PHX ENERGY SERVICES CORP.

PRESS RELEASE
April 30, 2014
TSX - PHX

PHX Energy Announces Record First Quarter Revenue and Operating Days, and an Increase in its 2014 Capital Expenditures Budget

PHX Energy Services Corp. ("PHX Energy") achieved an all-time quarterly record for revenue, operating days and funds from operations.

For the three-month period ended March 31, 2014, the Corporation generated consolidated revenue of $129.1 million as compared to $92.7 million in the 2013-period; a 39 percent increase. EBITDA increased by 16 percent to $21.3 million in the first quarter of 2014 from $18.3 million in 2013. As a percentage of revenue, EBITDA was 16 percent in the 2014-quarter as compared to 20 percent in the corresponding 2013-quarter. Net earnings increased by 6 percent from $8.3 million in the 2013-period to $8.8 million in 2014. The Corporation's funds from operations were $20.5 million in the 2014-quarter, which was 23 percent higher than the $16.7 million achieved in 2013.

During the first quarter of 2014, the Corporation realized activity growth in all of its operating segments. US revenue, as a percentage of consolidated revenue, increased to 44 percent during the 2014-quarter as compared to 42 percent in the 2013-quarter. Russia and Albania, led the international operation's growth and this segment represented 10 percent of consolidated revenue in the first quarter of 2014 (2013 – 10 percent).

During the three-month period ended March 31, 2014, $13.5 million was incurred as part of the 2014 capital expenditure program. An additional $7.1 million is currently on order and is expected to be received within the next quarter. Due to realized strong growth and anticipated active future activity levels, PHX Energy has increased its 2014 capital expenditure budget to $63.3 million from $34.7 million. Included in the 2014 capital expenditure budget is approximately $25.0 million associated with:

- maintenance capital in the amount of approximately $10.0 million;
- the addition of commercial value added technologies that will assist in increasing the Corporation's overall day rates;
- a new operations facility in Houston and associated equipment required in this growing region; and
- the addition of new non-commercial technologies in development.

The balance of the unspent capital expenditures relate to 12 additional E-360 electromagnetic ("EM") and P-360 positive pulse measurement while drilling ("MWD") kits, as well as to various resistivity while drilling ("RWD") equipment, down hole performance drilling motors and tubular equipment to support the level of anticipated future work while helping the Corporation to alleviate third party equipment rentals.

The new non-commercial technologies in development that are included in the revised capital expenditures budget are being developed in collaboration with leading edge engineering companies in North America. The Corporation is in the latter phases of developing these technologies which are designed to improve reliability and provide innovative mechanical, directional, and formation measurements to enhance the drilling process. In order to accelerate testing and commercialization, the Corporation will add additional strings of the new technologies to its current fleet. It is anticipated that this equipment will be in a pre-commercial field test phase for the remainder of 2014.

During the 2014-quarter, the Corporation made total payments of $7.3 million under the license and technology development agreements entered into in 2013.

In the 2014-quarter, the Corporation paid dividends of $7.2 million or $0.21 per share; this represented 35 percent of funds from operations.

PHX Energy ended the first quarter with long-term debt of $91.0 million and working capital of $82.8 million.

During the first quarter of 2014, PHX Energy's job capacity increased by 10 concurrent jobs to 224 through the addition of 8 P-360 positive pulse MWD systems and 2 E-360 EM MWD systems. As at March 31, 2014, the Corporation's MWD fleet consisted of 140 P-360 positive pulse MWD systems, 67 E-360 EM MWD systems, and 17 RWD systems. Of these, 106 MWD systems were deployed in Canada, 89 in the US, 15 in Russia, 6 in Albania, 4 in Peru, and 4 in Colombia. The Corporation is in the process of closing its Peruvian operations and re-allocating the assets in that region to more strategic areas for greater utilization in the future.

During the remainder of the year, the Corporation expects to add 7 P-360 and 5 E-360 MWD systems. As a result, by the end of 2014 the Corporation expects to have a fleet of 236 MWD systems, which would be comprised of 147 P-360 MWD systems, 72 E-360 MWD systems and 17 RWD systems.

