PHX
ENERGY SERVICES CORP.

PRESS RELEASE
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TSX - PHX

PHX Energy Announces Record Second Quarter Financial and Operating Results, and Increases its 2014 Capital Expenditures Budget

PHX Energy Services Corp. ("PHX Energy") achieved record levels of revenue, operating days, EBITDA, and funds from operations for a second quarter.

For the three-month period ended June 30, 2014, the Corporation generated consolidated revenue of $100.5 million as compared to $65.5 million in the 2013-period; a 53 percent increase. In addition, despite the usual effects of spring break-up in Canada, the level of the Corporation's profitability increased. EBITDA of $7.8 million was achieved in the second quarter of 2014 compared to $0.4 million in the 2013-period. As a percentage of revenue, EBITDA was 8 percent in the 2014-quarter compared to 1 percent in the corresponding 2013-quarter. This level of EBITDA was primarily the result of solid activity growth and improved profitability realized in the US. In addition, margins were positively impacted by the ongoing strategy to implement cost reduction initiatives, continuously improve reliability, and gain operational efficiencies related to the utilization of PHX Energy's technologies.

All-time record quarterly revenue and operating days were attained in the US and as a percentage of the 2014-quarter's consolidated revenue, this segment represented 66 percent as compared to 62 percent in the 2013-quarter. Albania also achieved the highest level of quarterly revenue and operating days in its history, and the international segment represented 13 percent of consolidated revenue in the second quarter of 2014 (2013 - 20 percent). The Canadian segment in the second quarter of 2014 achieved new quarterly revenue and operating day milestones.

PHX Energy has increased its 2014 capital expenditure budget from $63.3 million to $76.4 million, in light of strong growth realized and anticipated future activity levels. During the second quarter of 2014, $11.1 million in capital expenditures were incurred, and an additional $26.1 million is currently on order and is expected to be received within the remainder of 2014.

In the 2014-quarter, the Corporation paid dividends of $7.3 million or $0.21 per share. As at June 30, 2014, PHX Energy had long-term debt of $90.3 million and working capital of $77.8 million.

During the second quarter of 2014, PHX Energy's job capacity increased by 5 concurrent jobs to 212 through the addition of 5 E-360 electromagnetic ("EM") measurement while drilling ("MWD") systems. As at June 30, 2014, the Corporation's MWD fleet consisted of 140 P-360 positive pulse MWD systems and 72 E-360 EM MWD systems. Of these, 100 MWD systems were deployed in Canada, 94 in the US, 9 in Russia, 6 in Albania, and 3 in Peru. The process of closing the Peruvian operations is still in progress and assets are being re-allocated to other locations. In addition, during the second quarter of 2014, the Corporation ceased all activities in Colombia and initiated the closure of its Colombian entity. All assets have been transferred to North America to support the increased drilling activities.

During the remainder of the year, the Corporation expects to add 12 P-360 and 2 E-360 MWD systems. As a result, by the end of 2014 the Corporation expects to have a fleet of 226 MWD systems, which would be comprised of 152 P-360 MWD systems and 74 E-360 MWD systems. In addition, the Corporation expects to increase its worldwide resistivity while drilling ("RWD") job capacity from 17 at the end of the second quarter to 18 by the end of 2014.

Financial Highlights

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

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Operating Results	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**100,484**	65,483	53	**229,615**	158,150	45
Net earnings (loss)	**(1,062)**	(4,735)	78	**7,751**	3,571	117
Earnings (Loss) per share – diluted	**(0.03)**	(0.16)	81	**0.22**	0.13	69
EBITDA (1)	**7,809**	367	n.m.	**29,080**	18,696	56
EBITDA per share – diluted (1)	**0.22**	0.01	n.m.	**0.83**	0.66	26
Cash Flow						
Cash flows from operating activities	**11,629**	11,942	(3)	**19,400**	25,244	(23)
Funds from operations (1)	**6,504**	872	646	**27,019**	17,606	53
Funds from operations per share – diluted (1)	**0.18**	0.03	500	**0.77**	0.62	24
Dividends paid	**7,258**	5,120	42	**14,452**	10,206	42
Dividends per share (2)	**0.21**	0.18	17	**0.42**	0.36	17
Capital expenditures	**11,069**	8,134	36	**24,525**	21,629	13
Financial Position (unaudited)				**June 30, '14**	Dec 31, '13	
Working capital				**77,771**	66,580	17
Long-term debt				**90,273**	70,208	29
Shareholders' equity				**198,999**	198,477	-
Common shares outstanding				**34,978,646**	34,218,974	2

n.m. - not meaningful

(1) Refer to non-GAAP measures section.

(2) Dividends paid by the Corporation on a per share basis in the period.

Non-GAAP Measures

PHX Energy uses certain performance measures throughout this document that are not recognizable under Canadian generally accepted accounting principles ("GAAP"). These performance measures include earnings before interest, taxes, depreciation and amortization ("EBITDA"), EBITDA per share, funds from operations, funds from operations per share and senior debt to EBITDA ratio. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, these may not be comparable. Please refer to the non-GAAP measures section.

