



PRESS RELEASE
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TSX - PHX

PHX Energy Services Corp. Reports Record Level of Activity and Revenue for a Second Quarter

For the second consecutive year, PHX Energy Services Corp. ("PHX Energy") generated a record level of activity and revenue for a second quarter. Consolidated revenue of \$65.5 million for the three-month period ended June 30, 2013 was achieved as compared to \$58.4 million in the 2012-period; a 12 percent increase.

During the second quarter of 2013, the level of profitability decreased mainly due to the seasonal wet weather in Canada and generally higher operating costs incurred during the quarter. Net loss increased to \$4.7 million in the 2013-quarter from a \$2.6 million loss in the 2012-quarter.

Strong activity levels in the US continued through the second quarter of 2013. US revenue, as a percentage of consolidated revenue, increased to 62 percent during the 2013-quarter as compared to 55 percent in the 2012-quarter.

For the three-month period ended June 30, 2013, the international segment realized record revenue for a quarter and represented 20 percent of consolidated revenue as compared to 17 percent in the corresponding 2012-period. This was achieved through revenue growth in Albania and increased activity in Russia.

As part of the 2013 capital expenditure program, \$8.1 million was incurred during the second quarter of 2013, and an additional \$9.6 million of equipment is presently on order for delivery in the third quarter.

In line with the Corporation's strategic objective of providing leading edge technologies to its clients, PHX Energy is in the process of exploring new technologies and as a result has entered into third party license and technology development agreements. The activities which are taking place through these agreements are a collaboration between PHX Energy's research and development ("R&D") department and the third parties. The Corporation made initial payments totaling \$3.8 million under these agreements during the second quarter of 2013.

In the 2013-quarter, the Corporation paid dividends of \$5.1 million or \$0.18 per share.

On August 7, 2013, the terms of the Corporation's syndicated loan agreement with its bank were amended to extend the maturity date of the syndicated facility and US operating facility from September 6, 2015 to September 5, 2016. In addition, the previous requirement to repay the current portion of the syndicated facility of \$15 million was removed and consequently, the aggregate carrying amount of the syndicated facility of \$95 million shall be classified as non-current in the third quarter of 2013.

PHX Energy ended the second quarter with long-term debt of \$95.6 million and working capital of \$43.6 million.

On May 29, 2013, the Corporation completed the purchase of 20,000,000 common shares of RMS Systems Inc. ("RMS") at a price of \$0.15 per common share or \$3.0 million through a private placement. As at June 30, 2013, PHX Energy holds approximately 39.8 percent interest in RMS, an increase from 19.5 percent. The Corporation continues to believe that its investments in RMS and participation in the information and data management sector of the industry will create strategic advantages, such as synergies between RMS' technology and PHX Energy's service offerings.

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, | | |
|--|------------------------------------|--------------------|----------|----------------------------------|---------------------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Operating Results | <i>(unaudited)</i> | <i>(unaudited)</i> | | <i>(unaudited)</i> | <i>(unaudited)</i> | |
| Revenue | 65,483 | 58,423 | 12 | 158,150 | 138,192 | 14 |
| Net earnings (loss) | (4,735) | (2,584) | (83) | 3,571 | 5,335 | (33) |
| Earnings (Loss) per share – diluted | (0.16) | (0.09) | (78) | 0.13 | 0.19 | (32) |
| EBITDA ⁽¹⁾ | 367 | 2,521 | (85) | 18,696 | 17,560 | 6 |
| EBITDA per share – diluted ⁽¹⁾ | 0.01 | 0.09 | (89) | 0.66 | 0.62 | 6 |
| Cash Flow | | | | | | |
| Cash flows from operating activities | 11,942 | 15,667 | (24) | 25,244 | 19,743 | 28 |
| Funds from operations ⁽¹⁾ | 872 | 3,987 | (78) | 17,606 | 18,735 | (6) |
| Funds from operations per share – diluted ⁽¹⁾ | 0.03 | 0.15 | (80) | 0.62 | 0.67 | (7) |
| Dividends paid | 5,120 | 5,069 | 1 | 10,206 | 8,442 | 21 |
| Dividends per share ⁽²⁾ | 0.18 | 0.18 | - | 0.36 | 0.30 | 20 |
| Capital expenditures | 8,134 | 18,897 | (57) | 21,629 | 36,457 | (41) |
| Financial Position (unaudited) | | | | June 30, '13 | Dec. 31, '12 | |
| Working capital | | | | 43,558 | 45,480 | (4) |
| Long-term debt | | | | 95,552 | 80,000 | 19 |
| Shareholders' equity | | | | 114,576 | 115,095 | - |
| Common shares outstanding | | | | 28,634,173 | 28,241,371 | 1 |

⁽¹⁾ Refer to non-GAAP measures section.

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

Non-GAAP Measures

PHX Energy uses certain performance measures throughout this document that are not recognizable under Canadian generally accepted accounting principles ("GAAP"). These performance measures include earnings before interest, taxes, depreciation and amortization ("EBITDA"), EBITDA per share, funds from operations and funds from operations per share. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and natural gas service companies. Investors should be

cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, these may not be comparable. Please refer to the non-GAAP measures section.