Financial Highlights

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

	Three-month periods ended March 31,		
	2014	2013	% Change
Operating Results	***(unaudited)***	*(unaudited)*	
Revenue	**129,131**	92,667	39
Net earnings	**8,813**	8,306	6
Earnings per share – diluted	**0.25**	0.29	(14)
EBITDA (1)	**21,271**	18,329	16
EBITDA per share – diluted (1)	**0.61**	0.65	(6)
Cash Flow			
Cash flows from operating activities	**7,770**	13,302	(42)
Funds from operations (1)	**20,515**	16,734	23
Funds from operations per share – diluted (1)	**0.59**	0.59	-
Dividends paid	**7,195**	5,085	41
Dividends per share (2)	**0.21**	0.18	17
Capital expenditures	**13,456**	13,495	-
Financial Position (unaudited)	**Mar 31, '14**	Dec 31, '13	
Working capital	**82,842**	66,580	24
Long-term debt	**91,005**	70,208	30
Shareholders' equity	**203,369**	198,477	2
Common shares outstanding	**34,381,800**	34,218,974	-

(1) Refer to non-GAAP measures section.
(2) Dividends paid by the Corporation on a per share basis in the period.

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 natural 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, without limitation the anticipated delivery of equipment on order, projected capital expenditure budget and how this budget will be funded, the anticipated additions to the MWD fleet, the anticipated performance and development timeline of new non-commercial technologies, the expected impact that strategies and initiatives underway will have on profitability, the expected combined Canadian federal and provincial tax rate, forecasted increase in activity in Albania, the ability to improve contract terms in Russia, the ability to reduce costs and improve utilization in Colombia, and the anticipation of a new direction in Colombia.

The above are stated under the headings: “Overall Performance.”, “Operating Costs and Expenses”, “Segmented Information” and “Capital Resources**”.** Furthermore, all information contained within the Outlook section of this document contains forward-looking statements.

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,		
	2014	2013	% Change
Revenue	**129,131**	92,667	39

In the first quarter of 2014, the Corporation again achieved all-time record levels of quarterly consolidated revenue and operating days as a result of robust growth in all operating areas. For the three-month period ended March 31, 2014, PHX Energy generated record revenue of $129.1 million as compared to $92.7 million in the corresponding 2013-period; an increase of 39 percent. US and international revenue as a percentage of total consolidated revenue was 44 and 10 percent, respectively, for the 2014-quarter as compared to 42 and 10 percent in 2013. Consolidated operating days grew by 27 percent to 10,168 days in 2014 as compared to 7,979 in the 2013-quarter. Average consolidated day rates for the three-month period ended March 31, 2014, excluding the motor rental division in Midland, Texas and the electronic drilling recorder ("EDR") business, increased to $12,206, which is 7 percent higher than the day rates in the first quarter of 2013, $11,374.

In comparison, horizontal and directional drilling as a percentage of total industry activity increased in both Canada and the US. In the 2014-quarter, horizontal and directional drilling continued to dominate the Canadian market at approximately 95 percent of total industry drilling days (2013 – 90 percent). In the US, horizontal and directional activity levels represented 78 percent of the rigs running per day, an increase from 75 percent in the 2013-quarter. (Sources: Daily Oil Bulletin and Baker Hughes)

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2014	2013	% Change
Direct costs	**100,644**	70,966	42
Depreciation & amortization (included in direct costs)	**7,451**	5,830	28
Gross profit as percentage of revenue excluding depreciation & amortization	**28**	30	

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 28 percent for the three-month period ended March 31, 2014 as compared to 30 percent in the comparable 2013-period.

In the three-month period ended March 31, 2014, the Corporation experienced a decline in its margins compared to the 2013-quarter. The following were the primary factors which negatively affected profitability during the 2014-period:

- increased field personnel costs in Canada and Albania,
- higher MWD system repair costs in Canada, and
- greater third party equipment rentals in Canada and the US.

For the three-month period ended March 31, 2014, third party equipment rentals increased to 3 percent of consolidated revenue compared to 2 percent in the corresponding 2013-quarter due primarily to the strong increase in activity in Canada and the US. Management continues to implement strategies and initiatives to improve profitability and is focused on high cost impact areas.

