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PANHANDLE OIL AND GAS INC. REPORTS FISCAL 2014 FIRST QUARTER RESULTS

Records 129% Increase in Net Income to \$4,926,318 (\$0.59 per share) and a 17% Production Increase

OKLAHOMA CITY – PANHANDLE OIL AND GAS INC. (NYSE:PHX), the “Company,” today reported financial and operating results for the 2014 fiscal first quarter ending Dec. 31, 2013.

FIRST QUARTER 2014 HIGHLIGHTS

- Recorded first quarter 2014 net income of \$4,926,318, \$0.59 per share, compared to net income of \$2,148,298, \$0.26 per share, for the 2013 first quarter.
- Recorded highest quarterly Mcfe production in Company history of 3,509,270 Mcfe, compared to 3,008,365 Mcfe for the 2013 first quarter.
- Increased quarterly oil production by 79% to 83,413 barrels, a Company record, compared to 46,656 barrels for the 2013 first quarter.
- Increased quarterly NGL production by 21% to 37,140 barrels, compared to 30,674 barrels for the 2013 first quarter.
- Fully funded capital expenditures of \$9.9 million for drilling and equipping wells for the 2014 first quarter with cash generated by operating activities of \$11.9 million during the quarter.
- Reduced debt \$2.3 million during the quarter to \$6 million.

For the 2014 first quarter, the Company recorded net income of \$4,926,318, \$0.59 per share, compared to net income of \$2,148,298, \$0.26 per share, for the 2013 first quarter. Net cash provided by operating activities increased 66% to \$11,886,347 for the 2014 first quarter, compared to the 2013 first quarter. Cash flow from operations fully funded all capital expenditures for the quarter of \$11,498,717, which included \$9,892,262 for drilling and equipping wells. Drilling capital expenditures in fiscal 2014 principally were directed toward oily and NGL rich plays, principally in western and southern Oklahoma. In addition, in the first quarter the Company made a small bolt-on acquisition of producing gas wells and associated acreage in the Fayetteville Shale for \$1.6 million.

Total revenues for the 2014 quarter were \$18,396,756, compared to \$14,180,435 for the 2013 quarter. Oil, NGL and natural gas sales increased \$5,714,128 or 45% in the 2014 quarter, compared to the 2013 quarter, as a result of a 17% increase in Mcfe production and a 24% increase in the average per Mcfe sales price. The average sales price per Mcfe of production during the 2014 first quarter was \$5.26, compared to \$4.24 for the 2013 first quarter. Additionally, 2014 first quarter total costs and expenses were down slightly, and costs and expenses per Mcfe of production were down substantially to \$3.20 as compared to \$3.77 for the 2013 quarter.

Oil production increased 79% in the 2014 quarter to 83,413 barrels, compared to 46,656 barrels in the 2013 quarter. NGL production increased 21% in the 2014 quarter to 37,140 barrels, and natural gas production increased 9% for the 2014 quarter, compared to the 2013 quarter.

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MANAGEMENT COMMENTS

Michael C. Coffman, President and CEO said, “Our first quarter financial and operational results again demonstrate that continuing to execute on the Company’s fundamental business strategies while maintaining a longer-term outlook will increase shareholder value. This quarter’s net income of \$4,926,318 is a function of record production levels of oil and NGL’s and improved product prices. The 2014 winter has driven natural gas prices to 3-year high levels, which we expect to moderate as we move into spring. However, these current prices and expected prices through 2014 should continue to have a positive effect on 2014 earnings.”

Coffman continued: “We have maintained the discipline to invest in quality, lower-risk drilling and acquisition opportunities, which are expected to earn reasonable rates of return. These oil and NGL rich, as well as natural gas projects, have allowed Panhandle to materially grow production and reserves over the last few years with no debt increases or shareholder dilution, and we have also been successful in reducing our costs per Mcfe of production, further adding to Company profitability.”

Paul Blanchard, Senior Vice President and COO said, “Panhandle is extremely well positioned to benefit from increasing natural gas prices. We have grown natural gas production, reserves and undeveloped opportunity materially through the trough in the gas market over the last several years. During that period the Company has invested \$27 million in the acquisition of additional developed and undeveloped natural gas properties, principally in the core of the Fayetteville Shale. Our most recent acquisition consisted of developed and undeveloped properties in the Fayetteville Shale and was closed in the first quarter of fiscal 2014, for \$1.6 million.

