PHX ENERGY SERVICES CORP.

PRESS RELEASE
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TSX - PHX

PHX Energy Announces its Second Quarter Results

Financial Results

Activity across all of the Corporation's operating segments remained low during the second quarter of 2016 as the North American rig count fell to levels not seen in the last three decades amongst a weak commodity price environment. For the three-month period ended June 30, 2016, the Corporation generated consolidated revenue of $26.4 million, 55 percent lower than the $58.5 million generated in the comparable 2015-period. Profitability also declined as adjusted EBITDA was negative $3.7 million in the second quarter of 2016 compared to positive $1.9 million in the 2015-quarter and the Corporation realized a net loss of $13.4 million in the 2016-quarter compared to a net loss of $8.3 million in the 2015-period. Adjusted EBITDA is defined as earnings before finance expense, income taxes, depreciation and amortization ("EBITDA"), impairment losses on goodwill and intangible assets, provisions for the settlement of litigations, severance costs and other non-cash charges (see Non-GAAP measures section). Included in adjusted EBITDA and net loss for the three-month period ended June 30, 2016 was an expense of $1.1 million pertaining to the Corporation's cash-settled share-based retention awards as compared to a recovery of $33,000 in the comparable 2015-period. Adjusted EBITDA and net loss for the three-month period ended June 30, 2016 also include $0.6 million of compensation expenses related to equity-settled share-based payments as compared to $0.3 million in the respective 2015-period.

As at June 30, 2016, PHX Energy had long-term debt of $22.1 million and working capital of $45.5 million.

Bought Deal Financing

On June 28, 2016, PHX Energy closed a bought deal financing whereby an aggregate of 8,625,000 common shares of the Corporation were issued at a price of $2.70 per common share. Concurrent with the closing of the public offering, certain directors, officers, employees and consultants of PHX Energy purchased a total of 495,407 common shares at a price of $2.70 per share on a private placement basis. The gross proceeds from the public offering and concurrent private placement totaled to approximately $24.6 million.

The net proceeds of $23.2 million from the offering and concurrent private placement were used to temporarily reduce indebtedness, which will be made available to be re-drawn to fund the Corporation's capital expenditure program and for general corporate purposes.

Severance

In the second quarter of 2016, Management continued to align the Corporation's cost structure with the lower activity levels. This resulted in severance payments of $0.4 million during the 2016 three-month period that are included in direct costs and SG&A (2015 - $1.5 million). Severance payments for the six-month period ended June 30, 2016 total $1.3 million (2015 - $4.1 million).

Capital Spending

As a result of lower activity levels, the Corporation continued to reduce capital spending, incurring only $2.0 million of expenditures in the second quarter of 2016, down $2.2 million or 52 percent from the $4.2 million incurred in the comparable 2015-period. As at June 30, 2016, the Corporation has commitments to purchase drilling and other equipment for $2.3 million; including $1.3 million of measurement while drilling ("MWD") guidance equipment, $0.6 million of electronic drilling recorder ("EDR") equipment and $0.4 million of machinery and equipment. Delivery is expected to occur by the end of September 2016.

As anticipated at the time of the bought deal financing, PHX Energy's 2016 capital expenditure budget has been increased by $4.5 million to $8.1 million for the 2016-year. The additional expenditures are expected to be utilized to expand the strategic product lines that will differentiate the Corporation, mainly its fleet of Velocity Real Time systems ("Velocity") and Stream Services' ("Stream") fleet of EDR equipment.

Financial Highlights

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

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Operating Results	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**26,359**	58,487	(55)	**66,808**	162,414	(59)
Net loss	**(13,360)**	(8,294)	61	**(20,764)**	(14,192)	46
Loss per share – diluted	**(0.32)**	(0.23)	39	**(0.50)**	(0.40)	25
Adjusted EBITDA [1]	**(3,728)**	1,930	n.m.	**250**	8,861	(97)
Adjusted EBITDA per share – diluted [1]	**(0.09)**	0.05	n.m.	**0.01**	0.25	(98)
Adjusted EBITDA as a percentage of revenue [1]	**n.m.**	3%		**0.4%**	5%	
Cash Flow						
Cash flows from operating activities	**4,075**	12,550	(68)	**4,833**	32,169	(85)
Funds from operations [1]	**(3,192)**	340	n.m.	**393**	3,639	(89)
Funds from operations per share – diluted[1]	**(0.08)**	0.01	n.m.	**0.01**	0.10	(90)
Dividends paid	**-**	3,092	(100)	**416**	10,499	(96)
Dividends per share [2]	**-**	0.09	(100)	**0.01**	0.30	(97)
Capital expenditures	**2,035**	4,214	(52)	**2,892**	14,817	(80)
Financial Position (unaudited)				**Jun 30, '16**	Dec 31, '15	
Working capital				**45,530**	61,041	(25)
Long-term debt				**22,067**	60,000	(63)
Shareholders' equity				**197,824**	200,938	(2)
Common shares outstanding				**50,694,322**	41,567,023	22

