PRESS RELEASE
October 30, 2013
TSX - PHX

PHX Energy Services Corp. Reports Its Third Quarter Financial and Operating Results including Record Revenue, Operating Days, EBITDA and Net Earnings and Announces an Increase in Monthly Dividends

Due to strong growth in all operating regions, PHX Energy Services Corp. ("PHX Energy") achieved all-time quarterly records for revenue, operating days, EBITDA, and net earnings.

For the three-month period ended September 30, 2013, consolidated revenue of $107 million was achieved as compared to $84.1 million in the 2012-period; a 27 percent increase. EBITDA increased by 22 percent to $21.6 million in the third quarter of 2013 from $17.7 million in 2012. Net earnings increased by 37 percent from $7.8 million in the 2012-quarter to $10.7 million in 2013. Included in the third quarter's EBITDA and net earnings were a gain of $2.2 million from the sale of land and an operations centre and $1.2 million that related to the write off of certain tools as the technology is no longer being utilized. Excluding these gains and items, EBITDA increased by 16 percent to $20.6 million and net earnings increased by 25 percent to $9.8 million for the three-month period ended September 30, 2013.

The Corporation realized strong activity levels in all of its operating segments in the third quarter of 2013. US revenue, a record for any quarter, as a percentage of consolidated revenue was 47 percent during the 2013-quarter as compared to 48 percent in the 2012-quarter. Albania's strong activity levels and the momentum of Russia's growth continued through the third quarter of 2013. As a result, for the three-month period ended September 30, 2013, the international segment, for the second consecutive quarter, realized record revenue and represented 13 percent of consolidated revenue as compared to 12 percent in the corresponding 2012-period.

As previously announced, PHX Energy has expanded its 2013 capital expenditure program from $30.4 million to $45 million, in light of strong equipment utilization levels. During the third quarter of 2013, $6.9 million in capital expenditures were incurred, and an additional $12.3 million of equipment is currently on order and is expected to be received by the end of 2013.

On August 7, 2013, the terms of the Corporation's syndicated loan agreement with its bank were amended to extend the maturity date of the syndicated facility and US operating facility from September 6, 2015 to September 5, 2016. In addition, the previous requirement to repay the current portion of the syndicated facility of $15 million was removed. Consequently, the aggregate carrying amount of the syndicated facility of $80 million as at September 30, 2013 was classified as a non-current liability.

PHX Energy ended the third quarter with total long-term debt of $105.2 million and working capital of $65.6 million. In the 2013-quarter, the Corporation paid dividends of $5.2 million or $0.18 per share.

On October 18, 2013, PHX Energy closed a bought deal financing for aggregate gross proceeds of $31.1 million. An aggregate of 2,990,000 common shares of the Corporation were issued at a price of $10.40 per common share. Concurrent with the closing of the public offering, certain directors, officers and employees of PHX Energy and their associates, purchased a total of 500,000 common shares at a price of $10.40 per share on a private placement basis. The gross proceeds from the public offering and concurrent private placement totaled to approximately $36.3 million. The net proceeds of the offerings will be used to temporarily reduce indebtedness, which will then be available to be redrawn and applied to fund the Corporation's ongoing capital expenditure program and for general corporate purposes.

On September 25, 2013, PHX Energy and RMS Systems Inc. ("RMS") entered into an Arrangement Agreement whereby the Corporation will acquire all of the issued and outstanding shares of RMS. Under the terms of the Arrangement, all shareholders of RMS will receive 0.037209 of a common share of PHX Energy for each RMS share held based upon a value ascribed to each of the RMS shares and PHX Energy shares of $0.40 and $10.75, respectively. Following completion of the Arrangement, RMS will become a wholly-owned subsidiary of the Corporation. The Arrangement is subject to customary stock exchange, Court and regulatory approvals, including approval from the shareholders of RMS in a special meeting expected to be held on November 27, 2013. The Arrangement allows PHX Energy to strategically expand into a market segment that compliments its current services and presents many opportunities for growth. The information and data management segment of the oilfield services industry is attractive as there are only a few competitors and the technology is required on nearly every rig that operates. RMS recently completed upgrades to its technology to create a more competitive product and the Corporation believes it can successfully market this technology with its proven ability to foster strong client relationships. PHX Energy will leverage its existing infrastructure and geographical footprint to expand market share and create cost benefits where possible.

In light of the record financial results and positive company outlook, the Board of Directors has approved a dividend increase of $0.01 per share per month from $0.06 to $0.07 per share per month payable on December 13, 2013 to shareholders of record at the close of business on November 29, 2013.