Depreciation and amortization for the three-month period ended March 31, 2014 increased by 28 percent to $7.5 million as compared to $5.8 million in the 2013-quarter. The increase is the result of the Corporation's high level of capital expenditures in 2013.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2014	2013	% Change
Selling, general & administrative ("SG&A") costs	**14,605**	10,485	39
Share-based payments (included in SG&A costs)	**210**	327	(36)
SG&A costs excluding share-based payments as a percentage of revenue	**11**	11	

SG&A costs for the three-month period ended March 31, 2014 increased by 39 percent to $14.6 million as compared to $10.5 million incurred in the 2013-period. Included in SG&A costs are share-based payments of $0.2 million in the 2014-quarter as compared to $0.3 million in the 2013-quarter. Excluding these costs, SG&A costs as a percentage of consolidated revenue were 11 percent in both periods.

SG&A costs increased in dollar terms during the first quarter of 2014 relative to the 2013-quarter, mainly due to higher payroll and marketing related costs associated with overall activity growth across all of PHX Energy's operating segments.

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 ending March 31, 2014, share-based payments decreased by 36 percent as there were no new option grants in the 2014-quarter and the Corporation has utilized a greater number of retention awards to reward employees. Share-based cash settled retention awards are measured at fair value and in the first quarter of 2014 the compensation expense recognized by PHX Energy relating to retention awards increased to $1.0 million as compared to $0.5 million in the 2013-quarter. The increase is primarily due to the greater amount of retention awards granted in 2013 and the re-valuation of the retention awards based on the increase in the Corporation's stock price from $12.54 at December 31, 2013 to $13.23 at March 31, 2014.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2014	2013	% Change
Research & development expense	**837**	536	56

Research and development ("R&D") expenditures charged to net earnings during the three-month periods ended March 31, 2014 and 2013 were $0.8 million and $0.5 million, respectively. The general increase in these expenditures is due to R&D activities associated with projects for the EDR division. During both the 2014 and 2013-quarter, no R&D expenditures were capitalized as development costs.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2014	2013	% Change
Finance expense	**1,030**	1,094	(6)

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, 2014, finance charges decreased to $1.0 million from $1.1 million in the 2013-quarter. The decrease is mainly due to the lower amount of borrowings during the 2014-quarter compared to the 2013-period.

(Stated in thousands of dollars)	Three-month periods ended March 31,		
	2014	2013	% Change
Gains on disposition of drilling equipment	**1,664**	2,341	(29)
Foreign exchange losses	**(409)**	(302)	35
Provision for bad debts	**(480)**	-	n.m.
Other income	**775**	2,039	

n.m. – not meaningful

For the three-month period ended March 31, 2014, other income is primarily composed of gains on disposition of drilling equipment of $1.7 million (2013 – $2.3 million). The dispositions of drilling equipment relate primarily to equipment lost in well bores that are uncontrollable in nature. The gain reported is 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. In the 2014-quarter, the gains on disposition of drilling equipment are lower as compared to the 2013-period due to fewer occurrences of losses.

Offsetting other income for the three-month period ended March 31, 2014 are foreign exchange losses of $0.4 million (2013 – $0.3 million) and bad debt provisions of $0.5 million (2013 – nil). Foreign exchange losses resulted mainly from fluctuations in the US-Canadian exchange rates. In the 2014-quarter, the CAD weakened against the USD thereby causing re-valuation losses on US-denominated payables in Canada and Canadian-denominated receivables in the US. The bad debt provisions in the 2014-quarter relate to Russian receivables.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,	
	2014	2013
Provision for income taxes	**3,977**	3,100
Effective tax rates	**31%**	27%

The provision for income taxes for the three-month period ended March 31, 2014 was $4.0 million as compared to $3.1 million in the 2013-quarter. The expected combined Canadian federal and provincial tax rate for 2014 is 25 percent. The effective tax rate in the 2014 three-month period of 31 percent is higher than the expected rate mainly due to profitability in the higher tax jurisdictions of the US and non-recognition of deferred tax assets for foreign losses.

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

	Three-month periods ended March 31,		
	2014	2013	% Change
Net earnings	**8,813**	8,306	6
Earnings per share – diluted	**0.25**	0.29	(14)
EBITDA	**21,271**	18,329	16
EBITDA per share – diluted	**0.61**	0.65	(6)
EBITDA as a percentage of revenue	**16%**	20%	

The Corporation's level of net earnings and EBITDA for the three-month period ended March 31, 2014 have both increased primarily due to the greater profitability achieved in the US and international segments. EBITDA as a percentage of revenue for the three-month period ended March 31, 2014 was 16 percent (2013 – 20 percent). Included in the 2014-quarter's earnings was $0.7 million of losses from the EDR division (2013 - $0.2 million).