Cautionary Statement Regarding Forward-Looking Information and Statements

This document contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "could", "should", "can", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Corporation believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this document should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this document.

In particular, forward-looking information and statements contained in this document include references to, without limitation, the Corporation's investment in RMS and the strategic advantages and synergies it will create; the expected tax rate in Canada; PHX Energy's growth in the Colombian market; drilling campaigns in Peru resuming as a result of a favorable decision from the Peruvian government; growth of the Corporation's MWD and RWD fleet; the substantial completion of the new operations centre's construction and the closing of the sale and leaseback arrangement; and projected capital expenditure budget and how this will be funded.

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

In addition to other material factors, expectations and assumptions which may be identified in this document and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; exchange and interest rates; tax laws; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to

change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although Management considers these material factors, expectations and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with the Canadian Securities Regulatory Authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Corporation's website. The forward-looking statements and information contained in this document are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Revenue

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---------|------------------------------------|--------|----------|----------------------------------|---------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Revenue | 65,483 | 58,423 | 12 | 158,150 | 138,192 | 14 |

Due to strong activity levels realized in the US and international regions, PHX Energy generated a record level of consolidated revenue for a second quarter. For the three-month period ended June 30, 2013, PHX Energy generated revenue of \$65.5 million as compared to \$58.4 million in the corresponding 2012-period; an increase of 12 percent. US and international revenue as a percentage of total consolidated revenue were 62 and 20 percent, respectively, for the 2013-quarter as compared to 55 and 17 percent in 2012. Consolidated operating days grew by 12 percent to a second quarter record of 5,164 days in 2013 as compared to 4,622 in the 2012-quarter. Average consolidated day rates for the three-month period ended June 30, 2013, excluding the motor rental division in the US, were \$12,341, which is relatively unchanged from the day rates in the second quarter of 2012 (\$12,393).

In the 2013-quarter, horizontal and directional drilling continued to dominate both the Canadian and US markets. In Canada, horizontal and directional drilling represented approximately 97 percent of total industry drilling days in the second quarter of 2013 (2012 – 95 percent). In the US, horizontal and directional activity levels increased to represent 74 percent of the rigs running per day in the 2013-quarter (2012 – 71 percent). (Sources: Daily Oil Bulletin and Baker Hughes)

For the six-month period ended June 30, 2013, consolidated revenue increased by 14 percent to \$158.2 million from \$138.2 million for the comparable 2012-period. There were 12,910 consolidated operating days in the six-month period ended June 30, 2013, which is 14 percent higher than the 11,305 days reported in 2012.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|------------------------------------|--------|----------|----------------------------------|---------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Direct costs | 62,051 | 51,365 | 21 | 133,017 | 113,029 | 18 |
| Depreciation & amortization (included in direct costs) | 6,024 | 5,206 | 16 | 11,854 | 10,040 | 18 |
| Gross profit as percentage of revenue excluding depreciation & amortization | 14 | 21 | | 23 | 25 | |

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment. Excluding depreciation and amortization, gross profit as a percentage of revenue was 14 percent for the three-month period ended June 30, 2013 as compared to 21 percent in the comparable 2012-period. For the six-month period ended June 30, 2013, gross profit as a percentage of revenue, excluding depreciation and amortization, was 23 percent as compared to 25 percent in 2012.

The following factors adversely affected margins in the three and six-month periods ended June 30, 2013:

- Lowest activity level in a second quarter for PHX Energy's Canadian operations since 2009, due to extended wet weather and overall decreased activity in the Canadian industry.
- Increased measurement while drilling ("MWD") system repair costs in Canada and US.
- Higher performance drilling motor repair costs in the US.

Management is responding to the issues related to repair costs and examining ways to help reduce these expenses.

For the three-month period ended June 30, 2013, the Corporation's third party equipment rentals were 4 percent of consolidated revenue, which is the same percentage as in the corresponding 2012-quarter.

Depreciation and amortization for the three-month period ended June 30, 2013 increased by 16 percent to \$6.0 million as compared to \$5.2 million in the 2012-quarter. The increase is the result of the Corporation's record level capital expenditure program in 2012.

(Stated in thousands of dollars except percentages)

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|------------------------------------|-------|----------|----------------------------------|--------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Selling, general & administrative ("SG&A") costs | 8,444 | 8,241 | 2 | 18,929 | 16,746 | 13 |
| Share-based payments (included in SG&A costs) | 203 | 614 | (67) | 530 | 1,411 | (62) |
| SG&A costs excluding share-based payments as a percentage of revenue | 13 | 13 | | 12 | 11 | |

SG&A costs for the three-month period ended June 30, 2013 increased slightly by 2 percent to \$8.4 million as compared to \$8.2 million in 2012. Included in SG&A costs are share-based payments of \$0.2 million for the 2013-quarter and \$0.6 million for the 2012-quarter. Excluding these costs, SG&A costs as a percentage of consolidated revenue for the three-month periods ended June 30, 2013 and 2012 were 13 percent.

For the six-month period ended June 30, 2013, SG&A costs increased by 13 percent to \$18.9 million as compared to \$16.7 million in 2012. Excluding share-based payments of \$0.5 million in the 2013 six-month period and \$1.4 million in the corresponding 2012-period, SG&A costs as a percentage of consolidated revenue were 12 percent and 11 percent, respectively.