Financial Highlights

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Operating Results	*(unaudited)*	*(unaudited)*		*(unaudited)*	*(unaudited)*	
Revenue	106,971	84,054	27	265,120	222,247	19
Net earnings	10,737	7,836	37	14,308	13,170	9
Earnings per share – diluted	0.37	0.28	32	0.50	0.47	6
EBITDA [1]	21,574	17,703	22	40,270	35,263	14
EBITDA per share – diluted [1]	0.75	0.63	19	1.41	1.25	13
Cash Flow						
Cash flows from (used in) operating activities	(7,233)	(420)	n.m.	18,011	19,322	(7)
Funds from operations [1]	20,393	17,996	13	37,999	36,732	3
Funds from operations per share – diluted [1]	0.70	0.64	9	1.33	1.30	2
Dividends paid	5,169	5,074	2	15,375	13,516	14
Dividends per share [2]	0.18	0.18	-	0.54	0.48	13
Capital expenditures	6,918	9,660	(28)	28,547	46,118	(38)
Financial Position (unaudited)				Sept. 30, '13	Dec. 31, '12	
Working capital				65,575	45,480	44
Long-term debt				105,242	80,000	32
Shareholders' equity				121,426	115,095	6
Common shares outstanding				28,808,766	28,241,371	2

n.m. – not meaningful
[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 references to, without limitation, the expected delivery of equipment that is on order; PHX Energy's ability to market RMS's technology; the ability to alleviate rental costs; reducing costs and improving profitability; the expected tax rate in Canada; PHX Energy's future strategy for Peru; future job capacity; and the projected capital expenditures budget and how this will be funded.

The above references are stated under the headings: "Operating Costs and Expenses", "Segmented Information", "Investing Activities" 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 September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Revenue	106,971	84,054	27	265,120	222,247	19

The Corporation realized strong activity levels in all of its operating segments, resulting in PHX Energy achieving the highest quarterly level of consolidated revenue in the Corporation's history. For the three-month period ended September 30, 2013, PHX Energy generated record revenue of $107 million as compared to $84.1 million in the corresponding 2012-period; an increase of 27 percent. US and international revenue as a percentage of total consolidated revenue were 47 and 13 percent, respectively, for the 2013-quarter as compared to 48 and 12 percent in 2012. Consolidated operating days grew by 24 percent to an all-time record of 8,613 days in 2013 as compared to 6,932 in the 2012-quarter. Average consolidated day rates for the three-month period ended September 30, 2013, excluding the motor rental division in the US, were $12,187, which is 3 percent higher than the 2012-quarter day rates of $11,862.

In the third quarter of 2013, the trend of utilizing horizontal and directional drilling technologies continued to dominate the Canadian and US markets. In Canada, horizontal and directional drilling represented approximately 94 percent of total industry drilling days in the third quarter of 2013 (2012 – 94 percent). In the US, horizontal and directional activity levels represented 75 percent of the rigs running per day in the 2013-quarter (2012 – 72 percent). (Sources: Daily Oil Bulletin and Baker Hughes)

For the nine-month period ended September 30, 2013, consolidated revenue increased by 19 percent to $265.1 million from $222.2 million for the comparable 2012-period. Consolidated operating days for the nine-month period ended September 30, 2013 grew by 18 percent to 21,524 days from 18,241 days reported in 2012.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Direct costs	81,370	62,150	31	214,387	175,178	22
Depreciation & amortization (included in direct costs)	6,187	5,496	13	18,041	15,536	16
Gross profit as percentage of revenue excluding depreciation & amortization	30	33		26	28	

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 30 percent for the three-month period ended September 30, 2013 as compared to 33 percent in the comparable 2012-period. For the nine-month period ended September 30, 2013, gross profit as a percentage of revenue, excluding depreciation and amortization, was 26 percent as compared to 28 percent in 2012.

The following factors contributed to the decrease in the gross profit as a percentage of revenue in the three and nine-month periods ended September 30, 2013:

- Greater third party equipment rentals in the US to accommodate for increased client demands.
- Increased measurement while drilling ("MWD") repair costs in Canada and US.
- Higher down hole performance drilling motor repair costs in the US.

For the three-month period ended September 30, 2013, the Corporation's third party equipment rentals were 4 percent of consolidated revenue compared to 2 percent of consolidated revenue in the corresponding 2012-quarter. The Corporation has $5.7 million of performance down hole drilling motors on order as at September 30, 2013, which will help alleviate rental costs in future periods. Management also continues to implement strategies and disciplines that will help reduce costs and improve profitability.

Depreciation and amortization for the three-month period ended September 30, 2013 increased by 13 percent to $6.2 million as compared to $5.5 million in the 2012-quarter. The increase is the result of the Corporation's record level capital expenditure program in 2012.

Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Selling, general & administrative ("SG&A") costs	11,213	9,265	21	30,142	26,011	16
Share-based payments (included in SG&A costs)	231	444	(48)	761	1,855	(59)
SG&A costs excluding share-based payments as a percentage of revenue	10	10		11	11	

SG&A costs for the three-month period ended September 30, 2013 increased by 21 percent to $11.2 million as compared to $9.3 million in 2012. Included in SG&A costs are share-based payments of $0.2 million for the 2013-quarter and $0.4 million for the 2012-quarter. Excluding these costs, SG&A costs as a percentage of consolidated revenue were 10 percent for both the 2013 and 2012 quarters.

For the nine-month period ended September 30, 2013, SG&A costs increased by 16 percent to $30.1 million as compared to $26 million in 2012. Excluding share-based payments of $0.8 million in the 2013 nine-month period and $1.9 million in the corresponding 2012-period, SG&A costs as a percentage of consolidated revenue for both the nine-month periods ended September 30, 2013 and 2012 were 11 percent.

The increase in SG&A costs in both 2013 periods was primarily due to higher payroll and marketing related costs associated with overall increased activity in all of PHX Energy's operating segments and the development of international regions.

Share-based payments relate to the amortization of the fair values of issued options of the Corporation using the Black-Scholes model. Share-based payments decreased in the three and nine-month periods ending September 30, 2013, as the Corporation shifted to rewarding employees with retention awards rather than options. The share-based cash-settled retention awards are measured at fair value, and in the 2013-quarter, the related expense included in SG&A costs was $0.5 million (2012 – $0.6 million).

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Research & development expense	448	564	(21)	1,440	1,665	(14)

R&D expenditures charged to net earnings during the three-month periods ended September 30, 2013 and 2012 were $0.4 million and $0.6 million, respectively. During both the 2013 and 2012-quarter, no R&D expenditures were capitalized as development costs.

For the nine-month period ended September 30, 2013, R&D expenditures of $1.4 million were incurred, none of which were capitalized as development costs. R&D expenditures for the nine-month period ended September 30, 2012 were $1.8 million, of which $0.1 million were capitalized.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Finance expense	1,384	875	58	3,659	2,142	71

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. Finance charges increased to $1.4 million in the third quarter of 2013 from $0.9 million in the 2012-quarter, and in the nine-month period ended September 30, 2013 increased to $3.7 million from $2.1 million in 2012. In order to fund PHX Energy's extensive capital expenditure program in 2012 and the construction of the new operations centre that was sold in September 2013, additional bank borrowings were made.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2013	2012	2013	2012
Gain on sale of land and operations centre	(2,196)	-	(2,196)	-
Net gains on disposition of drilling equipment	(1,298)	(1,047)	(3,931)	(2,152)
Provision for (Recovery of) bad debts	(28)	115	(28)	(93)
Write-down of technological assets	1,245	-	1,245	-
Foreign exchange losses	193	542	529	1,178
Losses from the change in fair value of investment in equity securities	-	120	-	490
Other income	(2,084)	(270)	(4,381)	(577)

For the three and nine-month periods ended September 30, 2013, other income is primarily represented by a gain of $2.2 million from the sale of land and an operations centre on September 17, 2013. Other income also includes gains on disposition of drilling equipment of $1.3 million for the three-month period ended September 30, 2013 (2012 – $1 million) and $3.9 million for the nine-month period ended September 30, 2013 (2012 - $2.2 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 2013-quarter, the Corporation also recognized a $1.2 million write-down of certain assets, whereby the technology is no longer being utilized. For the three and nine-month periods ended September 30, 2013, the gains on disposition of drilling equipment are higher compared to the 2012-periods mainly due to higher occurrences of down hole equipment losses earlier in 2013 year.

Offsetting other income for the three and nine-month periods ended September 30, 2013 are foreign exchange losses of $193,000 (2012 – $542,000) and $529,000 (2012 - $1.2 million), respectively. Foreign exchange losses in the 2013-periods resulted mainly from fluctuations in the US-Canadian exchange rates that caused revaluation losses on Canadian-denominated receivables in the US. In the 2012-periods, foreign exchange losses resulted mainly from the devaluation of Albanian LEK against the Canadian currency.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Share of losses of equity-accounted investees	638	138	362	1,304	243	437

The Corporation's share in the losses of the equity-accounted investees, RigManager International Inc. ("RMII") and RMS, for the three-month period ended September 30, 2013 was $638,000 as compared to a $138,000 share in the loss of RMII during the 2012-period. The losses incurred by RMII were primarily due to the slower than expected penetration into the US market.

