital expenditures as the year progresses. We expect the increase in drilling investments to result in the Company re-establishing its upward momentum in production volumes as these new wells come on line in future quarters.”

Derivative contracts in place as of December 31, 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>
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 December 31,	
	2009	2008
	(unaudited)	
Revenues:		
Oil and natural gas sales	\$ 10,810,432	\$ 10,616,664
Lease bonuses and rentals	30,828	113,380
Gains (losses) on natural gas derivative contracts	1,403,340	393,007
Gain on asset sales, interest and other	103,151	58,060
Income from partnerships	76,752	138,591
	<u>12,424,503</u>	<u>11,319,702</u>
Costs and expenses:		
Lease operating expenses	2,306,544	1,749,143
Production taxes	355,042	406,748
Exploration costs	576,261	172,265
Depreciation, depletion and amortization	5,292,695	6,950,092
Provision for impairment	-	1,875,920
General and administrative	1,416,798	1,219,163
Interest expense	65,785	-
	<u>10,013,125</u>	<u>12,373,331</u>
Income (loss) before provision (benefit) for income taxes	2,411,378	(1,053,629)
Provision (benefit) for income taxes	<u>703,000</u>	<u>(179,000)</u>
Net income (loss)	<u>\$ 1,708,378</u>	<u>\$ (874,629)</u>
Earnings (loss) per common share	<u>\$ 0.20</u>	<u>\$ (0.10)</u>
Weighted average shares outstanding:		
Common shares	8,311,636	8,300,128
Unissued, vested directors' shares	100,553	87,915
	<u>8,412,189</u>	<u>8,388,043</u>

PRODUCTION

	First Quarter Ended December 31, 2009	First Quarter Ended December 31, 2008
Mcf Sold	2,278,144	2,495,299
Average Sales Price per MCFE	\$4.75	\$4.25
Barrels Sold	27,454	30,260
Average Sales Price per Barrel	\$71.30	\$51.80
Mcf Sold	2,113,420	2,313,739
Average Sales Price per MCF	\$4.19	\$3.91

<u>Quarter ended</u>	<u>Barrels Sold</u>	<u>Mcf Sold</u>	<u>Mcf Sold</u>
12/31/09	27,454	2,113,420	2,278,144
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

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Consolidated Balance Sheets

	December 31, 2009 (unaudited)	September 30, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 516,751	\$ 639,908
Oil and natural gas sales receivables, net of allowance for uncollectible accounts	9,001,365	7,747,557
Deferred income taxes	1,622,900	1,934,900
Refundable production taxes	178,324	616,668
Other	165,542	68,817
Total current assets	11,484,882	11,007,850
Properties and equipment, at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	199,839,742	198,076,244
Non-producing oil and natural gas properties	10,248,480	10,332,537
Furniture and fixtures	584,060	578,460
	210,672,282	208,987,241
Less accumulated depreciation, depletion and amortization	118,733,463	112,900,027
Net properties and equipment	91,938,819	96,087,214
Investments	656,723	682,391
Refundable production taxes	915,277	772,177
Total assets	<u>\$ 104,995,701</u>	<u>\$ 108,549,632</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,786,043	\$ 4,810,687
Derivative contracts	864,495	1,726,901
Accrued liabilities	759,427	1,033,570
Total current liabilities	5,409,965	7,571,158
Long-term debt	8,522,231	10,384,722
Deferred income taxes	24,135,650	24,064,650
Asset retirement obligations	1,629,918	1,620,225
Derivative contracts	-	786,534
Stockholders' equity:		
Class A voting common stock, \$.0166 par value; 24,000,000 shares authorized, 8,431,502 issued at December 31, 2009 and at September 30, 2009	140,524	140,524
Capital in excess of par value	1,922,053	1,922,053
Deferred directors' compensation	1,911,530	1,862,499
Retained earnings	65,634,110	64,507,547
	69,608,217	68,432,623
Less treasury stock, at cost; 119,866 shares at December 31, 2009 and at September 30, 2009	(4,310,280)	(4,310,280)
Total stockholders' equity	65,297,937	64,122,343
Total liabilities and stockholders' equity	<u>\$ 104,995,701</u>	<u>\$ 108,549,632</u>

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Condensed Consolidated Statements of Cash Flows

	Three months ended December 31,	
	2009	2008
	(unaudited)	
<b>Operating Activities</b>		
Net income (loss)	\$ 1,708,378	\$ (874,629)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Unrealized gains (losses) on natural gas derivative contracts	(1,648,940)	646,193
Depreciation, depletion, amortization and impairment	5,292,695	8,826,012
Deferred income taxes (net)	383,000	205,000
Exploration costs	576,161	172,265
Net (gain) loss on sale of assets	(133,192)	(115,377)
Income from partnerships	(76,752)	(138,591)
Distributions received from partnerships	102,420	150,164
Directors' deferred compensation expense	49,031	38,629
Cash provided by changes in assets and liabilities:		
Oil and natural gas sales receivables	(1,253,808)	6,528,078
Refundable income taxes	-	(386,512)
Refundable production taxes	295,244	(194,212)
Other current assets	(96,725)	27,915
Accounts payable	(102,443)	501,227
Income taxes payable	(51,770)	-
Accrued liabilities	(222,373)	(330,669)
Total adjustments	<u>3,112,548</u>	<u>15,930,122</u>
Net cash provided by operating activities	<u>4,820,926</u>	<u>15,055,493</u>
<b>Investing Activities</b>		
Capital expenditures, including dry hole costs	(2,658,662)	(18,442,452)
Proceeds from leasing of fee mineral acreage	56,004	118,955
Proceeds from sales of assets	102,881	2,000
Net cash used in investing activities	<u>(2,499,777)</u>	<u>(18,321,497)</u>
<b>Financing Activities</b>		
Borrowings under debt agreement	5,000,388	18,316,045
Payments of loan principal	(6,862,879)	(15,023,806)
Payments of dividends	(581,815)	(581,009)
Net cash provided by (used in) financing activities	<u>(2,444,306)</u>	<u>2,711,230</u>
Decrease in cash and cash equivalents	(123,157)	(554,774)
Cash and cash equivalents at beginning of period	639,908	895,708
Cash and cash equivalents at end of period	<u>\$ 516,751</u>	<u>\$ 340,934</u>
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Dividends declared and unpaid	\$ -	\$ 581,009
Additions to asset retirement obligations	<u>\$ 9,693</u>	<u>\$ 90,059</u>
Gross additions to properties and equipment	\$ 1,736,461	\$ 12,385,991
Net (increase) decrease in accounts payable for properties and equipment additions	922,201	6,056,461
Capital expenditures, including dry hole costs	<u>\$ 2,658,662</u>	<u>\$ 18,442,452</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](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 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; 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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