PHX
ENERGY SERVICES CORP.

PRESS RELEASE
May 2, 2012
TSX - PHX

PHX ENERGY SERVICES CORP. REPORTS FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

PHX Energy Services Corp. ("PHX Energy") achieved record revenue from strong activity levels generated in Canada, the US and internationally. Consolidated revenue of $79.8 million for the three-month period ended March 31, 2012 was achieved as compared to $63.1 million in the 2011-period; a 26 percent increase. Net earnings increased 104 percent from $3.9 million in the first quarter of 2011 to $7.9 million in 2012. EBITDA increased by 62 percent to $15.0 million, or $0.53 per share on a diluted basis, in the 2012-period as compared to $9.3 million, or $0.33 per share on a diluted basis, in 2011. As a percentage of revenue, EBITDA was 19 percent in the 2012-quarter as compared to 15 percent in the corresponding 2011-quarter.

International operations, led by growth in Albania and Russia, represented 10 percent of consolidated revenue in the first quarter of 2012 as compared to 9 percent in the 2011-quarter. This is expected to increase in future quarters with expanding operations in all international regions.

As part of its planned 2012 capital expenditure program, $17.6 million was incurred in the first quarter of 2012, with a further $24.4 million of equipment presently on order for delivery in the next few months. As a result of customer demand anticipated for the remainder of 2012, the Corporation's capital expenditure program has been revised to $55.1 million from the previously announced $38.9 million.

The Corporation continued its policy of rewarding its shareholders, and as it previously announced, the Board of Directors approved a 50 percent increase in the monthly dividend to $0.06 per share, or $0.72 on an annualized basis, from $0.04 per share, or $0.48 on an annualized basis. This dividend increase was effective for the Corporation's March 2012 dividend that was payable on April 13, 2012 to shareholders of record at the close of business on March 30, 2012. During the 2012-quarter the Corporation paid dividends of $3.4 million or $0.12 per share.

PHX Energy ended the first quarter with long-term debt of $58.5 million and working capital of $41.0 million.

Financial Highlights

(Stated in thousands of dollars except per share amounts, percentages and shares outstanding)

	Three-month periods ended March 31,		
	2012	2011	% Change
Operating Results	***(unaudited)***	*(unaudited)*	
Revenue	**79,769**	63,147	26
Net earnings	**7,918**	3,883	104
Earnings per share – diluted	**0.28**	0.14	100
EBITDA [1]	**15,038**	9,271	62
EBITDA per share – diluted [1]	**0.53**	0.33	61
Cash Flow			
Cash flows from operating activities	**4,076**	216	n.m.
Funds from operations [1]	**13,034**	9,520	37
Funds from operations per share – diluted [1]	**0.46**	0.34	35
Dividends paid	**3,372**	3,112	8
Dividends per share [2]	**0.12**	0.12	-
Capital expenditures	**17,560**	10,166	73
Financial Position (unaudited)	**Mar 31, '12**	Dec 31, '11	
Working capital	**40,960**	44,868	(9)
Long-term debt	**58,500**	56,000	4
Shareholders' equity	**118,281**	113,868	4
Common shares outstanding	**28,153,680**	28,091,062	-

[1] Refer to non-GAAP measures section.
[2] Dividends paid by the Corporation on a per share basis in the period.
n.m. - not meaningful

Non-GAAP Measures

PHX Energy uses certain performance measures throughout this document that are not recognizable under Canadian generally accepted accounting principles ("GAAP"). These performance measures include earnings before interest, taxes, depreciation and amortization ("EBITDA"), EBITDA per share, funds from operations and funds from operations per share. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, these may not be comparable. Please refer to the non-GAAP measures section.

Cautionary Statement Regarding Forward-Looking Information and Statements

This document contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "could", "should", "can", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Corporation believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this document should not be unduly relied upon. These forward looking statements and information speak only as of the date of this document.

