PHX
ENERGY SERVICES CORP.

PRESS RELEASE
August 3, 2017
TSX - PHX

PHX Energy Announces its Second Quarter Results

Financial Results

For the three-month period ended June 30, 2017, PHX Energy generated consolidated revenue of $53.8 million, more than double the $26.4 million generated in the respective 2016-period. The increased revenue primarily resulted from greater activity levels across all of the Corporation's operating segments, as consolidated operating days in the second quarter of 2017 grew by 94 percent to 4,749 days from 2,452 days in the 2016-quarter.

In the second quarter of 2017, adjusted EBITDA (see "Non-GAAP Measures") rose to $0.6 million, an improvement over the negative $2.0 million realized in the 2016-quarter. The Corporation reduced its quarterly net loss by 22 percent in 2017 to $10.4 million from $13.4 million in the comparable 2016-quarter. Included in these results is Stream Services' ("Stream") adjusted EBITDA of negative $0.6 million (2016 – negative $0.7 million) and net losses of $0.9 million (2016 - $1.3 million).

As at June 30, 2017, PHX Energy had long-term debt of $5.0 million and working capital (see "Non-GAAP Measures") of $44.7 million.

Capital Spending

During the second quarter of 2017, the Corporation incurred $6.7 million in capital expenditures (2016 - $2.0 million), which were primarily used to expand the fleet of Velocity Real-Time Systems ("Velocity") and electronic drilling recorder ("EDR") equipment.

As at June 30, 2017, the Corporation had $14.4 million of outstanding capital commitments to purchase drilling and other equipment. These commitments include $9.5 million for Velocity systems, $3.0 million for performance drilling motors, $1.2 million for resistivity while drilling ("RWD") systems, $0.5 million for EDR equipment and $0.2 million for machinery and equipment. The Corporation expects the equipment to be delivered throughout the remainder of 2017.

PHX Energy's anticipated capital expenditure budget for 2017 remains at $25.0 million.

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. No share purchases, pursuant to the NCIB, were made by the Corporation during the period from June 26, 2017 to June 30, 2017.

Equity Financing

On February 2, 2017, PHX Energy closed a bought deal financing for aggregate proceeds of $28.8 million. An aggregate of 7,187,500 common shares of the Corporation were issued at a price of $4.00 per common share. Concurrent with the closing of the public offering, certain directors, officers, employees and consultants of PHX Energy purchased a total of 500,000 common shares at a price of $4.00 per share on a private placement basis. The gross proceeds from the public offering and concurrent private placement totaled to approximately $30.8 million.

The proceeds from the equity financing were primarily used to reduce the outstanding loans and borrowings under the Corporation's credit facility.

(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,		
	2017	2016	% Change	**2017**	2016	% Change
Operating Results	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**53,822**	26,359	104	**114,944**	66,808	72
Net loss	**(10,412)**	(13,360)	(22)	**(17,555)**	(20,764)	(15)
Loss per share – diluted	**(0.18)**	(0.32)	(44)	**(0.31)**	(0.50)	(38)
Adjusted EBITDA [(1)]	**553**	(2,018)	n.m.	**4,886**	2,097	n.m.
Adjusted EBITDA per share – diluted [(1)]	**0.01**	(0.05)	n.m.	**0.09**	0.05	80
Adjusted EBITDA as a percentage of revenue [(1)]	**1%**	(8%)		**4%**	3%	
Cash Flow						
Cash flows from operating activities	**13,671**	4,075	n.m.	**3,774**	4,833	(22)
Funds from (used in) operations [(1)]	**113**	(3,192)	n.m.	**4,096**	393	n.m.
Funds from (used in) operations per share – diluted[(1)]	**-**	(0.08)	n.m.	**0.07**	0.01	n.m.
Dividends paid	**-**	-	-	**-**	416	(100)
Dividends per share [(2)]	**-**	-	-	**-**	0.01	(100)
Capital expenditures	**6,698**	2,035	n.m.	**8,497**	2,892	n.m.
Financial Position (unaudited)				**Jun 30, '17**	Dec 31, '16	
Working capital				**44,671**	44,230	1
Long-term debt				**5,000**	29,014	(83)
Shareholders' equity				**189,641**	178,387	6
Common shares outstanding				**58,589,887**	50,810,721	15

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 press release 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 delivery of capital expenditure items, the projected capital expenditures budget and how this budget will be funded, and how R&D projects will enhance and expand PHX Energy's services.

