UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Commission File Number: 001-31759

PANHANDLE OIL AND GAS INC.

(Exact name of registrant as specified in its charter)

OKLAHOMA	73-1055775
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Grand Centre, Suite 300, 5400 N. Grand Blvd., Oklahoma City, OK 73112
(Address of principal executive offices) (Zip code)

Registrant's telephone number: (405) 948-1560

Securities registered under Section 12(b) of the Act:

CLASS A COMMON STOCK (VOTING)	NEW YORK STOCK EXCHANGE
(Title of Class)	(Name of each exchange on which registered)

Securities registered under Section 12(g) of the Act:
(Title of Class)

CLASS B COMMON STOCK (NON-VOTING) $1.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. __ Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. __ Yes X No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
X Yes __No

(Facing Sheet Continued)
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period) that the registrant was required to submit and post such files.
X Yes __No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer___ Accelerated filer_X_ Non-accelerated filer___ Smaller reporting company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
__ Yes _X_ No

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by using the $28.65 per share closing price of registrant's Common Stock, as reported by the New York Stock Exchange at March 31, 2013, was $201,942,992. As of December 1, 2013, 8,231,254 shares of Class A Common Stock were outstanding.

Documents Incorporated By Reference

The information required by Part III of this Report, to the extent not set forth herein, is incorporated by reference from the registrant's Definitive Proxy Statement relating to the annual meeting of stockholders to be held on March 5, 2014, which definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

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DEFINITIONS

The following defined terms are used in this report:

"**Bbl**" means barrel.

"**Bcf**" means billion cubic feet.

"Bcfe" means natural gas stated on a Bcf basis and crude oil and natural gas liquids converted to a billion cubic feet of natural gas equivalent by using the ratio of one million Bbl of crude oil or natural gas liquids to six Bcf of natural gas.

"Board" means board of directors.

"BTU" means British Thermal Units.

"CEGT" means Centerpoint Energy Gas Transmission's East pipeline in Oklahoma.

"CEO" means Chief Executive Officer.

"CFO" means Chief Financial Officer.

"Company" refers to Panhandle Oil and Gas Inc.

"COO" means Chief Operating Officer.

"DD&A" means depreciation, depletion and amortization.

"ESOP" refers to the Panhandle Oil and Gas Inc. Employee Stock Ownership and 401(k) Plan, a tax qualified, defined contribution plan.

"FASB" means the Financial Accounting Standards Board.

"G&A" means general and administrative costs.

"Independent Consulting Petroleum Engineer(s)" or **"Independent Consulting Petroleum Engineering Firm"** refers to DeGolyer and MacNaughton of Dallas, Texas.

"LOE" means lease operating expense.

"**Mcf**" means thousand cubic feet.

"**Mcfd**" means thousand cubic feet per day.

"**Mcfe**" means natural gas stated on an Mcf basis and crude oil and natural gas liquids converted to a thousand cubic feet of natural gas equivalent by using the ratio of one Bbl of crude oil or natural gas liquids to six Mcf of natural gas.

"Mmbtu" means million BTU.

"Mmcf" means million cubic feet.

"Mmcfe" means natural gas stated on an Mmcf basis and crude oil and natural gas liquids converted to a million cubic feet of natural gas equivalent by using the ratio of one thousand Bbl of crude oil or natural gas liquids to six Mmcf of natural gas.

"**minerals**", "**mineral acres**" or "**mineral interests**" refer to fee mineral acreage owned in perpetuity by the Company.

"NGL" means natural gas liquids.

"NYMEX" refers to the New York Mercantile Exchange.

"OPEC" refers to the Organization of Petroleum Exporting Countries.

"Panhandle" refers to Panhandle Oil and Gas Inc.

"PDP" means proved developed producing.

"PEPL" means Panhandle Eastern Pipeline Company's Texas/Oklahoma mainline.

"play" is a term applied to identified areas with potential oil, NGL and/or natural gas reserves.

"PUD" means proved undeveloped.

"**PV-10**" means estimated pre-tax present value of future net revenues discounted at 10% using SEC rules.

"**royalty interest**" refers to well interests in which the Company does not pay a share of the costs to drill, complete and operate a well, but receives a much smaller proportionate share (as compared to a working interest) of production.

"**SEC**" refers to the United States Securities and Exchange Commission.

"**working interest**" refers to well interests in which the Company pays a share of the costs to drill, complete and operate a well and receives a proportionate share of production.

Fiscal year references

All references to years in this report, unless otherwise noted, refer to the Company's fiscal year end of September 30. For example, references to 2012 mean the fiscal year ended September 30, 2012.

References to natural gas

References to 2010 natural gas reserves, production, sales and prices include associated NGL.

References to oil and natural gas properties inherently include NGL associated with such properties.

PART I

ITEM 1 BUSINESS

GENERAL

Panhandle Oil and Gas Inc. was founded in Range, Texas County, Oklahoma, in 1926, as Panhandle Cooperative Royalty Company and operated as a cooperative until 1979, when the Company merged into Panhandle Royalty Company, and its shares became publicly traded. On April 2, 2007, the Company's name was changed to Panhandle Oil and Gas Inc. The name change was made to clear up confusion as to whether the Company was a royalty trust. Panhandle has never been a royalty trust.

While operating as a cooperative, the Company distributed most of its net income to shareholders as cash dividends. Upon conversion to a public company in 1979, although still paying dividends, the Company began to retain a substantial part of its cash flow to participate with a working interest in the drilling of wells on its mineral acreage and to purchase additional mineral acreage. Several acquisitions of additional mineral acreage and small companies were made in the '80s and '90s, and the acquisition of Wood Oil Company, as a wholly owned subsidiary, was consummated in October 2001. Wood Oil Company was merged into Panhandle Oil and Gas Inc. effective July 1, 2011.

The Company is involved in the acquisition, management and development of non-operated oil and natural gas properties, including wells located on the Company's mineral and leasehold acreage. Panhandle's mineral and leasehold properties are located primarily in Arkansas, New Mexico, North Dakota, Oklahoma and Texas, with properties also located in several other states. The majority of the Company's oil, NGL and natural gas production is from wells located in Oklahoma and Arkansas.

In January 2006, the Company last split its Class A Common Stock on a two-for-one basis. In March 2007, the Company increased its authorized Class A Common Stock from 12 million shares to 24 million shares.

The Company's office is located at Grand Centre, Suite 300, 5400 N. Grand Blvd., Oklahoma City, OK 73112; telephone – (405) 948-1560; facsimile – (405) 948-2038. The Company's website is **www.panhandleoilandgas.com**.

The Company files periodic reports with the SEC on Forms 10-Q and 10-K. These forms, the Company's annual report to shareholders and current press releases are available free of charge through our website as soon as reasonably practicable after they are filed with the SEC or made available to the public. Also, the Company posts copies of its various corporate governance documents on the website. From time to time, the Company posts other important disclosures to investors in the "Press Release" or "Upcoming Events" section of the website, as allowed by SEC rules.

Materials filed with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at **www.sec.gov** that contains reports, proxy and information statements, and other information regarding the Company that has been filed electronically with the SEC, including this Form 10-K.

BUSINESS STRATEGY

Typically, most of Panhandle's revenues are derived from the production and sale of oil, NGL and natural gas (see Item 8 - "Financial Statements and Supplementary Data"). The Company's oil and natural gas properties, including its mineral acreage, leasehold acreage and working and royalty interests

in producing wells are mainly in Oklahoma with other significant holdings in Arkansas, New Mexico, North Dakota and Texas (see Item 2 – "Properties"). Exploration and development of the Company's oil and natural gas properties are conducted in association with oil and natural gas exploration and production companies, primarily larger independent companies. The Company does not operate any of its oil and natural gas properties, but has been an active working interest participant for many years in wells drilled on the Company's mineral acres. The majority of the Company's recent drilling participations have been on properties in which the Company owns mineral acreage. Most of these wells are in unconventional plays located in Oklahoma, Arkansas and Texas.

PRINCIPAL PRODUCTS AND MARKETS

The Company's principal products, in order of revenue generated, are natural gas, crude oil and NGL. These products are sold to various purchasers, including pipeline and marketing companies, which service the areas where the Company's producing wells are located. Since the Company does not operate any of the wells in which it owns an interest, it relies on the operating expertise of numerous companies that operate wells in the areas where the Company owns interests. This includes expertise in the drilling and completion of new wells, producing well operations and, in most cases, the marketing or purchasing of production from the wells. Natural gas and NGL sales are principally handled by the well operator and are normally contracted on a monthly basis with third-party natural gas marketers and pipeline companies. Payment for natural gas and NGL sold is received by the Company from the well operator or the contracted purchaser. Crude oil sales are generally handled by the well operator and payment for oil sold is received by the Company from the well operator or from the crude oil purchaser.

Prices of oil, NGL and natural gas are dependent on numerous factors beyond the control of the Company, including competition, weather, international events and circumstances, supply and demand, actions taken by OPEC, and economic, political and regulatory developments. Since demand for natural gas is generally highest during winter months, prices received for the Company's natural gas production are subject to seasonal variations.

The Company enters into price risk management financial instruments (derivatives) to reduce the Company's exposure to short-term fluctuations in the price of oil and natural gas. The derivative contracts apply only to a portion of the Company's oil and natural gas production and provide only partial price protection against declines in oil and natural gas prices. These derivative contracts expose the Company to risk of financial loss and may limit the benefit of future increases in oil and natural gas prices. A more thorough discussion of these derivative contracts, including risk of financial loss, is contained in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

COMPETITIVE BUSINESS CONDITIONS

The oil and natural gas industry is highly competitive, particularly in the search for new oil, NGL and natural gas reserves. Many factors affect Panhandle's competitive position and the market for its products, which are beyond its control. Some of these factors include the quantity and price of foreign oil imports; domestic supply of oil, NGL and natural gas; changes in prices received for oil, NGL and natural gas production; business and consumer demand for refined oil products, NGL and natural gas; and the effects of federal and state regulation of the exploration for, production of and sales of oil, NGL and natural gas. Changes in existing economic conditions, political developments, weather patterns and actions taken by OPEC and other oil-producing countries have a dramatic influence on the price Panhandle receives for its oil, NGL and natural gas production.

The Company does not operate any of the wells in which it has an interest; rather it relies on companies with greater resources, staff, equipment, research and experience for operation of wells both

in the drilling and production phases. The Company's business strategy is to use its strong financial base and its mineral and leasehold acreage ownership, coupled with its own geologic and economic evaluations, either to elect to participate in drilling operations with these larger companies or to lease or farmout its mineral or leasehold acreage while retaining a royalty interest. This strategy allows the Company to compete effectively in drilling operations it could not undertake on its own due to financial and personnel limitations while maintaining low overhead costs.

SOURCES AND AVAILABILITY OF RAW MATERIALS

The existence of recoverable oil, NGL and natural gas reserves in commercial quantities is essential to the ultimate realization of value from the Company's mineral and leasehold acreage. These mineral and leasehold properties are essentially the raw materials to our business. The production and sale of oil, NGL and natural gas from the Company's properties are essential to provide the cash flow necessary to sustain the ongoing viability of the Company. The Company reinvests a portion of its cash flow to purchase oil and natural gas mineral and leasehold acreage to assure the continued availability of acreage with which to participate in exploration and development drilling operations and, subsequently, the production and sale of oil, NGL and natural gas. This participation in exploration, development and production activities and purchase of additional acreage is necessary to continue to supply the Company with the raw materials with which to generate additional cash flow. Mineral and leasehold acreage purchases are made from many owners. The Company does not rely on any particular companies or persons for the purchases of additional mineral and leasehold acreage.

MAJOR CUSTOMERS

The Company's oil, NGL and natural gas production is sold, in most cases, through its well operators to many different purchasers on a well-by-well basis. During 2013, sales through two separate well operators accounted for approximately 20% and 10% of the Company's total oil, NGL and natural gas sales. During 2012, sales through three separate well operators accounted for approximately 15%, 13% and 10% of the Company's total oil, NGL and natural gas sales. During 2011, sales through two separate well operators accounted for approximately 15% and 14% of the Company's total oil, NGL and natural gas sales. Generally, if one purchaser declines to continue purchasing the Company's production, several other purchasers can be located. Pricing is generally consistent from purchaser to purchaser.

PATENTS, TRADEMARKS, LICENSES, FRANCHISES AND ROYALTY AGREEMENTS

The Company does not own any patents, trademarks, licenses or franchises. Royalty agreements on wells producing oil, NGL and natural gas stemming from the Company's ownership of mineral acreage generate a portion of the Company's revenues. These royalties are tied to ownership of mineral acreage, and this ownership is perpetual, unless sold by the Company. Royalties are due and payable to the Company whenever oil, NGL or natural gas is produced and sold from wells located on the Company's mineral acreage.

REGULATION

All of the Company's well interests and non-producing properties are located onshore in the United States. Oil, NGL and natural gas production is subject to various taxes, such as gross production taxes and, in some cases, ad valorem taxes.

The State of Oklahoma and other states require permits for drilling operations, drilling bonds and reports concerning operations and impose other regulations relating to the exploration for and production of oil, NGL and natural gas. These states also have regulations addressing conservation matters, including provisions for the unitization or pooling of oil and natural gas properties and the regulation of

spacing, plugging and abandonment of wells. These regulations vary from state to state. As previously discussed, the Company relies on its well operators to comply with governmental regulations.

Various aspects of the Company's oil and natural gas operations are regulated by agencies of the federal government. Transportation of natural gas in interstate commerce is generally regulated by the Federal Energy Regulatory Commission ("FERC") pursuant to the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978 ("NGPA"). The intrastate transportation and gathering of natural gas (and operational and safety matters related thereto) may be subject to regulation by state and local governments.

FERC's jurisdiction over interstate natural gas sales was substantially modified by the NGPA under which FERC continued to regulate the maximum selling prices of certain categories of natural gas sold in "first sales" in interstate and intrastate commerce. Effective January 1, 1993, however, the Natural Gas Wellhead Decontrol Act (the "Decontrol Act") deregulated natural gas prices for all "first sales" of natural gas. Because "first sales" include typical wellhead sales by producers, all natural gas produced from the Company's natural gas properties is sold at market prices, subject to the terms of any private contracts in effect. FERC's jurisdiction over natural gas transportation was not affected by the Decontrol Act.

Sales of natural gas are affected by intrastate and interstate natural gas transportation regulation. Beginning in 1985, FERC adopted regulatory changes that have significantly altered the transportation and marketing of natural gas. FERC intended these changes to foster competition by transforming the role of interstate pipeline companies from wholesale marketers of natural gas to the primary role of natural gas transporters. As a result of the various omnibus rulemaking proceedings in the late 1980s and the individual pipeline restructuring proceedings of the early to mid-1990s, interstate pipelines must provide open and nondiscriminatory transportation and transportation-related services to all producers, natural gas marketing companies, local distribution companies, industrial end users and other customers seeking service. Through similar orders affecting intrastate pipelines that provide similar interstate services, FERC expanded the impact of open access regulations to intrastate commerce.

FERC has pursued other policy initiatives that have affected natural gas marketing. Most notable are: (1) permitting the large-scale divestiture of interstate pipeline-owned natural gas gathering facilities to affiliated or non-affiliated companies; (2) further development of rules governing the relationship of the pipelines with their marketing affiliates; (3) the publication of standards relating to the use of electronic bulletin boards and electronic data exchange by the pipelines to make transportation information available on a timely basis and to enable transactions to occur on a purely electronic basis; (4) further review of the role of the secondary market for released pipeline capacity and its relationship to open access service in the primary market; and (5) development of policy and promulgation of orders pertaining to its authorization of market-based rates (rather than traditional cost-of-service based rates) for transportation or transportation-related services upon the pipeline's demonstration of lack of market control in the relevant service market.

As a result of these changes, sellers and buyers of natural gas have gained direct access to the particular pipeline services they need and are able to conduct business with a larger number of counter parties. These changes generally have improved the access to markets for natural gas while substantially increasing competition in the natural gas marketplace. The effect of future regulations by FERC and other regulatory agencies cannot be predicted.

Sales of oil are not regulated and are made at market prices. The price received from the sale of oil is affected by the cost of transporting it to market. Much of that transportation is through interstate common carrier pipelines. Effective January 1, 1995, FERC implemented regulations generally grandfathering all previously approved interstate transportation rates and establishing an indexing system

for those rates by which adjustments are made annually based on the rate of inflation, subject to certain conditions and limitations. Over time, these regulations tend to increase the cost of transporting oil by interstate pipelines, although some annual adjustments may result in decreased rates for a given year. These regulations have generally been upheld on judicial review. Every five years, FERC will examine the relationship between the annual change in the applicable index and the actual cost changes experienced by the oil pipeline industry.

ENVIRONMENTAL MATTERS

As the Company is directly involved in the extraction and use of natural resources, it is subject to various federal, state and local laws and regulations regarding environmental and ecological matters. Compliance with these laws and regulations may necessitate significant capital outlays; however, to date, the Company's cost of compliance has been immaterial. The Company does not believe the existence of these environmental laws, as currently written and interpreted, will materially hinder or adversely affect the Company's business operations; however, there can be no assurances of future events or changes in laws, or the interpretation of laws, governing our industry. Current discussions involving the governance of hydraulic fracturing in the future could have a material impact on the Company. Since the Company does not operate any wells in which it owns an interest, actual compliance with environmental laws is controlled by the well operators, with Panhandle being responsible for its proportionate share of the costs involved. As such, to its knowledge, the Company is not aware of any instances of non-compliance with existing laws and regulations. Absent an extraordinary event, any noncompliance is not likely to have a material adverse effect on the financial condition of the Company. Although the Company is not fully insured against all environmental risks, insurance coverage is maintained at levels which are customary in the industry.

EMPLOYEES

At September 30, 2013, Panhandle employed 21 people with five of the employees serving as executive officers. The President and CEO is also a director of the Company.

ITEM 1A RISK FACTORS

In addition to the other information included in this Form 10-K, the following risk factors should be considered in evaluating the Company's business and future prospects. If any of the following risk factors should occur, the Company's financial condition could be materially impacted and the holders of our securities could lose part or all of their investment in Panhandle. The risk factors described below are not exhaustive, and investors are encouraged to perform their own investigation with respect to the Company and its business. Investors should also read the other information in this Form 10-K, including the financial statements and related notes.

Uncertainty of economic conditions, worldwide and in the United States, may have a significant negative effect on operating results, liquidity and financial condition.

Effects of change in domestic and international economic conditions could include: (1) a decline in demand for oil, NGL and natural gas resulting in decreased oil, NGL and natural gas reserves due to curtailed drilling activity; (2) a decline in oil, NGL and natural gas prices; (3) risk of insolvency of well operators and oil, NGL and natural gas purchasers; (4) limited availability of certain insurance coverage; (5) limited access to derivative instruments; and (6) limited credit availability. A decline in reserves would lead to a decline in production, and either a production decline, or a decrease in oil, NGL and natural gas prices, would have a negative impact on the Company's cash flow, profitability and value.

Oil, NGL and natural gas prices are volatile. Volatility in these prices can adversely affect operating results and the price of the Company's common stock. This volatility also makes valuation of oil and natural gas producing properties difficult and can disrupt markets.

The supply of and demand for oil, NGL and natural gas impact the prices we realize on the sale of these commodities and, in turn, materially affect the Company's financial results. Oil, NGL and natural gas prices have historically been, and will likely continue to be, volatile. The prices for oil, NGL and natural gas are subject to wide fluctuation in response to a number of factors, including:

- worldwide economic conditions
- economic, political, regulatory and tax developments
- market uncertainty
- changes in the supply of and demand for oil, NGL and natural gas
- availability and capacity of necessary transportation and processing facilities
- commodity futures trading
- regional price differentials
- differing quality of oil produced (i.e., sweet crude versus heavy or sour crude)
- differing quality and NGL content of natural gas produced
- weather conditions
- the level of imports and exports of oil, NGL and natural gas
- political instability or armed conflicts in major oil and natural gas producing regions
- actions taken by OPEC
- competition from alternative sources of energy
- technological advancements affecting energy consumption and energy supply

Price volatility makes it difficult to budget and project the return on investment in exploration and development projects and to estimate with precision the value of producing properties that are owned or acquired by the Company. In addition, volatile prices often disrupt the market for oil and natural gas properties, as buyers and sellers have more difficulty agreeing on the purchase price of properties. Revenues, results of operations, reserves and capital availability may fluctuate significantly as a result of variations in oil, NGL and natural gas prices and production performance.

Lower oil, NGL and natural gas prices may also trigger significant impairment write-downs on a portion of the Company's properties and negatively affect the Company's results of operations and its ability to borrow under its credit facility.

A substantial decline in oil, NGL and natural gas prices for a prolonged period of time would have a material adverse effect on the Company.

The Company's financial position, results of operations, access to capital and the quantities of oil, NGL and natural gas that may be economically produced would be negatively impacted if oil, NGL and natural gas prices decrease significantly for an extended period of time. The ways in which such price decreases could have a material negative effect include:

- cash flow would be reduced, decreasing funds available for capital expenditures employed to replace reserves and maintain or increase production
- future undiscounted and discounted net cash flows from producing properties would decrease, possibly resulting in impairment expense that may be significant
- certain reserves may no longer be economic to produce, leading to lower proved reserves, production and cash flow
- access to sources of capital, such as equity or long-term debt markets, could be severely limited or unavailable

The Company cannot control activities on properties it does not operate.

The Company does not operate any of the properties in which it has an interest and has very limited ability to exercise influence over the third-party operators of these properties. Our dependence on the third-party operators of our properties, and on the cooperation of other working interest owners in these properties, could negatively affect the following:

- the Company's return on capital used in drilling or property acquisition
- the Company's production and reserve growth rates
- capital required to drill and complete wells
- success and timing of drilling, development and exploitation activities on the Company's properties
- compliance with environmental, safety and other regulations
- lease operating expenses
- plugging and abandonment costs, including well-site restorations

Dependency on each operator's judgment, expertise and financial resources could result in unexpected future costs, lost revenues and/or capital restrictions to the extent they would cumulatively have a material adverse effect on the Company's financial position and results of operations.

The Company's derivative activities may reduce the cash flow received for oil and natural gas sales.

In order to manage exposure to price volatility on our oil and natural gas production, we enter into oil and natural gas derivative contracts for a portion of our expected production. Oil and natural gas price derivatives may limit the cash flow we actually realize and therefore reduce the Company's ability to fund future projects. None of our oil and natural gas price derivative contracts are designated as hedges for accounting purposes; therefore, we record all derivative contracts at fair value on our balance sheet. Accordingly, these fair values may vary significantly from period to period, materially affecting reported earnings. The fair value of our oil and natural gas derivative instruments outstanding as of September 30, 2013, was a net asset of $425,198.

There is risk associated with our derivative contracts that involves the possibility that counterparties may be unable to satisfy contractual obligations to us. If any counterparty to our derivative instruments were to default or seek bankruptcy protection, it could subject a larger percentage of our future oil and natural gas production to commodity price changes and could have a negative effect on our ability to fund future projects.

There are also risks of financial loss associated with derivative instruments if there is an increase in the differential between the underlying price of the derivative contract and the actual received price.

A more thorough discussion of these derivative contracts, including risk of financial loss, is contained in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Lower oil, NGL and natural gas prices or negative adjustments to oil, NGL and natural gas reserves may result in significant impairment charges.

The Company has elected to utilize the successful efforts method of accounting for its oil and natural gas exploration and development activities. Exploration expenses, including geological and geophysical costs, rentals and exploratory dry holes, are charged against income as incurred. Costs of

successful wells and related production equipment and development dry holes are capitalized and amortized by property using the unit-of-production method (the ratio of oil, NGL and natural gas volumes produced to total proved or proved developed reserves) as oil, NGL and natural gas are produced.

All long-lived assets, principally the Company's oil and natural gas properties, are monitored for potential impairment when circumstances indicate that the carrying value of the asset on our books may be greater than its future net cash flows. The need to test a property for impairment may result from declines in oil, NGL and natural gas sales prices or unfavorable adjustments to oil, NGL and natural gas reserves. Also, once assets are classified as held for sale, they are reviewed for impairment. Because of the uncertainty inherent in these factors, the Company cannot predict when or if future impairment charges will be recorded. If an impairment charge is recognized, cash flow from operating activities is not impacted, but net income and, consequently, shareholders' equity are reduced. In periods when impairment charges are incurred, it could have a material adverse effect on our results of operations.

Our estimated proved reserves are based on many assumptions that may prove to be inaccurate. Any inaccuracies in these reserve estimates or underlying assumptions may materially affect the quantities and present value of our reserves.

It is not possible to measure underground accumulations of oil, NGL and natural gas with precision. Oil, NGL and natural gas reserve engineering requires subjective estimates of underground accumulations of oil, NGL and natural gas using assumptions concerning future prices of these commodities, future production levels, and operating and development costs. In estimating our reserves, we and our Independent Consulting Petroleum Engineering Firm make various assumptions with respect to many subject matters that may prove to be incorrect, including:

- future oil, NGL and natural gas prices
- production rates
- reservoir pressures, decline rates, drainage areas and reservoir limits
- interpretation of subsurface conditions including geological and geophysical data
- potential for water encroachment or mechanical failures
- levels and timing of capital expenditures, lease operating expenses, production taxes and income taxes, and availability of funds for such expenditures
- effects of government regulation

If these assumptions prove to be incorrect, our estimates of reserves, the classifications of reserves based on risk of recovery and our estimates of the future net cash flows from our reserves could change significantly.

Our standardized measure of oil and natural gas reserves is calculated using the 12-month average price calculated as the unweighted arithmetic average of the first-day-of-the-month individual product prices for each month within the 12-month period prior to September 30 held flat over the life of the properties and operating costs in effect as of the date of estimation, less future estimated development, production and income tax expenses, and is discounted at 10% per annum to reflect the timing of future net revenue in accordance with the rules and regulations of the SEC. Over time, we may make material changes to reserve estimates to take into account changes in our assumptions and the results of actual development and production.

The reserve estimates made for fields that do not have a lengthy production history are less reliable than estimates for fields with lengthy production histories. A lack of production history may contribute to inaccuracy in our estimates of proved reserves, future production rates and the timing of development expenditures. Further, our lack of knowledge of all individual well information known to

the well operators such as incomplete well stimulation efforts, restricted production rates for various reasons and up to date well production data, etc. may cause differences in our reserve estimates.

Because PUD's, under SEC reporting rules, may only be recorded if the wells they relate to are scheduled to be drilled within five years of the date of recording, the removal of PUD's that are not developed within this five year period may be required. Removals of this nature may significantly reduce the quantity and present value of the Company's oil, NGL and natural gas reserves.

Because forward-looking prices and costs are not used to estimate discounted future net cash flows from our estimated proved reserves, the standardized measure of our estimated proved reserves is not necessarily the same as the current market value of our estimated proved oil, NGL and natural gas reserves.

The timing of both our production and our incurrence of expenses in connection with the development and production of our properties will affect the timing of actual future net cash flows from proved reserves, and thus their actual present value. In addition, the 10% discount factor used when calculating discounted future net cash flows in compliance with the FASB statement on oil and natural gas producing activities disclosures may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with the Company, or the oil and natural gas industry in general.

Failure to find or acquire additional reserves will cause reserves and production to decline materially from their current levels.

The rate of production from oil and natural gas properties generally declines as reserves are depleted. The Company's proved reserves will decline materially as reserves are produced except to the extent that the Company acquires additional properties containing proved reserves, conducts additional successful exploration and development drilling, successfully applies new technologies or identifies additional behind-pipe zones (different productive zones within existing producing well bores) or secondary recovery reserves.

Drilling for oil and natural gas invariably involves unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient reserves to return a profit after deducting drilling, operating and other costs. In addition, wells that are profitable may not achieve a targeted rate of return. The Company relies on third-party operators' interpretation of seismic data and other advanced technologies in identifying prospects and in conducting exploration and development activities. Nevertheless, prior to drilling a well, the seismic data and other technologies used do not allow operators to know conclusively whether oil, NGL or natural gas is present in commercial quantities.

Cost factors can adversely affect the economics of any project, and ultimately the cost of drilling, completing and operating a well is controlled by well operators and existing market conditions. Further, drilling operations may be curtailed, delayed or canceled as a result of numerous factors, including:

- unexpected drilling conditions
- title problems
- pressure or irregularities in formations
- equipment failures or accidents
- fires, explosions, blowouts and surface cratering
- lack of availability to market production via pipelines or other transportation
- adverse weather conditions
- environmental hazards or liabilities
- governmental regulations

- cost and availability of drilling rigs, equipment and services
- expected sales price to be received for oil, NGL or natural gas produced from the wells

Oil and natural gas drilling and producing operations involve various risks.

The Company is subject to all the risks normally incident to the operation and development of oil and natural gas properties, including:

- well blowouts, cratering, explosions and human related accidents
- mechanical, equipment and pipe failures
- adverse weather conditions and natural disasters
- civil disturbances and terrorist activities
- oil, NGL and natural gas price reductions
- environmental risks stemming from the use, production, handling and disposal of water, waste materials, hydrocarbons and other substances into the air, soil or water
- title problems
- limited availability of financing
- marketing related infrastructure, transportation and processing limitations
- regulatory compliance issues

As a non-operator, we are dependent on third-party operators and the contractors they hire for operational safety, environmental safety and compliance with regulations of governmental authorities.

The Company maintains insurance against many potential losses or liabilities arising from well operations in accordance with customary industry practices and in amounts believed by management to be prudent. However, this insurance does not protect the Company against all risks. For example, the Company does not maintain insurance for business interruption, acts of war or terrorism. Additionally, pollution and environmental risks generally are not fully insurable. These risks could give rise to significant uninsured costs that could have a material adverse effect on the Company's business condition and financial results.

Debt level and interest rates may adversely affect our business.

The Company has a credit facility with Bank of Oklahoma (BOK) which consists of a revolving loan with a limit in the amount of $80,000,000. As of September 30, 2013, the Company had a balance of $8,262,256 drawn on the facility. The facility has a current borrowing base of $35,000,000, is secured by certain of the Company's properties and contains certain restrictive covenants.

Should the Company incur substantial indebtedness under its credit facility to fund capital projects or for other reasons, there is risk of it adversely affecting our business operations as follows:

- cash flows from operating activities required to service indebtedness may not be available for other purposes
- covenants contained in the Company's borrowing agreement may limit our ability to borrow additional funds, pay dividends and make certain investments
- any limitation on the borrowing of additional funds may affect our ability to fund capital projects and may also affect how we will be able to react to economic and industry changes
- a significant increase in the interest rate on our credit facility will limit funds available for other purposes
- changes in prevailing interest rates may affect the Company's capability to meet its debt service requirements, as its credit facility bears interest at floating rates

The borrowing base of our corporate revolving bank credit facility is subject to periodic redetermination and is based in part on oil, NGL and natural gas prices. A lowering of our borrowing base because of lower oil, NGL or natural gas prices, or for other reasons, could require us to repay indebtedness in excess of the newly established borrowing base, or we might need to further secure the debt with additional collateral. Our ability to meet any debt obligations depends on our future performance. General business, economic, financial and product pricing conditions, along with other factors, affect our future performance, and many of these factors are beyond our control. In addition, our failure to comply with the restrictive covenants relating to our credit facility could result in a default, which could adversely affect our business, financial condition and results of operations.

Future legislative or regulatory changes may result in increased costs and decreased revenues, cash flows and liquidity.

Companies that operate wells in which Panhandle owns a working interest are subject to extensive federal, state and local regulation. Panhandle, as a working interest owner, is therefore indirectly subject to these same regulations. New or changed laws and regulations such as those described below could have a material adverse effect on our business.

Federal Income Taxation

Proposals to repeal the expensing of intangible drilling costs, repeal the percentage depletion allowance and increase the amortization period of geological and geophysical expenses, if enacted, would increase and accelerate the Company's payment of federal income taxes. As a result, these changes would decrease the Company's cash flows available for developing its oil and natural gas properties.

Hydraulic Fracturing

The vast majority of oil and natural gas wells drilled in recent years have been, and future wells are expected to be, hydraulically fractured as a part of the process of completing the wells and putting them on production. This is true of the wells drilled in which the Company owns an interest. Hydraulic fracturing is a process that involves pumping water, sand and additives at high pressure into rock formations to stimulate oil and natural gas production. In developing plays where hydraulic fracturing, which requires large volumes of water, is necessary for successful development, the demand for water may exceed the supply. A lack of readily available water or a significant increase in the cost of water could cause delays or increased completion costs.

In addition to water, hydraulic fracturing fluid contains chemical additives designed to optimize production. Well operators are being required in certain states to disclose the components of these additives. Additional states and the federal government may follow with similar requirements or may restrict the use of certain additives. This could result in more costly or less effective development of wells.

Efforts to regulate hydraulic fracturing are increasing at the local, state and federal level. Several new regulations are being considered, including limiting water withdrawals and usage, limiting water disposition, restricting which additives may be used, implementing state-wide hydraulic fracturing moratoriums and temporary or permanent bans in certain environmentally sensitive areas. Public sentiment against hydraulic fracturing and shale gas production has become more vocal, which could result in more stringent permitting and compliance requirements. Consequences of these actions could potentially increase capital, compliance and operating costs significantly, as well as delay or halt the further development of oil and gas reserves on the Company's properties.

Any of the above factors could have a material adverse effect on our financial position, results of operations or cash flows.

Climate Change

Studies have suggested that emission of certain gases, commonly referred to as "greenhouse gases," may be impacting the earth's climate. Methane, a primary component of natural gas, and carbon dioxide, a by-product of burning oil and natural gas, are examples of greenhouse gases. The U.S. Congress and various states have been evaluating, and in some cases implementing, climate-related legislation and other regulatory initiatives that restrict emissions of greenhouse gases. In December 2009, the Environmental Protection Agency (EPA) issued findings that methane and carbon dioxide present a health and safety issue such that they should be regulated under the Clean Air Act.

In November 2010, the EPA finalized its greenhouse gas reporting requirements for certain oil and gas production facilities that emit 25,000 metric tons or more of carbon dioxide equivalent per year. The rule requires annual reporting to the EPA of greenhouse gas emissions by such regulated facilities.

On April 17, 2012, the EPA issued final rules that established new air emission controls for crude oil and natural gas production and natural gas processing operations. The final rules require the use of reduced emission completions or "green completions" on all hydraulically-fractured wells completed or re-fractured after January 1, 2015. These rules may require the installation of new equipment to control emissions and other modifications by the third-party operators of wells in which we own an interest. Compliance with such rules could result in significant costs, including increased capital expenditures and operating costs.

These and any further restrictions resulting from federal or state legislation or regulations may have an effect on our ability to produce oil and natural gas, as well as the demand for oil, NGL and natural gas. Such changes may result in additional compliance obligations that could cumulatively have a material adverse effect on our financial condition, financial results and cash flows.

Shortages of oilfield equipment, services, qualified personnel and resulting cost increases could adversely affect results of operations.

The demand for qualified and experienced field personnel, geologists, geophysicists, engineers and other professionals in the oil and natural gas industry can fluctuate significantly, often in correlation with oil, NGL and natural gas prices, resulting in periodic shortages. When demand for rigs and equipment increases due to an increase in the number of wells being drilled, there have been shortages of drilling rigs, hydraulic fracturing equipment and personnel and other oilfield equipment. Higher oil, NGL and natural gas prices generally stimulate increased demand for, and result in increased prices of, drilling rigs, crews and associated supplies, equipment and services. These shortages or price increases could negatively affect the ability to drill wells and conduct ordinary operations by the operators of the Company's wells, resulting in an adverse effect on the Company's financial condition, cash flow and operating results.

Competition in the oil and natural gas industry is intense, and most of our competitors have greater financial and other resources than we do.

We compete in the highly competitive areas of oil and natural gas acquisition, development, exploration and production. We face intense competition from both major and independent oil and natural gas companies to acquire desirable producing properties, new properties for future exploration and human resource expertise necessary to effectively develop properties. We also face similar competition in obtaining sufficient capital to maintain drilling rights in all drilling units.

A substantial number of our competitors have financial and other resources significantly greater than ours and some of them are fully integrated oil and natural gas companies. These companies are able to pay more for development prospects and productive oil and natural gas properties and are able to define, evaluate, bid for, purchase and subsequently drill a greater number of properties and prospects than our financial or human resources permit, potentially reducing our ability to participate in drilling on certain of our acreage as a working interest owner. Our ability to develop and exploit our oil and natural gas properties and to acquire additional quality properties in the future will depend upon our ability to successfully evaluate, select and acquire suitable properties and join in drilling with reputable operators in this highly competitive environment.

Significant capital expenditures are required to replace our reserves and conduct our business.

The Company funds acquisition, exploration, development and production activities primarily through cash flows from operations and, to a lesser extent, borrowings under its credit facility. The timing and amount of capital necessary to carry out these activities can vary significantly as a result of product price fluctuations, property acquisitions, drilling results and the availability of drilling rigs, equipment, well services and transportation capacity.

Cash flows from operations and access to capital are subject to a number of variables, including the Company's:

- amount of proved reserves
- volume of oil, NGL and natural gas produced
- received prices for oil, NGL and natural gas sold
- ability to acquire and produce new reserves
- ability to obtain financing

We may have limited ability to obtain the capital required to sustain our operations at current levels if our borrowing base under our credit facility is lowered as a result of decreased revenues, lower product prices, declines in reserves or for other reasons. Failure to sustain operations at current levels could have a material adverse effect on our financial condition, cash flow and results of operations.

We may be subject to information technology system failures, network disruptions, cyber-attacks or other breaches in data security.

Power, telecommunication or other system failures due to hardware or software malfunctions, computer viruses, vandalism, terrorism, natural disasters, fire, human error or by other means could significantly affect the Company's ability to conduct its business. Though we have implemented complex network security measures, stringent internal controls and maintain offsite backup of all crucial electronic data, there cannot be absolute assurance that a form of system failure or data security breach will not have a material adverse effect on our financial condition and operations results.

ITEM 1B UNRESOLVED STAFF COMMENTS

None

ITEM 2 PROPERTIES

At September 30, 2013, Panhandle's principal properties consisted of (1) perpetual ownership of 255,300 net mineral acres, held principally in Arkansas, New Mexico, North Dakota, Oklahoma, Texas and six other states; (2) leases on 18,331 net acres primarily in Oklahoma: and (3) working interests, royalty interests or both in 6,105 producing oil and natural gas wells and 53 wells in the process of being drilled or completed.

Consistent with industry practice, the Company does not have current abstracts or title opinions on all of its mineral acreage and, therefore, cannot be certain that it has unencumbered title to all of these properties. In recent years, a few insignificant challenges have been made against the Company's fee title to its acreage.

The Company pays ad valorem taxes on minerals owned in eleven states.

ACREAGE

Mineral Interests Owned

The following table of mineral acreage owned reflects, in each respective state, the number of net and gross acres, net and gross producing acres, net and gross acres leased, and net and gross acres open (unleased) as of September 30, 2013.

State	Net Acres	Gross Acres	Net Acres Producing (1)	Gross Acres Producing (1)	Net Acres Leased to Others (2)	Gross Acres Leased to Others (2)	Net Acres Open (3)	Gross Acres Open (3)
Arkansas	11,992	51,055	7,089	25,989	1,722	5,468	3,181	19,598
Colorado	8,217	39,080	-	-	-	-	8,217	39,080
Florida	3,832	8,212	-	-	-	-	3,832	8,212
Kansas	3,082	11,816	144	1,200	-	-	2,938	10,616
Montana	1,008	17,947	-	-	-	-	1,008	17,947
New Mexico	57,374	174,300	1,381	7,205	160	320	55,833	166,775
North Dakota	11,179	64,286	170	2,036	20	160	10,989	62,090
Oklahoma	113,568	952,072	41,336	332,851	4,152	31,675	68,080	587,546
South Dakota	1,825	9,300	-	-	-	-	1,825	9,300
Texas	43,196	360,349	8,412	74,337	1,225	5,099	33,559	280,913
Other	27	262	-	-	-	-	27	262
Total:	**255,300**	**1,688,679**	**58,532**	**443,618**	**7,279**	**42,722**	**189,489**	**1,202,339**

(1) "Producing" represents the mineral acres in which Panhandle owns a royalty or working interest in a producing well.
(2) "Leased" represents the mineral acres owned by Panhandle that are leased to third parties but not producing.
(3) "Open" represents mineral acres owned by Panhandle that are not leased or in production.

Leases

The following table reflects net mineral acres leased from others, lease expiration dates, and net leased acres held by production as of September 30, 2013.

State	Net Acres	Net Acres Expiring					Net Acres Held by Production
		2014	2015	2016	2017	2018	
Arkansas	1,738	118	91	-	27	4	1,498
Kansas	2,117	-	-	-	-	-	2,117
Oklahoma	12,873	233	20	-	-	-	12,620
Other	1,603	-	-	-	-	-	1,603
TOTAL	18,331	351	111	-	27	4	17,838

PROVED RESERVES

The following table summarizes estimates of proved reserves of oil, NGL and natural gas held by Panhandle as of September 30, 2013. All proved reserves are located onshore within the United States and are principally made up of small interests in 6,105 wells, which are predominately located in the Mid-Continent region. Other than this report, the Company's reserve estimates are not filed with any other federal agency.

	Barrels of Oil	Barrels of NGL	Mcf of Natural Gas	Mcfe
Net Proved Developed Reserves				
September 30, 2013	1,037,721	764,321	82,298,833	93,111,085
September 30, 2012	849,548	494,160	65,733,119	73,795,367
September 30, 2011	759,989	386,774	60,193,878	67,074,456
Net Proved Undeveloped Reserves				
September 30, 2013	605,582	851,805	49,990,334	58,734,656
September 30, 2012	222,771	294,582	47,780,937	50,885,055
September 30, 2011	83,749	404,874	41,644,106	44,575,844
Net Total Proved Reserves				
September 30, 2013	1,643,303	1,616,126	132,289,167	151,845,741
September 30, 2012	1,072,319	788,742	113,514,056	124,680,422
September 30, 2011	843,738	791,648	101,837,984	111,650,300

The 27.2 Bcfe increase in total proved reserves from 2012 to 2013 is a combination of the following factors:

- Negative performance revisions of 5.8 Bcfe, which consists of 8.8 Bcfe of positive proved developed revisions principally due to better than projected well performance attributable to properties in Arkansas and Oklahoma and 14.6 Bcfe of negative proved undeveloped revisions principally attributable to the removal of dry gas reserves which are no longer projected to be developed within 5 years from the date they were added to the proved undeveloped reserves.

- Positive pricing revisions of 3.4 Bcfe due to proved developed wells (3.1 Bcfe) and proved undeveloped locations (.3 Bcfe) reaching their economic limits later than previously projected, thus adding reserves, resulting from higher natural gas prices.

- Proved developed reserve additions of 8.1 Bcfe principally resulting from:

  a) The Company's participation in ongoing development of conventional oil, NGL and natural gas plays utilizing horizontal drilling, including the Cleveland and Granite Wash plays in western Oklahoma and the Texas Panhandle, as well as the Marmaton and Hogshooter Wash plays in western Oklahoma.

  b) The Company's participation in ongoing development of unconventional natural gas plays utilizing horizontal drilling, including the Arkansas Fayetteville Shale and, to a much lesser extent, the Southeastern Oklahoma Woodford Shale.

  c) The Company's participation in ongoing development of unconventional oil, NGL and natural gas plays utilizing horizontal drilling in the Anadarko Basin Woodford Shale and Ardmore Basin Woodford Shale in western and southern Oklahoma.

