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PANHANDLE OIL AND GAS INC.
REPORTS FISCAL THIRD QUARTER 2018 AND NINE MONTHS RESULTS

OKLAHOMA CITY – 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, 2018.

HIGHLIGHTS FOR THE PERIODS ENDED JUNE 30, 2018

- Increased total equivalent production 19%, as compared to the nine months ended June 30, 2017.
- Reported third quarter 2018 net loss of $775,093, $0.05 per diluted share, as compared to a net income of $1,260,758, $0.07 per diluted share, for the 2017 quarter.
- Generated nine-month 2018 net income of $14,080,022, $0.83 per diluted share, as compared to a net income of $2,492,799, $0.15 per diluted share, for the 2017 nine months.
- Generated free cash flow of $13,914,805, as cash from operating activities of $21,657,902 for the 2018 nine-month period was well in excess of capital expenditures for drilling and equipping wells of $7,743,097.
- Decreased lease operating expense (LOE) per Mcfe to $1.08 for the nine-month period, as compared to $1.22 in the prior year's nine-month period.
- Reduced debt from $52.2 million, as of Sept. 30, 2017, to $40.4 million, as of June 30, 2018, which has declined further to $39.5 million as of July 31, 2018.
- Generated 2018 third-quarter and nine-month EBITDA [(1)] of $4,056,312 and $16,561,859, respectively.

(1) EBITDA is a Non-GAAP measure. Refer to the Non-GAAP Reconciliation section.

MANAGEMENT COMMENTS

Paul F. Blanchard Jr., President and CEO, said, "Production increased 19% as compared to the first nine months of 2017. Oil and natural gas liquids volumes grew from 23% to 30% of total production from the third quarter of 2017 to the current quarter and now represent 59% of Panhandle's oil and gas revenue. With the diversity of our perpetual mineral and leasehold positions across 10 states in several premier oil, gas and NGL resource plays, Panhandle has the ability to direct capital to only the projects which meet our stringent return requirements. The Company is continuing to deploy a majority of capital invested into low-risk oil drilling projects in the Eagle Ford, STACK and SCOOP. We also recently announced an agreement to purchase leased mineral acreage with 94 producing wells, 20 drilled uncompleted wells and 194 additional locations in the Bakken Shale for $9 million, which is projected to produce 83% oil and NGLs. As a result of these current drilling and acquisition activities along with the industry's current emphasis on drilling for oil, we anticipate continued growth in oil and NGL as a percent of our total production.

"While focusing on capital allocation to drive shareholder returns, we continue to optimize our current operations. Lease operating expenses per unit improved by 11.5% relative to the prior year nine months as the result of our strategic divestiture of marginal properties, combined with the addition of new high-quality, low operating cost wells.

"The excess cash flow generated in 2018 has been utilized to pay the Company's regular dividend and to further reduce debt from $52.2 million to $40.4 million at the end of the third quarter, a 23% reduction during the nine-month period. Panhandle had $39.6 million available on its bank line as of June 30, 2018. The Company's net debt to enterprise value ratio and net debt to trailing twelve-month EBITDA ratio were 11.1% and 1.7x, respectively."

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OPERATIONS UPDATE

Eagle Ford

Drilling is underway on Panhandle's Eagle Ford leasehold acreage, where the second well on a seven-well pad is currently being drilled. The Company's average working interest in this group of wells is 10.7%, as the wells are located partially on our 16% working interest (12% net revenue interest) acreage and partially on acreage Panhandle does not own. The seven wells on this pad will all be drilled before any are completed. Panhandle currently anticipates the seven wells will begin producing simultaneously in the first calendar quarter of 2019. If oil prices remain at their current level, the Company expects the operator will continue to drill on our 16% working interest acreage with a one-rig continuous drilling program. Panhandle has 93 undeveloped infill locations identified on the property. Year-to-date capital expenditures in the Eagle Ford are $4.4 million with another $1.1 million anticipated in the fourth quarter.