The above are stated under the headings: "Capital Spending", “Operating Cost and Expenses”, 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 June 30,			Six-month periods ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Revenue	**53,822**	26,359	104	**114,944**	66,808	72

During the three-month period ended June 30, 2017, the Corporation generated consolidated revenue of $53.8 million, more than double the $26.4 million recognized in the 2016-period. The increase in the consolidated quarterly revenue in 2017 was driven by higher levels of drilling activity that resulted from improved commodity prices when compared to the 2016-period. Consolidated operating days in the second quarter of 2017 rose by 94 percent to 4,749 days as compared to 2,452 days in the 2016-quarter. The average consolidated day rate in the 2017-quarter, excluding the motor rental division in the US and the Stream division, was $11,029, a 5 percent improvement over the $10,549 realized in the comparable 2016-quarter. US and international revenue as a percentage of total consolidated revenue were 65 and 10 percent, respectively, for the 2017-quarter as compared to 66 and 12 percent in 2016.

During the 2017-quarter, there were twice as many rigs operating per day in both Canada and the US as the industry recovered from the historical lows experienced in 2016. In Canada, horizontal drilling continued to dominate all activity at 96 percent of industry drilling days in the second quarter of 2017 (2016 – 92 percent), and in the US the average number of horizontal rigs running per day represented 84 percent of the rig count in the 2017-quarter (2016 – 77 percent) (Sources: Daily Oil Bulletin and Baker Hughes).

Consolidated revenue for the six-month period ended June 30, 2017 increased by 72 percent to $114.9 million from $66.8 million in the comparable 2016-period. The Corporation achieved 11,432 consolidated operating days in the six-month period ended June 30, 2017, which is 75 percent higher than the 6,521 days reported in 2016.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Direct costs	**56,776**	36,253	57	**117,581**	82,264	43
Gross loss as a percentage of revenue	**(5%)**	(38%)		**(2%)**	(23%)	
Depreciation & amortization (included in direct costs)	**10,514**	13,013	(19)	**21,445**	27,015	(21)
Gross profit as percentage of revenue excluding depreciation & amortization	**14%**	12%		**16%**	17%	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization of the Corporation's equipment. For the three and six-month periods ended June 30, 2017, direct costs increased to $56.8 million and $117.6 million, respectively, from $36.3 million and $82.3 million in the comparable 2016-periods.

The increased costs for both 2017-periods was primarily due to higher activity levels, as well as the following factors:

- higher field expenses as increases were made in labour rates during the first quarter;
- greater third party rental costs required to meet the increased volume of activity; and
- increased motor repair costs.

In the 2017-periods, the gross loss as a percentage of revenue fell to 5 percent and 2 percent, respectively, as compared to 38 percent and 23 percent in the 2016-periods. The reduced gross loss margins in 2017 are primarily the result of all operating segments being more active.

The reduction in the depreciation and amortization expense for the three and six-month periods ended June 30, 2017 was mainly the result of PHX Energy's lower level of capital spending in the 2016 and 2017-years.

Excluding depreciation and amortization, gross profit as a percentage of revenue improved to 14 percent for the three-month period ended June 30, 2017 from 12 percent in the comparable 2016-period. The more favourable second quarter margin was mainly driven by increased activity levels, partially offset by the above factors. Whereas, for the first half of 2017, gross profit as percentage of revenue excluding depreciation & amortization fell slightly to 16 percent versus 17 percent in 2016. The lower margin in the current year period is primarily the result of lower client day rates in the first quarter of 2017 and the factors listed above.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Selling, general & administrative ("SG&A") costs	**7,776**	6,880	13	**14,985**	13,559	11
Equity-settled share-based payments (included in SG&A costs)	**1,030**	611	69	**1,518**	897	69
Cash-settled share-based payments (recoveries) (included in SG&A costs)	**(159)**	1,099	n.m.	**(27)**	950	n.m.
Onerous contracts lease payment	**(70)**	-	n.m.	**(177)**	-	n.m.
SG&A costs excluding equity and cash-settled share-based payments and provision for onerous contracts as a percentage of revenue	**13%**	20%		**12%**	18%	