- PUD additions of 32.8 Bcfe principally in the Fayetteville Shale play in Arkansas, the Anadarko Basin Woodford Shale and Ardmore Basin Woodford Shale in western and southern Oklahoma and the Cleveland and Granite Wash plays in western Oklahoma and the Texas Panhandle, as well as the Marmaton and Hogshooter Wash plays in western Oklahoma. These additions are the result of reservoir delineation proved by continuing drilling and well performance data in each of the referenced plays.

- Property purchases of 1.7 Bcfe primarily in the Fayetteville Shale play in Arkansas.

- Production of 13.0 Bcfe.

The following details the changes in proved undeveloped reserves for 2013 (Mcfe):

Beginning proved undeveloped reserves	50,885,055
Proved undeveloped reserves transferred to proved developed	(12,124,203)
Revisions	(14,309,809)
Extensions and discoveries	32,806,004
Purchases	1,477,609
Ending proved undeveloped reserves	58,734,656

The beginning PUD reserves were 50.9 Bcfe. A total of 12.1 Bcfe (24% of the beginning balance) were transferred to proved developed producing during 2013. The 14.3 Bcfe of negative revisions to PUD reserves consist of a positive pricing revision of 0.3 Bcfe offset by a 14.6 Bcfe (29% of the beginning balance) negative performance revision in 2013 as the result of removal of dry gas reserves which are no longer projected to be developed within 5 years from the date they were added. A total of 26.7 Bcfe (53% of the beginning balance) of PUD reserves were moved out of the category during 2013 as either the result of being transferred to proved developed or removed because they were no longer projected to be developed within 5 years from the date they were added to the proved undeveloped reserves. Only 21 PUD locations from 2009, representing 1% of total 2013 PUD reserves remain in the PUD category. We anticipate that all the Company's PUD locations will be drilled and converted to PDP within five years of the date they were added. However, PUD locations and associated reserves which are no longer projected to be drilled within 5 years from the date they were added to the proved undeveloped reserves will be removed as revisions at the time that determination is made and in the event that there are undrilled PUD locations at the end of the five-year period, it is our intent to remove the reserves associated with those locations from our proved reserves as revisions.

The determination of reserve estimates is a function of testing and evaluating the production and development of oil and natural gas reservoirs in order to establish a production decline curve. The established production decline curves, in conjunction with oil and natural gas prices, development costs, production taxes and operating expenses, are used to estimate oil and natural gas reserve quantities and associated future net cash flows. As information is processed regarding the development of individual reservoirs and as market conditions change, over time estimated reserve quantities and future net cash flows will change as well. Estimated reserve quantities and future net cash flows are affected by changes in product prices. These prices have varied substantially in recent years and are expected to vary substantially from current pricing in the future.

In January 2010, the FASB updated its oil and natural gas estimation and disclosure requirements to align its requirements with the SEC's modernized oil and natural gas reporting rules, which were effective for annual reports on Form 10–K for fiscal years ending on or after December 31, 2009. The update included the following changes: (1) permitting use of new technologies to determine proved reserves, if those technologies have been demonstrated empirically to lead to reliable conclusions about reserve volumes; (2) enabling companies to additionally disclose their probable and possible reserves to investors, in addition to their proved reserves; (3) allowing previously excluded resources, such as oil sands, to be classified as oil and natural gas reserves rather than mining reserves; (4) requiring companies to report the independence and qualifications of a preparer or auditor, based on current Society of Petroleum Engineers criteria; (5) requiring the filing of reports for companies that rely on a third party to prepare reserve estimates or conduct a reserve audit; and (6) requiring companies to report oil and natural gas reserves using an average price based upon the prior 12-month period, rather than year-end prices. The update was applied prospectively as a change in accounting principle that is inseparable from a change in accounting estimate and was effective for entities with annual reporting periods ending on or after December 31, 2009. Effective September 30, 2010, the Company adopted the new requirements. See Note 11 to the financial statements in Item 8 – "Financial Statements and Supplementary Data" for disclosures regarding our oil and natural gas reserves.

Proved oil and natural gas reserves are those quantities of oil and natural gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence the project within a reasonable time. The area of the reservoir considered as proved includes: (i) the area identified by drilling and limited by fluid contacts, if any, and (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or natural gas on the basis of available geoscience and engineering data. In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering or performance data and reliable technology establishes a lower contact with reasonable certainty. Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated natural gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering or performance data and reliable technology establish the higher contact with reasonable certainty. Reserves, which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection), are included in the proved classification when: (i) successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (ii) the project has been approved for

development by all necessary parties and entities, including governmental entities. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Developed oil and natural gas reserves are reserves of any category that can be expected to be recovered through existing wells with existing equipment and operating methods, or in which the cost of the required equipment is relatively minor compared to the cost of a new well, and through installed extraction equipment and infrastructure operational at the time of the reserve estimate, if the extraction is by means not involving a well.

Undeveloped oil and natural gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty.

The independent consulting petroleum engineering firm of DeGolyer and MacNaughton of Dallas, Texas, calculated the Company's oil, NGL and natural gas reserves as of September 30, 2013, 2012 and 2011 (see Exhibits 23 and 99).

The Company's net proved oil, NGL and natural gas reserves (including certain undeveloped reserves described above) are located onshore in the United States. All studies have been prepared in accordance with regulations prescribed by the Securities and Exchange Commission. The reserve estimates were based on economic and operating conditions existing at September 30, 2013, 2012 and 2011. Since the determination and valuation of proved reserves is a function of testing and estimation, the reserves presented should be expected to change as future information becomes available.

ESTIMATED FUTURE NET CASH FLOWS

Set forth below are estimated future net cash flows with respect to Panhandle's net proved reserves (based on the estimated units set forth above in Proved Reserves) for the year indicated, and the present value of such estimated future net cash flows, computed by applying a 10% discount factor as required by SEC rules and regulations. As of September 30, 2010, the Company adopted the SEC Rule, *Modernization of Oil and Gas Reporting Requirements*. In accordance with the SEC rule, the estimated future net cash flows were computed using the 12-month average price calculated as the unweighted arithmetic average of the first-day-of-the-month individual product prices for each month within the 12-month period prior to September 30 held flat over the life of the properties and applied to future production of proved reserves less estimated future development and production expenditures for these reserves. The amounts presented are net of operating costs and production taxes levied by the respective states. Prices used for determining future cash flows from oil, NGL and natural gas as of September 30, 2013, 2012 and 2011 were as follows: $89.06/Bbl, $27.28/Bbl, $3.33/Mcf; $89.41/Bbl, $35.70/Bbl, $2.51/Mcf; $90.28/Bbl, $38.91/Bbl, $3.81/Mcf, respectively. These future net cash flows based on SEC

pricing rules should not be construed as the fair market value of the Company's reserves. A market value determination would need to include many additional factors, including anticipated oil, NGL and natural gas price and production cost increases or decreases, which could affect the economic life of the properties.

Estimated Future Net Cash Flows

	9/30/2013	9/30/2012	9/30/2011
Proved Developed	$ 239,353,059	$ 165,036,044	$ 211,851,992
Proved Undeveloped	123,822,641	72,851,862	91,232,949
Income Tax Expense	(131,397,192)	(83,543,516)	(107,111,317)
Total Proved	$ 231,778,508	$ 154,344,390	$ 195,973,624

10% Discounted Present Value of Estimated Future Net Cash Flows

	9/30/2013	9/30/2012	9/30/2011
Proved Developed	$ 125,186,445	$ 87,587,058	$ 106,464,138
Proved Undeveloped	51,276,694	27,151,132	29,977,891
Income Tax Expense	(74,788,243)	(47,323,902)	(58,059,595)
Total Proved	$ 101,674,896	$ 67,414,288	$ 78,382,434

OIL, NGL AND NATURAL GAS PRODUCTION

The following table sets forth the Company's net production of oil, NGL and natural gas for the fiscal periods indicated.

	Year Ended 9/30/2013	Year Ended 9/30/2012	Year Ended 9/30/2011 (1)
Bbls - Oil	234,084	153,143	104,141
Bbls - NGL	111,897	98,714	*
Mcf - Natural Gas	10,886,329	9,072,298	8,297,657
Mcfe	12,962,215	10,583,440	8,922,503

(1) Natural gas production includes NGL volumes.

AVERAGE SALES PRICES AND PRODUCTION COSTS

The following tables set forth unit price and cost data for the fiscal periods indicated.

Average Sales Price	Year Ended 9/30/2013	Year Ended 9/30/2012	Year Ended 9/30/2011 (1)
Per Bbl, Oil	$ 91.56	$ 90.13	$ 88.00
Per Bbl, NGL	$ 27.67	$ 33.23	*
Per Mcf, Natural Gas	$ 3.31	$ 2.62	$ 4.13
Per Mcfe	$ 4.68	$ 3.86	$ 4.87

(1) Proceeds from the sale of NGL have been included in natural gas sales and are therefore included in the price per Mcf of natural gas.

* The Company reported NGL reserves for the first time in its 2011 year-end reserve report. Increased drilling activity over the last two years in several western Oklahoma plays which produce significant NGL has resulted in meaningful NGL reserves and production for the Company. These reserve and production increases necessitated inclusion of NGL in the 2011 year-end reserve calculation and 2012 production volumes. In quarters prior to 2012, all NGL sales revenues were included with natural gas sales revenues.

Average Production (lifting) Costs (Per Mcfe)	Year Ended 9/30/2013	Year Ended 9/30/2012	Year Ended 9/30/2011
Well Operating Costs (1)	$ 0.92	$ 0.86	$ 0.95
Production Taxes (2)	0.14	0.14	0.16
	$ 1.06	$ 1.00	$ 1.11

(1) Includes actual well operating costs, compression, handling and marketing fees paid on natural gas sales and other minor expenses associated with well operations.
(2) Includes production taxes only.

Approximately 30% of the Company's oil, NGL and natural gas revenue is generated from royalty payments received on its mineral acreage. Royalty interests bear no share of the operating costs on those producing wells.

GROSS AND NET PRODUCTIVE WELLS AND DEVELOPED ACRES

The following table sets forth Panhandle's gross and net productive oil and natural gas wells as of September 30, 2013. Panhandle owns either working interests, royalty interests or both in these wells. The Company does not operate any wells.

	Gross Working Interest Wells	Net Working Interest Wells	Gross Royalty Only Wells	Total Gross Wells
Oil	242	15.61	1,009	1,251
Natural Gas	1,796	85.11	3,058	4,854
Total	2,038	100.72	4,067	6,105

Panhandle's average interest in royalty interest only wells is 0.84%. Panhandle's average interest in working interest wells is 4.94% working interest and 4.80% net revenue interest.

Information on multiple completions is not available from Panhandle's records, but the number is not believed to be significant. With regard to Gross Royalty Only Wells, some of these wells are in multi-well unitized fields. In such cases, the Company's ownership in each unitized field is counted as one gross well as the Company does not have access to the actual well count in all of these unitized fields.

As of September 30, 2013, Panhandle owned 443,618 gross developed mineral acres and 58,532 net developed mineral acres. Panhandle has also leased from others 139,717 gross developed acres containing 17,838 net developed acres.

UNDEVELOPED ACREAGE

As of September 30, 2013, Panhandle owned 1,245,061 gross and 196,768 net undeveloped mineral acres, and leases on 6,923 gross and 493 net undeveloped acres.

DRILLING ACTIVITY

The following net productive development, exploratory and purchased wells and net dry development, exploratory and purchased wells in which the Company had either a working interest, a royalty interest or both were drilled and completed during the fiscal years indicated.

	Net Productive Working Interest Wells	Net Productive Royalty Interest Wells	Net Dry Working Interest Wells
Development Wells			
Fiscal years ended:			
September 30, 2013	7.405905	1.532470	0.003906
September 30, 2012	5.376408	1.225832	0.093438
September 30, 2011	2.573391	0.907650	0.062188
Exploratory Wells			
Fiscal years ended:			
September 30, 2013	-- 0 --	0.079589	0.048446
September 30, 2012	0.298974	0.090654	0.531250
September 30, 2011	0.510643	0.372957	0.007813
Purchased Wells			
Fiscal years ended:			
September 30, 2013	-- 0 --	0.218122	-- 0 --
September 30, 2012	4.300626	0.231430	-- 0 --
September 30, 2011	-- 0 --	0.235058	-- 0 --

PRESENT ACTIVITIES

The following table sets forth the gross and net oil and natural gas wells drilling or testing as of September 30, 2013, in which Panhandle owns either a working interest, a royalty interest or both. These wells were not producing at September 30, 2013.

	Gross Wells	Net Wells
Oil	26	0.91
Natural Gas	27	1.02

OTHER FACILITIES

The Company has a lease on 12,369 square feet for its office in Oklahoma City, Oklahoma, which ends April 30, 2015.

SAFE HARBOR STATEMENT

This report, including information included in, or incorporated by reference from, future filings by the Company with the SEC, as well as information contained in written material, press releases and oral statements, contains, or may contain, certain statements that are "forward-looking statements,"

within the meaning of the federal securities laws. All statements, other than statements of historical facts, included or incorporated by reference in this report, which address activities, events or developments which are expected to, or anticipated will, or may, occur in the future, are forward-looking statements. The words "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts" and similar expressions are used to identify forward-looking statements.

These forward-looking statements include, among others, such things as: the amount and nature of our future capital expenditures; wells to be drilled or reworked; prices for oil, NGL and natural gas; demand for oil, NGL and natural gas; estimates of proved oil, NGL and natural gas reserves; development and infill drilling potential; drilling prospects; business strategy; production of oil, NGL and natural gas reserves; and expansion and growth of our business and operations.

These statements are based on certain assumptions and analyses made by the Company in light of experience and perception of historical trends, current conditions and expected future developments as well as other factors believed appropriate in the circumstances. However, whether actual results and development will conform to our expectations and predictions is subject to a number of risks and uncertainties, which could cause actual results to differ materially from our expectations.

One should not place undue reliance on any of these forward-looking statements. The Company does not currently intend to update forward-looking information and to release publicly the results of any future revisions made to forward-looking statements to reflect events or circumstances, which reflect the occurrence of unanticipated events, after the date of this report.

In order to provide a more thorough understanding of the possible effects of some of these influences on any forward-looking statements made, the following discussion outlines certain factors that in the future could cause results for 2014 and beyond to differ materially from those that may be presented in any such forward-looking statement made by or on behalf of the Company.

Commodity Prices. The prices received for oil, NGL and natural gas production have a direct impact on the Company's revenues, profitability and cash flows as well as the ability to meet its projected financial and operational goals. The prices for crude oil, NGL and natural gas are dependent on a number of factors beyond the Company's control, including: the demand for oil, NGL and natural gas; weather conditions in the continental United States (which can greatly influence the demand for natural gas at any given time as well as the price we receive for such natural gas); and the ability of current distribution systems in the United States to effectively meet the demand for oil, NGL and natural gas at any given time, particularly in times of peak demand which may result because of adverse weather conditions.

Oil prices are sensitive to foreign influences based on political, social or economic factors, any one of which could have an immediate and significant effect on the price and supply of oil. In addition, prices of both natural gas and oil are becoming more and more influenced by trading on the commodities markets, which has, at times, increased the volatility associated with these prices.

Uncertainty of Oil, NGL and Natural Gas Reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves and their values, including many factors beyond the Company's control. The oil, NGL and natural gas reserve data included in this report represents only an estimate of these reserves. Oil and natural gas reservoir engineering is a subjective and inexact process of estimating underground accumulations of oil, NGL and natural gas that cannot be measured in an exact manner. Estimates of economically recoverable oil, NGL and natural gas reserves depend on a number of variable factors, including historical production from the area compared with production from other producing areas and assumptions concerning future oil, NGL and natural gas prices, future operating costs, severance and excise taxes, development costs, and workover and remedial costs.

Some or all of these assumptions may vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil, NGL and natural gas and estimates of the future net cash flows from oil, NGL and natural gas reserves prepared by different engineers or by the same engineers but at different times may vary substantially. Accordingly, oil, NGL and natural gas reserve estimates may be subject to periodic downward or upward adjustments. Actual production, revenues and expenditures with respect to oil, NGL and natural gas reserves will vary from estimates, and those variances can be material.

The Company does not operate any of the properties in which it has an interest and has very limited ability to exercise influence over operations for these properties or their associated costs. Dependence on the operator and other working interest owners for these projects and the limited ability to influence operations and associated costs could materially and adversely affect the realization of targeted returns on capital in drilling or acquisition activities and targeted production growth rates.

The information regarding discounted future net cash flows included in this report is not necessarily the current market value of the estimated oil, NGL and natural gas reserves attributable to the Company's properties. As required by the SEC, the estimated discounted future net cash flows from proved oil, NGL and natural gas reserves are determined based on the fiscal year's 12-month average of the first-day-of-the-month individual product prices and costs as of the date of the estimate. Actual future prices and costs may be materially higher or lower. Actual future net cash flows are also affected, in part, by the amount and timing of oil, NGL and natural gas production, supply and demand for oil, NGL and natural gas and increases or decreases in consumption.

In addition, the 10% discount factor required by the SEC used in calculating discounted future net cash flows for reporting purposes is not necessarily the most appropriate discount factor based on interest rates in effect from time to time and the risks associated with operations of the oil and natural gas industry in general.

ITEM 3 LEGAL PROCEEDINGS

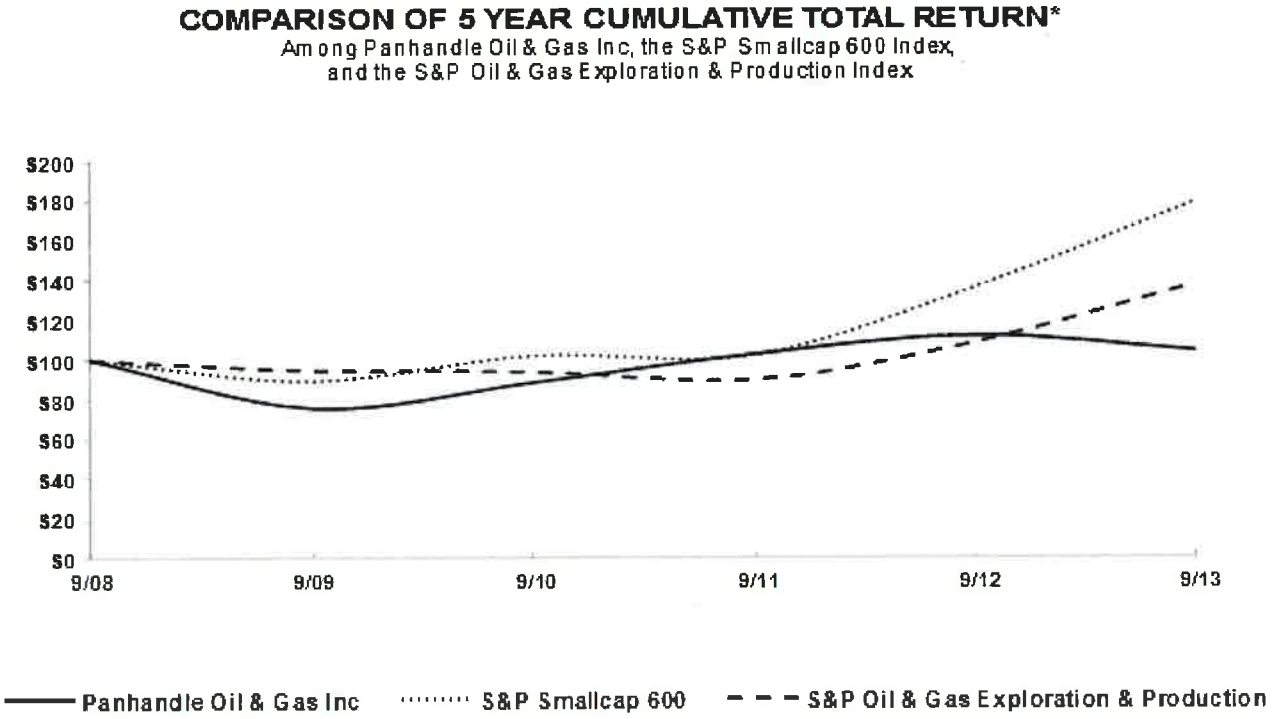
There were no material legal proceedings involving Panhandle on September 30, 2013, or at the date of this report.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES



The above graph compares the 5-year cumulative total return provided shareholders on our Class A Common Stock ("Common Stock") relative to the cumulative total returns of the S&P Smallcap 600 Index and the S&P Oil & Gas Exploration & Production Index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our Common Stock and in each of the indexes on September 30, 2008, and its relative performance is tracked through September 30, 2013.

Since July 22, 2008, the Company's Common Stock has been listed and traded on the New York Stock Exchange (symbol PHX). The following table sets forth the high and low trade prices of the Common Stock during the periods indicated:

Quarter Ended	High	Low
December 31, 2011	$ 36.00	$ 26.18
March 31, 2012	$ 33.74	$ 28.05
June 30, 2012	$ 30.57	$ 24.16
September 30, 2012	$ 33.49	$ 27.85
December 31, 2012	$ 31.70	$ 24.70
March 31, 2013	$ 30.63	$ 26.83
June 30, 2013	$ 31.12	$ 27.00
September 30, 2013	$ 32.86	$ 27.27

At November 25, 2013, there were 1,474 holders of record of Panhandle's Class A Common Stock and approximately 3,700 beneficial owners.

During the past two years, the Company has paid quarterly dividends of $.07 per share on its Common Stock. Approval by the Company's Board is required before the declaration and payment of any dividends.

While the Company anticipates it will continue to pay dividends on its Common Stock, the payment and amount of future cash dividends will depend upon, among other things, financial condition, funds from operations, the level of capital and development expenditures, future business prospects, contractual restrictions and any other factors considered relevant by the Board.

The Company's credit facility also contains a provision limiting the paying or declaring of a cash dividend during any fiscal year to 20% of net cash flow provided by operating activities from the Statement of Cash Flows of the preceding 12-month period. See Note 4 to the financial statements in Item 8 – "Financial Statements and Supplementary Data" for a further discussion of the credit facility.

Upon approval by the shareholders of the Company's 2010 Restricted Stock Plan on March 11, 2010, the Board approved the purchase of the Company's Common Stock, from time to time, equal to the aggregate number of shares of Common Stock awarded pursuant to the Company's 2010 Restricted Stock Plan, contributed by the Company to its ESOP and credited to the accounts of directors pursuant to the Deferred Compensation Plan for Non-Employee Directors. The Board's approval included an initial authorization to purchase up to $1.5 million of Common Stock, with a provision for subsequent authorizations without specific action by the Board. As the amount of Common Stock purchased under any authorization reaches $1.5 million, another $1.5 million is automatically authorized for Common Stock purchases unless the Board determines otherwise. Pursuant to these resolutions adopted by the Board, the purchase of additional $1.5 million increments of the Company's Common Stock became authorized and approved effective March 29, 2011, March 14, 2012, and June 26, 2013. The shares are held in treasury and are accounted for using the cost method. There were no Common Stock purchases in the fourth quarter of fiscal year 2013. At September 30, 2013, and September 30, 2012, 10,907 and 10,660 (respectively) treasury shares were contributed to the Company's ESOP on behalf of the ESOP participants.

ITEM 6 SELECTED FINANCIAL DATA

The following table summarizes financial data of the Company for its last five fiscal years and should be read in conjunction with Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements of the Company, including the Notes thereto, included elsewhere in this report.

	As of and for the year ended September 30,				
	2013	2012	2011	2010	2009
Revenues					
Oil, NGL and natural gas sales	$ 60,605,878	$ 40,818,434	$ 43,469,130	$ 44,068,947	$ 37,421,688
Lease bonuses and rentals	938,846	7,152,991	352,757	1,120,674	188,906
Gains (losses) on derivative contracts	611,024	73,822	734,299	6,343,661	(661,828)
Income from partnerships	733,372	487,070	420,465	405,134	323,848
	62,889,120	48,532,317	44,976,651	51,938,416	37,272,614
Costs and expenses					
Lease operating expense	11,861,403	9,141,970	8,441,754	8,193,319	7,696,026
Production taxes	1,834,840	1,449,537	1,456,755	1,446,545	1,201,209
Exploration costs	9,795	979,718	1,025,542	1,583,773	711,582
Depreciation, depletion and amortization	21,945,768	19,061,239	14,712,188	19,222,123	28,168,933
Provision for impairment	530,670	826,508	1,728,162	605,615	2,464,520
Loss (gain) on asset sales, int. & other	(785,401)	39,493	(68,325)	(1,028,148)	(2,677,407)
Gen. and administrative	6,801,996	6,388,856	5,994,663	5,594,499	4,866,044
Bad debt expense (recovery)	-	-	-	-	(185,272)
	42,199,071	37,887,321	33,290,739	35,617,726	42,245,635
Income (loss) before provision (benefit) for income taxes	20,690,049	10,644,996	11,685,912	16,320,690	(4,973,021)
Provision (benefit) for income taxes	6,730,000	3,274,000	3,192,000	4,901,000	(2,568,000)
Net income (loss)	$ 13,960,049	$ 7,370,996	$ 8,493,912	$ 11,419,690	$ (2,405,021)
Basic and diluted earnings (loss) per share	$ 1.67	$ 0.88	$ 1.01	$ 1.36	$ (0.29)
Dividends declared per share	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28
Weighted average shares outstanding Basic and diluted	8,356,904	8,360,931	8,393,890	8,422,387	8,397,337
Net cash provided by (used in):					
Operating activities	$ 37,402,109	$ 25,371,195	$ 29,283,929	$ 27,806,475	$ 37,710,606
Investing activities	$ (26,364,675)	$ (38,288,959)	$ (27,200,816)	$ (9,845,516)	$ (36,322,992)
Financing activities	$ (10,154,362)	$ 11,394,864	$ (4,173,372)	$ (13,003,609)	$ (1,643,414)
Total assets	$ 147,838,430	$ 135,186,730	$ 111,424,193	$ 105,124,839	$ 108,549,632
Long-term debt	$ 8,262,256	$ 14,874,985	$ -	$ -	$ 10,384,722
Shareholders' equity	$ 95,655,486	$ 83,852,146	$ 78,802,317	$ 73,581,996	$ 64,122,343

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS OVERVIEW

The Company's principal line of business is to explore for, develop, produce and sell oil, NGL and natural gas. Results of operations are dependent primarily upon: reserve quantities and associated exploration and development costs in finding new reserves; production quantities and related production costs; and oil, NGL and natural gas sales prices.

Natural gas production was 20% higher in 2013 than in 2012. This production increase is the combined effect of added natural gas production from wells put on production during the first half of 2013 in the Fayetteville Shale and associated natural gas production from ongoing development on the Company's mineral and leasehold acreage in the following oil and NGL rich plays:

- Horizontal Granite Wash and Hogshooter in western Oklahoma and the Texas Panhandle
- Horizontal Cleveland in western Oklahoma and the Texas Panhandle
- Horizontal Marmaton in western Oklahoma
- Horizontal Tonkawa in western Oklahoma
- Horizontal Anadarko Basin Woodford Shale in western Oklahoma
- Horizontal Ardmore Basin Woodford Shale in southern Oklahoma

Development in these plays has also resulted in a 53% and a 13% increase in 2013 oil and NGL production, respectively, as compared to 2012.

As of September 30, 2013, the Company owned an average 3.6% net revenue interest in 53 wells that were drilling or testing. As these wells begin producing and other scheduled wells are drilled and completed in the abovementioned plays, the Company anticipates fiscal 2014 oil and NGL production will increase over that of 2013, while 2014 natural gas production is expected to remain relatively flat to 2013.

The increased production of oil, NGL and natural gas in 2013, and higher natural gas and oil prices, partially offset by lower NGL prices, resulted in a 48% increase in revenues from the sale of oil, NGL and natural gas. Based on recent forward strip pricing for 2014, the Company expects 2014 average natural gas prices to be slightly higher (approximately $3.40 per Mcf), oil prices to be lower (approximately $88.00 per Bbl) and NGL prices to remain flat (approximately $28.00 per Bbl) to their corresponding average prices in 2013.

The Company's proved developed oil, NGL and natural gas reserves increased in 2013, compared to 2012, by 19.3 Bcfe, or 26%. The increase is due primarily to successful drilling activities.

Management currently expects drilling on the Company's acreage to result in capital expenditures for oil and natural gas activities of approximately $33 million during 2014. The Company will also continue to evaluate opportunities to acquire mineral acreage or producing properties. Acquisitions, if any, will be financed by a combination of available cash and the bank credit facility.

The Company had no off balance sheet arrangements during 2013 or prior years.

The following table reflects certain operating data for the periods presented:

	For the Year Ended September 30,				
	2013	Percent Incr. or (Decr.)	2012	Percent Incr. or (Decr.)	2011
Production:					
Oil (Bbls)	234,084	53%	153,143	47%	104,141
NGL (Bbls)	111,897	13%	98,714	-	*
Natural Gas (Mcf)	10,886,329	20%	9,072,298	9%	8,297,657
Mcfe	12,962,215	22%	10,583,440	19%	8,922,503
Average Sales Price:					
Oil (per Bbl)	$ 91.56	2%	$ 90.13	2%	$ 88.00
NGL (per Bbl)	$ 27.67	-17%	$ 33.23	-	*
Natural Gas (Mcf) (1)	$ 3.31	26%	$ 2.62	-37%	$ 4.13
Mcfe	$ 4.68	21%	$ 3.86	-21%	$ 4.87

(1) Proceeds from the sale of NGL in 2011 were included in natural gas sales, and were therefore included in the price per Mcf of natural gas.

* The Company reported NGL reserves for the first time in its 2011 year-end reserve report. Increased drilling activity over the last few years in several western Oklahoma plays which produce significant NGL has resulted in meaningful NGL reserves and production for the Company. These reserve and production increases necessitated inclusion of NGL in the 2011 year-end reserve calculation and 2012 production volumes. In quarters prior to 2012, all NGL sales revenues were included with natural gas sales revenues.

RESULTS OF OPERATIONS

Fiscal Year 2013 Compared to Fiscal Year 2012

Overview

The Company recorded net income of $13,960,049, or $1.67 per share, in 2013, compared to net income of $7,370,996, or $0.88 per share, in 2012. Revenues increased in 2013 primarily due to higher oil and natural gas sales volumes and prices, partially offset by decreased lease bonuses received.

Expenses increased due to higher DD&A, LOE and G&A in 2013, partially offset by decreases in the provision for impairment and exploration costs and increases in other miscellaneous income. Significant well additions, through drilling, in 2013 increased production volumes, resulting in higher DD&A and LOE in 2013.

Oil, NGL and Natural Gas Sales

Oil, NGL and natural gas sales increased $19,787,444 or 48% for 2013, as compared to 2012. The increase was due to increased oil volumes of 53%, increased natural gas volumes of 20%, increased natural gas prices of 26% and a 2% increase in oil prices in 2013.

The oil and NGL production increase is primarily the result of horizontal drilling in the Marmaton/Cleveland, Hogshooter and Granite Wash in western Oklahoma, horizontal Cleveland drilling in the Texas Panhandle and horizontal Woodford Shale drilling in the Anadarko and Ardmore Basins in

southern Oklahoma. To a lesser extent, focused drilling in the Permian Basin in West Texas, the Bakken in North Dakota and the Mississippian in northern Oklahoma contributed to the oil and NGL production increase. The natural gas production increase was primarily driven by horizontal development drilling in the Arkansas Fayetteville Shale and natural gas production associated with the aforementioned oil and NGL drilling activity.

Production by quarter for 2013 and 2012 was as follows (Mcfe):

	2013	2012
First quarter	3,008,365	2,559,524
Second quarter	3,245,411	2,654,485
Third quarter	3,229,800	2,649,351
Fourth quarter	3,478,639	2,720,080
Total	12,962,215	10,583,440

Lease Bonus and Rentals

Lease bonuses and rentals decreased $6,214,145 in 2013. The decrease was mainly due to the Company leasing partial rights on 2,743 net mineral acres in Roger Mills County, Oklahoma, for $4.8 million and leasing 2,431 net acres in the horizontal Mississippian play in northern Oklahoma for $1.7 million in 2012. There were no large leases of the Company's mineral acreage in 2013.

Gains (Losses) on Derivative Contracts

Realized and unrealized gains and losses are scheduled below:

Gains (Losses) on Derivative Contracts	2013	2012
Realized	$ 13,555	$ 462,033
Unrealized	597,469	(388,211)
Total	$ 611,024	$ 73,822

The increase in gains was mainly due to the natural gas collars and natural gas fixed price swaps being more beneficial in 2013, as NYMEX gas futures have fallen below the floor of the collars and the fixed gas prices of the swaps. As of September 30, 2013, the Company's natural gas fixed price swaps have expiration dates of October, November and December 2013; the natural gas costless collar contracts have expiration dates of December 2013 and April 2014; the oil costless collar contracts have expiration dates of December 2013 and June 2014 and the oil fixed price swaps have an expiration date of December 2013.

Lease Operating Expenses (LOE)

LOE increased $2,719,433 or 30% in 2013. LOE costs per Mcfe of production increased from $.86 in 2012 to $.92 in 2013. The total LOE increase is primarily related to increased field operating costs of $726,095 in 2013 compared to 2012. Field operating costs increased mainly due to the large addition in the number of wells drilled in 2013. Field operating costs were $.40 per Mcfe in 2013 compared to $.42 per Mcfe in 2012, a 5% decrease. This decrease in rate is principally the result of fewer well workovers performed in 2013.

The increase in LOE related to field operating costs was also coupled with an increase in handling fees (primarily gathering, transportation and marketing costs) on natural gas of $1,993,338 in 2013, as compared to 2012. On a per Mcfe basis, these fees were up $.07 due to higher natural gas prices. Handling fees are mainly charged as a percent of natural gas sales, but can also be charged based on natural gas production volumes.

Exploration Costs

Exploration costs were $9,795 in 2013, compared to $979,718 in 2012, a $969,923 decrease. During 2013, leasehold impairment and expired leasehold totaled $70,638, compared to $377,942 during 2012, a $307,304 decrease. The decline was driven by lower provisions for expected lease expirations in 2013, as compared to 2012. Charges on three exploratory dry holes totaled $601,776 during 2012; whereas, in 2013 the Company had no exploratory dry holes and received a net credit adjustment of $60,843 for exploratory dry hole costs incurred in previous years.

Depreciation, Depletion and Amortization (DD&A)

DD&A increased $2,884,529 or 15% in 2013. DD&A per Mcfe was $1.69 in 2013, compared to $1.80 in 2012. DD&A increased $4,284,278 due to oil, NGL and natural gas production volumes increasing 22% in the 2013 period, compared to the 2012 period. An offsetting decrease of $1,399,749 was caused by an $.11 decrease in the DD&A rate. This rate decrease is principally due to positive performance and price revisions increasing ultimate reserves at September 30, 2013, for a significant number of wells.

Provision for Impairment

The provision for impairment decreased $295,838 in 2013, as compared to 2012. During 2013, impairment of $530,670 was recorded on five small fields in Oklahoma and Texas. These fields have one to a few wells and are more susceptible to impairment when a well in the field experiences downward reserve revisions, or when a newly completed well with low reserves is added to one of these fields. During the 2012 period, impairment of $826,508 was recorded on twelve small fields in Oklahoma.

Loss (Gain) on Asset Sales, Interest and Other

Loss (Gain) on Asset Sales, Interest and Other was a net gain of $785,401 in 2013, as compared to a net loss of $39,493 in 2012. The gain in 2013 was mainly the result of a class action lawsuit settlement of approximately $604,000 related to the underpayment of royalty revenues.

General and Administrative Costs (G&A)

G&A increased $413,140 or 6% in 2013. The increase is primarily related to increases in the following expense categories: personnel $442,013 and technical consulting $111,832. These were partially offset by decreases in legal fees, Board fees and other expenses of $140,705 in 2013. The increase in 2013 personnel related expenses was largely the result of restricted stock expense increases of $353,044. The increase in technical consulting in 2013 was principally due to increased engineering analysis to evaluate potential acquisitions. The decrease in legal expenses was a result of lower acquisition activity in 2013. The decrease in Board fees was the result of fewer members in 2013.

Provision (Benefit) for Income Taxes

The 2013 provision for income taxes of $6,730,000 was based on a pre-tax income of $20,690,049, as compared to a provision for income taxes of $3,274,000 in 2012, based on a pre-tax income of $10,644,996. The effective tax rate for 2013 was 33%, compared to an effective tax rate for 2012 of 31%. The 2013 effective tax rate increase of 2% was due to pre-tax income increasing 94% from 2012 to 2013, while the excess percentage depletion allowance (which is a permanent tax benefit) increased only 25% over the same period. This resulted in a greater proportion of pre-tax income being subject to income tax and thus increased the effective tax rate. The Company's utilization of excess percentage depletion decreases the provision for income taxes. The benefit of excess percentage depletion is not directly related to the amount of recorded income or loss. Accordingly, in cases where the recorded income or loss is relatively small, the proportional effect of the excess percentage depletion on the effective tax rate may become significant.

Fiscal Year 2012 Compared to Fiscal Year 2011

Overview

The Company recorded net income of $7,370,996, or $0.88 per share, in 2012, compared to net income of $8,493,912, or $1.01 per share, in 2011. Revenues increased in 2012 primarily due to increased lease bonuses and higher oil and natural gas sales volumes, partially offset by lower natural gas prices.

Expenses increased due to higher DD&A, LOE and G&A in 2012, partially offset by decreases in the provision for impairment and exploration costs. Significant well additions through acquisition and drilling in 2012 increased production volumes and lifting costs, resulting in higher DD&A and LOE in 2012.

Oil, NGL and Natural Gas Sales

Oil, NGL and natural gas sales revenues decreased $2,650,696 or 6% for 2012, as compared to 2011. The decrease was due to lower natural gas prices of 37%, partially offset by increased oil volumes of 47%, increased natural gas volumes of 9% and a 2% increase in oil prices in 2012.

The oil production increase was due to continued drilling in western Oklahoma oily plays such as the horizontal Granite Wash, Cleveland, Tonkawa, Marmaton, Anadarko Basin Woodford Shale and other plays in Oklahoma, West Texas, Texas Panhandle and southeastern New Mexico. The natural gas production increase was mainly a result of production attributable to the acquisition in the Fayetteville Shale in Arkansas that the Company completed effective October 25, 2011. As of September 30, 2012, the Company owned an average 3.6% net revenue interest in 62 wells that were drilling or testing.

Production by quarter for 2012 and 2011 was as follows (Mcfe):

	2012	2011
First quarter	2,559,524	2,208,218
Second quarter	2,654,485	2,152,011
Third quarter	2,649,351	2,129,160
Fourth quarter	2,720,080	2,433,114
Total	10,583,440	8,922,503

Lease Bonus and Rentals

Lease bonuses and rentals increased $6,800,234 in 2012. The increase was mainly due to the Company leasing 2,743 net mineral acres in Roger Mills County, Oklahoma, for $4.8 million. The rights leased were from the surface to 100 feet below the base of the Virgilian (commonly referred to as the Tonkawa). The Company also leased 2,431 net mineral acres in the horizontal Mississippian play in northern Oklahoma for $1.7 million. There were no large leases of the Company's mineral acreage in 2011.

Gains (Losses) on Derivative Contracts

Realized and unrealized gains and losses are scheduled below:

Gains (Losses) on Derivative Contracts	2012	2011
Realized	$ 462,033	$ 2,138,685
Unrealized	(388,211)	(1,404,386)
Total	$ 73,822	$ 734,299

The decrease in gains was mainly due to the natural gas basis protection swaps being less beneficial in 2012, as the basis differentials between NYMEX and CEGT and PEPL declined significantly. As of September 30, 2012, the Company's natural gas basis protection swaps had an expiration date of December 2012; the natural gas costless collar contracts had expiration dates of October 2012 and January 2013; the oil costless collar contracts had an expiration date of December 2012.

Lease Operating Expenses (LOE)

LOE increased $700,216 or 8% in 2012. LOE costs per Mcfe of production decreased from $.95 in 2011 to $.86 in 2012. The total LOE increase was primarily related to increased field operating costs of $487,388 in 2012 compared to 2011. Field operating costs increased mainly due to the large addition of wells through acquisition and drilling in 2012. Field operating costs were $.42 per Mcfe in 2012 compared to $.44 per Mcfe in 2011, a 5% decrease. This decrease in rate was principally the result of fewer well workovers performed in 2012.

The increase in LOE related to field operating costs was also coupled with an increase in handling fees (primarily gathering, transportation and marketing costs) on natural gas of $212,828 in 2012, as compared to 2011. On a per Mcfe basis, these fees were down $.06 due to lower natural gas prices and the addition of significant oil production, which is unencumbered by these fees. Handling fees are mainly charged as a percent of natural gas sales but can also be charged based on natural gas production volumes.

Exploration Costs

Exploration costs were $979,718 in 2012 compared to $1,025,542 in 2011, a $45,824 decrease. During 2012, leasehold impairment and expired leasehold totaled $377,942 compared to $482,491 during 2011, a $104,549 decrease. The decline was driven by lower provisions for expected lease expirations in 2012, as compared to 2011. Charges on three exploratory dry holes totaled $601,776 during 2012; whereas, in 2011 the Company incurred exploratory dry hole costs on two wells totaling $543,051.

Depreciation, Depletion and Amortization (DD&A)

DD&A increased $4,349,051 or 30% in 2012. DD&A per Mcfe was $1.80 in 2012 compared to $1.65 in 2011. DD&A increased $2,738,695 due to oil, NGL and natural gas production volumes increasing 19% in the 2012 period compared to the 2011 period. The remaining increase of $1,610,356 was caused by a $.15 increase in the DD&A rate. This rate increase is mainly due to negative price revisions reducing ultimate reserves on a significant number of wells in reserves reported at September 30, 2012, as well as higher finding cost experienced in oil and liquids-rich areas where the Company is drilling and has had new wells come on line.

Provision for Impairment

The provision for impairment decreased $901,654 in 2012, as compared to 2011. During 2012, impairment of $826,508 was recorded on twelve small fields in Oklahoma. These fields have one to a few wells and are more susceptible to impairment when a well in the field experiences downward reserve revisions, or when a newly completed well with low reserves is added to one of these fields. During the 2011 period, impairment of $1,728,162 was recorded on nine small fields in Oklahoma and Texas.

General and Administrative Costs (G&A)

G&A increased $394,193 or 7% in 2012. The increase is primarily related to increases in the following expense categories: personnel $419,166 and legal fees $118,245. These were partially offset by decreases in technical consulting, Board fees, company insurance and other expenses of $143,218 in 2012. The increase in 2012 personnel related expenses was the result of additional employees and annual increases in salaries and bonuses totaling $206,806, restricted stock expense increase of $178,441 and higher ESOP expense of $25,475. The increase in legal expenses resulted from increased acquisition activity and a quiet title defense settlement in 2012.

Provision (Benefit) for Income Taxes

The 2012 provision for income taxes of $3,274,000 was based on a pre-tax income of $10,644,996, as compared to a provision for income taxes of $3,192,000 in 2011, based on a pre-tax income of $11,685,912. The effective tax rate for 2012 was 31%, compared to an effective tax rate for 2011 of 27%. The 2012 effective tax rate increase of 4% was due to increased state income taxes of $553,926, partially offset by an excess percentage depletion benefit increase of $112,524. The 2012 state income tax increase was a result of significantly higher lease bonus income in Oklahoma, combined with lower intangible drilling cost deductions from Oklahoma taxable income. The Company's utilization of excess percentage depletion (which is a permanent tax benefit) decreases the provision for income taxes. The benefit of excess percentage depletion is not directly related to the amount of recorded income or loss. Accordingly, in cases where the recorded income or loss is relatively small, the proportional effect of the excess percentage depletion on the effective tax rate may become significant.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2013, the Company had positive working capital of $7,504,588, as compared to positive working capital of $3,995,103 at September 30, 2012.