The increase in SG&A costs in both 2013-periods is mainly due to higher payroll and marketing related costs associated with overall increased activity and growth in PHX Energy's international operations.

Share-based payments relate to the amortization of the fair values of issued options of the Corporation using the Black-Scholes model. Share-based payments decreased in the three and six-month periods ending June 30, 2013, as the Corporation shifted to rewarding employees with retention awards rather than options. The share-based cash-settled retention awards are measured at fair value, and in the 2013-quarter, the related expense included in SG&A costs was \$0.7 million (2012 – recovery of \$33,000).

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|--------------------------------|------------------------------------|------|----------|----------------------------------|-------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Research & development expense | 456 | 548 | (17) | 992 | 1,101 | (10) |

R&D expenditures charged to net earnings during the three-month periods ended June 30, 2013 and 2012 were both \$0.5 million. During both the 2013 and 2012-quarter, none of the R&D expenditures were capitalized as development costs.

For the six-month period ended June 30, 2013, R&D expenditures of \$1.0 million were incurred, none of which were capitalized as development costs. R&D expenditures for the six-month period ended June 30, 2012 were \$1.2 million, of which \$0.1 million were capitalized.

With the addition of a new Products Manager, PHX Energy recently restructured its R&D department which continues to work on enhancing the performance of the current fleet and develop and commercialize new technologies.

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|-----------------|------------------------------------|------|----------|----------------------------------|-------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Finance expense | 1,181 | 711 | 66 | 2,275 | 1,267 | 80 |

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. Finance charges increased to \$1.2 million in the second quarter of 2013 from \$0.7 million in the 2012-quarter, and in the six-month period ended June 30, 2013 increased to \$2.3 million from \$1.3 million in 2012. In order to fund PHX Energy's extensive capital expenditure program in 2012 and the construction of the new operations centre that is held for sale, additional bank borrowings were made.

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|------------------------------------|-------|----------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Gains on disposition of drilling equipment | (292) | (111) | (2,633) | (1,105) |
| Foreign exchange losses | 34 | 988 | 337 | 636 |
| Recovery of bad debts | - | (208) | - | (208) |
| Losses from the change in fair value of investment in equity securities | - | 180 | - | 370 |
| Other (income) expense | (258) | 849 | (2,296) | (307) |

For the three and six-month periods ended June 30, 2013, other income is primarily represented by gains on disposition of drilling equipment of \$292,000 (2012 - \$111,000) and \$2.6 million (2012 - \$1.1 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 2013-periods, there were higher occurrences of losses compared to the corresponding 2012-periods.

Offsetting other income for the three and six-month periods ended June 30, 2013 are foreign exchange losses of \$34,000 (2012 -\$1.0 million) and \$337,000 (2012 - \$0.6 million), respectively. Foreign exchange losses in the 2013-periods resulted mainly from fluctuations in the US-Canadian exchange rates that caused revaluation losses on Canadian-denominated receivables in the US. In the 2012-periods, foreign exchange losses resulted mainly from the devaluation of Russian roubles against the Canadian currency.

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|------------------------------------|------|----------|----------------------------------|------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Share of losses of equity-accounted investees | 447 | 104 | 330 | 667 | 104 | 541 |

The Corporation's share in the losses of the equity-accounted investees, RigManager International Inc. ("RMII") and RMS, for the three-month period ended June 30, 2013 was \$447,000 as compared to \$104,000 during the 2012-period. The losses incurred by RMII were primarily due to the slower than expected penetration into the US market.

For the six-month period ended June 30, 2013, the Corporation's share in the losses of the equity-accounted investees, RMII and RMS was \$667,000 (2012 - \$104,000).

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|--|------------------------------------|-------|----------------------------------|------|
| | 2013 | 2012 | 2013 | 2012 |
| Provision for (Recovery of) income taxes | (2,103) | (812) | 996 | 918 |

The recovery of income taxes for the second quarter of 2013 was \$2.1 million as compared to \$0.8 million in the 2012-quarter. For the six-month period ended June 30, 2013, the provision for income taxes was \$1.0 million as compared to \$0.9 million in 2012. The expected combined Canadian federal and provincial tax rate for 2013 is 25 percent. The effective tax rate in the 2013 three-month period of 31 percent is higher than the expected rate mainly due to the losses in the US where tax rates are higher. The effective tax rate of 22 percent in the 2013 six-month period is lower than the expected rate due primarily to the effect of tax rates in foreign jurisdictions.

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

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|-------------------------------------|------------------------------------|---------|----------|----------------------------------|--------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Net earnings (loss) | (4,735) | (2,584) | (83) | 3,571 | 5,335 | (33) |
| Earnings (Loss) per share – diluted | (0.16) | (0.09) | (78) | 0.13 | 0.19 | (32) |
| EBITDA | 367 | 2,521 | (85) | 18,696 | 17,560 | 6 |
| EBITDA per share – diluted | 0.01 | 0.09 | (89) | 0.66 | 0.62 | 6 |
| EBITDA as a percentage of revenue | 1 | 4 | | 12 | 13 | |

The Corporation's level of net earnings and EBITDA for the three-month period ended June 30, 2013 have both decreased primarily due to slower Canadian activity and higher operating costs. For the six-month period ended June 30, 2013, net earnings decreased by 33 percent while EBITDA increased by 6 percent. The decrease in net earnings was partly due to increased finance expenses and depreciation costs. EBITDA increased generally due to higher activity. EBITDA as a percentage of revenue for the three and six-month periods ended June 30, 2013 was 1 and 12 percent, respectively (2012 – 4 and 13 percent).

