**Dana**

Good afternoon ladies and gentlemen and welcome to the FX Energy, Inc. Third Quarter 2011 Financial and Operating Results Conference Call. As a reminder today's call is being recorded. At this time, I'd like to turn the Conference over to Mr. Clay Newton, please go ahead sir.

**Clay Newton**

Thank you, Dana. And thank you all for joining us today. I'm Clay Newton, VP of Finance here at FX Energy. Welcome to our 2011 third quarter earnings call.

I'd like to remind investors that during today's call we will be making statements that are forward looking and consequently are subject to risks and uncertainties. Examples of these statements include statements regarding exploration, drilling, development, construction or other projects or operations that may be subject to the successful completion of technical work; environmental, governmental or partner approvals; equipment availability, or other things that are or may be beyond our control.

You should be aware that certain factors may affect us in the future and could cause actual results to differ materially from those expressed in these forward-looking statements. Such factors include the risks set forth in our Form 10-K that we filed in March and in our other filings with the SEC. We urge you to consider these factors and remind you that we undertake no obligation to update the information contained on this call to reflect subsequent events or circumstances.

Our call today will follow the same format of previous calls. I've divided my remarks into two sections. First, I'll talk about the numbers; production, revenues, cash flow, with a few words, again, about non-cash charges. Following those comments, I'll spend a few minutes on liquidity and capital resources. After that, David Pierce, our CEO, will cover operational updates. We will provide an opportunity to ask questions following our remarks.

Let's start with production. On an equivalent basis we reported record oil and gas production for the first nine months of 2011 of just under 3.3 billion cubic feet equivalent, an average of 12 million cubic feet equivalent per day. This is an increase of 14% over our 2010 full-year daily average of 10.5 million cubic feet equivalent per day.

Our natural gas production in Poland increased 14% year over year, from 2.6 billion cubic feet, or 9.6 million cubic feet per day, to 3.0 billion cubic feet, or 11.0 million cubic feet per day. As you may recall, our Sroda-4 and Kromolice wells are responsible for the increase. Domestic oil production declined by about 8% from the first nine months of a year ago due to normal production declines.

Our production at the moment is running at 12 million cubic feet equivalent per day. Once we get our KSK bottleneck sorted out, which should be in the first quarter of 2012, our production should be well in excess of 15 million cubic feet per day. Once we get our Winna Gora well online, which should be mid-year 2012, our production should be more than 17 million cubic feet per day.

In terms of revenues, we posted record oil and gas revenues during the first nine months of this year. Oil and gas revenues were $22.5 million, up 34% from last year. Total revenues, which include oilfield services revenues, were up 40% over 2010 levels.

A major factor in our revenue increase during the recent quarter, and for most of 2011, is the significant increase in the price we receive for our gas in Poland. Gas prices this year are 21% higher than in 2010. The latest increase was 12.5% increase and became effective for us on August 1, 2011. The increases we receive are determined and approved by the regulatory agency responsible for setting gas prices in Poland. There are obviously a number of factors involved in price determination, but based upon the current circumstances in Europe and Poland specifically, we believe prices may be heading even a bit higher.

We also saw an increase in oil prices which, from a revenue standpoint, helped offset the small decrease in our domestic production rates for the first nine months. During those first nine months of this year, the average price for our domestic crude oil production was $83.09 per barrel, up 24% from $66.81 per barrel for the first nine months of last year.

With expected production increases in the 4th quarter from our Poland operations, higher prices that I mentioned a moment ago, and assuming relatively constant exchange rates, we should continue to see significant revenue increases for the balance of 2011.

Our total net exploration and development costs, including both capital and expense items, totaled more than $28 million during the first nine months of 2011. In addition, our partner spent another $12 million to earn into our Warsaw South concession, bringing the total amount spent on our projects in Poland to approximately $40 million in the first nine months of this year. In 2010, by comparison, we spent just over $10 million in exploration and capital spending for the entire year.

We are serious about building and maintaining our momentum, not just in Poland but in the United States as well.

As a result of increased exploration costs, our reported 2011 first nine months operating income decreased by about $5.5 million from first nine months 2010 operating income.

If we ignore the impact of the exploration costs that we expense in our financial statements, our operating income would have been more than $4 million higher in the first nine months of this year than it was last year. We’re using that increase in operating income to fund more exploration.

We expect that our reported operating income will continue to be dampened by increasing exploration costs, but we expect the trend of higher revenues to continue as well.