In particular, forward-looking information and statements contained in this document include references to, without limitation, growth and greater profitability in international segments, particularly Russia and Colombia; projected 2012 capital expenditure budget of $55.1 million and how this budget will be funded; expected fleet expansion in 2012; PHX Energy achieving further penetration and steady performance in the Canadian market; growth in US operating regions particularly the Gulf Coast and Rocky Mountain region; the belief that the reliability issues with respect to the RWD tool are now resolved; the intent to double PHX Energy's job capacity in Russia; expected slower activity in Northeastern US; the possible achievement of more operating benchmarks if not for an early spring break-up in Canada; the reduction of industry activity levels in Canada as a result of weak natural gas prices and the North American oil price differentials between West Texas Intermediate ("WTI") and Canadian benchmarks; international operations representing a greater percent of revenue in the future; the opportunities for future growth due to past initiatives which are showing intended results; the Corporation's ability to continue to invest in resources and capabilities that provide PHX Energy and its shareholders future diversification in operations and income; and the Corporation's focus to explore efficiencies in areas of decline.

The above references are stated under the headings: "Operating Costs and Expenses", "Segmented Information", "Investing Activities", "Cash Requirements for Capital Expenditures", and "Outlook".

In addition to other material factors, expectations and assumptions which may be identified in this document and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance; business prospects; impact of competition; strategies; the general stability of the economic and political environment in which the Corporation operates; exchange and interest rates; tax laws; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services; and the adequacy of cash flow, debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on

commodity prices, market conditions, and future oil and natural gas prices; and potential timing delays. Although Management considers these material factors, expectations and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with the Canadian Securities Regulatory Authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Corporation's website. The forward-looking statements and information contained in this document are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Revenue

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2012	2011	% Change
Revenue	**79,769**	63,147	26

As a result of strong demand for horizontal and directional services in Canada, the US and internationally, the Corporation generated record quarterly revenue of $79.8 million for the three-month period ended March 31, 2012 as compared to $63.1 million in the corresponding 2011-period; an increase of 26 percent. US and international revenue as a percentage of total consolidated revenue were 34 and 10 percent, respectively, for the 2012-quarter as compared to 31 and 9 percent in 2011. Consolidated operating days increased by 10 percent to 6,681 days in 2012 as compared to 6,065 in the 2011-quarter. Average consolidated day rates for the three-month period ended March 31, 2012 increased to $11,940, which is approximately15 percent higher than the day rates of $10,412 in the first quarter of 2011.

Horizontal and directional drilling as a percentage of total drilling activity in Canada and the US continued to represent a large portion of industry activity; a positive trend for PHX Energy's operations. In the 2012-quarter, horizontal and directional drilling was a significant percentage of the Canadian market, representing approximately 91 percent of total industry drilling days (2011 – 82 percent). Over the 2011 quarters, the US horizontal and directional activity levels have persisted at 68-70 percent of the rigs running per day, and this level remained in the first quarter of 2012 (2012 - 70 percent; 2011 – 70 percent). (Sources: Daily Oil Bulletin and Baker Hughes)

Operating Costs and Expenses

((Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2012	2011	% Change
Direct costs	**61,663**	50,007	23
Depreciation & amortization (included in direct costs)	**4,834**	3,703	31
Gross profit as percentage of revenue excluding depreciation & amortization	**29%**	27%	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment. Excluding depreciation and amortization, gross profit as a percentage of revenue was 29 percent for the three-month period ended March 31, 2012 as compared to 27 percent in the comparable 2011-period.

In the three-month period ended March 31, 2012, PHX Energy's margins continued to benefit from higher average day rates driven in part from increased international activity in Albania and Russia. PHX Energy also continued to realize cost savings from the significant reduction of third party equipment rentals through its capital expenditure program. The Corporation's third party equipment rentals for the first quarter of 2012 were $2.5 million, or 3 percent of consolidated revenue, 55 percent lower compared to the corresponding 2011-quarter when third party rental were $5.6 million, or 9 percent of revenue.

Increased performance drilling motor and measurement while drilling ("MWD") system repair costs in Canada and the US, slower than expected activity in Peru and the start-up of operations in Colombia all adversely affected PHX Energy's margins in the 2012-quarter. Management is committed to evaluating different cost reduction initiatives to improve profitability, especially with its performance drilling motor costs.

