PHX
ENERGY SERVICES CORP.

PRESS RELEASE
May 3, 2018
TSX - PHX

PHX Energy Announces its First Quarter Results, Reporting Improved Profitability

Financial Results

For the three-month period ended March 31, 2018, PHX Energy's consolidated operating and financial results continued to strengthen, building upon the 2017-year's positive momentum. The Corporation generated consolidated revenue of $70.8 million, which is 16 percent greater than the $61.1 million generated in the first quarter of 2017, 17 percent greater than the $60.7 million generated in the fourth quarter of 2017, and is the highest level of quarterly revenue achieved since the first quarter of 2015. Profitability also improved and the Corporation realized adjusted EBITDA (see "Non-GAAP Measures") of $6.8 million and a net loss of $4.3 million in the 2018-quarter compared to adjusted EBITDA of $3.7 million and a net loss of $7.1 million in the comparative 2017-quarter. The strong improvement in profitability is primarily the result of an overall recovery in day rates realized in Canada and the US. Consolidated day rates increased by 15 percent to $10,182 in the first quarter of 2018 versus $8,824 in the comparable 2017-quarter.

During the 2018-quarter, PHX Energy continued to focus on the US drilling market, mainly the Permian basin, where the industry outlook is more optimistic and there is greater potential for growth. US industry activity, as measured by the average rigs running per day, increased by 30 percent to 966 in the first quarter of 2018 from 742 in the 2017-quarter (Source: Baker Hughes). The US operating segment generated revenue of $38.1 million in the 2018-quarter, representing 54 percent of the Corporation's consolidated revenue for the period and an increase of 42 percent compared to the $26.8 million of revenue generated by the segment in the comparable 2017-quarter. For the three-month period ended March 31, 2018, Phoenix USA achieved 2,713 operating days, an increase of 36 percent from 1,990 days realized in the comparable 2017-quarter.

With the many macro and political challenges faced by the Canadian industry and an early start to the spring break-up period, the market's activity was relatively flat quarter-over-quarter with 22,669 horizontal and directional drilling days in the first quarter of the 2018 (2017 – 22,041 days) (Source: Daily Oil Bulletin). Revenue generated by the Canadian segment decreased to $28.0 million in the 2018-quarter as activity slowed to 3,382 operating days. The impact of lower activity was partially offset by an increase in day rates to $7,881.

As at March 31, 2018, PHX Energy had long-term debt of $12.0 million and working capital of $54.1 million.

Capital Spending

The Corporation incurred $3.1 million in capital expenditures in the first quarter of 2018, an increase compared to $1.8 million spent in the comparable 2017-quarter. The majority of the current year's capital spending was for Velocity Real-Time Systems ("Velocity") and measurement while drilling ("MWD") spare components.

As at March 31, 2018, the Corporation had commitments to purchase drilling and other equipment for $4.8 million. These commitments include $2.6 million for motors primarily relating to the 7.25" Atlas High Performance Drilling Motor ("Atlas"), $1.9 million for Velocity, and $0.3 million for MWD spare components, tubulars, and machinery and equipment. These commitments are expected to be delivered by the end of the third quarter of 2018. The Corporation continues to anticipate spending $10.5 million on capital expenditures in the 2018-year.

Normal Course Issuer Bid

The TSX approved PHX Energy's Normal Course Issuer Bid ("NCIB") to purchase for cancellation, from time-to-time, up to a maximum of 2,929,494 common shares of the Corporation. Purchases of common shares will be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy will pay for any common shares purchased will be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. The NCIB commenced on June 26, 2017 and will terminate on June 25, 2018 or such earlier time as the NCIB is completed or terminated at the option of the Corporation. Pursuant to the NCIB, 125,000 shares were purchased in the 2018-quarter and cancelled by the Corporation.