For the nine-month period ended September 30, 2013, the Corporation's share in the losses of the equity-accounted investees, RMII and RMS was $1.3 million (2012 - $243,000 share in the loss of RMII).

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2013	2012	2013	2012
Provision for income taxes	3,266	3,497	4,262	4,414

The provision for income taxes for the third quarter of 2013 was $3.3 million as compared to $3.5 million in the 2012-quarter. For the nine-month period ended September 30, 2013, the provision for income taxes was $4.3 million as compared to $4.4 million in 2012. The expected combined Canadian federal and provincial tax rate for 2013 is 25 percent. The effective tax rates in the 2013 three and nine-month periods are both 23 percent. These rates are lower than the expected rate primarily due to the effect of lower tax rates in foreign jurisdictions.

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Net earnings	10,737	7,836	37	14,308	13,170	9
Earnings per share – diluted	0.37	0.28	32	0.50	0.47	6
EBITDA	21,574	17,703	22	40,270	35,263	14
EBITDA per share – diluted	0.75	0.63	19	1.41	1.25	13
EBITDA as a percentage of revenue	20	21		15	16	

The Corporation's level of net earnings and EBITDA for the three and nine-month periods ended September 30, 2013 have increased in part due to the $2.2 million gain on the sale of land and an operations centre. EBITDA as a percentage of revenue for the three and nine-month periods ended September 30, 2013 were 20 and 15 percent, respectively (2012 – 21 and 16 percent). Also included in the third quarter's earnings was $1.2 million that related to the write off of certain tools as the technology is no longer being utilized.

Excluding the gain on sale of land and operations centre and the write off of tools, the level of net earnings and EBITDA are as follows:

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Net earnings	9,786	7,836	25	13,357	13,170	1
Earnings per share – diluted	0.34	0.28	21	0.47	0.47	-
EBITDA	20,623	17,703	16	39,319	35,263	12
EBITDA per share – diluted	0.71	0.63	13	1.37	1.25	10
EBITDA as a percentage of revenue	19	21		15	16	

The increase in EBITDA for the 2013 three and nine-month periods and the increase in net earnings for the 2013-quarter are generally due to activity growth realized in all of the Corporation's operating regions. The decrease in net earnings for the 2013 nine-month period was partly due to increased finance expenses and depreciation costs.

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 September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Revenue	42,699	33,756	26	99,374	94,367	5
Reportable segment profit before tax	7,279	5,484	33	10,049	11,984	(16)

For the three-month period ended September 30, 2013, the Canadian operations gained significant market share in the Montney area. This gain primarily accounted for the 26 percent increase in Canadian revenue to $42.7 million (2012 - $33.8 million) and the 33 percent increase in operating days to 3,774 days (2012 – 2,841 days). There were competitive forces on client day rates and in the third quarter of 2013, average day rates decreased by 5 percent to $11,314 from $11,882 in the 2012-quarter.

For the three-month period ended September 30, 2013, PHX Energy maintained a well-diversified client base and was most active in the Montney, Viking, Swan Hills, Frobisher, Shaunavon, and Bakken areas. PHX Energy's oil well drilling activity (as measured by operating days) represented approximately 63 percent of its overall Canadian activity; a decrease from 87 percent in the 2012-quarter due to higher drilling activity in the Montney area. In comparison, the Canadian industry's horizontal and directional drilling activity, as measured by drilling days, was 8 percent lower in the 2013-quarter, 29,054 days, compared to the 2012-quarter's 31,411 days. (Source: Daily Oil Bulletin)

For the nine-month period ended September 30, 2013, PHX Energy's Canadian revenue increased by 5 percent to $99.4 million from $94.4 million in the comparable 2012-period. The overall horizontal and directional drilling days realized in the Canadian industry decreased by 11 percent to 79,442 days as compared to 88,802 days in the 2012-period. In comparison, the Corporation's operating days increased by 13 percent to 8,736 days from 7,738 days in the comparable 2012-period. Seventy-four percent of PHX Energy's Canadian drilling activity (as measured by operating days) for the 2013 nine-month period were oil wells. This compares to 81 percent in the 2012 nine-month period.

Reportable segment profit before tax for the third quarter of 2013 increased to $7.3 million from $5.5 million in the 2012-quarter. Increased profitability during the quarter is primarily due to stronger activity levels and lower operating costs. For the nine-month period ended September 30, 2013, reportable segment profit before tax decreased by 16 percent to $10 million from $12 million in 2012. Lower profitability in the 2013 nine-month period was mainly the result of extraordinarily low activity levels in the second quarter of 2013 and reduced day rates in the nine-month period.