Depreciation and amortization for the three-month period ended March 31, 2012 increased by 31 percent to $4.8 million as compared to $3.7 million in the 2011-quarter. The increase is the result of the Corporation's record levels of capital expenditure programs in 2011 and 2012.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2012	2011	% Change
Selling, general and administrative ("SG&A") costs	**8,504**	7,475	14
Share-based payments (included in SG&A costs)	**797**	795	-
SG&A costs excluding share-based payments as a percentage of revenue	**10%**	11%	

SG&A costs for the three-month period ended March 31, 2012 increased by 14 percent to $8.5 million as compared to $7.5 million in 2011. Included in SG&A costs are share-based payments of $0.8 million for both the 2012 and 2011-quarter.

Excluding these costs, SG&A costs as a percentage of consolidated revenue for the three-month period ended March 31, 2012 and 2011 were 10 percent and 11 percent, respectively.

SG&A costs, excluding share-based payments, generally increased in dollar terms during the 2012-quarter due to increased payroll-related costs and additional expenses with respect to the growth and expansion of PHX Energy's international operations.

Share-based payments relate to the amortization of the fair values of issued options of the Corporation using the Black-Scholes model. In the three-month period ended March 31, 2012, share-based payments were at the same level as in 2011.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2012	2011	% Change
Research and development expense	**553**	562	(2)

Research and development ("R&D") expenditures charged to net earnings during each of the three-month periods ended March 31, 2012 and 2011 were both at $0.6 million. In addition, during the same 2012-period, $0.1 million (2011 - $0.4 million) were capitalized as development costs on certain projects.

PHX Energy continues to focus on its mandate to provide leading edge technologies to its clients.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2012	2011	% Change
Finance expense	**556**	431	29

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. For the three-month period ended March 31, 2012, finance charges increased to $0.6 million from $0.4 million in the 2011-period. In order to fund PHX Energy's extensive capital expenditure programs in 2011 and 2012, additional bank borrowings were incurred.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2012	2011	% Change
Other income	**1,346**	482	179

For the three-month period ended March 31, 2012, other income is represented by gains on disposition of drilling equipment of $1.0 million (2011 - $247,000) and foreign exchange gains of $0.3 million (2011 - $235,000). The dispositions of drilling equipment relate primarily to equipment lost in well bores that are uncontrollable in nature. These gains are reported net of any asset retirements that are made before the end of the equipment's useful life and self-insured down hole equipment losses, if any. Gains typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current

replacement values, which are higher than the respective equipment's book value. There was a higher occurrence of losses in the 2012-quarter as compared to the corresponding 2011-quarter.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2012	2011	% Change
Other expense	**190**	17	n.m.

n.m. – not meaningful

Other expense for the three-month period ended March 31, 2012 is represented by losses from the change in the fair value of investment in equity securities of $0.2 million and in 2011 it is represented by a bad debt provision of $17,000.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2012	2011
Provision for income taxes	**1,730**	1,254

The provision for income taxes for the three-month period ended March 31, 2012 was $1.7 million as compared to $1.3 million in the 2011-period. The expected combined Canadian federal and provincial tax rate for 2012 is 25 percent. The effective tax rate in the 2012-quarter of 18 percent is lower than the expected rate due mainly to the effect of tax rates in foreign jurisdictions.

(Stated in thousands of dollars except per share and percentages)

	Three-month periods ended March 31,		
	2012	2011	% Change
Net earnings	**7,918**	3,883	104
Earnings per share – diluted	**0.28**	0.14	100
EBITDA	**15,038**	9,271	62
EBITDA per share – diluted	**0.53**	0.33	61
EBITDA as a percentage of revenue	**19%**	15%	

The Corporation's level of net earnings and EBITDA for the three-month period ended March 31, 2012 have both increased due to higher activity and overall profitability. EBITDA as a percentage of revenue for the three-month period ended March 31, 2012 was 19 percent (2011 – 15 percent).