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

	Three-month periods ended March 31,		
	2018	2017	% Change
Operating Results	***(unaudited)***	*(unaudited)*	
Revenue	**70,759**	61,122	16
Net loss	**(4,251)**	(7,143)	(40)
Loss per share – diluted	**(0.07)**	(0.13)	(46)
Adjusted EBITDA [(1)]	**6,768**	3,743	81
Adjusted EBITDA per share – diluted [(1)]	**0.11**	0.07	57
Adjusted EBITDA as a percentage of revenue [(1)]	**10%**	6%	
Cash Flow			
Cash flows from (used in) operating activities	**936**	(9,896)	n.m.
Funds from operations [(1)]	**5,757**	3,983	45
Funds from operations per share – diluted [(1)]	**0.10**	0.07	43
Capital expenditures	**3,067**	1,799	70
Financial Position (unaudited)	**Mar. 31, '18**	Dec 31, '17	
Working capital [(1)]	**54,061**	49,787	9
Long-term debt	**12,000**	14,000	(14)
Shareholders' equity	**180,156**	181,538	(1)
Common shares outstanding	**58,272,887**	58,397,887	-

[(1)] Refer to non-GAAP measures section that follows the Outlook section
n.m. – not meaningful

Non-GAAP Measures

PHX Energy uses certain performance measures throughout this document that are not recognizable under Canadian generally accepted accounting principles ("GAAP"). These performance measures include adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted EBITDA per share, funds from operations, funds from operations per share, debt to covenant EBITDA ratio and working capital. 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, the projected capital expenditures budget and how this budget will be funded.

The above are stated under the headings: "Capital Spending", 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 document are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or

information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Revenue

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2018	2017	% Change
Revenue	**70,759**	61,122	16

For the three-month period ended March 31, 2018, consolidated revenue grew by 16 percent to $70.8 million from $61.1 million in the comparable 2017-quarter. This is the highest level of quarterly revenue achieved since the first quarter of 2015. The sustained stability in the oil and gas industry resulted in improved day rates relative to the comparable 2017-quarter. Average consolidated day rates for the three-month period ended March 31, 2018, excluding the motor rental division in the US and the Stream division, increased by 15 percent to $10,182 from $8,824 in the first quarter of 2017. The recovery in day rates was achieved despite the weakened US dollar relative to the same period in 2017. In the three-month period ended March 31, 2018, the Corporation achieved 6,769 consolidated operating days, flat compared to the 6,684 operating days recorded in the 2017-quarter.

As a percentage of total consolidated revenue, US and international revenues were 54 and 7 percent, respectively, for the 2018-quarter as compared to 44 and 8 percent in 2017-quarter.

Crude oil prices continued to strengthen in the first quarter of 2018, with WTI averaging $62.90, a level not seen in the last three years; however, the industry in North America is polarized. The US industry showed continued momentum reaching an average of 966 rigs running per day in the first quarter of 2018 compared to 742 rigs per day in the first quarter of 2017, a 30 percent increase. In Canada the benefits of the stronger crude oil prices were offset by the uncertainty surrounding issues such as future pipeline projects and access to market, and as such, the average number of rigs operating per day retracted from 295 rigs in the 2017 first quarter to 269 rigs in 2018, a 9 percent decrease. Throughout North America the vast majority of wells continued to be horizontal and directional representing 97 percent of all wells drilled in Canada and 93 percent of the average number of rigs operating per day in the US (Sources: Daily Oil Bulletin and Baker Hughes).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2018	2017	% Change
Direct costs	**65,929**	60,805	8
Gross profit as a percentage of revenue	**7%**	1%	
Depreciation & amortization (included in direct costs)	**10,306**	10,931	(6)
Gross profit as percentage of revenue excluding depreciation & amortization	**21%**	18%	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment. In the first quarter of 2018, direct costs increased by 8 percent to $65.9 million from $60.8 million in the comparable 2017-quarter. The increased direct costs were mainly due to higher expenses related to field labour and equipment repairs, particularly in the US where activity was growing. The Corporation's gross profit as a percentage of revenue increased to 7 percent in the first quarter of 2018 compared to 1 percent in the 2017-quarter.

The reduction in depreciation and amortization expenses in the three-month period ended March 31, 2018 was mainly the result of PHX Energy's lower levels of capital spending relative to the years before the industry downturn and more assets being fully depreciated. Excluding depreciation and amortization, gross profit as a percentage of revenue increased to 21 percent for the three-month period ended March 31, 2018 from 18 percent in the comparable 2017-period.

