

Panhandle Oil and Gas Inc. Reports Fiscal Third Quarter And Nine Months 2017 Results And Operations Update

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OKLAHOMA CITY, Aug. 7, 2017 - [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, 2017.

HIGHLIGHTS FOR THE PERIODS ENDED JUNE 30, 2017

- Increased total equivalent production 26%, as compared to the quarter ended March 31, 2017.
- Generated fiscal third quarter 2017 net income of \$1,260,758, \$0.07 per diluted share, as compared to net loss of \$786,795, \$0.05 per diluted share, for the 2016 quarter.
- Generated nine month 2017 net income of \$2,492,799, \$0.15 per diluted share, compared to net loss of \$11,024,074, \$0.65 per diluted share, for the 2016 nine months.
- Collected lease bonus proceeds of \$4.0 million in first nine months of fiscal 2017.
- Generated cash from operating activities of \$14,321,237 for the 2017 nine-month period as compared to \$18,011,721 of capital expenditures for drilling and equipping wells.
- Produced on average 32.5 Mmcfe/day for \$3.38/Mcfe net realized price during the quarter.
- Generated 2017 third-quarter and nine-month EBITDA (1) of \$6,848,269 and \$17,305,783, respectively.
(1) This is a Non-GAAP measure. Refer to the Non-GAAP Reconciliation section.

MANAGEMENT COMMENTS

Commenting on the results, Paul F. Blanchard Jr., President and CEO, said, "This quarter was a solid one for Panhandle and highlights our focus on growing long-term shareholder value on a per-share basis.

"One of our foundational principles is to limit capital investments to projects we believe will generate appropriate risk-weighted returns for our shareholders. The application of this principle led to declining production during the recent downturn; however, this disciplined approach resulted in conservation of capital and material reductions in our debt. This strategy distinguishes Panhandle from many other oil and gas companies that are primarily focused on delivering production and reserve growth each quarter. Starting in late 2016, we began to see opportunities to make substantial investments in low-risk, high-return wells. We have taken advantage of those opportunities, and are now seeing the benefits of those decisions. The current quarter's gas production grew by 30% and oil production by 13%, resulting in overall production growth of 26%, as compared to the second quarter of 2017. This production growth was primarily responsible for reducing our breakeven cost structure by 12%, as compared to the prior quarter, which we believe is a reflection of the quality of these investments.

"We anticipate material production growth and significant reductions in our breakeven cost to continue in the fourth quarter as several additional high-quality, low-risk wells are expected to begin producing. Additionally, we are in the process of marketing and selling some of the company's existing high-cost production, which is anticipated to drive our cost structure down even further.

"Since the products we sell are subject to significant price volatility, another element of our value-generation strategy is to protect our investments and cash flows by hedging future oil and gas production. Today, we have hedges in place for a majority of remaining 2017 natural gas production at an average floor of \$3.06 per Mcf and an average ceiling of \$3.34 per Mcf. We also have roughly one quarter of 2018 natural gas production hedged with an average floor of \$3.20 per Mcf and an average ceiling of \$3.59 per Mcf. A majority of our remaining 2017 oil production is hedged with an average floor of \$50.48 per barrel and an average ceiling of \$56.12 per barrel.

"We understand that the volatile commodity business we are in necessitates that we always have a debt

structure that will withstand product price fluctuations. Our debt at the end of the third quarter was \$50 million, yielding a conservative trailing twelve month debt to EBITDA (1) ratio of 2.07. Through the first three quarters of 2017, we financed \$18.0 million of capital investments while only borrowing \$5.5 million from our line of credit. A majority of those capital expenditures were focused on drilling for natural gas and NGLs.

"Given our investment principles, the volatility of the products we sell and the fact that we do not operate the wells in which we take an ownership interest, it is difficult to predict the timing of future investments and related production as is currently the case. However, we own material mineral and/or leasehold positions in several of the top resource plays in the United States including STACK/Cana, SCOOP, southeastern Oklahoma Woodford Shale, Eagle Ford Shale and Fayetteville Shale. These assets account for more than 570 Bcfe of undeveloped proved, probable and possible reserves. The identified undeveloped locations associated with these reserves are primarily located in the cores of those low risk resource plays. We are confident these assets will continue to deliver long-term, high-return growth for the Company.