Segmented Information:

The Corporation reports three operating segments on a geographical basis throughout the Canadian provinces of Alberta, Saskatchewan, British Columbia, and Manitoba; throughout the Gulf Coast, Northeast and Rocky Mountain regions of the US; and internationally in Albania, Peru, Russia and Colombia.

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2012	2011	% Change
Revenue	**44,490**	37,945	17
Reportable segment profit before tax	**11,011**	6,700	64

Despite weaknesses in natural gas prices and a relatively early spring break-up, for the three-month period ended March 31, 2012, Canadian revenue increased by 17 percent to $44.5 million (2011 - $37.9 million) and operating days increased by 4 percent to 3,678 days (2011 – 3,529 days). The revenue achievement was the second highest quarterly result in the Corporation's history. Demand for the Corporation's services, and the presence of horizontal gamma jobs have both continued to strengthen, and as a result, average day rates increased by 13 percent to $12,096 in the 2012-quarter from $10,752 in the 2011-quarter.

The Corporation was active in oil and liquids rich natural gas drilling areas in western Canada and PHX Energy's horizontal oil well drilling activity (as measured by operating days) for the three-month period ended March 31, 2012 represented approximately 78 percent of its overall Canadian activity; an increase from 73 percent in the 2011-quarter. The most active areas for the Corporation in the 2012-quarter were in the Montney, Cardium, Swan Hills, Viking, Pekisko, Duvernay and Bakken. PHX Energy has expanded its marketing department in the quarter with the objective of achieving further penetration in the Canadian market in upcoming periods.

Overall in the Canadian industry, horizontal and directional drilling activity decreased slightly, 2 percent as measured by drilling days, for the three-month period ended March 31, 2012 to 41,016 days as compared to 41,672 days in the 2011-period. (Source: Daily Oil Bulletin)

Reportable segment profit before tax for the three-month period ended March 31, 2012 increased by 64 percent to $11.0 million from $6.7 million in the 2011-quarter. Improved profitability during the 2012-quarter was achieved through higher day rates, activity growth, and savings from reduced third party equipment rentals.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2012	2011	% Change
Revenue	**27,165**	19,797	37
Reportable segment (loss) profit before tax	**31**	(271)	111

For the three-month period ended March 31, 2012, record US revenue of $27.2 million was generated compared to $19.8 million in the 2011-period; a 37 percent increase. The Corporation's US operating days in the first quarter increased by 14 percent to 2,403 days from 2,111 days in the 2011-quarter. Overall day rates realized also increased by 21 percent in the 2012-quarter to $11,305 compared to $9,378 in the 2011-quarter. The increased rates have been assisted by the addition of a performance drilling motor rental division in the Gulf Coast in late 2011.

PHX Energy's growth in the US was the direct result of: the recent expansion into the Permian Basin in Midland, Texas and the mid-continent region in Oklahoma that occurred late in 2011, the recruitment of additional marketing personnel, and the deployment of a new proprietary power section that was utilized successfully in the Corporation's US performance drilling motor fleet.

Horizontal oil well drilling represented approximately 55 percent of Phoenix USA's overall activity, as measured by drilling days, in the three-month period ended March 31, 2012 as compared to 31 percent in the 2011-period. In 2012, Phoenix USA was active the Permian Basin, Barnett, Eagleford, Marcellus, Niobrara and Bakken.

US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, increased by 15 percent for the three-month period ended March 31, 2012 to 1,389 rigs as compared to 1,203 rigs. This level of activity represented 70 percent of total US Industry activity in the both 2012 and 2011-quarters. (Source: Baker Hughes)

Reportable segment income before tax for the three-month period ended March 31, 2012 increased by 111 percent to $31,000 from a $271,000 loss in the 2011-period. The increase in profitability is a result of increased activity, however, this was negatively offset by higher performance drilling motor repair costs and third party equipment rentals that were realized in the 2012-quarter.

International

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2012	2011	% Change
Revenue	**8,114**	5,405	50
Reportable segment profit before tax	**2,025**	1,352	50

Due to increases in activity realized in Albania and Russia in the 2012-quarter, international revenue increased by 50 percent to a record $8.1 million for the three-month period ended March 31, 2012 from $5.4 million in the 2011-quarter. International operating days also increased 41 percent from 425 days in 2011 to 601 days in 2012. The Corporation generated 10 percent of its consolidated revenue from international operations in the 2012-quarter compared to 9 percent in the 2011-quarter.