The improved profitability achieved in the three-month period ended March 31, 2018 was primarily the result of the Corporation's steady activity at higher day rates and lower depreciation and amortization.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2018	2017	% Change
Selling, general & administrative ("SG&A") costs	**8,771**	7,210	22
Equity-settled share-based payments (included in SG&A costs)	**460**	488	(6)
Cash-settled share-based payments (included in SG&A costs)	**46**	132	(65)
Onerous contracts lease payment	**(128)**	(107)	20
SG&A costs excluding equity and cash-settled share-based payments and provision for onerous contracts as a percentage of revenue	**12%**	11%	

The Corporation incurred $8.8 million of SG&A costs in the three-month period ended March 31, 2018 as compared to $7.2 million in the 2017-quarter. Included in SG&A costs for the 2018-quarter were equity-settled and cash-settled share-based payments totaling $0.5 million (2017 - $0.6 million). Additionally, for the 2018 three-month period, SG&A costs were reduced by $0.1 million for actual lease payments made under the Corporation's onerous office lease contracts that were reclassified to reduce the provision for onerous contracts (2017 – $0.1 million). Excluding the share-based payment amounts and provision for onerous contracts, SG&A costs as a percentage of consolidated revenue was 12 percent in the 2018-quarter compared to 11 percent in the 2017-quarter.

For the three-month period ended March 31, 2018, SG&A costs were higher than the comparable 2017-period, primarily due to greater personnel related costs associated with increased activity in the US. In addition, included in SG&A costs were severance expenses of approximately $250,000 due to a restructuring of international operations.

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-month period ended March 31, 2018, equity-settled share-based payments decreased by 6 percent, as compared to the corresponding 2017-quarter, mainly due to fewer options granted in March 2018 compared to in the first three-months of 2017.

Cash-settled share-based retention awards, which are included in SG&A costs, are measured at fair value, and in the 2018-quarter cash-settled share-based payments decreased by 65 percent, as compared to the corresponding 2017-quarter. The lower compensation expense is primarily due to fluctuations in the Corporation's share price.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2018	2017	% Change
Research & development expense	**870**	607	43

Research and development ("R&D") expenditures during the three-month period ended March 31, 2018 and 2017 were $0.9 million and $0.6 million, respectively. The increase in R&D expenditures in the 2018-quarter is mainly attributable to increased personnel in the R&D department who continue to focus on new technology development and cost-savings and reliability initiatives that will enhance and expand PHX Energy's services.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2018	2017	% Change
Finance expense	**340**	585	(42)

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. Finance charges decreased to $0.3 million in the first quarter of 2018 as compared to $0.6 million in the 2017-quarter. The lower finance expense is primarily due to the lower principal outstanding and lower borrowing rates in the first quarter of 2018 as compared to the 2017-quarter.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2018	2017
Net gain on disposition of drilling equipment	**(779)**	(147)
Foreign exchange (gains) losses	**(128)**	172
Provision (Recovery of) for bad debts	**(8)**	228
Other expense (income)	**(915)**	253

For the three-month period ended March 31, 2018, other income was comprised of a net gain on disposition of drilling equipment of $0.8 million (2017 - $0.1 million), foreign exchange gains of $0.1 million (2017 - $0.2 million loss), and insignificant recovery of bad debts (2017 – provision of $0.2 million). During the period ended March 31, 2018, the Corporation recognized a gain on disposition of drilling equipment primarily due to insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. The recognized gain is net of losses which typically result from asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. In the 2018-quarter, the increase to the gain on disposition of drilling equipment resulted mainly from a greater number of insured downhole equipment losses.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,	
	2018	2017
Provision for (Recovery of) income taxes	**14**	(1,195)
Effective tax rates	**-**	14%

The provision of income taxes for the three-month period ended March 31, 2018 was $14,000 as compared to a $1.2 million recovery in the 2017-quarter. The expected combined Canadian federal and provincial tax rate for 2018 is 27 percent (2017 – 27 percent). The effective tax rate in the 2018-period was lower primarily due to increased profitability in the US offset by tax recoveries internationally.