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 expenditure budget and how this budget will be funded, the anticipated equipment additions, the expected combined Canadian federal and provincial tax rate, the efforts underway to expand the European business, the expected deployment of EDR technologies in Russia, and the Corporation' assessment of outstanding litigation in the United States.

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

In addition to other material factors, expectations and assumptions which may be identified in this document and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; exchange and interest rates; tax laws; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although Management considers these material factors, expectations and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with the Canadian Securities Regulatory Authorities and may be accessed through the SEDAR website (www.sedar.com) or at the

Corporation's website. The forward-looking statements and information contained in this document are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Revenue

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Revenue	**100,484**	65,483	53	**229,615**	158,150	45

Due primarily to remarkable growth realized in Canada and the US, PHX Energy generated a record level of consolidated revenue for a second quarter. This also represented the fourth highest level of quarterly revenue that the Corporation has achieved in its history. Consolidated revenue for the three-month period ended June 30, 2014 was $100.5 million compared to $65.5 million in the comparable 2013-quarter; an increase of 53 percent. US and international revenue as a percentage of total consolidated revenue were 66 and 13 percent, respectively, for the 2014-quarter as compared to 62 and 20 percent in 2013. Consolidated operating days increased by 36 percent to a second quarter record of 7,100 days in 2014 as compared to 5,236 days in the 2013-quarter. Average consolidated day rates for the three-month period ended June 30, 2014, excluding the motor rental division in the US and the electronic drilling recorder ("EDR") business, increased to $13,501, which is 11 percent higher than the day rates of $12,169 in the second quarter of 2013.

During the 2014-quarter, the Canadian industry continued to predominantly utilize horizontal and directional drilling technologies, which represented approximately 96 percent of total industry drilling days in the second quarter of 2014 (2013 – 95 percent). In the US, horizontal and directional activity levels increased to represent 79 percent of the rigs running per day in the 2014-quarter (2013 – 74 percent). (Sources: Daily Oil Bulletin and Baker Hughes) The utilization of pad drilling is increasing in the North American market and this trend adds to the greater demand for horizontal and directional drilling services.

For the six-month period ended June 30, 2014, consolidated revenue increased by 45 percent to $229.6 million from $158.2 million for the comparable 2013-period. There were 17,268 consolidated operating days in the six-month period ended June 30, 2014, which is 31 percent higher than the 13,216 days reported in 2013.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Direct costs	**86,333**	62,051	39	**186,977**	133,017	41
Depreciation & amortization (included in direct costs)	**7,480**	6,024	24	**14,931**	11,854	26
Gross profit as percentage of revenue excluding depreciation & amortization	**22**	14		**25**	23	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment. Excluding depreciation and amortization, gross profit as a percentage of revenue increased to 22 percent for the three-month period ended June 30, 2014 as compared to 14 percent in the comparable 2013-period. For the six-month period ended June 30, 2014, gross profit as a percentage of revenue, excluding depreciation and amortization, was 25 percent as compared to 23 percent in 2013.

Margins improved in the three and six-month periods ended June 30, 2014 mainly due to:

- higher activity levels and average day rates in the US during the 2014-quarter, and
- the strategies put in place to implement cost reduction initiatives, continuously improve reliability, and gain operational efficiencies in the utilization of PHX Energy's technologies.

For the three-month period ended June 30, 2014, the Corporation's third party equipment rentals were 4 percent of consolidated revenue, which is the same percentage as in the corresponding 2013-quarter.

Depreciation and amortization for the three-month period ended June 30, 2014 increased by 24 percent to $7.5 million as compared to $6.0 million in the 2013-quarter. The increase is the result of the Corporation's high level of capital expenditures in 2013 and 2014.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Selling, general & administrative ("SG&A") costs	**14,523**	8,444	72	**29,128**	18,929	54
Equity-settled share-based payments (included in SG&A costs)	**204**	203	-	**414**	530	(22)
SG&A costs excluding equity-settled share-based payments as a percentage of revenue	**14**	13		**13**	12	

SG&A costs for the three-month period ended June 30, 2014 increased by 72 percent to $14.5 million as compared to $8.4 million in 2013. Included in SG&A costs for both the 2014 and 2013-quarter are share-based payments of $0.2 million. Excluding these costs, SG&A costs as a percentage of consolidated revenue for the three-month periods ended June 30, 2014 and 2013 were 14 percent and 13 percent, respectively.

For the six-month period ended June 30, 2014, SG&A costs increased by 54 percent to $29.1 million as compared to $18.9 million in 2013. Excluding share-based payments of $0.4 million in the 2014 six-month period and $0.5 million in the corresponding 2013-period, SG&A costs as a percentage of consolidated revenue were 13 percent and 12 percent, respectively.

The increase in SG&A costs in both 2014-periods is mainly due to higher payroll and marketing related costs associated with overall increased activity, costs related to closing the Colombian operations, and increased compensation expenses relating to the re-valuation of share-based cash-settled retention awards.

