

OKLAHOMA CITY, Aug. 8, 2016 /PRNewswire/ -- [Panhandle Oil and Gas Inc.](#) (NYSE: PHX) today reported financial and operating results for the Company's fiscal third quarter and nine months ended June 30, 2016.

SIGNIFICANT ITEMS FOR THE PERIODS ENDED JUNE 30, 2016

- Recorded net loss of \$786,795 for the fiscal third quarter 2016, \$0.05 per diluted share, as compared to net loss of \$728,946, \$0.04 per diluted share, for the 2015 quarter.
- Recorded net loss of \$11,024,074 for the 2016 nine months, \$0.65 per diluted share, compared to net income of \$10,209,022, \$0.61 per diluted share, for the 2015 nine months.
- Incurred noncash impairment provision for the 2016 nine months of \$11,849,064.
- Generated cash from operating activities of \$13,058,724 for the 2016 nine months, well in excess of \$3,359,518 of capital expenditures for drilling and equipping wells.
- Received lease bonus proceeds of \$4.3 million in the third quarter and \$7.5 million in the first nine months of fiscal 2016.
- Reported production for the 2016 third quarter and nine months of 2,887,821 Mcfe and 8,817,524 Mcfe, respectively.
- Reduced debt \$15.8 million from Sept. 30, 2015, to \$49.2 million through June 30, 2016 (as of Aug. 8, 2016, balance is \$44.8 million).

FISCAL THIRD QUARTER 2016 RESULTS

For the 2016 third quarter, the Company recorded a net loss of \$786,795, or \$0.05 per diluted share. This compared to a net loss of \$728,946, or \$0.04 per diluted share, for the 2015 third quarter. Net cash provided by operating activities decreased 74% to \$2,492,074 for the 2016 third quarter, versus the 2015 third quarter. Capital expenditures for the 2016 fiscal quarter totaled \$804,975 and continue to be principally directed toward oil and NGL rich plays in south central Oklahoma including the SCOOP and STACK plays.

Total revenues for the 2016 third quarter were \$9,862,578, a 16% decrease from \$11,748,888 for the 2015 quarter. Oil, NGL and natural gas sales decreased \$4,077,692, or 36%, in the 2016 quarter, compared to the 2015 quarter, as a result of a 13% decrease in Mcfe production and a 26% decrease in the average per Mcfe sales price. The average sales price per Mcfe of production during the 2016 third quarter was \$2.55, compared to \$3.45 for the 2015 third quarter. The 2016 quarter included a \$1.8 million loss on derivative contracts, as compared to a \$1.4 million loss for the 2015 quarter. The Company will typically hedge 40-60% of its expected production volumes of oil and gas for a duration of up to one year.

Oil production decreased 19% in the 2016 quarter to 88,732 barrels, versus 109,738 barrels in the 2015 quarter, while gas production decreased 12% to 2,112,567 Mcf for the 2016 quarter, compared to the 2015 quarter. In addition, 40,477 barrels of NGL were sold in the 2016 quarter, as compared to 41,737 barrels in the 2015 quarter. These production decreases are the result of normal well decline Company wide and the lack of new production coming on line. Capital expenditures for drilling, as highlighted above, continue to be depressed by the low product prices experienced over the last 18 months.

NINE MONTHS 2016 RESULTS

For the 2016 nine months, the Company recorded a net loss of \$11,024,074, or \$0.65 per diluted share. This compared to a net income of \$10,209,022, or \$0.61 per diluted share, for the 2015 nine months. Net cash provided by operating activities decreased 65% year over year to \$13,058,724 for the 2016 nine months, versus \$37,347,802 for the 2015 nine months. Again, cash flow from operations fully funded costs to drill and equip wells for the nine months. Capital expenditures for the 2016 nine months totaled \$3,359,518. The Company recorded an \$11.8 million noncash provision for impairment in the 2016 nine months, as compared to a \$3.5 million provision in the 2015 period.

Total revenues for the 2016 nine months were \$28,911,794, a 50% decrease from \$57,427,092 for the 2015 nine months. Oil, NGL and natural gas sales decreased \$20,843,467 or 48% in the 2016 nine months, compared to the 2015 nine months, as a result of a 16% decrease in Mcfe production and a 38% decrease in the average per Mcfe sales price. The average sales price per Mcfe of production during the 2016 nine months was \$2.56, compared to \$4.13 for the 2015 nine months. The 2016 nine months included a \$0.8 million loss on derivative contracts as compared to an \$11.7 million gain for the 2015 period.