“Our oil production grew 79% in the first quarter of fiscal 2014 compared to the same period last year. This rate of oil production growth was largely the result of elevated oil drilling activity during the second half of fiscal 2013. The increased level of capital expenditures experienced in the current quarter was in part due to the cost associated with that activity. Our pace of oil well drilling thus far in 2014 has moderated from that level, which, when combined with the natural decline from new oil properties, is anticipated to result in a leveling off of oil production for the second quarter of fiscal 2014. Substantial oil and NGL drilling opportunity exists on our mineral holdings, and we anticipate development of those reserves will continue for many years.”

PRODUCTION

	First Quarter Ended Dec. 31, 2013	First Quarter Ended Dec. 31, 2012
Mcfe Sold	3,509,270	3,008,365
Average Sales Price per Mcfe	\$ 5.26	\$ 4.24
Oil Barrels Sold	83,413	46,656
Average Sales Price per Barrel	\$ 93.66	\$ 83.86
Mcf Sold	2,785,952	2,544,385
Average Sales Price per Mcf	\$ 3.41	\$ 3.11
NGL Barrels Sold	37,140	30,674
Average Sales Price per Barrel	\$ 31.35	\$ 30.31

Quarter ended	Oil Bbls Sold	Mcf Sold	NGL Bbls Sold	Mcfe Sold
12/31/2013	83,413	2,785,952	37,140	3,509,270
9/30/2013	79,387	2,820,079	30,373	3,478,639
6/30/2013	55,474	2,742,996	25,660	3,229,800
3/31/2013	52,567	2,778,869	25,190	3,245,411
12/31/2012	46,656	2,544,385	30,674	3,008,365

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The Company's derivative contracts in place for natural gas at Dec. 31, 2013, are outlined in its Form 10-Q for the period ending Dec. 31, 2013.

FINANCIAL HIGHLIGHTS

Statements of Operations

	Three Months Ended Dec. 31,	
	2013	2012
Revenues:	(unaudited)	
Oil, NGL and natural gas sales	\$ 18,473,082	\$ 12,758,954
Lease bonuses and rentals	196,229	374,392
Gains (losses) on derivative contracts	(496,901)	892,693
Income from partnerships	224,346	154,396
	18,396,756	14,180,435
Costs and expenses:		
Lease operating expenses	3,315,397	3,296,562
Production taxes	571,564	303,553
Exploration costs	38,755	19,767
Depreciation, depletion and amortization	5,308,019	5,639,020
Provision for impairment	202,991	154,965
Loss (gain) on asset sales, interest and other	(77,455)	43,186
General and administrative	1,873,167	1,898,084
	11,232,438	11,355,137
Income before provision for income taxes	7,164,318	2,825,298
Provision for income taxes	2,238,000	677,000
Net income	\$ 4,926,318	\$ 2,148,298
Basic and diluted earnings per common share	\$ 0.59	\$ 0.26
Basic and diluted weighted average shares outstanding:		
Common shares	8,231,902	8,250,109
Unissued, directors' deferred compensation shares	123,061	122,285
	8,354,963	8,372,394