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 June 30, 2014, share-based payments were relatively the same as those in the corresponding 2013-quarter, however, share-based payments decreased by 22 percent in the six-month period ending June 30, 2014 as compared to the corresponding 2013-period. The decrease is mainly due to the Corporation's increased utilization of retention awards in rewarding employees. Share-based cash-settled retention awards are measured at fair value, and in the 2014-quarter, the related compensation expense recognized by PHX Energy increased to $2.0 million as compared to $0.7 million in the 2013-quarter. The increase is primarily due to the greater number of retention awards granted in 2014 and the second half of 2013, and the re-valuation of the retention awards based on the increase in PHX Energy's stock price from $13.23 as at March 31, 2014 to $16.58 as at June 30, 2014.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Research & development expense	**660**	456	45	**1,497**	992	51

Research and development (R&D) expenditures charged to net earnings during the three-month periods ended June 30, 2014 and 2013 were $0.7 million and $0.5 million, respectively. During both the 2014 and 2013-quarter, none of the R&D expenditures were capitalized as development costs.

For the six-month period ended June 30, 2014 and 2013, R&D expenditures of $1.5 million and $1.0 million, respectively, were incurred. During both periods, no R&D expenditures were capitalized as development costs.

The increase in R&D expenditures in both 2014-periods is mainly attributable to initiatives in the Stream Services division.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Finance expense	**862**	1,181	(27)	**1,892**	2,275	(17)

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. Finance charges decreased to $0.9 million in the second quarter of 2014 from $1.2 million in the 2013-quarter, and in the six-month period ended June 30, 2014 decreased to $1.9 million from $2.3 million in 2013. The decrease in both periods was primarily due to the lower amount of borrowings outstanding during the three and six-month periods ended June 30, 2014.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Gains on disposition of drilling equipment	**1,599**	292	448	**3,263**	2,633	24
Provision for bad debts	**(256)**	-	n.m.	**(735)**	-	n.m.
Foreign exchange gains (losses)	**18**	(34)	153	**(392)**	(337)	16
Other income	**1,361**	258		**2,136**	2,296	

n.m. - not meaningful

For the three and six-month periods ended June 30, 2014, other income is mainly represented by gains on disposition of drilling equipment of $1.6 million (2013 - $292,000) and $3.3 million (2013 - $2.6 million), respectively. The dispositions of drilling equipment relate primarily to equipment lost in well bores that are uncontrollable in nature. The gain reported is net of any asset retirements that are made before the end of the equipment's useful life and self-insured down hole equipment losses, if any. Gains typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. In both 2014-periods, there was a higher occurrence of losses compared to the corresponding 2013-periods.

Offsetting other income for the three and six-month periods ended June 30, 2014 is a provision for bad debts of $0.3 million (2013 - nil) and $0.7 million (2013 - nil), respectively, that relate primarily to Russian receivables. Foreign exchange losses of $0.4 million in the six-month period ended June 30, 2014 resulted mainly from re-valuation losses on US-denominated payables in Canada and the devaluation of Albania LEK against the Canadian currency.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2014	2013	**2014**	2013
Provision for (Recovery of) income taxes	**529**	(2,103)	**4,506**	996
Effective tax rates	**n.m.**	31%	**37%**	22%

n.m. - not meaningful

The provision for income taxes for the three-month period ended June 30, 2014 was $0.5 million as compared to a recovery of income taxes of $2.1 million in the 2013-quarter. For the six-month period ended June 30, 2014, the provision for income taxes was $4.5 million as compared to $1.0 million in 2013. The expected combined Canadian federal and provincial tax rate for 2014 is 25 percent. The effective tax rate in the 2014 six-month period is higher than the expected rate mainly due to profitability in the US where the Corporation is subject to higher tax rates and non-recognition of deferred tax assets for foreign losses.

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

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Net earnings (loss)	**(1,062)**	(4,735)	78	**7,751**	3,571	117
Earnings (Loss) per share – diluted	**(0.03)**	(0.16)	81	**0.22**	0.13	69
EBITDA	**7,809**	367	n.m.	**29,080**	18,696	56
EBITDA per share – diluted	**0.22**	0.01	n.m.	**0.83**	0.66	26
EBITDA as a percentage of revenue	**8**	1		**13**	12	

n.m. - not meaningful

The Corporation's level of net earnings and EBITDA for the three and six-month periods ended June 30, 2014 have both increased primarily due to strong activity levels realized in Canada and the US and improved profitability achieved particularly in the US. EBITDA as a percentage of revenue for the three and six-month periods ended June 30, 2014 was 8 and 13 percent, respectively (2013 - 1 percent and 12 percent). Included in the earnings for the 2014-quarter and 2014 six-month period were losses of $1.2 million and $1.9 million, respectively, from the EDR division (2013 - losses of $0.4 million and $0.7 million).

Segmented Information:

The Corporation reports three operating segments on a geographical basis throughout the Canadian provinces of Alberta, Saskatchewan, British Columbia, and Manitoba; throughout the Gulf Coast, Northeast and Rocky Mountain regions of the US; and internationally, mainly in Albania and Russia.