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)

	Three-month periods ended March 31,		
	2018	2017	% Change
Revenue	**27,975**	29,442	(5)
Reportable segment profit before tax	**1,511**	768	97

PHX Energy's Canadian revenue for the three-month period ended March 31, 2018 decreased by 5 percent to $28.0 million from $29.4 million in the corresponding 2017-period. Lower revenues were primarily the result of lower activity during the 2018-quarter versus the comparable 2017-quarter, partially due to an early onset of the spring break-up period in 2018. The Canadian segment reported 3,382 operating days in the first quarter of 2018, a decrease from the 4,004 days in the 2017-quarter. In comparison, total industry horizontal and directional drilling activity, as measured by drilling days, was relatively flat in the 2018-quarter with 22,669 days recorded versus 22,041 days in the 2017-quarter (Source: Daily Oil Bulletin). Positively offsetting volume changes, PHX Energy's average day rates increased by 12 percent to $7,881 in the 2018-quarter from $7,009 in the comparable 2017-period (excluding Stream revenue of $1.3 million and $1.4 million, respectively). As oil prices have stabilized, the pricing environment improved and PHX Energy made strong efforts to negotiate better day rates with its clients. The Corporation improved its discipline in job selection which assisted in achieving higher day rates in the quarter, however, this approach also contributed to the lower volume of activity as low margin jobs were reduced to strengthen profitability.

During the 2018-quarter, 69 percent of the Canadian division's activity was oil well drilling and PHX Energy was active in the Montney, Wilrich, Bakken, Shaunavon, Duvernay, Cardium and Viking areas. The Corporation's Canadian operations maintained a healthy market share and diversified client base, and this combined with its solid reputation in the Canadian market, has aided the improvement in profitability.

The Canadian operations' reportable segment profit before tax for the first quarter of 2018 was $1.5 million as compared to $0.8 million profit in the 2017-quarter. The improved profitability of the Canadian segment in the 2018-quarter was primarily the result of higher day rates achieved and disciplined job selection.

Stream Services

Included in the Canadian segment's revenue for the first quarter of 2018 is $1.3 million of revenue generated by the Stream division (2017 - $1.4 million). During the three-month period ended March 31, 2018, Stream achieved 1,919 operating days in the 2018-quarter compared to 1,739 in the 2017-quarter. The positive impact of increased activity was however offset by a 13 percent decrease in average day rates to $689 in the first quarter of 2018 from $794 in the 2017-quarter. The decrease in day rates was mainly due to a greater proportion of low-rate services provided to other sectors of the market in the 2018-quarter.

For the three-month period ended March 31, 2018, the Stream division incurred reportable losses before tax of $1.1 million (2017 - $0.5 million). The Stream division's losses in the 2018-period pertain mostly to the depreciation expenses of $0.6 million.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2018	2017	% Change
Revenue	**38,067**	26,815	42
Reportable segment loss before tax	**(4,168)**	(6,170)	(32)

In the first quarter of 2018, PHX Energy's US operations generated revenue of $38.1 million, an increase of 42 percent from $26.8 million in the 2017-quarter. This level of first quarter revenue was the highest achieved by the US segment since 2015. The increase in revenue resulted mainly from Phoenix USA growing its client base and volume of activity, and as a result, operating days increased by 36 percent to 2,713 days in the 2018-quarter from 1,990 days in the 2017-quarter. PHX Energy's rate of activity growth was in line with the gains made to the US industry's rig count. In the first quarter of 2018, the number of horizontal and directional rigs running per day rose by 34 percent from an average of 674 horizontal and directional rigs running per day during the 2017-quarter to 903 in the 2018-quarter (Source: Baker Hughes). Average day rates, excluding the motor rental division in Midland, Texas and the Rocky Mountain region, slightly increased from $13,094 in the 2017-quarter to $13,846 in the 2018-period. The improvement in day rates was offset by a 4 percent weakening in the average US dollar foreign exchange rate quarter-over-quarter.

Horizontal and directional drilling represented 93 percent of the industry's average number of rigs running on a daily basis during the first quarter of 2018, which was slightly higher than the percentage in the 2017-quarter. For the three-month period ended March 31, 2018, 95 percent of the US operating division's activity was oil well drilling, as measured by wells drilled and excluding the motor rental and gyro surveying divisions. The Permian basin represents 45 percent of all active rigs operating in the US today and during the first quarter of 2018 approximately 70 percent of Phoenix USA's activity was focused in this area. In addition the Corporation was active in the Eagle Ford, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins (Source: Baker Hughes).

Reportable segment loss before tax for the three-month period ended March 31, 2018 was $4.2 million compared to losses of $6.2 million in the 2017-quarter. The reduction to the segment losses in 2018 was largely the result of improved activity levels and average day rates.

