2010 ANNUAL REPORT

NOTICE OF 2011 ANNUAL MEETING OF STOCKHOLDERS

PROXY STATEMENT

To Our Stockholders:

FX Energy has been focused on conventional oil and gas opportunities in Poland for 15 years. This has been a long, steady program of building on successes and overcoming dry holes. We now have a solid and growing reserve and production base. We are in an attractive gas market, with high dependence on gas imports with oil-based pricing and excellent fiscal terms. Over time, we have also built a material exploration acreage position in Poland where there is significant oil and gas potential. Our strategy, to focus on conventional exploration in Poland, has been successful. FX Energy is stronger today than it has ever been.

Our production has grown from 6 Mmcfe/d in 2009 to 10 Mmcfe/d in 2010. Our revenues have grown from $15 million in 2009 to $25 million in 2010. We expect further growth in both production and revenues in each of the next three years as we bring our Kromolice, Winna Gora, and Lisewo discoveries on line.

Our reserves have grown as well. Over the last three years we have grown our 2P (P50) reserves from 54 Bcfe to 87 Bcfe (105 Bcfe pro forma for the Lisewo discovery). The pre-tax PV10% value of these reserves has grown from $160 million to $246 million (P50 is the probabilistic most likely case; 100% of our P50 reserves relate to wells already drilled and tested and include no undrilled locations).

This success allowed us to establish a $25 million revolving credit facility in 2007, which we increased to $55 million in 2010. We had $20 million in working capital at the end of 2010, and subsequently raised an additional $45 million of equity. FX Energy is in a strong financial position.

At the same time, we have grown our exploration portfolio, prospect inventory, technical team, and exploration database. Through the use of our proprietary interactive exploration database that includes 2-D and 3-D seismic data, logs, cores, and reports on nearly 2,000 wells in Poland, we have built a substantial acreage position and an attractive mix of high- and low-risk prospects targeting approximately 4 Tcfe.

With the support of our growing cash flow, recent equity financing, expanded credit facility, and joint venture partners, we are in a position to dramatically increase the pace of our activity in Poland. We have a capital budget estimated at $60 to $70 million for 2011 and we plan to drill six to eight wells this year. On March 23, 2011, we announced the start of drilling on the Plawce-2 well in the Fences concession, and noted three more upcoming wells: in the Warsaw South concession, in the Kutno concession, and in our US Cut Bank field to test a Bakken oil play. We anticipate additional drilling this year in the Fences and Warsaw South concessions, and possibly in the US as well.

This significant increase in our capital budget and drilling activity is critically important. We believe there is much more potential in conventional exploration in Poland and, so far, only limited competition. We want to be at the forefront of conventional exploration in Poland while growing our already strong production base and continuing to build significant value for our stockholders.

We are delighted that our strong track record of success and financial strength are allowing us to increase the pace of our operations in Poland. We continue to believe that oil and gas exploration in Poland represents a wonderful opportunity for FX Energy and its stockholders. We thank you for your support.

Sincerely yours,

David N. Pierce	Thomas B. Lovejoy
President and Chief Executive Officer	Chairman and Executive Vice President

2010 ANNUAL REPORT TO STOCKHOLDERS

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This report contains "forward-looking" statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by the use of the words "believe," "may," "could," "should," "expect," "anticipate," "estimate," "project," "propose," "plan," "intend," and similar words and expressions. Statements that describe our future strategic plans, goals, or objectives are also forward-looking statements. We intend that the forward-looking statements will be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Readers of this report are cautioned that any forward-looking statements, including those regarding us or our management's current beliefs, expectations, anticipations, estimations, projections, strategies, proposals, plans, or intentions, are not guarantees of future performance or results of events and involve risks and uncertainties, such as:

- whether we will be able to discover and produce gas or oil in commercial quantities from any exploration prospect;
- whether we will be able to borrow funds to develop our oil and gas discoveries in Poland from our current principal lenders or from any other commercial lenders, even if we increase substantially the quantity and value of our reserves that we may be willing to encumber to secure repayment of such borrowings;
- whether the quantities of gas or oil we discover will be as large as our initial estimate of an exploration target area's gross unrisked potential;
- whether the estimated probable oil and gas reserves will ever be proved;
- whether we will be able to obtain capital sufficient for our anticipated exploration and other capital expenditures;
- how our efforts to obtain additional capital will affect the trading market for our securities;
- whether actual exploration risks, schedules, and sequences will be consistent with our plans and forecasts;
- the future results of drilling or producing individual wells and other exploration and development activities;
- the prices at which we may be able to sell gas or oil;
- foreign currency exchange-rate fluctuations;
- the financial and operating viability and stability of the Polish Oil and Gas Company, or PGNiG, and other third parties with which we conduct business and on which we rely to supply goods and services and to purchase our oil and gas production;
- exploration and development priorities and the financial and technical resources of PGNiG, our principal joint venture and strategic partner in Poland, PL Energia S.A., another partner in Poland, or other future partners;
- uncertainties inherent in estimating quantities of proved and probable reserves and actual production rates and associated costs;

- the cost and availability of additional capital that we may require and possible related restrictions on our future operating or financing flexibility;

- our future ability to attract industry or financial participants to share the costs of exploration, exploitation, development, and acquisition activities;

- uncertainties of certain terms to be determined in the future relating to our oil and gas interests, including exploitation fees, royalty rates, and other matters;

- uncertainties regarding future political, economic, regulatory, environmental, fiscal, taxation, and other policies in Poland and the European Union; and

- the factors set forth under the headings “Risk Factors” and “Management’s Discussion and Analysis of Analysis of Financial Condition and Results of Operation” and other factors that are not currently known to us that may emerge from time to time.

The forward-looking information is based on present circumstances and on our predictions respecting events that have not occurred, that may not occur, or that may occur with different consequences from those now assumed or anticipated. Actual events or results may differ materially from those discussed in the forward-looking statements. The forward-looking statements included in this report are made only as of the date of this report.

OUR BUSINESS

Introduction

We are an independent oil and gas exploration and production company with production, appraisal, and exploration activities in Poland. We also have modest oil production, oilfield service activities, and a shale acreage position in the United States. Our headquarters are in Salt Lake City, Utah.

At year-end 2010, independent reserve engineers estimated our worldwide proved oil and gas reserves to be 40.0 billion cubic feet, or Bcf, of natural gas and 0.6 million barrels of oil, or a combined total of 43.8 billion cubic feet of natural gas equivalent, or Bcfe (converting oil to gas at a ratio of one barrel of oil to 6,000 cubic feet of natural gas). Of this 43.8 Bcfe, 91% was in Poland and 9% was in the United States. The engineers estimated the PV-10 Value of our proved reserves to be approximately $127.3 million.

At year-end 2010, independent reserve engineers estimated our worldwide proved plus probable, or P50, oil and gas reserves to be a combined total of 87.1 Bcfe. The engineers estimated the PV-10 Value of our P50 reserves to be approximately $206.4 million.

Subsequent to year-end 2010, we had a significant exploration discovery, the Lisewo-1 well in Poland. Independent engineers estimate the proved and P50 reserves for this well to be approximately 12.7 and 17.7 Bcf of gas, respectively, net to our interest. The incremental PV-10 Value of these proved and P50 reserves is estimated to be $16.0 and $19.7 million, respectively. This discovery, in combination with our 2010 year-end proved reserves, would equate to 56.5 Bcfe of proved reserves, with an estimated PV-10 Value of $143.3 million. Our year-end P50 reserves would then equate to 104.8 Bcfe, with an estimated PV-10 Value of $226.1 million.

Our 2010 oil and gas production was 3.8 Bcfe (10.5 million cubic feet equivalent per day, or MMcfed), which was up 69% from 2009 production; 3.5 Bcfe (9.5 MMcfed) of our production was in Poland and 0.3 Bcfe (1.0 MMcfed) was in the United States. All of our production in Poland consisted of natural gas, while all of our United States production consisted of crude oil.

We currently expect that our 2011 production will rise significantly from our 2010 production rates. One of our wells in Poland started producing just a few days before the end of 2010, and we have two other wells in Poland scheduled to begin production during the second quarter of 2011. We expect these three new wells, with anticipated aggregate initial production of approximately 14 million cubic feet per day, or MMcfd, of gas (6.9 MMcfd net to us), will add to our 2010 base levels of production of 9.5 MMcfd of gas. Thus, even without the benefit of any production from a fourth well that is waiting on production facilities or from our recent Lisewo-1 well or other possible discoveries, we expect our 2011 production to significantly exceed our 2010 level.

Substantially all of our growth in reserves and production in recent years has come from our operations in Poland. We expect this will continue, as most of our technical efforts and capital budget are devoted to these operations in Poland. We believe that these operations represent the most favorable opportunities for success that are available to us. See "Corporate Strategy" immediately below. With a view to future growth in reserves and production, we now hold 4.6 million gross acres (4.0 million net) in Poland and continually review additional acquisition opportunities.

As of December 31, 2010, we had approximately 45 million shares of common stock outstanding, and our market capitalization was approximately $280 million (approximately $510 million as of the date of this filing). Our shares are listed on the Nasdaq Global Market under the symbol "FXEN." So far during 2011, our average daily trading volume has been approximately 500,000 shares. Our total assets as of December 31, 2010, were $66.6 million, and our net debt (long-term debt less working capital) was $16.8 million. Net debt per thousand cubic feet equivalent, or Mcfe, of proved reserves was $0.38 at year end, or $0.30 including the 12.7 Bcf of gas reserves associated with the subsequent Lisewo-1 discovery.

References to "us," "we," and "our" in this report include FX Energy, Inc., and our subsidiaries. In addition to our headquarters in Salt Lake City, Utah, we have operations offices in Warsaw and Krakow, Poland, and Oilmont, Montana.

Corporate Strategy

Poland is a unique international exploration opportunity. Over the last 40 years or so, western companies have poured billions of dollars into exploration efforts in the British, Dutch, Norwegian, and German sectors of the offshore and onshore North European Permian Basin (generally the North Sea area). For the industry, these efforts have resulted in the discovery of trillions of cubic feet of gas and more than a billion barrels of oil. However, until the last few years of the twentieth century, Poland was closed to exploration by foreign oil and gas companies. To date, the exploration activities conducted in the Polish onshore portion of the Permian Basin are only a fraction of those conducted in the western part of the basin. Consequently, the Polish Permian Basin is underexplored and underexploited and, therefore, has high potential for discovery of significant amounts of oil and gas relative to the North Sea or other Permian Basin mature oil and gas provinces in the United States and elsewhere. As an example, the gross proved reserves per well associated with our eight discoveries in our core Fences concession in Poland have been 17.1 Bcf. The average initial production rate for these eight wells is estimated to be approximately 6.0 MMcfd of natural gas. We believe these figures are materially higher than those associated with new discoveries in most mature oil and gas provinces.

Just as important as the reserve and production potential is the fact that Poland is highly dependent upon imported natural gas, which is expensive. There is an attractive and deep market for gas discoveries and production in-country. As of the date of this report, the price we receive for natural gas at our Roszkow well, for example, is approximately 69% higher than natural gas contracts traded on the New York Mercantile Exchange, sometimes referred to as the Henry Hub price.

Acting on this combination of facts, we were one of the first independent oil and gas companies to acquire a large land position, to embark on a focused exploration and development program, and as a result, to begin producing hydrocarbons in Poland. After several years of effort in Poland, our exploration efforts are showing significant progress. In fact, our proved oil and gas reserve volumes in Poland have increased at a compound annual growth rate of 22% since 2003. Our production volume has increased at a compound annual growth rate of 52% from 2005 through 2010. Though we cannot assert that future results will be similar, this success has encouraged us to continue to focus our efforts in Poland.

More specifically, we have directed the bulk of our available funds, management, and technical resources to our core "Fences" concession area in Poland. We expect to continue concentrating much of our capital budget to this area in an effort to lower drilling risk, shorten the time to first production from successful wells, and optimize opportunities for robust revenue growth. Over the last several years, we have drilled 11 wells in the Fences concession targeting Rotliegend structural traps, eight of which have been commercial discoveries.

With the success that we have achieved from our Fences drilling program, we now plan to explore selected parts of our other exploration acreage, namely the Warsaw South and Kutno concessions, through both targeted seismic data acquisition and drilling of several higher risk, higher reward exploration wells, where we believe we have the opportunity to find significant oil and gas reserves. To reduce our financial exposure to these higher risk exploration wells, we have successfully executed several farm-out agreements, whereby we may reduce our interest in the concessions in return for a partial carry on drilling costs.

We currently hold substantial acreage in other areas of Poland that we consider underexplored and underdeveloped and, therefore, subject to greater exploration risk. We plan to carry out preliminary exploration work on this acreage and then plan to continue our strategy of utilizing industry farm-outs to finance the bulk of early-stage drilling. To the extent that our overall strategy results in substantial revenue growth, we plan to continue to increase our funding of exploration projects over a wider area in Poland.

Current Activities and Presence in Poland

We concentrate our exploration efforts in Poland primarily on the Rotliegend sandstones of the Permian Basin. We were attracted to the Rotliegend sandstones in Poland by two observations:

(1) Since the 1960s, dozens of western exploration companies working in the North Sea and onshore European portions of the North European Permian Basin have identified approximately 250 trillion cubic feet, or Tcf, of Rotliegend gas. While the Permian Basin extends well into Poland, only five Tcf of Rotliegend gas has been discovered in Poland by the Polish Oil and Gas Company, or PGNiG, which conducted all oil and gas exploration and production in the country until Poland was opened to foreign exploration. We believe political and capital constraints impaired PGNiG's ability to explore and develop the Polish portion of the basin.

(2) In the last 25 years, very little exploration focused on the Rotliegend has been conducted in Poland, except within the perimeter of our core Fences concession, first by PGNiG in its retained areas and in recent years by us and PGNiG, working together in our jointly owned prospect areas.

We have identified a core area consisting of approximately 852,000 gross acres surrounding PGNiG's long-producing Radlin field. This 390 Bcf Rotliegend gas field was discovered in the 1980s by our joint venture partner, PGNiG, which owns and produces gas from the field (we do not own an interest in this field, but see it as a geologic analog). We have emphasized improved seismic data acquisition and processing in our exploration efforts surrounding this field, using technology developed by others for Rotliegend exploration in the Southern North Sea.

Since 2000, we have made commercially successful discoveries in eight of the 11 wells we have drilled on Rotliegend structural trap targets. In the aggregate, these eight discoveries, which include the early 2011 Lisewo-1 discovery, found gross estimated proved reserves of approximately 137 Bcf of gas. We have acquired three-dimensional, or 3-D, seismic data over several hundred square kilometers in the Fences concession and plan to acquire 3-D seismic data over more of that concession. Using the data acquired to date, we have identified a number of possible structural traps. We believe the 3-D seismic data gives us better definition of the targets and might reduce our drilling risk. However, this is still exploration in an underexplored area. Thus, we expect to drill some wells that do not establish production or reserves, just as we have done in the past. Nonetheless, the extensive production history, well data, and seismic data available for the Fences area have contributed to our success rate there. We plan to continue to direct a significant portion of our available funds to carry out a multi-year exploration, appraisal, and development drilling program in the Fences concession. These operations are the focus of our strategy to increase production and reserves in our core area.

While maintaining our focus on the Rotliegend structural trap exploration model, we are also carrying out work to determine the tight gas potential in the Plawce structure located in the north of our Fences concession. The Plawce horst was discovered in the 1970s and 1980s; wells found large gas columns in tight Rotliegend reservoirs. Modern technology now allows the exploitation of these resources, which have significant potential. We plan to drill an appraisal well on the Plawce structure in 2011.

We have identified several drill-ready prospects outside the Fences concession, in our Warsaw South and Kutno concessions. These wells are higher risk and cost more than our Fences wells, but they are targeting greater resources. In order to reduce our financial exposure to these high risk wells, we have recently executed farm-out agreements with industry participants. These agreements may reduce our interest on these licenses in return for a partial carry on future exploration wells. We plan to begin drilling on the Warsaw South and Kutno concessions in 2011.

Outside the abovementioned licenses, we have accumulated a large land position in known productive regions or geologic trends and in selected "rank wildcat" areas in Poland. We have assembled a sophisticated technical team experienced with using modern exploration tools and generated a number of attractive oil and gas prospects. We will continue our strategy of inviting industry participation in the early-stage drilling of these prospects to reduce our financial exposure in each well. To the extent that our overall strategy results in substantial revenue growth, we plan to direct more of our own funds toward exploration of these early-stage exploration licenses.

Most of our current Polish operations are conducted in partnership with PGNiG. PGNiG is a fully integrated oil and gas company that is largely owned by the Treasury of the Republic of Poland. PGNiG is Poland's principal domestic oil and gas exploration, production, transportation, and distribution entity. Under our existing agreements, PGNiG has provided us with access to exploration opportunities, previously collected exploration data, and technical and operational support. We also use geophysical and drilling services provided by PGNiG, and we sell most of our gas production to PGNiG. We sell almost all of our gas production in Poland to PGNiG.

Key Personnel for Poland

Our chief technical advisor is Richard Hardman, CBE. He also serves on our board of directors. Mr. Hardman has built a career in international exploration over the past 50 years in the upstream oil and gas industry as a geologist in Libya, Kuwait, Colombia, and Norway. In the United Kingdom, his career encompasses almost the whole of the exploration history of the North Sea – 1969 to the present. With Amerada Hess from 1983 to 2002 as Exploration Director and later as Vice President of Exploration, he was responsible for key Amerada Hess North Sea and international discoveries, including the Valhall, Scott, and South Arne fields. Mr. Hardman was made Commander of the British Empire in the New Year Honours, 1998, and has served as the Chairman of the Petroleum Society of Great Britain, President of the Geological Society of London, and President of the European Region of American Association of Petroleum Geologists Europe.

Jerzy Maciolek is a director of the Company and heads our exploration team as Vice President of International Exploration. He joined the Company in 1995 specifically to lead us into Poland, where he had identified the exploration opportunity that today is our core asset. Mr. Maciolek has over 25 years of experience as a geophysicist with PGNiG and Gulf Oil Research and as an independent consultant. He received an M.S. in exploration geophysics from the Mining and Metallurgical Academy in Krakow, Poland.

Our Country Manager in Poland is Zbigniew Tatys, the former General Director of PGNiG's Upstream Exploration and Production Division. During his 20-year career with PGNiG, he rose through the ranks as a production engineer and was serving as Vice Chairman of PGNiG at the time of his retirement. Mr. Tatys has unique qualifications to lead us through our transition from a pure exploration company to a natural gas and oil producer in Poland.

Our U.S. Presence

Unlike our position in Poland, our U.S. operation has not been the focus of our exploration efforts. Our U.S. operations provide a modest amount of cash flow and are not capital intensive. They consist mostly of shallow, oil-producing wells in the Cut Bank oil field of Montana. As of December 31, 2010, our U.S. reserves (all of which were proved reserves) were estimated at 639,000 barrels of crude oil with a PV-10 Value of approximately $9.7 million. At year-end 2010, U.S. reserves were approximately 9% of total proved reserves on a gas equivalent basis. Our oil wells produce approximately 168 barrels of oil per day, net to our interest. From our field office in Montana, we also provide oilfield services, which provided approximately $2.1 million in revenue during 2010.

Recently, U.S. and Canadian oil and gas operators have been drilling for oil in the Bakken and Three Forks formations in the Williston Basin in Montana and in Alberta, Canada. The Bakken (also known in Canada as the Exshaw) and related formations are the focus of a growing trend of testing oil potential with multistage fracturing of horizontal wells. Newfield Exploration Co. (NFX) and Rosetta Resources, Inc. (ROSE), are two of the more active companies among a number operating near our Cut Bank field in northern Montana. We plan to reenter and deepen several of our existing Cut Bank field wells to take core samples from the Bakken and related formations for laboratory testing during the summer of 2011 and may drill one or more wells in the second half of this year, subject to positive laboratory results. We are also discussing the Bakken play with other companies in the area with a view to possibly investigating the Bakken potential over a broader area.

Exploration, Development, and Production Activities

Polish Exploration Rights

As of December 31, 2010, we held oil and gas exploration rights in Poland in a number of separately designated project areas encompassing approximately 4.6 million gross acres. We are currently the operator in all areas, except our 852,000 gross-acre core Fences project area, in which we hold a 49% interest in approximately 807,000 acres and a 24.5% interest in the remaining 45,000 acres. PGNiG is the operator in the Fences project area. We hold interests in approximately 4.0 million net acres throughout Poland.

As we build revenues in our core area and further explore and evaluate our acreage in Poland, we expect to increase the operational and financial efforts we expend outside our core area. As we do so, we may add new concessions that we believe have high potential and relinquish acreage that we believe has lower potential.

Exploratory Activities in Poland

Our ongoing activities in Poland are conducted in several project areas: Fences, Block 287, Warsaw South, Kutno, Northwest, Edge, Block 229, and Block 246. Our drilling activities have been focused primarily on the core Fences area. We have focused on this core area because substantial gas reserves have already been discovered and developed by PGNiG. We and PGNiG have discovered proved gas reserves of over 137 Bcf gross (59 Bcf net to our interest) in eight commercial wells in the Fences area as of the date of this report. We have concluded that there is likely to be substantial additional natural gas in the same geologic horizon in this area. We are selling gas from wells located in the Fences area and Block 287.

We plan to begin drilling on the Warsaw South and Kutno concessions in 2011. These wells will be targeting greater resources, but will be higher risk than our Fences wells. To help mitigate the financial risk from drilling these wells, we have executed farm-out agreements with industry participants.

We are developing longer-term exploration prospects in the remaining project areas.

Fences Area

The Fences concession area encompasses 852,000 gross acres (3,450 sq. km.) in western Poland's Permian Basin. PGNiG gas fields located in the Fences area are "fenced off" or excluded from our exploration acreage. These fields, discovered by PGNiG between 1974 and 1985, produce from structural traps in the Rotliegend sandstone. We hold a 49% interest in approximately 807,000 acres and a 24.5% interest in the remaining 45,000 acres in the Fences area for 406,000 total net acres.

The Rotliegend is the primary target horizon throughout most of the Fences concession area, at depths from approximately 2,500 to 4,000 meters. Both structural traps and stratigraphic ("pinch-out") traps are known to produce gas from the Rotliegend in the region. In addition, we have identified what appear to be carbonates in the Zechstein formation, a third type of trap that is known to produce both oil and gas in the region.

Fences Area: Structural Traps

Based on our drilling experience since 2000 in the Fences area, we have emphasized the use of seismic acquisition, processing, and interpretation techniques that have been used successfully in the Rotliegend gas fields of the United Kingdom's offshore Southern Gas Basin. With Rotliegend structures as our target and using improved seismic data processing and acquisition techniques, we have drilled 11 wells targeting Rotliegend structures through the date of this filing. Eight of these wells are commercial, with aggregate remaining proved gas reserves of over 112 Bcf gross (51 Bcf net to our interest) as of December 31, 2010, including proved reserves from the Lisewo-1 well, which was completed subsequent to year-end 2010.

Three of these wells have been in production from 2009 or earlier. A newly constructed production facility has been completed for the Kromolice-1, Sroda-4, and Kromolice-2, or KSK, wells. One of the KSK wells began production during late December 2010. We expect production from the other two KSK wells to begin during the second quarter of 2011. By the second half of this year, we expect the KSK wells to collectively produce approximately 14 MMcfd of gas (6.9 MMcfd net to us). Our Winna Gora well is expected to begin producing in the first half of 2012. Our recent Lisewo-1 discovery should begin production in mid-2013. Those wells that are currently in production are producing under the required production licenses obtained by PGNiG in its capacity as operator or under the two-year period of test production that is permitted under the exploration concession.

Finally, in the northernmost part of our Fences concession and lying within the area covered by our recently acquired 3-D seismic data, we have identified a very large upthrown block, or horst, of Rotliegend sandstone that encompasses approximately 50 square kilometers, or 12,000 acres. One well, the 1984 Plawce-1, was drilled by PGNiG on this Rotliegend block within what is now our Fences concession. Six other wells have been drilled by others (four of these more than 20 years ago) in this horst block north of our concession boundary. All six of these wells had substantial gas columns, and all but the most recent two wells were plugged due to relatively tight reservoir rocks. The newest well, the Trzek-2, located about 12 kilometers north of our concession, was drilled by another firm in 2010 and 2011 and reportedly tested gas at a rate 17 MMcfd on a short-term test, after high-pressure, hydraulic fracturing along a 1,350 meter horizontal wellbore. Prior to that, the Trzek-1 well, located about six kilometers north of our concession and drilled by the same firm, reportedly tested gas at rates between 2.5 and 7.5 MMcfd after high-pressure, hydraulic fracturing from a vertical wellbore. We are continuing to evaluate our data and are working with PGNiG on a plan to appraise and explore the gas resource in the Plawce area. We expect to start drilling a well here in the second quarter of 2011.

Block 287 Concession Area

The Block 287 concession area is 13,000 acres (52 sq. km.) located approximately 25 miles south of the Fences concession area. We own 100% of the exploration rights. We retained this small portion of Block 287 when we relinquished larger portions in 2007 and 2008.

Within our retained acreage in Block 287, there are three Rotliegend gas wells known as the Grabowka wells. Originally drilled by PGNiG in 1983-85, these three wells tested gas but never produced commercially. In early 2007, we entered into a joint venture agreement with an unrelated party, PL Energia S.A., headquartered in Krzywoploty, Poland, under which all costs of reentering and completing the three Grabowka wells and building production facilities would be paid by our joint venture partner in exchange for discounted pricing on gas. To date, we have reentered only the Grabowka-12 well, which has been producing since July 2009 at an average daily rate of approximately 0.5 MMcfd.

Warsaw South Concession Area

We hold a 100% interest in a total of 638,000 acres (2,581 sq. km.) in east-central Poland that we acquired in 2007. We also hold an 82% interest in 236,000 acres in the same project area. The Warsaw South concession has several exploration leads, including carboniferous sands and shales with structural or truncation trapping and possibly Zechstein reefs trapped by overlying evaporites and salt. Our technical group has reviewed the geological and geophysical data from the area and identified a dozen carboniferous leads and two possible Zechstein reef targets. We are currently acquiring two-dimensional, or 2-D, seismic data over some of these leads and plan to drill two wells in the Warsaw South concession area in 2011.

In December 2010, we entered into a letter of intent with PGNiG under which it may acquire a 49% interest in the Warsaw South concession area in exchange for paying for some of the early-stage exploration work. We will continue as operator.