Canada

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Revenue	**21,618**	12,327	75	**80,249**	56,675	42
Reportable segment profit (loss) before tax	**(6,701)**	(4,052)	(65)	**3,106**	8,974	(65)
Reportable segment profit (loss) before tax as a percentage of revenue	**n.m.**	n.m.		**4**	16	

n.m. - not meaningful

PHX Energy's Canadian operations generated all-time record revenue for a second quarter. Canadian revenue for the three-month period ended June 30, 2014 increased by 75 percent to $21.6 million from $12.3 million in the corresponding 2013-period. The Corporation's efforts to build and maintain a well-diversified customer base are continuing to yield successes for the Corporation and as a result, Canadian activity levels were strong for a second quarter with operating days increasing by 70 percent to a second quarter record of 1,819 days (2013 - 1,071 days). In comparison, total industry horizontal and directional drilling activity, as measured by drilling days, increased by 33 percent in the 2014-quarter to 18,381 days, compared to 13,772 days in the 2013-period. (Source: Daily Oil Bulletin) Average day rates, excluding EDR revenue of $1.5 million, decreased by 5 percent to $11,066 in the 2014-quarter from $11,510 in the 2013-quarter.

In the second quarter of 2014, PHX Energy's oil well drilling activity (as measured by operating days) represented approximately 69 percent of its overall Canadian activity; a slight decrease from the 70 percent represented in the 2013-quarter. During the 2014-quarter, PHX Energy continued to have a very strong presence in the Montney area, and additionally was active in the Shaunavon, Lloydminster, and Elkton areas.

For the six-month period ended June 30, 2014, PHX Energy's Canadian revenue increased by 42 percent to $80.2 million from $56.7 million in the comparable 2013-period. The Corporation's operating days increased by 34 percent to 7,055 days in the 2014 six-month period from 5,268 days in the 2013-period. In comparison, for the six-month period ended June 30, 2014, the number of horizontal and directional drilling days realized in the Canadian industry increased by 11 percent to 56,076 days as compared to 50,710 days in 2013.

In the first half of 2014, PHX Energy experienced increased activity in liquids rich natural gas as oil well drilling activity (as measured by operating days) decreased to represent 61 percent of PHX Energy's Canadian activity as compared to 80 percent in 2013.

Reportable segment loss before tax for the second quarter of 2014 increased to $6.7 million from $4.1 million in the 2013-quarter. Included in the Canadian segment's losses in the 2014-quarter was a loss of $1.9 million from the EDR division. For the six-month period ended June 30, 2014, reportable segment profit before tax decreased by 65 percent to $3.1 million (4 percent of revenue) from $9.0 million (16 percent of revenue) in 2013. Lower profitability during the 2014 six-month period was generally due to increased field personnel costs, higher MWD system repair costs, and greater third party equipment rentals experienced in the first quarter of 2014. In addition, included in the Canadian segment's losses in the 2014 six-month period was a loss of $2.6 million from the EDR division.

United States

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Revenue	**65,866**	40,295	63	**123,308**	79,678	55
Reportable segment profit (loss) before tax	**6,547**	(2,526)	359	**11,611**	(2,562)	553
Reportable segment profit (loss) before tax as a percentage of revenue	**10**	n.m.		**9**	n.m.	

n.m. - not meaningful

In the second quarter 2014, PHX Energy's US operations continued to reach new revenue and profitability milestones. For the three-month period ended June 30, 2014, the segment's revenue was an all-time record at $65.9 million, which is 63 percent higher than the revenue of $40.3 million in the 2013-period. PHX Energy's US operating days also increased by 35 percent from 3,233 days in the 2013-quarter to 4,375 days in the 2014-quarter, which is the highest quarterly level of activity the Corporation has achieved in the US. In addition, average day rates, excluding the motor rental division in Midland, Texas and the Rocky Mountain region, increased by 20 percent in the 2014-quarter to $14,340 compared to $11,921 in the 2013-quarter. This increase is partially due to favorable movements in the US-Canadian currency exchange rates. The strong trend in activity growth and improved overall day rates generally resulted from ongoing marketing efforts that helped expand the customer base in all US operating regions combined with a continued focus on reliability and superior performance.

During the second quarter of 2014, Phoenix USA remained active in the Permian, Eagle Ford, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins. In addition, the motor rental business realized strong growth during the quarter as it expanded to and gained momentum in the Rocky Mountain region.

In the 2014-quarter, the utilization of horizontal and directional drilling techniques in the US industry increased by 12 percent to 1,458 rigs, based on the average number of horizontal and directional rigs running on a daily basis, which represented approximately 79 percent of overall industry activity. This compared to 1,306 horizontal and directional rigs running on a daily basis in the 2013-quarter, approximately 74 percent of overall industry activity. (Source: Baker Hughes) This is a positive industry trend that is favorable for the Corporation. For the three-month period ended June 30, 2014, oil well drilling, as measured by drilling days, increased to approximately 79 percent of Phoenix USA's overall activity, compared to 68 percent in the 2013-period.