Segmented Information:

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

Canada

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|------------------------------------|---------|----------|----------------------------------|--------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Revenue | 12,327 | 16,121 | (24) | 56,675 | 60,611 | (6) |
| Reportable segment profit (loss) before tax | (6,851) | (4,512) | (52) | 2,770 | 6,499 | (57) |

Due to an extraordinarily long spring break-up and challenges faced throughout the industry, Canadian revenue for the three-month period ended June 30, 2013 decreased by 24 percent to \$12.3 million (2012 - \$16.1 million) and operating days decreased by 18 percent to 999 days (2012 – 1,219 days). This was the lowest activity level in a second quarter for PHX Energy's Canadian operations since 2009. Day rate pressures also continued through the second quarter of 2013 resulting in a decrease of 7 percent to average day rates of \$12,340 from \$13,225 in the 2012-quarter.

For the three-month period ended June 30, 2013, PHX Energy's oil well drilling activity (as measured by operating days) represented approximately 70 percent of its overall Canadian activity; a decrease from 77 percent in the 2012-quarter. PHX Energy was most active in the Montney, Viking, Duvernay and Bakken areas. In the Canadian industry, horizontal and directional drilling activity, as measured by drilling days, was 24 percent lower in the 2013-quarter, 13,299 days, compared to the 2012-quarter's 17,607 days. (Source: Daily Oil Bulletin)

For the six-month period ended June 30, 2013, PHX Energy's Canadian revenue decreased by 6 percent to \$56.7 million from \$60.6 million in the comparable 2012-period. The Corporation's operating days increased slightly by 1 percent to 4,962 days in the first half of 2013 from 4,897 days in the 2012-period. Oil well drilling activity (as measured by operating days) represented 80 percent of PHX Energy's Canadian activity for the 2013 six-month period as compared to 78 percent in 2012. In comparison, for the six-month period ended June 30, 2013, the number of horizontal and directional drilling days realized in the Canadian industry decreased by 10 percent to 51,864 days as compared to 57,391 days in 2012.

Reportable segment loss before tax for the second quarter of 2013 increased to \$6.9 million from \$4.5 million in the 2012-quarter. For the six-month period ended June 30, 2013, reportable segment profit before tax decreased by 57 percent to \$2.8 million from \$6.5 million in 2012. Lower profitability during both 2013-periods was due to lower activity, reduced day rates and higher MWD system repair costs.

United States

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|------------------------------------|--------|----------|----------------------------------|--------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Revenue | 40,295 | 32,381 | 24 | 79,678 | 59,546 | 34 |
| Reportable segment profit (loss) before tax | (217) | 2,466 | (109) | 2,562 | 2,497 | 3 |

Growth in PHX Energy's US operations continued through the second quarter of 2013. For the three-month period ended June 30, 2012, the segment's revenue was \$40.3 million, which is 24 percent higher than the revenue of \$32.4 million in the 2012-period. This is the second highest quarterly result in the Corporation's history. PHX Energy's US operating days grew by 21 percent to 3,233 days from 2,666 days in the 2012-quarter. Overall day rates realized, excluding the motor rental division in Midland, Texas, slightly increased by 2 percent in the 2013-quarter to \$11,921 compared to \$11,717 in the 2012-quarter.

In the second quarter of 2013, Phoenix USA's operations continued to gain momentum. The Corporation's growth strategy remained focused on activity in the Permian, Eagle Ford, Mississippian, and Bakken basins and operations were also active in the Marcellus, Utica, Niobrara, Barnett, and Woodford plays. The expansion of the motor rental division carried through the 2013-quarter and the Corporation's value added technologies continued to gain recognition in the US market.

In the 2013-quarter, levels of rig utilization in the US industry were lower with the average number of horizontal and directional rigs running on a daily basis decreasing by 7 percent to 1,306 rigs compared to 1,401 in the 2012-quarter. (Source: Baker Hughes) Despite this, the US still represents the largest directional drilling market in the world and oil-focused drilling continued to dominate the industry, which is a positive trend for PHX Energy. For the three-month period ended June 30, 2013, oil well drilling, as measured by drilling days, increased to approximately 68 percent of Phoenix USA's overall activity, compared to 58 percent in the 2012-period.

US revenue for the six-month period ended June 30, 2013 increased by 34 percent to \$79.7 million from \$59.5 million in the comparable 2012-period. The Corporation's US operating days increased by approximately 26 percent to 6,364 days in the six-month period ended June 30, 2013 from 5,068 days in 2012. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, decreased by 6 percent for the first half of 2013 to 1,312 rigs as compared to 1,395 rigs in the comparable 2012-period. (Source: Baker Hughes)

Reportable segment profit before tax for the second quarter of 2013 decreased to a loss of \$0.2 million from a profit of \$2.5 million in the 2012-quarter. Profitability in the 2013-quarter was impacted primarily by increased performance drilling motor and MWD system repair costs. For the six-month period ended June 30, 2013, reportable segment profit before tax increased marginally by 3 percent to \$2.6 million from \$2.5 million in 2012.