Liquidity

Cash and cash equivalents were $2,867,171 as of September 30, 2013, compared to $1,984,099 at September 30, 2012, an increase of $883,072. Cash flows for the 12 months ended September 30 are summarized as follows:

Net cash provided (used) by:

	2013	2012	Change
Operating activities	$ 37,402,109	$ 25,371,196	$ 12,030,913
Investing activities	(26,364,675)	(38,288,960)	11,924,285
Financing activities	(10,154,362)	11,394,864	(21,549,226)
Increase (decrease) in cash and cash equivalents	$ 883,072	$ (1,522,900)	$ 2,405,972

Operating activities:

Net cash provided by operating activities increased $12,030,913 during 2013, as compared to 2012, the result of the following:

- Receipts of oil, NGL and natural gas sales (net of production taxes and gathering, transportation and marketing costs) increased $11,844,281.
- Increased receipts from partnership distributions of $316,418 combined with lower income tax payments of $505,466.
- Decreased net realized gains on derivative contracts of $448,478.
- Increased cash expenditures for field related LOE of $435,800.

Investing activities:

Net cash used in investing activities decreased $11,924,285 during 2013, as compared to 2012, due to:

- A decrease in cash used to acquire properties of $19,360,371 ($18.8 million was used in the first quarter of 2012 to acquire producing properties, leasehold and mineral acreage in Arkansas).
- Lower lease bonus payments received during 2013 of $1,023,368, compared to $7,265,808 during 2012, which decreased cash provided by investing activities by $6,242,440.
- Higher drilling and completion activity during 2013 increased capital expenditures by $1,618,479.

Financing activities:

2013 net cash used in financing activities was $10,154,362, as compared to net cash provided by financing activities in 2012 of $11,394,864, resulting in a net increase of $21,549,226 of cash used in financing activities. This change is the result of the following:

- The Company financed the first quarter 2012 acquisition of producing properties and leasehold in Arkansas by utilizing its bank credit facility and cash. For fiscal 2012, cash provided by financing activities through net borrowings was $14,874,985. For fiscal 2013, cash used in financing activities

to reduce outstanding borrowings was $6,612,729. The combined effect is a decrease in cash provided by financing activities of $21,487,714.

Capital Resources

Capital expenditures to drill and complete wells increased $1,618,479 (6%) in 2013, as compared to 2012. Oil and NGL rich plays in western Oklahoma and the Texas Panhandle account for the majority of 2013 drilling activity. Other active areas include the Arkansas Fayetteville Shale (dry natural gas), southern Oklahoma Woodford Shale (oil and NGL rich), Permian Basin of West Texas (oil and NGL rich) and Bakken Shale in North Dakota (oil).

Drilling continues to be active in the following oil and NGL rich plays where the Company owns mineral and leasehold acreage:

- Horizontal Granite Wash and Hogshooter in western Oklahoma and the Texas Panhandle
- Horizontal Cleveland in western Oklahoma and the Texas Panhandle
- Horizontal Marmaton in western Oklahoma
- Horizontal Tonkawa in western Oklahoma
- Horizontal Anadarko Basin Woodford Shale in western Oklahoma
- Horizontal Ardmore Basin Woodford Shale in southern Oklahoma

In addition to the $26,765,785 of capital expenditures for drilling and completion projects in 2013, mineral acreage in the Arkansas Fayetteville Shale and the southeast Oklahoma Woodford Shale was acquired for $783,750. Management continues to evaluate opportunities to acquire additional production or acreage.

Management currently expects to incur approximately $33 million of capital expenditures for drilling and completion projects during 2014. The shift of capital outlays more toward oil and NGL rich plays and less toward plays for dry natural gas is expected to result in increased oil and NGL production volumes in 2014, with expectations that natural gas production will level off. As experienced previously, the timing of new wells coming on line may cause intermittent increases or decreases in oil, NGL and natural gas production from quarter to quarter.

Since the Company is not the operator of any of its oil and natural gas properties, it is extremely difficult for us to precisely predict levels of future participation in the drilling and completion of new wells and associated capital expenditures.

Production of oil, NGL and natural gas increased 22% on an Mcfe basis during 2013, as compared to 2012. The production increase was the result of new production coming on line which exceeded the natural production decline of existing wells. We expect 2014 production volumes to exceed that of 2013 as drilling will result in new production coming on line throughout 2014.

Panhandle's oil sales price has averaged 93% of NYMEX oil price during 2013. Based on this correlation, and NYMEX oil futures prices, we expect the Company's average oil sales price for 2014 to approximate $88.00 per barrel. For 2013, NGL sales prices averaged 30% of NYMEX oil price; this would correlate to an average NGL sales price for 2014 of approximately $28.00 per barrel, which is also in line with management's expectations.

For 2013, Panhandle's natural gas sales price averaged 94% of NYMEX natural gas price. Based on NYMEX natural gas futures prices, management expects the Company's average natural gas sales price for 2014 to approximate $3.40 per Mcf.

With continued oil and natural gas price volatility, management continues to evaluate opportunities for product price protection through additional hedging of the Company's future oil and natural gas production. See Note 1 to the financial statements included in Item 8 – "Financial Statements and Supplementary Data" for a complete list of the Company's outstanding derivative contracts.

The use of the Company's cash provided by operating activities and resultant change to cash is summarized in the table below:

	Twelve months ended 9/30/2013
Cash provided by operating activities	$ 37,402,109
Cash used for:	
Capital expenditures - drilling and completion of wells	26,765,785
Quarterly dividends of $.07 per share	2,326,995
Treasury stock purchases	1,214,638
Net principal payments on credit facility	6,612,729
Other investing activities	(401,110)
Net cash used	36,519,037
Net increase (decrease) in cash	$ 883,072

Outstanding borrowings on the credit facility at September 30, 2013, were $8,262,256.

Looking forward, the Company expects to fund overhead costs, capital additions related to the drilling and completion of wells, treasury stock purchases and dividend payments primarily from cash provided by operating activities and cash on hand. As management evaluates opportunities to acquire additional assets, additional borrowings utilizing our bank credit facility could be necessary. Also, during times of oil, NGL and natural gas price decreases, or increased capital expenditures, it may be necessary to utilize the credit facility further in order to fund these expenditures. The Company has availability ($26,737,744 at September 30, 2013) under its revolving credit facility and is in compliance with its debt covenants (current ratio, debt to EBITDA and dividends as a percent of operating cash flow). While the Company believes the availability could be increased (if needed) by placing more of the Company's properties as security under the revolving credit facility, increases are at the discretion of the bank.

Based on expected capital expenditure levels and anticipated cash provided by operating activities for 2014, the Company has sufficient liquidity to fund its ongoing operations and, combined with availability under its credit facility, to fund acquisitions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has a credit facility with Bank of Oklahoma (BOK) consisting of a revolving loan with a limit in the amount of $80,000,000, which is subject to a semi-annual borrowing base determination. The current borrowing base is $35,000,000 and is secured by certain of the Company's properties with a carrying value of $40,042,933 at September 30, 2013. The revolving loan matures on November 30, 2017. Borrowings under the revolving loan are due at maturity. The revolving loan bears interest at the BOK prime rate plus a range of 0.375% to 1.125%, or 30 day LIBOR plus a range of 1.875% to 2.625% annually. The election of BOK prime or LIBOR is at the Company's discretion. The

interest rate spread from LIBOR or the prime rate increases as a larger percent of the loan value of the Company's oil and natural gas properties is advanced.

Determinations of the borrowing base are made semi-annually, whenever BOK believes there has been a material change in the value of the Company's oil and natural gas properties or upon reasonable request by the Company. The loan agreement contains customary covenants, which, among other things, require periodic financial and reserve reporting and limit the Company's incurrence of indebtedness, liens, dividends and acquisitions of treasury stock and require the Company to maintain certain financial ratios. At September 30, 2013, the Company was in compliance with these covenants.

The table below summarizes the Company's contractual obligations and commitments as of September 30, 2013:

	Payments due by period				
Contractual Obligations and Commitments	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	$ 8,262,256	$ -	$ 8,262,256	$ -	$ -
Building lease	$ 323,141	$ 204,089	$ 119,052	$ -	$ -

At September 30, 2013, the Company's derivative contracts were in a net asset position of $425,198. The ultimate settlement amounts of the derivative contracts are unknown because they are subject to continuing market risk. Please read Item 7A – "Quantitative and Qualitative Disclosures about Market Risk" and Note 1 to the financial statements included in Item 8 – "Financial Statements and Supplementary Data" for additional information regarding the derivative contracts.

As of September 30, 2013, the Company's asset retirement obligations were $2,393,190. Asset retirement obligations represent the Company's share of the future expenditures to plug and abandon the wells in which the Company owns a working interest when the oil, NGL and natural gas reserves are depleted. These amounts were not included in the schedule above due to the uncertainty of timing of the obligations. Please read Note 1 to the financial statements included in Item 8 – "Financial Statements and Supplementary Data" for additional information regarding the Company's asset retirement obligations.

CRITICAL ACCOUNTING POLICIES

Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. However, the accounting principles used by the Company generally do not change the Company's reported cash flows or liquidity. Existing rules must be interpreted and judgments made on how the specifics of a given rule apply to the Company.

The more significant reporting areas impacted by management's judgments and estimates are crude oil, NGL and natural gas reserve estimation; derivative contracts; impairment of assets; oil, NGL and natural gas sales revenue accruals; refundable production taxes and provision for income tax. Management's judgments and estimates in these areas are based on information available from both internal and external sources, including engineers, geologists, consultants and historical experience in similar matters. Actual results could differ from the estimates as additional information becomes known. The oil, NGL and natural gas sales revenue accrual is particularly subject to estimate inaccuracies due to the Company's status as a non-operator on all of its properties. As such, production and price information obtained from well operators is substantially delayed. This causes the estimation of recent production and prices used in the oil, NGL and natural gas revenue accrual to be subject to future change.

Oil, NGL and Natural Gas Reserves

Management considers the estimation of the Company's crude oil, NGL and natural gas reserves to be the most significant of its judgments and estimates. These estimates affect the unaudited standardized measure disclosures included in Note 11 to the financial statements in Item 8 – "Financial Statements and Supplementary Data," as well as DD&A and impairment calculations. Changes in crude oil, NGL and natural gas reserve estimates affect the Company's calculation of DD&A, asset retirement obligations and assessment of the need for asset impairments. On an annual basis, with a semi-annual update, the Company's Independent Consulting Petroleum Engineer, with assistance from Company staff, prepares estimates of crude oil, NGL and natural gas reserves based on available geologic and seismic data, reservoir pressure data, core analysis reports, well logs, analogous reservoir performance history, production data and other available sources of engineering, geological and geophysical information. Between periods in which reserves would normally be calculated, the Company updates the reserve calculations utilizing prices which are updated through the current period. In accordance with the SEC rules, the reserve estimates were based on average individual product prices during the 12-month period prior to September 30 determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices were defined by contractual arrangements, excluding escalations based upon future conditions. Based on the Company's 2013 DD&A, a 10% change in the DD&A rate per Mcfe would result in a corresponding $2,194,577 annual change in DD&A expense. Crude oil, NGL and natural gas prices are volatile and largely affected by worldwide production and consumption and are outside the control of management. However, projected future crude oil, NGL and natural gas pricing assumptions are used by management to prepare estimates of crude oil, NGL and natural gas reserves and future net cash flows used in asset impairment assessments and in formulating management's overall operating decisions.

Successful Efforts Method of Accounting

The Company has elected to utilize the successful efforts method of accounting for its oil and natural gas exploration and development activities. This means exploration expenses, including geological and geophysical costs, non-producing lease impairment, rentals and exploratory dry holes, are charged against income as incurred. Costs of successful wells and related production equipment and developmental dry holes are capitalized and amortized by property using the unit-of-production method (the ratio of oil, NGL and natural gas volumes produced to total proved or proved developed reserves is used to amortize the remaining asset basis on each producing property) as oil, NGL and natural gas is produced. The Company's exploratory wells are all on-shore and primarily located in the Mid-Continent area. Generally, expenditures on exploratory wells comprise less than 10% of the Company's total expenditures for oil and natural gas properties. This accounting method may yield significantly different operating results than the full cost method.

Derivative Contracts

The Company has entered into oil and natural gas costless collar contracts, oil and natural gas fixed swap contracts and natural gas basis protection swaps. These instruments are intended to reduce the Company's exposure to short-term fluctuations in the price of oil and natural gas. Collar contracts set a fixed floor price and a fixed ceiling price and provide payments to the Company if the index price falls below the floor or require payments by the Company if the index price rises above the ceiling. Fixed swap contracts set a fixed price and provide for payments to the Company if the index price is below the fixed price, or require payments by the Company if the index price is above the fixed price. Basis protection swaps are derivatives that guarantee a price differential to NYMEX for natural gas from a specified delivery point (CEGT and PEPL historically). The Company receives a payment from the counterparty if the price differential is greater than the agreed terms of the contract and pays the

counterparty if the price differential is less than the agreed terms of the contract. These contracts cover only a portion of the Company's oil and natural gas production and provide only partial price protection against declines in oil and natural gas prices. These derivative instruments expose the Company to risk of financial loss and may limit the benefit of future increases in prices. All of the Company's derivative contracts are with Bank of Oklahoma and are secured.

The Company is required to recognize all derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation. At September 30, 2013, the Company had no derivative contracts designated as cash flow hedges, and therefore, changes in the fair value of derivatives are reflected in earnings.

Impairment of Assets

All long-lived assets, principally oil and natural gas properties, are monitored for potential impairment when circumstances indicate that the carrying value of the asset may be greater than its estimated future net cash flows. The evaluations involve significant judgment since the results are based on estimated future events, such as inflation rates; future sales prices for oil, NGL and natural gas; future production costs; estimates of future oil, NGL and natural gas reserves to be recovered and the timing thereof; economic and regulatory climates and other factors. The Company estimates future net cash flows on its oil and natural gas properties utilizing differentially adjusted forward pricing curves for oil, NGL and natural gas and a discount rate in line with the discount rate we believe is most commonly used by the market participants (10% for all periods presented). The need to test a property for impairment may result from significant declines in sales prices or unfavorable adjustments to oil, NGL and natural gas reserves. A significant reduction in oil, NGL and natural gas prices (which are reviewed quarterly) or a decline in reserve volumes (which are re-evaluated semi-annually) would likely lead to additional impairment that may be material to the Company. Any assets held for sale are reviewed for impairment when the Company approves the plan to sell. Estimates of anticipated sales prices are highly judgmental and subject to material revision in future periods. Because of the uncertainty inherent in these factors, the Company cannot predict when or if future impairment charges will be recorded.

Non-producing oil and natural gas leases are assessed for impairment on a property-by-property basis for individually significant balances and on an aggregate basis for individually insignificant balances. If the assessment indicates an impairment, a loss is recognized by providing a valuation allowance at the level at which impairment was assessed. The impairment assessment is affected by economic factors such as the results of exploration activities, commodity price outlooks, remaining lease terms and potential shifts in business strategy employed by management. In the case of individually insignificant balances, the amount of the impairment loss recognized is determined by amortizing the portion of these properties' costs, which the Company believes will not be transferred to proved properties over the remaining lives of the leases. Impairment loss is charged to exploration costs when recognized. As of September 30, 2013, the remaining carrying cost of non-producing oil and natural gas leases was $285,752.

Oil, NGL and Natural Gas Sales Revenue Accrual

The Company does not operate its oil and natural gas properties and, therefore, receives actual oil, NGL and natural gas sales volumes and prices (in the normal course of business) over a month later than the information is available to the operators of the wells. This being the case, on wells with greater significance to the Company, the most current available production data is gathered from the appropriate operators, and oil, NGL and natural gas index prices local to each well are used to estimate the accrual of revenue on these wells. Timely obtaining production data on all other wells from the operators is not feasible; therefore, the Company utilizes past production receipts and estimated sales price information to

estimate its accrual of revenue on all other wells each quarter. The oil, NGL and natural gas sales revenue accrual can be impacted by many variables including rapid production decline rates, production curtailments by operators, the shut-in of wells with mechanical problems and rapidly changing market prices for oil, NGL and natural gas. These variables could lead to an over or under accrual of oil, NGL and natural gas sales at the end of any particular quarter. Based on past history, the Company's estimated accrual has been materially accurate.

Income Taxes

The estimation of the amounts of income tax to be recorded by the Company involves interpretation of complex tax laws and regulations, as well as the completion of complex calculations, including the determination of the Company's percentage depletion deduction, if any. To calculate the exact excess percentage depletion allowance, a well-by-well calculation is, and can only be, performed at the end of each fiscal year. During interim periods, an estimate is made taking into account historical data and current pricing. The Company has certain state net operating loss carry forwards (NOLs) that are recognized as tax assets when assessed as more likely than not to be utilized before their expiration dates. Criteria such as expiration dates, future excess state depletion and reversing taxable temporary differences are evaluated to determine whether the NOLs are more likely than not to be utilized before they expire. If any NOLs are determined to no longer be more likely than not to be utilized, then a valuation allowance is recognized to reduce the tax benefit of such NOLs. Although the Company's management believes its tax accruals are adequate, differences may occur in the future depending on the resolution of pending and new tax matters.

Refundable Production Taxes Accrual

The State of Oklahoma allows for refunds of production taxes on wells that are horizontally drilled. In order to qualify as a horizontally drilled well, the well must have been completed in a manner which encounters and subsequently produces from a geological formation at an angle in excess of seventy degrees from vertical and which laterally penetrates a minimum of one hundred and fifty feet into the pay zone of the formation. An operator has 18 months after a given tax year to file the appropriate forms with the Oklahoma Tax Commission requesting the refund of production taxes. The refund is limited to 48 months from first sales or well payout, whichever comes first. Horizontal drilling in Oklahoma over the past four years has resulted in the addition of numerous wells that qualify for the Oklahoma horizontal exemption, thus increasing the Company's oil, NGL and natural gas sales subject to the accrual.

The Company does not operate any of its oil and natural gas properties and thus must rely on oil, NGL and natural gas sales and drilling information from the operators. The Company utilizes payment remittances from operators to estimate its refundable production tax accrual at the end of each quarterly period. The refundable production tax accrual can be impacted by many variables, including subsequent revenue adjustments received from operators and an operator's failure to file timely with the Oklahoma Tax Commission requesting refunds. These variables could lead to an over or under accrual of production taxes at the end of any particular period. Based on historical experience, the estimated accrual has been materially accurate.

During the 2010 legislative session, the Oklahoma State Legislature passed House Bill 2432, which provided for the deferral of the payment of certain gross production tax rebates by the Oklahoma Tax Commission for the 12-month production periods ending June 30, 2010, (tax year 2010) and June 30, 2011, (tax year 2011) for horizontally drilled wells. These deferred payments are being paid out over a period of three years beginning July 1, 2012. As a concession to producers for accepting the three-year deferral period, the State of Oklahoma, beginning with July 1, 2012, production, reduced the production

tax rate rather than pay rebates in future periods. As such, the latest production date in the refundable production tax accrual is June 30, 2011.

The above description of the Company's critical accounting policies is not intended to be an all-inclusive discussion of the uncertainties considered and estimates made by management in applying generally accepted accounting principles and policies. Results may vary significantly if different policies were used or required and if new or different information becomes known to management.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Oil, NGL and natural gas prices historically have been volatile, and this volatility is expected to continue. Uncertainty continues to exist as to the direction of oil, NGL and natural gas price trends, and there remains a wide divergence in the opinions held in the industry. Being primarily a natural gas producer, the Company is more significantly impacted by changes in natural gas prices than by changes in oil or NGL prices. Longer term natural gas prices will be determined by the supply of and demand for natural gas as well as the prices of competing fuels, such as crude oil and coal. The market price of oil, NGL and natural gas in 2014 will impact the amount of cash generated from operating activities, which will in turn impact the level of the Company's capital expenditures and production. Excluding the impact of the Company's 2014 natural gas derivative contracts (see below), based on the Company's estimated natural gas volumes for 2014, the price sensitivity for each $0.10 per Mcf change in wellhead natural gas price is approximately $1,100,000 for operating revenue. Based on the Company's estimated oil volumes for 2014, the price sensitivity in 2014 for each $1.00 per barrel change in wellhead oil is approximately $300,000 for operating revenue.

Commodity Price Risk

The Company periodically utilizes derivative contracts to reduce its exposure to unfavorable changes in natural gas and oil prices. The Company does not enter into these derivatives for speculative or trading purposes. All of our outstanding derivative contracts are with Bank of Oklahoma and are secured. These arrangements cover only a portion of the Company's production and provide only partial price protection against declines in natural gas and oil prices. These derivative contracts may expose the Company to risk of financial loss and limit the benefit of future increases in prices. For the Company's natural gas fixed price swaps, a change of $.10 in the NYMEX Henry Hub forward strip prices would result in a change to pre-tax operating income of approximately $49,000. For the Company's oil fixed price swaps, a change of $1.00 in the NYMEX WTI forward strip prices would result in a change to pre-tax operating income of approximately $16,000. For the Company's natural gas collars, a change of $.10 in the basis differential from NYMEX Henry Hub forward strip pricing would result in a change to pre-tax operating income of approximately $107,000. For the Company's oil collars, a change of $1.00 in the basis differential from NYMEX WTI forward strip prices would result in a change to pre-tax operating income of approximately $44,000.

Financial Market Risk

Operating income could also be impacted, to a lesser extent, by changes in the market interest rates related to the Company's credit facility. The revolving loan bears interest at the BOK prime rate plus from 0.375% to 1.125%, or 30 day LIBOR plus from 1.875% to 2.625%. At September 30, 2013, the Company had $8,262,256 outstanding under this facility. At this point, the Company does not believe that its liquidity has been materially affected by the debt market uncertainties noted in the last few years and the Company does not believe that its liquidity will be impacted in the near future.

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Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (the "Exchange Act") as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2013. In making this assessment, the Company's management used the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management has concluded that, as of September 30, 2013, the Company's internal control over financial reporting was effective based on those criteria.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report appears on the following page.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Stockholders of
Panhandle Oil and Gas Inc.

We have audited Panhandle Oil and Gas Inc.'s internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Panhandle Oil and Gas Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Panhandle Oil and Gas Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Panhandle Oil and Gas Inc. as of September 30, 2013 and 2012, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2013 and our report dated December 11, 2013 expressed an unqualified opinion thereon.

Oklahoma City, Oklahoma
December 11, 2013

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Panhandle Oil and Gas Inc.

We have audited the accompanying balance sheets of Panhandle Oil and Gas Inc. (the Company) as of September 30, 2013 and 2012, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Panhandle Oil and Gas Inc. at September 30, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Panhandle Oil and Gas Inc.'s internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated December 11, 2013, expressed an unqualified opinion thereon.

Oklahoma City, Oklahoma
December 11, 2013

Panhandle Oil and Gas Inc.
Balance Sheets

	September 30, 2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,867,171	$ 1,984,099
Oil, NGL and natural gas sales receivables	13,720,761	8,349,865
Refundable income taxes	-	325,715
Refundable production taxes	662,051	585,454
Deferred income taxes	-	121,900
Derivative contracts	425,198	-
Other	129,998	255,812
Total current assets	17,805,179	11,622,845
Properties and equipment at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	304,889,145	275,997,569
Non-producing oil and natural gas properties	8,932,905	10,150,561
Furniture and fixtures	737,368	668,004
	314,559,418	286,816,134
Less accumulated depreciation, depletion and amortization	(186,641,291)	(165,199,079)
Net properties and equipment	127,918,127	121,617,055
Investments	1,574,642	1,034,870
Refundable production taxes	540,482	911,960
Total assets	$ 147,838,430	$ 135,186,730

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See accompanying notes.

Panhandle Oil and Gas Inc.
Balance Sheets

	September 30, 2013	2012
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 8,409,634	$ 6,447,692
Derivative contracts	-	172,271
Deferred income taxes	127,100	-
Income taxes payable	751,992	-
Accrued liabilities and other	1,011,865	1,007,779
Total current liabilities	10,300,591	7,627,742
Long-term debt	8,262,256	14,874,985
Deferred income taxes	31,226,907	26,708,907
Asset retirement obligations	2,393,190	2,122,950
Stockholders' equity:		
Class A voting common stock, $.0166 par value; 24,000,000 shares authorized, 8,431,502 issued at September 30, 2013 and 2012	140,524	140,524
Capital in excess of par value	2,587,838	2,020,229
Deferred directors' compensation	2,756,526	2,676,160
Retained earnings	96,454,449	84,821,395
	101,939,337	89,658,308
Treasury stock, at cost; 200,248 shares at September 30, 2013, and 181,310 shares at September 30, 2012	(6,283,851)	(5,806,162)
Total stockholders' equity	95,655,486	83,852,146
Total liabilities and stockholders' equity	$ 147,838,430	$ 135,186,730

See accompanying notes.

Panhandle Oil and Gas Inc.
Statements of Operations

	Year ended September 30,		
	2013	2012	2011
Revenues:			
Oil, NGL and natural gas sales	$ 60,605,878	$ 40,818,434	$ 43,469,130
Lease bonuses and rentals	938,846	7,152,991	352,757
Gains (losses) on derivative contracts	611,024	73,822	734,299
Income from partnerships	733,372	487,070	420,465
	62,889,120	48,532,317	44,976,651
Costs and expenses:			
Lease operating expenses	11,861,403	9,141,970	8,441,754
Production taxes	1,834,840	1,449,537	1,456,755
Exploration costs	9,795	979,718	1,025,542
Depreciation, depletion and amortization	21,945,768	19,061,239	14,712,188
Provision for impairment	530,670	826,508	1,728,162
Loss (gain) on asset sales, interest and other	(785,401)	39,493	(68,325)
General and administrative	6,801,996	6,388,856	5,994,663
	42,199,071	37,887,321	33,290,739
Income (loss) before provision (benefit) for income taxes	20,690,049	10,644,996	11,685,912
Provision (benefit) for income taxes	6,730,000	3,274,000	3,192,000
Net income (loss)	$ 13,960,049	$ 7,370,996	$ 8,493,912
Basic and diluted earnings per common share:			
Net income (loss)	$ 1.67	$ 0.88	$ 1.01

See accompanying notes.

Panhandle Oil and Gas Inc.
Statements of Stockholders' Equity

	Class A voting Common Stock		Capital in Excess of	Deferred Directors'	Retained	Treasury	Treasury	
	Shares	Amount	Par Value	Compensation	Earnings	Shares	Stock	Total
Balances at September 30, 2010	8,431,502	$ 140,524	$ 1,816,365	$ 2,222,127	$ 73,599,733	(120,560)	$ (4,196,753)	$ 73,581,996
Purchase of treasury stock	-	-	-	-	-	(65,481)	(1,851,290)	(1,851,290)
Issuance of treasury shares to ESOP	-	-	(44,340)	-	-	10,710	348,183	303,843
Restricted stock awards	-	-	152,482	-	-	-	-	152,482
Common shares to be issued to directors for services	-	-	-	443,456	-	-	-	443,456
Dividends declared ($.28 per share)	-	-	-	-	(2,322,082)	-	-	(2,322,082)
Net income	-	-	-	-	8,493,912	-	-	8,493,912
Balances at September 30, 2011	8,431,502	$ 140,524	$ 1,924,507	$ 2,665,583	$ 79,771,563	(175,331)	$ (5,699,860)	$ 78,802,317
Purchase of treasury stock	-	-	-	-	-	(38,771)	(1,158,957)	(1,158,957)
Issuance of treasury shares to ESOP	-	-	(14,391)	-	-	10,660	341,333	326,942
Restricted stock awards	-	-	330,923	-	-	-	-	330,923
Distribution of deferred directors' compensation	-	-	(220,810)	(406,770)	-	22,132	711,322	83,742
Common shares to be issued to directors for services	-	-	-	417,347	-	-	-	417,347
Dividends declared ($.28 per share)	-	-	-	-	(2,321,164)	-	-	(2,321,164)
Net income	-	-	-	-	7,370,996	-	-	7,370,996
Balances at September 30, 2012	8,431,502	$ 140,524	$ 2,020,229	$ 2,676,160	$ 84,821,395	(181,310)	$ (5,806,162)	$ 83,852,146
Purchase of treasury stock	-	-	-	-	-	(42,206)	(1,214,638)	(1,214,638)
Issuance of treasury shares to ESOP	-	-	(33,812)	-	-	10,907	342,262	308,450
Restricted stock awards	-	-	683,968	-	-	-	-	683,968
Distribution of deferred directors' compensation	-	-	(82,547)	(297,154)	-	12,361	394,687	14,986
Common shares to be issued to directors for services	-	-	-	377,520	-	-	-	377,520
Dividends declared ($.28 per share)	-	-	-	-	(2,326,995)	-	-	(2,326,995)
Net income	-	-	-	-	13,960,049	-	-	13,960,049
Balances at September 30, 2013	8,431,502	$ 140,524	$ 2,587,838	$ 2,756,526	$ 96,454,449	(200,248)	$ (6,283,851)	$ 95,655,486

See accompanying notes.

Panhandle Oil and Gas Inc.
Statements of Cash Flows

	Year ended September 30,		
	2013	2012	2011
Operating Activities			
Net income (loss)	$ 13,960,049	$ 7,370,996	$ 8,493,912
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	21,945,768	19,061,239	14,712,188
Impairment	530,670	826,508	1,728,162
Provision for deferred income taxes	4,767,000	1,802,000	1,878,000
Exploration costs	9,795	979,718	1,025,542
Gain from leasing fee mineral acreage	(936,701)	(7,146,299)	(352,642)
Net (gain) loss on sales of assets	(208,750)	(122,504)	2,112
Income from partnerships	(733,372)	(487,070)	(420,465)
Distributions received from partnerships	917,718	601,300	553,382
Common stock contributed to ESOP	308,450	326,942	303,843
Common stock (unissued) to Directors' Deferred Compensation Plan	377,520	417,347	443,456
Restricted stock awards	683,968	330,923	152,482
Cash provided (used) by changes in assets and liabilities:			
Oil, NGL and natural gas sales receivables	(5,370,896)	461,539	251,598
Fair value of derivative contracts	(597,469)	388,211	1,404,386
Refundable income taxes	325,715	28,531	(354,246)
Refundable production taxes	294,881	85,926	(124,621)
Other current assets	73,508	(108,098)	317,370
Accounts payable	298,191	585,912	72,119
Other non-current assets	-	308	-
Income taxes payable	751,992	-	(922,136)
Accrued liabilities	4,072	(32,233)	119,487
Total adjustments	23,442,060	18,000,200	20,790,017
Net cash provided by operating activities	37,402,109	25,371,196	29,283,929

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Panhandle Oil and Gas Inc.
Statements of Cash Flows (continued)

	Year ended September 30,		
	2013	2012	2011
Investing Activities			
Capital expenditures, including dry hole costs	$ (26,765,785)	$ (25,147,306)	$ (22,739,908)
Acquisition of working interest properties	-	(17,399,052)	(185,125)
Acquisition of minerals and overrides	(783,750)	(2,745,069)	(4,620,315)
Proceeds from leasing fee mineral acreage	1,023,368	7,265,808	389,807
Investments in partnerships	(724,118)	(481,904)	(46,213)
Proceeds from sales of assets	870,610	134,821	938
Excess tax benefit on stock-based compensation	15,000	83,742	-
Net cash used in investing activities	(26,364,675)	(38,288,960)	(27,200,816)
Financing Activities			
Borrowings under debt agreement	11,569,652	43,475,443	-
Payments of loan principal	(18,182,381)	(28,600,458)	-
Purchases of treasury stock	(1,214,638)	(1,158,957)	(1,851,290)
Payments of dividends	(2,326,995)	(2,321,164)	(2,322,082)
Net cash provided by (used in) financing activities	(10,154,362)	11,394,864	(4,173,372)
Increase (decrease) in cash and cash equivalents	883,072	(1,522,900)	(2,090,259)
Cash and cash equivalents at beginning of year	1,984,099	3,506,999	5,597,258
Cash and cash equivalents at end of year	$ 2,867,171	$ 1,984,099	$ 3,506,999
Supplemental Disclosures of Cash Flow Information			
Interest paid (net of capitalized interest)	$ 157,558	$ 127,970	$ -
Income taxes paid, net of refunds received	$ 870,295	$ 1,356,706	$ 2,584,172
Supplemental schedule of noncash investing and financing activities:			
Additions and revisions, net, to asset retirement obligations	$ 161,065	$ 279,075	$ 113,506
Gross additions to properties and equipment	$ 29,261,285	$ 46,201,308	$ 27,310,016
Net (increase) decrease in accounts payable for properties and equipment additions	(1,711,750)	(909,881)	235,332
Capital expenditures, including dry hole costs	$ 27,549,535	$ 45,291,427	$ 27,545,348

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Since its formation, the Company has been involved in the acquisition and management of fee mineral acreage and the exploration for, and development of, oil and natural gas properties, principally involving drilling wells located on the Company's mineral acreage. Panhandle's mineral properties and other oil and natural gas interests are all located in the United States, primarily in Arkansas, New Mexico, North Dakota, Oklahoma and Texas. The Company is not the operator of any wells. The Company's oil, NGL and natural gas production is from interests in 6,105 wells located principally in Oklahoma and Arkansas. Approximately 60% of oil, NGL and natural gas revenues were derived from the sale of natural gas in 2013. Approximately 84% of the Company's total sales volumes in 2013 were derived from natural gas. Substantially all the Company's oil, NGL and natural gas production is sold through the operators of the wells. The Company from time to time disposes of certain non-material, non-core or small-interest oil and natural gas properties in the normal course of business.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Of these estimates and assumptions, management considers the estimation of crude oil, NGL and natural gas reserves to be the most significant. These estimates affect the unaudited standardized measure disclosures, as well as DD&A and impairment calculations. On an annual basis, with a semi-annual update, the Company's Independent Consulting Petroleum Engineer, with assistance from the Company, prepares estimates of crude oil, NGL and natural gas reserves based on available geologic and seismic data, reservoir pressure data, core analysis reports, well logs, analogous reservoir performance history, production data and other available sources of engineering, geological and geophysical information. For DD&A purposes, and as required by the guidelines and definitions established by the SEC, the reserve estimates were based on average individual product prices during the 12-month period prior to September 30 determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices were defined by contractual arrangements, excluding escalations based upon future conditions. For impairment purposes, projected future crude oil, NGL and natural gas prices as estimated by management are used. Crude oil, NGL and natural gas prices are volatile and largely affected by worldwide production and consumption and are outside the control of management. Projected future crude oil, NGL and natural gas pricing assumptions are used by management to prepare estimates of crude oil, NGL and natural gas reserves used in formulating management's overall operating decisions.

The Company does not operate its oil and natural gas properties and, therefore, receives actual oil, NGL and natural gas sales volumes and prices (in the normal course of business) over a month later than the information is available to the operators of the wells. This being the case, on wells with greater significance to the Company, the most current available production data is gathered from the appropriate operators, and oil, NGL and natural gas index prices local to each well are used to estimate the accrual of revenue on these wells. Timely obtaining production data on all other wells from the operators is not

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

feasible; therefore, the Company utilizes past production receipts and estimated sales price information to estimate its accrual of revenue on all other wells each quarter. The oil, NGL and natural gas sales revenue accrual can be impacted by many variables including rapid production decline rates, production curtailments by operators, the shut-in of wells with mechanical problems and rapidly changing market prices for oil, NGL and natural gas. These variables could lead to an over or under accrual of oil, NGL and natural gas sales at the end of any particular quarter. Based on past history, the Company's estimated accrual has been materially accurate.

Cash and Cash Equivalents

Cash and cash equivalents consist of all demand deposits and funds invested in short-term investments with original maturities of three months or less.

Oil, NGL and Natural Gas Sales and Natural Gas Imbalances

The Company sells oil, NGL and natural gas to various customers, recognizing revenues as oil, NGL and natural gas is produced and sold. Charges for compression, marketing, gathering and transportation of natural gas are included in lease operating expenses.

The Company uses the sales method of accounting for natural gas imbalances in those circumstances where it has underproduced or overproduced its ownership percentage in a property. Under this method, a receivable or liability is recorded to the extent that an underproduced or overproduced position in a well cannot be recouped through the production of remaining reserves. At September 30, 2013 and 2012, the Company had no material natural gas imbalances.

Accounts Receivable and Concentration of Credit Risk

Substantially all of the Company's accounts receivable are due from purchasers of oil, NGL and natural gas or operators of the oil and natural gas properties. Oil, NGL and natural gas sales receivables are generally unsecured. This industry concentration has the potential to impact our overall exposure to credit risk, in that the purchasers of our oil, NGL and natural gas and the operators of the properties we have an interest in may be similarly affected by changes in economic, industry or other conditions. During 2013 and 2012, we did not recognize a reserve for bad debt expense.

Oil and Natural Gas Producing Activities

The Company follows the successful efforts method of accounting for oil and natural gas producing activities. Intangible drilling and other costs of successful wells and development dry holes are capitalized and amortized. The costs of exploratory wells are initially capitalized, but charged against income if and when the well is determined to be nonproductive. Oil and natural gas mineral and leasehold costs are capitalized when incurred.

Non-producing oil and natural gas leases are assessed for impairment on a property-by-property basis for individually significant balances and on an aggregate basis for individually insignificant balances. If the assessment indicates an impairment, a loss is recognized by providing a valuation allowance at the level at which impairment was assessed. The impairment assessment is affected by economic factors such as the results of exploration activities, commodity price outlooks, remaining lease

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

terms and potential shifts in business strategy employed by management. In the case of individually insignificant balances, the amount of the impairment loss recognized is determined by amortizing the portion of these properties' costs, which the Company believes will not be transferred to proved properties over the remaining lives of the leases. Impairment loss is charged to exploration costs when recognized. As of September 30, 2013, the remaining carrying cost of non-producing oil and natural gas leases was $285,752.

It is common business practice in the petroleum industry for drilling costs to be prepaid before spudding a well. The Company frequently fulfills these prepayment requirements with cash payments, but at times will utilize letters of credit to meet these obligations. As of September 30, 2013, the Company had no outstanding letters of credit.

Leasing of Mineral Rights

When the Company leases its mineral acreage to third-party exploration and production companies, it retains a royalty interest in any future revenues from the production and sale of oil, NGL or natural gas, and often receives an up-front, non-refundable, cash payment (lease bonus) in addition to the retained royalty interest. A royalty interest does not bear any portion of the cost of drilling, completing or operating a well; these costs are borne by the working interest owner. The Company sometimes leases only a portion of its mineral acres in a tract and retains the right to participate as a working interest owner with the remainder.

The Company recognizes revenue from mineral lease bonus payments when it has received an executed lease agreement with the exploration company transferring the rights to explore for and produce any oil or natural gas they may find within the term of the lease, the payment has been collected, and the Company has no obligation to refund the payment. The Company accounts for its lease bonuses in accordance with the guidance set forth in ASC 932, and it recognizes the lease bonus as a cost recovery with any excess above the mineral basis being treated as a gain. The excess of lease bonus above the mineral basis is shown in the lease bonuses and rentals line item on the Company's Statements of Operations.

Derivatives

The Company has entered into fixed swap contracts, basis protection swaps and costless collar contracts. These instruments are intended to reduce the Company's exposure to short-term fluctuations in the price of oil and natural gas. Collar contracts set a fixed floor price and a fixed ceiling price and provide payments to the Company if the index price falls below the floor or require payments by the Company if the index price rises above the ceiling. Fixed swap contracts set a fixed price and provide payments to the Company if the index price is below the fixed price, or require payments by the Company if the index price is above the fixed price. Basis protection swaps are derivatives that guarantee a price differential to NYMEX for natural gas from a specified delivery point (CEGT and PEPL historically). The Company receives a payment from the counterparty if the price differential is greater than the agreed terms of the contract and pays the counterparty if the price differential is less than the agreed terms of the contract. These contracts cover only a portion of the Company's oil and natural gas production and provide only partial price protection against declines in oil and natural gas prices. These derivative instruments expose the Company to risk of financial loss and may limit the benefit of future increases in prices. All of the Company's derivative contracts are with Bank of Oklahoma and are

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

secured. The derivative instruments have settled or will settle based on the prices below, which are adjusted for location differentials and tied to certain pipelines.

Derivative contracts in place as of September 30, 2012
(prices below reflect the Company's net price from the listed pipelines)

Contract period	Production volume covered per month	Indexed Pipeline	Fixed price
Natural gas basis protection swaps			
January - December 2012	50,000 Mmbtu	CEGT	NYMEX -$.29
January - December 2012	40,000 Mmbtu	CEGT	NYMEX -$.30
January - December 2012	50,000 Mmbtu	PEPL	NYMEX -$.29
January - December 2012	50,000 Mmbtu	PEPL	NYMEX -$.30
Natural gas costless collars			
March - October 2012	50,000 Mmbtu	NYMEX Henry Hub	$2.50 floor/$3.25 ceiling
April - October 2012	120,000 Mmbtu	NYMEX Henry Hub	$2.50 floor/$3.10 ceiling
April - October 2012	60,000 Mmbtu	NYMEX Henry Hub	$2.50 floor/$3.20 ceiling
April - October 2012	50,000 Mmbtu	NYMEX Henry Hub	$2.50 floor/$3.20 ceiling
April - October 2012	50,000 Mmbtu	NYMEX Henry Hub	$2.50 floor/$3.45 ceiling
April - October 2012	50,000 Mmbtu	NYMEX Henry Hub	$2.50 floor/$3.30 ceiling
August - October 2012	50,000 Mmbtu	NYMEX Henry Hub	$2.50 floor/$3.30 ceiling
November 2012 - January 2013	150,000 Mmbtu	NYMEX Henry Hub	$3.00 floor/$3.70 ceiling
November 2012 - January 2013	150,000 Mmbtu	NYMEX Henry Hub	$3.00 floor/$3.70 ceiling
November 2012 - January 2013	50,000 Mmbtu	NYMEX Henry Hub	$3.00 floor/$3.65 ceiling
Oil costless collars			
January - December 2012	2,000 Bbls	NYMEX WTI	$90 floor/$105 ceiling
February - December 2012	3,000 Bbls	NYMEX WTI	$90 floor/$110 ceiling
May - December 2012	2,000 Bbls	NYMEX WTI	$90 floor/$114 ceiling

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative contracts in place as of September 30, 2013
(prices below reflect the Company's net price from the listed pipelines)

Contract period	Production volume covered per month	Indexed pipeline	Fixed price
Natural gas costless collars			
February - December 2013	80,000 Mmbtu	NYMEX Henry Hub	$3.75 floor/$4.25 ceiling
February - December 2013	50,000 Mmbtu	NYMEX Henry Hub	$3.75 floor/$4.30 ceiling
February - December 2013	100,000 Mmbtu	NYMEX Henry Hub	$3.75 floor/$4.05 ceiling
November 2013 - April 2014	160,000 Mmbtu	NYMEX Henry Hub	$4.00 floor/$4.55 ceiling
Natural gas fixed price swaps			
March - October 2013	100,000 Mmbtu	NYMEX Henry Hub	$3.505
March - October 2013	70,000 Mmbtu	NYMEX Henry Hub	$3.400
April - December 2013	40,000 Mmbtu	NYMEX Henry Hub	$3.655
May - November 2013	100,000 Mmbtu	NYMEX Henry Hub	$4.320
Oil costless collars			
March - December 2013	3,000 Bbls	NYMEX WTI	$90.00 floor/$102.00 ceiling
March - December 2013	4,000 Bbls	NYMEX WTI	$90.00 floor/$101.50 ceiling
May - December 2013	2,000 Bbls	NYMEX WTI	$90.00 floor/$97.50 ceiling
January - June 2014	4,000 Bbls	NYMEX WTI	$90.00 floor/$101.50 ceiling
Oil fixed price swaps			
September - December 2013	4,000 Bbls	NYMEX WTI	$105.250

The Company has elected not to complete the documentation requirements necessary to permit these derivative contracts to be accounted for as cash flow hedges. The Company's fair value of derivative contracts was a net asset of $425,198 as of September 30, 2013, and a net liability of $172,271 as of September 30, 2012. Realized and unrealized gains and (losses) are scheduled below:

Gains (losses) on natural gas derivative contracts	Fiscal year ended 9/30/2013	9/30/2012	9/30/2011
Realized	$ 13,555	$ 462,033	$ 2,138,685
Increase (decrease) in fair value	597,469	(388,211)	(1,404,386)
Total	$ 611,024	$ 73,822	$ 734,299

The fair value amounts recognized for the Company's derivative contracts executed with the same counterparty under a master netting arrangement may be offset. The Company has the choice to offset or not, but that choice must be applied consistently. A master netting arrangement exists if the reporting entity has multiple contracts with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of default on or termination of any one contract. Offsetting the fair values recognized for the derivative contracts outstanding with a single counterparty results in the net fair value of the transactions being reported as an asset or a liability in the Condensed Balance Sheets. The Company has chosen to present the fair values of its derivative contracts under master netting agreements using a net fair value presentation.