Kutno Concession Area

We hold a 100% interest in 706,000 gross acres (2,856 sq. km.) acquired in 2007 and 2008. The area encompasses a Rotliegend mega-structure ("Kutno") with projected four-way dip closure. Depth of the structure is estimated at approximately 6,500 meters (21,000 feet). In view of the depth and cost, we determined to seek industry participation to bear initial exploration costs. In 2010, we entered into agreements under which two other companies agreed to provide most of the drilling costs of a test well in order for them together to earn a 75% interest in the area. We will retain operations and expect to begin drilling a test well on the Kutno structure in 2011.

Northwest Concession Area

We hold concessions on 828,000 acres in west-central Poland, in Poland's Permian Basin directly north of PGNiG's BMB and MLG oil and gas fields. The Northwest concession area has at least two separate possible exploration models: Rotliegend sands trapping gas in structural closures and Zechstein calcium-rich, Ca2 dolomitic sands, reefs, and talus trapping oil and gas.

Based on our review of reprocessed old and newly acquired 2-D seismic data, we drilled the Ostrowiec well in the Northwest concession in 2009 to test a Ca2 target at a depth of 3,800 meters and a Rotliegend target at a depth of 4,100 meters. The well did not encounter commercial hydrocarbons in the Ca2 target and was plugged before reaching target depth for the Rotliegend. The well was operated and owned 51% by us. PGNiG paid 100% of the cost to drill the well. As a result, PGNiG holds a 49% interest in 211,000 acres; we hold a 51% interest in that acreage and a 100% interest in the remaining 617,000 acres.

We may seek industry participation on the remaining blocks, while continuing to carry out preliminary exploration work on our own.

Edge Concession Area

In 2008, we acquired a 100% interest in four concessions in north-central Poland covering approximately 881,000 acres (3,567 sq. km.). Having reprocessed existing 2-D seismic data, we identified a number of leads, including several Permian age Ca2 reefs and a large Devonian structure. We plan to acquire additional 2-D seismic data this year over two of these leads to select possible drilling locations. We may seek industry participation in the drilling of wells in this concession area.

Block 229 Concession Area

In 2008, we acquired a 100% interest in a concession east of our Fences project area covering approximately 233,000 acres (941 sq. km.). We have identified a possible Rotliegend prospect and a number of possible Ca2 reef build-ups on 2-D seismic data in Block 229. We plan to seek industry participation while continuing to carry out early-stage exploration work on our own.

Block 246 Concession Area

In 2008, we acquired a 100% interest in a concession south of our Fences project area covering approximately 241,000 acres (975 sq. km.). We have identified an area with potential for Rotliegend gas and a different area with potential for calcium-rich, Ca1 reef build-ups where the Koscian field trend may extend into Block 246. We plan to seek industry participation while continuing to carry out early-stage exploration work on our own.

Additional Concession Acreage

We may apply for more concession blocks in Poland in 2011. If we acquire more concession blocks, we will allocate modest technical and financial resources to these areas during 2011, primarily in the form of data collection and seismic reprocessing, with a view to ascertaining relative hydrocarbon potential and exploration risk.

SELECTED FINANCIAL DATA

The following selected financial data for the five years ended December 31, 2010, are derived from our audited consolidated financial statements and notes thereto, certain of which are included in this report. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto included elsewhere in this report:

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Revenues:					
Oil and gas sales	$22,914	$12,772	$ 13,494	$ 14,903	$ 6,533
Oilfield services	2,099	1,892	4,347	3,093	1,696
Total revenues	25,013	14,664	17,841	17,996	8,229
Operating costs and expenses:					
Lease operating expenses [1]	3,473	3,478	3,441	3,538	2,647
Exploration costs [2]	3,038	4,829	15,389	10,624	5,608
Impairment of oil and gas properties[3]	564	1,864	14,746	2,299	3,583
Asset retirement obligation gain	(264)	(529)	--	--	--
Oilfield services costs	1,550	1,412	2,751	1,998	1,245
Depreciation, depletion and amortization	2,626	1,602	1,720	2,064	1,290
Accretion expense	92	41	84	78	53
Stock compensation	1,379	1,693	2,367	2,604	2,759
Bad debt expense	--	--	460	--	--
General and administrative costs (G&A)	7,973	7,257	7,030	7,061	5,728
Total operating costs and expenses	20,431	21,647	47,988	30,266	22,913
Operating income (loss)	4,582	(6,983)	(30,147)	(12,270)	(14,684)
Other income (expense):					
Interest expense	(1,936)	(654)	(672)	(385)	--
Interest and other income	829	54	394	818	795
Foreign exchange (loss) gain	(4,233)	7,053	(24,279)	146	122
Total other (expense) income	(5,340)	6,453	(24,557)	579	917
Net loss	$ (758)	$ (530)	$(54,704)	$(11,691)	$(13,767)

– Continued –

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands, except per share amounts)				
Basic and diluted net loss per common share	$ (0.02)	$ (0.01)	$ (1.35)	$ (0.32)	$ (0.39)
Basic and diluted weighted average shares outstanding	43,387	42,529	40,420	36,694	35,163
Cash Flow Statement Data:					
Net cash provided by (used in) operating activities	$ 7,249	$ (5,829)	$(14,248)	$ (1,581)	$ (5,303)
Net cash (used in) provided by investing activities	(7,814)	(3,999)	(11,772)	(13,152)	8,135
Net cash provided by (used in) financing activities	16,092	(2,676)	40,121	14,351	(578)
Balance Sheet Data:					
Working capital[(4)]	$18,212	$ 3,452	$ 13,965	$ 15,374	$ 11,967
Total assets	66,604	42,070	54,802	46,369	39,167
Notes payable	35,000	25,000	25,000	--	--
Total stockholders' equity	23,837	10,745	15,154	37,542	31,965

(1) Includes lease operating expenses and production taxes.
(2) Includes geophysical and geological costs, exploratory dry hole costs, and nonproducing leasehold impairments.
(3) Includes proved and unproved property write-downs relating to our properties in the United States and Poland.
(4) Working capital represents current assets minus current liabilities.

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

The following discussion of our historical financial condition and results of operations should be read in conjunction with the Selected Financial Data, and our consolidated financial statements and related notes contained in this report.

Overview

As discussed above, the majority of our operations are in Poland, and we have devoted most of our technical talent and capital expenditures in the last several years to our operations in that country. The decision to devote most of our available capital to this area drives our operating results and the changes to our balance sheet and liquidity. Our operations in Poland, which are a combination of existing production and substantial exploration, have grown considerably. Oil and gas production, oil and gas revenues, cash flow, earnings, oil and gas reserves, and oil and gas expenditures in this area have grown significantly over the last three years.

Our U.S. operations also have an impact. Our U.S. operations are smaller than those in Poland, and do not present the same level of opportunities for expansion; however, our U.S. operations are a relatively stable source of cash flow. This, too, is reflected in our operating results.

Highlights for our financial results since 2008 include:

- Revenues have risen approximately 40% to $25.0 million in 2010.
- Oil and gas production has jumped 130% to 3.8 Bcfe in 2010.
- Net earnings (loss) have improved from $(54.7) million in 2008 to $(0.8) million in 2010.
- Operating income (loss) has improved from $(30.0) million in 2008 to $4.6 million in 2010 (the first positive annual operating income for us).
- The PV-10 Value of our oil and gas reserves at year-end 2010 was 8% above that of 2008 (and 22% above that of 2008 including our Lisewo-1 well, which was completed after year-end 2010).
- Our total liquidity and financial flexibility have improved substantially with an expansion of our credit facility from $25 million to a maximum of $55 million and working capital growing from $3.5 million at the end of 2009 to $18.2 million at year-end 2010.

Notwithstanding our positive results, we continue to face challenges operating in a foreign country, economic system, and culture, including:

- delays associated with the completion of production facilities and the commencement of production from our KSK wells, which prevented higher revenue gains during 2010;
- delays in the spud date of our Lisewo-1 well, which pushed its completion into 2011;
- operating practices that differ from customary practices in the United States which generally result in higher capital costs in Poland and longer lead times to first production;
- relatively less success in our exploration efforts outside of our core Fences Area; and
- volatile noncash adjustments for foreign currency fluctuations continuing to affect our net income in an unpredictable fashion.

There are two other factors that affect our results of operations that, though not unique to us, are a bit different than United States investors typically see in comparison with most domestic, small-capitalization independent producers:

- the different pricing model for our Polish gas production; and
- our functional currency for our largest subsidiary, FX Energy Poland, is the Polish zloty, not the U.S. dollar.

Commodity Prices

Global oil prices continued to be volatile from 2008 through 2010. Gas prices in the United States decreased significantly for much of 2009 and into 2010. However, the Polish gas market operates quite differently than the U.S. domestic market. In Poland, substantially all of our gas production is sold to PGNiG and is tied to published tariffs (wholesale prices) set from time to time by the public utility regulator for gas sold to wholesale consumers. During 2009, the Polish regulator reduced the low-methane tariff, which is the basis for all of our gas contracts in Poland, by 5% in response to the global recession; however, the regulator increased the same tariff twice in 2010, the first by 6.8% and the second by 6.4%.

A major component of the tariff calculation is the cost of Russian imported gas, which is priced based on trailing oil prices. Thus, world oil prices can have a significant impact on Polish gas prices. Other major components of the tariff calculation include the cost of gas provided by PGNiG itself, as well as the necessity for PGNiG to cover its internal cost structure. Natural gas prices in Poland are, and for years have been, below European Union average prices for both households and industry, because the prices have been subsidized by the government. European Union rules require Poland to abandon market subsidies and bring Polish gas prices to free-market levels.

Poland was the only country in Europe to record positive GDP growth during both 2009 and 2010, and economists predict another positive year during 2011. These factors may act as cushions against possible declines in prices. As of year-end 2010, gas prices in Poland remained firm and were higher than those of an equivalent BTU content in the United States. There was no significant price impact on the value and volumes of our gas reserves in Poland from 2008 through 2010. However, all of our oil and gas reserves can be price-sensitive, and future material reductions in the prices at which we sell our oil and gas could result in the impairment of reserves.

Functional Currency and Exchange Rates

The functional currency of our Polish subsidiary is the Polish zloty. Accounting standards require the assets, liabilities, and results of operations of a foreign operation to be measured using the functional currency of that foreign operation. Because FX Energy Poland's functional currency is the Polish zloty, translation adjustments result from the process of translating its financial statements into the U.S. dollar reporting currency. Translation adjustments are not included in determining net income, but are reported separately and accumulated in other comprehensive income. The accounting basis of the assets and liabilities affected by the change is adjusted to reflect the difference between the exchange rate when the asset or liability was first recorded and the exchange rate on the date of the change.

The difference in functional currency also affects the amounts we report for our Polish assets, liabilities, revenues, and expenses from those that would be reported were the U.S. dollar the functional currency for our Polish operations. The differences will depend on changes in period-average and period-end exchange rates. Transaction gains or losses may be significant given the volatility of the exchange rate.

We enter into various agreements in Poland denominated in the Polish zloty. The exchange rate between the U.S. dollar and the Polish zloty is subject to fluctuations that are beyond our control. During 2010, the zloty fluctuated between a low of 2.74 zlotys per U.S. dollar to a high of 3.49 zlotys per U.S. dollar. Variations in exchange rates affect the U.S. dollar-denominated amount of revenue we receive in Polish zlotys. As the U.S. dollar strengthens relative to the zloty, our U.S. dollar-denominated revenue received in Polish zlotys declines; conversely, when the U.S. dollar weakens relative to the zloty, our U.S. dollar-denominated revenue received in Polish zlotys increases. Should exchange rates in effect during early 2011 continue throughout the year, we expect the exchange rates to have a slightly positive impact on our U.S. dollar-denominated revenues compared to 2010.

More information concerning the impact of foreign currency transactions can be found in the discussion that follows, as well as in note 1 in the notes to the consolidated financial statements included in this report.

Results of Operations by Business Segment

We operate within two segments of the oil and gas industry: the exploration and production, or E&P, segment in Poland and the United States, and the oilfield services segment in the United States. Direct revenues and costs, including depreciation, depletion and amortization costs, or DD&A, general and administrative costs, or G&A, and other income directly associated with their respective segments are detailed within the following discussion. DD&A, G&A, amortization of deferred compensation, interest income, other income, interest expense, and other costs, which are not allocated to individual operating segments for management or segment reporting purposes, are discussed in their entirety following the segment discussion. The following table summarizes the results of operations by segment for the years ended December 31, 2010, 2009, and 2008 (in thousands):

	Reportable Segments				
	Exploration & Production		Oilfield Services		
	Poland	U.S.		Non-Segmented	Total
Year ended December 31, 2010:					
Revenues	$ 18,730	$ 4,184	$2,099	$ --	$ 25,013
Net income (loss)[1]	12,389	1,818	(194)	(14,771)	(758)
Year ended December 31, 2009:					
Revenues	$ 9,459	$ 3,313	$1,892	$ --	$ 14,664
Net income (loss)[2]	1,141	1,033	(117)	(2,587)	(530)
Year ended December 31, 2008:					
Revenues	$ 7,799	$ 5,695	$4,347	$ --	$ 17,841
Net income (loss)[3]	(19,548)	(1,847)	725	(34,034)	(54,704)

(1) Nonsegmented reconciling items for 2010 include $7,973 of G&A costs, $1,379 of noncash stock compensation expense, $4,233 of foreign exchange losses, $1,107 of other expense, and $79 of corporate DD&A.
(2) Nonsegmented reconciling items for 2009 include $7,257 of G&A costs, $1,693 of noncash stock compensation expense, $7,053 of foreign exchange gains, $600 of other expense, and $90 of corporate DD&A.
(3) Nonsegmented reconciling items for 2008 include $7,030 of G&A costs, $2,367 of noncash stock compensation expense, $24,279 of foreign exchange losses, $278 of other expense, and $80 of corporate DD&A.

See note 11 in the notes to the consolidated financial statements for additional detail concerning our segment results.

Exploration and Production Segment

Gas Revenues. Revenues from gas sales were $18.7 million during 2010, compared to $9.4 million and $7.4 million in 2009 and 2008, respectively. Gas revenues in 2010 increased from 2009 levels by approximately $1.5 million due to higher gas prices, coupled with approximately $7.8 million related to higher annual production. Our 2009 gas revenues increased from 2008 levels by approximately $3.0 million due to higher production, offset by approximately $1.0 million due to lower year-over-year gas prices.

We recognized an 8% increase in natural gas prices from 2009 to 2010. At Roszkow, we receive approximately 95% of the published low-methane tariff. At Zaniemysl, we receive approximately 70% of the same tariff. With production at Roszkow now dominating Company-wide production, we expect average zloty-based prices to remain higher than pre-Roszkow average prices. The amount of Polish zlotys received per thousand cubic feet of production was approximately 4% higher during 2010 compared to 2009, due primarily to two tariff increases during 2010 by the Polish Energy Regulatory Office. The first tariff increase, effective on July 1, 2010, was for 6.8%. The second increase, effective November 1, 2010, was for 6.4%. All tariffs are denominated in Polish zlotys.

Also during the year, period-to-period strength in the Polish zloty against the U.S. dollar helped augment average U.S. dollar-denominated gas prices related to our legacy Poland production. The average exchange rate during 2010 was 3.02 zlotys per U.S. dollar. The average exchange rate during 2009 was 3.12 zlotys per U.S. dollar, a change of approximately 3%.

The primary driver of our increased production was the commencement, in September 2009, of production at our Roszkow well. Production commenced at an initial rate of approximately 15 MMcfd. A stable rate was established at approximately 14.5 MMcfd in January 2010. Subsequently, in October 2010, the rate was reset by the operator, PGNiG, to approximately 13.4 MMcfd (6.6 MMcfd net to our 49% interest). We expect that rate to be constant through the end of 2011. Gas is being sold to PGNiG at a contracted rate equal to 95% of the published low-methane tariff. As of December 31, 2010, the net price for gas at the Roszkow well was $6.93 per Mcf.

Gas flowed during 2010 at our Zaniemysl well at a steady rate of approximately 10.1 MMcfd, until October, when the operator, PGNiG, reset the rate at approximately 9.4 MMcfd (2.3 MMcfd net to our 24.5% interest). We expect that rate to be constant through the end of 2011. As of December 31, 2010, the net price for gas at the Zaniemysl well was $5.02 per Mcf.

We expect production from our KSK wells to generate significant increases in both revenues and net production during 2011. Just prior to year-end 2010, production began at our Sroda-4 well, where we expect to produce approximately 4.1 MMcfd (2.0 MMcfd net to our 49% interest) throughout 2011. Production facilities at both our Kromolice-1 and Kromolice-2 wells are complete, and we are waiting for the resolution of minor pipeline right-of-way issues before starting production. We expect those wells, combined, to add another 14 MMcfd (6.9 MMcfd net to our 49% interest) to gross daily production. We will receive 86% of the low-methane tariff, adjusted for energy content), for our KSK production.

Production at our Kleka well in western Poland ceased during the second quarter of 2010. We have impaired the remaining capitalized costs at Kleka and are planning to plug the well.

A summary of the amount and percentage change, as compared to their respective prior-year period, for gas revenues, average gas prices, gas production volumes, and lifting costs per Mcf for the years ended December 31, 2010, 2009, and 2008, is set forth in the following table:

	Year Ended December 31,		
	2010	**2009**	**2008**
Revenues	$18,730,000	$9,430,000	$7,404,000
Percent change versus prior year	+99%	+27%	-19%
Average price (per Mcf)	$5.39	$5.01	$5.92
Percent change versus prior year	+8%	-15%	+20%
Production volumes (Mcf)	3,473,000	1,882,000	1,251,000
Percent change versus prior year	+85%	+50%	-32%
Lifting costs per Mcf [(1)]	$0.29	$0.48	$0.65
Percent change versus prior year	-40%	-26%	+3%

(1) Lifting costs per Mcf are computed by dividing the related lease operating expenses by the total volume of gas produced.

Oil Revenues. Oil revenues were $4.2 million, $3.3 million, and $6.1 million for the years ended December 31, 2010, 2009, and 2008, respectively. Significantly higher average oil prices in 2010 compared to 2009 was the cause for the increase in revenues. Our average oil price during 2010 was $68.09 per barrel, a 31% increase compared to $52.03 per barrel received during 2009. Production from our U.S. properties declined by 4% due to normal production declines.

Included in oil revenues were approximately $0, $29,000, and $394,000, related to the sale of oil at our Wilga well in Poland for the years ended December 31, 2010, 2009, and 2008, respectively. All other oil revenues during the three years were derived from our producing properties in the United States. U.S. oil revenues in 2010 increased from 2009 levels by approximately $1.0 million due to higher oil prices, offset by approximately $100,000 related to production declines. U.S. oil revenues in 2009 decreased from 2008 levels by approximately $2.2 million due to lower oil prices, in addition to approximately $150,000 related to production declines.

A summary of the amount and percentage change, as compared to their respective prior-year period, for oil revenues, average oil prices, oil production volumes, and lifting costs per barrel for the years ended December 31, 2010, 2009, and 2008, is set forth in the following table:

	Year Ended December 31,		
	2010	**2009**	**2008**
Revenues	$4,184,000	$3,342,000	$6,090,000
Percent change versus prior year	+25%	-45%	+5%
Average price (per Bbl)	$68.09	$52.03	$88.01
Percent change versus prior year	+31%	-41%	+45%
Production volumes (Bbl)	61,463	64,226	69,192
Percent change versus prior year	-4%	-7%	-27%
Lifting costs per Bbl [(1)]	$39.84	$40.08	$38.07
Percent change versus prior year	-1%	+5%	+41%

(1) Lifting costs per barrel are computed by dividing the related lease operating expenses by the total barrels of oil produced. Light crude oil lifting costs in Poland are based on an allocation of total costs based on relative revenues between oil and gas. Lifting costs include production taxes incurred in the United States.

Lease Operating Costs. Lease operating costs were $3.5 million in 2010, $3.5 million in 2009, and $3.4 million in 2008. Operating costs in Poland increased slightly in 2010 with a full year of production at our Roszkow well. Operating costs in the United States decreased slightly in 2010 due to fewer remediation procedures at our producing wells. Operating costs increased slightly in 2009 from 2008 as production began during the third quarter of 2009 at the Roszkow well.

Exploration Costs. Exploration expenses consist of geological and geophysical costs as well as the costs of exploratory dry holes. Exploration costs were $3.0 million, $4.8 million, and $15.4 million for the years ended December 31, 2010, 2009, and 2008, respectively. The decline from 2008 to 2009 was related to our response in late 2008 and 2009 to unsettled economic conditions by reducing expenses and preserving our available capital.

Geological and geophysical costs, or G&G costs, were $2.0 million, $4.7 million, and $15.0 million for the years ended December 31, 2010, 2009, and 2008, respectively. During all three years, most of our G&G costs were spent on acquiring, processing, and interpreting new 3-D and 2-D seismic data in the Fences area in Poland.

Exploratory dry-hole costs were $1.0 million, $0.2 million, and $0.4 million for the years ended December 31, 2010, 2009, and 2008, respectively. During 2010, recompletion attempts failed to establish commercial production at our Zakowo project in Poland. During 2009, we drilled one dry hole in Nevada. During 2008, we drilled three shallow dry holes: two in Montana and one in Nevada.

Impairment Costs. Impairments of oil and gas properties were $0.6 million, $1.9 million, and $14.7 million for the years ended December 31, 2010, 2009, and 2008, respectively. As discussed previously, production at our Kleka and Wilga wells ceased during 2010 and 2009, respectively, and we impaired their remaining capital costs. During 2008, we impaired $7.2 million and $3.8 million related to our Grundy and Sroda-6 wells in Poland, respectively, and an additional $3.7 million related to our producing properties in Montana. See note 1 in the notes to the consolidated financial statements for more information about our 2008 impairments.

Asset Retirement Obligation. We recorded gains associated with future asset retirement obligations of $0.3 million and $0.5 million for the years ended December 31, 2010 and 2009, respectively. When the present value of a future asset retirement obligation changes due to the increase or decrease of the estimated plugging costs of that asset, we adjust the related asset retirement cost. During both 2010 and 2009, the economic lives of our United States oil wells were increased, as higher oil prices resulted in more economic barrels. This change resulted in a decrease in the net present value of the retirement obligations, which in turn resulted in gains associated with those obligations, as the related asset retirement costs had been previously written off.

DD&A Expense - Producing Operations. DD&A expense for producing properties was $1.8 million, $0.9 million, and $1.2 million for the years ended December 31, 2010, 2009, and 2008, respectively. The 100% increase from 2009 to 2010 is primarily related to a downward reserve revision at our Roszkow well, which is discussed below. The decrease from 2008 to 2009 arose primarily because we impaired the bulk of capital costs associated with our domestic oil properties during 2008, which reduced the depletion base for 2009.

Future DD&A costs are expected to generally, but not completely, follow future production trends. However, future DD&A rates can be very different depending upon future capitalized costs and changes in reserve volumes.

Oilfield Services Segment

Oilfield Services Revenues. Oilfield services revenues were $2.1 million, $1.9 million, and $4.3 million for the years ended December 31, 2010, 2009, and 2008, respectively. We drilled 25 wells for third parties during 2010; however, most of these were shallow wells, which can be drilled in only two to three days and generate less revenue per well than deeper wells. We also drilled 25 similar wells for third parties during 2009, along with additional well service work, compared to 23 deeper wells during 2008. Oilfield services revenues will continue to fluctuate from period to period based on market demand, weather, the number of wells drilled, downtime for equipment repairs, the degree of emphasis on using our oilfield services equipment on our own properties, and other factors. We cannot accurately predict future oilfield services revenues.

Oilfield Services Costs. Oilfield services costs were $1.6 million, $1.4 million, and $2.8 million for the years ended December 31, 2010, 2009, and 2008, respectively, or 74%, 75%, and 63% of oilfield-servicing revenues, respectively. The decrease from 2008 to 2009 and the increase from 2009 to 2010 were primarily due to the nature of our drilling activity discussed above. In general, oilfield-servicing costs are closely associated with oilfield services revenues. As such, oilfield services costs will continue to fluctuate period to period based on the number of wells drilled, revenues generated, weather, downtime for equipment repairs, the degree of emphasis on using our oilfield services equipment on our own properties, and other factors.

DD&A Expense – Oilfield Services. DD&A expense for oilfield services was $743,000, $597,000, and $411,000 for the years ended December 31, 2010, 2009, and 2008, respectively. We spent $1,124,000, $925,000, and $1,008,000 on upgrading our oilfield-servicing equipment during 2010, 2009, and 2008, respectively. These capital additions resulted in higher DD&A expenses for this segment during 2009 and 2010.

Bad Debt Expense – Oilfield Services. Bad debt expense was $0, $0, and $460,000 for the years ended December 31, 2010, 2009, and 2008, respectively. During 2008, we wrote off as uncollectible $460,000 related to revenue recognized during 2007 for third-party drilling services. This was the first bad debt charged to expense in our history. We have incurred no bad debt charges since 2008, and we do not expect to incur further bad debt charges in the future.

Nonsegmented Items

G&A Costs - Corporate. G&A costs were $8.0 million, $7.3 million, and $7.0 million for the years ended December 31, 2010, 2009, and 2008, respectively. Our 2010 G&A costs rose from 2009 levels primarily due to higher compensation and consulting costs.

Stock Compensation. Stock compensation expense recorded for 2010 represents $1.4 million of amortization related to restricted stock granted in 2010, 2009, 2008, and 2007. Stock compensation expense recorded for 2009 represents $1.7 million of amortization related to restricted stock granted in 2009, 2008, 2007, and 2006. Stock compensation expense recorded for 2008 represents $2.3 million of amortization related to restricted stock granted in 2008, 2007, 2006, and 2005.

Interest and Other Income (Expense) - Corporate. Interest and other income (expense) was $(1.1) million, $(600,000), and $(278,000) for the years ended December 31, 2010, 2009, and 2008, respectively. During 2010, we incurred $1.9 million in interest expense. In connection with our new, expanded credit facility, we charged $577,000 of previously unamortized loan fees associated with our prior credit facility to interest expense during this period. We also recorded $394,000 of amortization of loan fees and $223,000 in unused commitment fees. Interest and other income was $829,000 during 2010. Included in the 2010 amount was a gain of approximately $772,000 attributable to the sale of tubing associated with our Grundy-1 well, which was drilled and abandoned during 2008.