n.m. – not meaningful

[1] Refer to non-GAAP measures section that follows the outlook 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 adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”), adjusted EBITDA per share, funds from operations, funds from operations per share, and debt to covenant EBITDA ratio. 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 following the Outlook section for applicable definitions and reconciliations.

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, delivery of capital expenditure items, and the projected capital expenditures budget and how this budget will be funded.

The above are stated under the headings: "Overall Performance", and "Capital Resources”. Furthermore all statements in 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; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; 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 MD&A 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 June 30,			Six-month periods ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Revenue	**26,359**	58,487	(55)	**66,808**	162,414	(59)

Commodity prices continued to be weak in the second quarter of 2016 causing industry activity to remain slow in all of the Corporation's operating segments. For the three-month period ended June 30, 2016, consolidated revenue decreased by 55 percent to $26.4 million compared to $58.5 million in the comparable 2015-period. US and international revenue as a percentage of total consolidated revenue were 66 and 12 percent, respectively, for the 2016-quarter as compared to 68 and 11 percent in 2015. Consolidated operating days decreased by 47 percent to 2,452 days as compared to 4,631 days in the 2015-quarter. Due to the persistence of the industry downturn, the Corporation experienced significant pressures to further lower day rates during the 2016-periods. In the second quarter of 2016, average consolidated day rates, excluding the motor rental division in the US and the Stream division, decreased by 13 percent to $10,549 from the day rates of $12,169 realized in the second quarter of 2015.

Rig counts in North America continued to shrink to levels not seen in 30 years. In the second quarter of 2016, overall daily rig counts in both Canada and the US were once again 50 percent lower than in the 2015 comparative period and were 75 percent lower than two years ago in 2014. In Canada, horizontal drilling continued to dominate all activity at 94 percent of industry drilling days in the second quarter of 2016, and in the US the average number of horizontal rigs running per day represented 77 percent of the rig count in the 2016-quarter (2015 – 77 percent). (Sources: Daily Oil Bulletin and Baker Hughes).

For the six-month period ended June 30, 2016, consolidated revenue decreased by 59 percent to $66.8 million from $162.4 million for the comparable 2015-period. There were 6,521 consolidated operating days in the six-month period ended June 30, 2016, which is 48 percent lower than the 12,633 days reported in 2015.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Direct costs	**36,253**	58,642	(38)	**82,264**	155,557	(47)
Gross profit (loss) as a percentage of revenue	**(38%)**	(0.3%)		**(23%)**	4%	
Depreciation & amortization (included in direct costs)	**13,013**	9,622	35	**27,015**	18,927	43
Gross profit as percentage of revenue excluding depreciation & amortization	**12%**	16%		**17%**	16%	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment. For the three and six-month periods ended June 30, 2016, direct costs decreased to $36.3 million and $82.3 million, respectively, from $58.6 million and $155.6 million in the comparable 2015-periods. The decrease in costs is consistent with the lower activity level experienced in both 2016-periods.

The gross loss as a percentage of revenue fell to 38 percent in the second quarter of 2016 compared to a gross loss percentage of 0.3 percent in 2015. For the first half of 2016, the gross loss as a percentage of revenue decreased to 23 percent from a gross profit in the comparable 2015-period. The declining gross profit as a percentage of revenue in 2016 was primarily due to higher depreciation and amortization expenses, lower activity levels and decreased average day rates. The increased depreciation and amortization expense in the 2016-periods was mainly the result of PHX Energy removing the residual values of its drilling equipment during a review completed in the third quarter of 2015. As a result, the quarterly depreciation expense increased by approximately $4.0 million in the first and second quarters of 2016 as compared to the 2015-quarter.