n.m. – not meaningful

For the three and six-month periods ended June 30, 2017, SG&A costs rose to $7.8 million and $15.0 million, respectively, from $6.9 million and $13.6 million in the comparable 2016-periods. The higher SG&A costs for both 2017-periods are primarily the result of improved activity levels and issuance of equity settled share-based awards, partially offset by recoveries on cash-settled share-based awards.

For the three and six-month periods ended June 30, 2017, excluding equity and cash-settled share-based payments and the provision for onerous contracts, SG&A costs as a percentage of consolidated revenue were 13 percent and 12 percent, respectively. This is much improved over the 20 percent and 18 percent in the comparable 2016-periods. The more favourable percentages in both 2017-periods are mainly attributable to the greater volume of activity.

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, 2017, equity-settled share-based payments increased by 69 percent, as compared to the corresponding 2016-periods, mainly due to a higher compensation expense related to options granted in the first quarter of 2017.

Cash-settled share-based retention awards, which are included in SG&A costs, are measured at fair value. For the three and six-month periods ended June 30, 2017, the Corporation recognized share-based compensation recoveries from the revaluation of the retention awards based on the reduction in PHX Energy's stock price during both periods.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Research & development expense	**764**	225	n.m.	**1,371**	750	83

n.m. – not meaningful

Research and development ("R&D") expenditures during the three and six-month periods ended June 30, 2017 were $0.8 million (2016 - $0.2 million) and $1.4 million (2016 - $0.8 million), respectively. R&D expenditures were higher in both 2017-periods, which is mainly the result of increased R&D personnel in the current year and the receipt of scientific research and experimental development ("SR&ED") credits, which reduced the 2016-periods expense. The R&D department continues to focus on new technology development and cost-saving and reliability initiatives that will enhance and expand PHX Energy's services.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Finance expense	**428**	527	(19)	**1,013**	1,099	(8)

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. For the three and six-month periods, finance charges decreased to $0.4 million (2016 - $0.5 million) and $1.0 million (2016 - $1.1 million) respectively. The reduction in finance charges in both 2017-periods was primarily due to lower levels of borrowings compared to the prior year periods, partially offset by additional financing charges and higher fixed pricing on borrowings.

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2017	2016	**2017**	2016
Loss (Gain) on disposition of drilling equipment	**(94)**	426	**(241)**	(779)
Foreign exchange losses (gains)	**83**	125	**255**	(226)
Provision for (Recovery of) bad debts	**24**	(96)	**252**	(66)
Other expense (income)	**13**	455	**266**	(1,071)

During the three and six-month periods ended June 30, 2017, the Corporation recognized gains on the disposition of drilling equipment of $0.1 million (2016 - $0.4 million loss) and $0.2 million (2016 - $0.8 million). Gains from the disposition of drilling equipment 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 downhole equipment losses.

For the three and six-month periods ended June 30, 2017, the Corporation incurred foreign exchange losses of $0.1 million (2016 - $0.1 million) and $0.3 million (2016 - $0.2 million gain), respectively. These losses resulted mainly from the settlement of Canadian-denominated intercompany payables in the Corporation's Russian operations and the revaluation of Canadian-denominated intercompany payables in the US.