Oil production decreased 16% in the 2016 nine months to 285,854 barrels from 340,888 barrels in the 2015 nine months, while gas production decreased 1,140,359 Mcf, or 15%, compared to the 2015 nine months. In addition, 126,462 barrels of NGL were sold in the 2016 nine months, which was a 23% decrease compared to 2015 NGL volumes.

MANAGEMENT COMMENTS

Michael C. Coffman, President and CEO, said: "Our 2016 fiscal third quarter results again demonstrated the value of Panhandle's mineral acreage asset base. The \$4.3 million of lease bonus proceeds generated in the third quarter, combined with the \$3.2 million generated in the first half of the year, was a significant piece of our overall operating cash flow this year. We have been able to fund our operations, continue to pay a dividend and reduce debt \$15.8 million this fiscal year. Additional monetization of certain assets continues, and we will analyze and exploit appropriate opportunities that fit with our operating strategies.

"Natural gas represents 72% of our Mcfe production volume, so recent natural gas price increases will add to our cash flows and also provide us the opportunity to add to our hedge book, which will help stabilize our future cash flows. In addition, drilling for gas has been proposed by a third party operator on one of our largest mineral acreage holding plays, the Southeast Oklahoma Woodford Shale. We have ample liquidity and plan to take appropriate advantage of the opportunity."

Coffman continued: "We have been patient through this downturn, continuing to follow our proven operating strategies, which has positioned the Company to prosper as the industry begins a recovery."

Paul F. Blanchard, Senior Vice President and COO, said "The third quarter of 2016 saw significant activity and transition for Panhandle Oil and Gas. Leasing activity during the quarter resulted in proceeds of \$4.3 million. Shortly after the quarter close, we sold a non-strategic group of assets for \$3.9 million. The operator of our Cochran County, Texas, mineral block has scheduled drilling on our acreage to begin in the fourth quarter of 2016. A well on our Eagle Ford acreage was completed with improved completion techniques, which has yielded a significant increase in early production as compared to previous wells. Also, we elected to participate in eight Southeastern Oklahoma Woodford Shale wells, with an average 27.4% net revenue interest. These wells have the potential to materially impact both our 2017 natural gas production and proved developed reserves."

OPERATIONS UPDATE

Third quarter leasing activity included the leasing of 792 acres in the STACK play and extension area, yielding approximately \$2.9 million, and 706 acres in an extension area of the SCOOP play, yielding approximately \$1.3 million. The Company maintained all participation rights on its mineral acreage in the SCOOP core and the CANA core, which includes a significant portion of the STACK play. We also sold a package of wells that came from the dissolution of one of our partnerships for \$3.9 million in mid-July. This package consisted of more than 1,700 wells, each with minimal interest, along with associated minerals and leasehold that were not strategic to the Company. Leasing activity and the sale of non-strategic wells yielded a combined total of \$8.1 million.

Capital investment activity during the quarter was minimal, with notable activity being the drilling of two Bakken wells in the Ft. Berthold area of North Dakota. These wells have an average net revenue interest of approximately 5% per well and are scheduled to be completed in the fourth quarter.

The operator of the Company's 34.5 square mile gross acreage block in Cochran County, Texas, has permitted a 1.5 mile horizontal San Andres well and a salt water disposal well with plans to commence operations during the fourth quarter. The Company owns 4,057 net mineral acres in the block and will receive a proportionately reduced 25% royalty as well as the right to participate in drilling wells with up to 10% working interest. With full participation, Panhandle would have an average 10% working interest and a 12.1% net revenue interest in wells drilled on the block.

In July 2016, we participated in the completion of the Flick A 6 well on our Eagle Ford acreage. This well was fracture stimulated with a significantly larger volume of sand than previous wells on our acreage. The well has been on production for 20 days and its cumulative production is materially higher than the average of the five most recent wells on our acreage, which were completed in late 2015.

We have elected to participate in eight significant interest wells in the Southeastern Oklahoma Woodford Shale in Coal County, Okla. The wells will be operated by a major international oil and gas company that has ongoing successful operations in the field. Panhandle will have an average working interest of 20% and an average net revenue interest of 27.4% in the wells. The wells are projected to commence drilling in mid-August 2016 and to begin producing late in calendar year 2016 or early 2017. Assuming the activity takes place as planned and the wells perform as projected, the Company expects 2017 natural gas production volumes and proved developed reserves to increase materially.

