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May 8, 2014

PANHANDLE OIL AND GAS INC.
REPORTS FISCAL SECOND QUARTER, SIX MONTHS 2014 RESULTS AND MID-YEAR RESERVE UPDATE

Company Increases Second Quarter Net Income 453% and Mcfe Production 8%

OKLAHOMA CITY – PANHANDLE OIL AND GAS INC. (NYSE:PHX) today reported financial and operating results for the Company's fiscal second quarter and six months ended March 31, 2014.

HIGHLIGHTS FOR THE PERIODS ENDED MARCH 31, 2014

- Recorded fiscal second quarter 2014 net income of $5,654,573, $0.68 per diluted share, as compared to $1,022,487, $0.12 per diluted share, for the 2013 quarter.
- Recorded six month 2014 net income of $10,580,891, $1.27 per diluted share, compared to net income of $3,170,785, $0.38 per diluted share, for the 2013 six months.
- Generated cash from operating activities of $21,733,352 for the 2014 six-month period, well in excess of $17,606,988 of capital expenditures for drilling and equipping wells.
- Reported 2014 second-quarter and six-month production of 3,496,222 Mcfe and 7,005,492 Mcfe, respectively, which were increases of 8% and 12%, respectively, over the same periods of fiscal 2013.
- Continued to record increased oil production, 26% and 51% for the quarter and six months, respectively, as compared to the same 2013 periods.
- Continued to record increased natural gas liquids (NGL) production, 105% and 59% for the quarter and six months, respectively, as compared to the same 2013 periods.
- Increased proved reserves 4.7% to 159.0 Bcfe at March 31, 2014, from 151.8 Bcfe at Sept. 30, 2013.

FISCAL SECOND QUARTER 2014 RESULTS

For the 2014 fiscal second quarter, the Company recorded net income of $5,654,573, or $0.68 per diluted share. This compared to net income of $1,022,487, or $0.12 per diluted share, for the 2013 second quarter. Net cash provided by operating activities increased 19% to $9,847,005 for the 2014 second quarter versus the 2013 fiscal second quarter. Capital expenditures for the 2014 fiscal quarter totaled $7,714,726 and continue to be principally directed toward oil and NGL rich plays in western and south central Oklahoma and the Texas Panhandle. The 2014 quarter included a $1.6 million loss on derivative contracts as compared to a $1.8 million loss for the 2013 period. The Company principally uses derivative contracts of less than one year duration to provide protection against significant declines in cash flows from fluctuations in the price of natural gas and, to a lesser extent, oil. The Company typically will hedge around 50% - 60% of its expected production volumes.

Total revenues for the 2014 second quarter were $19,752,045, a 57% increase from $12,581,986 for the 2013 quarter. Oil, NGL and natural gas sales increased $7,007,457 or 50% in the 2014 quarter, compared to the 2013 quarter, as a result of an 8% increase in Mcfe production and a 39% increase in the average per Mcfe sales price. The average sales price per Mcfe of production during the 2014 second quarter was $6.04, compared to $4.34 for the 2013 second quarter. Increases in the sales price of natural gas and higher sales volumes of high-value oil and NGL combined to improve the sales price per Mcfe.

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Oil production increased 26% in the 2014 quarter to 66,239 barrels versus 52,567 barrels in the 2013 quarter, while gas production of 2,788,768 Mcf for the 2014 quarter was basically flat compared to the 2013 quarter. In addition, 51,670 barrels of NGL were sold in the 2014 quarter as compared to 25,190 barrels in the 2013 quarter.

SIX MONTHS 2014 RESULTS

For the 2014 six months, the Company recorded net income of $10,580,891, or $1.27 per diluted share. This compared to net income of $3,170,785, or $0.38 per diluted share, for the 2013 six months. Net cash provided by operating activities increased 41% year over year to $21,733,352 for the 2014 six months versus the 2013 six months. Again, cash flow from operations fully funded costs to drill and equip wells for the six months. Capital expenditures for the 2014 six months totaled $19,213,443, which included $17,606,988 for drilling and equipping wells and acquisitions of $1,606,455. The 2014 six months included a $2.1 million loss on derivative contracts as compared to a $0.9 million loss for the 2013 period.