Permian Basin

The Company owns a 12.5% royalty interest on leased mineral holdings in a south-central Lea County, N.M., horizontal Wolfcamp well which began producing on June 30, 2018, with a peak 30-day average rate of 1,433 Boe per day (179 Boe per day net to Panhandle, 79% oil). There are three additional Wolfcamp locations and up to eight additional Bone Spring locations to be drilled on this unit, based on current well spacing in the area. The operator has indicated the intent to drill an additional Wolfcamp well on the unit in early calendar 2019.

Panhandle owns approximately 955 largely contiguous mineral acres in northwest Eddy County, N.M., where initial development of the Yeso Lime at a depth of 2,800 feet is underway. The Company has a 3.3% royalty interest in two horizontal Yeso wells on the block, which began producing in December 2017. Production from these wells steadily increased each month to the most recent month of production available, February 2018. In February, the wells were each producing an average of 846 Boe per day (56 Boe per day net to Panhandle for the two wells, 93% oil). Additional development on our acreage is anticipated.

The Company owns a 1.2% royalty interest in a horizontal Woodford oil well that has been drilled, but not yet completed, on Panhandle's 2,440 contiguous mineral acreage block in Andrews and Winkler Counties, Texas. Panhandle has elected to take a royalty interest in this higher risk play thus far, but continues to monitor well performance in this area for possible future working interest participation.

There was no additional activity on our 4,050 contiguous mineral acreage block in Cochran County, Texas, where seven horizontal San Andres wells have been drilled, with six wells producing and one not yet completed. The operator has indicated the intent to drill another San Andres well in the fall of 2018. Panhandle has elected to take a royalty interest in this higher risk play thus far, but continues to monitor well performance in this area for possible future working interest participation.

Oklahoma

Activity on the Company's mineral acreage in the Oklahoma plays continues to be robust. Drilling and completion operations are currently underway on 23 wells, primarily in STACK/Cana/SCOOP. However, this activity has been in units where Panhandle owns royalty interest only or small working interest participation rights, relative to our average ownership and, therefore, does not require a significant capital commitment from the Company at this time. This is in contrast to last year when Panhandle's participation was in units where the Company owned much larger than average working interest participation rights. The year-to-year difference is the result of our exceptionally diverse and varied mineral ownership in the cores of these plays, combined with the specific units the operators select to drill. Panhandle's rights vary from less than 1% in some drilling units up to 50% in others. Year-to-date capital expenditures in STACK/Cana/SCOOP are $1.6 million with another $1.2 million committed in 10 relatively low working interest wells that are currently being drilled and completed. In the southeastern Oklahoma Woodford, year-to-date capital expenditures are $0.7 million with another $1.0 million committed in 9 working interest wells that are scheduled for 2018 drilling.

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FISCAL THIRD QUARTER 2018 RESULTS

For the 2018 third quarter, the Company recorded a net loss of $775,093, or $0.05 per diluted share. This compares to net income of $1,260,758, or $0.07 per diluted share, for the 2017 third quarter. Net cash provided by operating activities increased 27% to $6,297,921 for the 2018 third quarter, versus $4,972,672 for the 2017 third quarter. Capital expenditures totaled $1,198,616 in the 2018 third quarter, compared to $10,290,467 in the 2017 third quarter.

Total revenues for the 2018 third quarter were $9,557,937, a 23% decrease from $12,437,186 for the 2017 quarter. Oil, NGL and natural gas sales increased $1,204,782 or 12% in the 2018 quarter, compared to the 2017 quarter, as a result of a slight increase in Mcfe production and a 12% increase in the average per Mcfe sales price. The average sales price per Mcfe of production during the 2018 third quarter was $3.78, compared to $3.38 for the 2017 third quarter. Lease bonus income decreased $335,293 from $819,591 in the 2017 quarter to $484,298 in the 2018 quarter. Also, the 2018 quarter included a $2.1 million loss on derivative contracts, as compared to a $1.6 million gain for the 2017 quarter.