FINANCIAL HIGHLIGHTS

Statements of Operations

	Three Months Ended June 30, Nine Months Ended June 30,			
	2016	2015	2016	2015
Revenues:	(unaudited)		(unaudited)	

Oil, NGL and natural gas sales	\$ 7,365,898	\$ 11,443,590	\$ 22,557,372	\$ 43,400,839
Lease bonuses and rentals	4,281,095	1,663,402	7,188,152	1,945,743
Gains (losses) on derivative contracts	(1,782,903)	(1,443,472)	(842,726)	11,706,955
Income (loss) from partnerships	(1,512)	85,368	8,996	373,555
	9,862,578	11,748,888	28,911,794	57,427,092
Costs and expenses:				
Lease operating expenses	3,520,196	4,071,634	10,274,085	13,233,980
Production taxes	196,733	362,548	747,714	1,384,217
Exploration costs	1,157	19,911	30,106	48,368
Depreciation, depletion and amortization	5,959,482	5,729,460	18,963,017	17,680,069
Provision for impairment	-	132,118	11,849,064	3,532,760
Loss (gain) on asset sales and other	14,554	(18,459)	(228,018)	(27,586)
Interest expense	331,117	383,047	1,034,027	1,195,056
General and administrative	1,570,134	1,565,575	5,133,657	5,374,206
Bad debt expense (recovery)	-	-	19,216	-
	11,593,373	12,245,834	47,822,868	42,421,070
Income (loss) before provision (benefit) for income taxes	(1,730,795)	(496,946)	(18,911,074)	15,006,022
Provision (benefit) for income taxes	(944,000)	232,000	(7,887,000)	4,797,000
Net income (loss)	\$ (786,795)	\$ (728,946)	\$ (11,024,074)	\$ 10,209,022
Basic and diluted earnings (loss) per common share	\$ (0.05)	\$ (0.04)	\$ (0.65)	\$ 0.61
Basic and diluted weighted average shares outstanding:				
Common shares	16,582,416	16,514,435	16,575,117	16,504,512
Unissued, directors' deferred compensation shares	263,649	246,893	259,382	256,084
	16,846,065	16,761,328	16,834,499	16,760,596
Dividends declared per share of common stock and paid in period				
	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12

Balance Sheets

	June 30, 2015
Assets	(unaudited)
Current assets:	
Cash and cash equivalents	\$ 50,000
Oil, NGL and natural gas sales receivables (net of allowance for uncollectable accounts)	4,000
Deferred income taxes	52,000
Refundable income taxes	-
Assets held for sale	1,000
Refundable production taxes	-
Derivative contracts, net	-
Other	18,000
Total current assets	7,000
Properties and equipment, at cost, based on successful efforts accounting:	
Producing oil and natural gas properties	43,000
Non-producing oil and natural gas properties	7,000
Other	1,000
	44,000
Less accumulated depreciation, depletion and amortization	(2,000)
Net properties and equipment	19,000
Investments	16,000
Total assets	\$ 20,000
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	\$ 1,000
Derivative contracts, net	1,000
Deferred income taxes	-
Income taxes payable	65,000
Accrued liabilities and other	1,000
Total current liabilities	5,000
Long-term debt	

Deferred income taxes	30
Asset retirement obligations	2,
Stockholders' equity:	
Class A voting common stock, \$.0166 par value; 24,000,000 shares authorized, 16,863,004 issued at June 30, 2016, and Sept. 30, 2015	28
Capital in excess of par value	3,
Deferred directors' compensation	3,
Retained earnings	11
	11
Less treasury stock, at cost; 277,378 shares at June 30, 2016, and 302,623 shares at Sept. 30, 2015	(4
Total stockholders' equity	11
Total liabilities and stockholders' equity	\$20

Condensed Statements of Cash Flows

	Nine months ended June 30,	
	2016	2015
	(unaudited)	
Operating Activities		
Net income (loss)	\$ (11,024,074)	\$ 10,209,022
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	18,963,017	17,680,069
Impairment	11,849,064	3,532,760
Provision for deferred income taxes	(10,344,000)	2,854,000
Exploration costs	30,106	48,368
Gain from leasing of fee mineral acreage	(7,187,377)	(1,973,773)
Net (gain) loss on sale of assets	(271,080)	-
Income from partnerships	(8,996)	(373,555)
Distributions received from partnerships	33,201	535,400
Directors' deferred compensation expense	247,835	232,088
Restricted stock awards	644,783	740,043
Bad debt expense (recovery)	19,216	-
Cash provided (used) by changes in assets and liabilities:		
Oil, NGL and natural gas sales receivables	3,472,291	6,771,690
Fair value of derivative contracts	5,901,280	(3,500,264)

Refundable production taxes	476,001	40,035
Other current assets	69,237	158,431
Accounts payable	(698,593)	148,384
Income taxes receivable	345,897	-
Income taxes payable	659,319	518,003
Accrued liabilities	(118,403)	(272,899)
Total adjustments	24,082,798	27,138,780
Net cash provided by operating activities	13,058,724	37,347,802