During the three and six-month periods ended June 30, 2017, the Corporation recognized provisions for bad debts of $24,000 (2016 - $0.1 million recovery) and $0.3 million (2016 - $0.1 million recovery), respectively. Provisions for bad debt in the 2017-quarter relate mainly to accounts receivable in the Corporation's US segment.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2017	2016	**2017**	2016
Provision for (Recovery of) income taxes	**(1,521)**	(4,622)	**(2,716)**	(9,029)
Effective tax rates	**13%**	26%	**13%**	30%

The recovery of income taxes for the three and six-month period ended June 30, 2017 was $1.5 million and $2.7 million, respectively, as compared to $4.6 million and $9.0 million in the comparable 2016-periods. The expected combined Canadian federal and provincial tax rate for 2017 is 27 percent. The effective tax rate in the 2017-periods were lower than the expected rate mainly as a result of the effect of 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, in Russia and Albania.

Canada

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Revenue	**13,450**	5,832	131	**42,892**	21,452	100
Reportable segment loss before tax	**(5,247)**	(7,320)	(28)	**(4,479)**	(10,559)	(58)

For the three-month period ended June 30, the Corporation's Canadian revenue grew from $5.8 million in 2016 to $13.5 million in 2017. The recovery in the industry rig count continued during Canadian spring break-up, with substantially more rigs operating in 2017 than in the prior year. PHX Energy's Canadian segment reported 1,699 operating days, up from 663 days in the 2016-quarter. This is consistent with the industry's performance as horizontal and directional drilling activity, as measured by drilling days, increased from 3,301 days in the 2016-quarter to 10,729 days in the 2017-quarter (Source: Daily Oil Bulletin). In the second quarter of 2017, there was an increased proportion of jobs requiring fewer rig site personnel which caused the average day rate (excluding Stream revenue) to fall by 11 percent to $7,535 from $8,420 in the 2016-quarter.

During the second quarter of 2017, oil drilling, as measured by drilling days, represented approximately 51 percent of PHX Energy's Canadian activity and the Corporation remained active in the Montney, Wilrich, Bakken, Shaunavon, Duvernay, Cardium and Viking areas.

For the six-month period ended June 30, 2017, the Corporation recognized revenue of $42.9 million, double the $21.5 million of revenue earned in the 2016-period. The increased revenue in the first half of 2017 was primarily the result of the higher rig count in the Canadian market. The Corporation's operating days grew from 2,614 days in the first half of 2016 to 5,703 days in 2017. This is consistent with Canadian industry activity, as the number of reported horizontal and directional drilling days grew to 32,792 days for the first half of 2017 as compared to 14,493 days in 2016 (Sources: Daily Oil Bulletin). In the six-month period ended June 30, 2017, oil drilling represented approximately 60 percent of PHX Energy's Canadian activity (2016 – 45 percent). In the first half of 2017, PHX Energy saw its average day rates (excluding Stream revenue) decline by 11 percent to $7,166 from $8,010 in 2016, as a result of market conditions and an increased proportion of jobs requiring fewer rig site personnel.

For the three and six-month periods ended June 30, 2017, the reportable segment loss before tax was $5.2 million (2016 - $7.3 million) and $4.5 million (2016 - $10.6 million). The improved margins for both 2017-periods was primarily due to the significant recovery of activity levels as compared to the 2016-periods.

Stream Services

Included in the Canadian segment's revenue for the three and six-month periods ended June 30, 2017 is $0.7 million (2016- $0.2 million) and $2.0 million (2016 - $0.5 million), respectively, of revenue generated by the Stream division. For the second quarter, Stream grew its operating days by 71 percent from 500 days in 2016 to 854 days in 2017. Along with the growth in activity level, average day rates for the division also rose by 53 percent to $761 in the second quarter of 2017, up from $498 in the 2016-quarter.

For the three and six-month periods ended June 30, 2017, the Stream division incurred reportable losses before tax of $1.3 million (2016 - $1.8 million) and $1.7 million (2016 - $3.5 million). The Stream division's losses in both 2017-periods pertain mostly to depreciation expenses of $0.6 million and $1.2 million, respectively, as well as the costs associated with the continued expansion of the division.