The following table summarizes and reconciles the Company's derivative contracts' fair values at a gross level back to net fair value presentation on the Company's Condensed Balance Sheets at September 30, 2013, and September 30, 2012. The Company adopted the accounting guidance requiring additional disclosures for balance sheet offsetting of assets and liabilities effective January 1, 2013. The Company has offset all amounts subject to master netting agreements in the Company's Condensed Balance Sheets at September 30, 2013, and September 30, 2012.

	9/30/2013 Fair Value (a) Commodity Contracts		9/30/2012 Fair Value (a) Commodity Contracts	
	Current Assets	Current Liabilities	Current Assets	Current Liabilities
Gross amounts recognized	$ 665,099	$ 239,901	$ 51,530	$ 223,801
Offsetting adjustments	(239,901)	(239,901)	(51,530)	(51,530)
Net presentation on Condensed Balance Sheets	$ 425,198	$ -	$ -	$ 172,271

(a) See Fair Value Measurements section for further disclosures regarding fair value of financial instruments.

The fair value of derivative assets and derivative liabilities is adjusted for credit risk only if the impact is deemed material. The impact of credit risk was immaterial for all periods presented.

Fair Value Measurements

Fair value is defined as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e., an exit price. To estimate an exit price, a three-level hierarchy is used. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or a liability, into three levels. Level 1 inputs are unadjusted quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following: (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical or similar assets or liabilities in markets that are not active; (iii) inputs other than quoted prices that are observable for the asset or liability; or (iv) inputs that are derived principally from, or corroborated by, observable market data by correlation or other means. Level 3 inputs are unobservable inputs for the financial asset or liability.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table provides fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis.

	Fair Value Measurement at September 30, 2013			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial Assets (Liabilities):				
Derivative Contracts - Swaps	$ -	$ 182,296	$ -	$ 182,296
Derivative Contracts - Collars	$ -	$ -	$ 242,902	$ 242,902

	Fair Value Measurement at September 30, 2012			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial Assets (Liabilities):				
Derivative Contracts - Swaps	$ -	$ (75,334)	$ -	$ (75,334)
Derivative Contracts - Collars	$ -	$ -	$ (96,937)	$ (96,937)

Level 2 – Market Approach - The fair values of the Company's natural gas swaps are based on a third-party pricing model which utilizes inputs that are either readily available in the public market, such as natural gas curves, or can be corroborated from active markets. These values are based upon future prices, time to maturity and other factors. These values are then compared to the values given by our counterparties for reasonableness.

Level 3 – The fair values of the Company's costless collar contracts are based on a pricing model which utilizes inputs that are unobservable or not readily available in the public market. These values are based upon future prices, volatility, time to maturity and other factors. These values are then compared to the values given by our counterparties for reasonableness.

The significant unobservable inputs for Level 3 derivative contracts include unpublished forward prices of oil and natural gas, market volatility and credit risk of counterparties. Changes in these inputs will impact the fair value measurement of our derivative contracts. An increase (decrease) in the forward prices and volatility of oil and natural gas prices will decrease (increase) the fair value of oil and natural gas derivatives, and adverse changes to our counterparties' creditworthiness will decrease the fair value of our derivatives.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table represents quantitative disclosures about unobservable inputs for Level 3 Fair Value Measurements.

Instrument Type	Unobservable Input	Range	Weighted Average	Fair Value September 30, 2013
Oil Collars	Oil price volatility curve	0% - 17.56%	10.27%	$ (233,041)
Natural Gas	Natural gas price volatility curve	0% - 19.67%	12.00%	$ 475,943

A reconciliation of the Company's derivative contracts classified as Level 3 measurements is presented below.

	Derivatives
Balance of Level 3 as of October 1, 2012	$ (96,937)
Total gains or (losses) - realized and unrealized:	
Included in earnings	
Realized	242,435
Unrealized	97,404
Included in other comprehensive income (loss)	-
Purchases, issuances and settlements	-
Transfers in and out of Level 3	-
Balance of Level 3 as of September 30, 2013	$ 242,902

The following table presents impairments associated with certain assets that have been measured at fair value on a nonrecurring basis within Level 3 of the fair value hierarchy.

	Year Ended September 30,			
	2013		2012	
	Fair Value	Impairment	Fair Value	Impairment
Producing Properties	$ 356,855	$ 530,670	$ 1,301,951	$ 826,508 (a)

(a) At the end of each quarter, the Company assessed the carrying value of its producing properties for impairment. This assessment utilized estimates of future cash flows. Significant judgments and assumptions in these assessments include estimates of future oil, NGL and natural gas prices using a forward NYMEX curve adjusted for locational basis differentials, drilling plans, expected capital costs and an applicable discount rate commensurate with risk of the underlying cash flow estimates. These assessments identified certain properties with carrying value in excess of their calculated fair values.

At September 30, 2013, and September 30, 2012, the fair value of financial instruments approximated their carrying amounts. Financial instruments include long-term debt, which the valuation is classified as Level 3 and is based on a valuation technique that requires inputs that are both unobservable and significant to the overall fair value measurement. The fair value measurement of our long-term debt is valued using a discounted cash flow model that calculates the present value of future

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

cash flows pursuant to the terms of the debt agreements and applies estimated current market interest rates. The estimated current market interest rates are based primarily on interest rates currently being offered on borrowings of similar amounts and terms. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for the debt agreements.

Depreciation, Depletion, Amortization and Impairment

Depreciation, depletion and amortization of the costs of producing oil and natural gas properties are generally computed using the unit-of-production method primarily on an individual property basis using proved or proved developed reserves, as applicable, as estimated by the Company's Independent Consulting Petroleum Engineer. The Company's capitalized costs of drilling and equipping all development wells and those exploratory wells that have found proved reserves are amortized on a unit-of-production basis over the remaining life of associated proved developed reserves. Lease costs are amortized on a unit-of-production basis over the remaining life of associated total proved reserves. Depreciation of furniture and fixtures is computed using the straight-line method over estimated productive lives of five to eight years.

Non-producing oil and natural gas properties include non-producing minerals, which had a net book value of $4,702,285 and $5,374,868 at September 30, 2013 and 2012, respectively, consisting of perpetual ownership of mineral interests in several states, with 91% of the acreage in Arkansas, New Mexico, North Dakota, Oklahoma and Texas. As mentioned, these mineral rights are perpetual and have been accumulated over the 87-year life of the Company. There are approximately 196,768 net acres of non-producing minerals in more than 6,818 tracts owned by the Company. An average tract contains approximately 29 acres, and the average cost per acre is $43. Since inception, the Company has continually generated an interest in several thousand oil and natural gas wells using its ownership of the fee mineral acres as an ownership basis. There continues to be significant drilling activity each year on these mineral interests. Non-producing minerals are being amortized straight-line over a 33-year period. These assets are considered a long-term investment by the Company, as they do not expire (as do oil and natural gas leases). Given the above, it was concluded that a long-term amortization was appropriate and that 33 years, based on past history and experience, was an appropriate period. Due to the fact that the minerals consist of a large number of properties, whose costs are not individually significant, and because virtually all are in the Company's core operating areas, the minerals are being amortized on an aggregate basis.

The Company recognizes impairment losses for long-lived assets when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the assets' carrying amount. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. Fair values are based on discounted cash flow as estimated by the Company's Independent Consulting Petroleum Engineer. The Company's estimate of fair value of its oil and natural gas properties at September 30, 2013, is based on the best information available as of that date, including estimates of forward oil, NGL and natural gas prices and costs. The Company's oil and natural gas properties were reviewed for impairment on a field-by-field basis, resulting in the recognition of impairment provisions of $530,670, $826,508 and $1,728,162, respectively, for 2013, 2012 and 2011. A significant reduction in oil, NGL and natural gas prices or a decline in reserve volumes would likely lead to additional impairment in future periods that may be material to the Company.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalized Interest

During 2013, 2012 and 2011, interest of $121,418, $129,172 and $0, respectively, was included in the Company's capital expenditures. Interest of $157,558, $127,970 and $0, respectively, was charged to expense during those periods. Interest is capitalized using a weighted average interest rate based on the Company's outstanding borrowings. These capitalized costs are included with intangible drilling costs and amortized using unit-of-production method.

Investments

Insignificant investments in partnerships and limited liability companies (LLC) that maintain specific ownership accounts for each investor and where the Company holds an interest of 5% or greater, but does not have control of the partnership or LLC, are accounted for using the equity method of accounting.

Asset Retirement Obligations

The Company owns interests in oil and natural gas properties, which may require expenditures to plug and abandon the wells when the oil, NGL and natural gas reserves in the wells are depleted. The fair value of legal obligations to retire and remove long-lived assets is recorded in the period in which the obligation is incurred (typically when the asset is installed at the production location). When the liability is initially recorded, this cost is capitalized by increasing the carrying amount of the related properties and equipment. Over time the liability is increased for the change in its present value, and the capitalized cost in properties and equipment is depreciated over the useful life of the remaining asset. The Company does not have any assets restricted for the purpose of settling the asset retirement obligations.

The following table shows the activity for the years ended September 30, 2013 and 2012, relating to the Company's asset retirement obligations:

	2013	2012
Asset Retirement Obligations as of beginning of the year	$ 2,122,950	$ 1,843,875
Accretion of Discount	122,391	121,112
New Wells Placed on Production	167,609	184,027
Wells Sold or Plugged	(19,760)	(26,064)
Asset Retirement Obligations as of end of the year	$ 2,393,190	$ 2,122,950

Environmental Costs

As the Company is directly involved in the extraction and use of natural resources, it is subject to various federal, state and local provisions regarding environmental and ecological matters. Compliance with these laws may necessitate significant capital outlays; however, to date the Company's cost of compliance has been insignificant. The Company does not believe the existence of current environmental laws or interpretations thereof will materially hinder or adversely affect the Company's business operations; however, there can be no assurances of future effects on the Company of new laws or interpretations thereof. Since the Company does not operate any wells where it owns an interest, actual

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

compliance with environmental laws is controlled by others, with Panhandle being responsible for its proportionate share of the costs involved. Panhandle carries liability insurance and pollution control coverage. However, all risks are not insured due to the availability and cost of insurance.

Environmental liabilities, which historically have not been material, are recognized when it is probable that a loss has been incurred and the amount of that loss is reasonably estimable. Environmental liabilities, when accrued, are based upon estimates of expected future costs. At September 30, 2013 and 2012, there were no such costs accrued.

Earnings (Loss) Per Share of Common Stock

Earnings (loss) per share is calculated using net income (loss) divided by the weighted average number of common shares outstanding, plus unissued, vested directors' deferred compensation shares during the period.

Share-based Compensation

The Company recognizes current compensation costs for its Deferred Compensation Plan for Non-Employee Directors (the "Plan"). Compensation cost is recognized for the requisite directors' fees as earned and unissued stock is added to each director's account based on the fair market value of the stock at the date earned. The Plan's structure is that upon retirement, termination or death of the director or upon a change in control of the Company, the shares accrued under the Plan will be issued to the director.

In accordance with guidance on accounting for employee stock ownership plans, the Company records as expense the fair market value of the stock at the time of contribution into its ESOP.

Restricted stock awards to certain officers provide for cliff vesting at the end of three or five years from the date of the awards. The fair value of the awards is ratably expensed over the vesting period in accordance with accounting guidance.

Income Taxes

The estimation of amounts of income tax to be recorded by the Company involves interpretation of complex tax laws and regulations, as well as the completion of complex calculations, including the determination of the Company's percentage depletion deduction. Although the Company's management believes its tax accruals are adequate, differences may occur in the future depending on the resolution of pending and new tax regulations. Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial basis and the tax basis of the Company's assets and liabilities.

The threshold for recognizing the financial statement effect of a tax position is when it is more likely than not, based on the technical merits, that the position will be sustained by a taxing authority. Recognized tax positions are initially and subsequently measured as the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Subject to statutory

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

exceptions that allow for a possible extension of the assessment period, the Company is no longer subject to U.S. federal, state, and local income tax examinations for fiscal years prior to 2010.

The Company includes interest assessed by the taxing authorities in interest expense and penalties related to income taxes in general and administrative expense on its Statements of Operations. For fiscal September 30, 2013, 2012 and 2011, the Company recorded interest and penalties of $927, $0 and $21,000, respectively. The Company does not believe it has any significant uncertain tax positions.

New Accounting Standards

In December 2011, the Financial Accounting Standards Board issued "Balance Sheet: Disclosures about Offsetting Assets and Liabilities." The new standard requires entities to disclose information about financial instruments and derivative instruments that are either offset on the balance sheet or are subject to a master netting arrangement, including providing both gross information and net information for recognized assets and liabilities, the net amounts presented on an entity's balance sheet and a description of the rights of offset associated with these assets and liabilities. The new standard is applicable for all entities that have financial instruments and derivative instruments shown using a net presentation on an entity's balance sheet or are subject to a master netting arrangement. The new standard is effective for interim and annual reporting periods for fiscal years beginning on or after January 1, 2013, and should be applied retrospectively for all periods presented. The Company adopted this new standard effective January 1, 2013.

Other accounting standards that have been issued or proposed by the FASB, or other standards-setting bodies, that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

2. COMMITMENTS

The Company leases office space in Oklahoma City, Oklahoma, under the terms of an operating lease expiring in April 2015. Future minimum rental payments under the terms of the lease are $204,089 in 2014 and $119,052 in 2015. Total rent expense incurred by the Company was $200,782 in 2013, $204,011 in 2012 and $204,089 in 2011.

3. INCOME TAXES

The Company's provision (benefit) for income taxes is detailed as follows:

3. INCOME TAXES (CONTINUED)

	2013	2012	2011
Current:			
Federal	$ 1,813,000	$ 1,452,000	$ 1,266,000
State	150,000	20,000	48,000
	1,963,000	1,472,000	1,314,000
Deferred:			
Federal	4,003,000	1,126,000	1,982,000
State	764,000	676,000	(104,000)
	4,767,000	1,802,000	1,878,000
	$ 6,730,000	$ 3,274,000	$ 3,192,000

The difference between the provision (benefit) for income taxes and the amount which would result from the application of the federal statutory rate to income before provision (benefit) for income taxes is analyzed below for the years ended September 30:

	2013	2012	2011
Provision (benefit) for income taxes at statutory rate	$ 7,241,517	$ 3,725,749	$ 4,090,069
Percentage depletion	(1,059,303)	(846,040)	(733,516)
State income taxes, net of federal provision (benefit)	572,650	464,677	(92,989)
State net operating loss valuation allowance (release)	-	(31,000)	31,000
Other	(24,864)	(39,386)	(102,564)
	$ 6,730,000	$ 3,274,000	$ 3,192,000

Deferred tax assets and liabilities, resulting from differences between the financial statement carrying amounts and the tax basis of assets and liabilities, consist of the following at September 30:

3. INCOME TAXES (CONTINUED)

	2013	2012
Deferred tax liabilities:		
Financial basis in excess of tax basis, principally intangible drilling costs capitalized for financial purposes and expensed for tax purposes	$ 33,557,515	$ 30,320,765
Derivative contracts	165,402	-
	33,722,917	30,320,765
Deferred tax assets:		
State net operating loss carry forwards, net of valuation allowance of $0 in 2013 and 2012	782,785	1,008,271
AMT credit carry forwards	-	1,189,053
Deferred directors' compensation	1,021,717	990,455
Restricted stock expense	426,788	-
Statutory depletion carry forwards	-	415,958
Other	137,620	130,021
	2,368,910	3,733,758
Net deferred tax liabilities	$ 31,354,007	$ 26,587,007

At September 30, 2013, the Company had an income tax benefit of $782,785 related to Oklahoma state income tax net operating loss (OK NOL) carry forwards expiring from 2028 to 2031. There is no valuation allowance for the OK NOL's as management believes they will be utilized before they expire.

4. LONG-TERM DEBT

The Company has a credit facility with Bank of Oklahoma (BOK) consisting of a revolving loan in the amount of $80,000,000, which is subject to a semi-annual borrowing base determination, wherein BOK applies their own current pricing forecast and an 8% discount rate to the Company's proved reserves as calculated by the Company's Independent Consulting Petroleum Engineering Firm. When applying the discount rate, BOK also applies an advance rate percentage to all proved non-producing and proved undeveloped reserves. The facility has a borrowing base of $35,000,000 and is secured by certain of the Company's properties with a carrying value of $40,042,933 at September 30, 2013. The facility matures on November 30, 2017. The interest rate is based on BOK prime plus from 0.375% to 1.125%, or 30 day LIBOR plus from 1.875% to 2.625%. The election of BOK prime or LIBOR is at the Company's discretion. The interest rate spread from LIBOR or the prime rate increases as a larger percent of the loan value of the Company's oil and natural gas properties is advanced. The interest rate spread from BOK prime or LIBOR will be charged based on the percent of the value advanced of the calculated loan value of the Company's oil and natural gas properties. At September 30, 2013, the effective interest rate was 2.36%.

The Company's debt is recorded at the carrying amount on its balance sheet. The carrying amount of the Company's revolving credit facility approximates fair value because the interest rates are reflective of market rates.

4. LONG-TERM DEBT (CONTINUED)

Since the bank charges a customary non-use fee of 0.25% annually of the unused portion of the borrowing base, the Company has not requested the bank to increase its borrowing base beyond $35,000,000. Determinations of the borrowing base are made semi-annually or whenever the bank, in its sole discretion, believes that there has been a material change in the value of the oil and natural gas properties. While the Company believes the availability could be increased (if needed) by placing more of the Company's properties as security under the revolving credit facility, increases are at the discretion of the bank. The loan agreement contains customary covenants which, among other things, require periodic financial and reserve reporting and limit the Company's incurrence of indebtedness, liens, dividends and acquisitions of treasury stock, and require the Company to maintain certain financial ratios. At September 30, 2013, the Company was in compliance with the covenants of the BOK agreement.

5. SHAREHOLDERS' EQUITY

Upon approval by the shareholders of the Company's 2010 Restricted Stock Plan on March 11, 2010, the Board approved purchase of up to $1.5 million of the Company's Common Stock, from time to time, equal to the aggregate number of shares of Common Stock awarded pursuant to the Company's 2010 Restricted Stock Plan, contributed by the Company to its ESOP and credited to the accounts of directors pursuant to the Deferred Compensation Plan for Non-Employee Directors. The Board's approval included an initial authorization to purchase up to $1.5 million of Common Stock, with a provision for subsequent authorizations without specific action by the Board. As the amount of Common Stock purchased under any authorization reaches $1.5 million, another $1.5 million is automatically authorized for Common Stock purchases unless the Board determines otherwise. Pursuant to these resolutions adopted by the Board, the purchase of additional $1.5 million increments of the Company's Common Stock became authorized and approved effective March 29, 2011, March 14, 2012, and June 26, 2013. As of September 30, 2013, $4,516,267 had been spent under the current program to purchase 158,784 shares. The shares are held in treasury and are accounted for using the cost method. On September 30 each year, treasury shares contributed to the Company's ESOP on behalf of the ESOP participants were 10,907 in 2013, 10,660 in 2012 and 10,710 in 2011.

6. EARNINGS PER SHARE

The following table sets forth the computation of earnings per share.

	Year ended September 30,		
	2013	2012	2011
Numerator for basic and diluted earnings per share:			
Net income (loss)	$ 13,960,049	$ 7,370,996	$ 8,493,912
Denominator for basic and diluted earnings per share - weighted average shares (including for 2013, 2012 and 2011, unissued, vested directors' shares of 116,112, 114,596 and 122,728, respectively)	8,356,904	8,360,931	8,393,890

7. EMPLOYEE STOCK OWNERSHIP PLAN

The Company's ESOP was established in 1984 and is a tax qualified, defined contribution plan that serves as the Company's sole retirement plan for all its employees. Company contributions are made at the discretion of the Board and, to date, all contributions have been made in shares of Company Common Stock. The Company contributions are allocated to all ESOP participants in proportion to their compensation for the plan year, and 100% vesting occurs after three years of service. Any shares that do not vest are treated as forfeitures and are distributed among other vested employees. For contributions of Common Stock, the Company records as expense the fair market value of the stock at the time of contribution. The 259,060 shares of the Company's Common Stock held by the plan, as of September 30, 2013, are allocated to individual participant accounts, are included in the weighted average shares outstanding for purposes of earnings-per-share computations and receive dividends.

Contributions to the plan consisted of:

Year	Shares	Amount
2013	10,907	$ 308,450
2012	10,660	$ 326,942
2011	10,710	$ 303,843

8. DEFERRED COMPENSATION PLAN FOR DIRECTORS

The Panhandle Oil and Gas Inc. Deferred Compensation Plan for Non-Employee Directors (the "Plan") provides that each eligible director can individually elect to receive shares of Company Common Stock rather than cash for Board and committee chair retainers, Board meeting fees and Board committee meeting fees. These shares are unissued and vest as earned. The shares are credited to each director's deferred fee account at the closing market price of the stock on the date earned. As of September 30, 2013, there were 122,219 shares (121,348 shares at September 30, 2012) included in the Plan. The deferred balance outstanding at September 30, 2013, under the Plan was $2,756,526 ($2,676,160 at September 30, 2012). Expenses totaling $377,520, $417,347 and $443,456 were charged to the Company's results of operations for the years ended September 30, 2013, 2012 and 2011, respectively, and are included in general and administrative expense in the accompanying Statement of Operations.

9. RESTRICTED STOCK PLAN

On March 11, 2010, shareholders approved the Panhandle Oil and Gas Inc. 2010 Restricted Stock Plan (2010 Stock Plan), which made available 100,000 shares of Common Stock to provide a long-term component to the Company's total compensation package for its officers and to further align the interest of its officers with those of its shareholders. The 2010 Stock Plan is designed to provide as much flexibility as possible for future grants of restricted stock so the Company can respond as necessary to provide competitive compensation in order to retain, attract and motivate officers of the Company and to align their interests with those of the Company's shareholders.

In June 2010, the Company began awarding shares of the Company's Common Stock as restricted stock (non-performance based) to certain officers. The restricted stock vests at the end of the vesting period and contains nonforfeitable rights to receive dividends and voting rights during the vesting period. The fair value of the shares was based on the closing price of the shares on their award date and will be

9. RESTRICTED STOCK PLAN (CONTINUED)

recognized as compensation expense ratably over the vesting period. Upon vesting, shares are expected to be issued out of shares held in treasury.

On December 21, 2010, the Company began awarding shares of the Company's Common Stock, subject to certain share price performance standards (performance based), as restricted stock to certain officers. Vesting of these shares is based on the performance of the market price of the Common Stock over the vesting period. The fair value of the performance shares was estimated on the grant date using a Monte Carlo valuation model that factors in information, including the expected price volatility, risk-free interest rate and the probable outcome of the market condition, over the expected life of the performance shares. Compensation expense for the performance shares is a fixed amount determined at the grant date and is recognized over the vesting period regardless of whether performance shares are awarded at the end of the vesting period. Upon vesting, shares are expected to be issued out of shares held in treasury.

Compensation expense for the restricted stock awards is recognized in G&A.

The following table summarizes the Company's pre-tax compensation expense for the years ended September 30, 2013, 2012 and 2011, related to the Company's performance based and non-performance based restricted stock.

	Year Ended September 30,		
	2013	2012	2011
Performance based, restricted stock	$ 345,405	$ 150,480	$ 42,909
Non-performance based, restricted stock	338,563	180,443	109,573
Total compensation expense	$ 683,968	$ 330,923	$ 152,482

A summary of the Company's unrecognized compensation cost for its unvested performance based and non-performance based restricted stock and the weighted-average periods over which the compensation cost is expected to be recognized are shown in the following table.

	Unrecognized Compensation Cost	Weighted Average Period (in years)
Performance based, restricted stock	$ 282,726	1.41
Non-performance based, restricted stock	227,628	1.48
Total	$ 510,354	

Upon vesting, shares are expected to be issued out of shares held in treasury.

A summary of the status of unvested shares of restricted stock awards and changes is presented below:

9. RESTRICTED STOCK PLAN (CONTINUED)

	Performance Based Unvested Restricted Shares	Weighted Average Grant-Date Fair Value	Non-Performance Based Unvested Restricted Shares	Weighted Average Grant-Date Fair Value
Unvested shares as of September 30, 2010	-	$ -	8,500	$ 28.30
Granted	8,782	19.54	8,780	28.00
Vested	-	-	-	-
Forfeited	-	-	-	-
Unvested shares as of September 30, 2011	8,782	$ 19.54	17,280	$ 28.15
Granted	17,709	19.47	5,903	31.55
Vested	-	-	-	-
Forfeited	-	-	-	-
Unvested shares as of September 30, 2012	26,491	$ 19.49	23,183	$ 29.01
Granted	20,104	15.18	6,701	29.19
Vested	-	-	-	-
Forfeited	-	-	-	-
Unvested shares as of September 30, 2013	46,595	$ 17.63	29,884	$ 29.05

10. INFORMATION ON OIL AND NATURAL GAS PRODUCING ACTIVITIES

All oil and natural gas producing activities of the Company are conducted within the United States (principally in Oklahoma and Arkansas) and represent substantially all of the business activities of the Company.

The following table shows sales through various operators/purchasers during 2013, 2012 and 2011.

10. INFORMATION ON OIL AND NATURAL GAS PRODUCING ACTIVITIES (CONTINUED)

	2013	2012	2011
Southwestern Energy Company	20%	15%	9%
Chesapeake Operating, Inc.	10%	13%	15%
Devon Energy Corp.	7%	10%	9%
Apache Corporation	6%	4%	2%
Newfield Exploration	5%	7%	14%

11. SUPPLEMENTARY INFORMATION ON OIL, NGL AND NATURAL GAS RESERVES (UNAUDITED)

Aggregate Capitalized Costs

The aggregate amount of capitalized costs of oil and natural gas properties and related accumulated depreciation, depletion and amortization as of September 30 is as follows:

	2013	2012
Producing properties	$ 304,889,145	$ 275,997,569
Non-producing minerals	8,490,277	9,018,731
Non-producing leasehold	442,628	1,123,812
Exploratory wells in progress	-	8,018
	313,822,050	286,148,130
Accumulated depreciation, depletion and amortization	(186,042,746)	(164,652,199)
Net capitalized costs	$ 127,779,304	$ 121,495,931

Costs Incurred

For the years ended September 30, the Company incurred the following costs in oil and natural gas producing activities:

	2013	2012	2011
Property acquisition costs	$ 1,242,615	$ 20,404,465	$ 5,140,862
Exploration costs	-	1,210,417	4,837,451
Development costs	27,938,160	24,578,943	17,310,808
	$ 29,180,775	$ 46,193,825	$ 27,289,121

In 2012, $17.4 million of the property acquisition costs related to the acquisition of certain assets in the Arkansas Fayetteville Shale.

11. SUPPLEMENTARY INFORMATION ON OIL, NGL AND NATURAL GAS RESERVES (UNAUDITED) (CONTINUED)

Estimated Quantities of Proved Oil, NGL and Natural Gas Reserves

The following unaudited information regarding the Company's oil, NGL and natural gas reserves is presented pursuant to the disclosure requirements promulgated by the SEC and the FASB.

Proved oil and natural gas reserves are those quantities of oil and natural gas which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time. The area of the reservoir considered as proved includes: (i) the area identified by drilling and limited by fluid contacts, if any, and (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or natural gas on the basis of available geoscience and engineering data. In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering or performance data and reliable technology establishes a lower contact with reasonable certainty. Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated natural gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering or performance data and reliable technology establish the higher contact with reasonable certainty. Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (i) successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (ii) the project has been approved for development by all necessary parties and entities, including governmental entities.

The independent consulting petroleum engineering firm of DeGolyer and MacNaughton of Dallas, Texas, calculated the Company's oil, NGL and natural gas reserves as of September 30, 2013, 2012 and 2011 (see Exhibits 23 and 99).

The Company's net proved oil, NGL and natural gas reserves, all of which are located in the United States, as of September 30, 2013, 2012 and 2011, have been estimated by the Company's Independent Consulting Petroleum Engineering Firm. Estimates of reserves were prepared by the use of appropriate geologic, petroleum engineering and evaluation principals and techniques that are in accordance with practices generally recognized by the petroleum industry as presented in the publication of the Society of Petroleum Engineers entitled "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (Revision as of February 19, 2007)." The method or combination of

11. SUPPLEMENTARY INFORMATION ON OIL, NGL AND NATURAL GAS RESERVES (UNAUDITED) (CONTINUED)

methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data and production history.

All of the reserve estimates are reviewed and approved by our Vice President and COO, who reports directly to our President and CEO. Mr. Blanchard, our COO, holds a Bachelor of Science Degree in Petroleum Engineering from the University of Oklahoma. Before joining the Company, he was sole proprietor of a consulting petroleum engineering firm, spent 10 years as Vice President of the Mid-Continent business unit of Range Resources Corporation and spent several years as an engineer with Enron Oil and Gas. He is an active member of the Society of Petroleum Engineers (SPE) with over 27 years of oil and gas industry experience, including engineering assignments in several field locations.

Our COO and internal staff work closely with our Independent Consulting Petroleum Engineers to ensure the integrity, accuracy and timeliness of data furnished to them for their reserves estimation process. We provide historical information to our Independent Consulting Petroleum Engineers for all properties such as ownership interest, oil and gas production, well test data, commodity prices, operating costs and handling fees, and development costs. Throughout the year, our team meets regularly with representatives of our Independent Consulting Petroleum Engineers to review properties and discuss methods and assumptions.

When applicable, the volumetric method was used to estimate the original oil in place (OOIP) and the original gas in place (OGIP). Structure and isopach maps were constructed to estimate reservoir volume. Electrical logs, radioactivity logs, core analyses and other available data were used to prepare these maps as well as to estimate representative values for porosity and water saturation. When adequate data was available and when circumstances justified, material balance and other engineering methods were used to estimate OOIP or OGIP.

Estimates of ultimate recovery were obtained after applying recovery factors to OOIP or OGIP. These recovery factors were based on consideration of the type of energy inherent in the reservoirs, analyses of the petroleum, the structural positions of the properties and the production histories. When applicable, material balance and other engineering methods were used to estimate recovery factors. An analysis of reservoir performance, including production rate, reservoir pressure and gas-oil ratio behavior, was used in the estimation of reserves.

For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production or to the limit of the production licenses as appropriate.

Accordingly, these estimates should be expected to change, and such changes could be material and occur in the near term as future information becomes available.

Net quantities of proved, developed and undeveloped oil, NGL and natural gas reserves are summarized as follows:

11. SUPPLEMENTARY INFORMATION ON OIL, NGL AND NATURAL GAS RESERVES (UNAUDITED) (CONTINUED)

	Proved Reserves		
	Oil (Barrels)	NGL (1) (Barrels)	Natural Gas (Mcf)
September 30, 2010	925,009	-	98,170,455
Revisions of previous estimates	(59,360)	791,648	769,676
Divestitures	-	-	3,189,520
Extensions, discoveries and other additions	82,230	-	8,005,990
Production	(104,141)	-	(8,297,657)
September 30, 2011	843,738	791,648	101,837,984
Revisions of previous estimates	8,627	(76,794)	(27,389,752)
Acquisitions	-	-	19,075,529
Extensions, discoveries and other additions	373,097	172,602	29,062,593
Production	(153,143)	(98,714)	(9,072,298)
September 30, 2012	1,072,319	788,742	113,514,056
Revisions of previous estimates	(90,968)	141,081	(2,697,853)
Acquisitions	-	-	1,660,649
Extensions, discoveries and other additions	896,036	798,200	30,698,644
Production	(234,084)	(111,897)	(10,886,329)
September 30, 2013	1,643,303	1,616,126	132,289,167

(1) 2011 was the first year the Company had sufficient volumes of NGL to warrant reserve volumes disclosure. These NGL are associated with the rapid increase in drilling activity in western and southern Oklahoma and the Texas Panhandle, which includes many plays (horizontal Granite Wash, Hogshooter Wash, Cleveland, Marmaton, Anadarko Basin Woodford Shale and Ardmore Basin Woodford Shale) producing significant volumes of NGL.

The prices used to calculate reserves and future cash flows from reserves for oil, NGL and natural gas, respectively, were as follows: September 30, 2013 - $89.06/Bbl, $27.28/Bbl, $3.33/Mcf; September 30, 2012 –$89.41/Bbl, $35.70/Bbl, $2.51/Mcf; September 30, 2011 - $90.28/Bbl, $38.91/Bbl, $3.81/Mcf.

The revisions of previous estimates from 2012 to 2013 were primarily the result of:

- Negative performance revisions of 5,844,070 Mcfe, of which 8,803,480 Mcfe were positive proved developed revisions principally due to better than projected well performance attributable to properties in Arkansas and Oklahoma. The remaining 14,647,551 Mcfe were negative proved undeveloped revisions principally attributable to the removal of dry gas

11. SUPPLEMENTARY INFORMATION ON OIL, NGL AND NATURAL GAS RESERVES (UNAUDITED) (CONTINUED)

reserves which are no longer projected to be developed within 5 years from the date they were added to the proved undeveloped reserves.

- Positive pricing revisions of 3,446,900 Mcfe due to proved developed wells (3,109,159 Mcfe) and proved undeveloped locations (337,741 Mcfe) reaching their economic limits later than previously projected, thus adding reserves, due to higher product prices.

Extensions, discoveries and other additions from 2012 to 2013 are principally attributable to:

- The Company's participation in ongoing development of conventional oil, NGL and natural gas plays utilizing horizontal drilling, including the Cleveland and Granite Wash plays in western Oklahoma and the Texas Panhandle, as well as the Marmaton and Hogshooter Wash plays in western Oklahoma.

- The Company's participation in ongoing development of unconventional natural gas plays utilizing horizontal drilling, including the Arkansas Fayetteville Shale and, to a much lesser extent, the Southeastern Oklahoma Woodford Shale.

- The Company's participation in ongoing development of unconventional oil, NGL and natural gas plays utilizing horizontal drilling in the Anadarko Basin Woodford Shale and Ardmore Basin Woodford Shale in western and southern Oklahoma.

- PUD additions principally in the Fayetteville Shale play in Arkansas, the Anadarko Basin Woodford Shale and Ardmore Basin Woodford Shale in western and southern Oklahoma and the Cleveland and Granite Wash plays in western Oklahoma and the Texas Panhandle, as well as the Marmaton and Hogshooter Wash plays in western Oklahoma. These additions are the result of reservoir delineation proved by continuing drilling and well performance data in each of the referenced plays.

	Proved Developed Reserves			Proved Undeveloped Reserves		
	Oil (Barrels)	NGL (Barrels)	Natural Gas (Mcf)	Oil (Barrels)	NGL (Barrels)	Natural Gas (Mcf)
September 30, 2011	759,989	386,774	60,193,878	83,749	404,874	41,644,106
September 30, 2012	849,548	494,160	65,733,119	222,771	294,582	47,780,937
September 30, 2013	1,037,721	764,321	82,298,833	605,582	851,805	49,990,334

The following details the changes in proved undeveloped reserves for 2013 (Mcfe):

11. SUPPLEMENTARY INFORMATION ON OIL, NGL AND NATURAL GAS RESERVES (UNAUDITED) (CONTINUED)

Beginning proved undeveloped reserves	50,885,055
Proved undeveloped reserves transferred to proved developed	(12,124,203)
Revisions	(14,309,809)
Extensions and discoveries	32,806,004
Purchases	1,477,609
Ending proved undeveloped reserves	58,734,656

The beginning PUD reserves were 50.9 Bcfe. A total of 12.1 Bcfe (24% of the beginning balance) were transferred to proved developed producing during 2013. The 14.3 Bcfe of negative revisions to PUD reserves consist of a positive pricing revision of 0.3 Bcfe offset by a 14.6 Bcfe (29% of the beginning balance) negative performance revision in 2013 as the result of removal of dry gas reserves which are no longer projected to be developed within 5 years from the date they were added. A total of 26.7 Bcfe (53% of the beginning balance) of PUD reserves were moved out of the category during 2013 as either the result of being transferred to proved developed or removed because they were no longer projected to be developed within 5 years from the date they were added to the proved undeveloped reserves. Only 21 PUD locations from 2009, representing 1% of total 2013 PUD reserves remain in the PUD category. We anticipate that all the Company's PUD locations will be drilled and converted to PDP within five years of the date they were added. However, PUD locations and associated reserves which are no longer projected to be drilled within 5 years from the date they were added to the proved undeveloped reserves will be removed as revisions at the time that determination is made and in the event that there are undrilled PUD locations at the end of the five-year period, it is our intent to remove the reserves associated with those locations from our proved reserves as revisions.

Standardized Measure of Discounted Future Net Cash Flows

Accounting Standards prescribe guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. The Company has followed these guidelines, which are briefly discussed below.

Future cash inflows and future production and development costs are determined by applying the trailing unweighted 12-month arithmetic average of the first-day-of-the-month individual product prices and year-end costs to the estimated quantities of oil, natural gas and NGL to be produced. Actual future prices and costs may be materially higher or lower than the unweighted 12-month arithmetic average of the first-day-of-the-month individual product prices and year-end costs used. For each year, estimates are made of quantities of proved reserves and the future periods during which they are expected to be produced based on continuation of the economic conditions applied for such year.

Estimated future income taxes are computed using current statutory income tax rates including consideration for the current tax basis of the properties and related carry forwards, giving effect to permanent differences and tax credits. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor. The assumptions used to compute the standardized measure are those prescribed by the FASB and, as such, do not necessarily reflect our expectations of actual revenue to be derived from those reserves nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates reflect the valuation process.

11. SUPPLEMENTARY INFORMATION ON OIL, NGL AND NATURAL GAS RESERVES (UNAUDITED) (CONTINUED)

	2013	2012	2011
Future cash inflows	$ 630,332,900	$ 408,694,869	$ 494,523,456
Future production costs	(216,584,982)	(135,516,703)	(146,168,829)
Future development and asset retirement costs	(50,572,218)	(35,290,260)	(45,269,686)
Future income tax expense	(131,397,192)	(83,543,516)	(107,111,317)
Future net cash flows	231,778,508	154,344,390	195,973,624
10% annual discount	(130,103,612)	(86,930,102)	(117,591,190)
Standardized measure of discounted future net cash flows	$ 101,674,896	$ 67,414,288	$ 78,382,434

Changes in the standardized measure of discounted future net cash flows are as follows:

	2013	2012	2011
Beginning of year	$ 67,414,288	$ 78,382,434	$ 72,500,409
Changes resulting from:			
Sales of oil, NGL and natural gas, net of production costs	(46,909,635)	(30,226,927)	(33,570,621)
Net change in sales prices and production costs	47,270,404	(45,178,377)	(2,697,833)
Net change in future development and asset retirement costs	(7,363,224)	4,483,543	4,126,812
Extensions and discoveries	54,101,830	34,216,533	11,938,029
Revisions of quantity estimates	(3,150,420)	(27,419,576)	7,046,873
Acquisitions (divestitures) of reserves-in-place	2,198,612	20,160,327	4,480,858
Accretion of discount	11,473,819	13,644,203	12,523,091
Net change in income taxes	(27,464,341)	10,735,694	(5,329,092)
Change in timing and other, net	4,103,563	8,616,434	7,363,908
Net change	34,260,608	(10,968,146)	5,882,025
End of year	$ 101,674,896	$ 67,414,288	$ 78,382,434

12. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the Company's unaudited quarterly results of operations.

	Fiscal 2013 Quarter Ended			
	December 31	March 31	June 30	September 30
Revenues	$ 14,180,435	$ 12,581,986	$ 17,730,445	$ 18,396,254
Income (loss) before provision for income taxes	$ 2,825,298	$ 1,761,487	$ 7,323,168	$ 8,780,096
Net income (loss)	$ 2,148,298	$ 1,022,487	$ 5,070,168	$ 5,719,096
Earnings (loss) per share	$ 0.26	$ 0.12	$ 0.61	$ 0.68

	Fiscal 2012 Quarter Ended			
	December 31	March 31	June 30	September 30
Revenues	$ 13,404,333	$ 10,436,910	$ 13,649,692	$ 11,041,382
Income (loss) before provision for income taxes	$ 4,261,110	$ 1,205,966	$ 4,681,299	$ 496,621
Net income (loss)	$ 3,412,110	$ 675,966	$ 3,100,299	$ 182,621
Earnings (loss) per share	$ 0.41	$ 0.08	$ 0.37	$ 0.02

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE

ITEM 9A CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is collected and communicated to management, including the Company's President/CEO and Vice President/CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating its disclosure controls and procedures, management recognized that no matter how well conceived and operated, disclosure controls and procedures can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. The Company's disclosure controls and procedures have been designed to meet, and management believes that they do meet, reasonable assurance standards. Based on their evaluation as of the end of the fiscal period covered by this report, the Chief Executive Officer and Chief Financial Officer have concluded that, subject to the limitations noted above, the Company's disclosure controls and procedures were effective.

(b) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate "internal control over financial reporting," as such term is defined in Exchange Act Rule 13a-15(f). The Company's management, including the President/CEO and Vice President/CFO, conducted an evaluation of the effectiveness of its internal control over financial reporting based on the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, the Company's management concluded that its internal control over financial reporting was effective as of September 30, 2013.

(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting made during the fiscal quarter ended September 30, 2013, or subsequent to the date the assessment was completed.

ITEM 9B OTHER INFORMATION

None

PART III

The information called for by Part III of Form 10-K (Item 10 – Directors and Executive Officers of the Registrant, Item 11 – Executive Compensation, Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, Item 13 – Certain Relationships and Related Transactions, and Item 14 – Principal Accountant Fees and Services), is incorporated by reference from the Company's definitive proxy statement, which will be filed with the SEC within 120 days after the end of the fiscal year to which this report relates.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

FINANCIAL STATEMENT SCHEDULES

The Company has omitted all schedules because the conditions requiring their filing do not exist or because the required information appears in the Company's Financial Statements, including the notes to those statements.

