PHX
ENERGY SERVICES CORP.

PRESS RELEASE
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TSX – PHX
Calgary, Alberta

PHX Energy Announces Its Operating and Financial Results for the First Quarter of 2019

Financial Results

PHX Energy's consolidated revenue in the first quarter of 2019 grew by 30 percent to $92.1 million from $70.8 million in the comparative 2018-quarter. The Corporation's consolidated activity levels increased by 4 percent to 7,025 operating days in the 2019-quarter relative to 6,769 operating days in the 2018-quarter. PHX Energy's consolidated revenue per day, excluding the motor rental division in the US and Stream division, increased 22 percent in the 2019-quarter to $12,447 compared to $10,182 revenue per day in the first quarter of 2018. In the first quarter of 2019 adjusted EBITDA increased to $11.4 million from $6.8 million in the 2018-quarter. The 69 percent improvement in profitability was primarily due to improved revenue per day in the Corporation's US and Canadian segments as well as increased activity in the US segment. Adjusted EBITDA was higher despite higher cash-settled share-based payments totaling $2.9 million in the 2019-quarter as compared to $46 thousand recognized in the corresponding 2018-quarter. Increases to the Corporation's cash-settled share-based payments were primarily due to the Corporation's share price being higher in the 2019-quarter. The positive impact of the adoption of IFRS 16 Leases to adjusted EBITDA for the three-month period ended March 31, 2019 was $1.4 million.

For the three-month period ended March 31, 2019, PHX Energy's US division generated the second highest quarterly revenue since the fourth quarter of 2014. US revenue for the 2019-quarter was $63.0 million, representing 68 percent of first quarter consolidated revenue and a 65 percent increase over the $38.1 million generated in the 2018-quarter. The Corporation continued growing its US revenue by promoting its high performance technologies, specifically Velocity Real-Time System ("Velocity"), PowerDrive Orbit Rotary Steerable System ("RSS"), and Atlas High Performance Motors ("Atlas"). The Corporation's US drilling activity in the first quarter of 2019 rose to 3,749 operating days from 2,713 operating days in the 2018-quarter, an increase of 38 percent. In comparison, US industry activity, as measured by the average rigs operating per day, increased by 8 percent to 1,043 in the first quarter of 2019 from 966 in the 2018-quarter (Source: Baker Hughes).

Continued market instability, the Alberta government's production curtailments and prolonged industry challenges in Canada continued to impact the Corporation's Canadian operations during the first quarter. PHX Energy's Canadian segment's operating days declined by 19 percent from 3,382 in the first quarter of 2018 to 2,737 operating days in the 2019-quarter. In comparison, the industry experienced a 35 percent decline in horizontal and directional drilling days. The Corporation's Canadian segment revenues for the 2019-quarter were $24.9 million, a decrease of 11 percent compared to $28.0 million in the 2018-quarter.

As at March 31, 2019, the Corporation had loans and borrowings of $19.0 million as well as operating facility borrowings of $8.8 million. These debt items less cash and cash equivalents of $4.0 million, resulted in net debt of $23.7 million (December 31, 2018 - $21.5 million). As at March 31, 2019 the Corporation's working capital was $63.3 million.

Capital Spending

The Corporation spent $11.3 million on capital expenditures in the first quarter of 2019, which is $8.2 million more than the expenditures in the 2018-quarter which were $3.1 million. Capital expenditures for the 2019-quarter were primarily directed towards Atlas motors, Velocity systems, collars, and other machine and equipment. The Corporation funded capital spending through net cash flows from operations and drawings from the Corporation's operating and syndicated loan facilities.

As at March 31, 2019, the Corporation has commitments to purchase drilling and other equipment for $10.7 million, with delivery of these purchases expected to occur by the end of 2019. Commitments include $7.4 million for Velocity systems and $3.3 million for performance drilling motors primarily relating to Atlas.