United States

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Revenue	**35,206**	17,381	103	**62,021**	39,120	59
Reportable segment loss before tax	**(4,011)**	(6,803)	(41)	**(10,180)**	(14,608)	(30)

For the three-month period ended June 30, 2017, the US segment generated revenue of $35.2 million which is twice the $17.4 million generated in the 2016-period. PHX Energy's US operating days grew by 89 percent to 2,404 days in the 2017-quarter from 1,275 days in the 2016-quarter. Average day rates, excluding the Corporation's US motor rental division, rose by 7 percent to $14,315 in the 2017-quarter compared to $13,441 in the 2016-period, with the 2017 rates being assisted by the strengthening of the US dollar. In US dollars, the average day rates were relatively consistent quarter-over-quarter.

After reaching historical lows during the second quarter of 2016, the US rig count rebounded in 2017. The average number of rigs running per day in the second quarter of 2017 was 895 rigs, double the 422 rigs that were running in the 2016-quarter (Source: Baker Hughes). The average horizontal and directional rigs running per day in the 2017-quarter was 818 rigs, representing 91 percent of the average daily number of rigs running (Source: Baker Hughes). During the three-month period ended June 30, 2017, oil well drilling represented 89 percent of PHX Energy's US activity as a large portion of the industry's drilling activity remained concentrated in Texas, specifically the Permian basin. During the second quarter of 2017, Phoenix USA continued to be active in the Permian, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins.

For the six-month period ended June 30, 2017, US revenue grew by 59 percent to $62.0 million from $39.1 million in the comparable 2016-period. In the first half of 2017 the segment recorded 4,393 days, a 55 percent improvement from the 2,839 days in the first half of 2016. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, rose by 75 percent in the first half of 2017 to 746 rigs from 427 rigs in the comparable 2016-period (Source: Baker Hughes).

For the three and six-month periods ended June 30, 2017, the reportable segment loss before tax decreased to $4.0 million (2016 - $6.8 million) and $10.2 million (2016 - $14.6 million). The improved margins in both 2017-periods are mainly attributable to the rise in activity levels and stabilization of day rates.

International

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Revenue	**5,166**	3,146	64	**10,031**	6,236	61
Reportable segment loss before tax	**(111)**	(1,042)	(89)	**(716)**	(1,733)	(59)

For the three and six-month periods ended June 30, 2017, the Corporation's international revenue increased to $5.2 million (2016 - $3.1 million) and $10.0 million (2016 - $6.2 million), respectively, as the segment's operating days were higher in 2017 as a result of the recommencement of the Albania operations, which were idle in the comparable 2016-periods. In the second quarter of 2017, the international segment recorded 646 operating days, an increase from the 514 operating days in the 2016-quarter. International operating days in the first half of 2017 were 1,337 days, as compared to 1,068 days generated in the 2016-period. The Corporation generated 10 percent of its second quarter 2017 consolidated revenue from its international operations as compared to 12 percent in the 2016-quarter.

PHX Energy's Russian operations remained steady in the second quarter of 2017, reporting an 8 percent increase in drilling activity to 554 operating days compared to 514 operating days in the 2016-quarter. The division further diversified its client base and grew the volume of measurement while drilling ("MWD") rentals in Eastern Siberia.

During the second quarter of 2017, the Albanian operations recorded lower operating days than in the first quarter of the year, which can be attributed to the volatility of commodity prices reducing drilling activity.

The international segment incurred reportable segment losses for the three and six-month periods ended June 30, 2017 of $0.1 million (2016 - $1.0 million) and $0.7 million (2016 - $1.7 million). The improved margins in both 2017-periods were mainly due to the recommencement of operations in Albania, increased Russian activity and strengthening of the Russian ruble.

Investing Activities

For the three-month period ended June 30, 2017, PHX Energy used $4.4 million of cash in investing activities as compared to $2.2 million in 2016. During the 2017-quarter, PHX Energy received proceeds of $1.6 million (2016 - $0.3 million) and recorded a gain of $0.1 million (2016 - $0.4 million loss) related to the disposition of capital equipment, primarily from the involuntary disposal of drilling equipment in well bores.

In the second quarter of 2017, the Corporation spent $6.7 million on capital expenditures (2016 - $2.0 million), comprised of:

- $3.9 million in MWD systems and spare components;
- $1.8 million in EDR equipment and spare components; and
- $1.0 million in downhole performance drilling motors.