EXHIBITS

(3)	Amended Certificate of Incorporation (incorporated by reference to Exhibit attached to Form 10 filed January 27, 1980, and to Forms 8-K dated June 1, 1982, December 3, 1982, to Form 10-QSB dated March 31, 1999, and to Form 10-Q dated March 31, 2007) By-Laws as amended (incorporated by reference to Form 8-K dated October 31, 1994) By-Laws as amended (incorporated by reference to Form 8-K dated February 24, 2006) By-Laws as amended (incorporated by reference to Form 8-K dated October 29, 2008) By-Laws as amended (incorporated by reference to Form 8-K dated August 2, 2011)
(4)	Instruments defining the rights of security holders (incorporated by reference to Certificate of Incorporation and By-Laws listed above)
*(10.1)	Agreement indemnifying directors and officers (incorporated by reference to Form 10-K dated September 30, 1989, and Form 8-K dated June 15, 2007)
*(10.2)	Agreements to provide certain severance payments and benefits to executive officers should a Change-in-Control occur as defined by the agreements (incorporated by reference to Form 8-K dated September 4, 2007)
(23)	Consent of DeGolyer and MacNaughton, Independent Petroleum Engineering Consultants
(31.1)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31.2)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32.1)	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(32.2)	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(99)	Report of DeGolyer and MacNaughton, Independent Petroleum Engineering Consultants
(99.1)	Amended and Restated Credit Agreement dated November 25, 2013
(101.INS)	XBRL Instance Document
(101.SCH)	XBRL Taxonomy Extension Schema Document
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document
(101.LAB)	XBRL Taxonomy Extension Labels Linkbase Document
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document

* Indicates management contract or compensatory plan or arrangement

REPORTS ON FORM 8-K

No Form 8-K's were filed in the fourth quarter of 2013.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

PANHANDLE OIL AND GAS INC.

By: /s/ Michael C. Coffman
Michael C. Coffman
Chief Executive Officer

Date: December 11, 2013

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael C. Coffman Michael C. Coffman	President, Chief Executive Officer, Director	December 11, 2013
/s/ Lonnie J. Lowry Lonnie J. Lowry	Vice President, Chief Financial Officer	December 11, 2013
/s/Robb P. Winfield Robb P. Winfield	Controller, Chief Accounting Officer	December 11, 2013
/s/ Duke R. Ligon Duke R. Ligon	Director	December 11, 2013
/s/ Robert O. Lorenz Robert O. Lorenz	Lead Independent Director	December 11, 2013
/s/ Robert A. Reece Robert A. Reece	Director	December 11, 2013
/s/ Robert E. Robotti Robert E. Robotti	Director	December 11, 2013
/s/ Darryl G. Smette Darryl G. Smette	Director	December 11, 2013
/s/ H. Grant Swartzwelder H. Grant Swartzwelder	Director	December 11, 2013

EXHIBIT 23

DeGOLYER AND MacNAUGHTON
5001 SPRING VALLEY ROAD
SUITE 800 EAST
DALLAS, TEXAS 75244

November 20, 2013

Panhandle Oil and Gas Inc.
Grand Centre, Suite 300
5400 North Grand Blvd
Oklahoma City, OK 73112

Ladies and Gentlemen:

We hereby consent to the use of the name DeGolyer and MacNaughton, to the inclusion of our Letter Report, dated October 1, 2013, as attached as Exhibit 99 to the Annual Report on Form 10-K of Panhandle Oil and Gas Inc., and to the inclusion of information from "Appraisal Report as of September 30, 2013 on Certain Properties owned by Panhandle Oil and Gas Inc." in the sections "Proved Reserves," and "Supplementary Information on Oil and Natural Gas Reserves (Unaudited)" in the Annual Report on Form 10-K of Panhandle Oil and Gas Inc.

Very truly yours,

/s/DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716

EXHIBIT 31.1

CERTIFICATION

I, Michael C. Coffman, certify that:

1. I have reviewed this annual report on Form 10-K of Panhandle Oil and Gas Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael C. Coffman
Michael C. Coffman
Chief Executive Officer
Date: December 11, 2013

EXHIBIT 31.2

CERTIFICATION

I, Lonnie J. Lowry, certify that:

1. I have reviewed this annual report on Form 10-K of Panhandle Oil and Gas Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Lonnie J. Lowry
Lonnie J. Lowry
Chief Financial Officer
Date: December 11, 2013

EXHIBIT 32.1

Panhandle Oil and Gas Inc.
5400 North Grand Blvd. Suite #300
Oklahoma City, OK 73112

CERTIFICATION OF CHIEF EXECUTIVE OFFICER REGARDING PERIODIC REPORT CONTAINING FINANCIAL STATEMENTS

I, Michael C. Coffman, President and Chief Executive Officer of Panhandle Oil and Gas Inc. (the "Company"), in compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify in connection with the Company's Annual Report on Form 10-K for the period that ended September 30, 2013, as filed with the Securities and Exchange Commission (the "Report") that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael C. Coffman
Michael C. Coffman
President &
Chief Executive Officer

December 11, 2013

EXHIBIT 32.2

Panhandle Oil and Gas Inc.
5400 North Grand Blvd. Suite #300
Oklahoma City, OK 73112

CERTIFICATION OF CHIEF FINANCIAL OFFICER REGARDING PERIODIC REPORT CONTAINING FINANCIAL STATEMENTS

I, Lonnie J. Lowry, Vice President and Chief Financial Officer of Panhandle Oil and Gas Inc. (the "Company"), in compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify in connection with the Company's Annual Report on Form 10-K for the period that ended September 30, 2013, as filed with the Securities and Exchange Commission (the "Report") that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lonnie J. Lowry
Lonnie J. Lowry
Vice President &
Chief Financial Officer

December 11, 2013

EXHIBIT 99

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

This is a digital representation of a DeGolyer and MacNaughton report.

Each file contained herein is intended to be a manifestation of certain data in the subject report and as such is subject to the definitions, qualifications, explanations, conclusions, and other conditions thereof. The information and data contained in each file may be subject to misinterpretation; therefore, the signed and bound copy of this report should be considered the only authoritative source of such information.

DeGolyer and MacNaughton
F-716
TEXAS REGISTERED ENGINEERING FIRM

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

October 1, 2013

Panhandle Oil and Gas Inc.
5400 North Grand Boulevard
Suite 300
Oklahoma City, Oklahoma 73112

Ladies and Gentlemen:

Pursuant to your request, we have prepared estimates of the extent and value of the net proved oil, condensate, natural gas liquids (NGL), and natural gas reserves, as of September 30, 2013, of certain properties owned by Panhandle Oil and Gas Inc. (Panhandle). This evaluation was completed October 1, 2013. The properties appraised consist of working and royalty interests located in the states of Arkansas, Kansas, New Mexico, North Dakota, Oklahoma, and Texas. Panhandle has represented that these properties account for 100 percent of Panhandle's net proved reserves as of September 30, 2013. The net proved reserves estimates included in this report have been prepared in accordance with the reserves definitions of Rules 4–10(a) (1)–(32) of Regulation S–X of the Securities and Exchange Commission (SEC) of the United States. This report was prepared in accordance with guidelines specified in Item 1202 (a)(8) of Regulation S-K and is to be used for inclusion in certain SEC filings by Panhandle.

Reserves included herein are expressed as gross and net reserves. Gross reserves are defined as the total estimated petroleum to be produced from these properties after September 30, 2013. Net reserves are defined as that portion of the gross reserves attributable to the interests owned by Panhandle after deducting all royalties and interests owned by others.

Estimates of oil, condensate, NGL, and natural gas reserves and future net revenue should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves estimates based on that information which is currently available, but such estimates

are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Data used in this report were obtained from Panhandle, from records on file with the appropriate regulatory agencies, and from public sources. In the preparation of this report we have relied, without independent verification, upon such information furnished by Panhandle with respect to property interests appraised, production from such properties, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. It was not considered necessary to make a field examination of the physical condition and operation of the properties.

Methodology and Procedures

Estimates of reserves were prepared by the use of appropriate geologic, petroleum engineering, and evaluation principals and techniques that are in accordance with practices generally recognized by the petroleum industry as presented in the publication of the Society of Petroleum Engineers entitled "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (Revision as of February 19, 2007)." The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production.

Gas quantities estimated herein are expressed as sales gas. Sales gas is defined as that portion of the total gas to be delivered into a gas pipeline for sale after separation, processing, fuel use, and flare. Gas reserves are expressed at a temperature base of 60 degrees Fahrenheit (°F) and at the legal pressure base of the state in which the interest is located. Condensate reserves estimated herein are those to be recovered by conventional lease separation. NGL reserves are those attributed to the lease according to processing agreements.

Definition of Reserves

Petroleum reserves included in this report are classified as proved. Only proved reserves have been evaluated for this report. Reserves classifications used by us in this report are in accordance with the reserves definitions of Rules 4–10(a) (1)–(32) of Regulation S–X of the SEC. Reserves are judged to be economically producible in future years from known reservoirs under existing economic and operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. In the analyses of production-decline curves, reserves were estimated only to the limit of economic rates of production under existing economic and operating conditions using prices and costs consistent with the effective date of this report, including consideration of changes in existing prices provided only by contractual arrangements but not including escalations based upon future conditions. The petroleum reserves are classified as follows:

> *Proved oil and gas reserves* – Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.
>
> (i) The area of the reservoir considered as proved includes:
> (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.
>
> (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience,

engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:
(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Developed oil and gas reserves – Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required

equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Undeveloped oil and gas reserves – Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in [section 210.4–10 (a) Definitions], or by other evidence using reliable technology establishing reasonable certainty.

The development status shown herein represents the status applicable on September 30, 2013. In the preparation of this study, data available from wells drilled on the appraised properties through September 30, 2013, were used in estimating gross ultimate recovery. When applicable, gross production estimated to September 30, 2013, was deducted from gross ultimate recovery to arrive at the estimates of gross reserves as of September 30, 2013. Production data through June 2013 were available for most properties.

Our estimates of Panhandle's net proved reserves attributable to the reviewed properties are based on the definitions of proved reserves of the SEC and are as follows, expressed in thousands of barrels (Mbbl) and millions of cubic feet (MMcf):

	Estimated by DeGolyer and MacNaughton Net Proved Reserves as of September 30, 2013		
	Oil and Condensate (Mbbl)	NGL (Mbbl)	Natural Gas (MMcf)
Proved Producing	1,004	764	80,384
Proved Non-Producing	33	0	1,915
Proved Undeveloped	606	852	49,990
Total Proved	**1,643**	**1,616**	**132,289**

Primary Economic Assumptions

Revenue values in this report are expressed in terms of estimated future gross revenue, future net revenue, and present worth of future net revenue. Future gross revenue is defined as that revenue to be realized from the production and sale of the estimated net reserves. Future net revenue is calculated by deducting estimated production taxes, ad valorem taxes, operating, gathering, processing expenses, and capital costs from the future gross revenue. Present worth of future net revenue is calculated by discounting the future net revenue at the arbitrary rate of 10 percent per year compounded monthly over the expected period of realization.

Revenue values in this report were estimated using the initial prices and costs specified by Panhandle. Future prices were estimated using guidelines established by the SEC and the Financial Accounting Standards Board (FASB). The prices used in this report are based on SEC guidelines. The assumptions used for estimating future prices and expenses are as follows:

Oil and Condensate Prices

Oil and condensate price differentials for each property were provided by Panhandle. The prices were calculated using these differentials to a posted West Texas Intermediate (WTI) price

of $95.44 per barrel and were held constant for the lives of the properties. The WTI price of $95.44 is the 12-month average price calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to September 30, 2013. The weighted average price over the lives of the properties was $89.06 per barrel of oil.

NGL Prices

NGL price differentials for each property were provided by Panhandle. The prices were calculated using these differentials to a posted WTI price of $95.44 per barrel and were held constant for the lives of the properties. The WTI price of $95.44 is the 12-month average price calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to September 30, 2013. The weighted average price over the lives of the properties was $27.28 per barrel of NGL.

Natural Gas Prices

Gas price differentials for each property were provided by Panhandle. The prices were calculated using these differentials to a Henry Hub price of $3.61 per thousand cubic feet (Mcf) and were held constant for the lives of the properties. The Henry Hub gas price of $3.61 per Mcf is the 12-month average price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to September 30, 2013. The weighted average price over the lives of the properties was $3.325 per Mcf of gas.

Operating Expenses and Capital Costs

Estimates of operating expenses and capital costs based on current costs were used for the lives of the properties with no increases in the future based on inflation. In certain cases, future costs, either higher or lower than current costs, may have been used because of anticipated changes in operating

conditions. Future capital expenditures were estimated using 2013 values and were not adjusted for inflation.

The estimated future revenue to be derived from the production and sale of the net proved reserves, as of September 30, 2013, of the properties appraised, expressed in thousands of dollars (M$), is summarized as follows:

	Proved			
	Developed Producing	Developed Nonproducing	Undeveloped	Total Proved
Future Gross Revenue, M$	378,694	9,866	241,773	630,333
Production & Ad Valorem Taxes, M$	22,263	714	10,787	33,764
Operating Expenses, M$	121,820	2,496	58,505	182,821
Capital & Abandonment Costs, M$	627	1,287	48,658	50,572
Future Net Revenue, M$	233,984	5,369	123,823	363,176
Present Worth at 10 Percent, M$	123,289	1,897	51,277	176,463

Note: Future income taxes have not been taken into account in the preparation of these estimates.

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant's ability to recover its oil and gas reserves, we are not aware of any such governmental actions which would restrict the recovery of the September 30, 2013, estimated oil and gas volumes. The reserves estimated in this report can be produced under current regulatory guidelines.

In our opinion, the information relating to estimated proved reserves, estimated future net revenue from proved reserves, and present worth of estimated future net revenue from proved reserves of oil, condensate, natural gas liquids, and gas contained in this report has been prepared in accordance with Paragraphs 932-235-50-4, 932-235-50-6, 932-235-50-7, 932-235-50-9, 932-235-50-30, and 932-235-50-31(a), (b), and (e) of the Accounting Standards Update 932-235-50, *Extractive Industries – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures* (January 2010) of the Financial Accounting Standards Board and Rules 4–10(a) (1)–(32) of Regulation S–X and Rules 302(b), 1201, 1202(a) (1), (2), (3), (4), (8), and 1203(a) of Regulation S–K of the Securities and Exchange Commission; provided, however, that (i) future income tax expenses have not been taken into account in estimating the future net revenue and present worth values set forth herein and (ii) estimates of the proved developed and proved undeveloped reserves are not presented at the beginning of the year.

To the extent the above-enumerated rules, regulations, and statements require determinations of an accounting or legal nature, we, as engineers, are necessarily unable to express an opinion as to whether the above-described information is in accordance therewith or sufficient therefor.

DeGolyer and MacNaughton is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1936. DeGolyer and MacNaughton does not have any financial interest, including stock ownership, in Panhandle. Our fees were not contingent on the results of our evaluation. This letter report has been prepared at the request of Panhandle. DeGolyer and MacNaughton has used all assumptions, data, procedures, and methods that it considers necessary and appropriate to prepare this report.

Submitted,

DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716

Gregory K. Graves, P.E.
Senior Vice President
DeGolyer and MacNaughton

CERTIFICATE of QUALIFICATION

I, Gregory K. Graves, Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

1. That I am a Senior Vice President with DeGolyer and MacNaughton, which company did prepare the letter report addressed to Panhandle dated October 1, 2013, and that I, as Senior Vice President, was responsible for the preparation of this report.

2. That I attended the University of Texas at Austin, and that I graduated with a Bachelor of Science degree in Petroleum Engineering in the year 1984; that I am a Registered Professional Engineer in the State of Texas; that I am a member of the International Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers; and that I have in excess of 28 years of experience in oil and gas reservoir studies and reserves evaluations.

SIGNED: October 1, 2013

Gregory K. Graves, P.E.
Senior Vice President
DeGolyer and MacNaughton

EXHIBIT 99.1

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AMENDED AND RESTATED CREDIT AGREEMENT

This AMENDED AND RESTATED CREDIT AGREEMENT (this "Agreement") is entered into as of November __, 2013 among PANHANDLE OIL AND GAS INC., formerly named Panhandle Royalty Company, an Oklahoma corporation (referred to herein as the "Borrower"), each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), and BOKF, NA dba Bank of Oklahoma, as Administrative Agent and L/C Issuer and BOKF, NA dba Bank of Oklahoma, successor by merger to Bank Of Oklahoma, N.A, as Administrative Agent and L/C Issuer.

W I T N E S S E T H:

WHEREAS, Borrower and BOKF, NA dba Bank of Oklahoma, successor by merger to Bank of Oklahoma, N.A. (the "Original Lender") are parties to that certain Credit Agreement dated effective October 31, 2006 as amended from time to time and most recently by that certain Fifth Amendment to Credit Agreement dated as of April 22, 2013 (referred to herein as the "Former Credit Agreement") whereby Borrower executed, among other things, that certain restated revolving promissory note dated as of December 6, 2010 in the amount of, not in excess of, $80,000,000.00 (the "Former Note") evidencing Borrower's revolving line of credit;

WHEREAS, the Borrower's obligations to the Original Lender pursuant to the Former Credit Agreement and Former Note are secured by certain collateral as described in the Agreement;

WHEREAS, all capitalized terms not otherwise defined herein shall have those meanings assigned to such terms in the Agreement;

WHEREAS, Borrower and Lenders desire to amend and restate the Former Credit Agreement in its entirety; and

NOW, THEREFORE, in consideration of the foregoing and for such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1

DEFINITIONS AND ACCOUNTING TERMS

1.1 **Defined Terms**. As used in this Agreement the terms "Borrower", "Former Credit Agreement", "Former Note", and "Lender" shall be defined as set forth in the recitals above, terms which are not otherwise defined herein but are defined in the Uniform Commercial Code shall have the meanings set forth in the Uniform Commercial Code and the following terms shall have the meanings set forth below:

"Administrative Agent" or "Agent" means BOKF, NA dba Bank of Oklahoma, successor by merger to Bank of Oklahoma, N.A., in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

"Administrative Agent's Office" means the Administrative Agent's address and, as appropriate, account as set forth on Schedule 11.2, or such other address or account as the Administrative Agent may from time to time notify to the Borrower and the Lenders.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Advance" shall mean an advance of funds made by the Lender to the Borrower under the Revolving Line of Credit described in Section 2.

"Affiliate" means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto. A Person shall be deemed to be controlled by another Person if such Person possesses, directly or indirectly, power to vote 40% or more of the securities having ordinary voting power for the election of directors, managers or managing general partners.

"Alternate Base Rate" or "ABR" means a variable rate, as of any date of determination, equal to the greater of (i) the BOKF Prime Rate, (ii) the overnight cost of federal funds as announced by the US Federal Reserve System plus one-half of one percent (0.50%), or (iii) LIBOR plus one percent (1.00%) (collectively, the "Index"). The Index is not necessarily the lowest rate charged by Lender on its loans. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notifying Borrower. Any change in the Alternate Base Rate will become effective as of the date the rate of interest is different from that on the preceding Business Day.

"Alternate Base Rate Loans" or "ABR Loans" means any Loans which accrue interest by reference to the Alternate Base Rate, in accordance with the terms of this Agreement.

"Alternate Base Rate Margin" means that percentage located in the column captioned "Applicable Margin for ABR Loans within the definition of "Applicable Rate" below.

"Applicable Rate" means the following percentages per annum, based upon the ratio of the Loan Balance of the Note to the Borrowing Base as set forth in the most recent Compliance Certificate received by the Agent pursuant to Section 4.1(f):

Applicable Rate

Pricing Level	Total Outstandings to Borrowing Base	Applicable Margin for LIBOR Rate Loans	Applicable Margin for ABR Loans	Unused Commitment Fee
I	Greater than 85%	2.625%	1.125%	0.25%
II	Greater than 65% but less than or equal to 85%	2.375%	.875%	0.25%

III	Greater than 45% but less than or equal to 65%	2.125%	.625%	0.25%
IV	Less than or equal to 45%	1.875%	.375%	0.25%

Any increase or decrease in the Applicable Rate resulting from a change in the ratio of the Total Outstandings to the Borrowing Base shall become effective as of the first day of the month immediately following such a change.

"Approved Fund" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Assignee Group" means two (2) or more Eligible Assignees that are Affiliates of one another or two (2) or more Approved Funds managed by the same investment advisor.

"Assignment and Assumption" means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 11.16(b)), and accepted by the Administrative Agent, in substantially the form of Exhibit E or any other form approved by the Administrative Agent.

"Attorney Costs" means and includes all fees and disbursements of any law firm or other external counsel and the allocated cost of internal legal services and all disbursements of internal counsel.

"Attributable Indebtedness" means, on any date, (a) in respect of any capital lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

"Available Commitment" shall mean, at any time, an amount equal to the remainder, if any, of the Revolving Commitment Amount minus the Principal Debt at such time.

""Basis Point" or "Bps" means one one-hundredth of one percent (0.01%).

"BOKF Prime Rate" means that rate of interest regularly established by BOKF, NA and designated as its Prime Rate, as set in its sole discretion.

"Borrowing Base" shall mean, as of any date of calculation, the value assigned by the Lenders from time to time to the Oil and Gas Properties pursuant to Section 2.6 hereof. As of the date of closing hereof, the Borrowing Base shall be $35,000,000.00. The Borrowing Base shall specifically not include interests and overriding royalty interests granted by Borrower to third parties.

"Borrowing Base Determination" shall mean a determination of the Borrowing Base made by the Lenders pursuant to Section 2.6.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where Agent's office is located.

"Change in Law" means, the adoption or taking effect of, or any change in, any Law, or any change in the interpretation, administration or application of any Law by any Governmental Authority, central bank or comparable agency charged with the interpretation, administration or application thereof, or compliance by any Lender with any request, guideline or directive (whether or not having the force of law) of any such authority, central bank or comparable agency occurring after the Closing Date, provided, however, that notwithstanding anything herein to the contrary, the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and all requests, rules, guidelines or directives promulgated by the Lender for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law" regardless of the date enacted, adopted or issued.

"Change of Control" means any of the following events: (a) any "person" or "group" (within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) has become, directly or indirectly, the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a Person shall be deemed to have "beneficial ownership" of all such shares that any such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), by way of merger, consolidation or otherwise, of a majority or more of the common stock of Borrower on a fully-diluted basis, after giving effect to the conversion and exercise of all outstanding warrants, options and other securities of the Borrower (whether or not such securities are then currently convertible or exercisable), or (b) during any period of two consecutive calendar quarters, individuals who at the beginning of such period were members of the Borrower's board of directors cease for any reason to constitute a majority of the directors of the Borrower then in office unless (i) such new directors were elected by a majority of the directors of the Borrower who constituted the board of directors of the Borrower at the beginning of such period (or by directors so elected) or (ii) the reason for such directors failing to constitute a majority is a result of retirement by directors due to age, death or disability.

"Closing Date" means the first date all the conditions precedent in Section 7.1 are satisfied or waived.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collateral" means all real and personal property described in the Collateral Documents.

"Collateral Documents" means all mortgages, deeds of trust, assignments of leases and rents, security agreements, financing statements, assignments and other documents, certificates and agreements made by the Borrower in favor of Agent for the ratable benefit of the Lenders, granting Liens in the Collateral securing the Loans, together with all amendments, modifications, extensions, replacements and substitutions thereof.

"Commitment Percentage" means, at any date of determination, for any Lender with respect to the Loan, the proportion (stated as a percentage carried out to the ninth decimal place) that its Committed Sum bears to the aggregate Committed Sums of all Lenders. If the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.2, or if the Total Commitments have expired, then the Commitment Percentage of each Lender shall be determined based on the Commitment Percentage of such Lender most recently in effect, giving effect to any subsequent assignments. The initial Commitment Percentage of each Lender is set forth opposite the name of such Lender on Schedule 2.1 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

"Committed Sum" means for any Lender with respect to the Revolver Facility, at any date of determination occurring prior to the Maturity Date, the amount stated beside such Lender's name on Schedule 2.1 to this Agreement (which amount is subject to increase, reduction, or cancellation in accordance with the Loan Documents).

"Commitment Usage" means, at the time of any determination thereof, the aggregate Principal Debt plus all Letter of Credit Liabilities.

"Commitment Expiry Date" means the day that is seven (7) days prior to the one year anniversary of the Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

"Commodity Exchange Act" means the Commodity Exchange Act (7 U.S.C. § 1 et seq.), as amended from time to time, and any successor statute

"Compliance Certificate" means a certificate substantially in the form of Exhibit B.

"Contested in Good Faith" shall mean a matter (a) which is being contested in good faith by or on behalf of any Person, by appropriate and lawful proceedings diligently conducted, satisfactory to the Lender, and for which a reserve has been established in an amount determined in accordance with GAAP, (b) in which foreclosure, distraint, sale, forfeiture, levy, execution or other similar proceedings have not been initiated or have been stayed and continue to be stayed, and (c) in which a good faith contest will not materially detract from the value of the Collateral, materially jeopardize the rights of the Lender or Borrower with respect thereto, materially interfere with the operation by Borrower of its business, or otherwise have a Material Adverse Effect.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Credit Extension" means an Advance or an L/C Credit Extension.

"Current Assets" shall mean Borrower's consolidated, current assets determined in accordance with GAAP plus, effective as of September 30, 2013, the Available Commitment.

"Current Liabilities" shall mean Borrower's consolidated, current obligations as determined in accordance with GAAP.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States of America or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

"Default" means any event that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

"Defaulted Lender" means any Lender that (a) has failed to fund any portion of the Loans required to be funded by it hereunder within one (1) Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one (1) Business Day of the date when due, unless the subject of a good faith dispute, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

"Determination Date" shall be defined as set forth in Section 2.6.

"Disposition" or "Dispose" means the sale, transfer, license or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

"Dollar" and "$" means lawful money of the United States of America.

"EBITDA" means with respect to the Borrower for any period, without duplication, the amount equal to its Net Income for such period minus income from discontinued operations or extraordinary items, plus losses from discontinued operations or extraordinary items, plus income tax expense, plus interest expense, plus depreciation, plus amortization, and plus other non-cash expenses.

"Eligible Assignee" means (a) a Lender; (b) an Affiliate of a Lender; (c) an Approved Fund; and (d) any other Person (other than a natural person) approved by (i) the Administrative Agent, and (ii) unless an Event of Default has occurred and is continuing, the Borrower (each such approval not to be unreasonably withheld or delayed); provided that notwithstanding the foregoing, "Eligible Assignee" shall not include the Borrower or any of the Borrower's Affiliates or Subsidiaries.

"Engineered Value" shall mean future net revenues discounted at the discount rate being used by the Agent as of the date of any such determination utilizing the pricing parameters used in the engineering reports furnished to the Agent, pursuant to Sections 4.1(d) and 4.1(e) hereof.

"Environmental Laws" means all Laws relating to environmental, health, safety and land use matters applicable to any property.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of Borrower or any other Loan Party directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974 and any regulations issued pursuant thereto.

"ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA Event" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

"Event of Default" means any of the events or circumstances specified in Section 8.1.

"Excluded Swap Obligation": (a) with respect to any Guarantor, any Swap Obligation if, and to the extent that, all or a portion of the guarantee of such Guarantor of, or the grant by such Guarantor of a security interest to secure, as applicable, such Swap Obligation (or any guarantee thereof) is or becomes illegal under the Commodity Exchange Act or any rule, regulation, or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof) and (b) with respect to Borrower, any Swap Obligation of another Loan Party if, and to the extent that, all or a portion of the joint and several liability of such Borrower with respect to, or the grant of such Borrower of a security interest to secure, as applicable, such Swap Obligation is or becomes illegal under the Commodity Exchange Act or any rule, regulation, or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof), by virtue of such Guarantor's (in the case of (a)) or Borrower's (in the case of (b)) failure to constitute an "eligible contract participant," as defined in the Commodity Exchange Act and the regulations thereunder, at the time the guarantee of

such Guarantor, joint and several liability of such Borrower, or grant of such security interest by such Guarantor or Borrower, as applicable, becomes or would become effective with respect to such Swap Obligation. If a Swap Obligation arises under a master agreement governing more than one Swap Obligation, such exclusion shall apply only to the portion of such Swap Obligation that is attributable to Swap Obligations for which such guarantee or security interest or joint and several liability, as applicable, is or becomes illegal.

"Federal Funds Rate" means, for any day, the rate of interest (rounded upwards, if necessary, to the nearest whole multiple of 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day and (ii) if no such rate is so published on such next preceding Business Day, the Federal Funds Rate for such day shall be the average rate quoted to Agent on such day on such transactions as determined by Agent.

"FRB" means the Board of Governors of the Federal Reserve System of the United States of America.

"Fund" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"Funded Indebtedness" means, as of any date of determination, for the Borrower, the sum of (a) the outstanding principal amount of all obligations, whether current or long term, for borrowed money (including Obligations hereunder) and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments, (b) all purchase money Indebtedness, (c) all direct obligations arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments, (d) all obligations in respect of the deferred purchase price of property or services, but only if such deferral is in excess of thirty (30) days (other than trade accounts, and other accrued liabilities arising in the ordinary course of business), (e) Attributable Indebtedness in respect of capital leases and Synthetic Lease Obligations, (f) without duplication, all Guarantees with respect to outstanding Indebtedness of the types specified in clauses (a) through (e) above of Persons other than Borrower , and (g) all Indebtedness of the types referred to in clauses (a) through (f) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which Borrower is a general partner or joint venturer, unless such Indebtedness is expressly made non recourse to Borrower.

"GAAP" means generally accepted accounting principles of the Accounting Principles Board, the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting professions that are applicable to the circumstances as of the date of determination, consistently applied.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, administrative tribunal, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Guarantee Obligation" means, as to any Person (the "guaranteeing person"), any obligation, including a reimbursement, counterindemnity or similar obligation, of the guaranteeing Person that guarantees or in effect guarantees, or which is given to induce the creation of a separate obligation by another Person (including any bank under any letter of credit) that guarantees or in effect guarantees, any Indebtedness, leases, dividends or other obligations (the "primary obligations") of any other third Person (the "primary obligor") in any manner, whether directly or indirectly, including any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. For the avoidance of doubt, for purposes of determining any Guarantee Obligations of any Guarantor pursuant to the Collateral Documents, the definition of "Specified Swap Agreement" shall not create any guarantee by any Guarantor of (or grant of security interest by any Guarantor to support, if applicable) any Excluded Swap Obligation of such Guarantor.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Highest Lawful Rate" shall mean the maximum rate of interest from time to time which any Lender is allowed to contract for, charge for, take, reserve, or receive under applicable law after taking into account, to the extent required by applicable law, any and all relevant payments or charges hereunder.

"Hydrocarbons" means oil, gas, coal seam gas, casinghead gas, drip gasoline, natural gasoline, condensate, distillate, and all other liquid and gaseous hydrocarbons produced or to be produced in conjunction therewith from a well bore and all products, by-products, and other substances derived therefrom or the processing thereof, and all other minerals and substances produced in conjunction with such substances, including sulfur, geothermal steam, water, carbon dioxide, helium, and any and all minerals, ores, or substances of value and the products and proceeds therefrom.

"Indebtedness" means, as to any Person at a particular time, all of the following, whether or not included as Indebtedness or liabilities in accordance with GAAP:

(1) all obligations of such Person for borrowed money and all Obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(2) all direct or contingent obligations of such Person arising under Letters of Credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;

(3) net obligations under any Swap Agreement in an amount equal to the Swap Termination Value thereof;

(4) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business);

(5) Indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(6) capital leases and Synthetic Lease Obligations, provided that the amount of any capital lease or Synthetic Lease Obligation as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof; and

(7) all Guaranty Obligations of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person (subject only to customary exceptions acceptable to the Agent).

"Indemnified Liabilities" has the meaning set forth in Section 9.2.

"Indemnitees" has the meaning set forth in Section 9.2.

"Interest Period" means, as to any LIBOR Loan, the period commencing on the date such Loan is borrowed or continued as, or converted into, a LIBOR Loan and ending on the date one (1), two (2), or three (3) months thereafter, as selected by Borrower pursuant to Section 2.2(d); provided, that: (a) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the following Business Day; (b) any Interest Period that begins on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period shall end on the last Business Day of the calendar month at the end of such Interest Period; and (c) Borrower may not select any Interest Period for a Revolving Loan which would extend beyond the Commitment Expiry Date.

"Investment" means, as to any Person, any acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, guaranty of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

"IRS" means the United States Internal Revenue Service.

"Laws" means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

"L/C Credit Extension" means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

"LC Issuer" means BOKF, NA dba Bank of Oklahoma, or one or more banks, trust companies or other Persons in each case expressly identified by Agent from time to time, in its sole discretion, as an LC Issuer for purposes of issuing one or more Letters of Credit hereunder. Without limitation of Agent's discretion to identify any Person as an LC Issuer, no Person shall be designated as an LC Issuer unless such Person maintains reporting systems acceptable to Agent with respect to letter of credit exposure and agrees to provide regular reporting to Agent satisfactory to it with respect to such exposure.

"Lenders" means each of the lenders named on the attached Schedule 2.1 and, subject to this Agreement, their respective successors and assigns.

"Lending Office" means, as to any Lender, the office or offices of such Lender described as such in such Lender's Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Administrative Agent.

"Lender Letter of Credit" means a Letter of Credit issued by an LC Issuer that is also, at the time of issuance of such Letter of Credit, a Lender.

"Letter of Credit" means a standby or documentary (trade) letter of credit issued for the account of Borrower by an LC Issuer which expires by its terms within one year after the date of issuance and in any event at least thirty (30) days prior to the Commitment Expiry Date. Notwithstanding the foregoing, a Letter of Credit may, at the option of Borrower, provide for automatic extensions of its expiry date for one or more successive one (1) year periods provided that the LC Issuer that issued such Letter of Credit has the right to terminate such Letter of Credit

on each such annual expiration date and no renewal term may extend the term of the Letter of Credit to a date that is later than the thirtieth (30th) day prior to the Commitment Expiry Date.

"Letter of Credit Liabilities" means, at any time of calculation, the sum of (i) without duplication, the amount then available for drawing under all outstanding Lender Letters of Credit and all supported Letters of Credit, in each case without regard to whether any conditions to drawing thereunder can then be met *plus* (ii) without duplication, the aggregate unpaid amount of all reimbursement obligations in respect of previous drawings made under all such Lender Letters of Credit and supported Letters of Credit.

"LIBOR" means, with respect to any LIBOR Loan for any Interest Period, a rate (expressed to the fifth decimal place) equal to (i) the rate of interest which is identified and normally published by Bloomberg Professional Service Page BBAM 1 as the offered rate for loans in United States dollars for the applicable Interest Period under the caption British Bankers Association LIBOR Rates as of 11:00 a.m. (London time), on the second full Business Day next preceding the first day of such Interest Period (unless such date is not a Business Day, in which event the next succeeding Business Day will be used); divided by (ii) the sum of one minus the daily average during such Interest Period of the aggregate maximum reserve requirement (expressed as a decimal) then imposed under Regulation D of the Board of Governors of the Federal Reserve System (or any successor thereto) for "Eurocurrency Liabilities" (as defined therein). If Bloomberg Professional Service no longer reports the LIBOR or Agent determines in good faith that the rate so reported no longer accurately reflects the rate available to Lenders in the London Interbank Market or if such index no longer exists or if Page BBAM 1 no longer exists or accurately reflects the rate available to Lenders in the London Interbank Market, Agent may select a replacement index or replacement page, as the case may be.

"LIBOR Loans" means any Loans which accrue interest by reference to the LIBOR, in accordance with the terms of this Agreement.

"LIBOR Margin" means that percentage located in the column captioned "Applicable Margin for LIBOR Rate Loans within the definition of "Applicable Rate" above.

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable Laws of any jurisdiction), including the interest of a purchaser of accounts receivable.

"Loan" and/or "Revolving Loan" means each Advance made available by the Lenders pursuant to Section 2.1.

"Loan Balance" shall mean, at any time, the outstanding principal balance of the Notes at such time plus all Letter of Credit Liabilities.

"Loan Documents" means this Agreement, the Notes, any and all Swap Agreements entered into between Agent and/or its Affiliates and Borrower and its Affiliates, the Collateral

Documents, all agreements, documents, or instruments in favor of Lenders or Agent, for the ratable benefit of the Lenders, ever executed and delivered by Borrower in connection with this Agreement, and all future renewals, extensions, restatements, reaffirmations, or amendment of, or supplements to, all or any part of the foregoing.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, or condition (financial or otherwise) of Borrower ; or (b) a material impairment of the ability of the Borrower to perform its obligations under any Loan Document to which either is a party.

"Maturity Date" means November 30, 2017 or as such date may be extended from time to time with the consent of Lender.

"Monthly Commitment Reduction" shall mean those monthly reductions to the Revolving Commitment determined in accordance with Section 2.1 and 2.6 below.

"Multiemployer Plan" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding three calendar years, has made or been obligated to make contributions.

"Note" means those certain promissory notes in substantially the form of Exhibit A, and all renewals and extensions of all or any part thereof hereto issued or to be issued hereunder to each Lender to evidence the indebtedness to such Lender arising by reason of the Advances on the Loan, together with all modifications, renewals and extensions thereof or any part thereof.

"Notice of LC Credit Event" means an application and agreement for the issuance or amendment of a Letter of Credit, which shall be in form and substance acceptable to the Agent.

"Obligations" means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under any Loan Document (including, but not limited to, Swap Contracts) or otherwise with respect to the Loan including, but not limited to, the Notes, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest that accrues after the commencement by or against Borrower or any Affiliate thereof or any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding; *provided, however*, that all references to the "Obligations" in the Loan Documents shall, in addition to the foregoing, also include all advances to, and debts, liabilities, obligations, covenants and duties now or hereafter owed to the Lenders or any Affiliate of a Lender arising from, by virtue of, or pursuant to any Swap Contract relating to the Loan.

"Oil and Gas Properties" shall mean all of Borrower's fee mineral interests, term mineral interests, leases, subleases, farm-outs, royalties, overriding royalties, net profit interests, carried interests, production payments and similar mineral interests, and all unsevered and unextracted Hydrocarbons in, under, or attributable to such oil and gas properties and interests.

"Operating Cash Flow" shall mean cash provided by Borrower's operating activities in the fiscal year-end audited cash flow statement.

"Organization Documents" means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws; (b) with respect to any limited liability company, the articles of formation and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation with the secretary of state or other department in the state of its formation, in each case as amended from time to time.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five plan years.

"Permitted Liens" shall mean (i) royalties, overriding royalties, reversionary interests, production payments and similar burdens; (ii) joint operating agreements, sales contracts or other arrangements for the sale of production of oil, gas or associated liquid or gaseous hydrocarbons which would not (when considered cumulatively with the matters discussed in clause (i) above) deprive Borrower of any material right in respect of Borrower's assets or properties (except for rights customarily granted with respect to such contracts and arrangements); (iii) statutory Liens for taxes or other assessments that are not yet delinquent (or that, if delinquent, are being Contested in Good Faith); (iv) easements, rights of way, servitudes, permits, surface leases and other rights in respect to surface operations, pipelines, grazing, logging, canals, ditches, reservoirs or the like, conditions, covenants and other restrictions, and easements of streets, alleys, highways, pipelines, telephone lines, power lines, railways and other easements and rights of way on, over or in respect of Borrower's assets or properties and that do not individually or in the aggregate, cause a Material Adverse Effect; (v) materialmen's, mechanic's, repairman's, employee's, warehousemen's, landlord's, carrier's, pipeline's, contractor's, sub-contractor's, operator's, non-operator's (arising under operating or joint operating agreements), and other Liens (including any financing statements filed in respect thereof) incidental to obligations incurred by Borrower in connection with the construction, maintenance, development, transportation, storage or operation of Borrower's assets or properties to the extent not delinquent (or which, if delinquent, are being Contested in Good Faith); (vi) all contracts, agreements and instruments, and all defects and irregularities and other matters affecting Borrower's assets and properties which were in existence at the time such Borrower's assets and properties were originally acquired by such Borrower and all routine operational agreements entered into in the ordinary course of business, which contracts, agreements, instruments, defects, irregularities and other matters and routine operational agreements are not such as to, individually or in the aggregate, interfere materially with the operation, value or use of such Borrower's assets and properties, considered in the aggregate; (vii) liens in connection with workmen's compensation, unemployment insurance or other social security, old age pension or public liability obligations; (viii) legal or equitable encumbrances deemed to exist by reason of the existence of any litigation or other legal proceeding or arising out of a judgment or award with respect to which an appeal is being prosecuted in good faith and levy and execution thereon

have been stayed and continue to be stayed; (ix) rights reserved to or vested in any municipality, governmental, statutory or other public authority to control or regulate Borrower's assets and properties in any manner, and all applicable laws, rules and orders from any governmental authority; (x) landlord's liens; (xi) Liens incurred pursuant to the Collateral Documents or otherwise created in favor of the Lenders or the Agent on behalf of the Lenders pursuant to the Loan Documents; (xii) those liens set forth on Schedule 1 attached hereto; (xiii) those liens consented to in writing by Agent; and (xiv) those Liens that do not exceed $50,000 in the aggregate at any time outstanding or would not have a Material Adverse Effect.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) established by Borrower or any ERISA Affiliate.

"Principal Debt" means, at any time, the aggregate unpaid principal balance of all Loans.

"Pro Rata" or "Pro Rata Part", for each Lender, means on any date of determination (a) for purposes of sharing any amount or fee payable to any Lender in respect of the Revolving Facility (or subfacility thereof), the proportion which the portion of the Principal Debt owed to such Lender (whether held directly or through a participation in respect of the Letter of Credit Subfacility and determined after giving effect thereto) bears to the Principal Debt owed to all Lenders at the time in question, and (b) for all other purposes, the proportion which the portion of the Principal Debt owed to such Lender bears to the Principal Debt owed to all Lenders at the time in question, or if no Principal Debt is outstanding, then the proportion that the aggregate of such Lender's Committed Sums then in effect bears to the Total Commitment then in effect, or if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated and all Loans have been paid, then each Lender's Pro Rata Part shall be determined based on each Lender's Pro Rata Part most recently in effect.

"Qualified ECP Guarantor" means, in respect of any Swap Obligation, Borrower and Guarantor that is not a natural person and that has total assets exceeding $10,000,000 at the time the relevant Guarantee or grant of the relevant security interest becomes effective with respect to such Swap Obligation or such other person as constitutes an "eligible contract participant" under the Commodity Exchange Act or any regulations promulgated thereunder and can cause another person to qualify as an "eligible contract participant" at such time by entering into a keepwell under Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

"Register" has the meaning specified in Section 11.18(c).

"Related Parties" means, with respect to a Person, such Person's Affiliates and the officers, directors, employees, agents and attorneys-in-fact of such Person and Affiliates.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

"Request for Advance" shall mean a written request for an Advance pursuant to the Loan in substantially the form of Exhibit C attached hereto or an emailed request containing the information set forth in Exhibit C.

"Required Lenders" means, as of any date of determination, (i) Lenders having more than sixty six and two-thirds percent (66 2/3%) of the Total Commitments; or, if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make an extension of an L/C Borrowing have been terminated pursuant to Section 8.2, and (ii) the Administrative Agent; provided that the Commitment of, and the portion of the Total Commitments held or deemed held by, any Defaulted Lender shall be excluded for purposes of making a determination of Required Lenders.

"Responsible Officer" means the chief executive officer, chief financial officer, president, or controller of Borrower. Any document delivered hereunder that is signed by a Responsible Officer of Borrower shall be conclusively presumed to have been authorized by all necessary corporate action on the part of the Borrower and such Responsible Officer shall be conclusively presumed to have acted on behalf of Borrower.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or ownership interest of Borrower , or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or ownership interest or of any option, warrant or other right to acquire any such capital stock or ownership interest.

"Revolver Facility" means the credit facility as described in and subject to the limitations set forth in Section 2.1 hereof, including the Letter of Credit subfacility.

"Revolving Commitment" shall mean the lesser of (i) $80,000,000 or (ii) the Borrowing Base in effect from time to time, in each case as reduced or increased, as applicable, from time to time pursuant to the terms hereof.

"Rights" means rights, remedies, powers, privileges, and benefits.

"Secured Obligations" means any and all obligations of and amounts owing or to be owing (including interest accruing at any post-default rate and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to Borrower, any of its Subsidiaries, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) by Borrower (whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising): (a) to the Lenders, or Agent on behalf of the Lender, under any Loan Document; (b) to any Treasury Management Counterparty under any Treasury Management Agreement; and (c) all renewals, extensions and/or rearrangements of any of the above.