Total revenues for the 2014 six months were $38,148,801, a 43% increase from $26,762,421 for the 2013 six months. Oil, NGL and natural gas sales increased $12,721,585 or 47% in the 2014 six months, compared to the 2013 six months, as a result of a 12% increase in Mcfe production and a 32% increase in the average per Mcfe sales price. The average sales price per Mcfe of production during the 2014 six months was $5.65, compared to $4.29 for the 2013 six months.

Oil production increased 51% in the 2014 six months to 149,652 barrels from 99,223 barrels in the 2013 six months while gas production increased 251,466 Mcf, or 5%, compared to the 2014 six months. In addition, 88,810 barrels of NGL were sold in the 2014 six months which was a 59% increase compared to 2013 NGL volumes. Drilling expenditures over the last 18 months targeting the oil and NGL rich plays are responsible for the increased oil and NGL volumes.

RESERVES UPDATE

March 31, 2014, mid-year proved reserves were 159.0 Bcfe, as calculated by the Company's consulting petroleum engineering firm, DeGolyer and MacNaughton. This was an increase of 4.7%, compared to the 151.8 Bcfe of proved reserves at Sept. 30, 2013. SEC prices used for the March 31, 2014, report averaged $3.72 per Mcf for natural gas, $94.95 per barrel for oil and $27.99 per barrel for NGL compared to $3.33 per Mcf for natural gas, $89.06 per barrel for oil and $27.28 per barrel for NGL for the Sept. 30, 2013, report. The above prices reflect net at the wellhead prices. Total proved developed reserves increased 7.4% to 100.0 Bcfe as compared to Sept. 30, 2013, reserve volumes.

MANAGEMENT COMMENTS

Michael C. Coffman, President and CEO, said: "2014 continues to be an excellent financial and operational year. The winter of 2013-2014 was a game changer for 2014 natural gas prices. For our second quarter ended March 31, 2014, the average natural gas sales price was $4.74 as compared to $3.19 for the 2013 second quarter. The gas price increases and our increased oil and NGL sales volumes resulted in a net income for the quarter of $5,654,573 and a six-month net income of $10,580,891."

Coffman continued: "Current expectations are that natural gas prices will continue to be elevated this summer as storage levels are extremely low and will need to be refilled prior to the winter heating season. These expected prices should continue to have a positive impact on our earnings for 2014. The Company remains in a very strong financial position that allows us to be ready to take advantage of drilling or acquisition opportunities that will add to our asset base and are expected to deliver additional value for our shareholders."

OPERATIONS UPDATE

Paul Blanchard, Senior Vice President and COO, said: "During the last few years of relatively low natural gas prices, Panhandle pursued a contrarian strategy of growing its natural gas production through producing property acquisitions and participation in low cost drilling in the core of the Fayetteville Shale. At the same time, we have grown profitable oil and NGL production through selected drilling participation in high-quality oil and NGL rich projects on Company owned mineral holdings principally in western and south central Oklahoma and the Texas Panhandle. Through this growth period, the Company's cost structure per Mcfe of production decreased materially and all capital investments were entirely funded through internally generated cash flow. With the rebound in natural gas prices experienced this quarter, we are enjoying the benefits of these efforts in the form of much higher cash flow and net income."

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FINANCIAL HIGHLIGHTS

Statements of Operations

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Six Months Ended March 31, 2014	Six Months Ended March 31, 2013
	(unaudited)		(unaudited)	
Revenues:				
Oil, NGL and natural gas sales	$ 21,108,301	$ 14,100,844	$ 39,581,383	$ 26,859,798
Lease bonuses and rentals	19,717	140,941	215,946	515,333
Gains (losses) on derivative contracts	(1,587,029)	(1,811,359)	(2,083,930)	(918,666)
Income from partnerships	211,056	151,560	435,402	305,956
	19,752,045	12,581,986	38,148,801	26,762,421
Costs and expenses:				
Lease operating expenses	3,653,000	2,638,342	6,968,397	5,934,904
Production taxes	706,033	412,886	1,277,597	716,439
Exploration costs	24,429	15,412	63,184	35,179
Depreciation, depletion and amortization	4,939,834	6,258,623	10,247,853	11,897,643
Provision for impairment	227,152	63,476	430,143	218,441
Loss (gain) on asset sales, interest and other	104,644	(211,896)	27,189	(168,710)
General and administrative	1,651,380	1,643,656	3,524,547	3,541,740
	11,306,472	10,820,499	22,538,910	22,175,636
Income before provision for income taxes	8,445,573	1,761,487	15,609,891	4,586,785
Provision for income taxes	2,791,000	739,000	5,029,000	1,416,000
Net income	$ 5,654,573	$ 1,022,487	$ 10,580,891	$ 3,170,785
Basic and diluted earnings per common share	$ 0.68	$ 0.12	$ 1.27	$ 0.38
Basic and diluted weighted average shares outstanding:				
Common shares	8,236,672	8,254,226	8,234,261	8,252,145
Unissued, directors' deferred compensation shares	126,051	113,258	125,712	113,045
	8,362,723	8,367,484	8,359,973	8,365,190
Dividends declared per share of common stock and paid in period	$ 0.08	$ 0.07	$ 0.16	$ 0.14