The capital expenditure program undertaken in the period was financed generally from cash flow from operating activities.

During the 2017-quarter, the Corporation spent $0.1 million in intangible assets, consisting primarily of license payments.

The change in non-cash working capital balance of $0.8 million (source of cash) for the three-month period ended June 30, 2017, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $0.3 million source of cash for the three-month period ended June 30, 2016.

Financing Activities

The Corporation reported cash flows used in financing activities of $7.8 million in the three-month period ended June 30, 2017 as compared to $1.1 million in the 2016-period. The Corporation made aggregate net repayments of $7.8 million on its operating and syndicated facilities during the second quarter of 2017.

Capital Resources

As of June 30, 2017, the Corporation had $5.0 million drawn on its syndicated facility, $1.2 million drawn on its operating facility, and nil drawn on its US operating facility. As at June 30, 2017, PHX Energy exceeded the minimum liquidity required under the amended credit agreement as the Corporation had $4.3 million in cash-on-hand and $52.7 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at June 30, 2017, 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 2017 capital budget remains at $25.0 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 2017, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Outlook

The positive momentum in the active rig count across North America continued into the second quarter of 2017 and the Corporation benefitted from the increased activity, seeing improved profitability throughout all operating regions in comparison to the 2016 second quarter.

In Canada, the Corporation continued to be a prominent service provider and achieved growth in both revenue and operating days as compared to 2016. In the 2017-quarter there were twice as many rigs operating per day, despite this increase, competition remained strong and weak day rates persisted. The third and fourth quarter are typically the more active quarters in the industry, however, with the instability in the commodity price environment it is anticipated that the Canadian market will face headwinds in the near future. This instability will likely temper the growth in the number of drilling rigs operating and, as a result, the rig count is not expected to reach levels achieved in the first quarter of 2017. PHX Energy will remain focused on leveraging our strong marketing relationships, superior operational performance and differentiating technology to retain its strong position in Canada.

The active rig count in the US has grown steadily from the lows seen in the second quarter of 2016, and the Permian basin continues to lead this trend with approximately one third of all rigs operating in North America. This basin remains a key area of growth for the Corporation and PHX Energy is leveraging the competitive advantages created by Velocity and other new technologies to grow its market share in this region. As in Canada, the volatility in commodity prices is anticipated to slow the rate of activity growth in upcoming quarters. However, even with the activity levels likely remaining flat, PHX Energy believes this is the market with the greatest potential. As capacity is added to the Velocity fleet and new technologies reach commercialization, the Corporation foresees market share gains and improved margins in its US division.

Internationally, PHX Energy also achieved increased activity and revenue quarter-over-quarter. The Russian division's performance has remained steady and the Corporation anticipates that Russia will continue to present growth opportunities throughout the remainder of 2017. In Albania, activity was reduced to one operating rig during the second quarter.

Stream continues to build a strong reputation and gain momentum in the Canadian EDR market, which can largely be attributed to the successful launch of the DataStream product line. As Stream continues to diversify and grow its client base, competition in this sector is increasing as existing providers are aggressively defending market share. With rig counts now recovered from spring break-up and additional capacity being added to the EDR fleet, PHX Energy anticipates Stream will continue to increase its activity and revenue on a path to profitability. Additionally, initial efforts are underway to expand to the US, with operations now forecasted to commence in the later parts of 2017.

Technology Update

Velocity has now proven to provide a substantial competitive advantage, particularly in the US market, and demand has outweighed supply for many quarters. New systems are on order and delivery of the systems will be staggered throughout the remainder of 2017. Velocity development is ongoing as PHX Energy expands its advantages and works to integrate Velocity with new technologies to provide a unique service offering.

Field tests of PHX Energy's new 7.25" performance drilling motor continued with a select group of clients during the second quarter of 2017. This motor is quickly gaining a positive reputation with operators who are impressed with its performance and PHX Energy is now working on commercialization and growing this fleet.