"Beginning in third quarter 2017, we considerably ramped up our focus in sourcing and evaluating acquisition opportunities, and we plan to search actively for additional properties we believe will be accretive to the company's long-term value. We will focus on the acquisition of mineral holdings, but will also consider held-by-production leasehold properties with low risk and material upside."

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FISCAL THIRD QUARTER 2017 RESULTS

For the 2017 third quarter, the Company recorded net income of \$1,260,758, or \$0.07 per diluted share. This compared to a net loss of \$786,795, or \$0.05 per diluted share, for the 2016 third quarter. Net cash provided by operating activities decreased 27% to \$4,972,672 for the 2017 third quarter, versus \$6,792,869 for the 2016 third quarter. Capital expenditures for the 2017 fiscal quarter totaled \$10,290,467.

Total revenues for the 2017 third quarter were \$12,437,186, a 26% increase from \$9,864,090 for the 2016 quarter. Oil, NGL and natural gas sales increased \$2,632,000 or 36% in the 2017 quarter, compared to the 2016 quarter, as a result of a 33% increase in the average per Mcfe sales price and a 2% increase in Mcfe production. The average sales price per Mcfe of production during the 2017 third quarter was \$3.38, compared to \$2.55 for the 2016 third quarter. The 2017 quarter included a \$1.6 million gain on derivative contracts, as compared to a \$1.8 million loss for the 2016 quarter.

Gas production increased 7% to 2,265,091 Mcf for the 2017 quarter, compared to the 2016 quarter, while oil production decreased 15% in the 2017 quarter to 75,467 barrels, versus 88,732 barrels in the 2016 quarter. In addition, 39,337 barrels of NGL were sold in the 2017 quarter, as compared to 40,477 barrels in the 2016 quarter.

NINE MONTHS 2017 RESULTS

For the 2017 nine months, the Company recorded net income of \$2,492,799, or \$0.15 per diluted share. This compared to a net loss of \$11,024,074, or \$0.65 per diluted share, for the 2016 nine months. Net cash provided by operating activities decreased 30% year over year to \$14,321,237 for the 2017 nine months, versus the 2016 nine months. Capital expenditures for the 2017 nine months totaled \$18,011,721. The Company recorded a \$10,788 non-cash provision for impairment in the 2017 nine months, as compared to an \$11.8 million provision in the 2016 period.

Total revenues for the 2017 nine months were \$33,438,117, a 16% increase from \$28,902,798 for the 2016 nine months. Oil, NGL and natural gas sales increased \$5,230,646 or 23% in the 2017 nine months, compared to the 2016 nine months, as a result of a 39% increase in the average per Mcfe sales price somewhat offset by an 11% decrease in Mcfe production. The average sales price per Mcfe of production during the 2017 nine months was \$3.55, compared to \$2.56 for the 2016 nine months. The 2017 nine months included a \$1,658,347 gain on derivative contracts, as compared to an \$842,726 loss for the 2016 period.

Oil production decreased 24% in the 2017 nine months to 217,650 barrels from 285,854 barrels in the 2016

nine months, while gas production decreased 479,936 Mcf, or 8%, compared to the 2016 nine months. In addition, 108,824 barrels of NGL were sold in the 2017 nine months, which was a 14% decrease compared to 2016 NGL volumes.

OPERATIONS UPDATE

Drilling and completion activities continue on five significant projects. Three are in the cores of low-risk resource plays, and two are higher risk plays in the Permian.

In the southeastern Oklahoma Woodford Shale, Panhandle participated in eight significant wells operated by BP, with an average 20% working interest and 27.4% net revenue interest. Four of the wells began producing late in the second quarter of 2017 and the remaining four began producing during the third quarter. Together, these eight wells produced at the combined net rate of 6.9 Mmcft per day in the most recent 30 day period. Activity is increasing in this play as the application of new technology has greatly improved well performance and economics. Panhandle has a 4.8% NRI in an additional well in the play that has been drilled and is anticipated to begin producing in the fourth quarter. Panhandle has an additional 1,411 gross undeveloped locations identified in this play, with 3P net reserves of 221 Bcfe.