Excluding depreciation and amortization, gross profit as a percentage of revenue decreased to 12 percent for the three-month period ended June 30, 2016 from 16 percent in the comparable 2015-period. The decrease in margins in the second quarter of 2016 was mainly due to weak activity levels and suppressed average day rates. The improved margins in the first half of 2016, as compared to the first half of 2015, reflect the results of the Corporation's strategic initiatives and controlled spending.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Selling, general & administrative ("SG&A") costs	**6,880**	9,136	(25)	**13,559**	21,706	(38)
Equity-settled share-based payments (included in SG&A costs)	**611**	333	83	**897**	533	68
SG&A costs excluding equity-settled share-based payments as a percentage of revenue	**24%**	15%		**19%**	13%	

SG&A costs for the three-month period ended June 30, 2016 decreased by 25 percent to $6.9 million as compared to $9.1 million in 2015. Included in SG&A costs for the 2016 and 2015-quarters are equity-settled share-based payments of $0.6 million and $0.3 million, respectively. Excluding these expenses, SG&A costs as a percentage of consolidated revenue for the three-month periods ended June 30, 2016 and 2015 were 24 percent and 15 percent, respectively. Included in SG&A costs for the three and six-month periods ended June 30, 2016 were severance costs of $0.1 million and $0.3 million, respectively (2015 - $0.5 million and $1.4 million).

The decrease in SG&A costs, in dollar terms, in both 2016-periods was a result of the significant reduction in personnel levels that occurred in the prior quarters and decreased marketing related costs associated with the Corporation's lower activity levels experienced across all operating segments.

Equity-settled 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 and six-month periods ended June 30, 2016, equity-settled share-based payments increased by 83 and 68 percent, respectively, as compared to the corresponding 2015-periods, mainly due to compensation expense related to options granted in the first quarter of 2016.

Cash-settled share-based retention awards, which are included in SG&A costs, are measured at fair value, and in the 2016-quarter, the related compensation expense recognized by PHX Energy increased to $1.1 million as compared to a recovery of $33,000 in the 2015-quarter. The increase is primarily due to the re-valuation of the retention awards based on the 30 percent increase in PHX Energy's stock price from $2.10 as at March 31, 2016 to $2.72 as at June 30, 2016.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Research & development expense	**225**	316	(29)	**750**	1,175	(36)

Research and development ("R&D") expenditures charged to net earnings during the three-month periods ended June 30, 2016 and 2015 were $0.2 million and $0.3 million, respectively.

For the six-month period ended June 30, 2016, R&D expenditures of $0.8 million were 36 percent less than the $1.2 million incurred in the corresponding 2015-period.

R&D expenditures decreased for both the three and six-month 2016-periods due to the scientific research and experimental development (“SR&ED”) credits received in the 2016-period of $0.3 million.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Finance expense	**527**	1,003	(47)	**1,099**	2,132	(48)

Finance expenses relate to interest charges on the Corporation’s long-term and short-term bank facilities. Finance charges decreased to $0.5 million in the second quarter of 2016 from $1.0 million in the 2015-quarter, and in the six-month period ended June 30, 2016 decreased to $1.1 million from $2.1 million in the 2015-period. The reduction in finance charges in both 2016-periods was primarily due to the lower amount of borrowings outstanding compared to the comparable prior year periods. At the end of the 2016-quarter, the Corporation made significant repayments on its loans and borrowings. This is expected to reduce finance expenses in future periods.

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	**2016**	2015
Gains (Loss) on disposition of drilling equipment	**(426)**	712	**779**	607
Foreign exchange gains (losses)	**(125)**	(271)	**226**	169
Recovery of (Provision for) bad debts	**96**	(38)	**66**	(38)
Other income (expense)	**(455)**	403	**1,071**	738

With respect to the disposition of drilling equipment, 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. Losses typically result from any asset retirements that were made before the end of the equipment's useful life and self-insured down hole equipment losses. During the second quarter of 2016, the Corporation incurred a loss on disposition of drilling equipment of $0.4 million which related primarily to the early retirement of equipment (2015 - $0.7 million gain on disposition). In the first half of 2016, the Company recognized a net $0.8 million gain on the disposition of drilling equipment, primarily related to the gains from insured lost equipment.

For the three-month period ended June 30, 2016, foreign exchange losses of $0.1 million were incurred (2014 - $0.3 million). These losses resulted mainly from the revaluation of Canadian-denominated payables in the US. For the six-month period ended June 30, 2016, included in other income was foreign exchange gains of $0.2 million (2015 - $0.2 million), which related mainly from the settlement of Canadian-denominated payables in the US.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	**2016**	2015
Provision for (Recovery of) income taxes	**(4,622)**	(1,913)	**(9,029)**	(3,225)
Effective tax rates	**26%**	19%	**30%**	19%

The recovery of income taxes for the three-month period ended June 30, 2016 was $4.6 million as compared to a recovery of $1.9 million in the 2015-quarter. For the six-month period ended June 30, 2016, the recovery of income taxes was $9.0 million as compared to a recovery of $3.2 million in the corresponding 2015-period. The expected combined Canadian federal and provincial tax rate for 2016 is 27 percent. The effective tax rate for the first half of 2016 was higher than the expected rates primarily due to the effect of higher tax rates in foreign jurisdictions.