United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Revenue	49,924	40,341	24	129,602	99,888	30
Reportable segment profit before tax	5,291	7,619	(31)	7,854	10,116	(22)

In the third quarter of 2013, Phoenix USA reported the highest level of quarterly revenue in its history. For the three-month period ended September 30, 2013, the segment's revenue was $49.9 million, which is 24 percent higher than the revenue of $40.3 million in the 2012-period. PHX Energy's US operating days grew by 14 percent to a record 3,770 days from 3,314 days in the 2012-quarter. Overall day rates realized, excluding the motor rental division, increased by 9 percent in the 2013-quarter to $12,714 compared to $11,619 in the 2012-quarter.

For the three-month period ended September 30, 2013, US industry rig utilization levels decreased. The average number of horizontal and directional rigs running on a daily basis was 3 percent lower at 1,334 rigs compared to 1,375 rigs in the 2012-quarter. (Source: Baker Hughes) Growth in the US market continues to focus on horizontal oil well drilling. In the 2013-quarter, horizontal and directional well drilling, as measured by drilling days, represented approximately 75 percent of overall industry activity, compared to 72 percent in the 2012-period. Phoenix USA continued to benefit from this positive trend and in the third quarter of 2013, the Corporation successfully increased market share and continued to attract work from a diversified client base including large multinational operators.

Phoenix USA also remained active in the Bakken, Niobrara, Permian Basin, Eagle Ford, Mississippian, Marcellus, and Lower Huron plays. In addition, the Corporation is gaining more recognition for its quality service level and continues to penetrate markets in the Woodford and Utica plays.

US revenue for the nine-month period ended September 30, 2013 increased by 30 percent to $129.6 million from $99.9 million in the comparable 2012-period. The Corporation's US operating days increased by approximately 21 percent in the 2013 nine-month period to 10,134 days from 8,383 days in 2012. For the nine-month period ended September 30, 2013, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, decreased by 5 percent to 1,319 rigs as compared to 1,388 rigs in the comparable 2012-period. (Source: Baker Hughes)

Reportable segment profit before tax for the third quarter of 2013 decreased by 31 percent to $5.3 million from $7.6 million in the 2012-quarter. For the nine-month period ended September 30, 2013, reportable segment profit before tax decreased by 22 percent to $7.9 million from $10.1 million in 2012. The Corporation's clients have substantially increased their demand for unique configurations of down hole performance drilling motors, which has made it necessary to rent more third party equipment, weakening the US operations' margins. In addition, profitability continued to be negatively affected by increased down hole performance drilling motor and MWD system repair costs. Currently, profitability improvements are being examined in these areas.

International

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Revenue	14,348	9,957	44	36,144	27,992	29
Reportable segment profit before tax	5,013	2,430	106	10,469	7,318	43

The Corporation's international operations achieved record third quarter revenue in 2013, reporting $14.3 million which is 44 percent higher than the $10 million reported in the 2012-quarter. International operating days increased by 38 percent from 777 days in the 2012-quarter to a record 1,070 days in the 2013-quarter. The Corporation generated 13 percent of its consolidated revenue from international operations in the 2013-quarter compared to 12 percent in the 2012-quarter. For the nine-month period ended September 30, 2013, revenue increased by 29 percent to $36.1 million as compared to $28 million in 2012. Operating days for the same period increased by 25 percent from 2,121 days in 2012 to 2,655 days in 2013.

The momentum of Phoenix Russia's growth continued, and for the second consecutive quarter, a record level of revenue and activity was achieved. Operating days grew by 71 percent in the third quarter of 2013 compared to the 2012-quarter. As a result of the Corporation's strong focus on reliability and service quality and with the addition of a Moscow-based sales manager, Phoenix Russia successfully expanded its customer base and its presence in the market continued to improve. The Corporation is now exploring potential work beyond the western Siberian region. Phoenix Russia currently has a job capacity of 15.

In the 2013-quarter, Phoenix Albania's activity levels remained strong. The Corporation achieved 16 percent revenue growth which was driven predominantly by increased utilization of the Corporation's resistivity while drilling ("RWD") technology. Since commencing operations in 2008, Phoenix Albania has successfully drilled in excess of 402 wells in the country. PHX Energy's joint venture, RigManager International Inc., continued to run its electronic drilling recorder systems on all active rigs. The Corporation presently has a 6 job capacity in Albania.

Phoenix Colombia's revenues grew in the third quarter of 2013 compared to the 2012-period which is mainly a result of improved pricing. The activity levels achieved in the second quarter of 2013 were sustained in the third quarter through the Corporation's effective pricing and sales strategy. PHX Energy continues to review and evaluate opportunities to improve its presence in the Colombian market and deploy its services more effectively. Phoenix Colombia currently has a 5 job capacity.