Total expenses decreased $67,398 in the 2018 quarter as compared to the 2017 quarter. This decrease was mainly driven by decreases in LOE and G&A, partially offset by increases in interest and loss on sale of assets.

Gas production decreased 8% to 2,082,700 Mcf for the 2018 quarter, compared to the 2017 quarter, while oil production increased 6% to 80,298 barrels versus 75,467 barrels. In addition, 67,142 barrels of NGL were sold in the 2018 quarter, as compared to 39,337 barrels in the 2017 quarter.

NINE MONTHS 2018 RESULTS

For the 2018 nine-month period, the Company recorded net income of $14,080,022, or $0.83 per diluted share. This compares to net income of $2,492,799, or $0.15 per diluted share, for the 2017 nine months. The 2018 nine-month results include a $12,777,000 decrease in income tax as a result of the new tax law (see income tax below). Net cash provided by operating activities increased 51% year over year to $21,657,902 for the 2018 nine months, versus the 2017 nine months. This cash flow fully funded costs to drill and equip wells, as well as significantly reduced our debt. Capital expenditures for the 2018 nine months totaled $7,743,097.

Total revenues for the 2018 nine months were $33,469,721, as compared to $33,438,117 for the 2017 nine months. Oil, NGL and natural gas sales increased $8,568,117, or 31% in the 2018 nine months, compared to the 2017 nine months, as a result of a 19% increase in Mcfe production and a 10% increase in the average per Mcfe sales price. The average sales price per Mcfe of production during the 2018 nine months was $3.90, compared to $3.55 for the 2017 nine months. Lease bonus income decreased $2,911,297 from $3,991,752 in the 2017 nine months to $1,080,455 in the 2018 nine months. The 2018 nine months included a $4.0 million loss on derivative contracts as compared to a $1.7 million gain for the 2017 period.

Total expenses increased $1,650,381 in the 2018 period as compared to the 2017 period. This increase was mainly driven by an increase in LOE, production tax, DD&A and interest expense over the prior year nine months. The increases in LOE, production tax and DD&A were due to increased Mcfe production. Although LOE and DD&A expenses increased over the prior year nine months, the per Mcfe rates of both declined comparatively. Interest expense increased due to higher interest rates.

Oil production increased 16% in the 2018 nine-month period to 253,447 barrels from 217,650 barrels in the 2017 nine months, while gas production increased 769,313 Mcf, or 13%, compared to the 2017 nine months. In addition, 196,290 barrels of NGL were sold in the 2018 nine months, which was an 80% increase compared to 2017 NGL volumes.

INCOME TAX

The provision (benefit) for income tax in the nine-month period includes an adjustment of $12,777,000 (benefit) for net deferred tax liabilities as a result of the Tax Cuts and Jobs Act enacted in December 2017, which reduced corporate income tax rates from 35% to 21%. This adjustment represents the Company’s reasonable estimate of the effect of the change in future tax rates on deferred tax items at June 30, 2018. Pre-tax net income was $1,137,022 for the nine-month period of 2018.