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Balance Sheets

	March 31, 2014 (unaudited)	Sept. 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 1,816,400	$ 2,867,171
Oil, NGL and natural gas sales receivables	17,105,718	13,720,761
Refundable production taxes	666,180	662,051
Derivative contracts	-	425,198
Other	185,725	129,998
Total current assets	19,774,023	17,805,179
Properties and equipment, at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	317,646,446	304,889,145
Non-producing oil and natural gas properties	9,151,030	8,932,905
Furniture and fixtures	743,493	737,368
	327,540,969	314,559,418
Less accumulated depreciation, depletion and amortization	(193,194,710)	(186,641,291)
Net properties and equipment	134,346,259	127,918,127
Investments	1,664,914	1,574,642
Refundable production taxes	272,305	540,482
Total assets	$ 156,057,501	$ 147,838,430
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 6,532,367	$ 8,409,634
Derivative contracts	1,292,329	-
Deferred income taxes	43,100	127,100
Income taxes payable	865,882	751,992
Accrued liabilities and other	768,795	1,011,865
Total current liabilities	9,502,473	10,300,591
Long-term debt	6,000,000	8,262,256
Deferred income taxes	32,763,907	31,226,907
Asset retirement obligations	2,539,172	2,393,190
Stockholders' equity:		
Class A voting common stock, $.0166 par value; 24,000,000 shares authorized, 8,431,502 issued at March 31, 2014, and Sept. 30, 2013	140,524	140,524
Capital in excess of par value	2,590,501	2,587,838
Deferred directors' compensation	2,946,032	2,756,526
Retained earnings	105,705,125	96,454,449
	111,382,182	101,939,337
Less treasury stock, at cost; 194,830 shares at March 31, 2014, and 200,248 shares at Sept. 30, 2013	(6,130,233)	(6,283,851)
Total stockholders' equity	105,251,949	95,655,486
Total liabilities and stockholders' equity	$ 156,057,501	$ 147,838,430

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Condensed Statements of Cash Flows

	Six months ended March 31, 2014	Six months ended March 31, 2013
	(unaudited)	
Operating Activities		
Net income	$ 10,580,891	$ 3,170,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	10,247,853	11,897,643
Impairment	430,143	218,441
Provision for deferred income taxes	1,453,000	957,000
Exploration costs	63,184	35,179
Gain from leasing of fee mineral acreage	(215,704)	(514,326)
Net (gain) loss on sale of assets	152,766	(208,750)
Income from partnerships	(435,402)	(305,956)
Distributions received from partnerships	547,028	389,962
Directors' deferred compensation expense	189,506	201,211
Restricted stock awards	262,174	399,907
Cash provided (used) by changes in assets and liabilities:		
Oil, NGL and natural gas sales receivables	(3,384,957)	(2,170,548)
Fair value of derivative contracts	1,717,527	1,087,443
Refundable production taxes	264,048	237,683
Other current assets	(55,727)	37,971
Accounts payable	46,051	426,487
Income taxes receivable	-	(117,886)
Income taxes payable	113,890	-
Accrued liabilities	(242,919)	(307,427)
Total adjustments	11,152,461	12,264,034
Net cash provided by operating activities	21,733,352	15,434,819
Investing Activities		
Capital expenditures, including dry hole costs	(17,606,988)	(12,719,947)
Acquisition of working interest properties	(1,550,205)	-
Acquisition of minerals and overrides	(56,250)	(330,000)
Proceeds from leasing of fee mineral acreage	237,733	527,570
Investments in partnerships	(201,898)	(418,891)
Proceeds from sales of assets	92,000	870,610
Net cash used in investing activities	(19,085,608)	(12,070,658)
Financing Activities		
Borrowings under debt agreement	8,312,545	4,181,199
Payments of loan principal	(10,574,801)	(5,556,184)
Purchase of treasury stock	(122,044)	(507,345)
Payments of dividends	(1,330,215)	(1,164,178)
Excess tax benefit on stock-based compensation	16,000	15,000
Net cash provided by (used in) financing activities	(3,698,515)	(3,031,508)
Increase (decrease) in cash and cash equivalents	(1,050,771)	332,653
Cash and cash equivalents at beginning of period	2,867,171	1,984,099
Cash and cash equivalents at end of period	$ 1,816,400	$ 2,316,752
Supplemental Schedule of Noncash Investing and Financing Activities		
Additions to asset retirement obligations	$ 84,786	$ 78,706
Gross additions to properties and equipment	$ 17,290,125	$ 13,310,629
Net (increase) decrease in accounts payable for properties and equipment additions	1,923,318	(260,682)
Capital expenditures and acquisitions, including dry hole costs	$ 19,213,443	$ 13,049,947