Phoenix Peru also realized revenue growth in the third quarter of 2013 compared to the 2012-quarter and this was achieved through increased activity levels. While the quarterly results were stronger, the operating landscape in the Peruvian market has not improved from previous periods and as such, the Corporation will revisit its future strategy for Peru. Phoenix Peru currently has a job capacity of 4 full service jobs.

For the three-month period ended September 30, 2013, reportable segment profit before tax was $5 million, an increase of 106 percent compared to $2.4 million in the corresponding 2012-period. Reportable segment profit for the nine-month period ended September 30, 2013 was $10.5 million as compared to $7.3 million in 2012; a 43 percent increase. Profitability in both 2013 periods improved primarily as a result of Russia's strong activity growth and increased utilization of the Corporation's value-added technologies in Albania.

Investing Activities

Net cash from investing activities for the three-month period ended September 30, 2013 was $16.4 million as compared to $18 million (use of cash) in 2012. PHX Energy made an additional $1.0 million investment in the joint venture company RMII in the form of preferred shares (2012 - $0.3 million) and added $3.9 million in capital equipment in the third quarter of 2013 (2012 - $7.3 million). These capital equipment amounts are net of proceeds from the involuntary disposal of drilling equipment in well bores of $3 million (2012 - $2.4 million). The quarterly 2013 expenditures included:

- $2.3 million in other assets including $1.5 million of furniture and fixtures and leasehold improvements primarily for the new operations centre and $0.7 million of software;
- $2.1 million in down hole performance drilling motors;
- $1.6 million in MWD systems and spare components;
- $0.8 million in machinery and equipment for global service centres, and;
- $0.1 million in non-magnetic drill collars and jars.

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

In the third quarter of 2013, the Corporation received proceeds of $23.1 million from sale of the land and an operations centre. Payments relating to the land and operations centre amounted to $18.9 million. The change in non-cash working capital balances of $17 million (source of cash) for the three-month period ended September 30, 2013, pertains to $15.6 million of costs that relate to the land and an operations centre and $1.4 million of net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $10.4 million (use of cash) for the three-month period ended September 30, 2012.

During the third quarter of 2013, PHX Energy's job capacity remained unchanged at 215 jobs. As at September 30, 2013, the Corporation's MWD fleet consisted of 133 P-360 positive pulse MWD systems, 65 E-360 electromagnetic ("EM") MWD systems, and 17 RWD systems. Of these, 93 MWD systems were deployed in Canada, 92 in the US, 15 in Russia, 6 in Albania, 4 in Peru, and 5 in Colombia. The Corporation expects to sustain the current job capacity until the end of the year.

Financing Activities

The Corporation reported cash used in financing activities of $12.2 million in the three-month period ended September 30, 2013 as compared to $10.6 million (source of cash) in the 2012-period. In the 2013-quarter:

- the Corporation paid dividends of $5.2 million to shareholders, or $0.18 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 174,593 common shares of the Corporation; and
- the Corporation made an aggregate repayments of $8.6 million on its operating facility and syndicated facility.

Capital Resources

As at September 30, 2013, the Corporation has access to a $10 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 September 30, 2013, the Corporation had $6.1 million drawn on this facility.

As at September 30, 2013, the Corporation also has access to a $95 million syndicated facility and a US$25 million operating facility in the US. The facilities bear interest at the same rates disclosed above. On August 7, 2013, the terms of the Corporation's syndicated loan agreement with its bank were amended to extend the maturity date of the syndicated facility and US operating facility from September 6, 2015 to September 5, 2016. In addition, the previous requirement to repay the current portion of the syndicated facility of $15 million was removed. The aggregate carrying amounts of the syndicated facility and the US operating facility of $80 million and $25.2 million, respectively, as at September 30, 2013, were classified as non-current in the statement of financial position.

All credit facilities are secured by a general security agreement over all assets of the Corporation located in Canada and the US. As at September 30, 2013, 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. As previously announced the 2013 capital budget has been expanded to $45 million and is subject to 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 2013, 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

For the third quarter of 2013, PHX Energy is pleased to report record consolidated activity and financial results, for any given quarter.

The achievements in the quarter confirm the Corporation's strategy is targeting the right direction and its execution is creating the desired results, despite industry drilling levels being lower than the prior year. As part of this effort, PHX Energy continues to focus on improving its field operating margins. Overall, the Corporation believes it is well positioned and this can be directly accredited to the experience and motivation of its more than 900 employees.