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FINANCIAL HIGHLIGHTS

Statements of Operations

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Nine Months Ended June 30, 2018	Nine Months Ended June 30, 2017
	(unaudited)		(unaudited)	
Revenues:				
Oil, NGL and natural gas sales	$ 11,202,680	$ 9,997,898	$ 36,356,135	$ 27,788,018
Lease bonuses and rentals	484,298	819,591	1,080,455	3,991,752
Gains (losses) on derivative contracts	(2,129,041)	1,619,697	(3,966,869)	1,658,347
	9,557,937	12,437,186	33,469,721	33,438,117
Costs and expenses:				
Lease operating expenses	3,233,172	3,391,079	10,077,449	9,545,990
Production taxes	485,157	390,387	1,471,970	1,129,785
Depreciation, depletion and amortization	4,619,509	4,714,350	14,136,411	13,654,268
Provision for impairment	-	-	-	10,788
Loss (gain) on asset sales and other	190,045	11,447	110,859	98,445
Interest expense	420,896	306,161	1,288,426	884,928
General and administrative	1,593,251	1,796,004	5,247,584	5,358,114
	10,542,030	10,609,428	32,332,699	30,682,318
Income (loss) before provision (benefit) for income taxes	(984,093)	1,827,758	1,137,022	2,755,799
Provision (benefit) for income taxes	(209,000)	567,000	(12,943,000)	263,000
Net income (loss)	$ (775,093)	$ 1,260,758	$ 14,080,022	$ 2,492,799
Basic and diluted earnings (loss) per common share	$ (0.05)	$ 0.07	$ 0.83	$ 0.15
Basic and diluted weighted average shares outstanding:				
Common shares	16,775,981	16,668,814	16,742,044	16,639,090
Unissued, directors' deferred compensation shares	206,202	254,891	205,867	277,294
	16,982,183	16,923,705	16,947,911	16,916,384
Dividends declared per share of common stock and paid in period	$ 0.04	$ 0.04	$ 0.12	$ 0.12

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Balance Sheets

	June 30, 2018	Sept. 30, 2017
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 477,013	$ 557,791
Oil, NGL and natural gas sales receivables (net of allowance for uncollectable accounts)	6,489,489	7,585,485
Refundable income taxes	209,970	489,945
Assets held for sale	-	557,750
Derivative contracts, net	-	544,924
Other	176,356	253,480
Total current assets	7,352,828	9,989,375
Properties and equipment, at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	418,338,755	434,571,516
Non-producing oil and natural gas properties	8,170,286	7,428,927
Other	1,515,076	1,067,894
	428,024,117	443,068,337
Less accumulated depreciation, depletion and amortization	(239,052,685)	(246,483,979)
Net properties and equipment	188,971,432	196,584,358
Investments	212,068	170,486
Total assets	$ 196,536,328	$ 206,744,219
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,163,424	$ 1,847,230
Derivative contracts, net	3,014,511	-
Accrued liabilities and other	1,554,645	1,690,789
Total current liabilities	5,732,580	3,538,019
Long-term debt	40,400,000	52,222,000
Deferred income taxes	18,104,007	31,051,007
Asset retirement obligations	2,776,058	3,196,889
Derivative contracts, net	288,969	28,765
Stockholders' equity:		
Class A voting common stock, $0.0166 par value; 24,000,000 shares authorized, 16,896,455 issued at June 30, 2018, and 16,863,004 issued at Sept. 30, 2017	281,495	280,938
Capital in excess of par value	2,690,834	2,726,444
Deferred directors' compensation	2,882,263	3,459,909
Retained earnings	125,386,738	113,330,216
	131,241,330	119,797,507
Less treasury stock, at cost; 117,946 shares at June 30, 2018, and 184,988 shares at Sept. 30, 2017	(2,006,616)	(3,089,968)
Total stockholders' equity	129,234,714	116,707,539
Total liabilities and stockholders' equity	$ 196,536,328	$ 206,744,219

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Condensed Statements of Cash Flows