A few words about non-cash charges. I know we talk about this every quarter, but for those of you who are new to our Company, its worth repeating. Our financial statements are impacted each reporting period by significant non-cash items. In the first nine months of 2011, we recorded foreign exchange losses of about $15.9 million, compared to foreign exchange losses of about $2.9 million in the first nine months of 2010. Please remember that almost all of these foreign exchange losses are related to the dollar-denominated intercompany debt between FX Inc. and FX Poland. These gains and losses will continue to vary over time as the exchange rate between the US dollar and Polish zloty changes; however, they have no impact on our revenues, cash flows, or ability to execute on our capital budget.

I'll wrap up with a few words about our liquidity and capital resources.

Similar to our operating income, our reported net cash flow from operating activities is impacted by exploration expenses and changes in working capital items. Absent those types of items, our cash operating margin also increased from 2010 to 2011.

Our reported net cash provided by operations of $1.2 million during the first nine months of 2011 was $5.0 million less than the net cash provided from operating activities of $6.2 million during the 2010 nine months.  The primary cause of the year-to-year decline was, as we discussed earlier, an increase of $10.3 million in exploration expense. As I said, absent that item, our cash flow in 2011 would have exceeded that of 2010.

As you remember, following our March stock offering, we repaid all amounts outstanding under our credit facility.

Subsequent to September 30, 2011, the Company drew $40 million under its credit facility in view of the unsettled conditions in Europe's financial sector and to ensure the Company will have adequate funds available for an expected 2012 increase in exploration and development spending.

If you combine our current working capital, the $40 million which we drew down subsequent to September 30, the $15 million that remains undrawn under our credit facility and our expected higher cash flow available for investment, we expect to have more than $100 million available for our exploration and capital plans between now and the end of 2012.

With that background, I'll now turn the call over to David for his operational updates.

**David Pierce**

Good afternoon. I'm David Pierce, the CEO of FX Energy. Thanks for joining us today. This Company is in the best shape it has ever been, so it's a real pleasure for me to talk to you today. In the next few minutes I'll provide an operations update, starting with the core Fences concession in Poland, touching on our other Polish concessions, and winding up with an update on US operations.

The Fences concession is our core producing area in Poland. We hold a 49% non-operating interest in more than 800,000 acres; PGNiG, a majority state owned company, operates and holds 51% interest. Since 2000 we have drilled eleven wells in this concession targeting Rotliegend structural traps. Eight of the eleven wells have been successful, with aggregate P50 gross reserves of more than 225 billion cubic feet of gas. Today these wells are producing in the aggregate approximately 27 million cubic feet of gas per day gross, or approximately 6% of Poland's domestic gas production. Obviously we've had an impact. This is our core concession, we believe there is a lot of room for growth in it, and we plan to continue investing the largest portion of our resources in this concession.

We have three focus areas in the Fences today: the Lisewo area where we made a discovery in the first quarter of 2011, the Plawce area where we drilled a tight sand gas well in the third quarter, and the KSK area where we started production from three new wells in the past eleven months.

The Lisewo area is centered on the Lisewo-1 discovery well, drilled in the 1Q2011, with gross P50 gas reserves of 36 Bcf. Five nearby satellite structures are interpreted on 3-D seismic, and a very large extension to the southeast, called Lisewo SE, is interpreted on 2-D seismic. On 2-D, the Lisewo SE structure appears to be roughly similar in size, shape and geologic setting to the 390 Bcf Radlin field about 10 kilometers to the west. Taking the Lisewo-1 discovery, the five satellite prospects, and the Lisewo SE prospect together, we have the potential to more than double the Company's total reserves.

We have just finished field work on a new 270 square kilometer 3-D acquisition program in this area. The 3-D seismic is focused on Lisewo SE, located on strike southeast of this year's Lisewo-1 discovery. We currently anticipate that this seismic will be available to map the Lisewo SE structure and select a drillsite about mid-2012.

We have started permit and design work on a production facility for Lisewo-1 and potentially for up to a half-dozen other nearby wells. We estimate this facility and its pipeline will begin production about mid-2013. At the moment, we have just the Lisewo-1 well ready to tie in when the facility is completed. However, by mid-2013 we hope to have several wells capable of production in the gathering area served by this facility.

We anticipate starting the next well in this area, Komorze-3, a satellite prospect, in early 2012. During 2012 we plan to drill a total of three wells in the Lisewo area, including a first well in the Lisewo SE prospect. If successful, this would give us a significant boost in 2012 reserve additions, along with a sizeable production increase in about a year and a half.

Our second focus area in the Fences concession is Plawce, centered on the Plawce-2 well that we drilled last quarter. We are targeting gas trapped in tight sands at a depth of approximately 4,200 meters. The Plawce area is an uplifted horst block covering a large area in the northwest of the Fences concession. The potential here is up to a half Tcf of gas in place. Net to FX's 49% working interest, and assuming a reasonable recovery factor, this could be more than enough to double the Company's total reserves. The trick, of course, is to recover it commercially.

