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Panhandle Oil and Gas Inc. Announces Operations Update

OKLAHOMA CITY – PANHANDLE OIL AND GAS INC. (NYSE: PHX), "the Company," today delivers an operations update.

Operations Update

The Company entered into a land lease agreement in the northwestern shelf area of the Permian Basin in late December 2015. We leased out 4,052 acres of our undeveloped minerals in a 34.5-square-mile block located in southern Cochran County, Texas. The block is prospective for horizontal San Andres development and is adjacent to the Levelland and Slaughter fields, which have cumulative production from the San Andres of 2.2 billion barrels of oil equivalent (Boe). This general area has experienced an acceleration of horizontal San Andres drilling during 2015. The lease generated a $2.0 million cash bonus for Panhandle during the first fiscal quarter of 2016, and the Company will receive a proportionately reduced 25% non-cost bearing royalty from all production on the property. Additionally, Panhandle has the right to buy back a portion of the lease and participate with up to a 10% working interest in each unit when the initial well in each unit is proposed. Full participation by Panhandle would yield an average 10% working interest and a 12.1% net revenue interest in the project.

The operator began drilling the first well on our 43.6-square-mile acreage block (2,440 net Panhandle acres) in Andrews and Winker Counties, Texas, in mid-December 2015. This block is located on the Central Basin Platform of the Permian Basin and has several potential productive horizons. This initial well is designed to penetrate and collect data from all of the prospective horizons. Panhandle will receive a proportionately reduced 25% royalty from all production on the property. We also received a $1.2 million upfront cash bonus for the lease in June 2015 and have the right to buy back a portion of the lease and participate with up to a 10% working interest in each unit as initial unit wells are proposed. Panhandle elected not to participate in this initial well and unit, but instead chose to evaluate all data collected from the well to determine the economic viability of participation in additional wells as they are proposed and drilled. Full participation by Panhandle in the remaining 43 square miles of the block would yield an average 7% working interest and a 7.5% net revenue interest in all remaining wells in the project.

During the first quarter, the Company also leased out approximately 970 net mineral acres in Woodward County, Okla., for an upfront cash bonus of $660,000 and an 18.75% non-cost bearing royalty.

After the three transactions discussed above, the Company still owns a total of 187,100 acres of undeveloped and unleased minerals in 10 states covering several different oil and gas producing basins. Of that total, 21,200 acres of undeveloped and unleased minerals are in the Permian Basin (Midland Basin, Delaware Basin, Central Basin Platform and shelf areas).

Management Comments

Michael C. Coffman, Panhandle's President and CEO, said: "These three transactions, which generated $3.9 million in upfront cash bonuses for the Company from June through December 2015, comprise a total of only 7,462 acres of Panhandle's total 194,500 acres of undeveloped and unleased minerals before these transactions. These mineral holdings were not sold, they were leased for a specified period, and are still owned perpetually. In addition to the upfront cash bonuses, we will receive a proportionately reduced non-cost bearing royalty from all production on the properties. As a result of our perpetual ownership and the right to collect royalties, the value of these mineral holdings is significantly higher than the upfront cash bonuses received, in the same way that the value of any real property is greater than the amount at which it is leased. We believe this leasing activity clearly highlights the considerable value in the remaining 187,100 acres of undeveloped unleased minerals."

Paul F. Blanchard, Panhandle's Sr. Vice-President and COO, added: "The structure of the two Permian Basin lease agreements secures significant lease bonuses and attractive royalties for Panhandle while maintaining the option to participate with a material working interest should it be determined that the projects meet our investment standards. This structure minimizes the risk of employing capital until project viability has been proven, at which point we are exposed to the participation upside with its potential to materially increase our Company's value as hundreds of wells could be drilled on each of these blocks."

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 on the internet at www.panhandleoilandgas.com.