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, Russia and Colombia.

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2014	2013	% Change
Revenue	**58,631**	44,348	32
Reportable segment profit before tax	**9,807**	13,027	(25)

In the three-month period ended March 31, 2014, PHX Energy's Canadian operations achieved an all-time record level of quarterly revenue of $58.6 million, which is 32 percent higher when compared to the $44.3 million generated in the corresponding 2013-period. During the 2014-quarter, Canadian operations benefitted from both increased demand from existing clients and the addition of new clients. These factors primarily drove the 25 percent increase in operating days to a new quarterly record of 5,237 days (2013 – 4,197 days). In comparison, total industry horizontal and directional drilling activity, as measured by drilling days, increased by 3 percent in the 2014-quarter at 38,097 days, compared to the 2013-quarter's 36,938 days. (Source: Daily Oil Bulletin) Average day rates, excluding EDR revenue of $2.0 million, increased by 2 percent to $10,817 in the 2014-quarter compared to $10,567 in the 2013-quarter.

In the 2014-quarter, PHX Energy continued to build and maintain a well-diversified customer base and revenue stream. The Corporation had very strong presence in the Montney area and additionally was active in the Viking, Cardium and Bakken areas. PHX Energy continued to experience greater activity in liquids rich natural gas and for the three-month period ended March 31, 2014, 41 percent of the Corporation's overall Canadian activity was represented by gas well drilling.

Reportable segment profit before tax for the first quarter of 2014 decreased to $9.8 million from $13.0 million in the 2013-quarter. Decreased profitability during the 2014-quarter was due to increased field personnel costs, higher MWD system repair costs, and greater third party equipment rentals. In addition, included in the Canadian segment's profits in the 2014-quarter was a loss of $0.7 million from the EDR division.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2014	2013	% Change
Revenue	**57,442**	39,383	46
Reportable segment profit before tax	**5,063**	(35)	n.m.

n.m. - not meaningful

In the first quarter of 2014, PHX Energy's US operations again achieved an all-time record level of quarterly revenues and operating days. For the three-month period ended March 31, 2014, the segment's revenue was $57.4 million, which is 46 percent higher compared to the $39.4 million in the 2013-quarter. The Corporation's US operating days increased by 25 percent to 3,910 days from 3,131 days in the 2013-quarter as a result of gains in market share and all US operating regions continued to demonstrate strong trends in activity. In addition, overall day rates realized, excluding the motor rental division in Midland, Texas, increased by 16 percent in the 2014-quarter to CAD$13,914 compared to CAD$11,967 in the 2013-quarter. Improved day rates resulted generally from the continued utilization of PHX Energy's value added technologies and were aided by a stronger US dollar in the 2014-period.

The US industry continued to focus on horizontal and directional drilling. For the three-month period ended March 31, 2014, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, increased by 6 percent to 1,393 rigs, which represented approximately 78 percent of overall industry activity, compared to 1,317 rigs, approximately 75 percent of overall industry activity, in the 2013-period. (Source: Baker Hughes)

During the first quarter of 2014, oil well drilling, as measured by drilling days, represented approximately 75 percent of Phoenix USA's overall activity. Phoenix USA remained actively focused on the Permian, Eagle Ford, Bakken, and Mississippian/Woodford basins. Additionally, the Corporation was active in the Marcellus, Niobrara, and Utica plays.

Reportable segment profit before tax for the three-month period ended March 31, 2014 increased to $5.1 million from a loss of $35,000 in the 2013-quarter. The increased profitability in the 2014-quarter resulted mainly from strong activity growth and improved day rates.

International

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2014	2013	% Change
Revenue	**13,058**	8,936	46
Reportable segment profit before tax	**2,607**	1,053	148

Led by Russia and Albania, the Corporation continued to grow its international operations. For the three-month period ended March 31, 2014, PHX Energy's international operations generated revenue of $13.1 million, 46 percent higher than the $8.9 million in the 2013-quarter, and the third highest quarterly result in the Corporation's history. International operating days increased by 56 percent from 653 days in the 2013-quarter to 1,021 days in the 2014-quarter. The Corporation generated 10 percent of its consolidated revenue from international operations in the 2014-quarter, which is the same as the percentage generated in the 2013-quarter.