During 2009, we amortized $239,000 related to fees incurred in securing our 2008 senior credit facility. We also paid $415,000 in interest on outstanding borrowings. These interest-related costs were offset by interest income of $54,000. During 2008, we amortized $210,000 related to fees incurred in securing our 2008 senior credit facility to interest expense and paid $111,000 in commitment fees for the facility. We also paid $351,000 in interest on outstanding borrowings. These interest-related costs were offset by interest income of $394,000.

Foreign Exchange. We incurred foreign exchange losses of $4.2 million, gains of $7.1 million, and losses of $24.3 million for the years ended December 31, 2010, 2009, and 2008, respectively. Included in the 2009 gain and 2008 loss were $1.2 million and $0.9 million, respectively, related to mark-to-market and settlement adjustments to Polish zloty forward contracts.

Income Taxes. We incurred net losses of $0.8 million, $0.5 million, and $54.7 million for the years ended December 31, 2010, 2009, and 2008, respectively. Accounting standards require that a valuation allowance be provided if it is more likely than not that some portion or all of a deferred tax asset will not be realized. Our ability to realize the benefit of our deferred tax asset will depend on the generation of future taxable income through profitable operations and the expansion of our exploration and development activities. The market and capital risks associated with achieving the above requirement are considerable, resulting in our conclusion that a full valuation allowance be provided. Accordingly, we did not recognize any income tax benefit in our consolidated statement of operations for these years.

Proved Reserves

Oil and Gas Reserves

Reserves were down modestly at year-end 2010 due to the combination of record gas production, negative revisions, and no new discoveries for 2010. However, higher average oil prices extended the economic life for our oil properties and increased oil reserve volumes and values.

The following table highlights year-end reserve volumes and values and shows the change from 2009 to 2010:

	2010	2009	Change
	(In thousands)		
Proved Reserve Volumes:			
Gas Reserves (Mcf)	39,959	47,668	-16%
Oil Reserves (Bbls)	639	463	+38%
Total Reserves (Mcfe)	43,793	50,446	-13%
Proved Reserve Values:			
Reserves PV-10 Value	$127,337	$145,823	-13%

Subsequent to year-end 2010, we completed drilling at our Lisewo-1 well. Our independent reserve engineers have calculated proved and P50 reserves for that well of approximately 12.7 Bcf and 17.7 Bcf of gas, respectively, net to our interest, with a net PV-10 Value of proved reserves at February 28, 2011, of $16.0 million.

Apart from a reduction due to annual production, we recorded downward revisions at our Kleka and Roszkow wells, which were offset by small upward revisions at our Zaniemsyl and KSK wells. Our Kleka well stopped producing in early 2010. At Roszkow, new pressure data indicates that the initial gas-in-place may be less than originally estimated, and our engineers used that data to calculate reduced initial gas-in-place and proved reserves. However, proved plus probable reserves, which reflect the most likely case of initial gas-in-place and reserve recovery, remain unchanged (except for 2010 production) at year-end 2010, demonstrating the uncertain nature of the pressure data. We also recorded upward revisions of approximately 238,000 barrels of oil in the United States, primarily due to higher oil prices resulting in more economically recoverable barrels. We have historically added reserves through our exploration and development activities. Changes in proved reserves were as follows:

	2010	2009	2008
(MMcfe)			
Proved Reserves Beginning of Year	50,446	45,864	34,092
Extensions, Discoveries, and Other Additions	--	6,333	11,295
Revisions of Previous Estimates	(2,814)	515	2,148
Production	(3,839)	(2,266)	(1,671)
Proved Reserves End of Year	43,793	50,446	45,864

Extensions, Discoveries, and Other Additions. These are no additions to proved reserves that result from the discovery of new fields with proved reserves.

Revisions. Revisions represent changes in previous reserves estimates, either upward or downward, resulting from new information normally obtained from development drilling and production history or resulting from a change in economic factors, such as commodity prices, operating costs, or development costs. Revisions at year-end 2010 included downward revisions in Poland due to interpretations of new reservoir pressure data at our Roszkow well, while upward revisions occurred in the United States due to higher oil prices. Revisions at year-end 2009 included upward oil revisions due to higher crude oil prices, offset by downward gas revisions due to the cessation of production at our Wilga well. At year-end 2008, upward gas revisions in Poland were attributable to our Sroda-4 and Zaniemysl-3 wells due to additional technical data acquired during 2008, while downward oil revisions were due to lower year-end oil prices in the United States.

Production. See "Gas Revenues" and "Oil Revenues" above.

2011 Operational Trends

We currently expect that our 2011 production will rise significantly from our 2010 production rates as we place our three KSK wells into production, with the last two beginning production in the second quarter of 2011. We expect those wells, combined, to add another 6.9 MMcfd to our 2010 base natural gas production of approximately 9.5 MMcfd. This would bring our 2011 natural gas production to approximately 16 MMcfd. We will receive 86% of the published low-methane tariff, adjusted for energy content, for our KSK production. The amount of revenue from this increased production will depend on applicable gas purchase prices and prevailing currency exchange rates.

After 2011, normal declines in production rates from our existing wells in Poland should be more than offset by production from our Winna Gora well, which is waiting on production facilities.

Future oil revenues from our domestic production will depend on the impact of prices we receive as we continue to experience normal production declines. We cannot accurately predict future oilfield services revenues and related costs, which will continue to fluctuate based on market demand, weather, the number of wells drilled, downtime for equipment repairs, the nature and extent of any equipment upgrading, the degree of emphasis on using our oilfield services equipment on our own properties, and other factors.

Costs that vary in concert with production, such as lease operating expenses and DD&A costs, will trend up or down with production increases or decreases. Our 2011 plans for capital expenditures are detailed in the following section, "Liquidity and Capital Resources – Our Capital Resources and Future Expenditures."

Our U.S. dollar-denominated financial results will continue to be impacted by exchange-rate fluctuations, which cannot be predicted.

Liquidity and Capital Resources

For much of our history (particularly through 2009), we have financed our operations principally through the sale of equity securities, bank borrowings, and agreements with industry participants that funded our share of costs in certain exploratory activities in return for an interest in our properties. However, as our oil and gas production has increased in Poland in the last several years and as higher oil prices have improved the profitability of our U.S. production, our internally generated cash flow has become a significant source of operations financing.

2010 Liquidity and Capital

Working Capital (current assets less current liabilities). Our working capital was $18.2 million as of December 31, 2010, an increase of $14.8 million from December 31, 2009. Our current assets at year-end 2010 included approximately $2.6 million in accrued oil and gas sales from both the United States and Poland and $1.8 million in receivables from PGNiG related to the construction of our KSK production facilities in Poland, where we act at the operator. Our current liabilities at year-end included approximately $4.2 million in costs related to KSK facilities that were paid in early 2011.

Operating Activities. Net cash provided by operating activities during 2010 was $7.2 million. We used net cash of $5.8 million and $14.2 million in our operating activities during 2009 and 2008, respectively, primarily as a result of the net losses, excluding noncash charges, incurred in those years. Higher revenues in 2010, associated with our increased levels of gas production in Poland, were the primary factor in our improved 2010 results.

Investing Activities. We used net cash in investing activities of $7.8 million, $4.0 million, and $11.8 million in 2010, 2009, and 2008, respectively. In 2010, we spent $6.5 million for oil and gas property additions, $6.0 million of which was related to our Polish drilling activities, with the remainder being spent on our domestic properties. We also spent $1.3 million adding to our oilfield services equipment.

In 2009, we received $4.7 million from the maturities of marketable securities and invested $11,000 in marketable securities. We spent $7.7 million for oil and gas property additions, $7.2 million of which was related to our Polish drilling activities, with the remainder being spent on our domestic properties. We also spent $83,000 upgrading our office equipment and $0.9 million adding to our oilfield services equipment.

In 2008, we received $11.3 million from the maturities of marketable securities and invested $186,000 in marketable securities. We spent $21.8 million for oil and gas property additions, $20.0 million of which was related to our Polish drilling activities, with the remainder being spent on our domestic properties. We also spent $169,000 upgrading our office equipment and $1.0 million adding to our oilfield services equipment.

Financing Activities. Our cash flow from financing activities during 2010 was $16.1 million. We used net cash in financing activities of $2.7 million during 2009. We received net cash from financing activities of $40.1 million in 2008.

During 2010, we borrowed $35 million under our expanded credit facility, using $25 million to repay our 2008 credit facility and $2.5 million in fees associated with the expanded credit facility. In addition, we sold 1.5 million shares of stock in a registered direct offering, resulting in net proceeds to us of $8.4 million. Option holders exercised options to purchase 152,892 shares of common stock, resulting in proceeds to us of an additional $0.2 million.

During 2009, we paid $2.8 million towards a loan related to auction-rate securities. In addition, options and warrants to purchase 55,000 shares of common stock were exercised during the year, resulting in proceeds to us of $132,000.

During 2008, we borrowed $25 million under our senior credit facility with Royal Bank of Scotland and $3.4 million as a loan related to auction-rate securities, of which $546,000 was repaid by December 31, 2008. In addition, options and warrants to purchase 3,648,369 shares of common stock were exercised, resulting in proceeds to us of $12.3 million.

Our Capital Resources and Future Expenditures

Our anticipated sources of liquidity and capital for 2011 include our working capital of $18.2 million at year-end 2010, available credit of $20 million under our expanded credit facility when we meet the benchmarks discussed below, cash available from our operations, and proceeds from the possible sale of securities.

In August 2010, we refinanced our existing facility by executing an expanded credit facility with The Royal Bank of Scotland, ING Bank N.V., and KBC Bank NV. The expanded credit facility calls for a periodic interest rate of LIBOR plus 4.0% and has a term of five years, with semi-annual borrowing base reductions of $11 million each beginning on June 30, 2013. The expanded credit facility is an interest-only facility until June 2013. As of December 31, 2010, we had drawn $35.0 million under the expanded credit facility. We have access to $40 million under the expanded credit facility until our KSK wells have been in production for 30 days, at which time the full $55 million becomes available. We expect to reach this benchmark in the second quarter of 2011. Proceeds from the expanded credit facility are intended to support our operating activities in Poland. Further, we think our total credit line could be expanded, even without including our recent 2011 Lisewo-1 discovery in a revised credit facility.

Production from our Roszkow well added significant, incremental revenue and cash flow during 2010. As of December 31, 2010, we had recently commenced production from one of the KSK wells and expect production from the last two KSK wells to commence as new production facilities are completed in the second quarter of 2011. We are using proceeds on hand from our expanded credit facility to pay for those facilities. We expect these three new wells, with anticipated aggregate initial production of approximately 14 MMcfd of gas (6.9 MMcfd net to us), will increase funds available for exploration and development by approximately $10 to $12 million in 2011 over 2010 levels. Our Winna Gora well is expected to begin production in 2012. In addition, after year-end 2010, we drilled the successful Lisewo-1 well in our Fences concession, which we expect to significantly further increase revenue in 2013.

We have an effective universal shelf registration statement under the Securities Act under which we may sell up to $200 million of equity or debt securities of various kinds. In December 2010, we sold 1.5 million shares of stock for $9.0 million in a registered direct offering, which resulted in net proceeds to us of approximately $8.4 million. Also in December 2010, we entered into an agreement to possibly sell up to $50 million in common stock during the next two years in at-the-market transactions. Through the date of this filing, we have not yet sold any stock under that agreement. The $141.0 balance of securities available for sale under the registration statement is available for sale at any time, subject to market conditions and our ability to access the capital markets, to further finance our exploration and development plans in Poland and for other corporate purposes.

Prior to year-end, we committed to a $4.5 million 2-D seismic project in our Warsaw South concession. Subsequent to that commitment, we signed a Letter of Intent with PGNiG, wherein it has the option to farm-in to our Warsaw South acreage by paying 100% of the costs of the seismic project, as well as covering 100% of the costs of the first test well in the area. In December 2010, we also entered into agreements to provide for most of the drilling costs, or an estimated $20 million, of a test well on the Kutno structure to be paid by two other companies in order for them together to earn a 75% interest in the area. As a result of the above arrangements, we do not expect to require significant capital to advance exploration of these project areas during 2011. Other than for remaining costs associated with the KSK production facilities, we had no other firm commitments for future capital and exploration costs at 2010 year end.

We expect our primary use of cash for 2011 will be for our exploration and development activities in Poland. We expect the cost of these activities to range from $40 to $65 million for 2-D and 3-D seismic data acquisition and analysis, production facilities for existing discoveries, and additional exploration drilling. The actual amount of our expenditures will depend on ongoing exploration results; the pace at which PGNiG, our operating partner in the Fences project area, determines to participate; the availability of drilling and other exploration resources; and the amount of capital we obtain from the various sources discussed above. Our various sources of liquidity and capital outlined above should more than enable us to meet our capital needs in Poland and the United States for the next 12 months.

Based on current conditions, we presently expect our exploration and development programs will continue in spite of uncertain global economic conditions; however, in recognition of the ongoing downturn, we plan to continue, as we did throughout 2009 and 2010, matching capital spending with our discretionary cash flow, increased debt capacity, and proceeds from the sale of securities. We have the ability to control the timing and amount of most of our future capital and exploration costs.

We may continue to incur operating losses in future periods, and we continue to fund substantial exploration and development in Poland. We have a history of operating losses. From our inception in January 1989 through December 31, 2010, we have incurred cumulative net losses of approximately $161 million. Despite our recent and expected future increases in production and revenues, our exploration and production activities may continue to result in net losses in future years, depending on the success of our drilling activities in Poland and the United States and whether we generate sufficient revenues to cover related operating expenses. While revenues from our operations exceed our fixed operating and overhead costs, we reported negative cash flow from operating activities as recently as 2009 and 2008.

We may also seek to obtain additional funds for future capital investments from the sale of partial property interests or arrangements such as those recently negotiated for our Kutno and Warsaw South project areas in which industry participants are bearing the initial exploration costs to earn an interest in the project or other arrangements, all of which may dilute the interest of our existing stockholders or our interest in the specific project financed.

We will allocate our existing capital, as well as funds we may obtain in the future, among our various projects at our discretion. We may change the allocation of capital among the categories of anticipated expenditures depending upon future events. For example, we may change the allocation of our expenditures based on the actual results and costs of future exploration, appraisal, development, production, property acquisition, and other activities. In addition, we may have to change our anticipated expenditures if costs of placing any particular discovery into production are higher, if the field is smaller, or if the commencement of production takes longer than expected.

Contractual Obligations and Contingent Liabilities and Commitments

Contractual Obligations. At December 31, 2010, the aggregate amounts of our contractually obligated payment commitments for the next five years are as follows:

	Total	**2011**	**2012**	**2013**	**2014**	**2015**
			(In thousands)			
Expanded credit facility	$35,000	$ --	$ --	$ 2,000	$ 22,000	$ 11,000
Interest payments on long-term debt	5,918	1,575	1,575	1,530	990	248
Total	$40,918	$1,575	$1,575	$3,530	$22,990	$11,248

Under the terms of our $55 million credit facility, the amount of credit available is reduced by $11 million each six months, beginning on June 30, 2013. As of December 31, 2010, we had borrowed $35 million under the facility, and the reduction of that amount is illustrated in the table above.

During the ordinary course of business in Poland, we enter into agreements for the drilling of wells, the construction of production facilities, and for seismic projects. These are typically short-term agreements and are completed in less than one year. We are subject to certain work commitments respecting our 100%-owned exploration concessions that must be satisfied in order to maintain our interest in those concessions. These work commitments are optional on our part; however, they must be satisfied in order to maintain our interest in those concessions. We can request changes to usufruct and concession agreements that either modify the obligations to reduce our commitments or extend the terms of those agreements. During our time in Poland, we have been granted either modifications or extensions each time we have requested them. In addition, we routinely relinquish acreage that we believe has lower potential rather than continue to be subject to the related work commitment. Our exploration budget and related activities are focused on exploration and long-term exploitation of our most promising exploration opportunities and are not specifically or primarily focused on meeting these work commitments.

Our oil and gas drilling and production operations are subject to hazards incidental to the industry that can cause severe damage to and destruction of property and equipment, pollution or environmental damage, suspension of operations, personal injury, and loss of life. To lessen the effects of these hazards, we maintain insurance of various types to cover our United States and Poland operations and also rely on the insurance or financial capabilities of our exploration partners in Poland. These measures do not cover risks related to violations of environmental laws or all other risks involved in oil and gas exploration, drilling, and production. We would be adversely affected by a significant event that is not fully covered by insurance or by our inability to maintain adequate insurance in the future at rates we consider reasonable.

Asset Retirement Obligation. We have liabilities of $1.2 million related to asset retirement obligations on our Consolidated Balance Sheet at December 31, 2010, excluded from the table above. Due to the nature of these obligations, we cannot determine precisely when the payments will be made to settle these obligations.

New Accounting Pronouncements

Recent Securities and Exchange Commission Rule-Making Activity

In January 2010, the Financial Accounting Standards Board, or FASB, issued new standards intended to improve disclosures about fair value measurements. The new standards require details of transfers in and out of Level 1 and Level 2 fair value measurements and the gross presentation of activity within the Level 3 fair value measurement roll forward. The new disclosures are required of all entities that are required to provide disclosures about recurring and nonrecurring fair value measurements. We adopted these new rules effective January 1, 2010, except for the gross presentation of the Level 3 fair value measurement roll forward, which we adopted December 31, 2010.

In all cases referenced above, the adoption of the new rules or standards did not have a material impact on our results of operations and financial condition. We have reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on our consolidated results of operations, financial position, and cash flows. Based on that review, we believe that none of these pronouncements will have a significant effect on current or future earnings or operations.

Critical Accounting Policies

Oil and Gas Activities

We follow the successful efforts method of accounting for our oil and gas properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well has not found proved reserves, these costs plus the costs of drilling the well are expensed. The costs of development wells are capitalized, whether productive or nonproductive. Geological and geophysical costs on exploratory prospects and the costs of carrying and retaining unproved properties are expensed as incurred. An impairment allowance is provided to the extent that net capitalized costs of unproved properties, on a property-by-property basis, are not considered to be realizable. An impairment loss is recorded if the net capitalized costs of proved oil and gas properties exceed the aggregate undiscounted future net cash flows determined on a property-by-property basis. The impairment loss recognized equals the excess of net capitalized costs over the related fair value, determined on a property-by-property basis. Gains and losses are recognized on sales of entire interests in proved and unproved properties. Sales of partial interests are generally treated as a recovery of costs and any resulting gain or loss is recorded as other income. Revenues associated with oil and gas sales are recorded when title passes, which is upon delivery to the pipeline or purchaser, and are net of royalties. Oilfield service revenues are recognized when the related service is performed. As a result of the foregoing, our results of operations for any particular period may not be indicative of the results that could be expected over longer periods.

Oil and Gas Reserves

All of the reserves data in this Form 10-K are estimates. Estimates of our crude oil and natural gas reserves are prepared by our engineers in accordance with guidelines established by the Securities and Exchange Commission, including the recent rule revisions designed to modernize the oil and gas company reserves reporting requirements, which we adopted effective December 31, 2009. Reservoir engineering is a subjective process of estimating underground accumulations of crude oil and natural gas. There are numerous uncertainties inherent in estimating quantities of proved crude oil and natural gas reserves. Uncertainties include the projection of future production rates and the expected timing of development expenditures. The accuracy of any reserves estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, reserves estimates may be different from the quantities of crude oil and natural gas that are ultimately recovered. In addition, economic producibility of reserves is dependent on the oil and gas prices used in the reserves estimate. We based our December 31, 2010, reserves estimates on a 12-month average commodity price, unless contractual arrangements designated the price to be used, in accordance with Securities and Exchange Commission rules. However, oil and gas prices are volatile and, as a result, our reserves estimates will change in the future.

Estimates of proved crude oil and natural gas reserves significantly affect our DD&A expense. For example, if estimates of proved reserves decline, the DD&A rate will increase, resulting in a decrease in net income. A decline in estimates of proved reserves could also cause us to perform an impairment analysis to determine if the carrying amount of crude oil and natural gas properties exceeds fair value and could result in an impairment charge, which would reduce earnings. See Financial Statements and Supplementary Data – Supplemental Oil and Gas Information (Unaudited).

Stock-based Compensation

Share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Price Risk

Substantially all of our gas in Poland is sold to PGNiG or its affiliates under contracts that extend for the life of each field. Prices are determined contractually and, in the case of our producing wells in Poland, are tied to published tariffs. The tariffs are set from time to time by the public utility regulator in Poland. Although we are not directly subject to such tariffs, we have elected to link our price to these tariffs in our contracts with PGNiG. We expect that the prices we receive in the short term for gas we produce will be lower than would be the case in an unregulated setting and may be lower than prevailing western European prices. We believe it is more likely than not that, over time, the end user gas price in Poland will converge with the average price in Europe.

Realized pricing for our oil production in the United States is primarily driven by the prevailing worldwide price of oil, subject to gravity and other adjustments for the actual oil sold. Historically, oil prices have been volatile and unpredictable. Price volatility relating to our oil production is expected to continue in the foreseeable future.

We currently do not engage in any hedging activities to protect ourselves against market risks associated with oil and gas price fluctuations, although we may elect to do so in the future.

Foreign Currency Risk

We enter into various agreements in Poland denominated in the Polish zloty. The Polish zloty is subject to exchange-rate fluctuations that are beyond our control. During 2010, the zloty fluctuated between a low of 2.74 zlotys per U.S. dollar to a high of 3.49 zlotys per U.S. dollar. Variations in exchange rates affect the U.S. dollar-denominated amount of revenue we receive in Polish zlotys. As the U.S. dollar strengthens relative to the zloty, our U.S. dollar-denominated revenue received in Polish zlotys declines; conversely, when the U.S. dollar weakens relative to the zloty, our U.S. dollar-denominated revenue received in Polish zlotys increases. Should exchange rates in effect during early 2011 continue throughout the year, we expect the exchange rates to have a slightly positive impact on our U.S. dollar-denominated revenues compared to 2010.

At the same time, however, our U.S. dollar-denominated costs of conducting business in Poland, which includes drilling, geological and geophysical, and overhead costs, will also change as exchange rates fluctuate. We are also generating revenues in Poland in Polish zlotys, and we keep those zlotys in Poland and use them to pay zloty-based invoices.

Our policy is to reduce currency risk by, under ordinary circumstances and when necessary, transferring dollars to zlotys or fixing the exchange rate for future transfers of dollars to zlotys, on or about the occasion of making significant commitments payable in Polish currency, taking into consideration the future timing and amounts of committed costs and the estimated timing and amounts of zloty-based revenues.

During October 2008, we drew down the remaining $14 million available under our then-existing senior credit facility to ensure that we had the necessary capital on hand to meet existing commitments. At the same time, we purchased approximately $13.9 million in Polish zloty forward contracts. These contracts matured at the end of each month, beginning in October 2008 and concluding in March 2009. The rate for each of the contracts was 2.50 zlotys per U.S. dollar, which at the time was a 52-week low for the zloty. Due to rapidly deteriorating exchange rates during the final two months of 2008, these contracts, coupled with other transaction losses, caused us to record foreign exchange transaction losses during the year of $2.5 million. As of year-end 2008, we had three outstanding contracts denominated in U.S. dollars as follows: $2.5 million that matured January 30, 2009; $2.1 million that matured February 27, 2009; $1.1 million that matured March 31, 2009. In connection with these outstanding contracts, we recorded a loss of approximately $888,000 when we marked them to market at December 31, 2008, when the exchange rate was 2.96 zlotys per U.S. dollar. During 2009, we recorded additional losses of $1.4 million related to these contracts. We did not enter into any currency hedging arrangements during 2010.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the periods specified by the Securities and Exchange Commission's rules and forms, and that information is accumulated and communicated to our management, including our principal executive and principal financial officers (whom we refer to in this periodic report as our Certifying Officers), as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Certifying Officers, the effectiveness of our disclosure controls and procedures as of December 31, 2010, pursuant to Rule 13a-15(b) under the Securities Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of December 31, 2010, our disclosure controls and procedures were effective.

Internal Control over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, management's report on internal control over financial reporting and the report of PricewaterhouseCoopers LLP, our independent registered public accounting firm, on the effectiveness of internal control over financial reporting are included on pages F-1 and F-2 of this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock and Dividend Policy

The following table sets forth, for the periods indicated, the high and low closing prices for our common stock as quoted under the symbol "FXEN" on the NASDAQ Global Market, or its predecessor, Nasdaq National Market:

	Low	High
2011:		
First Quarter (through March 4, 2011)	$6.20	$11.76
2010:		
Fourth Quarter	4.12	6.74
Third Quarter	3.02	4.14
Second Quarter	3.40	4.88
First Quarter	2.85	3.55
2009:		
Fourth Quarter	2.39	3.28
Third Quarter	3.05	4.71
Second Quarter	2.91	4.56
First Quarter	2.13	3.54

We have never paid cash dividends on our common stock and do not anticipate that we will pay dividends in the foreseeable future. We intend to reinvest any future earnings to further expand our business. As of March 4, 2011, we had approximately 8,200 stockholders.

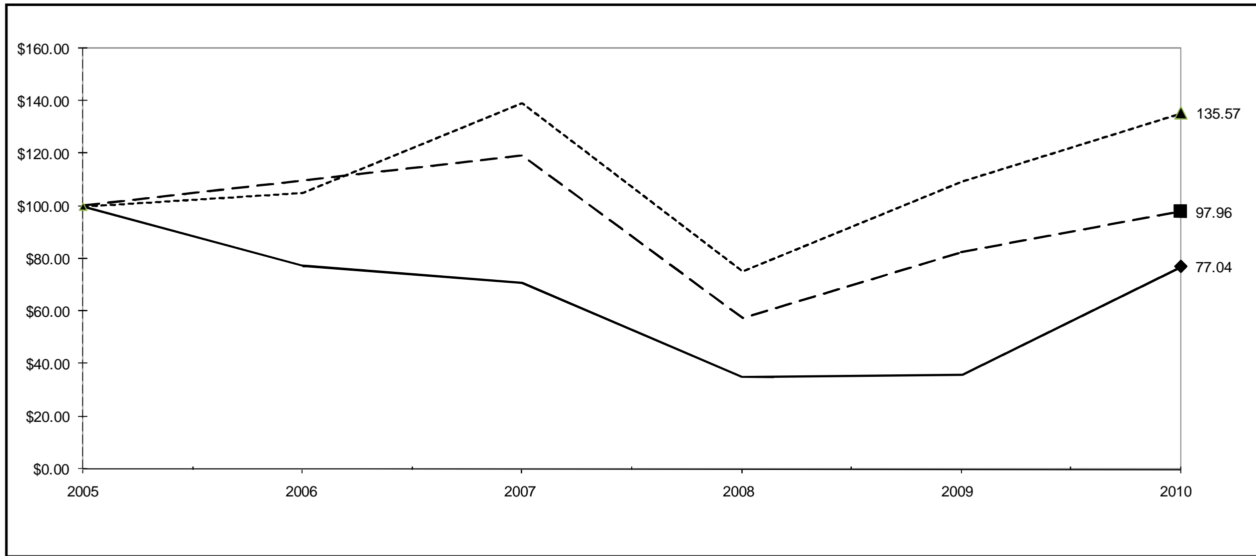
Recent Sales of Unregistered Securities

None.