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, mainly in Albania and Russia.

Canada

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Revenue	**5,832**	12,317	(53)	**21,452**	49,820	(57)
Reportable segment loss before tax	**(7,353)**	(5,545)	33	**(10,615)**	(9,481)	12

For the three-month period ended June 30, 2016, the Corporation's Canadian revenue decreased by 53 percent to $5.8 million from $12.3 million in the corresponding 2015-period. Drilling activity in the Canadian market was significantly slower than the typical levels seen in previous spring break-up periods. In the second quarter of 2016, the Canadian segment reported 663 operating days, a 46 percent decrease compared to 1,233 days in the 2015-period. In comparison, total industry horizontal and directional drilling activity, as measured by drilling days, declined by 62 percent in the 2016-quarter to 3,375 days from 8,917 days in the 2015-quarter. (Source: Daily Oil Bulletin) In addition, due to the lower activity and weak commodity prices, pricing pressure caused the average day rates to fall by 13 percent to $8,420 in the 2016-quarter from $9,692 in the 2015-quarter, excluding Stream revenue of $0.2 million.

During the second quarter of 2016, oil drilling, as measured by drilling days, represented approximately 30 percent of PHX Energy's Canadian activity in the second quarter of 2016 (2015 - 32 percent). In the second quarter of 2016, despite lower volumes, market share slightly increased and the Corporation remained active in the Montney, Shaunavon, Cardium and Viking areas.

For the six-month period ended June 30, 2016, PHX Energy's Canadian revenue decreased by 57 percent to $21.5 million from $49.8 million in the comparable 2015-period. The Corporation's operating days decreased by 45 percent to 2,614 days in the 2016 six-month period from 4,768 days in the 2015-period. In comparison, the number of horizontal and directional drilling days realized in the Canadian industry decreased by 54 percent to 15,286 days for the first half of 2016 as compared to 33,119 days in 2015. (Sources: Daily Oil Bulletin) In the six-month period ended June 30, 2016, oil drilling represented approximately 45 percent of PHX Energy's Canadian activity (2015 – 50 percent). The first half of 2016 saw average day rates decline by 22 percent from $10,228 in 2015 to $8,010 in 2016, excluding Stream revenue of $0.5 million.

Reportable segment loss before tax for the second quarter of 2016 was $7.4 million as compared to $5.5 million in the 2015-quarter. Included in the Canadian segment's losses in the 2016-quarter was a loss of $1.8 million (2015 - $1.9 million) from the Stream division. For the six-month period ended June 30, 2016, reportable segment loss before tax increased to $10.6 million from $9.5 million in the 2015-period. Lower profitability during both 2016-periods was generally due to lower activity levels and average day rates, as well as increased expenses from the Corporation's cash-settled share-based retention awards.

United States

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Revenue	**17,381**	39,740	(56)	**39,120**	99,976	(61)
Reportable segment loss before tax	**(6,770)**	(4,694)	44	**(14,553)**	(5,957)	144

For the three-month period ended June 30, 2016, the US segment generated revenue of $17.4 million which was 56 percent less than the $39.7 million generated in the 2015-period. PHX Energy's US operating days decreased by 52 percent from 2,673 days in the 2015-quarter to 1,275 days in the 2016-quarter. Average day rates, excluding the Corporation's US motor rental division, declined by 5 percent to $13,441 in the 2016-quarter compared to $14,210 in the 2015-period. The reduction in average day rate was the result of increased pricing pressures during the second quarter of 2016 relative to the same period in 2015.

The US rig count reached a low of 404 rigs operating per day during the second quarter of 2016 and the average number of rigs running per day was 422 rigs, a 54 percent decrease from the second quarter of 2015. The average horizontal and directional rigs running per day in the 2016-quarter was 371 rigs, a 53 percent decrease from the prior year's quarter. The percentage of activity represented by horizontal and directional drilling remained steady at 88 percent of the average daily number of rigs running in the second quarter of 2016. (Source: Baker Hughes) With a large portion of the industry's drilling activity concentrated in Texas, specifically the Permian basin, oil well drilling represented 93 percent of PHX Energy's US activity in the three-month period ended June 30, 2016 (2015 - 61 percent). During the second quarter of 2016, Phoenix USA remained active in the Permian, Delaware, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins.