For the three-month period ended March 31, 2014, Phoenix Albania's activity grew by 19 percent while revenue increased by 15 percent compared to the corresponding 2013-period. This growth partly resulted from the addition of a sixth rig in March 2014. Additional directional drilling equipment has been mobilized in anticipation of greater activity in the remainder of the year. The Corporation continues to focus on hiring and developing local talent and using local suppliers when possible to maintain positive margins and build goodwill in the community. The Corporation presently has a 6 job capacity in Albania.

Despite the seasonal slow-down and overall reduced activity due to abnormally cold weather, Phoenix Russia increased its operating days by 134 percent and revenue by 170 percent in the first quarter of 2014 as compared to the first quarter of 2013. Efforts to diversify the client base are beginning to deliver results as contracts were awarded during the quarter by a number of new clients and in new operating regions. Day rates in Russia remain stable, and the Corporation is focused on establishing improved contract terms with its customers. Phoenix Russia continues to employ a staff that is comprised of 98 percent Russian nationals.

Industry activity levels in Colombia remain below expectations and the Corporation is focused on reducing costs and moving resources to improve utilization. PHX Energy is reviewing its Colombian operations and Management anticipates that a new direction for the segment will be reached in the second quarter of 2014. Phoenix Colombia currently has a 4 job capacity.

Reportable segment profit from international operations for the three-month period ended March 31, 2014 was $2.6 million, which is 148 percent higher than the $1.1 million profit in the corresponding 2013-period. Increased profitability has resulted generally from the strong activity growth realized in Russia and Albania.

Investing Activities

Net cash used in investing activities for the three-month period ended March 31, 2014 was $18.5 million as compared to $14.1 million in 2013. During the 2014-quarter, PHX Energy added $10.3 million, net, in capital equipment (2013 - $9.9 million). These capital equipment amounts are net of proceeds from the involuntary disposal of drilling equipment in well bores of $3.1 million (2013 - $3.6 million). The 2014-quarterly expenditures included:

- $5.2 million in down hole performance drilling motors;
- $4.7 million in MWD systems and spare components;
- $1.4 million in non-magnetic drill collars;
- $1.2 million in EDR systems and spare components; and
- $1.0 million in other assets, including $0.4 million in machinery and equipment.

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 made payments totalling $7.3 million under third party license and technology development agreements that the Corporation entered into in 2013. PHX Energy also made payments of $100,000 relating to its EDR technology.

The change in non-cash working capital balances of $0.7 million (use of cash) for the three-month period ended March 31, 2014, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $4.0 million (use of cash) for the three-month period ended March 31, 2013.

Financing Activities

The Corporation reported cash flows from financing activities of $14.4 million in the three-month period ended March 31, 2014 as compared to $2.7 million in the 2013-period. In the 2014-quarter:

- the Corporation paid dividends of $7.2 million to shareholders, or $0.21 per share;
- through its option and DRIP program the Corporation received cash proceeds of $1.6 million from exercised options and reinvested dividends to acquire 162,826 common shares of the Corporation; and
- the Corporation received net proceeds from its syndicated facility an aggregate of $20.0 million to finance its capital expenditure program and payments under the license agreement.

Capital Resources

As at March 31, 2014, the Corporation has access to a $10.0 million operating facility. The facility bears interest based primarily on the Corporation's senior debt to EBITDA ratio, as defined in the agreement. At the Corporation's option, interest is at the bank's prime rate plus a margin that ranges from a minimum of 0.75 percent to a maximum of 2 percent, or the bank's bankers' acceptance rate plus a margin that ranges from a minimum of 1.75 percent to a maximum of 3 percent. As of March 31, 2014, the Corporation had nil drawn on this facility.

As at March 31, 2014, the Corporation also has access to a $95.0 million syndicated facility and a US$25.0 million operating facility in the US. The facilities bear interest at the same rates disclosed above. The syndicated facility and the US operating facility mature on September 5, 2016. As at March 31, 2014, $70.0 million was drawn on the syndicated facility and US$19.0 million was drawn on the US operating facility.

All credit facilities are secured by a general security agreement over all assets of the Corporation located in Canada and the US. As at March 31, 2014, the Corporation was in compliance with all of its bank debt covenants.