Comparison of Five-Year Cumulative Total Returns

Performance Graph for

FX ENERGY, INC.



Legend

Symbol		CRSP Total Returns Index for:	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/10
________	◆	FX ENERGY, INC.	100.00	77.29	71.15	34.95	35.70	77.04
_ _ _ _ _ _	■	NASDAQ Stock Market (US Companies)	100.00	109.84	119.14	57.41	82.53	97.96
…………	▲	NASDAQ Stocks (SIC 1311 US Companies) Crude Petroleum and Natural Gas	100.00	105.06	139.31	75.33	109.36	135.57

Notes:
- A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
- B. The indexes are reweighted daily using the market capitalization on the previous trading day.
- C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
- D. The index level for all series was set to $100 on 12/31/2005.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of FX Energy, Inc., together with its consolidated subsidiaries (the Company), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed by the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of the Company's 2010 fiscal year, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2010, was effective.

The Company's internal control over financial reporting includes policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the 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 Company's consolidated financial statements.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010, has been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm, as stated in its report appearing on pages F-2 and F-3.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
of FX Energy, Inc. and its subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive loss, of cash flows and of stockholders' equity (deficit) present fairly, in all material respects, the financial position of FX Energy, Inc. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, 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 Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers LLP

Salt Lake City, Utah
March 7, 2011

FX ENERGY, INC., AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31, 2010 and 2009
(in thousands)

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,740	$ 4,225
Receivables:		
Accrued oil and gas sales	2,617	2,875
Joint interest and other receivables	2,013	918
VAT receivable	392	--
Inventory	242	232
Other current assets	293	394
Total current assets	25,297	8,644
Property and equipment, at cost:		
Oil and gas properties (successful efforts method):		
Proved	38,528	32,700
Unproved	3,320	3,403
Other property and equipment	8,853	7,654
Gross property and equipment	50,701	43,757
Less accumulated depreciation, depletion and amortization	(12,327)	(11,466)
Net property and equipment	38,374	32,291
Other assets:		
Certificates of deposit	406	406
Loan fees	2,527	729
Total other assets	2,933	1,135
Total assets	$ 66,604	$ 42,070

-Continued-

The accompanying notes are an integral part of these consolidated financial statements.

FX ENERGY, INC., AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31, 2010 and 2009
(in thousands, except share data)
-Continued-

	2010	2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,742	$ 3,569
VAT payable	--	575
Accrued liabilities	1,343	1,048
Total current liabilities	7,085	5,192
Long-term liabilities:		
Notes payable	35,000	25,000
Asset retirement obligation	682	1,133
Total long-term liabilities	35,682	26,133
Total liabilities	42,767	31,325
Commitments and Contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized as of December 31, 2010 and 2009; no shares outstanding	--	--
Common stock, $0.001 par value, 100,000,000 shares authorized as of December 31, 2010 and 2009; 45,284,527 and 43,037,540 shares issued and outstanding as of December 31, 2010 and 2009, respectively	45	43
Additional paid-in capital	171,167	160,594
Cumulative translation adjustment	14,013	10,738
Accumulated deficit	(161,388)	(160,630)
Total stockholders' equity	23,837	10,745
Total liabilities and stockholders' equity	$ 66,604	$ 42,070

The accompanying notes are an integral part of these consolidated financial statements.

FX ENERGY, INC., AND SUBSIDIARIES
Consolidated Statements of Operations
For the years ended December 31, 2010, 2009, and 2008
(in thousands, except per share amounts)

	2010	2009	2008
Revenues:			
Oil and gas sales	$ 22,914	$ 12,772	$ 13,494
Oilfield services	2,099	1,892	4,347
Total revenues	25,013	14,664	17,841
Operating costs and expenses:			
Lease operating expenses	3,473	3,478	3,441
Exploration costs	3,038	4,829	15,389
Impairment of oil and gas properties	564	1,864	14,746
Asset retirement obligation gain	(264)	(529)	--
Oilfield services costs	1,550	1,412	2,751
Depreciation, depletion and amortization (DD&A)	2,626	1,602	1,720
Accretion expense	92	41	84
Stock compensation	1,379	1,693	2,367
Bad debt expense	--	--	460
General and administrative costs (G&A)	7,973	7,257	7,030
Total operating costs and expenses	20,431	21,647	47,988
Operating income (loss)	4,582	(6,983)	(30,147)
Other income (expense):			
Interest expense	(1,936)	(654)	(672)
Interest and other income	829	54	394
Foreign exchange gain (loss)	(4,233)	7,053	(24,279)
Total other income (expense)	(5,340)	6,453	(24,557)
Net loss	$ (758)	$ (530)	$ (54,704)
Basic and diluted net loss per common share	$ (0.02)	$ (0.01)	$ (1.35)
Basic and diluted weighted average number of shares outstanding	43,387	42,529	40,420

The accompanying notes are an integral part of these consolidated financial statements.

FX ENERGY, INC., AND SUBSIDIARIES
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2010, 2009, and 2008
(in thousands)

	2010	2009	2008
Net loss	$ (758)	$ (530)	$ (54,704)
Other comprehensive income (loss)			
Foreign currency translation adjustment	3,275	(6,399)	13,584
Increase (decrease) in market value of marketable securities	--	--	1
Comprehensive income (loss)	$ 2,517	$ (6,929)	$ (41,119)

The accompanying notes are an integral part of these consolidated financial statements.

FX ENERGY, INC., AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2010, 2009, and 2008
(in thousands)

	2010	2009	2008
Cash flows from operating activities:			
Net loss	$ (758)	$ (530)	$ (54,704)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation, depletion and amortization	2,626	1,602	1,720
Impairment of oil and gas properties	564	1,864	14,746
Accretion expense	92	41	84
(Gain) loss on property dispositions	--	--	(5)
Stock compensation	1,379	1,693	2,367
Foreign exchange (gains) losses	4,238	(8,296)	22,306
Common stock issued for services (G&A)	636	694	498
Asset retirement obligation gain	(264)	(529)	--
Loan fee amortization	971	242	210
Increase (decrease) from changes in working capital items:			
Receivables	(1,809)	1,682	(3,056)
Inventory	(10)	(21)	(33)
Other current assets	101	58	(85)
Other assets	(143)	(128)	(136)
Accounts payable and accrued liabilities	(289)	(4,025)	1,840
Asset retirement obligations settled	(85)	(176)	--
Net cash provided by (used in) operating activities	7,249	(5,829)	(14,248)
Cash flows from investing activities:			
Additions to oil and gas properties	(6,475)	(7,666)	(21,808)
Additions to other property and equipment	(1,339)	(983)	(1,077)
Additions to marketable securities	--	(11)	(186)
Proceeds from maturities of marketable securities	--	4,661	11,284
Proceeds from sale of assets	--	--	15
Net cash used in investing activities	(7,814)	(3,999)	(11,772)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net of offering costs	8,403	--	--
Proceeds from notes payable, net of deferred loan fees	32,532	--	25,000
Payments of notes payable	(25,000)	--	--
Proceeds from loan related to auction-rate securities	--	--	3,354
Payments on loan related to auction-rate securities	--	(2,808)	(546)
Proceeds from exercise of stock options and warrants	157	132	12,313
Net cash provided by (used in) financing activities	16,092	(2,676)	40,121
Effect of exchange rate changes on cash	(12)	141	(1,775)
Net increase (decrease) in cash	15,515	(12,363)	12,326
Cash and cash equivalents at beginning of year	4,225	16,588	4,262
Cash and cash equivalents at end of year	$ 19,740	$ 4,225	$ 16,588

The accompanying notes are an integral part of these consolidated financial statements.

FX ENERGY, INC., AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity (Deficit)
For the years ended December 31, 2010, 2009, and 2008
(in thousands)

	Preferred Stock	Common Stock Shares Issued	Common Stock $0.001 Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance as of December 31, 2007	--	38,196	$ 38	$ 142,901	$ (1)	$ (105,396)	$ 37,542
Common stock issued for services and other	--	488	--	498	--	--	498
Exercise of stock options and warrants	--	3,519	4	12,309	--	--	12,313
Stock compensation	--	--	--	2,367	--	--	2,367
Cumulative translation adjustment due to change in functional currency at October 1, 2008	--	--	--	--	3,553	--	3,553
Other comprehensive income	--	--	--	--	13,585	--	13,585
Net loss for year	--	--	--	--	--	(54,704)	(54,704)
Balance as of December 31, 2008	--	42,203	$ 42	$ 158,075	$ 17,137	$ (160,100)	$ 15,154
Common stock issued for services and other	--	610	1	694	--	--	695
Exercise of stock options and warrants	--	225	--	132	--	--	132
Stock compensation	--	--	--	1,693	--	--	1,693
Other comprehensive income	--	--	--	--	(6,399)	--	(6,399)
Net loss for year	--	--	--	--	--	(530)	(530)
Balance as of December 31, 2009	--	43,038	$ 43	$ 160,594	$ 10,738	$ (160,630)	$ 10,745
Issuance of common stock	--	1,500	1	8,402	--	--	8,403
Common stock issued for services and other	--	594	1	635	--	--	636
Exercise of stock options and warrants	--	153	--	157	--	--	157
Stock compensation	--	--	--	1,379	--	--	1,379
Other comprehensive income	--	--	--	--	3,275	--	3,275
Net loss for year	--	--	--	--	--	(758)	(758)
Balance as of December 31, 2010	--	45,285	$ 45	$ 171,167	$ 14,013	$ (161,388)	$ 23,837

The accompanying notes are an integral part of these consolidated financial statements.

FX ENERGY, INC., AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Organization

FX Energy, Inc., a Nevada corporation, and its subsidiaries (collectively referred to hereinafter as "us," "we," "our," or "the Company"), is an independent oil and gas exploration and production company with principal production, reserves, and exploration in Poland and oil production and oilfield service activities in the United States. In Poland, we have projects involving the exploration and exploitation of oil and gas prospects in partnership with the Polish Oil and Gas Company ("PGNiG"), other industry partners, and for our own account. In the United States, we explore for and produce oil from fields in Montana and Nevada, and we have an oilfield services company in northern Montana that performs contract drilling and well-servicing operations.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and its undivided interests in Poland. All significant intercompany accounts and transactions have been eliminated in consolidation. At December 31, 2010, we owned 100% of the voting common stock or other equity securities of our subsidiaries.

Cash and Cash Equivalents and Marketable Securities

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. We determine the appropriate classification of our investments in cash and cash equivalents and marketable securities at the time of purchase and reevaluate such designation at each balance sheet date.

Fair Value of Financial Instruments and Nonfinancial Assets and Liabilities

The carrying amounts of our financial instruments, including cash and cash equivalents, marketable securities, accounts receivable, accounts payable, and accrued liabilities, approximate fair value because of their generally short maturities. The accounting standards for fair value measurements provide for fair value measurements of all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis.

Concentration of Credit Risk

The majority of our receivables are within the oil and gas industry, primarily from the purchasers of our oil and gas, and fees generated from oilfield services and our industry partners. Substantially all of our domestic receivables are with Cenex, a regional refiner and marketer, and substantially all of our Polish receivables are with PGNiG or one of its affiliates. The receivables are not collateralized. To date, we have experienced minimal bad debts and have no allowance for doubtful accounts at December 31, 2010 and 2009. The majority of our cash and cash equivalents are held by four financial institutions in Utah, Montana, and Poland.

Derivative Instruments

Accounting standards require derivative instruments to be recognized as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value of derivative instruments depends on their intended use and resulting hedge designation. For derivative instruments designated as hedges, the changes in fair value are recorded in the balance sheet as a component of accumulated other comprehensive income. Changes in the fair value of derivative instruments not designated as hedges are recorded in the Consolidated Statements of Operations, generally as a component of interest and other income (expense). At December 31, 2010 and 2009, we had no derivative instruments designated as hedges.

Inventory

Inventory consists primarily of tubular goods and production-related equipment and is valued at the lower of average cost or market.

Oil and Gas Properties

We follow the successful-efforts method of accounting for our oil and gas operations. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether an individual well has found proved reserves. If it is determined that an exploratory well has not found proved reserves, if the determination that proved reserves have been found cannot be made within one year, or if we are not making sufficient progress assessing the reserves and the economic and operating viability of the project, the costs of the well are expensed. The costs of development wells are capitalized whether productive or nonproductive. Geological and geophysical costs on exploratory prospects and the costs of carrying and retaining unproved properties are expensed as incurred. An impairment charge is provided to the extent that capitalized costs of unproved properties, on a property-by-property basis, are not considered to be realizable. Depletion, depreciation, and amortization ("DD&A") of capitalized costs of proved oil and gas properties is provided on a field-by-field basis using the units-of-production method. The computation of DD&A takes into consideration the anticipated proceeds from equipment salvage. An impairment loss is recorded if the net capitalized costs of proved oil and gas properties exceed the aggregate undiscounted future net revenues determined on a field-by-field basis. The impairment loss recognized equals the excess of net capitalized costs over the related fair value determined on a property-by-property basis. Gains and losses are recognized on sales of entire interests in proved and unproved properties. Sales of partial interests are generally treated as a recovery of costs and any resulting gain or loss is recorded as other income.

During 2010, production ceased at our Kleka well in western Poland. We impaired the remaining capitalized costs of the well of $564,000. During 2009, production ceased at our Wilga well in eastern Poland. We impaired the remaining capitalized costs of the well of $1,864,000.

Low year-end oil prices resulted in a negative revision to our oil reserves and their estimated future net revenues in the United States for 2008. As a result of the negative revisions, the net book value of our domestic oil properties was greater than their estimated future net revenues at December 31, 2008. In accordance with accounting standards, we recorded an impairment of capitalized costs in the amount of $3,774,000 in 2008. The impairment amount was calculated by reducing the net capitalized costs of the U.S. oil properties to their year-end fair value, which was equal to their remaining estimated discounted future net cash flows.

During 2008, we impaired the costs of the Grundy-1 and Sroda-6 wells. Accounting standards require capitalized costs of exploratory wells to be expensed if the enterprise is not making sufficient progress assessing the reserves and economic viability of the project. Under then-current economic conditions, we did not have firm plans to further develop these two wells. Accordingly, we recorded an impairment charge of $7,220,000 associated with the Grundy-1 well and $3,752,000 associated with the Sroda-6 well in 2008.

During 2010, we recorded a gain of approximately $772,000 attributable to the sale of tubing associated with our Grundy-1 well, which was drilled and abandoned during 2008. The gain is included in interest and other income.

The following table reflects the net changes in capitalized exploratory well costs, which are capitalized pending the determination of proved reserves, during 2010, 2009, and 2008.

	December 31,		
	2010	2009	2008
		(In thousands)	
Beginning balance at January 1	$ --	$ 2,390	$ 669
Additions to capitalized exploratory well costs pending the determination of proved reserves	3,614	1,766	2,390
Reclassifications to wells, facilities and equipment based on the determination of proved reserves	--	(4,156)	--
Capitalized exploratory well costs charged to expense	--	--	(669)
Ending balance at December 31	$ 3,614	$ --	$ 2,390

The 2010 activity includes costs associated with the Lisewo-1 well, which was drilling at year-end 2010 and was determined to be a commercial well subsequent to year-end. Activity during 2009 and 2008 included costs associated with the Kromolice-2 well, which was drilling at year-end 2008. During 2009, the well was completed for production, and the determination of proved reserves was made. The 2008 charge to expense of $669,000 was related to the Grundy well in Poland, the costs of which were impaired in 2008.

Other Property and Equipment

Other property and equipment, including oilfield-servicing equipment, is stated at cost. Depreciation of other property and equipment is calculated using the straight-line method over the estimated useful lives (ranging from three to 40 years) of the respective assets. The costs of normal maintenance and repairs are charged to expense as incurred. Material expenditures that increase the life of an asset are capitalized and depreciated over the estimated remaining useful life of the asset. The cost of other property and equipment sold, or otherwise disposed of, and the related accumulated depreciation are removed from the accounts and any gain or loss is reflected in current operations.

The historical cost of other property and equipment, presented on a gross basis with accumulated depreciation, is summarized as follows:

	December 31,		Estimated Useful Life (in years)
	2010	2009	
	(In thousands)		
Other property and equipment:			
Drilling rigs	$ 7,104	$ 5,980	6
Other vehicles	424	355	5
Building	110	110	40
Office equipment and furniture	1,215	1,209	3 to 6
Total cost	8,853	7,654	
Accumulated depreciation	(6,039)	(5,355)	
Net other property and equipment	$ 2,814	$ 2,299	

Supplemental Disclosure of Cash Flow Information

Noncash investing and financing transactions not reflected in the consolidated statements of cash flows include the following:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Noncash investing transactions:			
Additions to properties included in current liabilities	$2,930	$327	$1,927

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Cash paid for interest:			
Cash paid during the year for interest	$801	$415	$418

Cash paid for interest in 2010 and 2008 includes $149,177 and $188,715, respectively, in commitment fees on our Senior Facility Agreements.

Revenue Recognition

Revenues associated with oil and gas sales are recorded when title passes, which is upon delivery to the pipeline or other purchaser, and are net of royalties. Oilfield service revenues are recognized when the related service is performed.

Stock-Based Compensation

We maintain several share-based incentive plans. Under these plans, we may issue options or restricted stock awards. Options are granted at an option price equal to the market value of the stock at the date of grant, have terms ranging from five to seven years, and vest in three equal annual installments. Restricted stock awards have similar terms and vesting requirements. Accounting standards require share-based compensation costs to be measured at the grant date, based on the estimated fair value of the award, and recognized as expense over the employee's requisite service period.

Income Taxes

Deferred income taxes are provided for the differences between the tax bases of assets or liabilities and their reported amounts in the consolidated financial statements. Such differences may result in taxable or deductible amounts in future years when the asset or liability is recovered or settled, respectively.

We did not have any unrecognized tax benefits at December 31, 2010. We are subject to audit in the United States by the Internal Revenue Service and various states for the prior three years and in Poland by Polish tax authorities for the prior five years. We do not believe there will be any material changes in our unrecognized tax positions over the next 12 months. Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. No tax-related interest expense was recognized during the year ended December 31, 2010.

Subsequent Events

We have evaluated subsequent events after the balance sheet date of December 31, 2010, through the time of filing with the Securities and Exchange Commission.

New Accounting Standards

In January 2010, the Financial Accounting Standards Board issued new standards intended to improve disclosures about fair value measurements. The new standards require details of transfers in and out of Level 1 and 2 fair value measurements and the gross presentation of activity within the Level 3 fair value measurement roll forward. The new disclosures are required of all entities that are required to provide disclosures about recurring and nonrecurring fair value measurements. We adopted these new rules effective January 1, 2010, except for the gross presentation of the Level 3 fair value measurement roll forward, which we adopted December 31, 2010.

In all cases referenced above, the adoption of the new rules or standards did not have a material impact on our results of operations and financial condition. We have reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on our consolidated results of operations, financial position, and cash flows. Based on that review, we believe that none of these pronouncements will have a significant effect on current or future earnings or operations.

Foreign Operations

Effective October 1, 2008, we changed the functional currency of our Polish subsidiary from the U.S. dollar to the Polish zloty. The change in functional currency for the Polish subsidiary affects the amounts reported for Polish assets, liabilities, revenues, and expenses from those that would be reported had the U.S. dollar been maintained as the functional currency. The differences depend on changes in period-average and period-end exchange rates. Translation adjustments result from the process of translating the Polish subsidiary's financial statements into the U.S. dollar reporting currency. Translation adjustments are not included in determining net income but are reported separately and accumulated in other comprehensive income. The accounting basis of the assets and liabilities of FX Energy Poland, our wholly owned subsidiary, is adjusted to reflect the difference between the exchange rate when the asset or liability was first recorded and the exchange rate on the date of the change. Upon the change in functional currency, we recorded a cumulative translation adjustment ("CTA") of approximately $3.6 million. At December 31, 2010 and 2009, the CTA balance was $14.0 million and $10.7 million, respectively. Because of the fluctuation in exchange rates between reporting periods and changes in certain account balances, the CTA will change from period to period.

During 2010, we identified a misclassification between intercompany equity and intercompany debt. This misclassification resulted in an overstatement of foreign exchange loss of $145,000 in 2008 and an overstatement of foreign exchange gain of $29,000 in 2009 with corresponding misstatements in the cumulative translation adjustment. This error had no impact on total stockholders' equity (deficit) or the Statement of Cash Flows. The net impact of correcting this error in the fourth quarter of 2010 resulted in a decrease in the cumulative translation adjustment and a decrease in foreign exchange loss and net loss of $116,000 with no impact to earnings per share. We concluded that the impact of the error is immaterial to the financial statements in the periods in which it occurred as well as to the period in which it was corrected.

During 2010, we recorded foreign currency transaction losses of approximately $4.2 million. We recorded a loss of approximately $4.2 million attributable to increases in the amount of Polish zlotys necessary for FX Energy Poland to satisfy outstanding intercompany dollar-denominated loans and unpaid interest to FX Energy, Inc, as well as dollar-denominated notes payable held by FX Energy Poland. There was a corresponding credit to other comprehensive income for the losses attributable to the dollar-denominated loans, notes payable, and unpaid interest, which was then offset by translation adjustments of approximately $1.0 million related to our other balance sheet accounts as discussed above. The total amount of outstanding intercompany loans and accrued interest at December 31, 2010, was approximately $103 million.

During 2009, we recorded foreign currency transaction gains of approximately $7.1 million. We recorded a gain of approximately $8.3 million attributable to decreases in the amount of Polish zlotys necessary for FX Energy Poland to satisfy outstanding intercompany dollar-denominated loans and unpaid interest to FX Energy, Inc. There was a corresponding debit to other comprehensive income for the gains attributable to the intercompany loans and unpaid interest, which was then offset by translation adjustments of approximately $1.9 million related to our other balance sheet accounts as discussed above. The remaining $1.2 million loss was primarily attributable to the settlement of outstanding zloty forward-purchase contracts and the translation of period-end cash balances.

The following table provides a summary of changes in CTA (in thousands) for the years ended December 31, 2010 and 2009:

	Year Ended December 31, 2010	Year Ended December 31, 2009
Beginning balance	$ 10,738	$ 17,137
Increase (decrease) related to losses (gains) on dollar-denominated loans and notes payable	4,238	(8,297)
Increase (decrease) related to translation adjustments	(963)	1,898
Ending balance	$ 14,013	$ 10,738

Future transaction gains or losses may be significant given the amount of dollar-denominated intercompany loans and notes payable and the volatility of exchange rates. Future translation adjustments will also vary in concert with changes in exchange rates. These gains, losses, and adjustments are noncash items for U.S. reporting purposes and have no impact on our actual zloty-based revenues and expenditures in Poland.

We enter into various agreements in Poland denominated in the Polish zloty, which is subject to exchange-rate fluctuations. Our policy is to reduce currency risk by, under ordinary circumstances, transferring dollars to zlotys or fixing the exchange rate for future transfers of dollars to zlotys, on or about the occasion of making any significant commitment payable in Polish currency, taking into consideration the future timing and amounts of committed costs and the estimated timing and amounts of zloty-based revenues. We do not use derivative financial instruments for trading or speculative purposes. We have used forward-purchase contracts to buy zlotys at specified exchange rates. The fair value of these contracts is estimated based on period-end quoted market prices, and the resulting asset and expense are recognized in the consolidated financial statements. As of December 31, 2010 and 2009, there were no outstanding zloty forward-purchase contracts.

The change in functional currency will have no impact on our actual zloty-based revenues and expenditures in Poland.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of our financial statements. The most significant estimates with regard to these financial statements relate to the provision for income taxes, including uncertain tax positions, stock-based compensation, future development and abandonment costs, estimates to certain oil and gas revenues and expenses, and estimates of proved oil and natural gas reserve quantities used to calculate depletion, depreciation, and impairment of proved oil and natural gas properties and equipment.

Net Loss per Share

Basic earnings per share is computed by dividing the net loss applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing the net loss by the sum of the weighted average number of common shares and the effect of dilutive unexercised stock options, warrants, unvested restricted stock, and convertible preferred stock or debt.

Outstanding options, warrants, and unvested restricted stock as of December 31, 2010, 2009, and 2008, were as follows:

	Options, Warrants and Unvested Restricted Stock	Price Range
Balance sheet date:		
December 31, 2010	1,578,730	$0.00 - $10.65
December 31, 2009	2,209,976	$0.00 - $10.65
December 31, 2008	2,694,862	$0.00 - $10.65

We recorded net losses in 2010, 2009, and 2008. The above options, warrants, and unvested restricted stock were not included in the computation of diluted earnings per share for the years presented because the effect would have been antidilutive.

Note 2: Asset Retirement Obligation

We account for future site restoration costs by recording a liability for the fair value of asset retirement obligations ("ARO") when incurred, which is typically at the time the assets are placed in service. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities are accreted for the change in their present value and the initial capitalized costs are depreciated over the useful lives of the related assets. We use an expected cash flow approach to estimate our asset retirement obligations. We recorded accretion expense of $91,624, $41,296, and $83,739 in 2010, 2009, and 2008, respectively. At December 31, 2010, there were no assets legally restricted for purposes of settling asset retirement obligations.