On April 8, 2019, the Corporation announced an increase to its 2019 capital expenditure program from $15 million to $25 million. The increase to the capital expenditure program was primarily dedicated to increasing the capacity of the Velocity fleet for activity in early 2020. The remainder of the increase to the capital expenditure program is anticipated to be allocated toward maintenance of the Velocity and performance motor drilling fleets, including Atlas motors.

Normal Course Issuer Bid

During the third quarter of 2018, the Toronto Stock Exchange ("TSX") approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 2,915,311 common shares, representing 5 percent of the outstanding common shares at the time the NCIB was renewed. The NCIB commenced on August 8, 2018 and will terminate on August 7, 2019. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the NCIB, 1,926,600 common shares have been purchased and cancelled by the Corporation as at May 2, 2019, of which 357,500 common shares were purchased and cancelled in the second half of 2018, 229,500 common shares were purchased and cancelled in the first quarter of 2019, and the remaining 1,339,600 common shares were purchased and cancelled subsequent to March 31, 2019.

PHX Energy continues to use the NCIB as an additional tool to enhance total long-term shareholder returns in conjunction with management's disciplined capital allocation strategy.

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

	Three-month periods ended March 31,		
	2019	2018	% Change
Operating Results	***(unaudited)***	*(unaudited)*	
Revenue	**92,121**	70,759	30
Net loss	**(1,067)**	(4,251)	(75)
Loss per share – diluted	**(0.02)**	(0.07)	(71)
Adjusted EBITDA (1)	**11,431**	6,768	69
Adjusted EBITDA per share – diluted (1)	**0.19**	0.11	73
Adjusted EBITDA as a percentage of revenue (1)	**12%**	10%	
Cash Flow			
Cash flows from operating activities	**9,699**	936	n.m
Funds from operations (1)	**10,100**	5,757	75
Funds from operations per share – diluted (1)	**0.17**	0.10	70
Capital expenditures	**11,307**	3,067	n.m
Financial Position (unaudited)	**Mar. 31, '19**	Dec 31, '18	
Working capital (1)	**63,281**	60,316	5
Long-term debt	**19,009**	11,821	61
Shareholders' equity	**158,099**	168,414	(6)
Common shares outstanding	**57,779,220**	57,963,720	-

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to non-GAAP measures section that follows the Outlook section of this document.

n.m. – not meaningful

Non-GAAP Measures

PHX Energy uses throughout this document certain measures to analyze operational and financial performance that do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP"). These non-GAAP measures include adjusted EBITDA, adjusted EBITDA per share, debt to covenant EBITDA, funds from operations, funds from operations per share and working capital. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the "Non-GAAP Measures" section following the Outlook section of this document for applicable definitions and reconciliations.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

In particular, forward-looking information and statements contained in this document include, without limitation, the timeline for delivery of equipment on order, and the projected capital expenditures budget and how this budget will be allocated and funded.

The above are stated under the headings: “Overall Performance” and “Cash Requirements for Capital Expenditures”. Furthermore all statements in the Outlook section of this document contains forward-looking statements.

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

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

Revenue

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Revenue	**92,121**	70,759	30

For the three-month period ended March 31, 2019, consolidated revenue increased 30 percent to $92.1 million as compared to $70.8 million in the 2018-quarter. In the first quarter of 2019 the average consolidated revenue per day, excluding the motor rental division in the US and Stream division, increased 22 percent from $10,182 in the 2018-quarter to $12,447. The higher revenue per day primarily resulted from premiums and surcharges related to high performance technologies and from the strengthening of the US dollar in 2019 relative to the same period in 2018. The Corporation generated 7,025 consolidated operating days for the first quarter of 2019, which is 4 percent greater than the 6,769 operating days in the 2018-quarter. Both revenue and activity growth was led by the US operations and US revenue represented 68 percent of consolidated revenue in the 2019-quarter (2018 – 54 percent).