International

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,		
	2018	2017	% Change
Revenue	**4,717**	4,865	(3)
Reportable segment loss before tax	**(360)**	(605)	(40)

For the three-month period ended March 31, 2018, the Corporation's international revenue decreased slightly by 3 percent to $4.7 million from the $4.9 million generated in the 2017-quarter. PHX Energy generated 7 percent of its consolidated revenue from its international operations in the first quarter of 2018 (2017 - 8 percent). International operating days, excluding the MWD rental activity in Russia, decreased by 2 percent to 675 days in the 2018-quarter from 691 days in the 2017-quarter. The decrease in international operating days was primarily due to lower activity levels in Albania.

The first quarter is typically a slower period for the Russian drilling industry due to the extremely cold weather, despite this Phoenix Russia was more active in the three-month period ended March 31, 2018 as compared to the same period in 2017. In the first quarter of 2018, the Russian division achieved operating days of 634 as compared to the 546 days recorded in the 2017-quarter. Phoenix Russia continues to offer full service directional services as well as MWD rentals to this market and has continued to secure work with select Operators in the region.

For the three-month period ended March 31, 2018, the Albanian division generated 41 operating days, a decrease compared to the 145 days recorded in the 2017-quarter. Operations in Albania were idle exiting 2017 and were re-commenced in the latter half of the 2018-quarter, where as in 2017 operations were active throughout the first quarter.

Reportable segment loss from international operations for the three-month period March 31, 2018 was $0.4 million, which is $0.2 million less than the loss of $0.6 million reported in the comparable 2017-quarter. The improvement in the international operations' profitability in the 2018-quarter was mainly due to increased drilling activity and expanded MWD rental activity in Russia.

Investing Activities

PHX Energy used net cash in investing activities of $2.4 million in both the first quarter of 2018 and 2017. In the first quarter of 2018, the Corporation received proceeds of $2.7 million (2017 - $1.4 million) from the disposition of drilling equipment, primarily related to the involuntary disposal of drilling equipment in well bores. Additionally, the Corporation spent $3.1 million on capital expenditures in the first quarter of 2018 (2017 - $1.8 million). These expenditures included:

- $2.3 million in MWD systems and spare components,
- $0.7 million in downhole performance drilling motors, machinery and equipment and vehicles; and
- $0.1 million in furniture and fixtures, computer hardware and Electronic Drilling Recorder ("EDR") systems and spare components.

The capital expenditure program undertaken in the period was financed generally from funds from operations and drawdowns on credit facilities.

During the three-month period ended March 31, 2018, the Corporation acquired $3,696 in intangible assets (2017 - $0.5 million).

The change in non-cash working capital balances of $2.0 million (use of cash) for the three-month period ended March 31, 2018, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $1.5 million (use of cash) for the three-month period ended March 31, 2017.

Financing Activities

The Corporation reported cash flows generated from financing activities of $1.8 million in the three-month period ended March 31, 2018 as compared to $8.1 million in the comparable 2017-quarter. In the 2018-quarter:

- the Corporation repurchased 125,000 shares through the NCIB totaling $0.2 million; and
- the Corporation drew net proceeds of $2.1 million from its operating and syndicated facilities.

Capital Resources

As of March 31, 2018, the Corporation had $12.0 million drawn on its syndicated facility, and $9.7 million drawn on its operating facility. As at March 31, 2018, the Corporation had approximately CAD $41.3 million and USD $5.0 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at March 31, 2018, 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 2018 capital budget remains at $10.5 million. These planned expenditures are expected to be financed from a combination of one or more of the following: cash flow from operations, the Corporation's unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2018, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Outlook

PHX Energy is pleased to report its first quarter results. Consolidated revenue, activity, and adjusted EBITDA increased over the prior year's quarter and adjusted EBITDA results exceed the Corporation's internal forecast for the quarter. The improvement in profitability outpaced the revenue gains as a result of PHX Energy's continued discipline towards its cost structure.

Despite lower activity levels, the Corporation's Canadian operations' profitability improved in the first quarter of the year. As is typical, near the end of quarter volumes began to decline with the seasonal spring break-up period and the slowdown will continue through the second quarter. Unfortunately, the Canadian market is faced with many challenges beyond the Corporation's control and the large obstacles that are present in the political and macro-environment are limiting the industry's potential despite the improved commodity prices. Canadian Operators constrained by these obstacles are not fully benefiting from the upside.