Following is a reconciliation of the yearly changes in the asset retirement obligation at December 31, 2010 and 2009:

	December 31,	
	2010	2009
	(In thousands)	
Asset retirement obligations:		
Beginning balance	$ 1,492	$ 1,932
Current year additions	--	193
Current year revisions	(343)	(529)
Liabilities settled	(7)	(169)
Foreign exchange adjustments	(30)	24
Accretion expense	92	41
Ending balance	$ 1,204	$ 1,492

When the present value of a future asset retirement obligation changes due to the increase or decrease of the estimated plugging costs of that asset, we adjust the related asset retirement cost. During both 2010 and 2009, the economic lives of our United States oil wells were increased, as higher oil prices resulted in more economic barrels. This change resulted in a decrease in the net present value of the retirement obligations, which in turn resulted in gains associated with those obligations, as the related asset retirement costs had been previously written off.

Note 3: Other Assets

As of December 31, 2010 and 2009, we had reclamation bonds with federal and state agencies with face amounts of $731,500, which were collateralized by certificates of deposit totaling $381,500. In addition, there are certificates of deposit totaling $25,000 covering performance bonds in other states.

Note 4: Accrued Liabilities

Our accrued liabilities as of December 31, 2010 and 2009, were comprised of the following:

	December 31,	
	2010	2009
	(In thousands)	
Accrued liabilities:		
Credit facility commitment fees	$ 79	$ --
Partner share of oil & gas revenue and joint operating costs	--	127
Compensation-related costs	533	449
Interest expense	78	15
Current portion of asset retirement obligation	522	359
Oilfield equipment installment note	131	98
Total	$ 1,343	$ 1,048

Note 5: Notes Payable

On August 5, 2010, we refinanced our existing facility by executing an expanded credit facility with The Royal Bank of Scotland, ING Bank N.V., and KBC Bank NV. The expanded credit facility calls for a periodic interest rate of LIBOR plus an interest margin of 4.0% and has a term of five years, with semi-annual borrowing base reductions of $11 million each beginning on June 30, 2013. The expanded credit facility is an interest-only facility until June 2013. Unamortized deferred financing costs of approximately $577,000 associated with our prior credit facility were charged to interest expense during the third quarter of 2010. Payment of the expanded credit facility is secured by our assets in Poland and guaranteed by the Company. As of December 31, 2010, the total amount drawn under the expanded credit facility was $35 million. The year-end 2010 interest rate was 4.26% per annum.

We have access to $40 million under the expanded credit facility until our Kromolice-1, Sroda-4, and Kromolice-2 wells have been on production for 30 days, at which time the full $55 million becomes available. Proceeds from the expanded credit facility are intended to support our development, production, and operating activities in Poland.

In consideration for the expanded credit facility, we paid various arrangement, structuring, legal, and other fees totaling approximately $2.5 million. These fees, which were paid by increasing the amount of debt drawn under the expanded credit facility, have been capitalized as deferred financing costs and are being amortized over the five-year term of the loan, beginning in the third quarter of 2010. An annual unused commitment fee of one-half of the applicable interest margin is charged quarterly based on the average daily unused portion of the expanded credit facility. There are no financial covenants associated with the expanded credit facility. The carrying value of the long-term debt at December 31, 2010, approximates its fair value.

The following table provides a summary of changes in notes payable (in thousands):

	Year Ended December 31, 2010	Year Ended December 31, 2009
Beginning balance	$ 25,000	$ 25,000
Payments of notes payable	(25,000)	--
Proceeds from borrowing	35,000	--
Ending balance	$ 35,000	$ 25,000

The borrowing base is redetermined twice a year, based on reserve volumes and values estimated by independent engineers as of the last day of the prior year. Our last redetermination was completed in December 2010, with no change in the borrowing base amount.

Note 6: Commitments and Contingencies

On December 20, 2010, the United States District Court for the District of Utah dismissed all claims in the matter *Leilani York, derivatively on behalf of nominal defendant FX Energy, Inc., plaintiff, v. David N. Pierce, Dennis B. Goldstein, Arnold S. Grundvig, Jr., Richard Hardman, Tom Lovejoy, Jerzy Maciolek, Clay Newton, Andrew W. Pierce, and David Worrell, defendants, and FX Energy, Inc., nominal defendant*, case no. 2:08-cv-00143, which asserted derivative claims on our behalf against certain of our current and former directors and certain of our current and former executive officers.

Note 7: Fair Value Measurements and Marketable Securities

The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The accounting standard established a fair value hierarchy that requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required as well as the assets and liabilities that we value using those levels of inputs.

- *Level 1*: Unadjusted quoted prices in active markets for identical assets and liabilities.
- *Level 2*: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- *Level 3*: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. We had no Level 3 assets as of December 31, 2010 or 2009.

Recurring Fair Value

The following tables set forth the financial assets and liabilities that we measured at fair value on a recurring basis by level within the fair value hierarchy. We classify assets and liabilities measured at fair value in their entirety based on the lowest level of input that is significant to their fair value measurement.

Assets and liabilities measured at fair value on a recurring basis consisted of the following as of December 31, 2010 and 2009 (in thousands):

	December 31, 2010	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]
Cash equivalents:				
Money market funds	$ 8,290	$ 8,290	--	--

	December 31, 2009	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]
Cash equivalents:				
Money market funds	$ 783	$ 783	--	--
Treasury bills	254	254	--	--

(1) Quoted prices in active markets for identical assets.
(2) Significant other observable inputs.
(3) Significant unobservable inputs.

Liabilities

At December 31, 2008, we had three outstanding zloty forward-purchase contracts denominated in U.S. dollars as follows: $2,500,000 that matured January 30, 2009; $2,100,000 that matured February 27, 2009; and $1,100,000 that matured March 31, 2009. All contracts were settled on their maturity dates.

Note 8: Income Taxes

We recognized no income tax benefit from the losses generated during 2010, 2009, and 2008. The components of the net deferred tax asset as of December 31, 2010 and 2009, are as follows:

	December 31, 2010	December 31, 2009
	(In thousands)	
Deferred tax liability:		
Property and equipment basis differences	$ (977)	$ (577)
Deferred tax asset:		
Net operating loss carryforwards:		
United States	31,503	31,411
Poland	3,058	6,396
Oil and gas properties	2,802	4,807
Accrued interest expense	7,078	6,492
Foreign exchange translation losses	3,787	2,675
Options issued for services	423	1,194
Asset retirement obligation	305	411
Valuation allowance	(47,979)	(52,809)
Total	$ --	$ --

The change in the valuation allowance during 2010, 2009, and 2008 is as follows:

	Year Ended December 31, 2010	2009	2008
		(In thousands)	
Valuation allowance:			
Balance, beginning of year	$ (52,809)	$ (50,217)	$ (36,938)
Change in property and equipment basis differences	2,405	2,288	(6,193)
Decrease (increase) due to foreign exchange translation loss	(1,112)	1,376	(4,051)
Change in accrued interest expense	(586)	(2,223)	(4,269)
Decrease (increase) due to net operating loss	3,246	(4,405)	1,465
Other	877	372	(231)
Total	$ (47,979)	$ (52,809)	$ (50,217)

Accounting standards require that a valuation allowance be provided if it is more likely than not that some portion or all of a deferred tax asset will not be realized. Our ability to realize the benefit of our deferred tax asset will depend on the generation of future taxable income through profitable operations through expansion of our oil and gas producing activities. The risks associated with that growth requirement are considerable, resulting in our conclusion that a full valuation allowance be provided at December 31, 2010, 2009, and 2008. Due to the full valuation allowance, our effective income tax rate for all three years was zero percent. The statutory rate was increased by permanent differences relating to changes associated with stock options and that tax treatment of interest income, and reduced by adjustments for net operating losses expiring, exchange rate differences, and changes to deferred taxes related to temporary differences.

United States NOL

At December 31, 2010, we had net operating loss ("NOL") carryforwards in the United States of approximately $84,460,000 available to offset future taxable income. The carryforwards begin to expire in 2011 and will fully expire in 2030. The utilization of the NOL carryforwards against future taxable income in the United States may become subject to an annual limitation if there is a change in ownership. The NOL carryforwards in the United States include $23,128,000 relating to tax deductions resulting from the exercise of stock options. The tax benefit from adjusting the valuation allowance related to this portion of the NOL carryforward will be credited to additional paid-in capital.

Polish NOL

As of December 31, 2010, we had NOL carryforwards in Poland totaling approximately $16,092,000. The NOLs begin to expire in 2011 and will be fully expired in 2013. The normal carryforward period in Poland is five years. However, in any given year, no more than 50% of the NOL carryforward may be applied against Polish income in succeeding years.

The following table lists the years of expiration for our net operating losses:

	United States	Poland
	(In thousands)	
Year of NOL expiration:		
2011	$ 8,368	$ 5,302
2012	4,995	--
2013	6,145	10,790
2014	2,938	--
2015 and thereafter	62,014	--

The domestic and foreign components of our net loss are as follows:

	Year Ended December 31,		
	2010	2009	2008
		(In thousands)	
Domestic	$ (4,433)	$ (8,727)	$ (11,230)
Foreign	3,675	8,197	(43,474)
Total	$ (758)	$ (530)	$ (54,704)

Note 9: Stockholders' Equity

In December 2010, we sold 1,500,000 shares of common stock in a registered-direct offering at a price of $6.00 per share. After offering costs, our net proceeds from the offering were $8,403,000.

Also during 2010, option holders exercised a total of 39,507 outstanding options at a price of $3.98 per share, resulting in proceeds to us of $157,000. Additionally, option holders exercised a total of 598,602 outstanding options at prices ranging from $3.14 to $3.98 per share by surrendering currently owned shares to pay the exercise price. As a result of this exercise, we issued 152,892 incremental shares.

In 2009, option holders exercised a total of 55,000 outstanding options at a price of $2.40 per share, resulting in proceeds to us of $132,000. Additionally, option holders exercised a total of 380,000 outstanding options at a price of $2.40 per share by surrendering currently owned shares to pay the exercise price. As a result of this exercise, we issued 169,860 incremental shares.

During 2008, we received proceeds from the exercise of 3,648,369 stock options and warrants of $12,312,649.

We issued 216,977, 228,100, and 110,090 shares in 2010, 2009, and 2008, respectively, as contributions to our employee benefit plan. In addition, we issued 6,000, 21,000, and 7,000 shares in 2010, 2009, and 2008, respectively, to consultants for services.

We have a stockholder rights plan, adopted in 2007, that may have the effect of discouraging unsolicited takeover proposals. The rights issued under the stockholder rights plan would cause substantial dilution to a person or group that attempts to acquire us on terms not approved in advance by our board of directors. In addition, our articles of incorporation and bylaws contain provisions that may discourage unsolicited takeover proposals that our stockholders may consider to be in their best interests.

Note 10: Stock Options, Warrants, and Restricted Stock

Equity Compensation Plans

Our equity compensation consists of annual stock option and award plans that have been adopted by the board of directors and subsequently approved by the stockholders at an annual meeting.

The following table summarizes information regarding our stock option and award plans as of December 31, 2010:

	Number of Shares Authorized Under Plan	Weighted Average Exercise Price of Outstanding Options	Number of Options Available for Future Issuance
Equity compensation plans approved by stockholders:			
1995 Stock Option and Award Plan	500,000	$8.49	--
1996 Stock Option and Award Plan	500,000	--	--
1997 Stock Option and Award Plan	500,000	8.37	--
1998 Stock Option and Award Plan	500,000	8.37	--
1999 Stock Option and Award Plan	500,000	8.37	--
2000 Stock Option and Award Plan	600,000	--	--
2001 Stock Option and Award Plan	600,000	8.37	--
2003 Long Term Incentive Plan	800,000	8.37	30,479
2004 Long Term Incentive Plan	1,000,000	8.43	125,203
Total	5,500,000	$8.42	155,682

All stock option and award plans are administered by the Compensation Committee, consisting of the independent members of the board of directors. At its discretion, the Compensation Committee may grant stock, incentive stock options, or non-qualified options to any employee, including officers. The granted options have terms ranging from five to seven years and vest in three equal annual installments. Under terms of the stock option award plans, we may also issue restricted stock.

The following table summarizes option activity for 2010, 2009, and 2008:

	2010		2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding:						
Beginning of year	1,470,441	$6.47	1,980,441	$5.65	2,315,441	$5.19
Granted	--	--	--	--	--	--
Exercised	(638,109)	3.92	(435,000)	2.40	(335,000)	2.44
Cancelled	--	--	(75,000)	8.58	--	--
Expired	--	--	--	--	--	--
End of year	832,332	$8.42	1,470,441	$6.47	1,980,441	$5.65
Exercisable at year-end	832,332	$8.42	1,470,441	$6.47	1,980,441	$5.65

The following table summarizes information about stock options outstanding as of December 31, 2010:

	Outstanding			Exercisable	
Exercise Price Range	Number of Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$6.06 - $6.06	4,167	0.07	6.06	4,167	6.06
$8.37 - $8.37	793,165	0.67	8.37	793,165	8.37
$9.00 - $10.65	35,000	1.35	9.89	35,000	9.89
Total	832,332	0.69	$8.42	832,332	$8.42

The aggregate intrinsic value of outstanding stock options at December 31, 2010, was $375.

In 2008, we recognized $15,508 in expense related to unvested stock options granted prior to the adoption of current accounting standards. There was no unamortized expense related to unvested options at December 31, 2010 and 2009. All options outstanding at December 31, 2010, are fully vested.

Restricted Stock

The following table summarizes restricted stock activity during 2010, 2009, and 2008:

	2010	2009	2008
	Number of Shares	Number of Shares	Number of Shares
Unvested restricted stock outstanding:			
Beginning of year	739,535	714,421	679,788
Issued	373,500	379,500	367,000
Forfeited	(2,382)	(18,798)	(8,690)
Vested	(364,255)	(335,588)	(323,677)
End of year	746,398	739,535	714,421

The aggregate intrinsic value of unvested restricted stock at December 31, 2010, was $4,590,348. The aggregate intrinsic value represents the total pretax intrinsic value, based on our stock price of $6.15 as of December 31, 2010, which would have been received by the restricted stock award holders had all in-the-money restricted stock awards and options been vested as of that date. The weighted average period over which stock compensation expense related to the restricted stock awards will be recognized is 2.0 years.

During 2010, we issued 373,500 shares of restricted stock, resulting in deferred compensation of $2,259,675, which will be amortized ratably over a three-year vesting period. Expense recognized during 2010 totaled $26,899.

During 2009, we issued 379,500 shares of restricted stock, resulting in deferred compensation of $1,043,625, which is being amortized ratably over a three-year vesting period. Expense recognized during 2010 and 2009 totaled and $347,253 and $10,269, respectively.

During 2008, we issued 367,000 shares of restricted stock, resulting in deferred compensation of $1,005,580, which is being amortized ratably over a three-year vesting period. Expense recognized for these shares during 2010, 2009, and 2008 totaled $331,330, $335,214, and $9,184, respectively.

During 2007, we issued 370,925 shares of restricted stock, resulting in deferred compensation of $2,284,991, which is being amortized ratably over a three-year vesting period. Expense recognized for these shares during 2010, 2009, and 2008 totaled $673,626, $761,649, and $761,805, respectively.

In December of 2006, we issued 318,400 shares of restricted stock, resulting in deferred compensation of $2,053,680, which was amortized ratably over a three-year vesting period. Expense recognized for these shares during 2010, 2009, and 2008 totaled $0, $585,398, and $684,608, respectively.

In November of 2005, we issued 298,950 shares of restricted stock, resulting in deferred compensation of $3,096,600, which was amortized ratably over the three-year vesting period. Expense recognized for these shares during 2008 totaled $895,805.

Warrants

The following table summarizes warrant activity during 2008:

	2008	
	Number of Shares	**Price Range**
Warrants outstanding and exercisable:		
Beginning of year	3,325,373	$3.60--$6.00
Issued	--	--
Exercised	(3,215,373)	$3.66
Expired	(110,000)	$6.00
End of year	--	

There were no warrants issued and outstanding during 2010 and 2009.

Note 11: Business Segments

We operate within two business segments of the oil and gas industry: exploration and production ("E&P") and oilfield services. Revenues associated with our E&P activities are comprised of oil and gas sales from our producing properties in Poland and oil sales from our producing properties in the United States. During the last three years, all sales of oil and gas in Poland were made to PGNiG or its affiliated companies. Over 90% of our oil sales in the United States were to Cenex during 2010, 2009, and 2008. Gas sales in Poland are sold pursuant to long-term sales contracts that obligate the buyer to purchase all gas produced. Individual oil sales are negotiated with PGNiG-affiliated entities and are not subject to sales contracts. We believe the purchasers of our oil production in the United States could be replaced, if necessary, without a loss in revenue.

E&P operating costs are comprised of: (1) exploration costs (geological and geophysical costs, exploratory dry holes, and proved property and non-producing leasehold impairments); and (2) lease operating costs (lease operating expenses and production taxes). Substantially all exploration costs are related to our operations in Poland. The majority of lease operating costs are related to our domestic production.

Revenues associated with our oilfield services segment are comprised of contract drilling and well-servicing fees generated by our oilfield-servicing equipment in Montana. Oilfield-servicing costs are comprised of direct costs associated with our oilfield services.

DD&A directly associated with a respective business segment is disclosed within that business segment. We do not allocate current assets, corporate DD&A, general and administrative costs, amortization of deferred compensation, interest income, interest expense, other income, or other expense to our operating business segments for management and business segment reporting purposes. All material intercompany transactions between our business segments are eliminated for management and business segment reporting purposes.

Information on our operations by business segment for 2010, 2009, and 2008 is summarized as follows:

	2010 (In thousands)			
	Exploration & Production		Oilfield Services	Total
	U.S.	Poland		
Operations summary:				
Revenues	$ 4,184	$ 18,730	$ 2,099	$ 25,013
Lease operating expense	(2,449)	(1,024)	--	(3,473)
Oilfield services costs	--	--	(1,550)	(1,550)
Exploration expense	(30)	(3,008)	--	(3,038)
Impairment expense	--	(564)	--	(564)
Accretion expense	(70)	(22)	--	(92)
Asset retirement obligation gain	264	--	--	264
DD&A expense	(81)	(1,723)	(743)	(2,547)
Operating income (loss)	$ 1,818	$ 12,389	$ (194)	$ 14,013
Identifiable net property and equipment:				
Unproved properties	$ 24	$ 3,296	$ --	$ 3,320
Proved properties	1,124	31,116	--	32,240
Equipment and other	--	20	2,746	2,766
Total	$ 1,148	$ 34,432	$ 2,746	$ 38,326
Net Capital Expenditures:				
Property and equipment	$ 513	$ 8,584	$ 1,334	$ 10,431
Total	$ 513	$ 8,584	$ 1,334	$ 10,431

	2009 (In thousands)			
	Exploration & Production		Oilfield Services	Total
	U.S.	Poland		
Operations summary:				
Revenues	$ 3,313	$ 9,459	$ 1,892	$ 14,664
Lease operating expense	(2,528)	(950)	--	(3,478)
Oilfield services costs	--	--	(1,412)	(1,412)
Exploration expense	(204)	(4,625)	--	(4,829)
Impairment expense	--	(1,864)	--	(1,864)
Accretion expense	(13)	(28)	--	(41)
Asset retirement obligation gain	529	--	--	529
DD&A expense	(64)	(851)	(597)	(1,512)
Operating income (loss)	$ 1,033	$ 1,141	$ (117)	$ 2,057
Identifiable net property and equipment:				
Unproved properties	$ 20	$ 3,383	$ --	$ 3,403
Proved properties	695	25,895	--	26,590
Equipment and other	--	101	2,102	2,203
Total	$ 715	$ 29,379	$ 2,102	$ 32,196
Net Capital Expenditures:				
Property and equipment	$ 498	$ 6,533	$ 929	$ 7,960
Total	$ 498	$ 6,533	$ 929	$ 7,960

	2008			
	(In thousands)			
	Exploration & Production		Oilfield Services	Total
	U.S.	Poland		
Operations summary:				
Revenues	$ 5,695	$ 7,799	$ 4,347	$ 17,841
Lease operating expense	(2,548)	(893)	--	(3,441)
Oilfield services costs	--	--	(2,751)	(2,751)
Exploration expense	(464)	(14,925)	--	(15,389)
Impairment expense	(3,774)	(10,972)	--	(14,746)
Accretion expense	(56)	(28)	--	(84)
Bad debt expense	--	--	(460)	(460)
DD&A expense	(700)	(529)	(411)	(1,640)
Operating income (loss)	$ (1,847)	$ (19,548)	$ 725	$ (20,670)
Identifiable net property and equipment:				
Unproved properties	$ 20	$ 2,750	$ --	$ 2,770
Proved properties	261	21,839	--	22,100
Equipment and other	--	101	1,772	1,873
Total	$ 281	$ 24,690	$ 1,772	$ 26,743
Net Capital Expenditures:				
Property and equipment	$ 1,828	$ 22,811	$ 1,020	$ 25,659
Total	$ 1,828	$ 22,811	$ 1,020	$ 25,659

A reconciliation of the segment information to the consolidated totals for 2010, 2009, and 2008 follows:

	2010	2009	2008
		(In thousands)	
Revenues:			
Reportable segments	$ 25,013	$ 14,664	$ 17,841
Non-reportable segments	--	--	--
Total revenues	$ 25,013	$ 14,664	$ 17,841
Net loss:			
Operating income (loss), reportable segments	$ 14,013	$ 2,057	$ (20,670)
Expense or (revenue) adjustments:			
Corporate DD&A expense	(79)	(90)	(80)
General and administrative costs (G&A)	(7,973)	(7,257)	(7,030)
Amortization of deferred compensation (G&A)	(1,379)	(1,693)	(2,367)
Total net operating income (loss)	4,582	(6,983)	(30,147)
Non-operating income:			
Interest income (net of interest expense) and other income	(1,107)	(600)	(278)
Foreign exchange gain (loss)	(4,233)	7,053	(24,279)
Net loss	$ (758)	$ (530)	$ (54,704)
Net property and equipment:			
Reportable segments	$ 38,326	$ 32,196	$ 26,743
Corporate assets	48	95	130
Net property and equipment	$ 38,374	$ 32,291	$ 26,873
Property and equipment capital expenditures:			
Reportable segments	$ 10,431	$ 7,960	$ 25,659
Corporate assets	3	27	20
Total property and equipment capital expenditures	$ 10,434	$ 7,987	$ 25,679

Note 12: Quarterly Financial Data (Unaudited)

Summary quarterly information for 2010 and 2009 is as follows:

	Quarter Ended			
	December 31	September 30	June 30	March 31
	(In thousands, except per share amounts)			
2010:				
Revenues	$ 6,100	$ 6,648	$ 6,093	$ 6,172
Net operating income (loss)	207	2,266	23	2,086
Net income (loss)	(1,756)	22,152	(22,083)	929
Basic and diluted net income (loss) per common share	$(0.04)	$ 0.51	$ (0.51)	$ 0.02
2009:				
Revenues	$ 6,607	$ 3,809	$ 2,466	$ 1,782
Net operating income (loss)	2,028	(2,649)	(2,543)	(3,819)
Net income (loss)	3,336	9,448	11,090	(24,404)
Basic and diluted net income (loss) per common share	$0.08	$ 0.22	$ 0.26	$ (0.57)

The net loss for 2010 includes a foreign exchange loss of $4.2 million primarily related to FX Energy Poland's dollar-denominated intercompany loans from FX Energy, Inc., and notes payable. The net loss for 2009 includes a foreign exchange gain of $7.1 million primarily related to FX Energy Poland's dollar-denominated intercompany loans from FX Energy, Inc.

FX ENERGY, INC., AND SUBSIDIARIES
Supplemental Information

Disclosure about Oil and Gas Properties and Producing Activities (Unaudited)

Capitalized Oil and Gas Property Costs

Capitalized costs relating to oil and gas exploration and production activities as of December 31, 2010 and 2009, are summarized as follows:

	United States	Poland	Total
		(In thousands)	
December 31, 2010:			
Proved properties	$ 4,520	$ 34,008	$ 38,528
Unproved properties	24	3,296	3,320
Total gross properties	4,544	37,304	41,848
Less accumulated depreciation, depletion and amortization.	(3,396)	(2,892)	(6,288)
	$ 1,148	$ 34,412	$ 35,560
December 31, 2009:			
Proved properties	$ 4,012	$ 28,688	$ 32,700
Unproved properties	20	3,383	3,403
Total gross properties	4,032	32,071	36,103
Less accumulated depreciation, depletion and amortization.	(3,316)	(2,794)	(6,110)
	$ 716	$ 29,277	$ 29,993

Results of Operations

Results of operations are reflected in Note 12, Business Segments. There is no tax provision because we are not likely to pay, and have not received any benefit from, any federal or local income taxes due to our operating losses. Total production costs (in thousands) for 2010, 2009, and 2008 were $3,473, $3,478, and $3,441, respectively.

Property Acquisition, Exploration and Development Activities

Costs incurred in property acquisition, exploration, and development activities during 2010, 2009, and 2008, whether capitalized or expensed, are summarized as follows:

	United States	Poland	Total
		(In thousands)	
Year ended December 31, 2010:			
Acquisition of unproved properties	$ 3	$ 44	$ 47
Exploration costs	30	6,622	6,652
Development costs	509	4,937	5,446
Total	$ 542	$ 11,603	$ 12,145
Year ended December 31, 2009:			
Acquisition of unproved properties	$ --	$ 525	$ 525
Exploration costs	204	6,411	6,615
Development costs	498	3,722	4,220
Total	$ 702	$ 10,658	$ 11,360

	United States	Poland	Total
		(In thousands)	
Year ended December 31, 2008:			
Acquisition of unproved properties	$ 67	$ 1,810	$ 1,877
Exploration costs	691	35,436	36,127
Development costs	1,760	126	1,886
Total	$ 2,518	$ 37,372	$ 39,890

Impairment of Oil and Gas Properties

We recorded impairment charges in our E&P segment related to oil and gas properties as follows (in thousands):

	2010	2009	2008
Impairment of properties	$564	$1,864	$14,746

Exploratory Dry Hole Costs

Total dry hole costs in 2009 of $150,821 were related to a single dry hole drilled in the United States. Dry hole costs for 2008 included three wells plugged and abandoned in the United States in the amount of $463,744. There were no dry holes drilled in 2010.

Summary Oil and Gas Reserve Data (Unaudited)

The following disclosures about our crude oil and natural gas reserves and exploration and production activities are in accordance with accounting principles generally accepted in the United States of America for disclosures about oil and gas producing activities and Securities and Exchange Commission rules for oil and gas reporting disclosures.