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Proved Reserves

	SEC Pricing			
	March 31, 2014		Sept. 30, 2013	
Proved Developed Reserves:	(unaudited)			
Barrels of NGL		1,123,310		764,321
Barrels of Oil		1,224,392		1,037,721
Mcf of Gas		85,925,225		82,298,833
Mcfe (1)		100,011,437		93,111,085
Proved Undeveloped Reserves:				
Barrels of NGL		930,058		851,805
Barrels of Oil		435,070		605,582
Mcf of Gas		50,778,306		49,990,334
Mcfe (1)		58,969,074		58,734,656
Total Proved Reserves:				
Barrels of NGL		2,053,368		1,616,126
Barrels of Oil		1,659,462		1,643,303
Mcf of Gas		136,703,531		132,289,167
Mcfe (1)		158,980,511		151,845,741
10% Discounted Estimated Future				
Net Cash Flows (before income taxes):				
Proved Developed	$	155,038,658	$	125,186,445
Proved Undeveloped		52,447,249		51,276,694
Total	$	207,485,907	$	176,463,139
SEC Pricing				
Oil/Barrel	$	94.95	$	89.06
Gas/Mcf	$	3.72	$	3.33
NGL/Barrel	$	27.99	$	27.28

Proved Reserves - NYMEX Futures Pricing (2)

10% Discounted Estimated Future	Proved Reserves			
Net Cash Flows (before income taxes):	March 31, 2014		Sept. 30, 2013	
Proved Developed	$	153,999,890	$	144,432,557
Proved Undeveloped		53,600,280		63,586,718
Total	$	207,600,170	$	208,019,275

(1) Crude oil and NGL converted to natural gas on a one barrel of crude oil or NGL equals six Mcf of natural gas basis

(2) NYMEX Futures Pricing as of March 31, 2014, basis adjusted to Company wellhead price

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OPERATING HIGHLIGHTS

	Second Quarter March 31, 2014	Second Quarter March 31, 2013	Six Months March 31, 2014	Six Months March 31, 2013
Mcfe Sold	3,496,222	3,245,411	7,005,492	6,253,776
Average Sales Price per Mcfe	$ 6.04	$ 4.34	$ 5.65	$ 4.29
Oil Barrels Sold	66,239	52,567	149,652	99,223
Average Sales Price per Barrel	$ 92.74	$ 87.90	$ 93.26	$ 86.00
Mcf Sold	2,788,768	2,778,869	5,574,720	5,323,254
Average Sales Price per Mcf	$ 4.74	$ 3.19	$ 4.08	$ 3.15
NGL Barrels Sold	51,670	25,190	88,810	55,864
Average Sales Price per Barrel	$ 33.53	$ 24.91	$ 32.62	$ 27.87

Quarter ended	Oil Bbls Sold	Mcf Sold	NGL Bbls Sold	Mcfe Sold
3/31/2014	66,239	2,788,768	51,670	3,496,222
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

The Company’s derivative contracts in place for natural gas at March 31, 2014, are outlined in its Form 10-Q for the period ending March 31, 2014.

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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