Phoenix Albania continued to be the most active international area in the first quarter of 2012. The Corporation's Albanian activity has increased substantially through the addition of a fourth and fifth rig in 2011 and since commencing operations in 2008, PHX Energy has successfully drilled in excess of 188 wells in Albania.

Phoenix Russia achieved a record level of activity in the 2012-quarter. The Corporation's intent is to double the region's concurrent job capacity from 8 to 16 jobs in anticipation of the higher activity forecasted in the remainder of 2012. Phoenix Russia drilled several wells in the first quarter of 2012 with the Corporation's Resistivity While Drilling ("RWD") tool producing positive results, and it is expected that the technical challenges encountered with this tool in 2011 have been overcome. Phoenix Russia continues to build a strong team of regional field operators and it is expected that this will continue as the business matures.

In the first quarter of 2012, Phoenix Colombia successfully completed its first full service job. It is expected with the recent success, and as a result of past marketing initiatives, activity will increase in the upcoming quarters. Due to foreseen demand, the Corporation is in the process of mobilizing its RWD tool for utilization in the Colombian market. PHX Energy's operations in Colombia currently have a 4 job capacity.

Phoenix Peru's activity in the 2012-quarter was lower than expected. Customer's postponed or reduced their drilling activity due to delays caused by licensing and permits as well as due to poor weather conditions. Some resources in Peru, as a result, have been allocated to Colombia to support business development there.

For the three-month period ended March 31, 2012, reportable segment profit before tax was $2.0 million, an increase of 50 percent compared to $1.4 million in the corresponding 2011-period. The increase is due to the large increase in activity led by Albania and Russia.

Investing Activities

Net cash used in investing activities for the three-month period ended March 31, 2012 was $22.7 million as compared to $10.0 million in 2011. The Corporation made a $0.9 million investment in equity securities and added $17.6 million in capital equipment in 2012 as compared to $10.2 million in 2011. These 2012 expenditures included:

- $7.3 million in down hole performance drilling motors;
- $6.0 million in MWD systems and spare components;
- $3.2 million in non-magnetic drill collars and jars;
- $0.9 million in other assets, including deferred development costs of $0.1 million; and
- $0.2 million in machinery and equipment for global service centers.

The capital expenditure program undertaken in the year was financed from a combination of cash flow from operations, long-term debt and working capital.

The Corporation realized proceeds from the involuntary disposal of drilling equipment in well bores of $3.3 million in 2012, as compared to $1.3 million in 2011. The change in non-cash working capital balances of $7.6 million (use of cash) for the three-month period ended March 31, 2012 relates to $4.5 million of net change in the Corporation's trade payables that are associated with the acquisition of capital assets and $3.1 million of acquired land that is now being held for sale. This compares to $1.1 million (use of cash) for the three-month period ended March 31, 2011.

During the first quarter of 2012, PHX Energy's job capacity increased by 10 concurrent jobs to 200 through the addition of 7 positive pulse MWD systems and 3 RWD systems. As at March 31, 2012, the Corporation's MWD fleet consisted of 131 positive pulse MWD systems, 59 CLT EM-MWD systems, and 10 RWD systems. Of these, 95 MWD systems were deployed in Canada, 76 in the US, 16 in Russia, 5 in Albania, and 4 in both Peru and Colombia.

At March 31, 2012, the Corporation had on order an additional 2 positive pulse and 5 CLT EM-MWD systems, all of which are expected to be delivered during the end of the second quarter. As a result, by the end of 2012 the Corporation expects to have a fleet of 207 MWD systems, which would be comprised of 133 positive pulse MWD systems, 64 CLT EM-MWD systems and 10 RWD systems. The Corporation previously planned to add an additional 14 positive pulse MWD systems by year end, but this expansion will be dependent upon customer demand as the year progresses.