For the six-month period ended June 30, 2016, US revenue decreased by 61 percent to $39.1 million from $100.0 million in the comparable 2015-period. The segment recorded 2,839 days in the first half of 2016, down 56 percent from 6,430 days in the 2015-period. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, decreased by 57 percent in the first half of 2016 to 427 rigs from 989 rigs in the comparable 2015-period. (Source: Baker Hughes)

For the three-month period ended June 30, 2016, the reportable segment loss before tax increased to $6.8 million from $4.7 million in the 2015-quarter. Reportable segment loss before tax for the six-month period ended June 30, 2016 increased to $14.6 million from a loss of $6.0 million in the comparative 2015-period. The decreased profitability in both of the 2016-periods was caused mainly by the lower activity levels and average day rates.

International

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Revenue	**3,146**	6,430	(51)	**6,236**	12,618	(51)
Reportable segment profit (loss) before tax	**(1,042)**	1,573	(166)	**(1,733)**	2,756	(163)

In the second quarter of 2016, PHX Energy's international operations continued to be impacted by the suspended drilling activity in Albania and the devalued Russian Ruble against the Canadian Dollar. For the three-month period ended June 30, 2016, the Corporation's international revenue decreased by 51 percent from $6.4 million in the 2015-period to $3.1 million. International operating days, comprised solely of Russian activity, declined by 29 percent from 726 days in the 2015-quarter to 514 days in the 2016-quarter. In the second quarter of 2016, the Corporation generated 12 percent of its consolidated revenue from its international operations compared to 11 percent in the 2015-quarter.

For the six-month period ended June 30, 2016, revenue decreased by 51 percent to $6.2 million from $12.6 million in the comparable 2015-period. International operating days in the first half of 2016 were 1,068 days, 26 percent lower than the 1,435 days generated in the 2015-period.

During the second quarter of 2016, PHX Energy's Russian operations reported a 5 percent reduction in drilling activity to 514 operating days compared to 542 operating days in the second quarter of 2015. The continued downward pressure on average day rates and devaluation of the Russian Ruble caused a negative impact in both the revenue and profitability of the division.

The Albania division remained idle for the second quarter of 2016, recording zero days of activity as compared to 184 days in the same quarter of the previous year. However, the division continues to retain the ability to recommence operations with little start up time required and fixed and overhead costs have been minimalized.

The international segment incurred reportable segment losses for the three and six-month 2016-periods of $1.0 million and $1.7 million, respectively (2015 – profit of $1.6 million and $2.8 million). The decreased profitability in both 2016-periods was mainly due to the suspended operations in Albania, reduced Russian activity and the impact of the lower Ruble.

Investing Activities

Net cash used in investing activities for the three-month period ended June 30, 2016 was $2.2 million as compared to cash used of $8.0 million in 2015. During the 2016-quarter, PHX Energy received proceeds of $0.3 million (2015 - $1.6 million) from the disposition of capital equipment, primarily related to the involuntary disposal of drilling equipment in well bores. During the second quarter of 2016, the Corporation incurred a loss on disposition of drilling equipment of $0.4 million which related primarily to the early retirement of equipment (2015 - $0.7 million gain on disposition). Additionally, the Corporation spent $2.0 million on capital expenditures in 2016 (2015 - $4.2 million). These expenditures included:

- $1.3 million in MWD systems and spare components;
- $0.3 million in electronic drilling recorder equipment; and
- $0.4 million in machinery and equipment, down hole performance drilling motors and leasehold improvements.

The capital expenditure program undertaken in the period was financed generally from working capital and cash flow.

During the 2016-quarter, the Corporation spent $0.8 million in intangible assets, consisting primarily of additions related to license payments.

The change in non-cash working capital balances of $0.3 million (source of cash) for the three-month period ended June 30, 2016, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $4.2 million use of cash for the three-month period ended June 30, 2015.

Financing Activities

The Corporation reported cash flows used in financing activities of $1.1 million in the three-month period ended June 30, 2016 as compared to cash flows used in financing activities of $9.8 million in the 2015-period. On June 28, 2016, through a bought deal equity financing and a concurrent private placement, the Corporation realized net proceeds of $23.2 million through the issuance of 9,120,407 shares.