Reserves

There are numerous uncertainties inherent in estimating quantities of proved crude oil and natural gas reserves. Crude oil and natural gas reserve engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be precisely measured. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing, and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserves estimates are often different from the quantities of crude oil and natural gas that are ultimately recovered.

Recent SEC and FASB Rule-Making Activity

In December 2008, the Securities and Exchange Commission announced that it had approved revisions designed to modernize the oil and gas company reserves reporting requirements. The most significant amendments to the requirements included the following:

- *Commodity Prices* – Economic producibility of reserves and discounted cash flows are now based on the use of unweighted, 12-month first day of the month historical average prices adjusted for basis and quality differentials, rather than year-end prices.
- *Disclosure of Unproved Reserves* – Probable and possible reserves may be disclosed separately on a voluntary basis.

- *Proved Undeveloped Reserves Guidelines* – Reserves may be classified as proved undeveloped if there is a high degree of confidence that the quantities will be recovered and they are scheduled to be drilled within the next five years, unless the specific circumstances justify a longer time.

- *Third-Party Reserves Preparation* – If a company represents that its estimates of reserves are prepared or audited by a third party, the company must file a report of the third party as an exhibit to the relevant registration statement or report.

- *Use of Probabilistic Methods* – Reserves may be estimated using probabilistic methods in which there is at least a 90% probability of recovery of "proved" reserves, at least a 50% probability of recovery of "probable" reserves, and at least a 10% probability of recovery of "possible" reserves.

- *Disclosure by Geographic Area* – Reserves in foreign countries or continents must be presented separately if they represent more than 15% of total oil and gas proved reserves.

We adopted the rules effective December 31, 2009.

Application of the current rules resulted in the use of lower prices at December 31, 2009, for both oil and gas than would have resulted under the previous rules. Use of 12-month average pricing at December 31, 2009, as required by the current rules, resulted in a decrease in proved developed oil reserves of approximately 990,000 cubic feet of natural gas equivalent. We did not calculate the impact of the current rules on our 2010 reserves. Changes in the proved undeveloped reserves rules had no impact on our reserve quantities, as we do not include any reserves for undrilled locations.

Because we use year-end reserves and add back production to calculate DD&A, adoption of these new standards had an impact on fourth quarter 2009 DD&A expense. We estimate the impact of using 12-month average commodity prices, as required by the current standards, instead of year-end commodity prices, to be an increase in fourth quarter 2009 DD&A expense of approximately $14,000.

Definitions

The following definitions apply to the terms used in this disclosure:

Reserves Estimate—The determination of an estimate of a quantity of oil or gas reserves that are thought to exist at a certain date, considering existing prices and reservoir conditions.

Proved Oil and Gas Reserves—Proved oil and gas reserves are those quantities of oil and gas that 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 expiration of the contracts providing the right to operate, 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.

Developed Oil and Gas Reserves—Proved developed oil and gas reserves are reserves 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 with the cost of a new well.

Undeveloped Oil and Gas Reserves—Proved undeveloped oil and gas reserves are reserves 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 or production facilities.

For complete definitions of proved natural gas, natural gas liquids, and crude oil reserves, refer to SEC Regulation S-X, Rule 4-10(a)(6), (22) and (31).

Reserves Estimates Preparation

Estimates of our proved Polish reserves were prepared by RPS Energy, an independent engineering firm in the United Kingdom. Estimates of our proved domestic reserves were prepared by Hohn Engineering, an independent engineering firm in Billings, Montana. The technical personnel responsible for calculating the reserve estimates at both RPS Energy and Hohn Engineering meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. Both RPS Energy and Hohn Engineering are independent firms of petroleum engineers, geologists, geophysicists, and petrophysicists; they do not own an interest in our properties and are not employed on a contingent fee basis.

Proved Developed Reserves:

The following unaudited summary of proved developed reserve quantity information represents estimates only and should not be construed as exact:

	Crude Oil (In thousand barrels of oil)		Natural Gas (In millions of cubic feet)	
	United States	Poland	United States	Poland
December 31, 2010	639	--	--	31,683
December 31, 2009	463	--	--	20,409
December 31, 2008	45	47	--	7,873

Total Proved Reserves:

The following unaudited summary of proved reserve quantity information represents estimates only and should not be construed as exact:

	Crude Oil (In thousand barrels of oil)		Natural Gas (In millions of cubic feet)	
	United States	Poland	United States	Poland
December 31, 2010:				
Beginning of year	463	--	--	47,668
Extensions or discoveries	--	--	--	--
Revisions of previous estimates [1]	237	--	--	(4,236)
Production	(61)	--	--	(3,473)
End of year	639	--	--	39,959
December 31, 2009:				
Beginning of year	45	47	--	45,312
Extensions or discoveries [2]	--	--	--	6,333
Revisions of previous estimates [3]	482	(47)	--	(2,095)
Production	(64)	--	--	(1,882)
End of year	463	--	--	47,668

	Crude Oil		Natural Gas	
	United States	Poland	United States	Poland
	(In thousand barrels of oil)		(In millions of cubic feet)	
December 31, 2008:				
Beginning of year	482	14	--	31,116
Extensions or discoveries [4]	--	--	--	11,295
Revisions of previous estimates [5]	(371)	37	--	4,152
Production	(66)	(4)	--	(1,251)
End of year	45	47	--	45,312

(1) Upward oil revisions in the United States attributable to higher average oil prices during 2010 compared to average 2009 oil prices. Downward gas revisions in Poland due to the reduction of proved reserves calculated at the Roszkow well based on new pressure data and cessation of production at the Kleka well
(2) Volume increase in Poland attributable to new Kromolice-2 and Grabowka wells drilled or recompleted during 2009.
(3) Upward oil revisions in the United States attributable to higher average oil prices during 2009 compared to year-end 2008 oil prices. Downward gas revisions due to the cessation of production at the Wilga well in Poland.
(4) Volume increase in Poland attributable to new Kromolice-1 well drilled during 2008.
(5) Upward gas revisions in Poland attributable to Sroda-4 and Zaniemysl-3 wells due to additional technical data acquired during 2008. Downward oil revisions due to lower year-end oil prices in the United States.

Standardized Measure of Discounted Future Net Cash Flows ("SMOG") and Changes Therein Relating to Proved Oil Reserves

Certain information concerning the assumptions used in computing the valuation of proved reserves and their inherent limitations are discussed below. We believe such information is essential for a proper understanding and assessment of the data presented. The assumptions used to compute the proved reserve valuation do not necessarily reflect our expectations of actual revenues to be derived from those reserves or their present worth. Assigning monetary values to the reserve quantity estimation process does not reduce the subjective and ever-changing nature of such reserve estimates. Additional subjectivity occurs when determining present values because the rate of producing the reserves must be estimated. In addition to errors inherent in predicting the future, variations from the expected production rates also could result directly or indirectly from factors outside our control, such as unintentional delays in development, environmental concerns, and changes in prices or regulatory controls. The reserve valuation assumes that all reserves will be disposed of by production. However, if reserves are sold in place, additional economic considerations also could affect the amount of cash eventually realized. Future development and production costs are computed by estimating expenditures to be incurred in developing and producing the proved oil reserves at the end of the period, based on period-end costs and assuming continuation of existing economic conditions. A discount rate of 10% per year was used to reflect the timing of the future net cash flows. The future net cash flows for our Polish reserves are based on gas sales contracts we have with PGNIG.

FX ENERGY, INC. AND SUBSIDIARIES
Supplemental Information
--continued--

The components of SMOG are detailed below:

	United States	Poland	Total
		(In thousands)	
December 31, 2010:			
Future cash flows	$ 43,553	$ 226,310	$ 269,863
Future production costs	(26,762)	(15,130)	(41,892)
Future development costs	--	(12,580)	(12,580)
Future income tax expense	--	(28,134)	(28,134)
Future net cash flows	16,791	170,466	187,257
10% annual discount for estimated timing of cash flows	(7,122)	(52,798)	(59,920)
Discounted net future cash flows	$ 9,669	$ 117,668	$ 127,337
December 31, 2009:			
Future cash flows	$ 22,050	$ 283,520	$ 305,570
Future production costs	(16,334)	(26,750)	(43,084)
Future development costs	--	(17,940)	(17,940)
Future income tax expense	--	(33,411)	(33,411)
Future net cash flows	5,716	205,419	211,135
10% annual discount for estimated timing of cash flows	(2,217)	(63,095)	(65,312)
Discounted net future cash flows	$ 3,499	$ 142,324	$ 145,823
December 31, 2008:			
Future cash flows	$ 1,103	$ 239,220	$ 240,323
Future production costs	(510)	(14,310)	(14,820)
Future development costs	--	(16,720)	(16,720)
Future income tax expense	--	(29,270)	(29,270)
Future net cash flows	593	178,920	179,513
10% annual discount for estimated timing of cash flows	(275)	(61,670)	(61,945)
Discounted net future cash flows	$ 318	$ 117,250	$ 117,568

The principal sources of changes in SMOG are detailed below:

	Year Ended December 31,		
	2010	2009	2008
		(In thousands)	
SMOG sources:			
Balance, beginning of year	$ 145,823	$ 117,568	$ 102,968
Sale of oil and gas produced, net of production costs	(19,442)	(9,294)	(10,053)
Net changes in prices and production costs	200	14,530	(9,220)
Acquisition of minerals in place	--	--	--
Extensions and discoveries, net of future costs	--	18,200	27,000
Changes in estimated future development costs	728	(367)	(4,940)
Previously estimated development costs incurred during the year	4,670	3,656	--
Revisions in previous quantity estimates	(13,839)	(1,671)	10,383
Accretion of discount	14,582	11,757	10,297
Net change in income taxes	3,944	(3,906)	(7,941)
Changes in rates of production and other	(9,329)	(4,650)	(926)
Balance, end of year	$ 127,337	$ 145,823	$ 117,568

Subsequent to December 31, 2010, we completed drilling and testing at the Lisewo-1 well in western Poland. Based on a reserve report issued by our independent petroleum reservoir engineers, the Lisewo-1 well contains proved reserves of 12,733 million cubic feet of gas, net to our 49% working interest, and increased our year-end discounted net present values, discounted at 10%, by approximately $16.0 million.

NOTICE OF 2011 ANNUAL MEETING OF STOCKHOLDERS

PROXY STATEMENT

FX ENERGY, INC.
3006 Highland Drive, #206
Salt Lake City, Utah 84106 USA
Telephone: (801) 486-5555
Facsimile: (801) 486-5575

April 15, 2011

Dear FX Energy Stockholder:

Our Proxy Statement for the 2011 Annual Stockholders' Meeting of FX Energy, Inc., and our 2010 Annual Report are enclosed. At this meeting, we will seek your support for the election of directors, a nonbinding advisory proposal related to executive compensation, a nonbinding advisory proposal related to the frequency of nonbinding votes related to executive compensation, and the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2011.

These are important considerations for all stockholders. Therefore, the Board of Directors urges you to review each of these proposals carefully. The enclosed proxy statement discusses the intended benefits as well as possible disadvantages of these proposals.

Your Board of Directors believes that the adoption of each of the proposals is in the best interests of all stockholders.

Sincerely,

FX ENERGY, INC.

David N. Pierce
President

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FX ENERGY, INC.
3006 Highland Drive, Suite 206
Salt Lake City, Utah 84106

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 19, 2011

To the Stockholders of FX Energy, Inc.:

The 2011 Annual Stockholders' Meeting of FX Energy, Inc. (the "Annual Meeting"), will be held May 19, 2011, in the Uintah Room, Little America Hotel, 500 South Main Street, Salt Lake City, Utah. The Annual Meeting will convene at 10:00 a.m., local time, to consider and take action on the following proposals:

(1) to elect two directors to serve until the expiration of their respective terms and until their respective successors are elected and qualified;

(2) to consider a nonbinding advisory proposal on the Company's executive compensation;

(3) to conduct a nonbinding advisory vote on whether a nonbinding advisory vote on the Company's executive compensation should be held every one, two, or three years;

(4) to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2011; and

(5) to transact such other business as may properly come before the Annual Meeting or any adjournment(s) thereof.

Only owners of record of our common stock outstanding as of the close of business April 4, 2011 (the "Record Date"), will be entitled to notice of and to vote at the Annual Meeting. Each share of common stock is entitled to one vote.

Holders of at least a majority of the shares of common stock outstanding on the Record Date must be represented at the meeting to constitute a quorum for conducting business.

The attendance at and/or vote of each stockholder at the Annual Meeting is important, and each stockholder is encouraged to attend.

FX ENERGY, INC.
By Order of the Board of Directors

Scott J. Duncan, Secretary

Salt Lake City, Utah
April 15, 2011

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIAL FOR THE ANNUAL MEETING TO BE HELD ON MAY 19, 2011

Regardless of whether you plan to attend the meeting in person, please fill in, sign, date, and return the enclosed proxy promptly in the self-addressed, stamped envelope provided. No postage is required if mailed in the United States. If you prefer, you may send your proxy to us by facsimile transmission at 1-801-486-5575 or on the Internet as described below.

Our Notice, Proxy Statement, and Annual Report to Stockholders are available at http://www.fxenergy.com. In addition and in accordance with SEC rules, you may also access the Notice and Proxy Statement and vote via the Internet at http://www.proxyvote.com.

SPECIAL REQUEST
If your shares are held in the name of a brokerage firm, nominee, or other institution, only it can vote your shares. Please *contact promptly* the person responsible for your account and *give instructions* for your shares to be voted.

FX ENERGY, INC.
3006 Highland Drive, Suite 206
Salt Lake City, Utah 84106

PROXY STATEMENT

INTRODUCTION

This proxy statement is furnished in connection with the solicitation of proxies, on behalf of FX Energy, Inc., to be voted at the Annual Meeting to be held in the Uintah Room, Little America Hotel, 500 South Main Street, Salt Lake City, Utah, on May 19, 2011, at 10:00 a.m., local time, or at any adjournment thereof. The enclosed proxy, when properly executed and timely returned, will be voted at the Annual Meeting in accordance with the directions set forth thereon. If no instructions are indicated on the enclosed proxy, the proxy will be voted as follows at the Annual Meeting:

(1) FOR the election of our two nominees set forth herein as our directors to serve as directors until the expiration of their respective terms and until their successors are elected and qualified;

(2) FOR approval, by advisory vote, of the Company's executive compensation;

(3) FOR approval, by advisory vote, of "every three years" as the frequency of future stockholder advisory votes on executive compensation;

(4) TO ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2011; and

(5) IN accordance with the best judgment of the persons acting as proxies on other matters presented for a vote.

The enclosed proxy, even though executed and returned to us, may be revoked at any time before it is voted, either by giving a written notice, mailed or delivered to the Secretary of the Company or sent by facsimile transmission to 1-801-486-5575, by submitting a new proxy bearing a later date, or by voting in person at the Annual Meeting. If the proxy is returned to us without specific direction, the proxy will be voted in accordance with our recommendations as set forth above.

We will bear the entire expense of this proxy solicitation. In addition to this solicitation, our officers, directors, and regular employees, who will not receive extra compensation for such services, may solicit proxies by mail, by telephone, or in person. This proxy statement and form of proxy were first mailed to stockholders on or about April 15, 2011.

Only holders of our 52,315,827 shares of common stock, par value $0.001, outstanding as of the close of business on April 4, 2011 (the "Record Date"), will be entitled to vote at the Annual Meeting. Each share of common stock is entitled to one vote. Holders of at least a majority of the shares of common stock outstanding on the Record Date must be represented at the Annual Meeting to constitute a quorum for conducting business.

All properly executed and returned proxies, as well as shares represented in person at the meeting, will be counted for purposes of determining if a quorum is present, whether the proxies are instructed to abstain from voting or consist of broker nonvotes. Under Nevada corporate law and our Articles of Incorporation and Bylaws, the election of directors requires the vote of a plurality of the votes cast at the Annual Meeting. Abstentions and broker nonvotes will not be counted for the election of directors. Routine matters are considered approved by the stockholders if the number of votes cast in favor of the action exceeds the number of votes cast in opposition to the action. Therefore, abstentions and broker nonvotes are not counted and will have the same legal effect as a vote in favor of matters other than the election of directors.

Officers and directors holding an aggregate of 2,397,521 shares of common stock, or approximately 4.6% of the outstanding shares, have indicated their intent to vote in favor of all proposals.

Our policy is that each member of the Board of Directors, or Board, is encouraged, but not required, to attend the Annual Meeting. No directors attended our annual meeting in 2010.

CORPORATE GOVERNANCE

Executive Officers, Directors

The following sets forth the name, age, term of directorship, and principal business experience of each or our executive officers and directors:

Name	Age	Year: Director Since	Year: Term Expires	Business Experience During Past Five Years and Other Information
Directors				
David N. Pierce	65	1992	2011	Our President and a director since 1992, Chairman from 1992 through 2003. Co-founder with his brother, Andrew W. Pierce, of our predecessor, Frontier Exploration Company. Executive capacities with privately held oil and gas companies since 1979 and an attorney with more than 30 years of experience in natural resources, securities, and international business law.
Thomas B. Lovejoy	74	1995	2013	Chairman of the Board of Directors since October 2003, Executive Vice-President effective February 2007, Chief Financial Officer from 1999 to 2007, Vice-Chairman from 1995 through 2003, and a consultant to us from 1995 to 1999. More than 30 years investment banking experience.
Jerzy B. Maciolek	61	1995	2012	Our Vice-President of International Exploration and a director since 1995. Employed by us since September 1995. Instrumental in our exploration efforts in Poland. Geophysicist with more than 30 years experience in Poland, Kazakhstan, and western United States. Graduate of the Mining and Metallurgy Academy in Krakow, Poland.
Arnold S. Grundvig, Jr.	62	2003	2013	One of our directors since 2003. President and Chief Financial Officer of A-Systems Corporation, a developer of accounting software, since 1993. Previously various executive-level positions in financial management. Mr. Grundvig is a member of our Audit Committee and Nomination and Governance Committee and was appointed as Chairman of our Compensation Committee in early 2009.
Richard Hardman CBE	74	2003	2012	Exploration Advisor since February 2003 and director since October 27, 2003. Over a career spanning more than 40 years, worked in oil and gas exploration as a geologist in Libya, Kuwait, Colombia, Norway, and the North Sea. Former Chairman of the Petroleum Society of Great Britain, former President of the Geological Society of London, European member of the Advisory Council of the American Association of Petroleum Geologists, and former Chairman and current committee member of APPEX, a farmout fair organization based in London. Commander of the British Empire in New Year Honours List of 1998 for services to the oil industry. Mr. Hardman is a member of our Nomination and Governance Committee and Compensation Committee.

Name	Age	Year		Business Experience During Past Five Years and Other Information
		Director Since	Term Expires	
Dennis B. Goldstein	65	2003	2011	Mr. Goldstein has been a director since October 2003, and was appointed Lead Director November 2003. Attorney engaged in natural resource matters for over 30 years. Mr. Goldstein is Chairman of our Nomination and Governance Committee and is a member of our Audit Committee and Compensation Committee. He previously served as a member of the Board of Directors from 1999 to 2002, and was a member of our Audit Committee prior to his resignation.
H. Allen Turner	58	2007	2012	Mr. Turner was appointed to the Board of Directors in February 2007. Mr. Turner has 25 years experience in finance, including 20 years as a senior executive at Devon Energy Corporation. Since 2001, Mr. Turner has served as a director of Cortland Associates, a registered investment advisor, and as a private investor. Mr. Turner is Chairman of our Audit Committee and a member of our Nomination and Governance Committee and Compensation Committee.
Executive Officers				
Andrew W. Pierce	63	--	--	Our Vice-President of Operations since 1992, director from 1992 through his resignation in 2003. Co-founder with his brother, David N. Pierce, of our predecessor, Frontier Exploration Company. More than 30 years of experience in oil and gas exploration, drilling, production and leasing, with primary management and line responsibility for drilling and completion activities.
Clay Newton	54	--	--	Our Vice-President of Finance, Treasurer, and Chief Accounting Officer since 2003 and a director from 2002-2003. Executive accounting and financial management for energy and technology firms for over 25 years.
Scott J. Duncan	62	--	--	Our Vice-President Investor Relations and Secretary, director from 1993 through 2004, when he did not stand for reelection, and financial consultant to us from our inception through April 1993.

Board Leadership Structure

Mr. Lovejoy, our Chairman and Executive Vice President, works closely with Mr. Goldstein, our Lead Director, in planning board and committee meetings, setting agendas, and monitoring other board and committee activities.

Director Independence

The Board of Directors has determined that Dennis B. Goldstein, Arnold S. Grundvig, Jr., Richard Hardman, and H. Allen Turner are “independent directors” as that term is defined in Rule 5605(a)(2) of NASDAQ.

Board of Directors' Meetings and Committees

Board of Directors

The Board of Directors held six meetings during 2010 and one meeting to date in 2011. The directors also discussed our business and affairs informally on numerous occasions throughout the year and took several actions through unanimous written consents in lieu of meetings.

Audit Committee

Our Audit Committee Charter was included as an appendix to the proxy statement for our 2004 annual meeting of stockholders and is available on our website, www.fxenergy.com. The Audit Committee of the Board of Directors is currently composed of three independent directors: H. Allen Turner, its Chairman, and Arnold S. Grundvig, Jr., each of whom the Board of Directors has determined to be an audit committee financial expert, and Dennis B. Goldstein. The Board of Directors has determined all Audit Committee members to be independent as required by Rule 10A-3(b)(1) promulgated under the Securities Exchange Act of 1934.

The Audit Committee selects our independent accountants, approves the scope of audit and related fees, and reviews financial reports, audit results, internal accounting procedures, related-party transactions, when appropriate, and programs to comply with applicable requirements relating to financial accountability. The Audit Committee's responsibilities also include the development of policies and procedures for compliance by us and our officers and directors with applicable laws and regulations. The Audit Committee met nine times during 2010 and has met two times to date in 2011, including meetings in early 2011 to review the results of the audit of our 2010 financial statements by our independent accountants and other related matters, as reported below.

Compensation Committee

Our Compensation Committee Charter is available on our website, www.fxenergy.com. The Compensation Committee is responsible for reviewing performance of senior management, recommending compensation, and developing compensation strategies and alternatives throughout the Company. The Compensation Committee met six times during 2010 and has met once to date during 2011, in addition to several informal telephone meetings throughout 2010. The Compensation Committee of the Board of Directors is composed of four independent directors: Arnold S. Grundvig, Jr., its Chairman, Richard Hardman, Dennis B. Goldstein, and H. Allen Turner.

Nomination and Governance Committee

Our Nomination and Governance Committee Charter is available on our website, www.fxenergy.com. The Nomination and Governance Committee is responsible for recommendations to the Board of Directors respecting corporate governance principles; prospective nominees for director; Board member performance and composition; function, composition, and performance of Board committees; succession planning; director and officer liability insurance coverage; and directors' responsibilities. The Nomination and Governance Committee met four times during 2010 and has met once to date during 2011. The Nomination and Governance Committee of the Board of Directors is composed of four independent directors: Dennis B. Goldstein, its Chairman, Richard Hardman, H. Allen Turner, and Arnold S. Grundvig, Jr.

When considering candidates for directors, the Nomination and Governance Committee takes into account a number of factors, including the individual's reputation for judgment, skill, integrity, and other relevant qualities; relevant business experience; level of professional accomplishments; independence from management under both NASDAQ and Securities and Exchange Commission definitions; existing commitments to other businesses; potential conflicts of interest with other pursuits; corporate governance background and experience; financial and accounting background for Audit Committee candidates; and the size, composition, and experience of the existing Board of Directors. The Charter provides that diversity is a factor the Committee should consider in nominating Directors.

The Nomination and Governance Committee will also consider candidates for directors suggested by stockholders using the above factors. Stockholders wishing to suggest a candidate for director should write to Scott J. Duncan, Secretary of the Company, and include a statement that the writer is a stockholder of record and is proposing a candidate for consideration by the Nomination and Governance Committee; the name of and contact information for the candidate; a statement that the candidate is willing to be considered and would serve as a director if elected; a statement of the candidate's business and educational experience, preferably in the form of a resume or curriculum vitae; information regarding each of the factors identified above, other than facts regarding the existing Board of Directors, that would enable the Nomination and Governance Committee to evaluate the candidate; a statement detailing any relationship between the candidate and any customer, supplier, or competitor of the Company; and detailed information about any relationship or understanding between the stockholder and the proposed candidate.

Before nominating a sitting director for reelection at an annual meeting, the Nomination and Governance Committee considers the director's performance on the Board of Directors and attendance at Board of Directors' meetings, and whether the director's reelection would be consistent with our governance guidelines and ability to meet all applicable corporate governance requirements.

When seeking candidates for director, the Nomination and Governance Committee may solicit suggestions from incumbent directors, active stockholders, management, or others. After conducting an initial evaluation of the candidates, the Nomination and Governance Committee will interview candidates that the Nomination and Governance Committee believes might be suitable for a position on the Board of Directors. The Nomination and Governance Committee may also ask the candidate to meet with management. If the Nomination and Governance Committee believes the candidate would be a valuable addition to the Board of Directors, it will recommend to the full Board of Directors that candidate's nomination.

Rights Redemption Committee

In connection with the adoption of a stockholder Rights Agreement, the Board of Directors formed a Rights Redemption Committee during 2007 to perform certain functions in accordance with such agreement. The Rights Redemption Committee must consist of at least three continuing directors, a majority of whom may not be our employees, and may consist of the entire Board of Directors. All current directors are members of the Rights Redemption Committee. The Rights Redemption Committee did not meet during 2010.

Policy on Stockholder Communications with Directors

Our stockholders that want to communicate with the Board of Directors, any of its committees, or with any individual director can write to us at 3006 Highland Drive, Suite 206, Salt Lake City, Utah 84106. Such letter should indicate that it is from a Company stockholder. Depending upon the subject matter, management will:

- forward the communication to the director, directors, or committee to whom it is addressed;
- attempt to handle the inquiry directly if it is a request for information about us or other matter appropriately dealt with by management; or
- not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

At each Board of Directors' meeting, a member of management will present a summary of all communications received since the last meeting that were not forwarded to the directors and make those communications available to the directors on request.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our employees, including our principal executive officer, principal financial officer, and principal accounting officer. The Code of Ethics is available on our website, www.fxenergy.com.