"Secured Party" means the Administrative Agent for the ratable benefit of the Lenders.

"Specified Swap Agreement" means any Swap Agreement in respect of interest rates, currency exchange rates, commodities, weather, power or emissions entered into by Borrower or any guarantor and any Person that is a Lender or an affiliate of a Lender at the time such Swap Agreement is entered into (or, in respect of any Swap Agreement entered into prior to the Closing Date, any Person that is/was a Lender or any affiliate of a Lender on the Closing Date), which has been designated as a "Specified Swap Agreement" by Lender and Borrower, by notice to the Lender not later than 15 days after the later of (i) the Closing Date and (ii) the execution and delivery by such Borrower or such guarantor of such Swap Agreement (or such later date agreed by the Lender and Borrower, but in no event more than 30 days after such later date referred to above); provided that for purposes of determining any Guarantee Obligations of any Guarantor pursuant to the Loan Documents, the definition of "Specified Swap Agreement" shall not create any guarantee by any guarantor of (or grant of security interest by any guarantor to support, if applicable) any Excluded Swap Obligation of such guarantor.

"Subsidiary" of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a "Subsidiary" or to "Subsidiaries" shall refer to a Subsidiary or Subsidiaries of Borrower.

"Swap Agreement" means, any agreement, contract or transaction that constitutes a "swap" within the meaning of Section 1a(47) of the Commodity Exchange Act, including any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of any Borrower or any of its Subsidiaries shall be a "Swap Agreement".

"Swap Obligations": with respect to any Person, any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any and all Swap Agreements, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any Swap Agreement transaction.

"Swap Termination Value" means, in respect of any one or more Swap Agreement, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Agreement, (a) for any date on or after the date such Swap Agreement have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a) the amount(s) determined as the mark-to-market value(s) for such Swap Agreement, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Agreement (which may include the Lender).

"Synthetic Lease Obligation" means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

"Threshold Amount" means $1,000,000.00.

"Total Commitment" means, at any time, the sum of all Committed Sums in effect for all Lenders in respect of the Loans.

"Treasury Management Agreement" means any agreement governing the provision of treasury or cash management services, including deposit accounts, funds transfer, automated clearinghouse, auto-borrow, zero balance accounts, returned check concentration, controlled disbursement, lockbox, account reconciliation and reporting and trade finance services provided by a Treasury Management Counterparty for the benefit of the Borrower or a Subsidiary.

"Treasury Management Counterparty" means each Lender or Affiliate of a Lender that enters into a Treasury Management Agreement; *provided* that if such Person at any time ceases to be a Lender or an Affiliate of a Lender, as the case may be, such Person shall no longer be a Treasury Management Counterparty.

"Unfunded Pension Liability" means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"Uniform Commercial Code" means the Uniform Commercial Code of the State of Oklahoma (12A O.S. §1-101 et. seq.), inclusive of Uniform Commercial Code – Secured Transactions of the State of Oklahoma (12A 0.5. § 1-9-101 et. seq.), as amended from time to time.

"Unscheduled Redeterminations" shall mean a re-determination of the Borrowing Base made at any time other than on the dates set for the regular semi-annual re-determination of the Borrowing Base pursuant to Section 2.6(b) which are made (A) at the reasonable request of Borrower, (B) at any time it appears to Lender, in the exercise of its reasonable discretion, that either (i) there has been an unscheduled material decrease in the value of the Oil and Gas Properties, or (ii) an event has occurred which is reasonably expected to have a Material Adverse Effect. The aforementioned notwithstanding, the Borrower shall have the right to one or more Unscheduled Redetermination during any twelve-month period.

1.2 **Other Interpretive Provisions**. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) Other terms:

(i) The words "herein" and "hereunder" and words of similar import when used in any Loan Document shall refer to such Loan Document as a whole and not to any particular provision thereof.

(ii) Section, Exhibit and Schedule references are to the Loan Document in which such reference appears.

(iii) The term "including" is by way of example and not limitation.

(iv) The term "documents" includes any and all instruments, documents, agreements, certificates, notices, reports, financial statements and other writings, however evidenced, whether in physical or electronic form.

(c) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including;" the words "to" and "until" each mean "to but excluding;" and the word "through" means "to and including."

(d) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.3 **Accounting Terms**.

(a) All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data required to be submitted pursuant to this Agreement shall be prepared in conformity with GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the audited financial statements, except as otherwise specifically prescribed herein.

(b) If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Required Lenders shall so request, the Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrower shall provide to the Agent financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.4 **Rounding**. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.5 **References to Agreements and Laws**. Unless otherwise expressly provided herein, (a) references to agreements (including the Loan Documents) and other contractual

instruments shall be deemed to include all subsequent amendments, restatements, extensions, supplements and other modifications thereto, but only to the extent that such amendments, restatements, extensions, supplements and other modifications are not prohibited by any Loan Document; and (b) references to any Law shall include all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such Law.

SECTION 2

THE COMMITMENTS AND CREDIT EXTENSIONS

2.1 **Revolving Line of Credit Commitment**. Subject to the terms and conditions set forth herein, each Lender severally agrees to lend to Borrower its Commitment Percentage of one or more Loans in an aggregate principal amount outstanding at any time up to the lesser of such Lender's Committed Sum under the Revolver Facility or the Lender's Pro Rata Part of the Available Commitment; provided, however, that (i) each Loan must occur on a Business Day and no later than the Business Day immediately preceding the Maturity Date; (ii) each Loan must be in an amount that is an integral multiple of $100,000.00 but not less than $500,000.00; and (iii) on any date of determination, after giving effect to the requested Loan, (A) the Commitment Usage may not exceed the Revolving Commitment then in effect, (B) the Commitment Usage may not exceed the Available Commitment then in effect, and (C) for any Lender, its Commitment Percentage of the Commitment Usage may not exceed such Lender's Committed Sum for the Revolver Facility. Revolver Loans may be repaid or re borrowed from time to time in accordance with the terms and provisions herein and in the Loan Documents. The Borrowing Base component of the Revolving Commitment shall be reduced by the Monthly Commitment Reduction, if applicable, pursuant to Section 2.6, on the first (1st) day of each month during the term hereof. The obligation of the Borrower hereunder shall be evidenced by this Agreement and the Notes issued in connection herewith, said Notes to be as described in Section 2.2(a) hereof. Notwithstanding any other provision of this Agreement, no Advance shall be required to be made hereunder if any Event of Default (as hereinafter defined) has occurred and is continuing or if any event or condition has occurred or failed to occur which with the passage of time or service of notice, or both, would constitute an Event of Default. Irrespective of the face amount of the Notes, the Lenders shall never have the obligation to Advance any amount or amounts in excess of the Available Commitment or to increase the Borrowing Base. Within the limit of the Revolving Commitment, the Borrower may borrow, repay and reborrow under this Section 2.1 prior to the Maturity Date

2.2 **Loans and Borrowings**.

(a) Types of Loans. Subject to the terms hereof, each Loan shall be comprised entirely of Alternate Base Rate Loans or LIBOR Loans (each a "Type") as the Borrower may request in accordance herewith.

(b) Minimum Amounts; Limitation on Number of Borrowings. At the commencement of each Interest Period for any LIBOR Loan, such Loan shall be in an aggregate amount that is an integral multiple of $250,000 and not less than $500,000. Loans of more than one Type may be outstanding at the same time, provided that there shall not at any time be more than a total of four (4) LIBOR Loans outstanding. Notwithstanding any other provision of this

Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Loan if the Interest Period requested with respect thereto would end after the Maturity Date.

(c) Notes. The Loan shall be evidenced by the Notes in the form of Exhibit "A" hereto with appropriate insertions. Notwithstanding the face amount of the Notes, the actual principal amount due from the Borrower to Lenders on account of the Notes, as of any date of computation, shall be the sum of Advances then and theretofore made on account thereof, less all principal payments actually received by Lenders in collected funds with respect thereto. Although the Notes may be dated as of the Closing Date, interest in respect thereof shall be payable only for the period during which the loans evidenced thereby are outstanding and, although the stated amount of the Notes may be higher, the Notes shall be enforceable, with respect to Borrower's obligation to pay the principal amount thereof, only to the extent of the unpaid principal amount of the loans. Irrespective of the face amount of the Notes, no Lender shall ever be obligated to advance on its Committed Sum any amount in excess of the Available Commitment then in effect or to increase the Borrowing Base.

(d) Requests for a Loan. Each Request for Advance shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by telephone. Each such notice must be received by the Administrative Agent not later than 1:00 p.m., Oklahoma City time, on the requested date of any Advance. If requested by Administrative Agent, each such telephonic notice must be confirmed promptly by delivery to the Administrative Agent of a written Request for Advance, appropriately completed and signed by a Responsible Officer of the Borrower, unless other confirmation arrangements satisfactory to the Administrative Agent have been established. Upon satisfaction of the applicable conditions set forth in Section 7.2 (and, if such Advance is the initial Credit Extension as described at Section 7.1) and following receipt of a Request for Advance, the Administrative Agent shall promptly notify each Lender of the amount of its Commitment Percentage of the applicable Loans. In the case of an Advance, each Lender shall make the amount of its Commitment Percentage of each requested Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not later than 1:00 p.m. on the Business Day specified in the applicable Request for Advance. Upon satisfaction of the applicable conditions set forth in Section 7.2 (and, if such borrowing is the initial Credit Extension, Section 7.1), the Administrative Agent shall make all funds so received available to the Borrower in like funds as received by the Administrative Agent either by (i) crediting the account of the Borrower on the books of BOKF, NA dba Bank of Oklahoma with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Administrative Agent by the Borrower; provided, however, that if, on the date the Request for Advance with respect to such Advance is given by the Borrower, there are Letter of Credit Liabilities outstanding, then the proceeds of such Advance, first, shall be applied to the payment in full of any such Letter of Credit Liabilities, and second, shall be made available to the Borrower as provided above. Each such telephonic and written Request for Advance shall specify the following information:

(i) the aggregate amount of the requested Loan;

(ii) the date of such Loan, which shall be a Business Day;

(iii) whether such Loan is to be an Alternate Base Rate Loan or a LIBOR Loan;

(iv) in the case of a LIBOR Loan, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and

(v) the current Loan Balance (without regard to the requested Loan) and the pro forma Loan Balance (giving effect to the requested Loan).

(e) If no election as to the Type of Loan is specified, then the requested Loan shall be an Alternate Base Rate Loan. If no Interest Period is specified with respect to any requested LIBOR Loan, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Each Request for Advance shall constitute a representation that (i) the amount of the requested Loan shall not exceed the Available Commitment, and (ii) each condition precedent set forth in Section 7.2 has been satisfied with respect to such Loan.

2.3 **Interest Rate and Elections**.

(a) Interest Rate. From and following the Closing Date, depending upon Borrower's election from time to time, subject to the terms hereof, to have portions of the Loans accrue interest determined by reference to the Alternate Base Rate or the LIBOR. The Loans and the other Obligations shall bear interest at the applicable rates set forth below:

(i) If an Alternate Base Rate Loan, or any other Obligation other than a LIBOR Loan, then at the sum of the Alternate Base Rate plus the applicable Alternate Base Rate Margin.

(ii) If a LIBOR Loan, then at the sum of LIBOR plus the applicable LIBOR Margin.

(b) Post-Default Rate. Notwithstanding the foregoing, from and after an Event of Default, whether at stated maturity, upon acceleration or otherwise, the Obligations shall bear interest, after as well as before judgment, at a rate per annum equal to 5% plus interest rate set forth in Section 2.3(a), but in no event to exceed the the Highest Lawful Rate.

(c) Interest Payments. Interest on the Loan shall be due and payable as described in Section 2.4 below, and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

(d) Interest Elections.

(i) *Conversion and Continuance*. Each Loan initially shall be of the Type specified in the applicable Request for Advance and, in the case of a LIBOR Loan, shall have an initial Interest Period as specified in such Request for Advance. Thereafter, the

Borrower may elect to convert such Loan to a different Type or to continue such Loan and, in the case of a LIBOR Loan, may elect Interest Periods therefor, all as provided in this Section 2.3.

(ii) *Interest Election Requests*. To make an election pursuant to this Section 2.3, the Borrower shall notify the Agent of such election by telephone by the time that a Request for Advance would be required under Section 2.2 if the Borrower were requesting a Loan of the Type resulting from such election to be made on the effective date of such election (each such telephonic request is referred to herein as an "Interest Election Request"). Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery, facsimile or e-mail to the Agent of a written Interest Election Request in substantially the form of Exhibit D and signed by the Borrower.

(iii) *Information in Interest Election Requests*. Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.2:

A. the Loan to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Loan (in which case the information to be specified pursuant to Sections 2.3(d)(iii)(B) and (C) shall be specified for each resulting Loan);

B. the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

C. whether the resulting Borrowing is to be an Alternate Base Rate Loan or a LIBOR Loan; and

D. if the resulting Loan is a LIBOR Loan, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a LIBOR Loan but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one (1) month's duration.

(iv) *Effect of Failure to Deliver Timely Interest Election Request and Events of Default on Interest Election*. If the Borrower fails to deliver a timely Interest Election Request with respect to a LIBOR Loan prior to the end of the Interest Period applicable thereto, then, unless such Loan is repaid as provided herein, at the end of such Interest Period such Loan shall be converted to an Alternate Base Rate Loan. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing: (i) no outstanding Loan may be converted to or continued as a LIBOR Loan (and any Interest Election Request that requests the conversion of any Loan to, or continuation of any Loan as, a LIBOR Loan shall be ineffective) and (ii) unless repaid, each LIBOR Loan shall be converted to an Alternate Base Rate Loan at the end of the Interest Period applicable thereto.

2.4 **Repayment of Loans**. Beginning December 1, 2013 and continuing on or before the first (1st) day of each month thereafter, the Borrower shall pay to the Lenders all accrued, but

unpaid interest on the Notes. The outstanding principal balance of the Notes plus all accrued, but unpaid interest, shall be due and payable in full on the Maturity Date.

2.5 **Letter of Credit**.

(a) On the terms and subject to the conditions set forth herein, up to, but not in excess of $5,000,000.00 of the Revolving Commitment may be used by Borrower, in addition to the making of Revolving Loans hereunder, for the issuance, prior to the Commitment Expiry Date, by (i) the LC Issuer, of letters of credit, guarantees or other agreements or arrangements (each, a "Support Agreement") to induce an LC Issuer to issue or increase the amount of, or extend the expiry date of, one or more Letters of Credit and (ii) an LC Issuer, of one or more Lender Letters of Credit, so long as, in each case:

(i) Agent and the LC Issuer shall have received a Notice of LC Credit Event at least two (2) Business Days before the relevant date of issuance, increase or extension; and

(ii) after giving effect to such issuance, increase or extension, (x) the aggregate Letter of Credit Liabilities under all Letters of Credit do not exceed $5,000,000.00 and (y) the Loan Balance does not exceed the Revolving Commitment.

(b) Letter of Credit Fee. Borrower shall pay to the Agent for the ratable benefit of the Lenders a letter of credit fee with respect to the Letter of Credit Liabilities for each Letter of Credit, computed for each day from the date of issuance of such Letter of Credit to the date that is the last day a drawing is available under such Letter of Credit, at a rate equal to one and one half of one percent (1.5%). Such fee shall be payable in arrears on the last day of each calendar quarter prior to the Commitment Expiry Date and on such date. In addition, Borrower agrees to pay promptly to the LC Issuer any fronting or other fees that it may charge in connection with any Letter of Credit.

(c) *Reimbursement Obligations of Borrower*. If either (x) the Lenders, or any Lender, shall make a payment to an LC Issuer pursuant to a Support Agreement, or (y)the Lenders, or any Lender, shall honor any draw request under, and make payment in respect of, a Lender Letter of Credit, (i) Borrower shall reimburse such Lenders for the amount of such payment no later than 4:30 p.m. central time on the date of such payment and (ii) Borrower shall be deemed to have immediately requested that Lenders make a Revolving Loan, which shall be an Alternate Base Rate Loan, in a principal amount equal to the amount of such payment (but solely to the extent Borrower shall have failed to directly reimburse Lenders or, with respect to supported Letters of Credit, the applicable LC Issuer, for the amount of such payment). Borrower shall pay interest, on demand, on all amounts so paid by Lenders for each day until Borrower reimburses Lenders therefor at a rate equal to the then current interest rate applicable to Revolving Loans (which are Alternate Base Rate Loans) for such day.

(d) Reimbursement and Other Payments by Borrower. The obligations of Borrower to reimburse Lenders and/or the applicable LC Issuer pursuant to Section 2.5(c) shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including the following:

(i) any lack of validity or enforceability of, or any amendment or waiver of or any consent to departure from, any Letter of Credit or any related document;

(ii) the existence of any claim, set-off, defense or other right which Borrower may have at any time against the beneficiary of any Letter of Credit, the Lenders (including any claim for improper payment), or any other Person, whether in connection with any Loan Document or any unrelated transaction, provided that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;

(iii) any statement or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever; and

(iv) to the extent permitted under applicable law, any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

(e) Deposit Obligations of Borrower. In the event any Letters of Credit are outstanding at the time that Borrower prepays or are required to repay the Obligations or the Commitment is terminated, Borrower shall (i) deposit with Agent cash in an amount equal to one hundred and five percent (105%) of the aggregate outstanding Letter of Credit Liability to be available to Lenders to reimburse payments of drafts drawn under such Letters of Credit and pay any fees and expenses related thereto and (ii) prepay the fee payable under Section 2.5(b) with respect to such Letters of Credit for the full remaining terms of such Letters of Credit. Upon termination of any such Letter of Credit and provided no Event of Default then exists, the unearned portion of such prepaid fee attributable to such Letter of Credit shall be refunded to Borrower, together with the deposit described in the preceding clause (i) attributable to such Letter of Credit, but only to the extent not previously applied by Lenders in the manner described herein.

2.6 **Borrowing Base Determinations**

(a) Initial Borrowing Base. At the Closing Date, the Borrowing Base shall be as described in the definition of "Borrowing Base" at Section 1.1 above. From the date hereof through the next Determination Date (defined in paragraph "b" below), the initial Borrowing Base shall be $35,000,000.00 and the initial Monthly Commitment Reduction shall be $0.00.

(b) Subsequent Determinations of Borrowing Base. Subsequent determinations of the Borrowing Base shall be made by the Lenders at least semi-annually on December 1 and June 1 of each year beginning December 1, 2013 or as Unscheduled Redeterminations. The Borrower shall furnish to the Agent as soon as possible but in any event no later than May 1 of each year, beginning May 1, 2014 with an effective date of March 31, 2014, with an engineering report in form and substance satisfactory to the Agent prepared by an independent petroleum engineering firm acceptable to Agent or by an in-house engineering report covering the Oil and Gas Properties based upon PV/8 utilizing economic and pricing parameters used by Agent as established from time to time, together with such other information concerning the value of the Oil and Gas Properties as the Lender shall deem necessary to determine the value of the Oil and Gas Properties. By November 1 of each year, beginning

November 1, 2014 or within thirty (30) days after either (i) receipt of notice from Agent that a Lender requires an Unscheduled Redetermination, or (ii) Borrower gives notice to Agent of its desire to have an Unscheduled Redetermination performed, the Borrower shall furnish to the Agent and the Lenders an engineering report in form and substance satisfactory to Agent prepared by Borrower' in-house engineering staff valuing the Oil and Gas Properties utilizing economic and pricing parameters used by the Lenders as established from time to time, together with such other information, reports and data concerning the value of the Oil and Gas Properties as the Lenders shall deem reasonably necessary to determine the value of such Oil and Gas Properties. Upon receipt of such report, the Administrative Agent shall evaluate the information contained therein and shall, in good faith, propose a new Borrowing Base (the "Proposed Borrowing Base") as determined pursuant to paragraph "(c)" below. Agent shall by notice to the Borrower no later than June 1 and December 1 of each year, or within a reasonable time thereafter (herein called the "Determination Date"), notify the Borrower of the designation by the Lenders of the new Borrowing Base for the period beginning on such Determination Date and continuing until, but not including, the next Determination Date. If an Unscheduled Redetermination is made by the Lenders, the Agent shall notify the Borrower within a reasonable time after receipt of all requested information of the new Borrowing Base and Monthly Commitment Reduction and such new Borrowing Base shall continue until the next Determination Date. If the Borrower does not furnish all such information, reports and data by any date specified in this Section 2.6(b), the Lenders may nonetheless designate the Borrowing Base at any amounts which the Lenders in their reasonable discretion determine and may redesignate the Borrowing Base from time to time thereafter until the Lenders receive all such information, reports and data, whereupon the Lenders shall designate a new Borrowing Base as described above. Lenders shall determine the amount of the Borrowing Base based upon the loan collateral value which Lenders in their discretion (using such methodology, assumptions and discounts rates as Lenders customarily use in assigning collateral value to oil and gas properties, oil and gas gathering systems, gas processing and plant operations) assigns to such Oil and Gas Properties and other Collateral of the Borrower at the time in question and based upon such other credit factors consistently applied (including, without limitation, the assets, liabilities, cash flow, business, properties, prospects, management and ownership of the Borrower and its affiliates) as Lenders customarily consider in evaluating similar oil and gas credits, but Lenders in their discretion shall not be required to give any additional positive value to any Oil and Gas Property over the current economic and pricing parameters used by Lenders for such Determination Date which additional value is derived directly from a hedging, forward sale or swap agreement covering such Oil and Gas Property as of the date of such determination. It is expressly understood that the Lenders have no obligation to designate the Borrowing Base at any particular amounts or to ever increase the Borrowing Base, except in the exercise of its discretion, whether in relation to the Revolving Commitment or otherwise. Provided, further, the Lenders shall not have the obligation to designate a Borrowing Base in an amount in excess of the Revolving Commitment or its legal or internal lending limits.

(c) General Procedures With Respect to Determination of Borrowing Base. Any Proposed Borrowing Base that would increase the Borrowing Base then in effect must be approved or deemed to have been approved by all of the Lenders as provided in this Section 2.6(c)0; and any Proposed Borrowing Base that would decrease or maintain the Borrowing Base then in effect must be approved or be deemed to have been approved by the Required Lenders. Upon receipt of the notification from the Administrative Agent of the Proposed Borrowing Base,

each Lender shall have fifteen (15) days to agree with the Proposed Borrowing Base or disagree with the Proposed Borrowing Base by proposing an alternate Borrowing Base. If at the end of such fifteen (15) days, any Lender has not communicated its approval or disapproval in writing to the Administrative Agent, such silence shall be deemed to be an approval of the Proposed Borrowing Base. If, at the end of such 15-day period, all of the Lenders, in the case of a Proposed Borrowing Base that would increase the Borrowing Base then in effect, or the Required Lenders, in the case of a Proposed Borrowing Base that would decrease or maintain the Borrowing Base then in effect, have approved or deemed to have approved, as aforesaid, then the Proposed Borrowing Base shall become the new Borrowing Base, effective on the date specified in **Error! Reference source not found.**6(b). If, however, at the end of such 15-day period, all of the Lenders or the Required Lenders, as applicable, have not approved or deemed to have approved, as aforesaid, then the Administrative Agent shall poll the Lenders to ascertain the highest Borrowing Base then acceptable to a number of Lenders sufficient to constitute all of the Lenders or the Required Lenders, as applicable, and such amount shall become the new Borrowing Base, effective on the date specified in **Error! Reference source not found.**6(b).

2.7 **Prepayments**.

(a) Voluntary Prepayments. Borrower may, upon concurrent notice to Agent, from time to time and without premium or penalty, prepay any Loan, in whole or in part. Any principal prepaid pursuant to this Section shall be in addition to, and not in lieu of, all payments otherwise required to be paid under the Loan Documents at the time of such prepayment and shall not postpone the due date of any subsequent principal payment or change the amount of any such payment.

(b) Mandatory Prepayment For Borrowing Base Deficiency. In the event the Principal Debt ever exceeds the Revolving Commitment as determined by Agent pursuant to the terms hereof (a "Borrowing Base Deficit"), the Borrower shall, within sixty (60) days after notification from the Agent, either (A) by instruments reasonably satisfactory in form and substance to the Agent, provide the Lenders with collateral with value and quality in amounts satisfactory to Agent in its discretion in order to reduce the Borrowing Base Deficit to zero, or (B) repay the amount of the Borrowing Base Deficit in one payment or in no more than six consecutive monthly installments of principal commencing on the first day of the calendar month immediately succeeding the month in which the Borrowing Base was so redetermined. If Borrower elects to make installment payments to eliminate the Borrowing Base Deficit then until such deficiency is extinguished, any principal amounts outstanding will bear interest at the applicable contract rate of interest plus 200 additional Bps. In the event Borrower fails to cure any such Borrowing Base deficiency within the time frame set forth above, interest on the outstanding balances shall accrue at a rate per annum equal to 5% plus the interest rate set forth in Section 2.3(a) above, but in no event to exceed the Highest Lawful Rate.

2.8 **Late Fees**. To the extent any principal and interest due under any Loan Document is not paid within ten (10) calendar days of the due date therefore, and, to the extent that the following described fee is deemed to constitute interest, subject to Section 2.14, in addition to any interest or other fees and charges due hereunder or under the applicable Loan Document, Borrower shall pay to the Agent for the ratable benefit of the Lenders a late fee equal to 5% of the amount of the payment that was to have been made. Borrower agrees that the charges set

forth herein are reasonable compensation to Lenders for the acceptance and handling of such late payments.

2.9 **Other Fees**. In addition to certain fees described in Section 2.5(b), the Borrower shall pay those certain fees in the amounts and at the times specified below. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

(a) Upfront Fee. Borrower shall pay Agent, for the ratable distribution to the Lenders, a 10 Bps fee in the amount of of $35,000.00.

(b) Borrowing Base Increase Commitment Fee. Borrower shall pay Agent, for the ratable distribution to the Lenders, a 25 Bps fee payable on any subsequent increase to the BB.

(c) Unused Commitment Fees. From and following the Closing Date, Borrower shall pay Agent, for the ratable distribution to the Lenders, a fee in an amount equal to (1) the Available Commitment multiplied by (2) 25 Bps. Such fee is to be paid quarterly in arrears on the last day of each calendar quarter.

(d) Letter of Credit Fees. Upon the issuance of each Letter of Credit, Borrower shall pay Lenders and the LC Issuer, as applicable, those fees described in Section 2.5(b) above as well as a documentation fee in the amount of $250.00.

2.10 **Additional Terms Pertaining to Interest**.

(a) Computation of Interest and Fees. All interest and fees under each Loan Document shall be calculated on the basis of a 360-day year for the actual number of days elapsed. The date of funding of an Alternate Base Rate Loan and the first day of an Interest Period with respect to a LIBOR Loan shall be included in the calculation of interest. The date of payment of an Alternate Base Rate Loan and the last day of an Interest Period with respect to a LIBOR Loan shall be excluded from the calculation of interest. Interest on all Alternate Base Rate Loans is payable in arrears on the last day of each month and on the maturity of such Loans, whether by acceleration or otherwise. Interest on LIBOR Loans shall be payable on the last day of the applicable Interest Period, unless the Interest Period is greater than three (3) months, in which case interest will be payable on the last day of each three (3) month interval. In addition, interest on LIBOR Loans is due on the maturity of such Loans, whether by acceleration or otherwise.

(b) Illegality. Notwithstanding any other provisions hereof, if any Law shall make it unlawful for any Lender to make, fund or maintain LIBOR Loans, such Lender shall promptly give notice of such circumstances to Agent and the Borrower. In such an event, (1) the commitment of such Lender to make LIBOR Loans, continue LIBOR Loans as LIBOR Loans or convert Alternate Base Rate Loans to LIBOR Loans shall be immediately suspended and (2) outstanding LIBOR Loans shall be converted automatically to Alternate Base Rate Loans on the last day of the Interest Period thereof or at such earlier time as may be required by law.

(c) LIBOR Breakage Fee. Upon (i) any default by Borrower in making any borrowing of, conversion into or continuation of any LIBOR Loan following Borrower's

delivery to Agent of any applicable Request for Advance, or (ii) any payment of a LIBOR Loan on any day that is not the last day of the Interest Period applicable thereto (regardless of the source of such prepayment and whether voluntary, by acceleration or otherwise), Borrower shall promptly pay Agent, for the ratable distribution to the Lenders, an amount equal to the amount of any losses, expenses and liabilities (including, without limitation, any loss (including interest paid) in connection with the re employment of such funds) that Lenders, or any Lender, may sustain as a result of such default or such payment. For purposes of calculating amounts payable to a Lender under this Subsection 2.10(c), Lenders shall be deemed to have actually funded the relevant LIBOR Loan through the purchase of a deposit bearing interest at LIBOR in an amount equal to the amount of that LIBOR Loan and having a maturity and repricing characteristics comparable to the relevant Interest Period; provided, however, that Lenders may fund each of their LIBOR Loans in any manner they see fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under this subsection 2.10(c).

(d) Increased Costs. If, after the Closing Date, a Change in Law: (1) shall impose, modify or deem applicable any reserve (including any reserve imposed by the Board of Governors of the Federal Reserve System, or any successor thereto, but excluding any reserve included in the determination of the LIBOR pursuant to the provisions of this Agreement), special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by any Lender; or (2) shall impose on any Lender any other condition affecting its LIBOR Loans, the Notes (if any) or its obligation to make LIBOR Loans; and the result of anything described in clauses (1) above and (2) is to increase the cost to (or to impose a cost on) any Lender of making or maintaining any LIBOR Loan, or to reduce the amount of any sum received or receivable by any Lender under this Agreement or under any of the Notes (if any) with respect thereto, then upon demand by Agent, on behalf of any such Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable detail, a copy of which shall be furnished to Lenders), Borrower shall promptly pay to Lenders (or the Agent for the ratable benefit of the Lenders) such additional amount as will compensate Lenders for such increased cost or such reduction, so long as such amounts have accrued on or after the day which is two hundred seventy (270) days prior to the date on which Agent or any Lender first made demand therefor.

2.11 **Payments Generally; Administrative Agent's Clawback**. (a) General. All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Commitment Percentage (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Administrative Agent after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Advance that such Lender will not make available to the Administrative Agent such Lender's share of such Advance, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.2 and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Advance available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, but not in excess of the Highest Lawful Rate, and (B) in the case of a payment to be made by the Borrower, the interest rate applicable to the Loans described in Section 2.3(a). If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the applicable Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan included in such Borrowing. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(ii) Payments by Borrower; Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the L/C Issuer hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the L/C Issuer, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the L/C Issuer, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the L/C Issuer, in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, but not in excess of the Maximum Rate.

A notice of the Administrative Agent to any Lender or the Borrower with respect to any amount owing under this subsection (b) shall be conclusive, absent manifest error.

(c) Failure to Satisfy Conditions Precedent. If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Section 2, and such funds are not made available to the Borrower by the Administrative Agent because the conditions to the applicable Credit Extension set forth in Section 7 are not satisfied or waived in accordance with the terms hereof, the Administrative

Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several. The obligations of the Lenders hereunder to make Loans, to fund participations in Letters of Credit and to make payments pursuant to Sections 10.6 and 10.13(a) are several and not joint. The failure of any Lender to make any Loan, to fund any such participation or to make any payment under Sections 10.6 and 10.13(a) on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan, to purchase its participation or to make its payment under Sections 10.6 and 10.13(a).

(e) Funding Source. Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.12 **Sharing of Payments by Lenders**. If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of the Loans made by it, or the participations in Letter of Credit Liabilities held by it resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Loans or participations and accrued interest thereon greater than its Pro Rata Part thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Loans and subparticipations in Letter of Credit Liabilities of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them, provided that:

(i) If any such participations or subparticipations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations or subparticipations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) The provisions of this Section shall not be construed to apply to (x) any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or subparticipations in L/C Obligations to any assignee or participant, other than to the Borrower thereof (as to which the provisions of this Section shall apply).

Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against Borrower rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of Borrower in the amount of such participation.

2.13 **Taxes**.

(a) Any and all payments by the Borrower to or for the account of any Lender under any Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and all liabilities with respect thereto, excluding, in the case of the Lenders, taxes imposed on or measured by its net income, and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the Laws of which any Lender is organized or maintains a lending office (all such non-excluded taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by any Laws to deduct any Taxes from or in respect of any sum payable under any Loan Document to any Lender, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section), such Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable Laws, and (iv) within 30 days after the date of such payment, the Borrower shall furnish to such Lender the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, the Borrower agrees to pay any and all present or future stamp, court or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under any Loan Document or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, any Loan Document (hereinafter referred to as "Other Taxes").

(c) If the Borrower shall be required to deduct or pay any Taxes or Other Taxes from or in respect of any sum payable under any Loan Document to any Lender, the Borrower shall also pay to such Lender, at the time interest is paid, such additional amount that such Lender specifies is necessary to preserve the after-tax yield (after factoring in all taxes, including taxes imposed on or measured by net income) such Lender would have received if such Taxes or Other Taxes had not been imposed.

(d) The Borrower agrees to indemnify the Lenders for (i) the full amount of Taxes and Other Taxes (including any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section) paid by any Lender, (ii) other amounts payable under this Section and (iii) any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, in each case whether or not such Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Payment under this subsection (d) shall be made within 30 days after the date any Lender makes a demand therefor.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable

law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

2.14 **Highest Lawful Rate**. It is the intention of the parties hereto to comply strictly with any applicable usury laws as in effect from time to time and, in this regard, there shall never be taken, received, contracted for, collected, charged or received on any sums advanced hereunder interest in excess of that which would accrue at the Highest Lawful Rate.

If, under any circumstances, the aggregate amounts paid on the Loan or under this Agreement or any other Loan Document include amounts which by law are deemed interest and which would exceed the amount permitted if the Highest Lawful Rate were in effect, Borrower stipulates that such payment and collection will have been and will be deemed to have been, to the fullest extent permitted by applicable laws of the State of Oklahoma or the United States of America, the result of mathematical error on the part of the Borrower and the Lenders; and the Lenders shall promptly credit the amount of such excess to the principal amount of the outstanding Obligations, or if the principal amount of the Obligations shall have been paid in full, refund the amount of such excess to the Borrower (to the extent only of such interest payments in excess of that which would have accrued and been payable on the basis of the Highest Lawful Rate) upon discovery of such error by the Lenders or notice thereof from the Borrower.

If the maturity of the Note is accelerated by reason of an election of the Lenders or Agent on behalf of the Lenders resulting from any Event of Default or otherwise, or in the event of any prepayment, then such consideration that constitutes interest under applicable laws may never include amounts which are more than the Highest Lawful Rate, and the amount of such excess, if any, provided for in this Agreement or otherwise shall be canceled automatically by the Lenders, as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited by the Lenders on the principal amount of the Obligations, or if the principal amount of the Obligations shall have been paid in full, refunded by the Lenders to the Borrower.

All sums paid, or agreed to be paid, to the Lenders for the use, forbearance and detention of the proceeds of the Loan hereunder shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term hereof until paid in full so that the actual rate of interest is uniform but does not exceed the Highest Lawful Rate throughout the full term hereof.

SECTION 3

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to the Lenders that:

3.1 **Existence, Qualification and Power; Compliance with Laws**. It is (a) to the extent applicable, a corporation validly existing and in good standing under the Laws of the jurisdiction of its organization, (b) has all requisite power and authority and all governmental licenses, authorizations, consents and approvals to own its assets, carry on its business and to execute, deliver, and perform its obligations under the Loan Documents to which it is a party, (c)

is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, and (d) is in compliance with all Laws, except in each case referred to in clause (c) or this clause (d), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

3.2 **Authorization; No Contravention**. The execution, delivery and performance by it of each Loan Document to which it is party, have been duly authorized by all necessary corporate action and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, any Contractual Obligation to which such Person is a party or any order, injunction, writ or decree of any Governmental Authority to which such Person or its property is subject; or (c) violate any Law.

3.3 **Governmental Authorization**. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, Borrower of this Agreement or any other Loan Document.

3.4 **Binding Effect**. This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by it. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of it, enforceable against it in accordance with its terms.

3.5 **Financial Statements; No Material Adverse Effect**.

(a) The financial statements of Borrower dated as of June 30, 2013 (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of Borrower as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other liabilities, direct or contingent, of Borrower including liabilities for taxes, material commitments and Indebtedness.

(b) Since the date of the financial statements referenced above, there has been no event or circumstance that has had or could reasonably be expected to have a Material Adverse Effect.

3.6 **Litigation**. Except as specifically disclosed in Schedule 3.6, there are no actions, suits, proceedings, claims or disputes pending or, to its knowledge after due and diligent investigation, or threatened, in writing, at law, in equity, in arbitration or before any Governmental Authority, by or against it or any of its Subsidiaries or against any of its properties or revenues that (a) purport to affect or pertain to its business, this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) if determined adversely, could reasonably be expected to have a Material Adverse Effect.

3.7 **No Default**. There is no default by it presently or which has occurred and is continuing that with notice and passage of time would constitute an Event of Default under (a) the Loan Documents or (b) any other Contractual Obligation, which default could reasonably be expected to result in a Material Adverse Effect.

3.8 **Ownership of Property; Liens**. It has defensible title in fee simple to, or valid leasehold interests in, all real and personal property necessary or used in the ordinary conduct of its business, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. As of the Closing Date, its property is subject to no Liens, other than Liens permitted by Section 5.1.

3.9 **Environmental Compliance**. It is not aware nor has it been notified of any violation of any Environmental Laws as such laws pertain to the Oil and Gas Properties of Borrower which could reasonably be expected to result in a Material Adverse Effect.

3.10 **Insurance**. Borrower maintains insurance in such amounts and against such risks as are common in the oil and gas industry for owners of non-operating oil and gas interests interests.

3.11 **Taxes**. It has filed all federal, state and other material tax returns and reports required to be filed, and have paid all federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being Contested in Good Faith. There is no proposed tax assessment against it that would, if made, have a Material Adverse Effect.

3.12 **ERISA Compliance**. It is in compliance in all material respects with the applicable provisions of ERISA, and no "reportable event", as such term is defined in Section 403 of ERISA, has occurred with respect to any Plan of Borrower.

3.13 **Public Utility Holding Company Act**. Borrower is not a "holding company", or "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

3.14 **Subsidiaries**. As of the Closing Date, it has no Subsidiaries and currently has no equity position in any other Person with the exception of Panwood Oil and Gas Company, 5400 Investors, LLC., Providence Energy Joint Venture No. 2 , and White Rock Royalty Partnership No.1. .

3.15**Margin Regulations; Investment Company Act; Public Utility Holding Company Act**.

(a) It is not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock.

(b) Neither it nor any Person controlling it, (i) is a "holding company," or a "subsidiary company" of a "holding company," or an affiliate of a "holding company" or of a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, or (ii) is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

3.16 **Disclosure**. No statement, information, report, representation, or warranty made by it in any Loan Document or furnished to the Lenders or to Agent on behalf of the Lenders in connection with any Loan Document contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made, not misleading.

3.17 **Intellectual Property; Licenses, Etc**. It owns, or possesses the right to use, all of the trademarks, service marks, trade names, copyrights, patents, patent rights, licenses and other intellectual property rights that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best of its knowledge, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by it infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Borrower, threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or, to its knowledge, proposed, which, in either case, could reasonably be expected to have a Material Adverse Effect.

3.18 **Location of Business Records**. Its principal place of business is in the State of Oklahoma. It maintains records pertaining to collateral pledged under the Collateral Documents, its business and other contract rights at its notice address as provided in Section 11.2(a) herein or at such other address as it designates for such purpose in a written notice to the Administrative Agent.

3.19 **Solvency**. Upon giving effect to the issuance of the Note, the execution of the Loan Documents by it and the consummation of the transactions contemplated hereby, it and each Subsidiary will be solvent (as such term is used in applicable bankruptcy, liquidation, receivership, insolvency or similar laws).

3.20 **Survival of Representations**. Subject to the provisions of Section 11.9 below, all representations and warranties made by it herein will survive the delivery of the Loan Documents and the making of the Loans evidenced thereby, and any investigation at any time made by or on behalf of the Lenders will not diminish the Lenders' right to rely thereon. All statements contained in any certificate or other instrument delivered by or on behalf of it under or pursuant to this Agreement or in connection with the transactions contemplated hereby will constitute representations and warranties made by it hereunder.

SECTION 4

AFFIRMATIVE COVENANTS

So long as the Lenders, or any Lender, shall have any Revolving Commitment hereunder or any Loan or other Obligation shall remain unpaid or unsatisfied, the Borrower shall:

4.1 **Financial Statements and Other Deliveries**. Deliver to the Administrative Agent, in form and detail satisfactory to the Administrative Agent:

(a) Annual Financial Statements. As soon as available, but in any event within ninety (90) days after the end of each fiscal year of Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, audited (with respect to such consolidated financial statements) and accompanied by a report and opinion of an independent certified public accountant of nationally recognized standing reasonably acceptable to the Administrative Agent, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit; and

(b) Interim Financial Statements. As soon as available, but in any event within sixty (60) days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of the Borrower's fiscal year then ended, setting forth in comparative form the figures for the corresponding portion of the previous fiscal year, all in reasonable detail and certified by a Responsible Officer of the Borrower as fairly presenting in all material respects the financial condition, results of operations, shareholders' equity and statement of cash flows of the Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end and audit adjustments and the absence of footnotes.

(c) Public Filings. Promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrower and copies of all annual, regular, periodic and special reports and registration statements which the Borrower may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934, and not otherwise required to be delivered to the Lender pursuant hereto

(d) Annual Reserve Report. As soon as available, and in any event by November 1 of each fiscal year, Borrower shall provide the Administrative Agent and each Lender with an engineering report, effective as of September 30, in form and substance satisfactory to the Administrative Agent prepared by an independent petroleum engineering firm acceptable to Administrative Agent ("Approved Engineering Firm") covering the Oil and Gas Properties of the Borrower based on a present worth value discounted at eight percent (8.00%) utilizing economic and pricing parameters used by Lender as established from time to time, together with such other information concerning the value of the consolidated Oil and Gas Properties of the Borrower as the Administrative Agent shall deem necessary to determine the value of the Oil and Gas Properties of the Borrower.

(e) Interim Reserve Report. On or as of May 1 of each year and within thirty (30) days after either (i) receipt of notice from Administrative Agent that the Lenders require an Unscheduled Redetermination, or (ii) the Borrower gives notice to Administrative Agent of its desire to have an Unscheduled Redetermination performed, the Borrower shall furnish to the Administrative Agent and each Lender (with an effective date acceptable to Administrative Agent), with an in-house engineering report in form and substance satisfactory to the Administrative Agent covering the Borrower's Oil and Gas Properties based on a present worth value discounted at eight percent (8.00%) utilizing economic and pricing parameters used by Lenders as established from time to time, together with such other information concerning the value of the Borrower's Oil and Gas Properties as the Lenders shall deem necessary to determine the value of the Borrower's Oil and Gas Properties.

(f) Certificates; Other Information. Deliver to the Administrative Agent and, in form and detail satisfactory to the Administrative Agent:

(i) concurrently with the delivery of the financial statements referred to in Sections 4.1(a) and 4.1(b), a duly completed Compliance Certificate signed by the Chief Financial Officer of the Borrower;

(ii) promptly after any request by Administrative Agent, copies of any detailed audit reports, management letters or recommendations submitted to Borrower's members or board of directors, as applicable (or the audit committee of the board of directors or members), by independent accountants in connection with the accounts or books of Borrower , or any audit of any of them; and

(iii) promptly, such additional information regarding the business, financial or corporate affairs of Borrower as Administrative Agent, may from time to time request.