The Corporation made aggregate net repayments of $24.3 million on its operating and syndicated facilities during the second quarter of 2016.

Capital Resources

As of June 30, 2016, the Corporation had $20.0 million drawn on its syndicated facility, $4.3 million drawn on its operating facility, and US$1.6 million drawn on its US operating facility. At June 30, 2016, the Corporation had approximately CAD$60.7 million and US$0.9 million available to be drawn from its credit facilities.

As at June 30, 2016, the Corporation was in compliance with all its financial 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 2016 capital budget has been increased from the previously announced $3.6 million to $8.1 million, mainly to fund the expansion of the Corporation's Stream EDR and Velocity fleets. 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 2016, 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

As the second year of a prolonged downturn in the oil and natural gas industry continues, PHX Energy experienced a challenging second quarter. The financial and operating results for the quarter were impacted by the further deterioration of the US rig count and by a Canadian spring break-up period that was exceptionally slow. With lower activity levels and reduced day rates, profitability suffered in this typically slower quarter, even with the aggressive and proactive cost saving initiatives that continued to be implemented in the quarter and the already lean structure created by initiatives implemented in prior quarters.

During the quarter, the financial position of the Corporation was aided by a bought deal financing that raised $24.6 million in gross proceeds. Long-term debt has been reduced as the proceeds from the financing were initially used to retire debt amounts. Additionally, $4.5 million of the proceeds are dedicated to capital expenditures to expand the fleet of equipment in two product lines; Velocity Real Time MWD system and Stream's EDR technology. Demand for Velocity is growing and development and field testing of Stream's EDR system is continuing as the Corporation works towards a fully commercial platform. PHX Energy is cautiously optimistic about the future growth potential that these technologies will create, particularly when the industry returns to a stable state.

In the second quarter, the number of active drilling rigs working in Canada fell to the lowest number in recent memory, bottoming at approximately 35 rigs operating per day and in turn the number of wells drilled by the Corporation were at some of the lowest levels in its history. Currently there are approximately 120 active drilling rigs working in Canada, and as a result the Corporation has also experienced an upswing early in the third quarter of 2016. The strength of the Corporation's marketing and operations teams has allowed this division to increase market share throughout the downturn and PHX Energy believes this will continue as the industry enters into the summer and fall drilling season. However, with rig counts forecasted to stay below 200 rigs for the remainder of 2016, day rates will remain under pressure as there are still many competitors in the directional drilling sector.

With the US drilling rig count also at 30-year lows, Phoenix USA experienced reduced volumes in the quarter. Today in the US industry there are currently 460 active drilling rigs as compared to approximately 875 rigs operating at this time last year and 1,900 rigs in 2014. Even at these depressed rig counts, the US is still one of the largest directional drilling markets in the global economy. PHX Energy is focused on deploying technologies like Velocity to capitalize on the opportunities this market presents, specifically in key basins such as the Permian where there are more rigs running than in all of Canada and where operators are likely to pick up rigs quicker due to favorable economics. With the US industry anticipated to operate near 500 rigs per day for the remainder of 2016, competition is intense and having strong performance and a competitive advantage is key to gaining new clients in this challenging environment.

International operations remained steady in Russia during the second quarter, as this market has seen less of an impact from the contracted global energy environment. Although the de-valued Russian Ruble is continuing to impact profitability.

The second quarter is normally the slowest quarter for the Corporation due to the Canadian spring break-up, and although in 2016 it was magnified by the industry conditions, the Corporation believes it holds a competitive position within the markets it operates. PHX Energy remains focused on two key strategies. The first to maintain the strongest possible financial position and second to continue to build a lean, efficient organization focused on bringing competitive differentiators to the market. The Corporation has invested, and continues to invest, in drilling technology, people and services that will allow future growth opportunities.

Michael Buker
President
August 4, 2016

Non-GAAP Measures

1) Adjusted EBITDA

Adjusted EBITDA, defined as earnings before finance expense, income taxes, depreciation and amortization, impairment losses on goodwill and intangible assets, provisions for the settlement of litigations, severance costs and other non-cash charges, is not a financial measure that is recognized under GAAP. However, Management believes that adjusted EBITDA provides supplemental information to net earnings that is useful in evaluating the results of the Corporation's principal business activities before considering other non-recurring charges, how it was financed and how it was taxed in various countries. Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA may differ from that of other organizations and, accordingly, its adjusted EBITDA may not be comparable to that of other companies.