Financing Activities

The Corporation reported cash flows from financing activities of $14.4 million in 2012 as compared to $5.4 million in 2011. In the 2012-quarter:

- the Corporation paid dividends of $3.4 million to shareholders, or $0.12 per share;
- through its option and DRIP program the Corporation received cash proceeds of $0.6 million from exercised options and reinvested dividends to acquire 62,618 common shares of the Corporation; and
- the Corporation received net proceeds from its bank overdraft revolving facility and extendible revolving facility of an aggregate of $17.2 million to finance its capital expenditure program.

Capital Resources

As at March 31, 2012, the Corporation had access to a demand overdraft revolving facility of up to $10.0 million and PHX Energy also had access to an $80.0 million, 364-day extendible revolving facility with its bank. The facility is renewable at the option of the lender by November 2012. Should this facility not be extended, outstanding amounts will be transferred to a two-year term facility repayable at 1/10 of the amount outstanding for seven quarters with the remaining balance paid on the eighth quarter.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. The 2012 capital budget was originally set at $38.9 million and has now been revised to $55.1 million. These planned expenditures are expected to be financed from a combination of one or more of the following, cash flow from operations, the Corporation's unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2012, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Outlook

The first quarter of 2012 started very strong, and resulted in record quarterly consolidated revenue. If not for an early spring break-up due to warm weather in western Canada, PHX Energy would have likely achieved even greater operating and financial benchmarks in a number of areas.

In 2011, PHX Energy's Canadian operations' results showed significant growth and the first quarter of 2012 followed this pattern. The Corporation is well positioned in this market, with a strong marketing team, predominately oil focused activity and superior operational performance; however, the Corporation believes that there are a number of obstacles for the foreseeable future. The customers that PHX Energy provides services for, in many cases, will increase the amount of rigs they deploy to drill for oil, but this will not be enough volume to overcome the continued reduction in natural gas drilling activities. A contributing factor to this is that the amount of oil well drilling the Canadian Operators undertake is influenced by the North American oil price differentials between West Texas Intermediate ("WTI") and Canadian benchmarks. Despite this, the Corporation anticipates that its Canadian operations will continue to attain steady performance.

A strategic focus over the last year was to increase exposure and capture a greater market share in the US and international regions in which PHX Energy operates. The results of these efforts can be seen in these segments' improved performance during the first quarter of 2012.

In the US, PHX Energy's Gulf Coast and the Rocky Mountain regions have experienced an increase in operating days, and both of these are areas of focus for the Corporation to continue to gain greater market share. Both regions have a number of strong plays, where Operators are very active due to the high percent of profitable oil drilling and production, and therefore, PHX Energy sees a strong opportunity to attain further growth. In contrast in the Northeast region, which is predominantly natural gas drilling, PHX Energy has seen a reduction in its activity over the last two quarters and sees this trend persisting in the upcoming quarters as a result of the weak natural gas commodity. Nevertheless, PHX Energy expects that the initiatives which have escalated its market penetration in the oil drilling regions will outweigh the impact of the reduced rig count that is likely to occur as Operators shift their drilling programs away from natural gas production.

As in the US, PHX Energy's strategies in its international segment are beginning to take hold and produce the intended results. In particular, Russian operations in the first quarter of 2012 experienced record activity as a result of the improved performance of its RWD tools, and as such, the Corporation is increasing job capacity to meet the additional customer demand. PHX Energy remains optimistic that this momentum will continue in future quarters with international operations steadily representing a greater percent of consolidate revenue; albeit that this growth will be controlled by the longer time frame required to deploy additional assets and to hire and train the necessary field personnel.

Overall PHX Energy has implemented initiatives to target further growth and profitability, such as the recruitment of additional experienced marketing personnel in key areas, hiring and training of new field personnel, and expanding its equipment fleets. With the diverse foot print that PHX Energy has established, the Corporation remains cautiously optimistic and sees

opportunities for growth as a result of its past initiatives beginning to produce the projected benefits. The 2012 capital expenditure budget has been increased to $55.1 million as PHX Energy intends to continue to invest in resources and capabilities that provide PHX Energy and its shareholders future diversification in operations and income.