A total of ten wells have been drilled on our Eagle Ford leasehold during 2017, and the drilling rig has now been released. We own an average 13.2% working interest and 9.9% net revenue interest in these wells. The first two wells began producing in late April and continue to exceed expectations, with gross production of 110 Mboe combined in the first 60 days. Four of the remaining wells are currently being completed and are anticipated to begin producing in the first half of August. The remaining four wells are scheduled to be completed in September and are expected to begin producing in October. An additional 96 Eagle Ford infill development locations have been identified on our acreage.

In the STACK/Cana play, the Company is participating with a 17.5% working interest and a 16.25% net revenue interest in six Woodford Shale wells operated by Cimarex Energy. All six wells have been completed and are in the early stages of completion fluid recovery. The wells are expected to be producing at their peak rates within the next 30 days and are anticipated to materially increase the Company's daily production rate. Panhandle currently has an additional 1,135 gross undeveloped locations identified in STACK/SCOOP/Cana with 3P net reserves of 166 Bcfe.

In the Permian Basin, QEP is producing its second Woodford Shale test well on our contiguous 43.6-square-mile mineral holdings in Andrews and Winkler Counties, Texas. After 57 days on sales the well has cumulative production of 16,200 Boe and is currently producing 239 Boe per day. Like the first test well on the acreage block, this well has not confirmed the economic viability of the play. Panhandle elected not to participate in both wells with a working interest and therefore has only a royalty interest with no capital invested.

Also in the Permian Basin, Element Petroleum is evaluating the San Andres formation on and around our contiguous 34.5-square-mile gross acreage block in Cochran County, Texas. Panhandle has leased 4,050 net mineral acres to Element and has a proportionately reduced 25% royalty. We also have the right to participate with 10% working interest in each unit as initial unit wells are proposed. With full participation, Panhandle would have a 10% working interest and a 12.1% net revenue interest in these new units on the 34.5-square-mile block. Element is continuing to evaluate the play with two wells producing, one waiting on completion, one being drilled and nine additional wells planned. The two producing wells have combined cumulative production as follows: 30 day – 1.1 Mboe, 60 day – 8.4 Mboe and 90 day – 16.0 Mboe.

FINANCIAL HIGHLIGHTS

Statements of Operations

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(unaudited)		(unaudited)	
Revenues:				
Oil, NGL and natural gas sales	\$ 9,997,898	\$ 7,365,898	\$ 27,788,018	\$ 22,550,000
Lease bonuses and rentals	819,591	4,281,095	3,991,752	7,188,000
Gains (losses) on derivative contracts	1,619,697	(1,782,903)	1,658,347	(842,000)
	12,437,186	9,864,090	33,438,117	28,900,000
Costs and expenses:				
Lease operating expenses	3,391,079	3,520,196	9,545,990	10,270,000
Production taxes	390,387	196,733	1,129,785	747,000
Depreciation, depletion and amortization	4,714,350	5,959,482	13,654,268	18,900,000
Provision for impairment	-	-	10,788	11,800,000
Loss (gain) on asset sales and other	11,447	17,223	98,445	(187,000)
Interest expense	306,161	331,117	884,928	1,030,000
General and administrative	1,796,004	1,570,134	5,358,114	5,130,000
	10,609,428	11,594,885	30,682,318	47,800,000
Income (loss) before provision (benefit) for income taxes	1,827,758	(1,730,795)	2,755,799	(18,900,000)
Provision (benefit) for income taxes	567,000	(944,000)	263,000	(7,800,000)
Net income (loss)	\$ 1,260,758	\$ (786,795)	\$ 2,492,799	\$ (11,000,000)
Basic and diluted earnings (loss) per common share	\$ 0.07	\$ (0.05)	\$ 0.15	\$ (0.65)
Basic and diluted weighted average shares outstanding:				
Common shares	16,668,814	16,582,416	16,639,090	16,570,000
Unissued, directors' deferred compensation shares	254,891	263,649	277,294	259,300
	16,923,705	16,846,065	16,916,384	16,830,000
Dividends declared per share of common stock and paid in period	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12