The following is a reconciliation of net earnings to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	**2016**	2015
Net loss	**(13,360)**	(8,294)	**(20,764)**	(14,192)
Add (deduct):				
Depreciation and amortization	**13,013**	9,622	**27,015**	18,927
Provision for (Recovery of) income taxes	**(4,622)**	(1,913)	**(9,029)**	(3,225)
Finance expense	**527**	1,003	**1,099**	2,132
Provision for settlement of litigation	**-**	-	**-**	978
Severance costs	**414**	1,512	**1,329**	4,241
Other non-cash charges	**300**	-	**600**	-
Adjusted EBITDA as reported	**(3,728)**	1,930	**250**	8,861

Adjusted 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 adjusted 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, interest paid, and income taxes paid. 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 and interest and taxes paid. 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 June 30,		Six-month periods ended June 30,	
	2016	2015	**2016**	2015
Cash flows from operating activities	**4,075**	12,550	**4,833**	32,169
Add (deduct):				
Changes in non-cash working capital	**(3,555)**	(14,126)	**(1,223)**	(32,756)
Interest paid	**322**	780	**760**	1,764
Income taxes paid (received)	**(4,034)**	1,136	**(3,977)**	2,462
Funds from (used in) operations	**(3,192)**	340	**393**	3,639

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.

3) Debt to covenant EBITDA Ratio

Debt is represented by loans and borrowings. Covenant EBITDA, for purposes of the calculation of this covenant ratio, is represented by net earnings for a rolling four quarter period, adjusted for finance expense, provision for income taxes, depreciation and amortization, equity-settled share-based payments, unrealized foreign exchange losses, impairment losses on goodwill and intangible assets, loss on disposition of drilling equipment, severance costs, provision for inventory obsolescence and provision for the settlement of litigations, subject to the restrictions provided in the amended credit agreement.

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, Russia and Albania. PHX Energy also provides EDR technology and services.

PHX Energy's Canadian directional drilling operations are conducted through Phoenix Technology Services LP. The Corporation maintains its corporate head office, research and development, Canadian sales, service and operational centers 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; Denver, Colorado; Midland, Texas; Bellaire, Ohio; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Russia and Albania, and administrative offices in Nicosia, Cyprus and Luxembourg City, Luxembourg.

PHX Energy markets its EDR technology and services in Canada through its division, Stream Services, which has an office and operations center in Calgary, Alberta. EDR technology is marketed worldwide outside Canada through its wholly-owned subsidiary Stream Services International Inc.

For further information please contact:
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Consolidated Statements of Financial Position

(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ **2,214,765**	$ 9,007,808
Trade and other receivables	**30,085,091**	44,694,812
Inventories	**27,606,648**	30,261,260
Prepaid expenses	**3,251,236**	2,869,018
Current tax assets	**6,233,306**	4,996,279
Total current assets	**69,391,046**	91,829,177
Non-current assets:		
Drilling and other equipment	**137,015,436**	166,113,852
Goodwill	**8,876,351**	8,876,351
Intangible assets	**24,525,388**	25,025,202
Deferred tax assets	**6,023,656**	1,581,847
Total non-current assets	**176,440,831**	201,597,252
Total assets	$ **245,831,877**	$ 293,426,429
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	$ **4,294,512**	$ -
Trade and other payables	**19,566,597**	30,373,003
Dividends payable	**-**	415,670
Total current liabilities	**23,861,109**	30,788,673
Non-current liabilities:		
Loans and borrowings	**22,066,720**	60,000,000
Deferred tax liabilities	**446,809**	-
Deferred income	**1,633,337**	1,700,003
Total non-current liabilities	**24,146,866**	61,700,003
Equity:		
Share capital	**237,207,585**	213,604,045
Contributed surplus	**6,287,358**	5,390,124
Retained earnings	**(57,157,139)**	(36,393,629)
Accumulated other comprehensive income	**11,486,098**	18,337,213
Total equity	**197,823,902**	200,937,753
Total liabilities and equity	$ **245,831,877**	$ 293,426,429

Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	**2016**	2015
Revenue	**$ 26,358,663**	$ 58,486,717	**$ 66,807,897**	$ 162,414,406
Direct costs	**36,252,973**	58,641,943	**82,263,761**	155,557,324
Gross profit (loss)	**(9,894,310)**	(155,226)	**(15,455,864)**	6,857,082
Expenses:				
Selling, general and administrative expenses	**6,879,596**	9,136,328	**13,558,573**	21,705,550
Research and development expenses	**224,663**	316,032	**749,974**	1,174,614
Finance expense	**527,404**	1,003,055	**1,098,814**	2,132,234
Other expense (income)	**455,344**	(403,097)	**(1,071,097)**	(738,214)
	8,087,007	10,052,318	**14,336,264**	24,274,184
Loss before income taxes	**(17,981,317)**	(10,207,544)	**(29,792,128)**	(17,417,102)
Provision for (Recovery of) income taxes				
Current	**(1,053,299)**	556,368	**(5,284,204)**	978,417
Deferred	**(3,568,486)**	(2,469,606)	**(3,744,414)**	(4,203,668)
	(4,621,785)	(1,913,238)	**(9,028,618)**	(3,225,251)
Net loss	**(13,359,532)**	(8,294,306)	**(20,763,510)**	(14,191,851)
Other comprehensive income (loss)				
Foreign currency translation	**280,612**	(1,139,206)	**(6,851,115)**	9,694,867
Total comprehensive loss for the period	**$ (13,078,920)**	$ (9,433,512)	**$ (27,614,625)**	$ (4,496,984)
Loss per share – basic	**$ (0.32)**	$ (0.23)	**$ (0.50)**	$ (0.40)
Loss per share – diluted	**$ (0.32)**	$ (0.23)	**$ (0.50)**	$ (0.40)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2016	2015	**2016**	2015
Cash flows from operating activities:				
Net loss	**$ (13,359,532)**	$ (8,294,306)	**$ (20,763,510)**	$ (14,191,851)
Adjustments for:				
Depreciation and amortization	**13,012,682**	9,622,036	**27,015,427**	18,926,606
Provision for (Recovery of) income taxes	**(4,621,785)**	(1,913,238)	**(9,028,618)**	(3,225,251)
Unrealized foreign exchange loss (gain)	**42,577**	296,672	**1,484,765**	(878,480)
Loss (Gain) on disposition of drilling equipment	**426,114**	(711,897)	**(778,993)**	(606,874)
Equity-settled share-based payments	**610,853**	332,836	**897,234**	533,235
Finance expense	**527,404**	1,003,055	**1,098,814**	2,132,234
Other non-cash charges	**299,899**	-	**599,899**	977,973
Amortization of deferred income	**(33,333)**	(33,333)	**(66,666)**	(66,666)
Provision for (Recovery of) bad debts	**(96,110)**	38,407	**(65,692)**	38,407
Change in non-cash working capital	**3,554,639**	14,125,923	**1,222,957**	32,755,742
Cash generated from operating activities	**363,408**	14,466,155	**1,615,617**	36,395,075
Interest paid	**(322,184)**	(780,009)	**(760,429)**	(1,763,542)
Income taxes received (paid)	**4,033,770**	(1,136,275)	**3,977,374**	(2,462,138)
Net cash from operating activities	**4,074,994**	12,549,871	**4,832,562**	32,169,395
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**279,339**	1,604,117	**2,855,526**	2,669,953
Acquisition of drilling and other equipment	**(2,034,834)**	(4,213,753)	**(2,891,530)**	(14,817,307)
Acquisition of intangible assets	**(755,809)**	(1,216,302)	**(932,352)**	(2,185,505)
Change in non-cash working capital	**282,549**	(4,158,581)	**165,880**	(2,735,243)
Net cash used in investing activities	**(2,228,755)**	(7,984,519)	**(802,476)**	(17,068,102)
Cash flows from financing activities:				
Proceeds from issuance of share capital (net)	**23,210,724**	33,781,646	**23,221,659**	34,345,361
Dividends paid to shareholders	**-**	(3,091,889)	**(415,670)**	(10,499,141)
Repayment of loans and borrowings	**(27,923,630)**	(44,781,400)	**(37,923,630)**	(37,280,800)
Payments under finance leases	**-**	(43,725)	**-**	(87,380)
Proceeds from (Repayment of) operating facility	**3,581,149**	4,304,274	**4,294,512**	(1,198,902)
Net cash used in financing activities	**(1,131,757)**	(9,831,094)	**(10,823,129)**	(14,720,862)
Net increase (decrease) in cash and cash equivalents	**714,482**	(5,265,742)	**(6,793,043)**	380,431
Cash and cash equivalents, beginning of period	**1,500,283**	8,664,618	**9,007,808**	3,018,445
Cash and cash equivalents, end of period	**$ 2,214,765**	$ 3,398,876	**$ 2,214,765**	$ 3,398,876