Corporate Governance Guidelines

We have adopted Corporate Governance Guidelines to assist our directors in promoting the best interests of the stockholders in terms of corporate governance, fiduciary responsibilities, compliance with applicable law and regulations, and maintenance of accounting, financial, or other controls. The Corporate Governance Guidelines are available on our website, www.fxenergy.com.

Stockholder Proposals

No proposals have been submitted by our stockholders for consideration at the Annual Meeting. It is anticipated that the next annual meeting of stockholders will be held during June 2012. Stockholders may present proposals for inclusion in the proxy statement to be mailed in connection with the 2012 annual meeting of stockholders, *provided* such proposals are received by us no later than December 19, 2011, and are otherwise in compliance with applicable laws and regulations and the governing provisions of our Articles of Incorporation and Bylaws.

PROPOSAL 1. ELECTION OF DIRECTORS

Our Articles of Incorporation provide that the Board of Directors shall be divided into three classes, with each class as equal in number as practicable. One class is to be elected each year for a three-year term. At the Annual Meeting, two directors will be elected to serve three-year terms.

The Board of Directors has nominated David N. Pierce and Dennis B. Goldstein for election as our directors at the Annual Meeting, each to serve for a term of three years expiring at the 2014 annual meeting and until his successor is elected and qualified. Our Nomination and Governance Committee and the Board of Directors unanimously approved the nominations.

Votes will be cast, pursuant to authority granted by the enclosed proxy when properly executed and returned to us, for the election of the named nominees as our directors, except as otherwise specified in the proxy. In the event a nominee shall be unable to serve, votes will be cast, pursuant to authority granted by the enclosed proxy, for such person as may be designated by the Board of Directors. Our officers are elected at the annual meeting of the Board of Directors to hold office until their respective successors are elected and qualified. The information concerning the nominees and directors and their security holdings has been furnished by them to us. Biographical information and business experience of each person nominated and for each director whose term of office will continue after the Annual Meeting are discussed above. (See “Corporate Governance: Executive Officers, Directors.”)

Recommendation of the Board of Directors

The Board of Directors recommends a vote “FOR” the election of nominees David N. Pierce and Dennis B. Goldstein to serve in such capacities until the expiration of their term at the 2014 annual meeting of stockholders and until their successors are elected and qualified.

Vote Required

Directors are elected by the affirmative vote of the holders of a plurality of the shares of common stock voted at the Annual Meeting. Abstentions and broker nonvotes will not be counted in the election of directors.

PRINCIPAL STOCKHOLDERS

The following table sets forth, as of March 31, 2011, the name and shareholdings of each person that owns of record, or was known by us to own beneficially, 5% or more of the common stock currently outstanding; the name and shareholdings of each director; and the shareholdings of all executive officers and directors as a group. Unless indicated otherwise in the footnotes, each person named below has, to the best of our knowledge, sole voting and investment power with respect to all shares of common stock shown as beneficially owned by each person:

Name	Amount and Nature of Beneficial Ownership	Percent of Class[1]
Principal Stockholders:		
BlackRock, Inc.[2]	2,763,918	5.3%
Directors:		
David N. Pierce[3]	500,376	1.0%
Thomas B. Lovejoy[4]	824,663	1.6%
Jerzy B. Maciolek[5]	396,955	0.8%
Arnold S. Grundvig, Jr.[6].	33,995	*
Dennis B. Goldstein[7]	120,707	*
Richard F. Hardman[8]	202,971	*
H. Allen Turner	26,800	*
All executive officers and directors as a group (10 persons)[9]	3,042,521	5.7%

* Less than 1%.

(1) Calculations of total percentages of ownership outstanding for each person or group assume the exercise of derivative securities that are exercisable within 60 days of the table date by the individual or group to which the percentage relates, pursuant to Rule 13d-3(d)(1)(i).

(2) According to a Schedule 13G dated February 4, 2011, by the BlackRock, Inc., 55 East 52nd Street, New York, NY 10005.

(3) The calculation of beneficial ownership includes 85,000 shares subject to outstanding options that are exercisable within 60 days of the table date, 40,000 shares held by David N. Pierce as custodian for his children, excludes 2,000 shares held by Mr. Pierce's spouse as custodian for minor children, and 80,987 shares held in Mr. Pierce's retirement accounts.

(4) The calculation of beneficial ownership includes 75,000 shares subject to outstanding options that are exercisable within 60 days of the table date, 176,000 shares held in trust for the benefit of Thomas B. Lovejoy's children, 120,673 shares held in Mr. Lovejoy's retirement accounts, 10,000 shares held by Mr. Lovejoy's spouse's IRA account, and 200,000 shares held by Lovejoy Associates, Inc. (of which Mr. Lovejoy is sole owner).

(5) The calculation of beneficial ownership includes 175,000 shares subject to outstanding options that are exercisable within 60 days of the table date and 65,673 shares held in Mr. Maciolek's retirement account.

(6) The calculation of beneficial ownership includes 10,000 shares subject to outstanding options that are exercisable within 60 days of the table date.

(7) The calculation of beneficial ownership includes 20,000 shares subject to outstanding options that are exercisable within 60 days of the table date.

(8) The calculation of beneficial ownership includes 75,000 shares subject to outstanding options that are exercisable within 60 days of the table date.

(9) The calculation of beneficial ownership includes 645,000 shares subject to outstanding options that are exercisable within 60 days of the table date.

Equity Compensation Plans

Plan Category	Number of Securities To Be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,578,730	$4.44	155,682

Since inception, we have issued options pursuant to stock option and award plans that have been adopted by the Board of Directors and approved by the stockholders. As of December 31, 2010, we had outstanding options and unvested restricted stock awards of 1,578,730 shares under plans that have been approved by the stockholders. We will not grant any compensatory options to officers, directors, or employees outside of stockholder-approved plans.

In addition to the specific provisions noted below, all such outstanding options and restricted stock awards provide for antidilution adjustments to the number of shares issuable and the exercise or conversion price in the event of any stock split, stock dividend, or recapitalization of our common stock; restrict transfer; require us to reserve for issuance that number of shares issuable on exercise or conversion; require notice to the holder prior to certain extraordinary corporate events; require payment of the exercise price of options and warrants in cash or in such other type of consideration as specifically noted; are fully vested and exercisable unless otherwise indicated; and contain other similar miscellaneous items.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers, and persons that own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our equity securities. Officers, directors, and greater than 10% stockholders are required to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review of Forms 3, 4, and 5 and amendments thereto filed with the Securities and Exchange Commission during or respecting the last fiscal year ended December 31, 2010, no person that, at any time during the most recent fiscal year, was a director, officer, beneficial owner of more than 10% of any class of our equity securities, or any other person known to be subject to Section 16 of the Exchange Act failed to file, on a timely basis, reports required by Section 16(a) of the Securities Exchange Act.

CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

The Board of Directors has adopted a written Related-Party Transactions Policy for the review, approval, or ratification of related-party transactions and has given the Audit Committee the responsibility for overseeing the policy. Related-party transactions consist of all current or proposed transactions, regardless of dollar value, in which we are a participant and any director, executive officer, or immediate family member of any director or executive officer has a direct or indirect material interest. The policy requires all related-party transactions to be approved by the Audit Committee, which takes into account, among other things, whether the transaction is on terms that are no less favorable to us than terms generally available to an unaffiliated third party under similar circumstances and the materiality of the related person's interest in the transaction. We are not aware of any related-party transactions that would require disclosure.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee is responsible for establishing and administering our executive compensation programs. Our Compensation Committee has reviewed and discussed the compensation discussion and analysis required by Item 402(b) of Regulation S-K with management, and based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the compensation discussion and analysis be included in our annual report on Form 10-K and this proxy statement.

The Compensation Committee:

Arnold S. Grundvig, Jr., Chairman
Dennis B. Goldstein
Richard Hardman
H. Allen Turner

The above report of our Compensation Committee shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall this report be incorporated by reference into any filing made by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion and analysis of compensation arrangements of our Named Executive Officers for 2010 should be read together with the compensation tables and related disclosures set forth below. This compensation discussion and analysis has been prepared by our management and reviewed by our Compensation Committee and Board of Directors. This discussion is intended to provide perspective and context for the compensation tables that follow. After the review, the Compensation Committee recommended the inclusion of this compensation discussion and analysis in this proxy statement and for incorporation by reference into our annual report on Form 10-K. See "Report of the Compensation Committee" above. This discussion contains forward-looking statements that are based on our current plans, considerations, expectations, and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion.

Overview

This compensation discussion and analysis covers the following topics:

- the philosophy and objectives of our executive compensation program;
- our process of setting executive compensation;
- the components of our executive compensation;
- internal pay equity and risk assessment, and
- the tax considerations of executive compensation.

Executive Compensation Philosophy

FX Energy is a unique, independent oil and gas company. As the only U.S.-based company whose focus is on early-stage exploration in Poland and one of only a few of its size that operates outside the United States, we face many challenges that go beyond the typical risks associated with an established oil and gas company operating domestically. These challenges include working with Poland's governmental agencies as new energy policies and practices evolve, enhancing the knowledge base of the local industry, and working through a frequently changing political climate. In addition, we face the risk of doing business in a former communist country, whose exploration and environmental laws are continuing to advance, and having a national oil company as the partner and operator of many of our significant exploration projects, which means we cannot control the timing and nature of many of our operations.

In addition, while we have been successful in our drilling operations and have established reserves and production, we continue to face significant exploration risk as we move forward. We recognize our risk profile and consider this and our unique operating circumstances when we evaluate and set executive compensation.

Our philosophy is that compensation paid to our executives should generally be correlated to the trends and levels of our peers and should be designed to align the employees' interests with the our performance on both a short- and long-term basis. Accordingly, a significant portion of total compensation is directly related to our performance. In order to build a direct link between stockholder interests and executive compensation, we have equity and cash incentive compensation programs that may account for a majority of an executive's compensation. This practice parallels the compensation practices of our peer group. In order to attract and retain the best talent, we compensate at a level that reflects the demand within our peer group for talented executives, especially in a cyclical industry environment. In view of these circumstances, we must balance pay for performance with the compelling need to attract, retain, and incentivize senior executives. The Compensation Committee has the discretion to reward executives for superior performance or to decrease compensation for inferior performance.

Executive Compensation Process

The Compensation Committee

The Compensation Committee's responsibilities, which are more fully described in its charter, include each of the following:

- developing and implementing compensation programs that enhance our ability to recruit and retain qualified directors, executives, and other personnel and developing and implementing equity and other performance awards programs that create long-term incentive for directors, executive management, and key employees by enabling them to acquire an equity stake in us;
- outside the presence of the Chief Executive Officer, reviewing and recommending to the Board of Directors the amount and manner of compensation of the Chief Executive Officer for final determination by the Board of Directors;
- consulting with and considering the recommendations of the Chief Executive Officer respecting the amount and manner of compensation of the other executive officers and recommending to the Board of Directors the amount and manner of compensation for such executive officers for final determination by the Board of Directors;
- reviewing and recommending to the Board of Directors incentive awards under our equity and other award plans for executive officers, directors, employees, and other eligible participants; and
- administering our long-term incentive plans in accordance with the terms and conditions of the plans; discharging any responsibilities imposed on, and exercising all rights and powers granted to, the Compensation Committee by the plans; and overseeing the activities of the individuals and entities responsible for the day-to-day operation and administration of the plans.

Benchmarking Against Peer Companies

We use both survey data and public information as a framework in structuring the total compensation opportunities provided to our Named Executive Officers, such that the average total compensation of the peer group can serve as an input. Actual compensation paid will be higher or lower than peer group averages depending on a number of factors, including Company and individual performance, performance of the peer group, accomplishment of our goals, our financial condition, and industry and economic conditions generally.

We annually review competitive executive compensation based on public company data compiled by Equilar, Inc., an independent compensation data compiler. We do not engage an independent compensation consultant.

In analyzing and determining 2010 compensation levels, we reviewed comparative compensation data for U.S.-traded public companies engaged in the oil and gas business that were similar to us in the areas of market capitalization, annual revenues, and enterprise value. We believe that these criteria were effective in yielding an appropriate peer group of comparable companies. The benchmarking results provided background and context for the Compensation Committee's recommendations and decisions; the information regarding peer companies and pay practices of the peer group assisted in its analysis but did not govern the Compensation Committee's award recommendation for any particular executive. The industry peer group changes from time to time due to business combinations, asset sales, bankruptcies, and other types of transactions that cause peer companies to no longer exist or no longer be comparable. The Compensation Committee approves any revisions to the peer group on an annual basis. The following 20 companies comprised the industry peer group used during 2010 in connection with executive compensation decisions:

Abraxas Petroleum Corp.	American Oil & Gas Corp.
Approach Resources, Inc.	Barnwell Industries, Inc.
Credo Petroleum Corp.	Double Eagle Petroleum Co.
GASCO Energy, Inc.	GASTAR Exploration Ltd.
GeoMet, Inc.	Harvest Natural Resources, Inc.

HKN, Inc.	Houston American Energy Corp.
Isramco, Inc.	Kodiak Oil & Gas Corp.
Panhandle Oil & Gas, Inc.	Rex Energy Corp.
Royale Energy, Inc.	Toreador Resources Corp.
TriValley Corp.	Warren Resources, Inc.

As part of the total compensation review process, the Compensation Committee reviews each element and the mix of compensation that comprises the total executive compensation package. This process includes comparing historical data for the executives in the peer group to similar data for our executives. With the assistance of the Chief Executive Officer, the Compensation Committee also assesses skills, experience, and achievements of the Named Executive Officers as a group and individually as the basis for its recommendations to the Board. To support our compensation objectives, the Compensation Committee may recommend that the Board adjust elements of compensation for our executives to align them with the various elements of the peer group executives, making adjustments when appropriate in instances when the elements are not directly comparable. In addition to adjusting the allocation among elements of compensation for the executive group or Chief Executive Officer, as the case may be, individual pay may differ for any executive based on individual performance, tenure, retention considerations, and a subjective assessment of future potential. We may also adjust compensation or individual elements of compensation based on internal equity among the executive group.

In executive sessions outside the presence of the Chief Executive Officer, the Compensation Committee reviews and recommends to the Board compensation for the Chief Executive Officer based on his performance and using the benchmark data as a reference point. In consultation with the Chief Executive Officer, the Compensation Committee then recommends to the Board the amount of compensation for the remaining executives. The Compensation Committee considers each of the factors comprising performance results in recommending the amount of each executive's compensation. The Board then reviews and considers the Compensation Committee's recommendation in the light of its own analysis of these compensation factors and with further input from the Chief Executive Officer.

Executive Compensation Components

Our Board-approved executive compensation program consists of five key elements: base salary, annual cash incentives, long-term incentives in the forms of cash, equity and executive royalty plan participation, retirement compensation, and other employee benefits. The benefit plans are designed to encourage retention and reward long-term employment. We believe perquisites for senior executives should be extremely limited in scope and value and should also be restricted to those types of perquisites that are available to all employees.

We supplement this compensation with some downside protection to minimize the turnover of executive talent and to ensure that our executives' attention remains focused on our and our stockholders' interests. Such downside protection includes the use of employment and change of control agreements, which are discussed in more detail below.

The actual amount ultimately realized by individual executives from their total compensation opportunities (other than base salary), if any, is dependent upon our actual operational, financial, and/or stock price performance as well as individual performance. Accordingly, if overall results fail to meet the goals established for the compensation opportunities, then earned compensation is likely to fall below the peer group's mean compensation, depending upon the performance of the companies within that group. Conversely, if overall results exceed goals, then compensation is likely to exceed the peer group's mean compensation.

Base Salary

To remain competitive with compensation levels of executives at comparable companies, we target the base pay of our executives at about the average of the peer group of companies identified above. We believe that targeting base pay at a competitive level helps fulfill our compensation program objective of attracting and retaining high-quality executives. Each executive's salary relative to this competitive framework varies based on the level of his responsibility, experience, time in position, internal pay equity considerations, and individual performance and is reviewed by the Compensation Committee on an annual basis. Specific salary adjustments take into account these factors and the current market for management talent.

Analysis of 2010 Salaries

As a result of a review of peer group and other compensation data available, including current compensation trends and talent demand in the oil and gas industry, and consideration of our financial condition, we determined to freeze 2010 Named Executive Officer salaries at their 2008 levels. In late 2010, with the exception of one executive, we determined to continue that freeze through 2011. We considered the impact of inflation in reviewing compensation levels and concluded that the level of inflation did not warrant salary changes. In total, we anticipate that the executive group's base salaries would approximate the average of our peer group for executives for both 2010 and 2011.

Annual Cash Incentives

As part of each executive's performance-based compensation, we maintain the FX Energy Cash Bonus Plan (the "Bonus Plan"). The purpose of the Bonus Plan is to make a significant portion of each executive's total compensation variable based on our performance and the performance of the individual officer with respect to goals that are set to enhance stockholder value over the long term.

The Bonus Plan calls for the Compensation Committee to review certain corporate performance criteria as it relates to our peers, as well as certain other absolute measures of performance, and leaves the Compensation Committee the discretion to consider the achievement of other specific corporate objectives, individual contributions, general economic conditions, and other factors when making incentive awards for each year. The Compensation Committee uses this information to recommend to the Board annual incentive awards. The Bonus Plan provides for a preliminary award near year-end based on an analysis of company performance to date and preliminary peer group data, followed by a final payment (which may be zero) later, once all peer group prior-year performance data becomes available.

We set target awards as a percentage of base salary at about the estimated average of peer group award percentages. Our success in meeting our corporate objectives, reviewed at year-end, and each particular executive's role in meeting those objectives are used to determine whether the actual award should be above, below, or at the anticipated peer group average.

In determining short-term cash incentive awards, the Compensation Committee reviews corporate performance relative to our peer group in the following areas: (i) three-year revenue growth per share; (ii) three-year reserve volume growth per share; (iii) three-year finding and development cost per unit of reserves; and (iv) one-year stock price change. Each measure comprises 12.5% of the incentive award. For each measure, the peer group members, including the Company, are ranked by performance order and divided into quintiles. The incentive award for each measure is determined by the quintile ranking of the Company within the peer group, and the percentage contributions of all four measures are added to determine the overall annual incentive award. Award percentages for the various quintiles range ratably from 25% in the top quintile to 0% in the bottom quintile.

In addition, the Compensation Committee reviews absolute corporate performance in the following areas: (i) production volume per share for calendar 2010; (ii) reserves volume per share at the end of 2010; (iii) EBITDAX per share for calendar 2010; and (iv) NAV per share at the end of 2010. We compare these measures to our own three-year history. Each of these measures also comprises 12.5% of the incentive award. The incentive award for each measure is determined with reference to a matrix approved by the Compensation Committee at the beginning of the year, and the percentage contributions of all four measures are added to determine the overall annual incentive award. Award percentages for the various quintiles range ratably from 25% at the top of the matrix to 0% in the bottom of the matrix.

We believe that success in these performance areas enhances stockholder value in both the short term and the long term. Success in the areas of reserve additions and revenue growth, in particular, reflects our positive achievements in implementing our business model of translating early-stage exploration efforts into tangible assets and cash flow. Lower than industry-average finding costs demonstrate our ability to find and drill exploration targets that contribute meaningfully to increases in reserve volumes and values. Relative changes in share price reflect the market's recognition of our progress in implementing our business model. Success in the four absolute measures reflects the achievement of our internal objectives without regard to how our peers are performing.

2010 Incentive Awards

In determining a preliminary award for 2010, the Compensation Committee undertook the following review: (i) with respect to the Bonus Plan's relative measures, the Compensation Committee compared our estimated 2010 performance to that of our peer group's performance for the three year period that ended in 2009; and (ii) with respect to the Bonus Plan's absolute measures, the Compensation Committee compared our estimated 2010 performance with that of our own prior three-year performance. Based on those reviews, the Board approved preliminary incentive awards for 2010 as shown in the following table, with the intent to review fully our relative and absolute performance and determine the final 2010 incentive awards after 2010 peer group data becomes available:

Executive Officer	2010 Interim Award
David N. Pierce	$181,582
Andrew W. Pierce	97,833
Jerzy Maciolek	97,833
Thomas B. Lovejoy	84,653
Clay Newton	53,156

Long-Term Incentives

Equity Awards

We have equity compensation plans under which we can make annual grants of stock awards to eligible Named Executive Officers and other employees. Equity incentives have represented a significant element of our total compensation program. As with other elements, the value received through various stock-based awards is included in our annual total compensation review process. Each year, we collect and review competitive data from the peer group specifically on the use of, and value received through, equity incentives. From this data, management develops and recommends annual awards. Our philosophy is that the award opportunity should match the range of awards made by our peers. Individual awards are then further modified, based on a subjective assessment of individual performance, contribution, and future potential.

Restricted stock awards to the majority of eligible senior management are our primary long-term equity incentive. Restricted stock awards provide value in the form of our stock while resulting in lower share usage and lower dilution than the use of certain other types of equity awards. In addition, the vesting conditions (discussed below) and opportunity for long-term capital appreciation, which are characteristic of restricted stock awards, help us achieve our objectives of management retention and linking pay to our long-term stockholder value. In making restricted stock awards, we consider stock market overhang and run rates. Restricted stock awards do not offer dividend or voting rights until they vest and the shares are subsequently released to the grantee.

Analysis of 2010 Equity Awards

Our equity component of compensation for senior executives was low compared to the average of the peer group; however, in view of the limited number of shares remaining available for future issuance under our equity compensation plans, the Compensation Committee recommended that the award remain unchanged for 2010.

Vesting and Other Restrictions

Annual equity awards granted under our equity compensation plans typically vest 33% on each of the first three anniversaries of their grant date, contingent on continued employment with us. In the case of supplemental awards, we may use a shorter or longer vesting period depending upon our retention objectives for the individual recipient. We believe that these provisions serve our objectives of retention and connecting the executives' long-term interests to ours and to those of our stockholders.

Grant Timing and Pricing

We grant annual stock awards generally at or near our regularly scheduled, fourth quarter Board meeting each year. Notwithstanding our grant schedule, we do not grant stock awards prior to the release of material, nonpublic information that is likely to result in change in our stock price. We may change the date upon which equity awards are granted if there is unreleased material, nonpublic information.

Executive Royalty Plan

In early 2010, we adopted the FX Energy executive royalty incentive plan (the "Royalty Plan"). The Royalty Plan reflects our intent to transition from annual restricted stock awards as the sole form of long-term incentive compensation for our executives to a long-term incentive compensation plan where a significant portion of the compensation is based on increases in our oil and gas revenues.

The purpose of the Royalty Plan is to maximize the economic incentive to the participants to encourage the highest potential drilling, accelerate and increase production and reserves, maximize our revenues, and generally enhance our ability to incentivize and retain valuable employees upon whom, in large measure, our continued revenue and reserve growth depends. Accomplishing these goals, particularly through exploration on a limited budget, requires excellent exploration concepts, well-executed land acquisition strategies, creative financing, collaborative industry relationships, careful drilling, and prudent production. The grants set forth in the Royalty Plan provide benefits only from production, which provides an economic incentive for bringing wells online as quickly as practicable. These grants provide participants having managerial, professional, or other key decision-making responsibilities with an opportunity to participate in the results of successful acquisition, exploration, and production.

The Royalty Plan involves the use of a 3% royalty pool, proportionally reduced to our working interest, on our oil and gas revenues from future wells, allocated among our executives, including our Named Executive Officers. The Royalty Plan excludes all wells and geologic structures for which we had proved and probable reserves at the end of 2010. Thus, the Royalty Plan does not apply to any of the wells now producing, nor does it apply to the three wells already drilled but not yet producing as of the end of 2010. We have not paid anything under the Royalty Plan to date. Subsequent to year-end 2010, we drilled the Lisewo well, which we believe is likely to commence production during 2013, and is the first well included in the Royalty Plan. The following table shows the Royalty Plan interests assigned to our Named Executive Officers:

Name	Percent of Participation in Royalty Plan
David N. Pierce	0.5283%
Thomas B. Lovejoy	0.3019
Andrew W. Pierce	0.4717
Jerzy B. Maciolek	0.4717
Clay Newton	0.2830

There is no assurance that our executives will receive any future payments under this plan.

Future Long-Term Incentives

We currently have 155,862 additional shares available under our equity compensation plans that could be used for equity incentive awards in the future. We expect to continue to rely on restricted stock awards for long-term incentive compensation until wells drilled after December 31, 2010, have production that results in payments to our Named Executive Officers under the Royalty Plan or until there are no further shares available under our existing equity compensation plans. Payments under the Royalty Plan will be treated as long-term incentive compensation in the future if and when we begin to make payments under the Royalty Plan. We expect that restricted stock awards or other forms of long-term incentive compensation will be adjusted as necessary when Royalty Plan payments begin, to the extent appropriate, so that the aggregate long-term incentives in any year fall within the range of long-term incentive awards made by our peers.

Retirement Compensation

We do not offer a traditional pension plan. We do have a 401(k) Stock Bonus Plan under which we make annual contributions, in the form of FX Energy stock, to the retirement account of each of our Named Executive Officers. Each executive is encouraged to retain the contributed stock, and as of the date of this report, no executive has sold any of the shares so contributed. We believe that offering this plan to executives is critical to achieve the objectives of attracting and retaining talent, particularly because we do not offer a defined benefit pension plan or any employee stock purchase, employee stock ownership, deferred compensation, or supplemental early retirement plans.

Other Compensation

We offer limited other perquisites and benefits to our executives, which are reflected in the relevant tables and narratives that follow. The executives participate in basic Company-wide plans and programs, such as group medical, dental, and life insurance, in accordance with the terms of the programs and on the same terms as all other domestic administrative employees. We do not offer disability insurance, automobile allowances, Company-provided automobiles, club memberships/dues, financial planning allowances, security services, first-class air travel, or sign-on or retention bonuses.

Internal Pay Equity

Our core compensation philosophy is to pay our Named Executive Officers competitive levels of compensation that reflect their individual responsibilities and contributions to us, while providing incentives to achieve our business objectives. While comparisons to compensation levels of similarly situated executives at companies in our peer group are beneficial in assessing the competitiveness of our various programs, we recognize that our compensation programs must also be internally consistent and equitable. The Compensation Committee and Board evaluated the mix of the individual elements of compensation paid to our executives, as well as the overall composition and responsibilities of the executive team. We do not have a formal policy that addresses Chief Executive Officer compensation multiples as they relate to other Named Executive Officers; however, the Chief Executive Officer's total compensation has historically been less than 140% of the average total compensation of the other Named Executive Officers.