In Canada, the Corporation's goal is to be the choice provider in key drilling areas. The wet weather conditions typical of the second quarter persisted into July, which limited operators' access to build leases and deploy operations; thus, the expected robust level of horizontal drilling activity anticipated never materialized. Despite these industry conditions, PHX Energy's client base and market share in many important basins increased as a result of the relentless focus on continual improvement in customer satisfaction.

A strategic objective that has persisted over the past few years is growth in the lucrative and large United States horizontal drilling market. This remains key to PHX Energy, and in the third quarter progress was made with the addition of new clients and an increase in operating days. Although, the Corporation had anticipated a greater level of growth, it believes the performance achieved thus far by the superior marketing and operating personnel speaks volumes. It is expected that the US operations' momentum and brand awareness will only increase in future quarters.

The Corporation's initiatives to diversify its operations internationally also continued to produce positive results in the third quarter. In Colombia, recent strides have been made which improved activity levels and profitability and PHX Energy believes this performance will be sustained. Additionally, Russia continues to present many opportunities for the Corporation. It is a very large market and PHX Energy is developing stronger client relationships as it further establishes its reputation. The Corporation is committed to the international segments where market share growth can be achieved and positive operating margins are attainable. As such future growth and profitability are forecasted for international operations, albeit these gains may come at a slower pace in certain quarters.

PHX Energy's outlook for the remainder of the year is that overall North American drilling activity levels will remain stagnant. However, there are many oil and natural gas basins that are looked upon by the industry as favorable for horizontal drilling applications as operators continue to embrace this technology. In addition, in the international areas the Corporation occupies similar opportunities exist, and as such PHX Energy anticipates growth in operating days and market share in almost all of its operating segments in the fourth quarter of 2013.

John Hooks
Chairman of the Board, President and Chief Executive Officer
October 30, 2013

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 September 30,		Nine-month periods ended September 30,	
	2013	2012	2013	2012
Net earnings	10,737	7,836	14,308	13,170
Add:				
Depreciation and amortization	6,187	5,495	18,041	15,537
Provision for income taxes	3,266	3,497	4,262	4,414
Finance expense	1,384	875	3,659	2,142
EBITDA as reported	21,574	17,703	40,270	35,263

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 September 30,		Nine-month periods ended September 30,	
	2013	2012	2013	2012
Cash flows from (used in) operating activities	(7,233)	(420)	18,011	19,322
Add:				
Changes in non-cash working capital	26,462	17,639	16,226	14,339
Interest paid	854	582	2,732	1,997
Income taxes paid	310	195	1,030	1,074
Funds from operations	20,393	17,996	37,999	36,732

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, Russia, Peru, 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.

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, Peru, Russia, and Colombia, and an administrative office in Nicosia, Cyprus.

For further information please contact:
John Hooks, President and CEO; or Cameron Ritchie, Senior Vice President Finance and CFO

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Consolidated Statements of Financial Position

(unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,285,648	$ 4,329,969
Trade and other receivables	89,596,945	67,189,884
Inventories	28,751,806	21,833,051
Prepaid expenses	2,533,348	3,476,559
Assets held for sale	-	9,436,462
Total current assets	125,167,747	106,265,925
Non-current assets:		
Drilling and other equipment	151,168,742	144,370,109
Goodwill	8,876,351	8,876,351
Intangible assets	3,759,200	-
Equity-accounted investees	7,905,868	5,010,292
Total non-current assets	171,710,161	158,256,752
Total assets	$ 296,877,908	$ 264,522,677
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	$ 6,076,407	$ 5,897,711
Trade and other payables	48,823,581	38,165,118
Dividends payable	1,657,266	1,626,287
Current tax liabilities	3,035,425	97,020
Loans and borrowings	-	15,000,000
Total current liabilities	59,592,679	60,786,136
Non-current liabilities:		
Loans and borrowings	105,242,350	80,000,000
Deferred tax liabilities	8,616,753	8,641,858
Deferred income	2,000,000	-
Total non-current liabilities	115,859,103	88,641,858
Equity:		
Share capital	106,107,691	99,101,118
Contributed surplus	6,561,069	7,860,658
Retained earnings	8,667,006	9,764,748
Accumulated other comprehensive income	90,360	(1,631,841)
Total equity	121,426,126	115,094,683
Total liabilities and equity	$ 296,877,908	$ 264,522,677

Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended September 30, 2013	Three-month periods ended September 30, 2012	Nine-month periods ended September 30, 2013	Nine-month periods ended September 30, 2012
Revenue	$ 106,970,562	$ 84,054,349	$ 265,120,352	$ 222,246,607
Direct costs	81,369,871	62,149,600	214,386,894	175,178,242
Gross profit	25,600,691	21,904,749	50,733,458	47,068,365
Expenses:				
Selling, general and administrative expenses	11,213,353	9,265,112	30,141,952	26,010,886
Research and development expenses	447,520	563,666	1,439,501	1,664,594
Finance expense	1,383,727	875,277	3,658,641	2,142,342
Other income	(2,084,494)	(269,794)	(4,380,977)	(576,601)
	10,960,106	10,434,261	30,859,117	29,241,221
Share of loss of equity-accounted investee (net of tax)	637,856	138,133	1,304,424	242,604
Earnings before income taxes	14,002,729	11,332,355	18,569,917	17,584,540
Provision for (Recovery of) income taxes				
Current	1,235,771	(1,818,352)	3,864,473	1,370,421
Deferred	2,029,919	5,315,067	397,703	3,043,870
	3,265,690	3,496,715	4,262,176	4,414,291
Net earnings	10,737,039	7,835,640	14,307,741	13,170,249
Other comprehensive income				
Foreign currency translation	(573,432)	(2,496,278)	1,722,201	(2,461,405)
Total comprehensive income for the period	$ 10,163,607	$ 5,339,362	$ 16,029,942	$ 10,708,844
Earnings per share – basic	$ 0.37	$ 0.28	$ 0.50	$ 0.47
Earnings per share – diluted	$ 0.37	$ 0.28	$ 0.50	$ 0.47

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30, 2013	Three-month periods ended September 30, 2012	Nine-month periods ended September 30, 2013	Nine-month periods ended September 30, 2012
Cash flows from operating activities:				
Net earnings	$ 10,737,039	$ 7,835,640	$ 14,307,741	$ 13,170,249
Adjustments for:				
Depreciation and amortization	6,187,406	5,495,619	18,041,225	15,535,925
Provision for income taxes	3,265,690	3,496,715	4,262,176	4,414,291
Unrealized foreign exchange loss	228,144	522,831	574,834	1,126,047
Net gain on disposition of drilling equipment	(1,298,348)	(1,046,555)	(3,931,046)	(2,151,864)
Write-down of technological assets	1,244,946	-	1,244,946	-
Gain on sale of land and operations centre	(2,195,886)	-	(2,195,886)	-
Share-based payments	230,769	444,008	760,536	1,854,811
Finance expense	1,383,727	875,277	3,658,641	2,142,342
Provision for (Recovery of) bad debts	(28,456)	114,576	(28,456)	(93,138)
Share of loss of equity-accounted investee	637,856	138,133	1,304,424	242,604
Change in fair value of investment in equity securities	-	120,060	-	490,245
Change in non-cash working capital	(26,462,347)	(17,639,167)	(16,225,797)	(14,338,477)
Cash generated from (used in) operating activities	(6,069,460)	357,137	21,773,338	22,393,035
Interest paid	(854,121)	(581,962)	(2,731,853)	(1,997,257)
Income taxes paid	(309,668)	(195,258)	(1,030,527)	(1,073,302)
Net cash from (used in) operating activities	(7,233,249)	(420,083)	18,010,958	19,322,476
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	3,048,367	2,356,642	8,331,930	6,994,171
Acquisition of drilling and other equipment	(6,917,781)	(9,660,475)	(28,546,653)	(46,117,625)
Acquisition of intangible assets	-	-	(3,759,200)	-
Investment in equity-accounted investee	(1,000,000)	(330,855)	(4,200,000)	(4,093,468)
Proceeds from sale of land and operations centre	23,100,000	-	23,100,000	-
Payments relating to the land and operations centre	(18,904,114)	-	(18,904,114)	-
Change in non-cash working capital	17,045,321	(10,375,149)	6,119,018	(11,292,973)
Net cash from (used in) investing activities	16,371,793	(18,009,837)	(17,859,019)	(54,509,895)
Cash flows from financing activities:				
Proceeds from issuance of share capital	1,614,456	224,154	4,946,448	1,010,054
Dividends paid to shareholders	(5,168,786)	(5,073,994)	(15,374,504)	(13,515,652)
Proceeds on (Repayment of) loans and borrowings	(5,154,900)	15,500,000	10,053,100	37,000,000
Proceeds on (Repayment of) operating facility	(3,449,008)	(71,819)	178,696	6,196,458
Net cash from (used in) financing activities	(12,158,238)	10,578,341	(196,260)	30,690,860
Net increase in cash and cash equivalents	(3,019,694)	(7,851,579)	(44,321)	(4,496,559)
Cash and cash equivalents, beginning of period	7,305,342	11,731,364	4,329,969	8,376,344
Cash and cash equivalents, end of period	$ 4,285,648	$ 3,879,785	$ 4,285,648	$ 3,879,785