As to any information contained in materials furnished pursuant to Section 4.1(c), the Borrower shall not be separately required to furnish such information under clause (a) or (b) above, but the foregoing shall not be in derogation of the obligation of the Borrower to furnish the information and materials described in subsections (a) and (b) above at the times specified therein.

4.2 **Notices**. Promptly notify the Administrative Agent:

(a) of the occurrence of any Default or Event of Default;

(b) of any matter that has resulted or may result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of Borrower; (ii) any dispute, litigation, investigation, proceeding or suspension between Borrower and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting Borrower, including pursuant to any applicable Environmental Laws;

(c) of any litigation, investigation or proceeding affecting Borrower in which the amount involved exceeds the Threshold Amount or which could result in a monetary penalty

in excess of the Threshold Amount, or in which injunctive relief or similar relief is sought, which relief, if granted, could reasonably be expected to have a Material Adverse Effect;

(d) of the occurrence of any ERISA Event; and

(e) of any material change in accounting policies or financial reporting practices by Borrower.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower has taken and proposes to take with respect thereto. Each notice pursuant to Section 4.2(a) shall describe with particularity any and all provisions of this Agreement or other Loan Document that have been breached.

4.3 **Payment of Obligations**. Pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being Contested in Good Faith; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property; and (c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

4.4 **Contractual Obligations.** Comply with and/or perform all Contractual Obligations, whether now or hereafter existing, between Borrower and any other party.

4.5 **Preservation of Existence, Etc**. Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization; take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except in a transaction permitted by Sections 5.4 or 5.5; and preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

4.6 **Maintenance of Properties**. (a) Maintain, preserve and protect all property and equipment useful and necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; and (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) use the standard of care typical in the industry in the operation and maintenance of its facilities.

4.7 **Maintenance of Insurance**. Borrower now maintains and will continue to maintain insurance with financially sound and reputable insurers with respect to its assets against such liabilities, fires, casualties, risks and contingencies and in such types and amounts as is customary in the case of persons engaged in the same or similar businesses and similarly situated. Upon request of the Administrative Agent, the Borrower will furnish or cause to be furnished to the Administrative Agent from time to time a summary of the respective insurance coverage of Borrower in form and substance satisfactory to the Administrative Agent, and, if requested, will furnish the Administrative Agent copies of the applicable policies. Upon demand

by Administrative Agent any insurance policies covering any properties securing the Obligations shall be endorsed (i) to provide that such policies may not be canceled, reduced or affected in any manner for any reason without fifteen (15) days prior notice to Administrative Agent, (ii) to provide for insurance against fire, casualty and other hazards normally insured against, in the amount of the full value (less a reasonable deductible not to exceed amounts customary in the industry for similarly situated business and properties) of the property insured, and (iii) to provide for such other matters as the Administrative Agent may reasonably require. Additionally, the Borrower shall at all times maintain adequate insurance with respect to all of its other assets and wells in accordance with prudent business practices.

4.8 **Taxes and Other Liens**. Pay and discharge promptly all taxes, assessments and governmental charges or levies imposed upon any Borrower, or upon the Collateral, income or any assets or other property of Borrower, as well as all claims of any kind (including claims for labor, materials, supplies and rent) which, if unpaid, might become a Lien or other encumbrance upon any or all of the assets or property of Borrower and which could reasonably be expected to result in a Material Adverse Effect; provided, however, that Borrower shall not be required to pay any such tax, assessment, charge, levy or claim if the amount, applicability or validity thereof shall currently be Contested in Good Faith, levy and execution thereon have been stayed and continue to be stayed and if Borrower shall have set up adequate reserves therefor, if required, under GAAP.

4.9 **Compliance with Laws**. Comply in all material respects with the requirements of all Laws applicable to Borrower or to Borrower's business or property, except in such instances in which (i) such requirement of Law is being Contested in Good Faith or a bona fide dispute exists with respect thereto; or (ii) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

4.10 **Environmental Compliance and Reports.** To the extent it operates any oil and gas properties, comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; and furnish to Administrative Agent promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

4.11 **Environmental Studies**. To the extent it operates any oil and gas properties, promptly conduct and complete at Borrower's expense all such environmental investigations and testings as may be reasonably requested by Administrative Agent or any Governmental Authority following any material change in any environmental conditions affecting any portion of the Oil and Gas Property or following an action(s) threatened by a Governmental Authority

based upon an environmental condition. To the extent it does not operate any Oil and Gas Properties, Borrower covenants and agrees to use reasonable efforts to cause the operator of any such Oil and Gas Properties to conduct the investigations described above following any such material change in any environmental conditions affecting any portion of the Oil and Gas Properties.

4.12 **Books and Records**. Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of Borrower or any such Subsidiary, as the case may be.

4.13 **Management and Operation of Business.**

(a) Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender prior to any change in executive and management personnel; and conduct its business affairs in a reasonable and prudent manner.

(b) To the extent it operates any oil and gas properties, obtain and maintain all permits, licenses, easements and rights-of-way from governmental authorities and abutting landowners which are considered necessary for the proper operation of their respective businesses.

4.14 **Inspection Rights**. Permit representatives and independent contractors of the Administrative Agent to visit and inspect any of its properties, to examine its company, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower; provided, however, that when an Event of Default exists the Administrative Agent (or any of its representatives or independent contractors) may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice. Provided further, nothing herein, shall be deemed to permit Administrative Agent to inspect or review if such actions will interfere with the day-to-day operations. In addition, the Borrower shall allow the Administrative Agent to perform an annual field audit at Borrower's cost.

4.15 **Compliance with ERISA**. Do, and cause each of its ERISA Affiliates to do, each of the following: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state law; (b) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (c) make all required contributions to any Plan subject to Section 412 of the Code.

4.16 **Performance of Obligations**. Pay the Note and other obligations incurred by it hereunder according to the reading, tenor and effect thereof and hereof; and Borrower will do and perform every act and discharge all of the obligations provided to be performed and discharged by Borrower under the Loan Documents, including this Agreement, at the time or times and in the manner specified.

4.17 **Use of Proceeds**. Use the proceeds of the Loan to provide funds for oil and gas exploration, production, acquisitions, and general working capital.

4.18 **Operation of Properties**. Except as provided in Section 4.19 and 4.20 below and only to the extent Borrower is an "operator" of any Oil and Gas Properties, Borrower will operate, or use reasonable efforts to cause to be operated, all Oil and Gas Properties in a careful and efficient manner in accordance with the practice of the industry and in compliance in all material respects with all applicable laws, rules, and regulations, and in compliance in all material respects with all applicable proration and conservation laws of the jurisdiction in which the properties are situated, and all applicable laws, rules, and regulations, of every other agency and authority from time to time constituted to regulate the development and operation of the properties and the production and sale of hydrocarbons and other minerals therefrom; provided, however, that Borrower shall have the right to contest in good faith by appropriate proceedings, the applicability or lawfulness of any such law, rule or regulation and pending such contest may defer compliance therewith, as long as such deferment shall not subject the properties or any part thereof to foreclosure or loss.

4.19 **Compliance with Leases and Other Instruments**. The Borrower will pay or cause to be paid and discharged or establish adequate reserves to secure the payment of all rentals, delay rentals, royalties, production payment, and indebtedness required to be paid by Borrower (or required to keep unimpaired in all material respects the rights of Borrower in the Oil and Gas Properties), accruing under, and perform or cause to be performed in all material respects each and every act, matter, or thing required of Borrower by each and all of the assignments, deeds, leases, subleases, contracts, and agreements in any way relating to Borrower or any of the Oil and Gas Properties and do all other things necessary of Borrower to keep unimpaired in all material respects the rights of Borrower thereunder and to prevent the forfeiture thereof or default thereunder; provided, however, that nothing in this Agreement shall be deemed to require Borrower to perpetuate or renew any oil and gas lease or other lease by payment of rental or delay rental or by commencement or continuation of operations nor to prevent Borrower from abandoning or releasing any oil and gas lease or other lease or well thereon when, in any of such events, in the opinion of Borrower exercised in good faith, it is not in the best interest of the Borrower to perpetuate the same.

4.20 **Certain Additional Assurances Regarding Maintenance and Operations of Properties**. With respect to those Oil and Gas Properties which are being operated by operators other than Borrower, Borrower shall not be obligated to perform any undertakings contemplated by the covenants and agreement contained in Sections 4.18 or 4.19 hereof which are performable only by such operators and are beyond the control of Borrower; however, the Borrower agrees to promptly take all reasonable actions available under any operating agreements or otherwise to bring about the performance of any such material undertakings required to be performed thereunder.

4.21 **Sale of Certain Assets/Prepayment of Proceeds**. Except with respect to sales permitted under Section 5.2 hereof, the Borrower will immediately pay over to the Administrative Agent, for the ratable benefit of the Lenders, as a prepayment of principal on the Notes, an amount equal to 100% of the Release Price (hereafter defined) received by Borrower from the sale of any Oil and Gas Properties, which sale has been approved in advance by the

Lenders. The term "Release Price" as used herein shall mean a price determined by the Lenders in their discretion based upon the loan collateral value which Lenders in their discretion (using such methodology, assumptions and discounts rates as Lenders customarily use in assigning collateral value to oil and gas properties, oil and gas gathering systems, gas processing and plant operations) assigns to such Oil and Gas Properties at the time in question. Any such prepayment of principal on the Notes required by this Section 4.21, shall not be in lieu of, but shall be in addition to, any mandatory prepayment of principal required to be paid pursuant to Section 2.7 hereof.

4.22 **Title Matters**. Upon reasonable request of Administrative Agent, the Borrower will furnish Administrative Agent with title opinions and/or title information, to the extent the same are in the possession of Borrower, reasonably satisfactory to Administrative Agent showing defensible title of Borrower to such Oil and Gas Properties reasonably required by Administrative Agent and subject only to the Permitted Liens. As to any Oil and Gas Properties hereafter mortgaged to Lenders, Borrower will promptly (but in no event more than thirty (30) days following such request), upon request furnish Administrative Agent with title opinions and/or title information, to the extent the same are in the possession of Borrower, reasonably satisfactory to Administrative Agent covering a sufficient value of such Oil and Gas Properties to maintain a level of title coverage deemed necessary by Lenders of the Engineered Value of the total Oil and Gas Properties. Said title information shall show defensible title of the applicable Borrower to such Oil and Gas Properties subject only to Permitted Liens. As used in this Agreement, "defensible title" shall mean such title as is customarily accepted in the oil and gas industry by purchasers of, or lenders secured by, properties similar to the Oil and Gas Properties as having defects in title not reasonably likely to result in a Material Adverse Effect upon the Engineered Value of the Oil and Gas Properties

4.23 **Curative Matters**. Within sixty (60) days after receipt by Borrower from Administrative Agent or its counsel of written notice of objections to defensible title the Administrative Agent reasonably requires to be cured, Borrower shall either (i) provide such curative information, in form and substance satisfactory to Administrative Agent, or (ii) substitute Oil and Gas Properties of value and quality satisfactory to the Administrative Agent for all of Oil and Gas Properties for which such title curative was requested but upon which Borrower elected not to provide such title curative information, and, within sixty (60) days of such substitution, provide title opinions or title information satisfactory to the Administrative Agent establishing defensible title to the Oil and Gas Properties so substituted.

4.24 **Property Acquisitions**. Following a reasonable request from Administrative Agent, Borrower shall promptly upon a material acquisition of any Oil and Gas Properties grant Lenders a mortgage lien and/or security interest in any such Oil and Gas Properties.

4.25 **Additional Property**. From and following the occurrence of an event constituting a Material Adverse Effect, Borrower shall, within five (5) days after receiving a written request thereof from Administrative Agent, execute and deliver, or cause to be executed and delivered, such mortgages, deeds of trust, instruments, security agreements, assignments, financing statements, and other documents, as may be reasonably necessary in the opinion of Administrative Agent and Administrative Agent's counsel, to grant Lenders valid first mortgage liens and first, prior and perfected security interests in and to additional Oil and Gas Properties of

such value as Administrative Agent shall deem necessary to provide additional security for full and prompt payment of all amounts owed hereunder and under the Notes. At Administrative Agent's option and on request therefore, Borrower will furnish Administrative Agent title opinions covering such additional Oil and Gas Properties prepared by counsel not employed by Borrower (or such other evidence as to Borrower's ownership thereof and its revenue interest therein or attributable thereto as Administrative Agent may reasonably require), in form and substance satisfactory to Administrative Agent, subject only to title defects approved by Lender.

4.26 **Letters In Lieu of Transfer Orders**. Borrower shall promptly upon the reasonable request of the Administrative Agent, at any time and from time to time, execute such letters in lieu of transfer orders, in addition to the letters signed by Borrower and delivered to the Administrative Agent in satisfaction of the conditions set forth in Section 7.1 hereof, as are necessary or appropriate to transfer and deliver to the Administrative Agent proceeds from or attributable to any Oil and Gas Property or other Collateral. The Lenders agree that none of the letters in lieu of transfer orders provided by the Borrower pursuant to this Section 4.26 will be sent to the addressee prior to the occurrence of an Event of Default, at which time the Lenders may, at their option and in addition to the exercise of any of its other rights and remedies, send any and all of such letters to such addressees; provided, however, that upon the occurrence of an Event of Default other than those specified in Sections 8.1(g) and (h), neither the Lenders nor the Administrative Agent on behalf of the Lenders shall send any or all of such letters until the applicable period to cure, if any, such Default has lapsed without such Default being cured. Borrower hereby designates the Administrative Agent as its agent and attorney in fact, to act in its name, place and stead for the purpose of completing and delivering any and all letters in lieu of transfer orders delivered by Borrower to the Lenders pursuant to the terms hereof, including, without limitation, completing any blanks contained in such letters and attaching exhibits thereto describing the relevant Collateral. Borrower hereby ratifies and confirms all that the Lender shall lawfully do or cause to be done by virtue of this power of attorney and the rights granted with respect to such power of attorney. This power of attorney is coupled with the interests of the Lenders in the Collateral, shall commence and be in full force and effect as of the Closing Date and shall remain in full force and effect and shall be irrevocable until the obligations, if any, of the Lenders hereunder have terminated and the full satisfaction of all obligations due hereunder or under the Notes. The powers conferred on Lenders and/or the Administrative Agent by this appointment may only be exercised by the Lenders and/or the Administrative Agent by execution by any Person who, at the time of exercise, is an officer of such Lender or Administrative Agent, and are solely to protect the interests of the Lenders under the Loan Documents and shall not impose any duty upon the Lenders to exercise any such powers. The Lenders shall be accountable only for amounts that it actually receives or has expressly directed that others receive as a result of the exercise of such powers and shall not be responsible to Borrower, or any other Person for any act or failure to act with respect to such powers, except for gross negligence or willful misconduct.

4.27 **Division Orders**. The Borrower shall upon reasonable request and from time to time following the occurrence of any Event of Default provide division orders on its Oil and Gas Properties mortgaged hereunder and execute such division and/or transfer orders as are necessary or appropriate to transfer and deliver to the Lender proceeds from the sale of Hydrocarbon production from or attributable to any Oil and Gas Property; provided, however, that the Lenders

shall only send or deliver such division orders and/or transfer orders in accordance with Section 4.26 hereof.

4.28 **Take or Pay Agreement**. The Borrower shall, in connection with its delivery of the engineering reports required by Sections 4.1(d) and 4.1(e) hereof, deliver to Administrative Agent copies of contracts or other agreements concerning "take or pay" and "prepayment", and provide notice of all of its gas balance liabilities.

4.29 **Deposit Accounts**. Borrower shall maintain its primary deposit and operating accounts with Administrative Agent.

4.30 **Swap Covenants**. Borrower hereby represents and warrants to Lenders and covenants that:

(a) the rate, asset, liability or other notional item underlying any Specified Swap Agreement regarding an interest or monetary rate, or foreign exchange swap, entered into or executed in connection with this Agreement is, or is directly related to, a financial term hereof;

(b) the aggregate notional amount of all Swap Agreements entered into or executed by Borrower in connection with the financial terms of this Agreement, whether entered into or executed with Borrower or any other individual or entity, will not at any time exceed the aggregate principal amount outstanding hereunder, as such amounts may be determined or calculated contemporaneously from time to time during and throughout the term of this Agreement;

(c) each Swap Agreement entered into or executed in connection with the financial terms of this Agreement has been or will be entered into no earlier than ninety (90) days before and no later than one hundred eighty (180) days after the Closing Date or of any transfer of principal hereunder;

(d) the purpose of any Swap Agreements in respect of any commodity entered into or executed in connection with this Agreement is to hedge commodity price risks incidental to the Borrower's business and arising from potential changes in the price of such commodity;

(e) each Swap Agreement entered into or executed in connection with this Agreement mitigates against the risk of repayment hereof and is not for the purpose of speculation.

1.2 For purposes of this Section 4.30, the term (i) "financial term" shall include, without limitation, the duration or term of this Agreement, rate of interest, the currency or currencies in which the Loans are made and its principal amount, and (ii) "transfer of principal" means any draw of principal under this Agreement, any amendment, restructuring, extension or other modification of this Agreement.

1.3 4.31 **Additional Assurances**. The Borrower shall make, execute and deliver to Administrative Agent such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as

Administrative Agent or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Liens, to the extent consistent with the provisions of this agreement and obligations of Borrower hereunder.

SECTION 2

NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder or any Loans or other Obligation shall remain unpaid or unsatisfied, Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly, without the prior written consent of the requisite percentage of Lenders:

5.1 **Liens**. Create, incur, assume or suffer to exist, any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following: (a) Liens pursuant to any Loan Document and (b) Permitted Liens.

5.2 **Sale of Assets**. Sell, lease, transfer or otherwise dispose of, in any fiscal year, any of its oil and gas assets except for (A) sales of production from Borrower's Oil and Gas Properties made in the ordinary course of Borrower's oil and gas businesses, (B) sales made with the consent of Administrative Agent hereof; and (C) sales, leases or transfers or other dispositions of Oil and Gas Properties made by Borrower during any fiscal year, in one or any series of transactions, the aggregate value of which does not exceed $7,000,000.00 between consecutive Determination Dates if, and only if, such sale, lease, transfer or other disposition does not result in the occurrence of a Default or Event of Default.

5.3 **Indebtedness**. Create, incur, assume or suffer to exist any Indebtedness in excess of the Threshold Amount, in the aggregate, except:

(a) Indebtedness under the Loan Documents;

(b) Indebtedness outstanding on the date hereof and listed in the financial statements of Borrower provided to the Lenders in connection with the transaction contemplated by this Agreement, and any refinancings, refundings, renewals or extensions thereof; provided that the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing and by an amount equal to any existing commitments unutilized thereunder;

(c) Guaranty Obligations of Borrower in respect of Indebtedness otherwise permitted hereunder of the Borrower ;

(d) Obligations (contingent or otherwise) of Borrower existing or arising under any Swap Agreement, provided that (i) such Obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments, investments, assets, or property held or reasonably anticipated by such Person, or changes in the value of securities issued by such Person and not for purposes of speculation or taking a "market view;" (ii) Swap Obligations with BOKF, NA dba Bank of

Oklahoma; and (iii) such Swap Agreement does not contain any provision exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party;

(e) Indebtedness in respect of capital leases, Synthetic Lease Obligations and purchase money obligations for fixed or capital assets; provided, however, that the aggregate amount of all such Indebtedness at any one time outstanding shall not exceed the Threshold Amount;

(f) unsecured Indebtedness in an aggregate principal amount not to exceed the Threshold Amount at any time outstanding.

5.4 **Investments**. Make any Investments, except:

(a) Investments other than those permitted by subsections (b) through (f) that are existing on the date hereof and listed in the financial statements of the Borrower provided to the Lenders in connection with the transaction contemplated by this Agreement;

(b) Investments held by the Borrower in the form of cash equivalents or short term marketable securities;

(c) Investments occurring in the normal course of Borrower's business; provided, however, Borrower shall not create any new Subsidiary without the prior written consent of Agent;

(d) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business;

(e) Guaranty Obligations permitted by Section 5.3; and

(f) other Investments not exceeding the Threshold Amount in the aggregate in any fiscal year of the Borrower;

5.5 **Sale or Discount of Receivables**. Discount or sell with recourse, or sell for less than the greater of the face or market value thereof, any of its notes receivable or accounts receivable.

5.6 **Fundamental Changes**. Merge, consolidate with or into any Person; convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired); form or acquire a Subsidiary or acquire an ownership interest in another Person other than in the ordinary course of Borrower's business; or change the controlling ownership of Borrower except that, so long as no Default or Event of Default exists or would result therefrom:

(a) any Subsidiary may merge with (i) Borrower, provided that the Borrower shall be the continuing or surviving Person, or (ii) any one or more Subsidiaries, provided that

when any wholly-owned Subsidiary is merging with another Subsidiary, the wholly-owned Subsidiary shall be the continuing or surviving Person; and

(b) any Subsidiary may sell all or substantially all of its assets (upon voluntary liquidation or otherwise), to Borrower or to another Subsidiary; provided that if the seller in such a transaction is a wholly-owned Subsidiary, then the purchaser must-also be-a wholly-owned Subsidiary.

5.7 **Dispositions**. Make any Disposition or enter into any agreement to make any Disposition, except:

(a) Dispositions of obsolete or worn out Collateral, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of inventory in the ordinary course of business;

(c) Dispositions of equipment or personal property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property, (ii) the proceeds of such Disposition are promptly applied to the purchase price of such replacement property or (iii) the members or senior management of the Borrower or such Subsidiary has determined in good faith that the failure to replace such property will not be detrimental to the business of Borrower or such Subsidiary, and the proceeds of such Disposition are applied to as a prepayment in accordance with the terms of Section 2.7 herein, as determined by the Administrative Agent;

(d) Dispositions of property by any Subsidiary to Borrower or to a wholly-owned Subsidiary;

(e) Dispositions permitted by this Section 5.7; provided, however, that any Disposition pursuant to clauses (a) through (d) shall be for fair market value; and

(f) Dispositions of the Collateral to the extent: (i) proceeds of the Disposition are used to make a prepayment in accordance with the terms of Section 2.7 herein or pay off the Notes and (ii) the sale and resulting application of proceeds from the sale does not cause a violation of the covenants set forth in Section 6 below.

5.8 **Lease Obligations**. Enter into or agree to enter into, any rental or lease agreement resulting or which would result in aggregate rental or lease payments of the Borrower exceeding $1,000,000.00 in the aggregate in any fiscal year of the Borrower under all rental or lease agreements under which Borrower is a lessee of the property or assets covered thereby; provided, however, that the foregoing restriction shall not apply to oil, gas and mineral leases or permits or similar agreements entered into in the ordinary course of business or orders of any governmental authority adjudicating the rights or pooling the interests of the owners of oil and gas properties or lease agreements in effect as of the date hereof.

5.9 **Accounts Payable**. Allow its accounts payable to become in excess of 120 days past due, from the date of invoice, except such accounts payable as are being Contested in Good Faith.

5.10 **Environmental Laws.** Cause any violation of applicable environmental laws, nor, to the extent it operates any Oil and Gas Properties, permit any environmental lien to be placed on any of its Oil and Gas Properties, while Borrower leases or controls such Oil and Gas Property. The Borrower and its successors and permitted assigns, agree to defend, indemnify and hold harmless Administrative Agent, Lenders and their directors, officers, employees, agents, contractors, subcontractors, licensees, invitees, successors and assigns, from and against any and all claims, demands, judgments, settlements, damages, actions, causes of actions, injuries, administrative orders, consent agreements and orders, liabilities, penalties, costs, including, but not limited to, any cleanup costs, and all expenses of any kind whatsoever, including claims arising out of loss of life, injury to persons, property, or business or damage to natural resources in connection with the activities of Borrower arising out of the actual, alleged or threatened use, discharge, dispersal, release, storage, treatment, generation, disposal or escape of pollutants or other toxic or hazardous substances, including any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste (including materials to be recycled, reconditioned or reclaimed); or the use, specifications, or inclusion of any product, material or process containing chemicals, the failure to detect the existence or proportion of chemicals in the soil, air, surface water or groundwater, or the performance or failure to perform the abatement of any pollution source or the replacement or removal of any soil, water, surface water, or groundwater-containing chemicals. The Borrower and its successors and permitted assigns, shall bear, pay and discharge when and as the same becomes due and payable, any and all such judgments or claims for damages, penalties or otherwise against Administrative Agent and/or Lenders as described herein, shall hold Administrative Agent and/or Lenders harmless for those judgments or claims, and shall assume the burden and expense of defending all suits, administrative proceedings, and negotiations of any description with any and all persons, political subdivisions or government agencies arising out of any of the occurrences set forth herein. It is agreed that if, and as often as, the Administrative Agent and/or any Lender is required to become involved in any action or proceeding commenced by any governmental authority with respect to storage, disposal or cleanup of any toxic or hazardous materials in connection with any of its Oil and Gas Properties, the Borrower shall pay to Administrative Agent and/or such Lender its reasonable attorney's fees together with all court costs or other disbursements relating to such Oil and Gas Property, which sums shall be secured by the Loan Documents. The obligation defined in this paragraph applies to Borrower's tenure of ownership related to the Oil and Gas Properties.

Borrower shall indemnify and hold Administrative Agent and/or Lenders harmless from and against any and all claims, losses, damages, liabilities, fines, penalties, charges, administrative and judicial proceedings and orders, judgments, remedial actions, requirements and enforcement actions of any kind, and all costs and expenses incurred in connection therewith (including, without limitation, reasonable attorneys' fees and expenses; provided, however, Borrower may provide legal counsel for Administrative Agent and/or Lenders by counsel experienced in such matters subject to Administrative Agent's good faith approval), arising directly or indirectly, in whole or in part, from (a) the presence of any Hazardous Materials on, under or from the Oil and Gas Properties owned or leased by Borrower, whether prior to or during the term hereof, (b) any activity carried on or undertaken on or off any property of Borrower, whether prior to or during the term hereof, and whether by Borrower, or any predecessor in title, employee, agent, contractor or subcontractor of Borrower, or any other Person at any time occupying or present on such property, in connection with the handling,

treatment, removal, storage, decontamination, cleanup, transportation or disposal of any Hazardous Materials at any time located or present on or under such property, (c) any residual contamination on or under any property of Borrower or leased by or to Borrower, or (d) any contamination of any Oil and Gas Property or Hydrocarbons of Borrower arising in connection with the generation, use, handling, storage, transportation or disposal of any Hazardous Materials by Borrower, or any employee, agent, contractor or subcontractor of Borrower while such Persons are acting within the scope of their relationship with Borrower, irrespective of whether any of such activities were or will be undertaken in accordance with applicable requirements of law; with the foregoing indemnity surviving satisfaction of all obligations and the termination of this Agreement, unless all such Obligations have been satisfied wholly in cash from the Borrower and not by way of realization against any Collateral or the conveyance of the Oil and Gas Property in lieu thereof, provided that such indemnity shall not extend to any of the foregoing resulting from a Lender's or Administrative Agent's gross negligence or willful conduct or any act or omission by a Lender or Administrative Agent with respect to the Oil and Gas Property or with respect to which Collateral such claim, loss, damage, liability, fine, penalty, charge, proceeding, order, judgment, action or requirement arises subsequent to the acquisition of title thereto by a Lender or Administrative Agent, their successors, assigns or affiliates or any third party.

5.11 **Restricted Payments**. Declare, pay or make, whether in cash or property, or set aside or apply any money or assets to pay or make any Restricted Payments in excess of twenty percent (20%) of Borrower's Operating Cash Flow during any fiscal year.

5.12 **ERISA**. At any time engage in a transaction which could be subject to Section 4069 or 4212(c) of ERISA, or permit any Plan to (a) engage in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code); (b) fail to comply with ERISA or any other applicable Laws; or (c) incur any material "accumulated funding deficiency" (as defined in Section 302 of ERISA), which, with respect to each event listed above, could reasonably be expected to have a Material Adverse Effect.

5.13 **Change in Nature of Business**. Discontinue its business; liquidate, wind-up or dissolve (or allow such action); or engage in any material line of business substantially different from those lines of business conducted by the Borrower and the Subsidiaries on the date hereof.

5.14 **Loans and Advances**. Make or permit to remain outstanding any loans or advances made by Borrower to or in any Person or entity, except that the foregoing restriction shall not apply to:

(i) loans or advances to any Person, the material details of which have been set forth in the financial statements of the Borrower heretofore furnished to Administrative Agent; or

(ii) advances made in the ordinary course of Borrower's oil and gas business

5.15 **Transactions with Affiliates**. Enter into any transaction of any kind with any Affiliate of Borrower, other than arm's-length transactions with Affiliates that are otherwise permitted hereunder and other than Borrower's "Director Deferred Compensation Plan". In

addition, Borrower shall not transfer funds, interpreted in the broadest context possible, to Affiliates or Subsidiaries other than for taxes or regular "G&A" expenses.

5.16 **Burdensome Agreements**. Enter into any Contractual Obligation that limits the ability (a) of any Subsidiary to make Restricted Payments to any Borrower or to otherwise transfer property to any Borrower or (b) of any Borrower to create, incur, assume or suffer to exist Liens on property of such Person.

5.17 **Use of Proceeds**. Use the proceeds of the Loan, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

5.18 **Hedging Transactions**. Borrower shall not, nor shall it permit any of its Subsidiaries to:

(a) purchase, assume, or hold a speculative position in any commodities market or futures market or enter into any Swap Agreement for speculative purposes;

(b) be party to or otherwise enter into any Swap Agreement which is entered into for reasons other than as a part of its normal business operations as a risk management strategy and/or hedge against changes resulting from market conditions related to Borrower's operations; or

(c) be party to or otherwise enter into any Swap Agreement providing (i) for the hedging, forward sale, swap or any derivative thereof of crude oil or natural gas or other commodities, or (ii) for a swap, collar, floor, cap, option, corridor, or other contract which is intended to reduce or eliminate the risk of fluctuation in interest rates, as such terms are referred to in the capital markets, except the foregoing prohibitions shall not apply to (x) transactions consented to in writing by the Administrative Agent which are on terms acceptable to the Administrative Agent, or (y) Pre Approved Contracts. The term "Pre Approved Contracts" as used herein shall mean any contract or agreement (i) to hedge, forward sell or swap crude oil or natural gas or otherwise sell up to (A) 100% of the Borrower's monthly production forecast for Borrower's proved, developed and producing oil properties for the period covered by the proposed hedging transaction, and (B) up to 80% of the Borrower's monthly production forecast for Borrower's proved, developed and producing gas properties for the period covered by the proposed hedging transaction, (ii) with a term of twenty-four (24) months or twelve (12) months past the Maturity Date, whichever is less, (iii) with "strike prices" per barrel or MCF as applicable greater than the Administrative Agent's forecasted price in the most recent engineering evaluation, and (iv) with counter-parties approved by Administrative Agent. To the extent Borrower does not provide a production forecast or Borrower's production forecast does not cover the period to be covered by the proposed hedge, any remaining period of time shall be based upon 100% of the the Administrative Agent's internal monthly production forecast for Borrower's proved, developed and producing oil and/or gas properties for the period of time not covered by the Borrower's forecast period.

5.19 **Amendment to Certificate of Incorporation or Bylaws**. Permit any amendment to, or any alteration of, its Certificate of Incorporation or its bylaws, which amendment or alteration could reasonably be expected to have a Material Adverse Effect.

5.20 **Stock or Interest Repurchase**. Except for stock repurchases up to $5,000,000.00 during any one fiscal year in the aggregate, Borrower shall not repurchase nor set aside any funds to repurchase any Class A Common Stock.

SECTION 3

FINANCIAL COVENANTS

So long as any Lender shall have any Commitment hereunder or any Loan or other Obligation shall remain unpaid or unsatisfied, the Borrower shall not directly or indirectly:

6.1 **Debt to EBITDA Ratio**. Permit the ratio of (i) Borrower's consolidated Funded Indebtedness to (ii) Borrower's consolidated EBITDA to be greater than 2.50:1.00. This ratio shall be tested as of the end of each calendar quarter during the term hereof. For the purposes hereof, this ratio shall be calculated on the basis of the financial information for that portion of the year then-end, annualized.

6.2 **Current Ratio**. Permit the ratio of (i) Borrower's consolidated Current Assets to (ii) Borrower's consolidated Current Liabilities (excluding the Loan Balance) to be less than 1.00:1.00. This ratio shall be tested as of the end of each calendar quarter during the term hereof.

SECTION 4

CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

7.1 **Conditions of Execution**. The obligation of Lenders to execute this Agreement and to perform its obligations hereunder are subject to satisfaction of the following conditions precedent:

(a) The Administrative Agent's receipt of the following, each of which shall be originals or facsimiles (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the Borrower, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Administrative Agent:

(i) executed counterparts of this Agreement and the other Loan Documents;

(ii) the Notes executed by the Borrower in favor of each Lender;

(iii) Collateral Documents from the Borrower granting Lenders a lien on such Oil and Gas Properties as required by Administrative Agent in its discretion;

(iv) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of Borrower as the Administrative Agent may require to establish the identities of and verify the authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which Borrower is a party;

(v) such evidence as the Administrative Agent may reasonably require to verify that Borrower is validly existing, in good standing and qualified to engage in business in each jurisdiction in which it is required to be qualified to engage in business;

(vi) with respect to all personal property constituting Collateral, UCC-4 or similar searches for Borrower the results of which shall be acceptable to the Administrative Agent, together with any other evidence as may be required by the Administrative Agent that the Lien covering such property shall be a first and prior Lien;

(vii) if requested by Administrative Agent in it sole discretion, undated letters in lieu of transfer orders, in form and substance satisfactory to Administrative Agent, from the Borrower to each purchaser of hydrocarbons and disburser proceeds of hydrocarbons from and attributable to the Oil and Gas Properties, together with additional letters with addresses left blank authorizing and directing the addressees to make future payments attributable to hydrocarbons from the Oil and Gas Properties directly to the Administrative Agent, for the ratable benefit of the Lenders;

(viii) such other assurances, certificates, documents, consents or opinions as the Administrative Agent reasonably may require;

(b) The representations and warranties of Borrower under this Agreement are true and correct in all material respects as of such date, as if then made (except to the extent that such representations and warranties related solely to an earlier date);

(c) There shall be in existence no injunction or restraining order which, in the reasonable judgment of Administrative Agent or its counsel, which prohibit the making of the Loan, nor shall there be pending or threatened litigation which would be reasonably expected to result in a Material Adverse Effect on Borrower or its Subsidiaries

(d) Administrative Agent shall have completed its due diligence, and shall be satisfied with the results, of its investigation of Borrower;

(e) Borrower shall be in compliance with all applicable requirements of Regulations U, T, and X of the Board of Governors of the Federal Reserve System;

(f) The upfront fee in the amount of $35,000 plus any other fees required to be paid on or before the Closing Date shall have been paid.

(g) Unless waived by the Administrative Agent, the Borrower shall have paid all Attorney Costs of the Administrative Agent with respect to the Loan Documents.

7.2 **Conditions Precedent to All Advances**. The obligation of each Lender to make each Advance (including the initial Advance) and to issue any Letter of Credit shall be subject to the further conditions precedent that on the date of such Advance or issuance of any Letter of Credit:

(a) Request for Advance. Borrower shall have delivered to Administrative Agent a Request for Advance or a Notice of LC Credit Event at a reasonable time prior to the requested date for the Advance or Letter of Credit, with each Request for Advance or Notice of LC Credit Event containing a certification that the following statements, among others, shall be true:

(i) The representations and warranties contained in Section 3 of this Agreement and in the Collateral Documents are correct on and as of the date of such Loan or Letter of Credit as though made on and as of such date;

(ii) No Default or Event of Default has occurred and is continuing, or would result from such Advance or Letter of Credit;

(iii) The making of such Advance or the issuance of such Letter of Credit shall not be prohibited by any Law and shall not subject Lender to any penalty or other onerous condition under or pursuant to any such Law.

(b) Other Information. The Administrative Agent shall have received such other approvals, opinions, or documents required of Borrower as set forth in the Loan Documents and as the Lender may reasonably request.

SECTION 5

EVENTS OF DEFAULT AND REMEDIES

8.1 **Events of Default**. Any of the following shall constitute an Event of Default:

(a) Non-Payment. The Borrower fails to pay (i) when and as required to be paid herein, any amount of principal of the Loans, or (ii) within five (5) days after the same becomes due, any interest on the Loans, or any commitment or other fee due hereunder, or (iii) within five (5) days after the same becomes due, any other amount payable hereunder or under any other Loan Document; or

(b) Specific Covenants. Borrower fails to perform or observe any term, covenant or agreement contained in any of Section 5; or

(c) Financial Covenant Defaults. The Borrower fails to maintain or achieve the financial covenants set forth in Section 6 above; or

(d) Other Defaults. Borrower fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) or (c) above) contained in any Loan Document on its part to be performed or observed and such failure continues for 30 days after written notice from Administrative Agent; or

(e) Representations and Warranties. Any representation or warranty made or deemed made by Borrower in any other Loan Document or in any document delivered in connection-herewith or therewith proves to have been incorrect when made or deemed made and such incorrect representation or warranty results in a Material Adverse Effect; or

(f) Cross-Default. (i) Borrower (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Indebtedness or Guaranty Obligation (other than the Obligations and Indebtedness under Swap Agreements) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or Guaranty Obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guaranty Obligation (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased or redeemed (automatically or otherwise) prior to its stated maturity, or such Guaranty Obligation to become payable or cash collateral in respect thereof to be demanded in an amount exceeding the Threshold Amount; or (ii) there occurs under any Swap Agreement an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Agreement as to which the Borrower is the Defaulting Party (as defined in such Swap Agreement) or (B) any Termination Event (as so defined) under such Swap Agreement as to which Borrower is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by Borrower or such Subsidiary as a result thereof is greater than the Threshold Amount; or

(g) Insolvency Proceedings. Etc. Borrower institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for one-hundred twenty (120) calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any part of its property is instituted without the consent of such Person and continues undismissed or unstayed for sixty (60) calendar days, or an order for relief is entered in any such proceeding; or

(h) Inability to Pay Debts: Attachment. (i) Borrower becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the Collateral and is not released, vacated or fully bonded within thirty (30) days after its issue or levy; or

(i) Judgments. There is entered against Borrower (i) a final judgment or order for the payment of money in an aggregate amount exceeding the Threshold Amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute

coverage), or (ii) any non-monetary final judgment that has, or could reasonably be expected to have, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of ten (10) consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(j) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) Either Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of the Threshold Amount; or

(k) Invalidity of Loan Documents. Any Loan Document, at any time after its execution and delivery and for any reason other than the agreement of the Administrative Agent or satisfaction in full of all the Obligations, ceases to be in full force and effect, or is declared by a court of competent jurisdiction to be null and void, invalid or unenforceable in any respect; or Borrower or any guarantor denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Loan Document; or

(l) Change of Control. There occurs any Change of Control; or

(m) Dissolution or Loss of Existence. The dissolution or loss of legal existence or capacity of Borrower.

(n) Material Adverse Effect. There occurs any event or circumstance that has a Material Adverse Effect.

8.2 **Remedies Upon Event of Default**. If any Event of Default occurs, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions, at the same or different times:

(a) declare the unpaid principal amount of the Loan, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by Borrower; and

(b) exercise all rights and remedies available to the Lenders under the Loan Documents or applicable Law; and

(c) suspend and/or terminate the ability of Borrower to make payments on any subordinated debt until such time as the Default is cured to the satisfaction of Lender;

provided, however, that upon the occurrence of any event specified in Section 8.1(g), the unpaid principal amount of the Loan and all interest and other amounts as aforesaid shall automatically become due and payable without-further act of the Lenders.

SECTION 6

EXPENSES AND INDEMNITY

9.1 **Attorney Costs, Expenses and Taxes**. The Borrower agrees (a) to pay or reimburse the Administrative Agent for all costs and expenses incurred in connection with the development, preparation, negotiation and execution of this Agreement and the other Loan Documents and any amendment, waiver, consent or other modification of the provisions hereof and thereof (whether or not the transactions contemplated hereby or thereby are consummated), and the consummation and administration of the transactions contemplated hereby and thereby, including all attorney costs incurred in connection therewith, and (b) to pay or reimburse the Administrative Agent for all costs and expenses incurred in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or the other Loan Documents (including all such costs and expenses incurred during any "workout" or restructuring in respect of the Obligations and during any legal proceeding, including any proceeding under any Debtor Relief Law), including all attorney costs incurred in connection therewith including reasonable and quantifiable costs of Administrative Agent's internal counsel. The foregoing costs and expenses shall include all search, filing, recording, title insurance and appraisal charges and fees and taxes related thereto, and other out-of-pocket expenses incurred by the Administrative Agent and the cost of independent public accountants and other outside experts retained by the Agent. The foregoing costs and expenses shall not include Administrative Agent's attorney costs related to disputes solely between Administrative Agent and Lender or Lenders arising out of the agency relationship between Administrative Agent and Lenders. The agreements in this Section 9.1 shall survive the termination of the Total Commitments and repayment of all other Obligations.

9.2 **Indemnification by the Borrower**. Whether or not the transactions contemplated hereby are consummated, the Borrower shall indemnify and hold harmless each of the Lenders and its Related Parties (collectively the "Indemnitees") from and against any and all liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses and disbursements (including, but not limited to, attorney costs) of any kind or nature whatsoever which may at any time be imposed on, incurred by or asserted against any such Indemnitee in any way relating to or arising –out of or in connection with (a) the execution, delivery, enforcement, performance or administration of any Loan Document or any other agreement, letter or instrument delivered in connection with the transactions contemplated thereby or the consummation of the transactions contemplated thereby, (b) any Committed Sum, Loan or the use or proposed use of the proceeds therefrom, (c) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by the Borrower , or any Environmental Liability related in any way to the Borrower or covered by the terms and conditions of any Collateral Document, or (d) any actual or threatened, in writing, claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory (including any investigation of, preparation for, or defense of any pending or threatened claim, investigation, litigation or proceeding) and regardless of whether any Indemnitee is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements are determined by a court of competent

jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct or bad faith of such Indemnitee. The agreements in this Section shall survive the termination of the Commitments and the repayment, satisfaction or discharge of all the other Obligations. All amounts due under this Section 9.2 shall be payable within ten Business Days after demand therefor.

SECTION 10

THE ADMINISTRATIVE AGENT

10.1 **Appointment and Authorization**. Each Lender hereby irrevocably appoints and authorizes Administrative Agent to enter into each of the Loan Documents to which it is a party (other than this Agreement) on its behalf and to take such actions as Administrative Agent on its behalf and to exercise such powers under the Loan Documents as are delegated to Administrative Agent by the terms thereof, together with all such powers as are reasonably incidental thereto. Subject to the terms of Section 11.1 and to the terms of the other Loan Documents, Administrative Agent is authorized and empowered to amend, modify, or waive any provisions of this Agreement or the other Loan Documents on behalf of Lenders. The provisions of this Section 10 are solely for the benefit of Administrative Agent and Lenders and neither Borrower nor any other loan party shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement, Administrative Agent shall act solely as agent of Lenders and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for Borrower or any other loan party. Administrative Agent may perform any of its duties hereunder, or under the Loan Documents, by or through its own agents or employees.

10.2 **Administrative Agent and Affiliates**. Administrative Agent shall have the same rights and powers under the Loan Documents as any other Lender and may exercise or refrain from exercising the same as though it were not Administrative Agent, and Administrative Agent and its Affiliates may lend money to, invest in and generally engage in any kind of business with Borrower or any of its Affiliates or Subsidiaries as if it were not Administrative Agent hereunder.

10.3 **Action by Administrative Agent**. The duties of Administrative Agent shall be mechanical and administrative in nature. Administrative Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender. Nothing in this Agreement or any of the Loan Documents is intended to or shall be construed to impose upon Administrative Agent any obligations in respect of this Agreement or any of the Loan Documents except as expressly set forth herein or therein.