PHX Energy has successfully deployed its Connect Surface System ("Connect") in the US to select clients, in addition to the various clients already leveraging Connect in the Canadian market as part of their remote operations centers. This is a critical piece of technology that assists with operators' efforts to become more efficient, automate the drilling process and optimize wellsite intelligence. Additionally, development is progressing to package Connect, Velocity, DataStream EDR and Prism optimization services to create a disruptive service offering.

Michael Buker
President
August 3, 2017

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, equity and cash-settled share-based payments, severance costs, provisions for inventory and provisions for onerous contracts, 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 June 30,		Six-month periods ended June 30,	
	2017	2016	**2017**	2016
Net loss	**(10,412)**	(13,360)	**(17,555)**	(20,764)
Add (deduct):				
Depreciation and amortization	**10,514**	13,013	**21,445**	27,015
Provision for (Recovery of) income taxes	**(1,521)**	(4,622)	**(2,716)**	(9,029)
Finance expense	**428**	527	**1,013**	1,099
Equity-settled share-based payments	**1,030**	611	**1,518**	897
Cash-settled share-based payments (recoveries)	**(159)**	1,099	**(27)**	950
Severance costs	**443**	414	**785**	1,329
Provision for inventory	**300**	300	**600**	600
Provision for onerous contracts	**(70)**	-	**(177)**	-
Adjusted EBITDA as reported	**553**	(2,018)	**4,886**	2,097

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,	
	2017	2016	**2017**	2016
Cash flows from operating activities	**13,671**	4,075	**3,774**	4,833
Add (deduct):				
Changes in non-cash working capital	**(13,969)**	(3,555)	**(502)**	(1,223)
Interest paid	**192**	322	**495**	760
Income taxes paid (received)	**219**	(4,034)	**329**	(3,977)
Funds from (used in) operations	**113**	(3,192)	**4,096**	393

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.

The debt to covenant EBITDA ratio was waived from the quarter ending December 31, 2016 to the quarter ending June 30, 2017, inclusive.

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 electronic drilling recorder ("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, 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, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 4,278,213**	$ 7,007,293
Trade and other receivables	**49,120,279**	41,552,796
Inventories	**23,865,312**	24,988,472
Prepaid expenses	**3,385,171**	2,613,716
Current tax assets	**5,169,015**	5,293,489
Total current assets	**85,817,990**	81,455,766
Non-current assets:		
Drilling and other equipment	**104,872,013**	121,172,229
Goodwill	**8,876,351**	8,876,351
Intangible assets	**25,797,605**	26,302,314
Deferred tax assets	**14,124,038**	10,687,684
Total non-current assets	**153,670,007**	167,038,578
Total assets	**$ 239,487,997**	$ 248,494,344
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	**$ 1,157,901**	$ 6,031,547
Trade and other payables	**39,988,806**	31,194,630
Total current liabilities	**41,146,707**	37,226,177
Non-current liabilities:		
Loans and borrowings	**5,000,000**	29,014,050
Provision for onerous contracts	**2,200,000**	2,300,000
Deferred income	**1,500,005**	1,566,671
Total non-current liabilities	**8,700,005**	32,880,721
Equity:		
Share capital	**267,264,497**	237,539,242
Contributed surplus	**8,233,780**	6,817,458
Retained earnings	**(100,465,833)**	(82,910,425)
Accumulated other comprehensive income	**14,608,841**	16,941,171
Total equity	**189,641,285**	178,387,446
Total liabilities and equity	**$ 239,487,997**	$ 248,494,344