FX Energy was originally founded by three individuals, David N. Pierce (currently the Chief Executive Officer), Andrew W. Pierce, and Jerzy B. Maciolek. In recognition of their initial vision and ongoing contribution to our success, we have determined that the salaries of Andrew W. Pierce and Jerzy Maciolek be set at the same level.

Risk Assessment

The Compensation Committee believes that its approach to choosing performance metrics and evaluation of performance results assist in mitigating excessive risk-taking that could harm our value or reward poor judgment by our executives. Several features of our programs reflect sound risk-management practices. We believe our overall compensation program provides a reasonable balance between short- and long-term objectives, which helps mitigate the risk of excessive risk-taking in the short term. Further, the performance criteria reviewed by the Compensation Committee in determining cash bonuses are Company-wide, and the Compensation Committee and Board use their subjective judgment and discretion in recommending and approving bonus levels for our officers. This is based on the Compensation Committee's and the Board's belief that applying Company-wide metrics encourages decision making that is in the best long-term interests of the Company and our stockholders as a whole. The multi-year vesting of our equity awards for executive compensation discourages excessive risk-taking and properly accounts for the time horizon of risk.

Tax Considerations

Impact of Internal Revenue Code Section 162(m)

Under the Omnibus Budget Reconciliation Act of 1993, provisions were added to the Internal Revenue Code under Section 162(m) that limit our federal income tax deductions for compensation expense in excess of $1 million paid to Named Executive Officers. However, performance-based compensation can be excluded from the limit so long as it meets certain requirements.

No executive of FX Energy, including our Chief Executive Officer, has received nonperformance-based compensation in any given year in excess of $1 million.

Section 409A of the Internal Revenue Code

To the extent one or more elements of compensation provided to executives is subject to Section 409A of the Internal Revenue Code, we intend that these elements be compliant so that the executives are not subject to increased income or penalty taxes imposed by Section 409A. Section 409A requires that "deferred compensation" either comply with certain deferral election and payment rules or be subject to a 20% additional tax and in some circumstances penalties and interest imposed on the person who is to receive the deferred compensation. We believe that if the adverse tax consequences of Section 409A become applicable to our compensation arrangements, such arrangements would be less efficient and less effective in incentivizing and retaining employees. We intend to operate our compensation arrangements so that they are compliant with or exempt from Section 409A and have, therefore, amended or modified our compensation programs and awards, including our employment agreements, to the extent necessary to make them compliant or exempt. We have also agreed to provide additional payments to our Named Executive Officers in the event that an additional tax is imposed under Section 409A.

2010 Summary Compensation Table

The following table summarizes the compensation of our Chief Executive Officer and our four highest paid executive officers other than our Chief Executive Officer ("Named Executive Officers") for the fiscal year ended December 31, 2010:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	All Other Compensation ($)(2)	Total ($)
David N. Pierce	2010	$ 367,500	$181,582(3)	$254,100	$ 67,572	$870,754(3)
President, Chief Executive Officer	2009	367,500	300,582(4)	115,500	77,092	860,674(4)
	2008	367,500	244,044(5)	115,080	69,125	795,749(5)
Thomas B. Lovejoy	2010	262,500	84,653(3)	145,200	75,101	567,454(3)
Chairman, Executive Vice President	2009	262,500	139,022(4)	66,000	78,843	546,365(4)
	2008	262,500	102,038(5)	65,760	72,283	502,581(5)
Andrew W. Pierce	2010	283,500	97,833(3)	226,875	58,802	667,010(3)
Vice President Operations	2009	283,500	167,293(4)	103,125	59,815	613,733(4)
	2008	283,500	189,812(5)	102,750	55,194	631,256(5)
Jerzy B. Maciolek	2010	283,500	97,833(3)	226,875	69,101	677,309(3)
Vice President Exploration	2009	283,500	167,293(4)	103,125	75,252	629,170(4)
	2008	283,500	189,812(5)	102,750	68,545	644,607(5)
Clay Newton	2010	210,000	53,156(3)	136,125	63,335	462,616(3)
Vice President Finance	2009	210,000	67,146(4)	61,875	72,444	411,465(4)
	2008	210,000	63,539(5)	61,650	61,994	397,183(5)

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(1) The amount includes the fair value of stock awards on the date of grant as calculated in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Compensation – Stock Compensation, formerly Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment. The 2008 values were recalculated from the amounts shown in prior proxy statements to reflect the grant date fair value, as required by SEC rules now in effect. For a discussion of valuation assumptions, see Note 1 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2010. The table below shows the 2010 stock grants to each of the Named Executive Officers:

Name	Restricted Shares
David N. Pierce	42,000
Thomas B. Lovejoy	24,000
Andrew W. Pierce	37,500
Jerzy B. Maciolek	37,500
Clay Newton	22,500

(2) The amounts reported for each of the Named Executive Officers in "All Other Compensation" for 2010 are shown below (in dollars):

Name	Registrant Contributions to Defined Contribution Plans	Insurance Premiums and Medical Reimbursement
David N. Pierce	$49,000	$18,572
Thomas B. Lovejoy	49,000	26,101
Andrew W. Pierce	49,000	9,802
Jerzy B. Maciolek	49,000	20,101
Clay Newton	42,000	21,335

(3) The bonus consists of a preliminary award under our Bonus Plan for 2010 that was reported in our annual report on Form 10-K. A final award may be approved by the Board later in 2011.

(4) The bonus consists of a preliminary award under our Bonus Plan for 2009 that was reported in our annual report on Form 10-K, and a final award that was approved by the Board on July 9, 2010, and reported on Form 8-K on July 15, 2010.

(5) Includes additional bonus awards in November 2009 for 2008 under our Bonus Plan, based on the Board's consideration of final peer group performance data for 2008, that are payable if our corporate EBITDAX exceeds $2.0 million for three consecutive months.

Narrative to Summary Compensation Table and Grants of Plan-Based Awards Table

We maintain the following executive compensation programs for our Named Executive Officers:

- base salary
- annual cash incentive compensation
- equity-based awards
- retirement benefits
- other employee benefits
- employment and change in control agreements

We include further details regarding these programs, including information on performance criteria and vesting provisions, in the "Compensation Discussion and Analysis—Executive Compensation Philosophy" section on page 9.

Outstanding Equity Awards at 2010 Year-End

The following table reflects outstanding stock option awards classified as exercisable and unexercisable as of December 31, 2010, for each of the Named Executive Officers. The table also reflects unvested and unearned stock awards:

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexer-cised Options (#) Exer-cisable[(1)]	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options(#)	Option Exercise Price($)	Option Expiration Date	Number of Shares or Units of Stock Held That Have Not Vested(#)	Market Value of Shares or Units of Stock That Have Not Vested($)[(2)]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested($)
David N. Pierce	-	-	-	-	-	84,000[(3)]	$516,600	-	-
	85,000	-	85,000	8.37	08/31/11	-	-	-	-
Thomas B. Lovejoy	-	-	-	-	-	48,000[(4)]	$295,200	-	-
	75,000	-	75,000	8.37	08/31/11	-	-	-	-
Andrew W. Pierce	-	-	-	-	-	75,000[(5)]	$461,250	-	-
	75,000	-	75,000	8.37	08/31/11	-	-	-	-
Jerzy B. Maciolek	-	-	-	-	-	75,000[(6)]	$461,250	-	-
	175,000	-	175,000	8.37	08/31/11	-	-	-	-
Clay Newton	-	-	-	-	-	45,000[(7)]	$276,750	-	-
	55,000	-	55,000	8.37	08/31/11	-	-	-	-

(1) We granted all options seven years prior to the expiration date. The options vested ratably over a three-year period beginning with the first third vesting one year after the date of grant, the second third vesting two years after the date of grant, and the final third vesting three years after the date of grant.

(2) Market value of shares of stock that have not vested is based on the December 31, 2010, closing market price for a share of our common stock, which was $6.15.

(3) Mr. Pierce's restricted shares will vest as follows: 42,000 shares on December 21, 2011; 28,000 shares on December 21, 2012; 14,000 shares on December 21, 2013. All of the restricted shares will also vest if we terminate his employment other than for cause or if he dies or becomes disabled. Restricted stock awards also vest fully on a change in control.

(4) Mr. Lovejoy's restricted shares will vest as follows: 24,000 shares on December 21, 2011; 16,000 shares on December 21, 2012; 8,000 shares on December 21, 2013. All of the restricted shares will also vest if we terminate his employment other than for cause or if he dies or becomes disabled. Restricted stock awards also vest fully on a change in control.

(5) Mr. Pierce's restricted shares will vest as follows: 37,500 shares on December 21, 2011; 25,000 shares on December 21, 2012; 12,500 shares on December 21, 2013. All of the restricted shares will also vest if we terminate his employment other than for cause or if he dies or becomes disabled. Restricted stock awards also vest fully on a change in control.

(6) Mr. Maciolek's restricted shares will vest as follows: 37,500 shares on December 21, 2011; 25,000 shares on December 21, 2012; 12,500 shares on December 21, 2013. All of the restricted shares will also vest if we terminate his employment other than for cause or if he dies or becomes disabled. Restricted stock awards also vest fully on a change in control.

(7) Mr. Newton's restricted shares will vest as follows: 22,500 shares on December 21, 2011; 15,000 shares on December 21, 2012; 7,500 shares on December 21, 2013. All of the restricted shares will also vest if we terminate his employment other than for cause or if he dies or becomes disabled. Restricted stock awards also vest fully on a change in control.

Option Exercises and Stock Vested During 2010

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)[(1)]	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[(2)]
David N. Pierce	85,000	$73,100	42,000	$254,100
Thomas B. Lovejoy	75,000	72,750	24,000	145,200
Andrew W. Pierce	75,000	64,500	37,500	226,875
Jerzy B. Maciolek	75,000	72,750	37,500	226,875
Clay Newton	81,000	65,700	22,500	136,125

(1) This value is the difference between the option exercise price and the market value of the underlying shares on the date of exercise, multiplied by the number of shares.

(2) This value is the market value of the shares on the vesting date multiplied by the number of shares.

Other Potential Post-Employment Compensation

As discussed previously, we face many risks that are not shared by the majority of our peer group companies. In addition to these risks, our Named Executive Officers are required to spend a considerable amount of time out of the United States as we pursue our business objectives. Further, our analysis of the accumulated wealth of our Named Executive Officers shows that a significant portion of their individual net worth is tied to the performance of our common stock.

In view of the foregoing and as part of our program to retain our key employees, we have extended employment and change in control agreements to all of our Named Executive Officers. These are separate agreements, with the employment agreement covering only the terms of employment and the change in control agreement covering only a change in company control. The following summaries describe potential payments payable to our Named Executive Officers upon termination of employment or a change in control. The actual payments to executives are contingent upon many factors as of the time benefits would be paid, including elections by the executive and tax rates, as well as the discretion of the Compensation Committee.

Employment Agreements

We have entered into agreements with each of our Named Executive Officers providing for the terms of employment. Each of the agreements has an initial term of two and one-half years; provided, however, that such agreements will automatically be renewed each year for successive two and one-half year terms unless we deliver to the applicable executive written notice of nonrenewal at least 40 days before the expiration date. All of the agreements were entered into on January 1, 2007. Notwithstanding the foregoing, these agreements automatically terminate upon the earlier of a change in corporate control (as defined in the change in corporate control agreements described below) or such time as the applicable executive ceases to be employed by us for any reason.

Change in Control Agreements

We also have agreements with our Named Executive Officers providing for certain enhanced severance benefits in the event of the severance of the employment of such Named Executive Officer following a change in corporate control. Each of the agreements has an initial term of one year, and the expiration date will automatically be extended for one additional year unless in the 60-day period immediately preceding any anniversary date of the agreement, either we or the applicable executive rejects such automatic extension. These agreements were entered into on January 1, 2007.

David N. Pierce

If we terminate Mr. Pierce's employment other than for cause (as defined in the agreement) or Mr. Pierce resigns for cause (as defined in the agreement), Mr. Pierce will be entitled to severance pay and up to 24 months of continued health care coverage. The severance pay is payable in a lump sum six months after his termination and is equal to two times the greater of: (a) his then current annual salary; or (b) his salary plus bonus compensation for the year most recently ended, including amounts subsequently awarded under our Bonus Plan respecting such year after final peer group performance data are available. In addition, all unvested options, restricted shares, and other equity-based awards will be immediately vested. Under Mr. Pierce's change in control agreement, Mr. Pierce will be entitled to receive similar severance payments and benefits as those described above if we terminate his employment other than for cause within two years after a change in control (as defined in the agreement) or Mr. Pierce's employment is terminated by death or disability.

If Mr. Pierce's employment had been terminated under the circumstances noted in the table below as of December 31, 2010, payments and benefits to him would have an estimated potential value as follows:

Termination Reason	Cash Severance[(1)]	Benefits[(2)]	Value of Accelerated Equity Awards	Total
Retirement / Voluntary / With Cause	$ -	$ -	$ -	$ -
Without Cause /Change in Control / Death	1,098,164	21,703	516,600	1,636,467[(2)]

(1) Plus two times the amount of any cash bonus subsequently awarded under our Bonus Plan respecting such year after final peer group performance data are available.

(2) Includes two years of group medical, dental, and life insurance premiums.

Named Executive Officers (Other Than David N. Pierce)

Assuming the employment of the Named Executive Officers noted in the tables below was terminated under the circumstances noted in the table on December 31, 2010, payments and benefits to each Named Executive Officer would have estimated potential values as follows:

Termination Reason	Cash Severance[(1)]	Benefits[(2)]	Value of Accelerated Equity Awards	Total[(1)]
Retirement / Voluntary / With Cause	$ -	$ -	$ -	$ -
Without Cause /Change in Control / Death				
Thomas B. Lovejoy	694,306	24,084	295,200	1,013,590
Andrew W. Pierce	762,666	8,646	461,250	1,232,562
Jerzy B. Maciolek	762,666	20,869	461,250	1,244,785
Clay Newton	526,312	19,523	276,750	822,585

(1) Plus two times the amount of any cash bonus subsequently awarded under our Bonus Plan respecting such year after final peer group performance data are available.

(2) Includes two years of group medical, dental, and life insurance premiums.

2010 Director Compensation

The following table sets forth certain information regarding the compensation earned by or awarded to each non-employee director who served on our Board of Directors in 2010. Directors who are our employees are not compensated for their services:

Name	Fees Earned or Paid in Cash ($)[(1)]	Stock Awards ($)[(2)]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compen-sation ($)[(3)]	Total ($)
Dennis B. Goldstein[(4)]	$51,000	$ 72,600	-	-	-	$ -	$123,600
H. Allen Turner[(5) (6)]	56,000	36,300	-	-	-	-	92,300
Richard Hardman[(7)]	28,000	163,350	-	-	-	57,000	248,350
Arnold S. Grundvig, Jr.[(5)]	51,000	36,300	-	-	-	-	87,300

(1) Non-employee directors receive the following annual cash compensation:

- an annual retainer of $20,000;
- an additional annual retainer of $20,000 for the Lead Director;
- an additional annual retainer of $20,000 for the Capital Markets Director;
- a fee of $2,000 for each Board meeting attended;
- a fee of $750 for each Audit Committee meeting attended;
- an annual retainer of $5,000 for the chairman of the Audit Committee;
- an annual retainer of $20,000 for the chairman of the Compensation Committee; and
- each director is entitled to reimbursement for reasonable out-of-pocket expenses incurred in connection with travel to and from, and attendance at, meetings of the Board of Directors or its committees and related activities.

(2) Non-employee directors receive the following annual stock awards:

- an annual grant of 6,000 shares of restricted stock;
- an additional annual grant of 6,000 shares of restricted stock for the Lead Director; and
- an annual grant of 27,000 shares of restricted stock for the Technical Advisor.

The amount includes the fair value of stock awards on the date of grant as calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 1 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2010.

(3) Annual consulting fees of $57,000 for the Technical Advisor to the Board of Directors.

(4) Lead Director and Chairman of the Nomination and Governance Committee.

(5) Mr. Grundvig served as Chairman of the Audit Committee until June 4, 2007, at which time Mr. Turner was appointed to serve as Chairman of the Audit Committee. Mr. Grundvig was appointed Chairman of the Compensation Committee in 2009.

(6) Capital Markets Advisor to the Board of Directors.

(7) Technical Advisor to the Board of Directors.

AUDIT COMMITTEE REPORT

The Audit Committee oversees the financial reporting process for us on behalf of the Board of Directors. In fulfilling its oversight responsibilities, the Audit Committee reviewed the annual financial statements included in the Annual Report and filed with the Securities and Exchange Commission. The Audit Committee also reviewed the unaudited financial statements filed with our quarterly reports on Form 10-Q.

The Audit Committee discussed with management and the independent registered public accountants the acceptability and the quality of the accounting principles used in the financial statements. These discussions included the clarity of the disclosures made therein, the underlying estimates and assumptions used in the financial reporting, the reasonableness of the significant judgments and management decisions made in developing the financial statements, and the independent registered public accountants' evaluation of our internal controls.

The Audit Committee met privately with the independent registered public accounting firm and discussed issues deemed significant by the accounting firm, including those required by Public Company Accounting Oversight Board AU 380, *Communication with Audit Committees*. In addition, the Audit Committee discussed with the independent registered public accounting firm its independence from the Company and its management, including the matters in the written disclosures required by Public Company Accounting Oversight Board Rule 3526; received the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence; and considered whether the provision of nonaudit services was compatible with maintaining the accounting firm's independence.

The Audit Committee has also discussed issues related to the overall scope and objectives of the audits conducted, the internal controls used by us, and the selection of our independent registered public accountants with our management and our independent registered public accountants.

The Audit Committee discussed with management our disclosure controls and procedures and the certifications by our Principal Executive Officer and Principal Financial Officer, which are required by the Securities and Exchange Commission under the Sarbanes-Oxley Act of 2002 for certain of our filings with the Securities and Exchange Commission. During 2010, we did not engage PricewaterhouseCoopers LLP to perform any management or financial information systems design consulting services.

Pursuant to the reviews and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2010, for filing with the Securities and Exchange Commission.

The foregoing report has been furnished by: H. Allen Turner, Chairman
Arnold S. Grundvig, Jr.
Dennis B. Goldstein

RELATIONSHIP WITH INDEPENDENT AUDITORS

Independent Registered Public Accountants

Audit Fees

The aggregate fees billed by PricewaterhouseCoopers LLP for professional services rendered for the audit of our annual financial statements for the fiscal year ended December 31, 2010, for the reviews of the financial statements included in our quarterly reports on Form 10-Q for that fiscal year, comfort letters, and for assistance with documents filed with the Securities and Exchange Commission were $348,050. The aggregate fees billed by PricewaterhouseCoopers LLP for professional services rendered for the audit of our annual financial statements for the fiscal year ended December 31, 2009, for the reviews of the financial statements included in our quarterly reports on Form 10-Q for that fiscal year, and for reviews of registration statements and for assistance with the Securities and Exchange Commission's review of our prior year financial statements were $261,500.

Audit Related Fees

PricewaterhouseCoopers LLP did not bill us for any professional services that were reasonably related to the performance of the audit or review of financial statements for either the fiscal years ended December 31, 2010 and 2009, that are not included under Audit Fees above.

Tax Fees

The aggregate fees billed by PricewaterhouseCoopers LLP for professional services rendered for domestic and international tax compliance, tax advice, and tax planning for the fiscal years ended December 31, 2010 and 2009, were $15,920 and $51,200 respectively.

All Other Fees

The aggregate fees billed by PricewaterhouseCoopers LLP for other services for the fiscal years ended December 31, 2010 and 2009, were $1,800 and $1,500 respectively.

The engagements of PricewaterhouseCoopers LLP to perform all of the above-described services were approved by the Audit Committee before we entered into the engagements, and the policy of the Audit Committee is to require that all services performed by the independent registered public accountants be preapproved by the Audit Committee before the services are performed.

PROPOSAL 2. ADVISORY VOTE ON EXECUTIVE COMPENSATION

We believe that our compensation policies and procedures are centered on a pay-for-performance culture and are strongly aligned with the long-term interests of our stockholders. Beginning this year, Section 14A of the Securities Exchange Act requires us to provide our stockholders a "Say-on-Pay" vote. This vote gives you, as a stockholder, the opportunity to endorse or not endorse the compensation of our Named Executive Officers through the following resolution:

> RESOLVED, that the stockholders approve the compensation of the Company's Named Executive Officers, as described in the Compensation Discussion and Analysis, executive compensation tables, and accompanying narrative discussion in the Proxy Statement.

Because your vote is advisory, it will not be binding upon the Board. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

Recommendation of the Board of Directors

The Board of Directors recommends voting "FOR" approval of the above resolution approving the Company's executive compensation.

PROPOSAL 3. ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION

As described in Proposal No. 2 above, we are providing our stockholders with the opportunity to cast an advisory vote on the compensation of our Named Executive Officers.

Beginning this year, and at least once every six years thereafter, Section 14A of the Securities Exchange Act requires us to allow our stockholders the opportunity to cast an advisory vote on how often we should include advisory votes on the compensation of our Named Executive Officers in our proxy materials for future stockholder meetings. Under this proposal, stockholders may vote to have the "Say-on-Pay" vote every year, every two years, or every three years, or may abstain from voting.

The Board of Directors recommends a vote of every three years on the frequency of future advisory votes on executive compensation. We believe that a three-year vote recognizes the long-term nature of our business and approximates the lead time required to take an exploration project from ideas and science to drilling and production.

The Board of Directors takes a long-term view of executive compensation. A significant portion of our compensation is based on long-term time horizons; accordingly, our compensation practices do not vary from year to year. Rather, our compensation practices and total compensation levels have been quite consistent for more than five years. Our Bonus Plan considers certain corporate performance criteria as it relates to our peers, as well as other certain absolute measures of performance, almost all of which are evaluated based on results over a three-year time horizon. Likewise, our equity incentive awards vest over a three-year time period. We believe that a nonbinding vote every three years would be consistent with the longer term nature of our business.

Because your vote is advisory, it will not be binding upon the Board. However, the Board will take into account the outcome of the vote when considering how often to include a "Say-on-Pay" vote in our proxy materials.

Recommendation of the Board of Directors

The Board of Directors recommends voting "FOR" approval of "every three years" as the frequency of future stockholder advisory votes on executive compensation.

PROPOSAL 4. RATIFICATION OF THE APPOINTMENT BY THE AUDIT COMMITTEE OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of PricewaterhouseCoopers LLP has served as our independent registered public accounting firm since 1995. The Audit Committee has appointed PricewaterhouseCoopers LLP to act in that capacity for the year ending December 31, 2011.

Although we are not required to submit this appointment to a vote of our stockholders, the Audit Committee believes it is appropriate as a matter of policy and a desirable corporate governance practice to request that the stockholders ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm. If the stockholders do not ratify this appointment, the Audit Committee will investigate the reasons for that nonratification and determine whether to retain PricewaterhouseCoopers LLP or appoint another independent registered public accounting firm. Even if the appointment is ratified, the Audit Committee may determine to engage a different independent registered public accounting firm at any time if it determines that such a change would be in our best interests and the best interests of our stockholders.

It is anticipated that representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting and will be provided the opportunity to make a statement, if they desire to do so, and respond to appropriate questions.

Recommendation of the Board of Directors

The Board of Directors recommends voting "FOR" the ratification of the appointment by the Audit Committee of PricewaterhouseCoopers LLP as our independent registered public accounting firm.

Vote Required

The ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm requires the affirmative vote of more shares than vote against such ratification. Abstentions and broker nonvotes will not be counted on this matter.

OTHER MATTERS

Management does not know of any business other than that referred to herein that may be considered at the Annual Meeting. If any other matters should properly come before the Annual Meeting, it is the intention of the persons named in the accompanying form of proxy to vote the proxies held by them in accordance with their best judgment.

In order to assure the presence of the necessary quorum and to vote on the matters to come before the Annual Meeting, please indicate your choices on the enclosed proxy and date, sign, and return it promptly in the envelope provided. The signing of a proxy by no means prevents your attending the meeting.

FX ENERGY, INC.
By Order of the Board of Directors

Scott J. Duncan, Secretary

Salt Lake City, Utah
April 15, 2011

Corporate Information

Officers and Board of Directors
David N. Pierce
President and Chief Executive Officer
Director

Thomas B. Lovejoy
Chairman of the Board
Executive Vice President

Andrew W. Pierce
Vice President, Operations

Jerzy B. Maciolek
Vice President, International Exploration
Director

Scott J. Duncan
Vice President, Investor Relations
Corporate Secretary

Clay Newton
Vice President, Finance

General Counsel
James R. Kruse
Kruse Landa Maycock & Ricks, LLC
136 East South Temple, Suite 2100
Salt Lake City, Utah 84111

Independent Public Accountants
PricewaterhouseCoopers, LLP
201 South Main Street, Suite 900
Salt Lake City, Utah 84111

□ – Member of Nomination and Governance Committee

○ – Member of Compensation Committee

◊ - Member of Audit Committee

Independent Directors
Dennis B. Goldstein □ ○ ◊
Director
Former Corporate Counsel
And Assistant Secretary,
Homestake Mining

Richard Hardman, CBE □ ○
Director
Former Vice President, Worldwide
Exploration for Amerada Hess
Chairman of the Petroleum Society,
Great Britain

Arnold S. Grundvig, Jr. □ ○ ◊
Director
President and Chief Financial Officer,
A-Systems Corporation

H. Allen Turner □ ○ ◊
Director
Former Senior Vice President, Corporate
Development, Devon Energy

Independent Reservoir Engineers
RPS Energy plc
309 Reading Road
Henley-on-Thames
Oxfordshire RG9 1EL
United Kingdom

Hohn Engineering, PLLC
2708 1st Avenue North
Billings, Montana 59101

Stock Transfer Agent
Fidelity Transfer Company
8915 South 700 East
Salt Lake City, Utah 84115
801-562-1300

Communications regarding the transfer of lost shares, lost certificates, duplicate mailings, or changes of address should be directed to the transfer agent.

10-K Request
Stockholders interested in obtaining, without cost, additional copies of the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission can do so by writing to Scott J. Duncan at:

FX Energy, Inc.
3006 Highland Drive, Suite 206
Salt Lake City, Utah 84106

or by visiting FX Energy, Inc.'s website at:

www.fxenergy.com

Nonexecutive Offices
FX Drilling Co., Inc.
Corner of Central and Main
Oilmont, Montana 59466

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