International

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|--------------------------------------|------------------------------------|-------|----------|----------------------------------|--------|----------|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Revenue | 12,861 | 9,921 | 30 | 21,797 | 18,035 | 21 |
| Reportable segment profit before tax | 3,812 | 2,863 | 33 | 5,456 | 4,888 | 12 |

Due to strong growth realized in its Russian operations, the Corporation's international revenue increased by 30 percent to a record of \$12.9 million in the 2013 three-month period from \$9.9 million in the 2012-period. International operating days increased by 26 percent from 738 days in the 2012-quarter to a record 932 days in the 2013-quarter. The Corporation generated 20 percent of its consolidated revenue from international operations in the 2013-quarter compared to 17 percent in the 2012-quarter.

For the six-month period ended June 30, 2013, revenue increased by 21 percent to \$21.8 million as compared to \$18.0 million in 2012. Operating days for the same period grew from 1,340 days in 2012 to 1,584 days in 2013; an 18 percent increase.

Phoenix Russia achieved a record level of revenue and activity for any quarter in the 2013 three-month period, realizing 92 percent growth in operating days compared to the 2012-period. During the quarter, Phoenix Russia continued to focus on service quality and building a more diversified client base aided by the addition of a Moscow-based marketing person late in the quarter.

In the 2013-quarter, Phoenix Albania's operations also achieved record revenue for any quarter. Revenue growth was achieved through the utilization of the Corporation's resistivity while drilling ("RWD") technology. Since commencing operations in 2008, Phoenix Albania has successfully drilled in excess of 364 wells in the country. The Corporation also continued to hire, train, and develop local Albanian personnel, who now represent 38 percent of Phoenix Albania's total employees. The Corporation presently has a 6 job capacity in Albania. PHX Energy's joint venture, RigManager International Inc., continued to run its electronic drilling recorder systems on all active rigs.

Through the Corporation's effective pricing and sales strategy, Phoenix Colombia was awarded work with a local Colombian operator and realized higher activity levels in the second quarter of 2013. However, this increase in activity occurred late in the quarter, and as a result, the region's profitability was not as high as expected. PHX Energy is continually exploring all options to cultivate and sustain growth in this region. The Corporation anticipates that the region's activity will grow in the upcoming months and that improved profitability will follow. Phoenix Colombia currently has a 5 job capacity.

Phoenix Peru suffered lower activity levels in the second quarter of 2013 compared to the 2012-period. Drilling activity was suspended in the country pending the government's announcement of its position with regards to existing oil lease holders. With a favorable decision from the government, drilling campaigns are expected to resume. Currently, Phoenix Peru is providing manpower and resources to support the growing operations in Colombia. Phoenix Peru currently has a job capacity of 4 full service jobs.

For the three-month period ended June 30, 2013, reportable segment profit before tax was \$3.8 million, an increase of 33 percent compared to \$2.9 million in the corresponding 2012-period. Reportable segment profit for the six-month period ended June 30, 2013 was \$5.5 million as compared to \$4.9 million in 2012; a 12 percent increase. Increased profitability in both 2013 periods was largely driven by growth in Russia and increased utilization of the Corporation's value-added technologies in Albania.

Investing Activities

Net cash used in investing activities for the three-month period ended June 30, 2013 was \$20.1 million as compared to \$13.8 million in 2012. The Corporation made initial payments totalling \$3.8 million under third party license and technology development agreements that the Corporation entered into during the second quarter of 2013. PHX Energy also made an additional \$3.0 million investment in RMS and added \$6.4 million in capital equipment in the second quarter of 2013 (2012 - \$17.6 million). The capital equipment amount is net of proceeds from the involuntary disposal of drilling equipment in well bores of \$1.7 million (2012 - \$1.3 million). The quarterly 2013 expenditures included:

- \$4.1 million in MWD systems and spare components;
- \$2.8 million in down hole performance drilling motors;
- \$0.8 million in other assets;
- \$0.3 million in machinery and equipment for global service centres, and;
- \$0.1 million in non-magnetic drill collars and jars.

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

The change in non-cash working capital balances of \$6.9 million (use of cash) for the three-month period ended June 30, 2013, relates to \$2.7 million of net change in the Corporation's trade payables that are associated with the acquisition of capital assets and \$4.2 million of progress billings associated with an operations centre under construction that is currently being held for sale. This compares to \$6.7 million (source of cash) for the three-month period ended June 30, 2012.

During the second quarter of 2013, PHX Energy's job capacity increased by 3 concurrent jobs to 215 through the addition of 3 RWD systems. As at June 30, 2013, the Corporation's MWD fleet consisted of 133 P-360 positive pulse MWD systems, 65 E-360 electromagnetic ("EM") MWD systems, and 17 RWD systems. Of these, 94 MWD systems were deployed in Canada, 91 in the US, 15 in Russia, 6 in Albania, 4 in Peru, and 5 in Colombia.