The Plawce-2 well has approximately 480 meters – that's nearly one thousand six hundred feet – of tight Rotliegend sandstone. Logs, cores and a drill stem test indicate gas shows throughout and no free water. PGNiG currently plans to frac three zones of relatively higher porosity (10% to 16%) in this vertical well, most likely after year end. Given the high potential of the Plawce area, and the difficulties encountered in unconventional operations by other operators in Poland, there is certainly reason to exercise great care in the completion attempt and in the selection of the service providers who will carry it out. Further operations in the Plawce area in 2012 will depend heavily on the outcome of the Plawce-2 completion attempt.

Now, the KSK area centers on three discovery wells and a dry hole: Sroda-4, Sroda-6, Kromolice-1 and Kromolice-2. These wells are located on three parallel series of Rotliegend structures in the northwest region of the Fences concession. The Sroda-6 well was not commercial because it missed the structure, but it encountered very good porosity nonetheless. The other three wells had gross P50 gas reserves of approximately 80 Bcf in the aggregate as of yearend 2010.

We started producing the Sroda-4 well about eleven months ago and the two Kromolice wells about five months ago. The three wells together are capable of producing about 12 Mmcf/d gross. As Clay mentioned, a bottleneck downstream has kept them running at about half capacity. The pipeline owner has been working on laying a relatively short twin line in the bottleneck area and we currently hope to see excess line capacity downstream from the KSK area in the 1Q2012. Obviously this is important so we can grow our current production, but it is also important because we believe there may be more potential in the KSK area.

We currently plan to start a new well, Mieczewo, in the KSK area in the next two to three months. The Mieczewo prospect is on trend with, and approximately three kilometers northwest of, the Kromolice-2 discovery. In addition, we are continuing to work on the 3D seismic to refine our structural interpretation in the KSK area. During 2012 we will also examine the production profiles of the KSK wells to see if there is data that supports further drilling. Any future drilling in this area will have the advantage of existing nearby production facilities to speed the time from discovery to production.

In addition to our three focus areas, we are continuing to expand our area of investigation within the Fences concession. Our plans for 2012 include integrating our four new 3-D seismic surveys with some earlier 3-D seismic. In all this will gives us 3-D coverage over approximately 50% of the Fences concession. In addition, we plan to acquire a substantial amount of new 3-D seismic in the Fences. We have a large lead east of the Plawce area, called Plawce East. We expect to acquire some needed infill 3-D seismic over this prospect in the next few months. We are also discussing two more new 3-D acquisition programs in the Fences. We see room for continuing growth and potential for some large discoveries. We will continue to focus the lion's share of our resources here.

Our ongoing success in the Fences concession continues to support our belief that significant undiscovered conventional gas potential remains in Poland. We think our Warsaw South concession has this kind of potential. The difference is that Warsaw South's potential lies not in the Rotliegend, but in the Carboniferous, which is the actual source of the gas in western Poland. In eastern Poland the Carboniferous is both a source and a reservoir with its interbedded sands and shales. We operate in this 880,000 acre concession and hold 51% interest; PGNiG holds a non-operating 49% interest.

Our Machnatka well earlier this year was the first of a planned four well program to test for oil and gas in Carboniferous horizons in the Warsaw South concession. We drilled Machnatka to a total depth of 4,500 meters. We encountered good background gas, and decent gas shows and porosities in Carboniferous sands, including sand intervals that are known to be productive in the eastern part of the concession. The Machnatka well, although a dry hole, strengthens our belief that we are in the right neighborhood for hydrocarbon accumulations.

The downhole data that we recovered from the Machnatka well has allowed us to re-map our seismic data, following the Carboniferous sands updip toward our Grojec and Michrow prospects where we anticipate good reservoir characteristics and trapping potential.

At this point we anticipate drilling at least two wells in 2012 and acquiring several hundred kilometers of 2-D seismic. The next well should start drilling in the 1Q2012. We hope that by the time we've drilled three or four wells in this area we will have demonstrated the reserve and production potential of the Carboniferous. Machnatka tells us we are in the right area, now we have to find the right place for trapping. We are very enthusiastic about the potential of Warsaw South and intend to dedicate a significant portion of our exploration resources to this area over the next 18 to 24 months.