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 2014 capital budget has been revised to $63.3 million subject to further quarterly review of the Board of Directors. 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 2014, 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

PHX Energy began the 2014 year strong, once again generating record consolidated revenue, operating days and funds from operations. The Corporation's activity levels increased in each of the three largest horizontal drilling markets in the world: the US, Russia and Canada.

The North American industry has seen many changes over the past few years and a number of trends have resulted in a focus on key basins. The current attention that these basins are receiving from the energy producers and the investment community is warranted, as these are truly world class production zones. Current drilling and completion efficiencies are driving positive economic metrics, as operators and service providers zero in on new processes, developments and technologies that will allow greater future growth. PHX Energy is strategically placed to service these basins and has established a notable presence and credibility in these drilling areas.

In Canada, the winter drilling season began with very robust activity levels and PHX Energy's resources were stretched. Operators in most oil and natural gas regions had new capital budgets and took advantage of stronger commodity prices. A large majority of wells drilled were horizontal, and this created a lucrative environment which PHX Energy leveraged to achieve record revenue and activity. Unfortunately, this higher activity led to costs which negatively impacted margins. Presently, activity levels have subsided due to the warmer weather that arrived near the end of the quarter slowing industry drilling.

PHX Energy's focus to grow in the US, the largest market for horizontal drilling services, continued unabated, and as a result US operating days and revenue reached new highs in the first quarter of the year. Phoenix USA acquired new clients in the quarter and activity in basins such as the Eagle Ford, Permian and North Dakota Bakken experienced the largest gains. Additionally the Marcellus and Mid-Continent remained focal points for the Corporation.

Phoenix Albania has continued to perform and the Corporation's anchor client added an additional rig in the country which is anticipated to provide increased revenue and profitability in the latter quarters of 2014. In Russia, there were numerous obstacles in the quarter, including cold weather slowing activity in a seasonally slower period and a key client delaying drilling activity as a result of a new bidding process which is still ongoing. Despite these factors Phoenix Russia, achieved significant growth quarter-over-quarter and PHX Energy believes the initiatives to diversify its client base will continue to produce positive results in the upcoming quarters.

The Corporation's outlook for the remainder of 2014 continues to be optimistic as PHX Energy believes the following:

- the positive trends in commodity prices will be maintained and natural gas prices will gain additional strength.
- that recent investor enthusiasm will persist and the capital markets will remain open for most energy producers.
- that operators will increase their budgets for drilling and add locations and rigs in the future.

As a result of these above factors, PHX Energy expects its operations will continue to achieve growth in operating days and gain market share. However, due to the record pace of growth, PHX Energy's cost structure will increase as personnel and equipment levels will likely be stretched at times. As such, PHX Energy has increased its 2014 capital expenditures budget to expand its motor and MWD fleets. The Corporation has many strategic objectives underway and as these are implemented over both the near and long-term, PHX Energy foresees a future state where the pace of growth will not impact the cost structure as significantly.

John Hooks,
Chairman of the Board
President and Chief Executive Officer
April 30, 2014

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,	
	2014	2013
Net earnings	**8,813**	8,306
Add:		
Depreciation and amortization	**7,451**	5,830
Provision for income taxes	**3,977**	3,100
Finance expense	**1,030**	1,093
EBITDA as reported	**21,271**	18,329

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,	
	2014	2013
Cash flows from operating activities	**7,770**	13,302
Add:		
Changes in non-cash working capital	**11,624**	1,979
Interest paid	**735**	1,272
Income taxes paid	**386**	181
Funds from operations	**20,515**	16,734

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 directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Albania, Russia, and Colombia. PHX Energy develops and manufactures its E-360 EM and P-360 positive pulse MWD technologies that are made available for internal operational use. In addition as the result of an acquisition completed in November 2013, PHX Energy provides EDR technology and services, through RigManager Services.

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 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, Russia, and Colombia, and an administrative office in Nicosia, Cyprus. PHX Energy markets its EDR technology and services in Canada through its newly established division, RigManager Services, as well as worldwide outside Canada through its wholly-owned subsidiary RigManager International Inc. ("RMII"); mainly in Albania and Mexico.