	Nine months ended June 30, 2018	Nine months ended June 30, 2017
	(unaudited)	
Operating Activities		
Net income (loss)	$ 14,080,022	$ 2,492,799
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	14,136,411	13,654,268
Impairment	-	10,788
Provision for deferred income taxes	(12,947,000)	149,000
Gain from leasing of fee mineral acreage	(1,079,803)	(3,999,632)
Proceeds from leasing of fee mineral acreage	1,102,818	4,026,283
Net (gain) loss on sale of assets	660,597	87,161
Directors' deferred compensation expense	233,573	266,182
Fair value of derivative contracts	3,819,639	(1,879,668)
Restricted stock awards	501,626	454,854
Other	5,113	2,897
Cash provided (used) by changes in assets and liabilities:		
Oil, NGL and natural gas sales receivables	1,095,996	(564,767)
Other current assets	77,124	196,362
Accounts payable	(125,261)	(127,375)
Income taxes receivable	279,975	(488,112)
Other non-current assets	(52,644)	-
Accrued liabilities	(130,284)	40,197
Total adjustments	7,577,880	11,828,438
Net cash provided by operating activities	21,657,902	14,321,237
Investing Activities		
Capital expenditures	(7,743,097)	(18,011,721)
Acquisition of minerals and overrides	(966,279)	-
Investments in partnerships	3,379	(18,531)
Proceeds from sales of assets	1,085,137	718,700
Net cash provided (used) by investing activities	(7,620,860)	(17,311,552)
Financing Activities		
Borrowings under debt agreement	13,529,879	16,702,602
Payments of loan principal	(25,352,099)	(11,202,602)
Purchase of treasury stock	(272,100)	(407,677)
Payments of dividends	(2,023,500)	(2,012,329)
Net cash provided (used) by financing activities	(14,117,820)	3,079,994
Increase (decrease) in cash and cash equivalents	(80,778)	89,679
Cash and cash equivalents at beginning of period	557,791	471,213
Cash and cash equivalents at end of period	$ 477,013	$ 560,892
Supplemental Schedule of Noncash Investing and Financing Activities		
Additions to asset retirement obligations	$ 15,452	$ 60,276
Gross additions to properties and equipment	$ 8,150,830	$ 19,579,304
Net (increase) decrease in accounts payable for properties and equipment additions	558,546	(1,567,583)
Capital expenditures and acquisitions	$ 8,709,376	$ 18,011,721

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OPERATING HIGHLIGHTS

	Third Quarter Ended June 30, 2018	Third Quarter Ended June 30, 2017	Nine Months Ended June 30, 2018	Nine Months Ended June 30, 2017
Mcfe Sold	2,967,340	2,953,915	9,331,427	7,822,536
Average Sales Price per Mcfe	$ 3.78	$ 3.38	$ 3.90	$ 3.55
Oil Barrels Sold	80,298	75,467	253,447	217,650
Average Sales Price per Barrel	$ 66.15	$ 44.38	$ 60.77	$ 46.06
Mcf Sold	2,082,700	2,265,091	6,633,005	5,863,692
Average Sales Price per Mcf	$ 2.21	$ 2.65	$ 2.48	$ 2.69
NGL Barrels Sold	67,142	39,337	196,290	108,824
Average Sales Price per Barrel	$ 19.20	$ 16.63	$ 23.02	$ 18.08

Quarter ended	Oil Bbls Sold	Mcf Sold	NGL Bbls Sold	Mcfe Sold
6/30/2018	80,298	2,082,700	67,142	2,967,340
3/31/2018	82,312	2,107,920	56,747	2,942,274
12/31/2017	90,837	2,442,384	72,401	3,421,812
9/30/2017	93,027	2,330,838	65,034	3,279,204
6/30/2017	75,467	2,265,091	39,337	2,953,915

The Company’s derivative contracts in place for oil and natural gas at June 30, 2018, are outlined in its Form 10-Q for the period ending June 30, 2018.

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 June 30, 2018	Nine Months Ended June 30, 2018
Net Income (Loss)	$ (775,093)	$ 14,080,022
Plus:		
Income Tax Expense (Benefit)	(209,000)	(12,943,000)
Interest Expense	420,896	1,288,426
DD&A	4,619,509	14,136,411
EBITDA	$ 4,056,312	$ 16,561,859

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Panhandle Oil and Gas Inc. (NYSE: PHX) Oklahoma City based Panhandle Oil and Gas Inc. is engaged in the acquisition, management and development of non-operated oil and gas properties on its mineral and leasehold acreage, with its principal properties located in Oklahoma, Arkansas, Texas and New Mexico. 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 2017 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 oil and 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 our inability to 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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