Investing Activities

Capital expenditures, including dry hole costs	(3,359,518)	(23,613,349)
Acquisition of working interest properties	-	(308,180)
Proceeds from leasing of fee mineral acreage	7,494,570	2,018,707
Investments in partnerships	50,126	(313,053)
Proceeds from sales of assets	627,547	-
Net cash provided (used) by investing activities	4,812,725	(22,215,875)

Financing Activities

Borrowings under debt agreement	8,560,234	23,013,234
Payments of loan principal	(24,360,234)	(35,513,234)
Purchase of treasury stock	(117,165)	(242,313)
Payments of dividends	(2,007,658)	(2,001,150)
Excess tax benefit on stock-based compensation	(44,000)	27,000
Net cash provided (used) by financing activities	(17,968,823)	(14,716,463)

Increase (decrease) in cash and cash equivalents	(97,374)	415,464
Cash and cash equivalents at beginning of period	603,915	509,755
Cash and cash equivalents at end of period	\$ 506,541	\$ 925,219

Supplemental Schedule of Noncash Investing and Financing Activities

Additions to asset retirement obligations	\$ 8,156	\$ 52,017
Gross additions to properties and equipment	\$ 3,529,104	\$ 22,686,530
Net (increase) decrease in accounts payable for properties and equipment additions	(169,586)	1,234,999
Capital expenditures and acquisitions, including dry hole costs	\$ 3,359,518	\$ 23,921,529

OPERATING HIGHLIGHTS

	Third Quarter Ended June 30, 2016	Third Quarter Ended June 30, 2015	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Mcf Sold	2,887,821	3,315,899	8,817,524	10,508,647
Average Sales Price per Mcfe \$	2.55	3.45	2.56	4.13
Oil Barrels Sold	88,732	109,738	285,854	340,888
Average Sales Price per Barrel \$	38.91	51.20	35.35	56.07
Mcf Sold	2,112,567	2,407,049	6,343,628	7,483,987
Average Sales Price per Mcf \$	1.60	2.17	1.72	2.82
NGL Barrels Sold	40,477	41,737	126,462	163,222
Average Sales Price per Barrel \$	12.93	14.30	11.95	19.46

Quarter ended	Oil Bbls Sold	Mcf Sold	NGL Bbls Sold	Mcf Sold
6/30/2016	88,732	2,112,567	40,477	2,887,821
3/31/2016	90,760	2,014,139	37,934	2,786,303
12/31/2015	106,362	2,216,922	48,051	3,143,400
9/30/2015	112,237	2,261,236	47,738	3,221,086
6/30/2015	109,738	2,407,049	41,737	3,315,899

The Company's derivative contracts in place for natural gas at June 30, 2016, are outlined in its Form 10-Q for the period ending June 30, 2016.

[Panhandle Oil and Gas Inc.](http://www.panhandleoilandgas.com) (NYSE: PHX) is engaged in the exploration for and production of natural gas and oil. Additional information on the Company can be found at www.panhandleoilandgas.com.

Forward-Looking Statements and Risk Factors – This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include current expectations or forecasts of future events. They may include estimates of oil and gas reserves, expected oil and gas production and future expenses, projections of future oil and gas prices, planned capital expenditures for drilling, leasehold acquisitions and seismic data, statements concerning anticipated cash flow and liquidity and Panhandle's strategy and other plans and objectives for future operations. Although Panhandle believes the expectations reflected in these and other forward-looking statements are reasonable, we can give no assurance they will prove to be correct. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Factors that could cause actual results to differ materially from expected results are described under "Risk Factors" in Part 1, Item 1 of Panhandle's 2015 Form 10-K filed with the Securities and Exchange Commission. These "Risk Factors" include the worldwide economic recession's continuing negative effects on the natural gas business; Panhandle's hedging activities may reduce the realized prices received for natural gas sales; the volatility of oil and gas prices; the Company's ability to compete effectively against strong independent oil and gas companies and majors; the availability of capital on an economic basis to fund reserve replacement costs; Panhandle's ability to replace reserves and sustain production; uncertainties inherent in estimating quantities of oil and gas reserves and projecting future rates of production and the amount and timing of development expenditures; uncertainties in evaluating oil and gas reserves; unsuccessful exploration and development drilling; decreases in the values of our oil and gas properties resulting in write-downs; the negative impact lower oil and gas prices could have on our ability to borrow; drilling and operating risks; and we cannot control activities on our properties as the Company is a non-operator.

Do not place undue reliance on these forward-looking statements, which speak only as of the date of this release, as Panhandle undertakes no obligation to update this information. Panhandle urges you to carefully review and consider the disclosures made

in this presentation and Panhandle's filings with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect Panhandle's business.

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