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Balance Sheets

	Dec. 31, 2013 (unaudited)	Sept. 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 294,961	\$ 2,867,171
Oil, NGL and natural gas sales receivables	14,677,736	13,720,761
Refundable production taxes	708,506	662,051
Derivative contracts	-	425,198
Other	165,811	129,998
Total current assets	<u>15,847,014</u>	<u>17,805,179</u>
Properties and equipment, at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	314,483,789	304,889,145
Non-producing oil and natural gas properties	8,873,666	8,932,905
Furniture and fixtures	737,929	737,368
	<u>324,095,384</u>	<u>314,559,418</u>
Less accumulated depreciation, depletion and amortization	(191,820,197)	(186,641,291)
Net properties and equipment	<u>132,275,187</u>	<u>127,918,127</u>
Investments	1,663,320	1,574,642
Refundable production taxes	440,203	540,482
Total assets	<u>\$ 150,225,724</u>	<u>\$ 147,838,430</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,168,398	\$ 8,409,634
Derivative contracts	466,772	-
Deferred income taxes	84,100	127,100
Income taxes payable	1,840,342	751,992
Accrued liabilities and other	1,203,080	1,011,865
Total current liabilities	<u>10,762,692</u>	<u>10,300,591</u>
Long-term debt	6,000,000	8,262,256
Deferred income taxes	31,595,907	31,226,907
Asset retirement obligations	2,477,441	2,393,190
Stockholders' equity:		
Class A voting common stock, \$.0166 par value; 24,000,000 shares authorized, 8,431,502 issued at Dec. 31, 2013, and Sept. 30, 2013	140,524	140,524
Capital in excess of par value	2,456,303	2,587,838
Deferred directors' compensation	2,870,595	2,756,526
Retained earnings	100,052,495	96,454,449
	<u>105,519,917</u>	<u>101,939,337</u>
Less treasury stock, at cost; 194,830 shares at Dec. 31, 2013, and 200,248 shares at Sept. 30, 2013	(6,130,233)	(6,283,851)
Total stockholders' equity	<u>99,389,684</u>	<u>95,655,486</u>
Total liabilities and stockholders' equity	<u>\$ 150,225,724</u>	<u>\$ 147,838,430</u>

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Condensed Statements of Cash Flows

	Three months ended Dec. 31,	
	2013	2012
	(unaudited)	
Operating Activities		
Net income	\$ 4,926,318	\$ 2,148,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	5,308,019	5,639,020
Impairment	202,991	154,965
Provision for deferred income taxes	326,000	338,000
Exploration costs	38,755	19,767
Gain from leasing of fee mineral acreage	(196,133)	(373,440)
Income from partnerships	(224,346)	(154,396)
Distributions received from partnerships	279,363	194,147
Directors' deferred compensation expense	114,069	114,164
Restricted stock awards	127,976	257,877
Cash provided (used) by changes in assets and liabilities:		
Oil, NGL and natural gas sales receivables	(956,975)	115,645
Fair value of derivative contracts	891,970	(936,914)
Refundable production taxes	53,824	212,834
Other current assets	(35,813)	47,528
Accounts payable	414,267	(361,777)
Income taxes receivable	-	319,735
Income taxes payable	1,088,350	-
Accrued liabilities	(472,288)	(577,210)
Total adjustments	<u>6,960,029</u>	<u>5,009,945</u>
Net cash provided by operating activities	<u>11,886,347</u>	<u>7,158,243</u>
Investing Activities		
Capital expenditures, including dry hole costs	(9,892,262)	(6,864,399)
Acquisition of working interest properties	(1,550,205)	-
Acquisition of minerals and overrides	(56,250)	(330,000)
Proceeds from leasing of fee mineral acreage	216,773	384,790
Investments in partnerships	(143,695)	(243,519)
Net cash used in investing activities	<u>(11,425,639)</u>	<u>(7,053,128)</u>
Financing Activities		
Borrowings under debt agreement	2,280,280	4,171,662
Payments of loan principal	(4,542,536)	(4,591,890)
Purchase of treasury stock	(122,044)	(116,632)
Payments of dividends	(664,618)	(580,991)
Excess tax benefit on stock-based compensation	16,000	15,000
Net cash provided by (used in) financing activities	<u>(3,032,918)</u>	<u>(1,102,851)</u>
Increase (decrease) in cash and cash equivalents	(2,572,210)	(997,736)
Cash and cash equivalents at beginning of period	2,867,171	1,984,099
Cash and cash equivalents at end of period	<u>\$ 294,961</u>	<u>\$ 986,363</u>
Supplemental Schedule of Noncash Investing and Financing Activities		
Dividends declared and unpaid	<u>\$ 663,654</u>	<u>\$ 583,438</u>
Additions to asset retirement obligations	<u>\$ 53,653</u>	<u>\$ 42,156</u>
Gross additions to properties and equipment	\$ 9,843,214	\$ 5,218,194
Net (increase) decrease in accounts payable for properties and equipment additions	<u>1,655,503</u>	<u>1,976,205</u>
Capital expenditures and acquisitions, including dry hole costs	<u>\$ 11,498,717</u>	<u>\$ 7,194,399</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 2013 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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