US revenue for the six-month period ended June 30, 2014 increased by 55 percent to $123.3 million from $79.7 million in the comparable 2013-period. The Corporation's US operating days also increased by approximately 30 percent to 8,285 days in the six-month period ended June 30, 2014 from 6,364 days in 2013. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, increased by 9 percent in the first half of 2014 to 1,424 rigs as compared to 1,311 rigs in the comparable 2013-period. (Source: Baker Hughes)

Reportable segment profit before tax for the second quarter of 2014 increased to $6.5 million (10 percent of revenue) from a loss of $2.5 million in the 2013-quarter. For the six-month period ended June 30, 2014, reportable segment profit before tax increased to $11.6 million (9 percent of revenue) from a loss of $2.6 million in 2013. Profitability in both 2014-periods was largely the result of strong activity growth, improved overall day rates, and ongoing focus on cost control and operational efficiencies.

International

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Revenue	**13,000**	12,861	1	**26,058**	21,797	20
Reportable segment profit before tax	**2,683**	3,322	(19)	**5,291**	4,376	21
Reportable segment profit before tax as a percentage of revenue	**21**	26		**20**	20	

For the three-month period ended June 30, 2014, the Corporation's international revenue was relatively stable at $13.0 million compared to $12.9 million in the 2013-period. International operating days decreased slightly by 3 percent from 932 days in the 2013-quarter to 906 days in the 2014-quarter. The Corporation generated 13 percent of its consolidated revenue from international operations in the 2014-quarter compared to 20 percent in the 2013-quarter.

For the six-month period ended June 30, 2014, revenue increased by 20 percent to $26.1 million as compared to $21.8 million in 2013. Operating days for the same period grew by 22 percent from 1,584 days in 2013 to 1,927 days in 2014.

In the 2014-quarter, Phoenix Albania's operations achieved record revenue and activity levels for any quarter. For the three-month period ended June 30, 2014, Phoenix Albania's activity grew by 23 percent while revenue increased by 18 percent compared to the corresponding 2013-period. This growth was primarily propelled by the addition of a rig in March 2014 for an existing client and a rig in May 2014 for a new client. With these additional rigs, both the directional drilling and EDR division are actively providing services on 7 rigs in the country. The Corporation continues to expand its local content as operation grows and presently has a 7 job capacity in Albania. Efforts are underway to build on the strong foundation in this region by expanding the European business beyond the Albanian borders.

In the second quarter of 2014, Phoenix Russia's operating days decreased by 10 percent and revenue decreased by 12 percent as compared to the 2013-period. During the quarter, the Corporation's activities in Russia were negatively affected by a major client's efforts to re-organize their operations, however, the impact of this was eased by Phoenix Russia's ability to add new clients to diversify its operations. In addition, the Corporation opened a satellite office in Ufa, Southern Russia, to expand operations in the Orenburg, Samara, and Buzluk regions, which offer improved pricing and high levels of drilling activity with key target clients. The Corporation has a job capacity of 17 in Russia and expects to deploy EDR systems in the country during the 2014-year. PHX Energy continues to monitor the geopolitical situation with respect to existing Russian sanctions. No disruptions to the business have occurred to date, and efforts to mitigate the risk of sanctions include a continued focus on local content, which currently represents 98 percent of total number of staff.

In May 2014, PHX Energy ceased all activities in Colombia and initiated the closure of the business. All assets have been transferred out of the country to support increased drilling activities in North America.

For the three-month period ended June 30, 2014, reportable segment profit before tax was $2.7 million (21 percent of revenue), a decrease of 19 percent compared to $3.3 million (26 percent of revenue) in the corresponding 2013-period. International operations' profitability during the quarter was negatively affected by weaker activity levels in Russia and costs associated with closing down the operations in Colombia. Reportable segment profit for the six-month period ended June 30, 2014 was $5.3 million (20 percent of revenue) as compared to $4.4 million (20 percent of revenue) in 2013; a 21 percent increase.

Investing Activities

Net cash used in investing activities for the three-month period ended June 30, 2014 was $10.7 million as compared to $20.1 million in 2013. In the second quarter of 2014, PHX Energy added $6.8 million, net, in capital equipment (2013 - $6.4 million). The capital equipment amounts are net of proceeds from the involuntary disposal of drilling equipment in well bores of $4.3 million (2013 - $1.7 million). The quarterly 2014 expenditures included:

- $5.3 million in MWD systems and spare components;
- $2.6 million in down hole performance drilling motors;
- $1.7 million in EDR systems and spare components;
- $0.6 million in machinery and equipment; and
- $0.9 million in other assets, including $0.3 million in non-magnetic drill collars.

The capital expenditure program undertaken in the period was financed mainly from cash flows from operations.

During the 2014-quarter, the Corporation spent $0.4 million in development costs. The change in non-cash working capital balances of $3.5 million (use of cash) for the three-month period ended June 30, 2014, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $6.9 million (use of cash) for the three-month period ended June 30, 2013.