Balance Sheets

	June 30, 2017	Sept. 30, 2017
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 560,892	\$ 471,213
Oil, NGL and natural gas sales receivables (net of allowance for uncollectable accounts)	5,851,996	5,287,229
Refundable income taxes	571,986	83,874
Derivative contracts, net	1,439,686	-
Other	222,675	419,037
Total current assets	8,647,235	6,261,353
Properties and equipment, at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	443,928,828	434,469,093
Non-producing oil and natural gas properties	7,462,082	7,574,649
Other	1,064,172	1,069,658
	452,455,082	443,113,400
Less accumulated depreciation, depletion and amortization	(255,806,129)	(251,707,743)
Net properties and equipment	196,648,953	191,405,655
Investments	168,209	157,322
Derivative contracts, net	11,711	-
Total assets	\$ 205,476,108	\$ 197,824,320
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,791,830	\$ 2,351,623
Derivative contracts, net	-	403,612
Accrued liabilities and other	1,758,153	1,718,558
Total current liabilities	5,549,983	4,473,793
Long-term debt	50,000,000	44,500,000
Deferred income taxes		

30,825,007

Asset retirement obligations	3,114,867	2,958,048
Derivative contracts, net	-	24,659
Stockholders' equity:		
Class A voting common stock, \$.0166 par value; 24,000,000 shares authorized, 16,863,004 issued at June 30, 2017, and Sept. 30, 2016	280,938	280,938
Capital in excess of par value	2,531,822	3,191,056
Deferred directors' compensation	3,367,432	3,403,213
Retained earnings	112,962,754	112,482,288
	119,142,946	119,357,499
Less treasury stock, at cost; 191,988 shares at June 30, 2017, and 262,708 shares at Sept. 30, 2016	(3,156,695)	(4,165,672)
Total stockholders' equity	115,986,251	115,191,819
Condensed Statements of Cash Flows		
Total liabilities and stockholders' equity	\$ 205,476,108	\$ 197,824,320
	Nine months ended June 30,	
	2017	2016
Operating Activities	(unaudited)	
Net income (loss)	\$ 2,492,799	\$ (11,024,074)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	13,654,268	18,963,017
Impairment	10,788	11,849,064
Provision for deferred income taxes	149,000	(10,344,000)
Gain from leasing of fee mineral acreage	(3,999,632)	(7,187,377)
Proceeds from leasing of fee mineral acreage	4,026,283	7,494,570
Net (gain) loss on sale of assets	87,161	(271,080)
Directors' deferred compensation expense	266,182	247,835
Restricted stock awards	454,854	644,783
Other	2,897	73,527
Cash provided (used) by changes in assets and liabilities:		
Oil, NGL and natural gas sales receivables	(564,767)	3,472,291
Fair value of derivative contracts	(1,879,668)	5,901,280
Refundable production taxes	-	476,001
Other current assets	196,362	69,237