The Corporation plans to order an additional 6 P-360 positive pulse MWD systems and 2 RWD systems to be delivered in the second half of the year. As a result, by the end of 2013 PHX Energy expects to have a fleet of 223 MWD systems, which would be comprised of 139 P-360 positive pulse MWD systems, 65 E-360 EM MWD systems and 19 RWD systems.

Financing Activities

The Corporation reported cash flows from financing activities of \$9.2 million in the three-month period ended June 30, 2013 as compared to \$5.7 million in the 2012-period. In the 2013-quarter:

- the Corporation paid dividends of \$5.1 million to shareholders, or \$0.18 per share;
- through its option and DRIP program the Corporation received cash proceeds of \$2.3 million from exercised options and reinvested dividends to acquire 263,325 common shares of the Corporation; and
- the Corporation received net proceeds from its operating facility and US facility in an aggregate of \$12.1 million to finance its capital expenditure program and other investments.

Capital Resources

As at June 30, 2013, the Corporation has access to a \$10 million operating facility. The facility bears interest based primarily on the Corporation's senior debt to EBITDA ratio, as defined in the agreement. At the Corporation's option, interest is at the bank's prime rate plus a margin that ranges from a minimum of 0.75 percent to a maximum of 2 percent, or the bank's bankers' acceptance rate plus a margin that ranges from a minimum of 1.75 percent to a maximum of 3 percent. As of June 30, 2013, the Corporation had \$9.5 million drawn on this facility.

As at June 30, 2013, the Corporation also has access to a \$95 million syndicated facility and a US\$25 million operating facility in the US. The facilities bear interest at the same rates disclosed above. The syndicated facility was arranged to permanently reduce to \$80 million on September 30, 2013, requiring a \$15 million payment of the carrying amount of the syndicated facility. This coincides with the expected closing of the sale and leaseback of the new operations centre. The remaining \$80 million syndicated facility and the US operating facility mature on September 6, 2015. The maturity date can be extended for another year at the option of the lender. As at June 30, 2013, \$95 million was drawn on the syndicated facility and \$15.6 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, 2013, the Corporation was in compliance with all of its bank debt covenants.

On August 7, 2013, the terms of the Corporation's syndicated loan agreement with its bank were amended to extend the maturity date of the syndicated facility and US operating facility from September 6, 2015 to September 5, 2016. In addition, the previous requirement to repay the current portion of the syndicated facility of \$15 million was removed and consequently,

the aggregate carrying amount of the syndicated facility of \$95 million shall be classified as non-current in the third quarter of 2013.

It is expected that the construction of the operations centre, included in the statement of financial position as assets held for sale, will be substantially completed in August, 2013. The operations centre, packaged with a piece of land, is arranged to be sold for \$23.1 million on a sale and leaseback arrangement. Closing of the transaction is expected in September, 2013.

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 2013 capital budget has been set at \$30.4 million subject to quarterly review of the Board of Directors. These planned expenditures are expected to be financed from a combination of one or more of the following, cash flow from operations, the Corporation's unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2013, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Outlook

PHX Energy achieved a number of strategic goals in the second quarter, which builds upon the Corporation's already strong competitive position in the market. Activity levels grew in the lucrative basins that PHX Energy strategically targets, and record revenues were generated in the US, Russia, and Albania. However, during the quarter profitability was negatively impacted by several factors; some of which were anticipated while some were unexpected and are currently being addressed.

Unfavorable weather conditions are typical in Canada during this time of year and therefore slower operations are expected. In the second quarter of 2013, these conditions persisted for longer than forecasted and this contributed to PHX Energy's Canadian activity decreasing to a second quarter level not seen since 2009. Nevertheless, the Corporation maintained its market share and client base during this period. With the slowdown in activity, much of the fleet was idle and therefore equipment was available for required maintenance and repairs. Although margins in the second quarter were negatively impacted by the greater repair costs, these repairs equip the Corporation for the activity levels projected in the third and fourth quarters.

PHX Energy's US operations continued to outperform, resulting in strong second quarter operating days and revenue. In a number of the key basins where the Corporation operates there is an ability to drill wells extremely fast, which is advantageous for the operating company, however, this pushes the operating parameters of certain down hole components. These drilling conditions lead to unanticipated motor repair costs during the second quarter, which negatively affected the Corporation's US margins. Despite this, PHX Energy believes these drilling areas offer many advantages for its US operations and therefore addressing these additional costs is a major focus for the Corporation going forward.

International operations generated many positive results in the second quarter, including record revenue and increased profitability. PHX Energy is pleased to report that its Russian operations led this growth, on a percentage basis, for the first time, as the Russian market holds many opportunities for the Corporation. During the quarter, PHX Energy added equipment and personnel, which resulted in new projects for both current and first time clients in most of its international operating regions.

The Corporation's outlook for the remainder of 2013 is positive. Although some of the unfavorable weather in Canada did persist into July, PHX Energy's current activity has returned to expected levels and it is forecasted that activity in the upcoming months could exceed the current level. US operations continue to benefit from the strategies put in place to grow in this market and it is believed that greater market share is attainable. As such, additional assets have been mobilized to certain regions in the US, such as the Gulf Coast, in anticipation of higher activity levels. Internationally, in Albania and Russia a solid footprint has been established and PHX Energy continues to provide leading edge services. Based on the level of services being provided, it is projected that additional contracts will be awarded, contributing to increased revenue and profitability. With this momentum, the international segment is expected to represent an even greater percentage of PHX Energy's operations going forward.