Consolidated Statements of Comprehensive Loss

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2017	2016	**2017**	2016
Revenue	**$ 53,821,745**	$ 26,358,663	**$ 114,944,160**	$ 66,807,897
Direct costs	**56,775,555**	36,252,973	**117,580,737**	82,263,761
Gross loss	**(2,953,810)**	(9,894,310)	**(2,636,577)**	(15,455,864)
Expenses:				
Selling, general and administrative expenses	**7,775,546**	6,879,596	**14,985,205**	13,558,573
Research and development expenses	**763,604**	224,663	**1,371,063**	749,974
Finance expense	**427,605**	527,404	**1,012,769**	1,098,814
Other expense (income)	**12,392**	455,344	**265,590**	(1,071,097)
	8,979,147	8,087,007	**17,634,628**	14,336,264
Loss before income taxes	**(11,932,957)**	(17,981,317)	**(20,271,205)**	(29,792,128)
Provision for (Recovery of) income taxes				
Current	**247,402**	(1,053,299)	**298,402**	(5,284,204)
Deferred	**(1,768,112)**	(3,568,486)	**(3,014,199)**	(3,744,414)
	(1,520,710)	(4,621,785)	**(2,715,797)**	(9,028,618)
Net loss	**(10,412,247)**	(13,359,532)	**(17,555,408)**	(20,763,510)
Other comprehensive income (loss)				
Foreign currency translation	**(2,943,533)**	280,612	**(2,332,330)**	(6,851,115)
Total comprehensive loss for the period	**$ (13,355,780)**	$ (13,078,920)	**$ (19,887,738)**	$ (27,614,625)
Loss per share – basic	**$ (0.18)**	$ (0.32)	**$ (0.31)**	$ (0.50)
Loss per share – diluted	**$ (0.18)**	$ (0.32)	**$ (0.31)**	$ (0.50)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2017	2016	**2017**	2016
Cash flows from operating activities:				
Net loss	**$ (10,412,248)**	$ (13,359,532)	**$ (17,555,408)**	$ (20,763,510)
Adjustments for:				
Depreciation and amortization	**10,514,381**	13,012,682	**21,445,399**	27,015,427
Provision for (Recovery of) income taxes	**(1,520,710)**	(4,621,785)	**(2,715,797)**	(9,028,618)
Unrealized foreign exchange loss (gain)	**(52,387)**	42,577	**24,433**	1,484,765
Loss (Gain) on disposition of drilling equipment	**(93,904)**	426,114	**(241,166)**	(778,993)
Equity-settled share-based payments	**1,029,733**	610,853	**1,517,869**	897,234
Finance expense	**427,605**	527,404	**1,012,769**	1,098,814
Other non-cash charges	**230,000**	299,899	**423,000**	599,899
Amortization of deferred income	**(33,333)**	(33,333)	**(66,666)**	(66,666)
Provision for (Recovery of) bad debts	**24,117**	(96,110)	**251,900**	(65,692)
Interest paid	**(191,838)**	(322,184)	**(495,316)**	(760,429)
Income taxes received (paid)	**(219,351)**	4,033,770	**(329,086)**	3,977,374
Change in non-cash working capital	**13,968,532**	3,554,639	**502,373**	1,222,957
Net cash from operating activities	**13,670,597**	4,074,994	**3,774,304**	4,832,562
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**1,628,185**	279,339	**3,031,047**	2,855,526
Acquisition of drilling and other equipment	**(6,697,969)**	(2,034,834)	**(8,496,587)**	(2,891,530)
Acquisition of intangible assets	**(108,019)**	(755,809)	**(631,277)**	(932,352)
Change in non-cash working capital	**825,849**	282,549	**(673,453)**	165,880
Net cash used in investing activities	**(4,351,954)**	(2,228,755)	**(6,770,270)**	(802,476)
Cash flows from financing activities:				
Proceeds from issuance of share capital (net)	**-**	23,210,724	**29,154,582**	23,221,659
Repayment of loans and borrowings	**(6,994,850)**	(27,923,630)	**(24,014,050)**	(37,923,630)
Dividends paid to shareholders	**-**	-	**-**	(415,670)
Proceeds from (Repayment of) operating facility	**(849,420)**	3,581,149	**(4,873,646)**	4,294,512
Net cash from (used in) financing activities	**(7,844,270)**	(1,131,757)	**266,886**	(10,823,129)
Net increase (decrease) in cash and cash equivalents	**1,474,373**	714,482	**(2,729,080)**	(6,793,043)
Cash and cash equivalents, beginning of period	**2,803,840**	1,500,283	**7,007,293**	9,007,808
Cash and cash equivalents, end of period	**$ 4,278,213**	$ 2,214,765	**$ 4,278,213**	$ 2,214,765