10.4 **Consultation with Experts**. Administrative Agent may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

10.5 **Liability of Administrative Agent**. Neither Administrative Agent nor any of its directors, officers, agents or employees shall be liable to any Lender for any action taken or not

taken by it in connection with the Loan Documents, except that Administrative Agent shall be liable with respect to its specific duties set forth hereunder, but only to the extent of its own gross negligence or willful misconduct in the discharge thereof as determined by a final non-appealable judgment of a court of competent jurisdiction. Neither Administrative Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements specified in any Loan Document; (iii) the satisfaction of any condition specified in any Loan Document; (iv) the validity, effectiveness, sufficiency or genuineness of any Loan Document, any Lien purported to be created or perfected thereby or any other instrument or writing furnished in connection therewith; (v) the existence or non-existence of any Default or Event of Default; or (vi) the financial condition of Borrower, any Affiliate of Borrower of Borrower. Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, telex, facsimile or electronic transmission or similar writing) believed by it to be genuine or to be signed by the proper party or parties. Administrative Agent shall not be liable for any apportionment or distribution of payments made by it in good faith and if any such apportionment or distribution is subsequently determined to have been made in error the sole recourse of any Lender to whom payment was due but not made, shall be to recover from other Lenders any payment in excess of the amount to which they are determined to be entitled (and such other Lenders hereby agree to return to such Lender any such erroneous payments received by them).

10.6 **Indemnification**. Each Lender shall, in accordance with its Pro Rata Part, indemnify Administrative Agent (to the extent not reimbursed by Borrower) upon demand against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from Administrative Agent's gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction) that Administrative Agent may suffer or incur in connection with the Loan Documents or any action taken or omitted by Administrative Agent hereunder or thereunder. If any indemnity furnished to Administrative Agent for any purpose shall, in the opinion of Administrative Agent, be insufficient or become impaired, Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against even if so directed by Required Lenders until such additional indemnity is furnished.

10.7 **Right to Request and Act on Instructions**. Administrative Agent may at any time request instructions from Lenders with respect to any actions or approvals which by the terms of this Agreement or of any of the Loan Documents Administrative Agent is permitted or desires to take or to grant, and if such instructions are promptly requested, Administrative Agent shall be absolutely entitled to refrain from taking any action or to withhold any approval and shall not be under any liability whatsoever to any Person for refraining from any action or withholding any approval under any of the Loan Documents until it shall have received such instructions from Required Lenders or all or such other portion of the Lenders as shall be prescribed by this Agreement. Without limiting the foregoing, no Lender shall have any right of action whatsoever against Administrative Agent as a result of Administrative Agent acting or refraining from acting under this Agreement or any of the other Loan Documents in accordance with the instructions of Required Lenders (or all or such other portion of the Lenders as shall be

prescribed by this Agreement) and, notwithstanding the instructions of Required Lenders or (or such other applicable portion of the Lenders), Administrative Agent shall have no obligation to take any action if it believes, in good faith, that such action would violate applicable Law or exposes Administrative Agent to any liability for which it has not received satisfactory indemnification in accordance with the provisions of Section 9.2.

10.8 **Credit Decision**. Each Lender acknowledges that it has, independently and without reliance upon Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under the Loan Documents.

10.9 **Collateral Matters**. Lenders irrevocably authorize Administrative Agent, at its option and in its discretion, to (x) release any Lien granted to or held by Administrative Agent under any Collateral Document (i) upon termination of the Total Commitments and payment in full of all Obligations, the expiration, termination or cash collateralization (to the satisfaction of Administrative Agent) of all Letters of Credit and, to the extent required by Administrative Agent in its sole discretion, the expiration, termination or cash collateralization (to the satisfaction of Administrative Agent) of all Swap Agreements secured, in whole or in part, by any Collateral; or (ii) constituting property sold or disposed of as part of or in connection with any disposition permitted under any Loan Document (it being understood and agreed that Administrative Agent may conclusively rely without further inquiry on a certificate of a Responsible Officer as to the sale or other disposition of property being made in full compliance with the provisions of the Financing Documents) and (y) release or subordinate any Lien granted to or held by Administrative Agent under any Collateral Document. Upon request by Administrative Agent at any time, Lenders will confirm Administrative Agent's authority to release and/or subordinate particular types or items of Collateral pursuant to this Section 10.9.

10.10 **Agency for Perfection**. Administrative Agent and each Lender hereby appoint each other Lender as agent for the purpose of perfecting Administrative Agent's security interest in assets which, in accordance with the Uniform Commercial Code in any applicable jurisdiction, can be perfected by possession or control. Should any Lender (other than Administrative Agent) obtain possession or control of any such assets, such Lender shall notify Administrative Agent thereof, and, promptly upon Administrative Agent's request therefor, shall deliver such assets to Administrative Agent or in accordance with Administrative Agent's instructions or transfer control to Administrative Agent in accordance with Administrative Agent's instructions. Each Lender agrees that it will not have any right individually to enforce or seek to enforce any Collateral Document or to realize upon any Collateral for the Loans unless instructed to do so by Administrative Agent, it being understood and agreed that such rights and remedies may be exercised only by Administrative Agent.

10.11 **Notice of Default**. Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default except with respect to defaults in the payment of principal, interest and fees required to be paid to Administrative Agent for the account of Lenders, unless Administrative Agent shall have received written notice from a

Lender or Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". Administrative Agent will notify each Lender of its receipt of any such notice. Administrative Agent shall take such action with respect to such Default or Event of Default as may be requested by Required Lenders (or all or such other portion of the Lenders as shall be prescribed by this Agreement) in accordance with the terms hereof. Unless and until Administrative Agent has received any such request, Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interests of Lenders.

10.12 **Successor Agent**. Administrative Agent may at any time give notice of its resignation to the Lenders and Borrower. Upon receipt of any such notice of resignation, Required Lenders shall have the right, in consultation with Borrower, to appoint a successor Administrative Agent. Upon the acceptance of a successor's appointment as Administrative Agent hereunder and notice of such acceptance to the retiring Administrative Agent, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent, the retiring Administrative Agent's resignation shall become immediately effective and the retiring Administrative Agent shall be discharged from all of its duties and obligations hereunder and under the other Loan Documents (if such resignation was not already effective and such duties and obligations not already discharged, as provided below in this paragraph). The fees payable by Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between Borrower and such successor. If no such successor shall have been so appointed by Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may on behalf of the Lenders (but without any obligation) appoint a successor Administrative Agent. From and following the expiration of such thirty (30) day period, Administrative Agent shall have the exclusive right, upon one (1) Business Days' notice to Borrower and the Lenders, to make its resignation effective immediately. From and following the effectiveness of such notice, (i) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents and (ii) all payments, communications and determinations provided to be made by, to or through Administrative Agent shall instead be made by or to each Lender directly, until such time as Required Lenders appoint a successor Administrative Agent as provided for above in this paragraph. The provisions of this Agreement shall continue in effect for the benefit of any retiring Administrative Agent and its sub-agents after the effectiveness of its resignation hereunder and under the other Loan Documents in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting or was continuing to act as Administrative Agent.

10.13 **Disbursements of Revolving Loans; Payment and Sharing of Payment**

(a) Revolving Loan Advances, Payments and Settlements; Interest and Fee Payments. Administrative Agent shall have the right, on behalf of Lenders to disburse funds to Borrower for all Loans requested or deemed requested by Borrower pursuant to the terms of this Agreement regardless of whether the conditions precedent set forth in Section 7.2 are then satisfied, including the existence of any Default or Event of Default either before or after giving effect to the making of such Loans; *provided*, that Administrative Agent shall not advance any

Loan pursuant to this clause (i) if the Principal Debt exceeds the Revolving Commitment, either before or after giving effect to the making of any proposed Loan. Administrative Agent shall be conclusively entitled to assume, for purposes of the preceding sentence, that each Lender will fund its Pro Rata Part of all Revolving Loans requested by Borrower. Each Lender shall reimburse Administrative Agent on demand, in accordance with the provisions of the immediately following paragraph, for all funds disbursed on its behalf by Administrative Agent pursuant to the first sentence of this clause (a), or if Administrative Agent so requests, each Lender will remit to Administrative Agent its Pro Rata Part of any Revolving Loan before Administrative Agent disburses the same to Borrower. If Administrative Agent elects to require that each Lender make funds available to Administrative Agent, prior to a disbursement by Administrative Agent to Borrower, Administrative Agent shall advise each Lender by telephone, facsimile or e-mail of the amount of such Lender's Pro Rata Part of the Revolving Loan requested by Borrower no later than noon (Oklahoma time) on the date of funding of such Revolving Loan, and each such Lender shall, subject to the provisions of Article 8, pay Administrative Agent on such date such Lender's Pro Rata Part of such requested Revolving Loan, in same day funds, by wire transfer to the account established by Administrative Agent to receive such funds (the "Payment Account"), or such other account as may be identified by Administrative Agent to Lenders from time to time. If any Lender fails to pay the amount of its Pro Rata Part within one (1) Business Day after Administrative Agent's demand, Administrative Agent shall promptly notify Borrower, and Borrower shall immediately repay such amount to Administrative Agent. Any repayment required by Borrower pursuant to this Section 10.13 shall be accompanied by accrued interest thereon from and including the date such amount is made available to Borrower to but excluding the date of payment at the rate of interest then applicable to Revolving Loans. Nothing in this Section 10.13 or elsewhere in this Agreement or the other Loan Documents shall be deemed to require Administrative Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfill its commitments hereunder or to prejudice any rights that Administrative Agent or Borrower may have against any Lender as a result of any default by such Lender hereunder.

On a Business Day of each week as selected from time to time by Administrative Agent, or more frequently (including daily), if Administrative Agent so elects (each such day being a "Settlement Date"), Administrative Agent will advise each Lender by telephone, facsimile or e-mail of the amount of each such Lender's Pro Rata Part of the Principal Debt as of the close of business of the Business Day immediately preceding the Settlement Date. In the event that payments are necessary to adjust the amount of such Lender's actual Pro Rata Part of the Principal Debt to such Lender's required Pro Rata Part of the Principal Debt as of any Settlement Date, the party from which such payment is due shall pay Administrative Agent, without setoff or discount, to the Payment Account not later than noon (Oklahoma time) on the Business Day following the Settlement Date the full amount necessary to make such adjustment. Any obligation arising pursuant to the immediately preceding sentence shall be absolute and unconditional and shall not be affected by any circumstance whatsoever. In the event settlement shall not have occurred by the date and time specified in the second preceding sentence, interest shall accrue on the unsettled amount at the Federal Funds Rate, for the first three (3) days following the scheduled date of settlement, and thereafter at the interest rate applicable to Loans set forth in Section 2.3 above.

On each Settlement Date, Administrative Agent shall advise each Lender by telephone, facsimile or e-mail of the amount of such Lender's Pro Rata Part of principal, interest and fees paid for the benefit of Lenders with respect to each applicable Revolving Loan, to the extent of such Lender's credit exposure with respect thereto, and shall make payment to such Lender not later than noon (Oklahoma time) on the Business Day following the Settlement Date of such amounts in accordance with wire instructions delivered by such Lender to Administrative Agent, as the same may be modified from time to time by written notice to Administrative Agent; provided, that, in the case such Lender is a Defaulted Lender, Administrative Agent shall be entitled to set off the funding short-fall against that Defaulted Lender's respective share of all payments received from Borrower.

The provisions of this Section 10.13 shall be deemed to be binding upon Administrative Agent and Lenders notwithstanding the occurrence of any Default or Event of Default, or any insolvency or bankruptcy proceeding pertaining to Borrower or any Affiliate of Borrower.

(b) Return of Payments. If Administrative Agent pays an amount to a Lender under this Agreement in the belief or expectation that a related payment has been or will be received by Administrative Agent from Borrower and such related payment is not received by Administrative Agent, then Administrative Agent will be entitled to recover such amount from such Lender on demand without setoff, counterclaim or deduction of any kind, together with interest accruing on a daily basis at the Federal Funds Rate.

If Administrative Agent determines at any time that any amount received by Administrative Agent under this Agreement must be returned to Borrower or paid to any other Person pursuant to any insolvency law or otherwise, then, notwithstanding any other term or condition of this Agreement or any other Loan Document, Administrative Agent will not be required to distribute any portion thereof to any Lender. In addition, each Lender will repay to Administrative Agent on demand any portion of such amount that Administrative Agent has distributed to such Lender, together with interest at such rate, if any, as Administrative Agent is required to pay to Borrower or such other Person, without setoff, counterclaim or deduction of any kind.

(c) Defaulted Lenders. The failure of any Defaulted Lender to make any Revolving Loan or any payment required by it hereunder shall not relieve any other Lender of its obligations to make such Revolving Loan or payment, but neither any other Lender nor Administrative Agent shall be responsible for the failure of any Defaulted Lender to make a Revolving Loan or make any other payment required hereunder. Notwithstanding anything set forth herein to the contrary, a Defaulted Lender shall not have any voting or consent rights under or with respect to any Loan Document or constitute a "Lender" (or be included in the calculation of "Required Lenders" hereunder) for any voting or consent rights under or with respect to any Loan Document.

(d) Sharing of Payments. If any Lender shall obtain any payment or other recovery (whether voluntary, involuntary, by application of setoff or otherwise) on account of any Loan in excess of its Pro Rata Part of payments entitled pursuant to the other provisions of this Section 10.13, such Lender shall purchase from the other Lenders such participations in extensions of credit made by such other Lenders (without recourse, representation or warranty)

as shall be necessary to cause such purchasing Lender to share the excess payment or other recovery ratably with each of them; *provided, however*, that if all or any portion of the excess payment or other recovery is thereafter required to be returned or otherwise recovered from such purchasing Lender, *such portion of* such purchase shall be rescinded and each Lender which has sold a participation to the purchasing Lender shall repay to the purchasing Lender the purchase price to the ratable extent of such return or recovery, without interest. Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this clause (e) may, to the fullest extent permitted by law, exercise all its rights of payment with respect to such participation as fully as if such Lender were the direct creditor of Borrower in the amount of such participation. If under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a setoff to which this clause (e) applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders entitled under this clause (e) to share in the benefits of any recovery on such secured claim.

10.14 **Right to Perform, Preserve and Protect**. If Borrower fails to perform any obligation hereunder or under any other Loan Document, Administrative Agent itself may, but shall not be obligated to, cause such obligation to be performed at Borrower's expense. Administrative Agent is further authorized by Borrower and the Lenders to make expenditures from time to time which Administrative Agent, in its reasonable business judgment, deems necessary or desirable to (i) preserve or protect the business conducted by Borrower, the Collateral, or any portion thereof and/or (ii) enhance the likelihood of, or maximize the amount of, repayment of the Loans and other Obligations. Borrower hereby agrees to reimburse Administrative Agent on demand for any and all costs, liabilities and obligations incurred by Administrative Agent pursuant to this Section 10.14. Each Lender hereby agrees to indemnify Administrative Agent upon demand for any and all costs, liabilities and obligations incurred by Administrative Agent pursuant to this Section 10.14.

10.15 **Additional Titled Agents**. Except for rights and powers, if any, expressly reserved under this Agreement to any bookrunner, arranger or to any titled agent named on the cover page of this Agreement, other than Administrative Agent (collectively, the "Additional Titled Agents"), and except for obligations, liabilities, duties and responsibilities, if any, expressly assumed under this Agreement by any Additional Titled Agent, no Additional Titled Agent, in such capacity, has any rights, powers, liabilities, duties or responsibilities hereunder or under any of the other Loan Documents. Without limiting the foregoing, no Additional Titled Agent shall have nor be deemed to have a fiduciary relationship with any Lender. At any time that any Lender serving as an Additional Titled Agent shall have transferred to any other Person (other than any Affiliates) all of its interests in the Loans and its Committed Sums, such Lender shall be deemed to have concurrently resigned as such Additional Titled Agent.

SECTION 11

MISCELLANEOUS

11.1 **Amendments, Etc**. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower shall be effective unless in writing signed by the Required Lenders and the Borrower and acknowledged by the

Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; *provided, however,* that no such amendment, waiver or consent shall:

(a) Waive any condition set forth in Section 7.1 without the written consent of each Lender;

(b) Extend or increase the Committed Sum of any Lender (or reinstate any Committed Sum terminated pursuant to Section 8.2) without the written consent of such Lender;

(c) Increase the Borrowing Base;

(d) Postpone any date fixed by this Agreement or any other Loan Document for any payment or mandatory prepayment of principal, interest, fees or other amounts due to the Lenders (or any of them) or any mandatory reduction of the Total Commitments hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(e) Reduce the principal of, or any rate of interest specified herein on, any Loan or L/C Borrowing (including the Default Rate), or any fees or other amounts payable hereunder or under any other Loan Document; *provided, however,* in this regard, the consent of all Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Borrower to pay interest or Letter of Credit Fees at the Default Rate;

(f) Release the liability of Borrower or any guarantor;

(g) Amend or alter any financial covenants set forth at Section 6 above;

(h) Change any provision of the Agreement that would alter the Pro Rata Part of payments required thereby without the written consent of each Lender;

(i) Release all or substantially all of the Collateral;

(j) Change any provision of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder without the written consent of each Lender;

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the L/C Issuer in addition to the Lenders required above, affect the rights or duties of the L/C Issuer under this Agreement or any Issuer Document relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; and (iii) the Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulted Lender shall have any right to approve or disapprove any amendment, waiver or

consent hereunder, except that the Committed Sum of such Lender may not be increased or extended without the consent of such Lender.

11.2 **Notices and Other Communications; Facsimile Copies.**

(a) General. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) If to the Borrower, the Administrative Agent, or the L/C Issuer, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 11.2; and

(ii) If to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Effectiveness of Facsimile Documents and Signatures. Notices and other communications to the Lenders and the L/C Issuer hereunder may be delivered or furnished by electronic communication (including e mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender or the L/C Issuer pursuant to Section 2 if such Lender or the L/C Issuer, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Section by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefore.

(c) Change of Address, Etc. Each of the Borrower, the Administrative Agent, and the L/C Issuer may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrower, the Administrative Agent, and the L/C Issuer. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(d) Reliance by Lender. The Administrative Agent, the L/C Issuer and the Lenders shall be entitled to rely and act upon any notices purportedly given by or on behalf of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrower shall indemnify Administrative Agent, the L/C Issuer, each Lender and the Related Parties from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of Borrower. All telephonic notices to and other communications with the Administrative Agent may be recorded by Administrative Agent, and each of the parties hereto hereby consents to such recording.

11.3 **No Waiver; Cumulative Remedies**. No failure by any Lender, the L/C Issuer or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein or therein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law.

11.4 **Payments Set Aside**. To the extent that the Borrower makes a payment to any Lender or any Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by any such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred.

11.5 **Set-Off**. If an Event of Default shall have occurred and be continuing, each Lender, the L/C Issuer and each of their respective Affiliates are hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender, the L/C Issuer or any such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower then owing under this Agreement or any other Loan Document to such Lender or the L/C Issuer, irrespective of whether or not such Lender or the L/C Issuer shall have made any demand under this Agreement or any other Loan Document

and although such obligations of the Borrower are owed to a branch or office of such Lender or the L/C Issuer different from the branch or office holding such deposit or obligated on such indebtedness. The rights of each Lender, the L/C Issuer and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender, the L/C Issuer or their respective Affiliates may have. Each Lender and the L/C Issuer agrees to notify the Borrower and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

11.6 **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.7 **Integration**. This Agreement, together with the other Loan Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and thereof and supersedes all prior agreements, written or oral, on such subject matter. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control; provided that the inclusion of supplemental rights or remedies in favor of the Lenders in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

11.8 **Survival of Representations and Warranties**. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Lender, and shall continue in full force and effect as long as any Loan or any other Obligation shall remain unpaid or unsatisfied.

11.9 **Severability**. Any provision of this Agreement and the other Loan Documents to which Borrower is a party that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions thereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11.10 **Replacement of Lenders**. If any Lender requests compensation under Section 2.10, if any Lender's obligation to make, maintain or fund LIBOR Loans is suspended under Section 2.10(b) or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.10(c) or 2.10(d), or if any Lender is a Defaulted Lender or if any other circumstance exists hereunder that gives the Borrower the right to replace a Lender as a party hereto, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 11.17), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall

assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(a) The Borrower shall have paid to the Administrative Agent the assignment fee specified in Section 11.16(b)

(b) Such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and funding of its participation in the L/C Borrowing, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 2.10) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(c) In the case of any such assignment resulting from a claim for compensation under Section 2.10 or payments required to be made pursuant to Section 2.25, such assignment will result in a reduction in such compensation or payments thereafter; and

(d) Such assignment does not conflict with applicable Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

11.11 **Lender Release**. Borrower hereby releases, remises, acquits and forever discharges Agent, Lenders and the Agent's and each Lender's employees, agents, representatives, consultants, attorneys, fiduciaries, servants, officers, directors, partners, predecessors, successors and assigns, subsidiary corporations, parent corporations, and related corporate divisions (all of the foregoing hereinafter called the "Released Parties"), from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, direct and/or indirect, at law or in equity, of whatsoever kind or nature for or because of any matter or things done, omitted or suffered to be done by any of the Released Parties prior to and including the date of execution hereof, that (a) are in any way directly or indirectly arising out of or in any way connected to this Agreement and the Loan Documents and (b) are, as of this date, known to Borrower or which should be known to Borrower with the exercise of reasonable diligence.

11.12 **Governing Law**. **THIS AGREEMENT, THE NOTE AND EACH OTHER LOAN DOCUMENT, AND ALL MATTERS RELATING HERETO OR THERETO OR ARISING THEREFROM (WHETHER SOUNDING IN CONTRACT LAW, TORT LAW OR OTHERWISE), SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF OKLAHOMA, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES. BORROWER HEREBY CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF OKLAHOMA, STATE OF OKLAHOMA AND IRREVOCABLY AGREES THAT, SUBJECT TO LENDER'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS SHALL BE**

LITIGATED IN SUCH COURTS. BORROWER EXPRESSLY SUBMITS AND CONSENTS TO THE JURISDICTION OF THE AFORESAID COURTS AND WAIVE ANY DEFENSE OF FORUM NON CONVENIENS. BORROWER HEREBY WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS AND AGREE THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE UPON BORROWER BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, ADDRESSED TO BORROWER AT THE ADDRESS SET FORTH IN THIS AGREEMENT AND SERVICE SO MADE SHALL BE COMPLETE TEN (10) DAYS AFTER THE SAME HAS BEEN POSTED.

11.13 **Collateral Matters; Hedging Agreements; Treasury Management Agreements**. The benefit of the Collateral Documents and of the provisions of this Agreement relating to any Collateral securing the Obligations shall also extend to and be available to Treasury Management Counterparties on a pro rata basis in respect of any Obligations of the Borrower or any of its Subsidiaries which arise under any such Swap Contract or Treasury Management Agreements. No Lender or Affiliate of a Lender shall have any voting rights under any Loan Document as a result of the existence of obligations owed to it under any such Swap Contract or Treasury Management Agreements.

11.14 **Time of the Essence**. Time is of the essence of the Loan Documents.

11.15 **USA Patriot Act Notice**. Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "USA Patriot Act"), it is required to obtain, verify and record information that identifies Borrower and its Subsidiaries, which information includes the name and address of Borrower and its Subsidiaries and other information that will allow Lender to identify the Borrower and its Subsidiaries in accordance with the USA Patriot Act.

11.16 **Successors and Assigns**.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the L/C Issuer and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Committed Sum and the Loans (including for purposes of this subsection (b), and participations in L/C Obligations; provided that:

(i) Except in the case of an assignment of the entire remaining amount of the assigning Lender's Committed Sum and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund with respect to a Lender, the aggregate amount of the Revolving Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than $5,000,000 unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); *provided, however,* that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met;

(ii) Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Committed Sum assigned;

(iii) Any assignment of a Committed Sum must be approved by the Administrative Agent, and the L/C Issuer unless the Person that is the proposed assignee is itself a Lender (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee); and

(iv) The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of $3,500. If the Eligible Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 2.10(b) and (d), and 11.5 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender in exchange for the return of any Note held by the assigning Lender. Any

assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Committed Sums of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by each of the Borrower and the L/C Issuer at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender may request and receive from the Administrative Agent a copy of the Register.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Committed Sum and/or the Loans (including such Lender's participations in L/C Obligations) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Lenders and the L/C Issuer shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 11.1 that affects such Participant. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Section 2.10 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 11.5 as though it were a Lender, provided such Participant agrees to be subject to other provisions of Article 2 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 2.4 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits

of Section 2.10 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.13(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act or any other similar state laws based on the Uniform Electronic Transactions Act.

(h) Resignation as L/C Issuer after Assignment. Notwithstanding anything to the contrary contained herein, if at any time BOKF, NA dba Bank of Oklahoma assigns all of its Committed Sum and Loans pursuant to subsection (b) above, BOKF, NA dba Bank of Oklahoma may, (i) upon thirty (30) days' notice to the Borrower and the Lenders, resign as L/C Issuer, effective, however, only on the appointment of a successor L/C Issuer as provided herein. In the event of any such resignation as L/C Issuer, the Borrower shall be entitled to appoint from among the Lenders a successor L/C Issuer hereunder; *provided, however,* that no failure by the Borrower to appoint any such successor shall affect the resignation of Bank of Oklahoma as L/C Issuer. If Bank of Oklahoma resigns as L/C Issuer, it shall retain all the rights, powers, privileges and duties of the L/C Issuer hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as L/C Issuer and all Letter of Credit Liabilities with respect thereto/ Upon the appointment of a successor L/C Issuer (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring L/C Issuer, and (b) the successor L/C Issuer shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to BOKF, NA dba Bank of Oklahoma to effectively assume the obligations of BOKF, NA dba Bank of Oklahoma with respect to such Letters of Credit.

11.17 **No Third Party Beneficiaries**. This Agreement, the other Loan Documents, and the agreement of the Lender to make the Loans are solely for the benefit of the Lender, the Borrower and Affiliates thereof and no other Person (including, without limitation, any obligor, contractor, subcontractor, supplier or materialman) shall have any rights, claims, remedies or privileges hereunder or under any other Loan Document against the Lender for any reason whatsoever. There are no other third party beneficiaries

11.18 **Waiver of Jury Trial. BORROWER AND LENDER HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE**

LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY. EACH OF THE BORROWER AND LENDER ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AND THAT EACH WILL CONTINUE TO RELY ON THIS WAIVER IN THEIR RELATED FUTURE DEALINGS. EACH OF THE BORROWER AND LENDER WARRANTS AND REPRESENTS THAT EACH HAS HAD THE OPPORTUNITY OF REVIEWING THIS JURY WAIVER WITH LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS.

11.19 **ENTIRE AGREEMENT**. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

11.20 **Release.** In consideration of the amendments contained herein, Borrower hereby waives and releases each of the Lenders and the Administrative Agent from any and all claims and defenses, known or unknown, with respect to the Existing Credit Agreement and the other Loan Documents and the transactions contemplated thereby.

11.21 **Ratification and Affirmation**. Borrower hereby acknowledges the terms of this Amended and Restated Credit Agreement and ratifies and affirms its obligations under, and acknowledges, renews and extends its continued liability under, each Loan Document to which it is a party and agrees that each Loan Document to which it is a party remains in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

[*The remainder of this page has been intentionally left blank.*]

Signature Page to Credit Agreement

BORROWER:

PANHANDLE OIL AND GAS INC., formerly named Panhandle Royalty Company, an Oklahoma corporation

By: Michael C. Coffman
Title: President, CEO

Signature Page to Credit Agreement

LENDERS:

BOKF, NA dba Bank of Oklahoma
By: _____
Name: Jeffrey Hall
Title: SeniorVice President

Signature Page to Credit Agreement

LENDERS:

MIDFIRST BANK

By: _____

Name: James P. Boggs

Title: SeniorVice President

Signature Page to Credit Agreement

ADMINISTRATIVE AGENT: **BOKF, NA** dba Bank of Oklahoma

By: _____

Name: Jeffrey Hall

Title: SeniorVice President

LENDING OFFICERS,
ADDRESSES FOR NOTICES

BORROWER:

PANHANDLE OIL AND GAS INC
5400 North Grand Blvd., Suite 300
Oklahoma City, OK 73112
Attn: Michael C. Coffman
Title: President and CEO
Telephone: 405-948-1560
Facsimile: 405-948-2038
Electronic Mail: mcoffman@panhandleoilandgas.com

ADMINISTRATIVE AGENT:

Lender's Office
(for payments):

BOKF, NA
9520 N. May Ave.
Oklahoma City, OK 73120
Attention: Jeffrey Hall
Telephone: (405) 936-3748
Telecopier: (405) 936-3715
Electronic Mail: jhall@bokf.com

Account Name: _____
Ref: _____
ABA# 103900036

EXHIBIT A

FORM OF AMENDED AND RESTATED REVOLVING NOTE

$_____.00 November __, 2013

FOR VALUE RECEIVED, the undersigned (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") at the offices of BOKF, NA dba Bank of Oklahoma (the "Agent") which is located at 9520 North May Ave., Oklahoma City, Oklahoma 73120, or such other place as may be designated in writing by the Agent, the principal sum of _____ and No/100 Dollars ($_____.00), or so much thereof as shall be disbursed, together with interest at the rate stated herein on such outstanding principal amount, and on any past due interest payments, payable as follows:

> This Note is subject to the terms and conditions of that certain Amended and Restated Credit Agreement of even date herewith, between the undersigned, certain lenders named therein, including, without limitation, _____ (the "Agreement"), which terms and conditions are hereby incorporated by reference herein and shall be controlling over any provision of this Note to the contrary. Reference is hereby made to the Agreement for a statement of the calculation and computation of the rate of interest charged on amounts outstanding under this Note, for a statement of repayment and prepayment rights and obligations of Maker, for a statement of the maturity date of this Note, for a statement of the terms and conditions under which the due date of this Note may be accelerated and for statements regarding other matters affecting this Note (including without limitation the obligations of the holder hereof to advance funds hereunder, exercise of rights and remedies, payment of attorneys' fees, court costs and other costs of collection and certain waivers by Maker and others now or hereafter obligated for payment of any sums due hereunder). Upon the occurrence of an Event of Default, as that term is defined in the Agreement, and after the expiration of any cure period as set forth in the Agreement, subject to the terms of the Agreement, the holder hereof (i) may declare forthwith to be entirely and immediately due and payable the principal balance hereof and the interest accrued hereon, and (ii) shall have all rights and remedies of the Lenders under the Agreement and Loan Documents. This Note may be prepaid in accordance with the terms and provisions of the Agreement.

This Note is one of the Notes described in the Agreement, and is one of a series of promissory notes as described in the Agreement.

While any default exists hereunder, all sums herein promised to be paid shall bear interest at the Default Rate specified in the Agreement, accrued from the date of default to the date on which such default is cured to the satisfaction of the holder hereof, Agent, or Required Lenders, as applicable pursuant to the terms of the Agreement. All past due sums will be paid at the time

of and as a condition precedent to the curing of any default hereunder. During the existence of any such default and after the expiration of any applicable periods to cure such default, the holder of this Note may apply payments received on any amount due hereunder or under the terms of any instrument now or hereafter evidencing or securing any of said indebtedness as said holder may determine.

This Note is to be construed according to the laws of the State of Oklahoma.

Upon default on any of the terms or conditions of this Note or of the Agreement to which this Note is subject, or of any other agreement, document or instrument made in connection herewith, pursuant to the terms of the Agreement, the entire indebtedness hereby evidenced shall become due, payable and collectable then or thereafter, regardless of the date of maturity thereof. Notice of the exercise of such option is hereby expressly waived.

The undersigned agrees that if, and as often as, this Note is placed in the hands of an attorney for collection or to defend or enforce any of the holder's rights hereunder, the undersigned will pay to the Agent, for the ratable benefit of the holder, its reasonable attorney's fees, together with all court costs and other expenses paid by the Agent.

All payments on this Note shall be made in legal tender of the United States of America or other immediately available funds at the Agent's address as shown herein or otherwise indicated and any such payment will be deemed to have been made pursuant to the terms of the Agreement.

All agreements between the undersigned and the holder are expressly limited so that in no event whatsoever, whether by reason of disbursement of the proceeds hereof or otherwise shall the amount of interest or finance charge (as defined by the laws of the State of Oklahoma) paid or agreed to be paid by the undersigned to the holder hereof exceed the highest lawful contractual rate of interest or the maximum finance charge permissible under the law which a court of competent jurisdiction, by final non-appealable order, determines to be applicable hereto. If fulfillment of any agreement between the undersigned and the holder hereof, at the time the performance of such agreement becomes due, involves exceeding such highest lawful contractual rate or such maximum permissible finance charge, then the obligation to fulfill the same shall be reduced so such obligation does not exceed such highest lawful contractual rate or maximum permissible finance charge. If by any circumstance the holder shall ever receive as interest or finance charge an amount which would exceed the amount allowed by applicable law, the amount which may be deemed excessive shall be deemed applied to the principal of the indebtedness evidenced hereby and not to interest. All interest and finance charges paid or agreed to be paid to the holder hereof shall be prorated, allocated and spread throughout the full period of this Note. The terms and provisions of this paragraph shall control all other terms and provisions contained herein and in any other documents executed in connection herewith. If any provision of this Note, or the application thereof to any party or circumstance is held invalid or unenforceable, the remainder of this Note and the application of such provision to other parties or circumstances shall not be affected thereby, provisions of this Note being severable in any such instance.

The makers, endorsers, sureties, guarantors and all other persons who may become liable for all or any part of this obligation severally waive presentment for payment, protest and notice of nonpayment. Said parties consent to any extension of time (whether one or more) of payment hereof, any renewal (whether one or more) hereof, and any release of any such party liable for payment of this note without notice to any such party and without discharging the said party's liability hereunder.

The failure of the holder hereof to exercise any of the remedies or options set forth in this Note or in any instrument securing payment hereof, upon the occurrence of one or more of the events of default shall not constitute a waiver of the right to exercise the same or any other remedy at any subsequent time in respect to the same or any other event of default. Acceptance by the holder hereof of any payment which is less than the total of all amounts due and payable at the time of such payment shall not constitute a waiver of the right to exercise any of the foregoing remedies or options at that time or at any subsequent time, or nullify any prior exercise of any such remedy or option, without the express consent of the holder hereof, except as and to the extent otherwise provided by law.

This Note may be executed in any number of counterparts, each of which shall be an original, but all of which shall constitute on and the same instrument.

The purpose and intent of this Amended and Restated Revolving Note is to renew, in part, that certain Amended and Restated Revolving Note dated as of December 6, 2010 (the "Former Note"). It is expressly not the intent hereof to pay off any of the outstanding indebtedness evidenced by the Former Note.

"BORROWER" ***Signatures Reserved***

EXHIBIT B

COMPLIANCE CERTIFICATE

[BORROWER]

Date: _____, _____

This certificate is given by _____, a Responsible Officer of the Borrower (hereafter defined, pursuant to that certain Amended and Restated Credit Agreement dated as of November __, 2013 between PANHANDLE OIL AND GAS INC. (the "Borrower"), each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), and BOKF, NA dba Bank of Oklahoma, as Administrative Agent and L/C Issuer and BOKF, NA dba Bank of Oklahoma, successor by merger to Bank of Oklahoma, N.A., a national banking association ("Lender"), as Administrative Agent and L/C Issuer (as such agreement may have been amended, restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**"). Capitalized terms used herein without definition shall have the meanings set forth in the Credit Agreement.

The undersigned Responsible Officer hereby certifies to Lenders that:

(a) the financial statements delivered with this certificate in accordance with **Section(s) 4.1(a)** and **4.1(b)** of the Credit Agreement fairly present in all material respects the results of operations and financial condition of the Borrower, as of the dates and the accounting period covered by such financial statements;

(b) I have reviewed the terms of the Credit Agreement and have made, or caused to be made under my supervision, a review in reasonable detail of the transactions and conditions of the Borrower, during the accounting period covered by such financial statements;

(c) such review has not disclosed the existence during or at the end of such accounting period, and I have no knowledge of the existence as of the date hereof, of any condition or event that constitutes a Default or an Event of Default, except as set forth in Schedule 1 hereto, which includes a description of the nature and period of existence of such Default or an Event of Default and what action Borrower has taken, is undertaking and proposes to take with respect thereto;

(d) Borrower is in compliance with the covenants contained in Section 6 of the Credit Agreement, as demonstrated by the calculation of such covenants attached hereto, except as set forth below.

IN WITNESS WHEREOF, the undersigned officer has executed and delivered this certificate this ____ day of _____, ____.

EXHIBIT C

FORM OF REQUEST FOR ADVANCE

[_____], 201__]

Reference is made to that certain Amended and Restated Credit Agreement dated as of November __, 2013 (together with all amendments, restatements, supplements or other modifications thereto, the "Credit Agreement") between PANHANDLE OIL AND GAS INC. (the "Borrower"), each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), and BOKF, NA dba Bank of Oklahoma, as Administrative Agent and L/C Issuer and BOKF, NA dba Bank of Oklahoma, successor by merger to Bank Of Oklahoma, N.A, as Administrative Agent and L/C Issuer (unless otherwise defined herein, each capitalized term used herein is defined in the Credit Agreement). Pursuant to Section 2.2 of the Credit Agreement, Borrower hereby requests a Loan as follows:

(i) Aggregate amount of the requested Loan is $[_____];

(ii) The Borrower requesst that the proceeds of this borrowing of Loan be made available to the Borrower by _____;

(iii) Location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.2 of the Credit Agreement, is as follows:

[_____]

(iv) Current Loan Balance (prior to Loan) is $[_____]

(v) Loan Balance (after Loan) is $[_____].

Borrower hereby certifies to the Lenders that as of the date hereof and as of the date of the making of the requested Loan and after giving effect thereto, (a) no Default or Event of Default exists or shall exist, and (b) the representations and warranties made or deemed made by Borrower in the Loan Documents to which it is a party are and shall be true and correct in all material respects, except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties shall have been true and correct in all material respects on and as of such earlier date) and except for changes in factual circumstances not prohibited under the Loan Documents. In addition, Borrower certifies to the Lenders that all conditions to the making of the requested Loans contained in Section 7.2. of the Credit Agreement will have been satisfied (or waived in accordance with the applicable provisions of the Loan Documents) at the time such Loans are made.

If notice of the requested Advance was previously given by telephone, this notice is to be considered the written confirmation of such telephone notice required by Section 2.2.(d) of the Credit Agreement.

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Request for Advance as of the date first written above.

BORROWER:

PANHANDLE OIL AND GAS INC., formerly named Panhandle Royalty Company,an Oklahoma corporation

By: _____

Name: Michael C. Coffman

Title: President, CEO

EXHIBIT D

LIBOR OPTION RATE SHEET

CUSTOMER: _____

				NEW
		Customer:		
Today's Date:		Account #:		
Your		LIBOR tranche will begin on		
	Currently the balance at prime is:			

Per the agreement with us, you are to give us three (3) days notice to put in place another LIBOR tranche.

LIBOR	BASE RATE	SPREAD	ALL-in RATE
30 day			0.00000%
60 day			#VALUE!
90 day			#VALUE!
180 day			#VALUE!
PRIME RATE:			#VALUE!

I direct the Bank to move the funds in the maturing LIBOR tranche as follows:

	$	in 30 day LIBOR	maturing	
		0.0000%		
	$	in 60 day LIBOR	maturing	
		#VALUE!		
	$	in 90 day LIBOR	maturing	
		#VALUE!		
	$	in 180 day LIBOR	maturing	
		#VALUE!		
	$	in prime option (current rate of		#VALUE!

check box if increase or decrease

Special Instructions:

Customer Name:

By:

887862.1:220661:01602

Please FAX to _____ at ( ) _____.

INTEREST BILLING (Current Maturing LIBOR Option):

DATE POSTED	RATE	TRANSACTION BALANCE	DAYS	INTEREST DUE: Date Due
2/16/2007				1/0/1900
2/19/2007			3	Amount Due
				$0.00

EXHIBIT E

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (this "Assignment") is dated as of the Effective Date set forth below and is entered into by and between _____ ("Assignor") and _____ ("Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in that certain Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment as if set forth herein in full.

For an agreed consideration, Assignor hereby irrevocably sells and assigns to Assignee, and Assignee hereby irrevocably purchases and assumes from Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by Agent as contemplated below, the interest in and to all of Assignor's rights and obligations under the Credit Agreement and any other documents or instruments delivered pursuant thereto that represents the amount and percentage interest identified below of all of Assignor's outstanding rights and obligations under the respective facilities identified below (including, to the extent permitted to be assigned under applicable law, all claims, including, without limitation, contract claims, tort claims, malpractice claims and all other claims at law or in equity, including claims under any law governing the purchase and sale of securities or governing indentures pursuant to which securities are issued, suits, causes of action and any other right of Assignor against any other person) (the "Assigned Interest"). Such sale and assignment is without recourse to Assignor and, except as expressly provided in this Assignment, without representation or warranty by Assignor.

1. Assignor: _____

2. Assignee: _____

3. Borrower: PANHANDLE OIL AND GAS INC., an Oklahoma corporation

4. Agent: BOKF, NA dba, Bank of Oklahoma., as the agent under the Credit Agreement

5. Credit Agreement: The Amended and Restated Credit Agreement, dated as of November __, 2013, among Borrower, the Lenders parties thereto, and BOKF, NA dba Bank of Oklahoma, as Administrative Agent.

6. Assigned Interest:

Aggregate Amount of Commitment/Loans for all Lenders	Amount of Commitment/ Loans Assigned	Percentage Assigned of Commitment Loans
$_____	$_____	_____%

Effective Date: _____ ___, 20__

The terms set forth in this Assignment are hereby agreed to:

ASSIGNOR:

_____

By: _____
Name: _____
Title: _____

ASSIGNEE:

_____

By: _____
Name: _____
Title: _____

Consented to and Accepted:

BOKF, NA dba Bank of Oklahoma,
as Agent

By: _____
Name: _____
Title: _____

ANNEX 1 TO ASSIGNMENT AND ASSUMPTION

STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim, and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement, any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents, or any collateral thereunder, (iii) the financial condition of Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document, or (iv) the performance or observance by Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to the Credit Agreement, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision independently and without reliance on Agent or any other Lender to enter into this Assignment and to purchase the Assigned Interest on the basis of which it has made such analysis and decision, and (v) if it is a Foreign Lender, attached hereto is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by Assignee; and (b) agrees that (i) it will, independently and without reliance on Agent, Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

1.3 Assignee's Address for Notices, etc. Attached hereto as Schedule 1 is all contact information, address, account and other administrative information relating to Assignee.

2. Payments. From and after the Effective Date, Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to Assignee whether such amounts have accrued prior to or on or after the Effective Date. Assignor and Assignee shall make all appropriate adjustments in payments by Agent for

periods prior to the Effective Date or with respect to the making of this Assignment directly between themselves.

3. General Provisions. This Assignment shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment. This Assignment shall be governed by, and construed in accordance with, the laws of the State of Oklahoma.

SCHEDULE 1 TO ASSIGNMENT AND ASSUMPTION

ADMINISTRATIVE DETAILS

Lending Office:

Assignee
Name: _____
Address: _____
_____ , OK _____
Attn.: _____ , _____ President
Telephone:
Facsimile:
Electronic
Mail: _____

Payment Instructions: Account No.:

Bank: _____
City and State: _____
ABA#: _____
Account
No.: _____
Attn.: _____
Reference: _____

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of November ___, 2013

Among

PANHANDLE OIL AND GAS INC.

and

BOKF, NA, DBA BANK OF OKLAHOMA, N.A., AS ADMINISTRATIVE AGENT AND L/C ISSUER

AND

THE LENDERS PARTY HERETO

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