Additionally, in future quarters PHX Energy should benefit from the continuation of positive trends in commodity prices that occurred in the second quarter. Oil prices have improved and the Canadian differential has narrowed which will likely increase cash flow for producers and allow them to expand their drilling activity. In addition, natural gas prices rose during the quarter and progress toward the development of future LNG projects is ongoing. The volume of drilling required for these projects to succeed will present positive opportunities for those service providers that can win contracts, and PHX Energy believes it has the capability to be one of those service providers



John Hooks
Chairman of the Board, President and Chief Executive Officer
Aug. 8, 2013

Non-GAAP Measures

1) EBITDA

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

The following is a reconciliation of net earnings to EBITDA:

(Stated in thousands of dollars)

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|--|------------------------------------|---------|----------------------------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Net earnings (loss) | (4,735) | (2,584) | 3,571 | 5,335 |
| Add: | | | | |
| Depreciation and amortization | 6,024 | 5,206 | 11,854 | 10,040 |
| Provision for (Recovery of) income taxes | (2,103) | (812) | 996 | 918 |
| Finance expense | 1,181 | 711 | 2,275 | 1,267 |
| EBITDA as reported | 367 | 2,521 | 18,696 | 17,560 |

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, | |
|--------------------------------------|------------------------------------|----------|----------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Cash flows from operating activities | 11,942 | 15,667 | 25,244 | 19,743 |
| Add: | | | | |
| Changes in non-cash working capital | (12,216) | (12,763) | (10,237) | (3,301) |
| Interest paid | 606 | 884 | 1,878 | 1,415 |
| Income taxes paid | 540 | 199 | 721 | 878 |
| Funds from operations | 872 | 3,987 | 17,606 | 18,735 |

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

About PHX Energy Services Corp.

The Corporation, through its subsidiary entities, provides horizontal and directional technology and drilling services to oil and natural gas producing companies in Canada, the US, Albania, Russia, Peru, and Colombia. PHX Energy develops and manufactures its E-360 EM and P-360 positive pulse MWD technologies that are made available for internal operational use.

PHX Energy's Canadian operations are conducted through Phoenix Technology Services LP. The Corporation maintains its corporate head office, research and development, Canadian sales, service and operational centres in Calgary, Alberta. In addition, PHX Energy has a facility in Estevan, Saskatchewan. PHX Energy's US operations, conducted through the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), is headquartered in Houston, Texas. Phoenix USA has sales and service facilities in Houston, Texas; Traverse City, Michigan; Casper, Wyoming; Denver, Colorado; Fort Worth, Texas; Midland, Texas; Buckhannon, West Virginia; Pittsburgh, Pennsylvania; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania, Peru, Russia, and Colombia, and an administrative office in Nicosia, Cyprus.

For further information please contact:

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PHX Energy Services Corp.

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Consolidated Statements of Financial Position

(unaudited)

| | June 30, 2013 | December 31, 2012 |
|---|----------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,305,342 | \$ 4,329,969 |
| Trade and other receivables | 53,869,223 | 67,189,884 |
| Inventories | 27,269,101 | 21,833,051 |
| Prepaid expenses | 3,618,103 | 3,476,559 |
| Assets held for sale | 15,606,335 | 9,436,462 |
| Total current assets | 107,668,104 | 106,265,925 |
| Non-current assets: | | |
| Drilling and other equipment | 153,160,589 | 144,370,109 |
| Goodwill | 8,876,351 | 8,876,351 |
| Intangible Assets | 3,759,200 | - |
| Equity-accounted investees | 7,543,724 | 5,010,292 |
| Total non-current assets | 173,339,864 | 158,256,752 |
| Total assets | \$ 281,007,968 | \$ 264,522,677 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Operating facility | \$ 9,525,415 | \$ 5,897,711 |
| Trade and other payables | 35,763,400 | 38,165,118 |
| Dividends payable | 1,667,427 | 1,626,287 |
| Current tax liabilities | 2,154,193 | 97,020 |
| Loans and borrowings | 15,000,000 | 15,000,000 |
| Total current liabilities | 64,110,435 | 60,786,136 |
| Non-current liabilities: | | |
| Loans and borrowings | 95,552,000 | 80,000,000 |
| Deferred tax liabilities | 6,769,614 | 8,641,858 |
| Total non-current liabilities | 102,321,614 | 88,641,858 |
| Equity: | | |
| Share capital | 103,886,515 | 99,101,118 |
| Contributed surplus | 6,937,020 | 7,860,658 |
| Retained earnings | 3,088,592 | 9,764,748 |
| Accumulated other comprehensive income | 663,792 | (1,631,841) |
| Total equity | 114,575,919 | 115,094,683 |
| Total liabilities and equity | \$ 281,007,968 | \$ 264,522,677 |

Consolidated Statements of Comprehensive Income

(unaudited)