For further information please contact:
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Consolidated Statements of Financial Position

(unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,306,670	$ 5,663,880
Trade and other receivables	105,811,311	97,660,559
Inventories	30,777,912	30,024,019
Prepaid expenses	4,634,170	2,913,514
Total current assets	150,530,063	136,261,972
Non-current assets:		
Drilling and other equipment	171,662,288	165,771,615
Goodwill	31,229,756	31,229,756
Intangible assets	24,248,502	17,113,924
Total non-current assets	227,140,546	214,115,295
Total assets	$ 377,670,609	$ 350,377,267
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	$ 62,992,034	$ 64,815,732
Dividends payable	2,225,022	2,239,910
Current tax liabilities	2,268,564	2,410,198
Current portion of finance leases	202,015	215,697
Total current liabilities	67,687,635	69,681,537
Non-current liabilities:		
Loans and borrowings	91,004,500	70,208,400
Deferred tax liabilities	13,504,224	9,833,710
Deferred income	1,933,334	1,966,667
Finance leases	171,585	209,935
Total non-current liabilities	106,613,643	82,218,712
Equity:		
Share capital	167,477,013	165,451,599
Contributed surplus	6,169,603	6,361,710
Retained earnings	25,917,972	24,284,690
Accumulated other comprehensive income	3,804,743	2,379,019
Total equity	203,369,331	198,477,018
Total liabilities and equity	$ 377,670,609	$ 350,377,267

Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended March 31, 2014	2013
Revenue	**$ 129,130,510**	$ 92,666,815
Direct costs	**100,643,812**	70,965,559
Gross profit	**28,486,698**	21,701,256
Expenses:		
Selling, general and administrative expenses	**14,604,626**	10,484,830
Research and development expenses	**837,244**	535,913
Finance expense	**1,030,297**	1,093,627
Other income	**(775,246)**	(2,038,836)
	15,696,921	10,075,534
Share of loss of equity-accounted investee (net of tax)	**-**	220,054
Earnings before income taxes	**12,789,777**	11,405,668
Provision for income taxes		
Current	**659,665**	1,794,991
Deferred	**3,317,010**	1,304,832
	3,976,675	3,099,823
Net earnings	**8,813,102**	8,305,845
Other comprehensive income		
Foreign currency translation	**1,425,724**	1,464,770
Total comprehensive income for the period	**$ 10,238,826**	$ 9,770,615
Earnings per share – basic	**$ 0.26**	$ 0.29
Earnings per share – diluted	**$ 0.25**	$ 0.29

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net earnings	**$ 8,813,102**	$ 8,305,845
Adjustments for:		
Depreciation and amortization	**7,451,072**	5,829,609
Provision for income taxes	**3,976,675**	3,099,823
Unrealized foreign exchange loss	**251,833**	198,453
Gain on disposition of drilling equipment	**(1,664,149)**	(2,340,535)
Share-based payments	**209,992**	327,037
Finance expense	**1,030,297**	1,093,627
Provision for bad debts	**479,539**	-
Amortization of deferred income	**(33,333)**	-
Share of loss of equity-accounted investee	**-**	220,054
Change in non-cash working capital	**(11,623,068)**	(1,979,158)
	8,891,960	14,754,755
Cash generated from operating activities		
Interest paid	**(735,163)**	(1,271,814)
Income taxes paid	**(386,321)**	(180,752)
Net cash from operating activities	**7,770,476**	13,302,189
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**3,111,596**	3,596,968
Acquisition of drilling and other equipment	**(13,456,273)**	(13,495,246)
Acquisition of intangible assets	**(7,448,272)**	-
Investment in equity-accounted investee	**-**	(200,000)
Change in non-cash working capital	**(711,312)**	(4,000,360)
Net cash used in investing activities	**(18,504,261)**	(14,098,638)
Cash flows from financing activities:		
Proceeds from issuance of share capital	**1,623,315**	1,061,876
Dividends paid to shareholders	**(7,194,708)**	(5,085,438)
Proceeds on loans and borrowings	**20,000,000**	4,986,500
Payments under finance leases	**(52,032)**	-
Proceeds on operating facility	**-**	1,767,186
Net cash from financing activities	**14,376,575**	2,730,124
Net increase in cash and cash equivalents	**3,642,790**	1,933,675
Cash and cash equivalents, beginning of period	**5,663,880**	4,329,969
Cash and cash equivalents, end of period	**$ 9,306,670**	$ 6,263,644