In contrast, the outlook for the US market is optimistic and the industry is continuing to rebound with the number of active rigs climbing. The Permian basin is the focal point of this positive momentum with 45 percent of the industry's activity. PHX Energy is entrenched in this market and remains focused on gaining greater activity. Despite a slower start to the year, PHX Energy's US operations saw substantial growth in operating days and revenue. Additionally, the US division expanded its client base in the quarter, which will help propel further growth in future quarters. PHX Energy's fleet of high performance technology is assisting in the Corporation's ability to attract additional work, and PHX Energy plans to continue to deploy new capacity to this market as it comes on line. Phoenix USA is well positioned to further increase its volume of activity and a large focus in the upcoming quarters will be placed on executing upon this objective.

PHX Energy's international operations remain focused in Russia, and despite the first quarter being the traditionally slower period due to colder temperatures, PHX Energy, through both its full service and MWD rental business, increased revenue over the 2017 first quarter. After an idle period in the past few quarters, Phoenix Albania resumed operations in mid- February and the Corporation is currently operating on one rig.

The Corporation remains focused on having a competitive EDR product in the market place. In 2017, Stream launched the DataStream product line, and the division continues to work on advancing and marketing this technology. Operations in Canada and the US are ongoing, and PHX Energy remains focused on initiatives that will position Stream in a profitable position.

Technology Update

PHX Energy remains diligently focused on its strategy to develop and deploy new generation technology that offers a competitive advantage to its clients. As a result of our past product development and engineering initiatives, the Corporation now has a line of high performance technologies, namely Velocity and the 7.25" Atlas High Performance Drilling Motor, that supplement its leading-edge fleet of conventional systems. Over the past 3 years, nearly all capital expenditures have been dedicated to building the high performance fleets. Currently, PHX Energy is receiving additional capacity that was ordered in late 2017 and early 2018, and there are further orders to be received in the third quarter of the year.

As 2018 progresses, PHX Energy will continue to leverage its diversified operations, focusing on executing growth strategies in all operating regions.

Michael Buker, President
May 3, 2018

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, equity share-based payments, and unrealized foreign exchange gains or losses, 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 certain 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 March 31,	
	2018	2017
Net Loss	**(4,251)**	(7,143)
Add:		
Depreciation and amortization	**10,306**	10,931
Provision for (Recovery of) income taxes	**14**	(1,195)
Finance expense	**340**	585
Equity-settled share-based payments	**460**	488
Unrealized foreign exchange (gain) loss	**(101)**	77
Adjusted EBITDA as reported	**6,768**	3,743

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 March 31,	
	2018	2017
Net cash flows from operating activities	**936**	(9,896)
Add (deduct):		
Changes in non-cash working capital	**5,088**	13,466
Interest paid	**228**	303
Income taxes (received) paid	**(495)**	110
Funds from operations	**5,757**	3,983

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, impairment losses on goodwill and intangible assets, and onerous contracts, subject to the restrictions provided in the amended credit agreement.

4) Working Capital

Working capital is defined as the Corporation's current assets less its current liabilities and is used to assess the Corporation's short-term liquidity.

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 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; Denver, Colorado; Casper, Wyoming; Midland, Texas; Bellaire, Ohio; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania and Russia, and administrative offices in Nicosia, Cyprus; Dublin, Ireland; and Luxembourg City, Luxembourg.

PHX Energy markets its EDR technology and services in Canada through its division, Stream Services ("Stream"), which has an office and operations center in Calgary, Alberta. In the US, EDR technology and services are marketed under the US entity, Stream EDR Services. EDR technology is marketed worldwide, outside Canada and the US, through Stream's wholly-owned subsidiary Stream Services International Inc.

The common shares of PHX Energy trade on the Toronto Stock Exchange under the symbol PHX.