The Corporation will remain mindful of the present and future environment where its operations are conducted and will focus on areas where opportunities exist, while exploring efficiencies in areas of decline.

John Hooks
Chairman of the Board,
President and Chief Executive Officer
May 2, 2012

Non-GAAP Measures

1) EBITDA

EBITDA, defined as earnings before interest, taxes, depreciation and amortization, is not a financial measure that is recognized under GAAP. However, Management believes that EBITDA provides supplemental information to net earnings that is useful in evaluating the Corporation's operations before considering how it was financed or taxed in various countries. Investors should be cautioned, however, that EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating EBITDA may differ from that of other organizations and, accordingly, its EBITDA may not be comparable to that of other companies.

The following is a reconciliation of net earnings to EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2012	2011
Net earnings	**7,918**	3,883
Add (deduct):		
Depreciation and amortization	**4,834**	3,703
Provision for income taxes	**1,730**	1,254
Finance expense	**556**	431
EBITDA as reported	**15,038**	9,271

EBITDA per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of EBITDA per share on a dilutive basis does not include anti-dilutive options.

2) Funds from Operations

Funds from operations is defined as cash flows generated from operating activities before changes in non-cash working capital. This is not a measure recognized under GAAP. Management uses funds from operations as an indication of the Corporation's ability to generate funds from its operations before considering changes in working capital balances. Investors should be cautioned, however, that this financial measure should not be construed as an alternative measure to cash flows from operating activities determined in accordance with GAAP. PHX Energy's method of calculating funds from operations may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of cash flows from operating activities to funds from operations:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2012	2011
Cash flows from operating activities	**4,076**	216
Add (deduct):		
Changes in non-cash working capital	**7,749**	8,462
Interest paid	**530**	378
Income taxes paid	**679**	464
Funds from operations	**13,034**	9,520

Funds from operations per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of funds from operations per share on a dilutive basis does not include anti-dilutive options.

About PHX Energy Services Corp.

The Corporation, through its subsidiary entities, provides horizontal and directional technology and drilling services to oil and natural gas producing companies in Canada, the US, Albania, Peru, Russia, and Colombia. PHX Energy develops and manufactures its current loop telemetry ("CLT") electromagnetic ("EM") and positive pulse measurement while drilling ("MWD") technology that is made available for internal operational use.

PHX Energy's Canadian operations are conducted through Phoenix Technology Services LP. The Corporation maintains its corporate head office, research and development, Canadian sales, service and operational centres in Calgary, Alberta. In addition, PHX Energy has a service facility in Estevan, Saskatchewan. PHX Energy's US operations, conducted through the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), is headquartered in Houston, Texas. Phoenix USA has sales and service facilities in Houston, Texas; Traverse City, Michigan; Casper, Wyoming; Denver, Colorado; Fort Worth, Texas; Midland, Texas; Buckhannon, West Virginia; Pittsburgh, Pennsylvania; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania, Peru, Russia, and Colombia.

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Consolidated Statements of Financial Position

(unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 4,094,362**	$ 8,376,344
Trade and other receivables	**69,304,136**	63,209,860
Inventories	**17,948,751**	15,445,543
Prepaid expenses	**4,234,714**	3,720,607
Investment in equity securities	**720,360**	-
Assets held for sale	**3,132,482**	-
Total current assets	**99,434,805**	90,752,354
Non-current assets:		
Property, plant and equipment	**131,059,979**	120,452,022
Goodwill	**8,876,351**	8,876,351
Intangible assets	**80,139**	120,208
Total non-current assets	**140,016,469**	129,448,581
Total assets	**$ 239,451,274**	$ 220,200,935
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank overdraft	**$ 8,185,605**	$ -
Trade and other payables	**40,614,337**	44,538,854
Dividends payable	**1,615,753**	1,064,592
Current tax liabilities	**1,559,482**	280,981
Loans and borrowings	**6,500,000**	-
Total current liabilities	**58,475,177**	45,884,427
Non-current liabilities:		
Loans and borrowings	**58,500,000**	56,000,000
Deferred tax liabilities	**4,195,223**	4,448,999
Total non-current liabilities	**62,695,223**	60,448,999
Equity:		
Share capital	**98,348,095**	97,583,055
Contributed surplus	**6,417,551**	5,827,955
Retained earnings	**15,510,431**	11,461,288
Accumulated other comprehensive income	**(1,761,851)**	(803,517)
Total equity attributable to equity holders of the Corporation	**118,514,226**	114,068,781
Non-controlling interests	**(233,352)**	(201,272)
Total equity	**118,280,874**	113,867,509
Total liabilities and equity	**$ 239,451,274**	$ 220,200,935