Turning now to Kutno, we operate this 710,000 acre concession and hold 50% interest; PGNiG holds a non-operating 50% interest. Kutno is different; it's one of a kind. To put things in context, we have lots of prospects in the Fences and Warsaw South concessions. In due course we expect to have lots of producing fields in both of these concessions. Kutno, on the other hand, has just one big target, a massive structure in the Rotliegend, approximately 35,000 acres or 140 square kilometers based on 2-D interpretation. The target is much deeper than we commonly drill in Poland: approximately 6,500 meters or 21,000 feet. But the prize is proportionately even greater: up to 9 Tcf. Kutno could change everything.

We started drilling the Kutno-2 well in August to make sure we got casing set and cemented before cold weather set in. That has been accomplished; we have 13 3/8 inch casing set down to 1591 meters. The small rig has moved off and the new IDM 2000 rig is set up and starts drilling today. We expect to be in the Rotliegend sands in 2Q12. Kutno-2 is by far the highest potential prospect we've ever drilled. We are very pleased to have this opportunity for the Company and our shareholders. It is high risk, but the costs are within our means and the potential is enormous for all of us.

Turning now to our Northwest concession, we have completed the mapping of a large Rotliegend prospect called Plonsko. Plonsko is about 4000 meters deep with three separate interpreted structures. The primary structure is approximately 20 square kilometers or 5,000 acres. We anticipate selecting drillsites before yearend and we hope to put this high risk, high potential prospect on our drilling calendar next year, possibly with a partner. At the moment, we operate and hold 100% interest.

We have three other concession areas in Poland that we own 100%: a group of four blocks called the Edge concession, and two single blocks: Block 229 and Block 246. We are moving forward with seismic interpretation of 186 km of new 2-D seismic on our Edge concessions, and we expect to acquire new 2D seismic in block 246 and block 229 in the next few months. Based on those data we could see one or more prospects from each of these concessions added to our drilling schedule as early as the second half of next year. There is a lot of opportunity in Poland and we are very happy to be there with resources to explore it.

Now, I'll wrap up this operations list with our US operations in Montana's Alberta Bakken oil play. So far this year we drilled three vertical wells through the Bakken group. Logs, cores and tests were as good as or better than expected. Last month we drilled a horizontal leg in one of these wells, the Anderson 14-29. A service company from over in the Williston Basin is scheduled to arrive at the end of this month to frac the Anderson well. We have another lateral permitted and a fourth drilling permit pending, but these operations will depend on the outcome of this month's frac and on the weather in the Cut Bank area. As of this moment, we have drilled three vertical Bakken wells, with a lateral on one of them.

We are the operator and hold a one-third working interest in approximately 75,000 net acres; American Eagle Energy, Inc., and Big Sky Operating, LLC, each own a one-third working interest. Our goal over this year and next is to appraise this acreage with perhaps a dozen or more horizontal wells if the early wells are promising. Of course, if the early wells are successful we would expect to be producing and selling oil throughout 2012.

Let me recap what we see operationally over the next few months and through to the end of 2012. We have an Alberta Bakken horizontal well to frac and test, a Polish tight sand vertical well to frac and test, and the big Kutno well to finish drilling and test. By the end of the 1Q2012 we expect to have started drilling two more wells in the Fences concession and one more in the Warsaw South concession. Depending on results of our first Alberta Bakken horizontal well, we plan to drill perhaps a half-dozen more in the first half of

2012. We also anticipate an increase of about 3 Mmcf/d in our net production as the KSK pipeline downstream capacity opens up. Winna Gora should be coming onstream about mid-year with an addition of about 2 Mmcf/d to current net production. And we should have 3D seismic available to re-interpret the big Lisewo SE prospect about mid year. Most of this activity will see results over the next three to six months.

Later in 2012 we plan two more wells in the Fences concession, including Lisewo SE, at least one more well in the Warsaw South concession, and possibly another half dozen Alberta Bakken wells. We expect to have drilling targets ready on our Northwest, Edge, and Block 246 concessions, so it is possible that one or more of these could be drilling in the second half of 2012.

As we go farther out in time things become more dependent on the success or failure of the nearer term operations and many other factors. The real takeaway, I think, is that we are drilling more wells now than ever before and we are preparing for further increases in the pace. We have growing production and revenue, a solid balance sheet, significant potential in our assets in Poland and Montana, a great exploration knowledge base, a growing prospect inventory and an operations plan to continue building momentum.

As I said last quarter, we are a new company today compared to last year and we thank you for your support in helping us get here. The markets remain skittish today and our stock remains significantly underpriced in my opinion given the opportunities we will test over the next few months. In my view, FX Energy remains an unsurpassed value.

So, I thank you for your patience; we will make it our business to continue to earn your support. And now we can take questions for a few minutes.