Financing Activities

The Corporation reported cash flows used in financing activities of $1.2 million in the three-month period ended June 30, 2014 as compared to cash flows from financing activities of $9.2 million in the 2013-period. In the 2014-quarter:

- the Corporation paid dividends of $7.3 million to shareholders, or $0.21 per share; and
- through its option and DRIP program the Corporation received cash proceeds of $6.1 million from exercised options and reinvested dividends to acquire 596,846 common shares of the Corporation.

Capital Resources

As at June 30, 2014, the Corporation has access to a $10.0 million operating facility. The facility bears interest based primarily on the Corporation's senior debt to EBITDA ratio, as defined in the agreement. At the Corporation's option, interest is at the bank's prime rate plus a margin that ranges from a minimum of 0.75 percent to a maximum of 2 percent, or the bank's bankers' acceptance rate plus a margin that ranges from a minimum of 1.75 percent to a maximum of 3 percent. As of June 30, 2014, the Corporation had nil drawn on this facility.

As at June 30, 2014, the Corporation also has access to a $95.0 million syndicated facility and a US$25.0 million operating facility in the US. The facilities bear interest at the same rates disclosed above. The syndicated facility and the US operating facility mature on September 5, 2016. As at June 30, 2014, $70.0 million was drawn on the syndicated facility and US$19.0 million was drawn on the US operating facility.

All credit facilities are secured by a general security agreement over all assets of the Corporation located in Canada and the US. As at June 30, 2014, the Corporation was in compliance with all of its bank debt covenants.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. The 2014 capital budget was increased to $76.4 million from the $63.3 million announced in the first quarter of 2014, subject to further quarterly review of the Board of Directors. These planned expenditures are expected to be financed from a combination of one or more of the following, cash flow from operations, the Corporation's unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2014, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Contingent Liability

The Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), has been named in a legal action in Houston, Texas commenced by a former employee (the "Claimant") alleging that he was improperly classified as exempt under the Fair Labour Standards Act and therefore entitled to unpaid overtime. Legal actions involving similar alleged violations have been filed in the United States against a number of other drilling companies. The Claimant asserts that he will seek to have the action certified as a collective action which may result in additional employees or former employees of Phoenix USA joining the action. Phoenix USA has filed a defense to the action and intends to vigorously defend the same including, without limitation, any motion which may be brought for certification. Based upon a preliminary assessment of information available and certain assumptions the Corporation believes to be reasonable at this time, PHX Energy believes it has a number of defenses to the claims asserted and the action is not currently believed to be material to the Corporation. The Corporation does not undertake any obligation to update publicly the status of the action whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws or the situation otherwise warrants.

Outlook

In the second quarter of 2014, PHX Energy set quarter-over-quarter records for consolidated revenue, operating days, funds from operations and EBITDA and as a result of increased activity levels the Corporation's team of personnel, operational resources and asset base also expanded. The Corporation is extremely proud of these new milestones despite an expected slower activity period due to spring break-up in Canada.

The industry has experienced many positive technical changes in the last year and PHX Energy believes these are just the beginning of numerous step changes that will transform operators' demands and drilling practices. PHX Energy is currently equipping itself to be at the forefront as a service leader by expanding its optimization services and developing advanced technologies that offer greater performance.

Spring break-up in Canada reduced activity in April and May and through the majority of June, however, the increased utilization of pad drilling was a positive trend during this slower period. Pad drilling presents numerous advantages to both operators and service providers, such as PHX Energy, including a shorter time required to move the rig which improves equipment utilization. PHX Energy was a direct benefactor of this trend in the second quarter and expects pad drilling to create a positive upside in future quarters and break-up periods.

Activity levels in all key operating basins in the US market experienced growth, including the Marcellus in the Northeast region where improved natural gas prices made drilling more economical for PHX Energy's clients. As it was spring break-up in Canada, many of the Corporation's assets, including guidance systems and performance drilling motors, were transferred to the Corporation's key operating areas in the US to meet demands.

Internationally, PHX Energy's client base is diversifying in both Albania and Russia. In Albania this diversification lead to new records being achieved and the Corporation believes this upward trend will continue. The Corporation's outlook for Russia is also positive, despite a decline in an existing client's activity during the second quarter. Many of the newly awarded contracts are set to commence in the later part of the year and PHX Energy plans to expand its service offering to a new drilling region in Russia.

With each of its geographical operating regions expanding, PHX Energy has once again increased its capital expenditure budget. These expenditures in the remainder of 2014 will be dedicated to replenishing the Canadian fleet in addition to adding new capacity to support forecasted growth. Due to delivery timelines for this equipment, it is likely that third party rental costs will be incurred in upcoming quarters.