Consolidated Statements of Comprehensive Income

(unaudited)

Three-month period ended March 31,	**2012**	2011
Revenue	**$ 79,768,829**	$ 63,147,446
Direct costs	**61,663,456**	50,006,752
Gross profit	**18,105,373**	13,140,694
Expenses:		
Selling, general and administrative	**8,504,391**	7,474,745
Research and development expenses	**553,103**	562,438
Finance expense	**555,631**	431,208
Other income	**(1,346,072)**	(482,101)
Other expense	**190,095**	17,334
	8,457,148	8,003,624
Earnings before income taxes	**9,648,225**	5,137,070
Provision for income taxes		
Current	**1,713,615**	157,236
Deferred	**16,345**	1,097,106
	1,729,960	1,254,342
Net earnings	**7,918,265**	3,882,728
Other comprehensive income		
Foreign currency translation	**(935,899)**	(1,949,794)
Total comprehensive income for the year	**$ 6,982,366**	$ 1,932,934
Earnings attributable to:		
Equity holders of the Corporation	**$ 7,972,780**	$ 3,909,717
Non-controlling interests	**(54,515)**	(26,989)
Net earnings	**$ 7,918,265**	$ 3,882,728
Comprehensive income attributable to:		
Equity holders of the Corporation	**$ 7,014,446**	$ 2,061,914
Non-controlling interests	**(32,080)**	(128,980)
Total comprehensive income for the year	**$ 6,982,366**	$ 1,932,934
Earnings per share – basic	**$ 0.28**	$ 0.14
Earnings per share – diluted	**$ 0.28**	$ 0.14

Consolidated Statements of Cash Flows

(unaudited)

Three-month period ended March 31,	2012	2011
Cash flows from operating activities:		
Net earnings	**$ 7,918,265**	$ 3,882,728
Adjustments for:		
Depreciation and amortization	**4,834,224**	3,702,540
Deferred income tax expense	**16,345**	1,097,106
Unrealized foreign exchange gain	**(282,750)**	(158,527)
Gain on disposition of drilling equipment	**(994,638)**	(247,488)
Share-based payments	**797,092**	795,486
Finance expense	**555,631**	431,208
Provision for bad debts	**-**	17,334
Change in fair value of investment in equity securities	**190,095**	-
Change in non-cash working capital	**(7,748,663)**	(8,462,783)
Cash generated from operating activities	**5,285,601**	1,057,604
Interest paid	**(530,542)**	(377,877)
Income taxes paid	**(679,061)**	(463,788)
Net cash from operating activities	**4,075,998**	215,939
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**3,344,445**	1,323,921
Acquisition of drilling and other equipment	**(17,559,785)**	(10,166,068)
Investment in equity securities	**(910,455)**	-
Change in non-cash working capital	**(7,602,858)**	(1,129,285)
Net cash used in investing activities	**(22,728,653)**	(9,971,432)
Cash flows from financing activities:		
Proceeds from issuance of share capital	**557,544**	2,420,650
Dividends paid to shareholders	**(3,372,476)**	(3,111,686)
Proceeds on loans and borrowings	**9,000,000**	-
Proceeds on bank overdraft facility	**8,185,605**	6,140,847
Net cash from financing activities	**14,370,673**	5,449,811
Net decrease in cash and cash equivalents	**(4,281,982)**	(4,305,682)
Cash and cash equivalents, beginning of period	**8,376,344**	8,625,532
Cash and cash equivalents, end of period	**$ 4,094,362**	$ 4,319,850