Accounts payable	(127,375)	(698,593)
Income taxes receivable	(488,112)	345,897
Income taxes payable	-	659,319
Accrued liabilities	40,197	(118,403)
Total adjustments	11,828,438	31,577,368
Net cash provided by operating activities	14,321,237	20,553,294
Investing Activities		
Capital expenditures, including dry hole costs	(18,011,721)	(3,359,518)
Investments in partnerships	(18,531)	50,126
Proceeds from sales of assets	718,700	627,547
Net cash provided (used) by investing activities	(17,311,552)	(2,681,845)
Financing Activities		
Borrowings under debt agreement	16,702,602	8,560,234
Payments of loan principal	(11,202,602)	(24,360,234)
Purchase of treasury stock	(407,677)	(117,165)
Payments of dividends	(2,012,329)	(2,007,658)
Excess tax benefit on stock-based compensation	-	(44,000)
Net cash provided (used) by financing activities	3,079,994	(17,968,823)
Increase (decrease) in cash and cash equivalents	89,679	(97,374)
Cash and cash equivalents at beginning of period	471,213	603,915
Cash and cash equivalents at end of period	\$ 560,892	\$ 506,541
Supplemental Schedule of Noncash Investing and Financing Activities		
Additions to asset retirement obligations	\$ 60,276	\$ 8,156
Gross additions to properties and equipment	\$ 19,579,304	\$ 3,529,104
Net (increase) decrease in accounts payable for properties and equipment additions	(1,567,583)	(169,586)
Capital expenditures and acquisitions, including dry hole costs	\$ 18,011,721	\$ 3,359,518

OPERATING HIGHLIGHTS

	Third Quarter Ended	Third Quarter Ended	Nine Months Ended	Nine Months Ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Mcf Sold	2,953,915	2,887,821	7,822,536	8,817,524
Average Sales Price per Mcfe \$	3.38	2.55	3.55	2.56
Oil Barrels Sold	75,467	88,732	217,650	285,854
Average Sales Price per Barrel \$	44.38	38.91	46.06	35.35
Mcf Sold	2,265,091	2,112,567	5,863,692	6,343,628
Average Sales Price per Mcf \$	2.65	1.60	2.69	1.72
NGL Barrels Sold	39,337	40,477	108,824	126,462
Average Sales Price per Barrel \$	16.63	12.93	18.08	11.95

Quarter ended	Oil Bbls Sold	Mcf Sold	NGL Bbls Sold	Mcfe Sold
6/30/2017	75,467	2,265,091	39,337	2,953,915
3/31/2017	66,547	1,748,909	33,836	2,351,207
12/31/2016	75,636	1,849,692	35,651	2,517,414
9/30/2016	78,398	1,940,749	44,598	2,678,725
6/30/2016	88,732	2,112,567	40,477	2,887,821

The Company's derivative contracts in place for natural gas at June 30, 2017, are outlined in its Form 10-Q for the period ending June 30, 2017.

Non-GAAP Reconciliation

This news release includes certain "non-GAAP financial measures" under the rules of the Securities and Exchange Commission, including Regulation G. These non-GAAP measures are calculated using GAAP amounts in our financial statements.

EBITDA Reconciliation

EBITDA is defined as net income (loss) plus interest expense, provision for impairment, depreciation, depletion and amortization of properties and equipment (which includes amortization of other assets), and provision (benefit) for income taxes. We believe that certain investors consider EBITDA a useful means of measuring our ability to meet our debt service obligations and evaluating our financial performance. EBITDA has limitations and should not be considered in isolation or as a substitute for net income, operating income, cash flow from operations or other consolidated income or cash flow data prepared in accordance with GAAP. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to a similarly titled measure of other companies. The following table provides a reconciliation of net income (loss) to EBITDA for the periods indicated.

	Third Quarter Ended	Nine Months Ended
	June 30, 2017	June 30, 2017
Net Income (Loss)	\$ 1,260,758	\$ 2,492,799
Plus:		
Income Tax Expense (Benefit)	567,000	263,000
Interest Expense	306,161	884,928
DD&A	4,714,350	13,654,268
Impairment	-	10,788
EBITDA	\$ 6,848,269	\$ 17,305,783

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

Forward-Looking Statements and Risk Factors – This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include current expectations or forecasts of future events. They may include estimates of oil and gas reserves, expected oil and gas production and future expenses, projections of future oil and gas prices, planned capital expenditures for drilling, leasehold acquisitions and seismic data, statements concerning anticipated cash flow and liquidity and Panhandle's strategy and other plans and objectives for future operations. Although Panhandle believes the expectations reflected in these and other forward-looking statements are reasonable, we can give no assurance they will prove to be correct. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Factors that could cause actual results to differ materially from expected results are described under "Risk Factors" in Part 1, Item 1 of Panhandle's 2016 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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