The Corporation has established an impressive track record for growth, which can be attributed to the efforts of its over 1,100 employees. Since the first quarter of 2010, record revenues quarter-over-quarter have been achieved and operating days have continued to set quarterly records since the fourth quarter of 2012; often boasting double digit growth percentages. PHX Energy has implemented strategies to improve margins, such as increasing the number of value added technologies in its service offering, diversifying its lines of business into higher margin services like the data management sector, and undertaking numerous internal efficiency initiatives, all of which are beginning to make an impact on our results.

PHX Energy believes that operational and financial records will continue to be achieved in the future and that the remainder of 2014 will be defined by robust growth.

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

Non-GAAP Measures

1) EBITDA

EBITDA, defined as earnings before interest, taxes, depreciation and amortization, is not a financial measure that is recognized under GAAP. However, Management believes that EBITDA provides supplemental information to net earnings that is useful in evaluating the Corporation's operations before considering how it was financed or taxed in various countries. Investors should be cautioned, however, that EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating EBITDA may differ from that of other organizations and, accordingly, its EBITDA may not be comparable to that of other companies.

The following is a reconciliation of net earnings to EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2014	2013	**2014**	2013
Net earnings (loss)	**(1,062)**	(4,735)	**7,751**	3,571
Add:				
Depreciation and amortization	**7,480**	6,024	**14,931**	11,854
Provision for (Recovery of) income taxes	**529**	(2,103)	**4,506**	996
Finance expense	**862**	1,181	**1,892**	2,275
EBITDA as reported	**7,809**	367	**29,080**	18,696

EBITDA per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of EBITDA per share on a dilutive basis does not include anti-dilutive options.

2) Funds from Operations

Funds from operations is defined as cash flows generated from operating activities before changes in non-cash working capital. This is not a measure recognized under GAAP. Management uses funds from operations as an indication of the Corporation's ability to generate funds from its operations before considering changes in working capital balances. Investors should be cautioned, however, that this financial measure should not be construed as an alternative measure to cash flows from operating activities determined in accordance with GAAP. PHX Energy's method of calculating funds from operations may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of cash flows from operating activities to funds from operations:

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2014	2013	**2014**	2013
Cash flows from operating activities	**11,629**	11,942	**19,400**	25,244
Add:				
Changes in non-cash working capital	**(6,505)**	(12,216)	**5,118**	(10,237)
Interest paid	**893**	606	**1,628**	1,878
Income taxes paid	**487**	540	**873**	721
Funds from operations	**6,504**	872	**27,019**	17,606

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) Senior Debt to EBITDA Ratio

Senior debt is represented by loans and borrowings. EBITDA, for purposes of the calculation of this covenant ratio, is represented by EBITDA as defined in Non-GAAP Measures above and adding share-based payments less interest and income taxes paid.

About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Albania, and Russia. PHX Energy develops and manufactures its E-360 EM and P-360 positive pulse MWD technologies that are made available for internal operational use. In addition, as the result of an acquisition completed in November 2013, PHX Energy provides EDR technology and services, through Stream Services (formerly RigManager 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; Traverse City, Michigan; Casper, Wyoming; Denver, Colorado; Fort Worth, Texas; Midland, Texas; Buckhannon, West Virginia; Pittsburgh, Pennsylvania; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania and Russia, and an administrative office in Nicosia, Cyprus.

PHX Energy markets its EDR technology and services in Canada through its newly rebranded division, Stream Services which has offices and an operations center in Calgary, Alberta. EDR technology is marketed worldwide outside Canada through its wholly-owned subsidiary Stream Services International Inc. (formerly RigManager International Inc.); mainly in Albania and Mexico.

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

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Consolidated Statements of Financial Position

(unaudited)

		June 30, 2014		December 31, 2013
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**9,038,538**	$	5,663,880
Trade and other receivables		**93,584,779**		97,660,559
Inventories		**31,115,503**		30,024,019
Prepaid expenses		**5,353,419**		2,913,514
Total current assets		**139,092,239**		136,261,972
Non-current assets:				
Drilling and other equipment		**170,980,225**		165,771,615
Goodwill		**31,229,756**		31,229,756
Intangible assets		**24,394,797**		17,113,924
Total non-current assets		**226,604,778**		214,115,295
Total assets	**$**	**365,697,017**	$	350,377,267
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Trade and other payables	**$**	**56,677,014**	$	64,815,732
Dividends payable		**2,448,505**		2,239,910
Current tax liabilities		**1,871,567**		2,410,198
Current portion of finance leases		**324,553**		215,697
Total current liabilities		**61,321,639**		69,681,537
Non-current liabilities:				
Loans and borrowings		**90,273,000**		70,208,400
Deferred tax liabilities		**13,203,859**		9,833,710
Deferred income		**1,900,001**		1,966,667
Finance leases		**-**		209,935
Total non-current liabilities		**105,376,860**		82,218,712
Equity:				
Share capital		**175,468,608**		165,451,599
Contributed surplus		**4,454,219**		6,361,710
Retained earnings		**17,374,567**		24,284,690
Accumulated other comprehensive income		**1,701,124**		2,379,019
Total equity		**198,998,518**		198,477,018
Total liabilities and equity	**$**	**365,697,017**	$	350,377,267

Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2014	2013	**2014**	2013
Revenue	**$ 100,484,150**	$ 65,482,975	**$ 229,614,660**	$ 158,149,790
Direct costs	**86,333,058**	62,051,464	**186,976,870**	133,017,023
Gross profit	**14,151,092**	3,431,511	**42,637,790**	25,132,767
Expenses:				
Selling, general and administrative expenses	**14,523,261**	8,443,769	**29,127,887**	18,928,599
Research and development expenses	**660,226**	456,068	**1,497,470**	991,981
Finance expense	**861,744**	1,181,287	**1,892,041**	2,274,914
Other income	**(1,360,839)**	(257,647)	**(2,136,085)**	(2,296,483)
	14,684,392	9,823,477	**30,381,313**	19,899,011
Share of loss of equity-accounted investee (net of tax)	**-**	446,514	**-**	666,568
Earnings (Loss) before income taxes	**(533,300)**	(6,838,480)	**12,256,477**	4,567,188
Provision for (Recovery of) income taxes				
Current	**1,926,514**	833,711	**2,586,179**	2,628,702
Deferred	**(1,397,394)**	(2,937,048)	**1,919,616**	(1,632,216)
	529,120	(2,103,337)	**4,505,795**	996,486
Net earnings (loss)	**(1,062,420)**	(4,735,143)	**7,750,682**	3,570,702
Other comprehensive income				
Foreign currency translation	**(2,103,649)**	830,863	**(677,895)**	2,295,633
Total comprehensive income (loss) for the period	**$ (3,166,069)**	$ (3,904,280)	**$ 7,072,787**	$ 5,866,335
Earnings (Loss) per share – basic	**$ (0.03)**	$ (0.16)	**$ 0.22**	$ 0.13
Earnings (Loss) per share – diluted	**$ (0.03)**	$ (0.16)	**$ 0.22**	$ 0.13

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2014	2013	**2014**	2013
Cash flows from operating activities:				
Net earnings (loss)	**$ (1,062,420)**	$ (4,735,143)	**$ 7,750,682**	$ 3,570,702
Adjustments for:				
Depreciation and amortization	**7,480,099**	6,024,210	**14,931,171**	11,853,819
Provision for (Recovery of) income taxes	**529,120**	(2,103,337)	**4,505,795**	996,486
Unrealized foreign exchange loss (gain)	**(131,792)**	148,237	**120,041**	346,690
Gain on disposition of drilling equipment	**(1,599,176)**	(292,163)	**(3,263,325)**	(2,632,698)
Equity-settled share-based payments	**204,092**	202,730	**414,084**	529,767
Finance expense	**861,744**	1,181,287	**1,892,041**	2,274,914
Provision for bad debts	**255,559**	-	**735,098**	-
Amortization of deferred income	**(33,333)**	-	**(66,666)**	-
Share of loss of equity-accounted investee	**-**	446,514	**-**	666,568
Change in non-cash working capital	**6,504,853**	12,215,708	**(5,118,215)**	10,236,550
Cash generated from operating activities	**13,008,746**	13,088,043	**21,900,706**	27,842,798
Interest paid	**(892,311)**	(605,918)	**(1,627,474)**	(1,877,732)
Income taxes paid	**(487,112)**	(540,107)	**(873,433)**	(720,859)
Net cash from operating activities	**11,629,323**	11,942,018	**19,399,799**	25,244,207
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**4,293,890**	1,686,595	**7,405,486**	5,283,563
Acquisition of drilling and other equipment	**(11,069,061)**	(8,133,626)	**(24,525,334)**	(21,628,872)
Acquisition of intangible assets	**(436,544)**	(3,759,200)	**(7,884,816)**	(3,759,200)
Investment in equity-accounted investee	**-**	(3,000,000)	**-**	(3,200,000)
Change in non-cash working capital	**(3,451,293)**	(6,925,943)	**(4,162,605)**	(10,926,303)
Net cash used in investing activities	**(10,663,008)**	(20,132,174)	**(29,167,269)**	(34,230,812)
Cash flows from financing activities:				
Proceeds from issuance of share capital	**6,072,119**	2,270,116	**7,695,434**	3,331,992
Dividends paid to shareholders	**(7,257,519)**	(5,120,280)	**(14,452,227)**	(10,205,718)
Proceeds on loans and borrowings	**-**	10,221,500	**20,000,000**	15,208,000
Payments under finance leases	**(49,047)**	-	**(101,079)**	-
Proceeds on operating facility	**-**	1,860,518	**-**	3,627,704
Net cash from (used in) financing activities	**(1,234,447)**	9,231,854	**13,142,128**	11,961,978
Net increase (decrease) in cash and cash equivalents	**(268,132)**	1,041,698	**3,374,658**	2,975,373
Cash and cash equivalents, beginning of period	**9,306,670**	6,263,644	**5,663,880**	4,329,969
Cash and cash equivalents, end of period	**$ 9,038,538**	$ 7,305,342	**$ 9,038,538**	$ 7,305,342