For further information please contact:
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Consolidated Statements of Financial Position

(unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 4,531,173**	$ 4,122,539
Trade and other receivables	**75,006,391**	66,635,311
Inventories	**22,501,647**	22,009,483
Prepaid expenses	**3,228,635**	2,915,878
Current tax assets	**1,009,005**	1,353,622
Total current assets	**106,276,851**	97,036,833
Non-current assets:		
Drilling and other equipment	**91,726,486**	98,569,594
Goodwill	**8,876,351**	8,876,351
Intangible assets	**26,114,342**	26,925,046
Deferred tax assets	**14,698,334**	14,828,714
Total non-current assets	**141,415,513**	149,199,705
Total assets	**$ 247,692,364**	$ 246,236,538
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	**$ 9,701,943**	$ 5,620,464
Trade and other payables	**42,513,794**	41,629,783
Total current liabilities	**52,215,737**	47,250,247
Non-current liabilities:		
Loans and borrowings	**12,000,000**	14,000,000
Provision for onerous contracts	**1,921,000**	2,015,000
Deferred income	**1,400,006**	1,433,339
Total non-current liabilities	**15,321,006**	17,448,339
Equity:		
Share capital	**266,600,536**	266,838,036
Contributed surplus	**9,776,128**	9,315,926
Retained earnings	**(110,689,399)**	(106,438,399)
Accumulated other comprehensive income	**14,468,356**	11,822,389
Total equity	**180,155,621**	181,537,952
Total liabilities and equity	**$ 247,692,364**	$ 246,236,538

Consolidated Statements of Comprehensive Loss

(unaudited)

	Three-month periods ended March 31,	
	2018	2017
Revenue	**$ 70,758,554**	$ 61,122,415
Direct costs	**65,929,457**	60,805,182
Gross profit	**4,829,097**	317,233
Expenses:		
Selling, general and administrative expenses	**8,770,725**	7,209,659
Research and development expenses	**870,330**	607,459
Finance expense	**339,727**	585,164
Other expenses (income)	**(914,619)**	253,198
	9,066,163	8,655,480
Loss before income taxes	**(4,237,066)**	(8,338,247)
Provision for (Recovery of) income taxes		
Current	**(144,833)**	51,000
Deferred	**158,767**	(1,246,087)
	13,934	(1,195,087)
Net loss	**(4,251,000)**	(7,143,160)
Other comprehensive income (loss)		
Foreign currency translation	**2,645,967**	611,203
Total comprehensive loss for the period	**$ (1,605,033)**	$ (6,531,957)
Loss per share – basic	**$ (0.07)**	$ (0.13)
Loss per share – diluted	**$ (0.07)**	$ (0.13)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	**$ (4,251,000)**	$ (7,143,160)
Adjustments for:		
Depreciation and amortization	**10,306,246**	10,931,018
Provision for (Recovery of) income taxes	**13,934**	(1,195,087)
Unrealized foreign exchange loss (gain)	**(101,069)**	76,820
Gain on disposition of drilling equipment	**(778,659)**	(147,262)
Equity-settled share-based payments	**460,202**	488,136
Finance expense	**339,727**	585,164
Provision for (Recovery of) bad debts	**(7,888)**	227,783
Provision for (Recovery of) inventory obsolescence	**(64,738)**	300,000
Provision for onerous contracts	**(128,000)**	(107,000)
Amortization of deferred income	**(33,333)**	(33,333)
Interest paid	**(227,543)**	(303,478)
Income taxes received (paid)	**495,491**	(109,735)
Change in non-cash working capital	**(5,087,843)**	(13,466,159)
Net cash from (used in) operating activities	**935,527**	(9,896,293)
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**2,706,864**	1,402,862
Acquisition of drilling and other equipment	**(3,066,570)**	(1,798,618)
Acquisition of intangible assets	**(3,696)**	(523,258)
Change in non-cash working capital	**(2,007,470)**	(1,499,302)
Net cash used in investing activities	**(2,370,872)**	(2,418,316)
Cash flows from financing activities:		
Repayment of loans and borrowings	**(2,000,000)**	(17,019,200)
Proceeds from (Repayment of) operating facility	**4,081,479**	(4,024,226)
Repurchase of shares under the NCIB	**(237,500)**	-
Proceeds from issuance of share capital	**-**	29,154,582
Net cash from financing activities	**1,843,979**	8,111,156
Net increase (decrease) in cash and cash equivalents	**408,634**	(4,203,453)
Cash and cash equivalents, beginning of period	**4,122,539**	7,007,293
Cash and cash equivalents, end of period	**$ 4,531,173**	$ 2,803,840