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|------------------------------------|----------------|----------------------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenue | \$ 65,482,975 | \$ 58,423,429 | \$ 158,149,790 | \$ 138,192,258 |
| Direct costs | 62,051,464 | 51,365,186 | 133,017,023 | 113,028,642 |
| Gross profit | 3,431,511 | 7,058,243 | 25,132,767 | 25,163,616 |
| Expenses: | | | | |
| Selling, general and administrative expenses | 8,443,769 | 8,241,383 | 18,928,599 | 16,745,774 |
| Research and development expenses | 456,068 | 547,825 | 991,981 | 1,100,928 |
| Finance expense | 1,181,287 | 711,434 | 2,274,914 | 1,267,065 |
| Other (income) expense | (257,647) | 849,170 | (2,296,483) | (306,807) |
| Share of loss of equity-accounted investee (net of tax) | 9,823,477 | 10,349,812 | 19,899,011 | 18,806,960 |
| Earnings (Loss) before income taxes | (6,838,480) | (3,396,040) | 4,567,188 | 6,252,185 |
| Provision for (Recovery of) income taxes | | | | |
| Current | 833,711 | 1,475,158 | 2,628,702 | 3,188,773 |
| Deferred | (2,937,048) | (2,287,542) | (1,632,216) | (2,271,197) |
| | (2,103,337) | (812,384) | 996,486 | 917,576 |
| Net earnings (loss) | (4,735,143) | (2,583,656) | 3,570,702 | 5,334,609 |
| Other comprehensive income | | | | |
| Foreign currency translation | 830,863 | 970,772 | 2,295,633 | 34,873 |
| Total comprehensive income (loss) for the period | \$ (3,904,280) | \$ (1,612,884) | \$ 5,866,335 | \$ 5,369,482 |
| Earnings (Loss) per share – basic | \$ (0.16) | \$ (0.09) | \$ 0.13 | \$ 0.19 |
| Earnings (Loss) per share – diluted | \$ (0.16) | \$ (0.09) | \$ 0.13 | \$ 0.19 |

Consolidated Statements of Cash Flows

(unaudited)

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|------------------------------------|----------------|----------------------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Cash flows from operating activities: | | | | |
| Net earnings (loss) | \$ (4,735,143) | \$ (2,583,656) | \$ 3,570,702 | \$ 5,334,609 |
| Adjustments for: | | | | |
| Depreciation and amortization | 6,024,210 | 5,206,082 | 11,853,819 | 10,040,306 |
| Provision for (Recovery of) income taxes | (2,103,337) | (812,384) | 996,486 | 917,576 |
| Unrealized foreign exchange loss | 148,237 | 885,966 | 346,690 | 603,216 |
| Gain on disposition of drilling equipment | (292,163) | (110,671) | (2,632,698) | (1,105,309) |
| Share-based payments | 202,730 | 613,711 | 529,767 | 1,410,803 |
| Finance expense | 1,181,287 | 711,434 | 2,274,914 | 1,267,065 |
| Recovery of bad debts | - | (207,714) | - | (207,714) |
| Share of loss of equity-accounted investee | 446,514 | 104,471 | 666,568 | 104,471 |
| Change in fair value of investment in equity securities | - | 180,090 | - | 370,185 |
| Change in non-cash working capital | 12,215,708 | 12,762,968 | 10,236,550 | 3,300,690 |
| Cash generated from operating activities | 13,088,043 | 16,750,297 | 27,842,798 | 22,035,898 |
| Interest paid | (605,918) | (884,753) | (1,877,732) | (1,415,295) |
| Income taxes paid | (540,107) | (198,983) | (720,859) | (878,044) |
| Net cash from operating activities | 11,942,018 | 15,666,561 | 25,244,207 | 19,742,559 |
| Cash flows from investing activities: | | | | |
| Proceeds on disposition of drilling equipment | 1,686,595 | 1,293,084 | 5,283,563 | 4,637,529 |
| Acquisition of drilling and other equipment | (8,133,626) | (18,897,365) | (21,628,872) | (36,457,150) |
| Acquisition of intangible assets | (3,759,200) | - | (3,759,200) | - |
| Investment in equity-accounted investee | (3,000,000) | (2,852,158) | (3,200,000) | (3,762,613) |
| Change in non-cash working capital | (6,925,943) | 6,685,034 | (10,926,303) | (917,824) |
| Net cash used in investing activities | (20,132,174) | (13,771,405) | (34,230,812) | (36,500,058) |
| Cash flows from financing activities: | | | | |
| Proceeds from issuance of share capital | 2,270,116 | 228,356 | 3,331,992 | 785,900 |
| Dividends paid to shareholders | (5,120,280) | (5,069,182) | (10,205,718) | (8,441,658) |
| Proceeds on loans and borrowings | 10,221,500 | 12,500,000 | 15,208,000 | 21,500,000 |
| Proceeds on (Repayment of) operating facility | 1,860,518 | (1,917,328) | 3,627,704 | 6,268,277 |
| Net cash from financing activities | 9,231,854 | 5,741,846 | 11,961,978 | 20,112,519 |
| Net increase in cash and cash equivalents | 1,041,698 | 7,637,002 | 2,975,373 | 3,355,020 |
| Cash and cash equivalents, beginning of period | 6,263,644 | 4,094,362 | 4,329,969 | 8,376,344 |
| Cash and cash equivalents, end of period | \$ 7,305,342 | \$ 11,731,364 | \$ 7,305,342 | \$ 11,731,364 |