Crude oil prices recovered from the decline that occurred in the fourth quarter of 2018, with Western Texas Intermediate ("WTI") averaging USD $55/bbl in the first quarter of 2019 (2018-quarter - USD $63/bbl) and Western Canadian Select ("WCS") oil prices averaging CAD $57/bbl (2018-quarter - CAD $49/bbl). However, despite the trend in the respective oil prices the industry activity levels in the Canadian and US industries continued to be on divergent paths. The US industry showed an 8 percent improvement in rig counts quarter-over-quarter whereas Canada experienced a 32 percent decline in the rig count. In the first quarter of 2019, there were 1,043 rigs operating per day (2018-quarter - 966 rigs) in the US and 181 rigs operating per day in Canada (2018-quarter - 267 rigs). Throughout North America the vast majority of wells continued to be horizontal and directional representing 93 percent of all wells drilled in Canada and 94 percent of the average number of rigs operating per day in the US (Sources: Daily Oil Bulletin and Baker Hughes).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2019	2018	% Change
Direct costs	**78,790**	65,929	20
Gross profit as a percentage of revenue	**14%**	7%	
Depreciation & amortization drilling and other equipment (included in direct costs)	**10,167**	10,306	(1)
Depreciation & amortization right-of-use asset (included in direct costs)	**867**	-	n.m
Gross profit as percentage of revenue excluding depreciation & amortization	**26%**	21%	

n.m. – not meaningful

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment and right-of-use assets. Depreciation on right-of-use assets relate to the impact of adopting IFRS 16 Leases as at January 1, 2019, which required capitalizing the Corporation's office, shop and vehicle leases. For the three-month period ended March 31, 2019, direct costs were $78.8 million, which is a 20 percent increase over the direct costs of $65.9 million in the 2018-quarter. The rise in the Corporation's direct costs mainly relates to higher field labour rates and a greater number of motor repair expenses.

Gross profit as a percent of revenue excluding depreciation and amortization increased to 26 percent in the 2019-quarter from 21 percent in the relevant 2018-quarter. Improved profitability was primarily a result of higher drilling activity in the US segment, as well as, improved revenue per day in the Canadian and US segments. The Corporation has continued its disciplined approach in respect to cost management in the 2019-quarter, which also aided in improved margins.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2019	2018	% Change
Selling, general & administrative ("SG&A") costs	**13,202**	8,771	51
Cash-settled share-based payments (included in SG&A costs)	**2,935**	46	n.m.
Equity-settled share-based payments (included in SG&A costs)	**184**	460	(60)
Onerous contracts lease payment	**-**	(128)	n.m.
SG&A costs excluding equity and cash-settled share-based payments and provision for onerous contracts as a percentage of revenue	**11%**	12%	

n.m. – not meaningful

For the three-month period ended March 31, 2019, the Corporation's SG&A costs increased by 51 percent to $13.2 million as compared to $8.8 million in the 2018-period, which was primarily driven by higher cash-settled-share-based payments. Included in SG&A costs are cash-settled and equity-settled share-based payments totaling $2.9 million and $0.2 million, respectively, in the 2019-quarter relative to $46 thousand and $0.5 million in the 2018-quarter, respectively.

Cash-settled share based retention awards are measured at fair value and the increase in the 2019-quarter was primarily due to increases in the Corporation's share price.

Equity-settled share-based payments relate to the amortization of the fair values of issued options by the Corporation using the Black-Scholes model. For the three-month period ended March 31, 2019, equity-settled share-based payments decreased as a result of previously granted options that fully vested in the 2018-year.

Due to adoption of IFRS 16 Leases as of January 1, 2019, onerous contracts lease payments are no longer recorded.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Research & development expense	**900**	870	3

Research and development ("R&D") expenditures for both the first quarter of 2019 and 2018 were $0.9 million. R&D costs mainly relate to personnel costs in the R&D departments. PHX Energy continues to develop and expand services by focusing R&D efforts on developing new technology, improving reliability of equipment, and decreasing costs to operations.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Finance expense	**384**	340	13
Finance expense lease liability	**646**	-	n.m

n.m. – not meaningful

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. In the 2019-quarter finance charges rose by 13 percent to $0.4 million relative to the $0.3 million in the 2018-quarter. The increase in the finance expense is primarily due to higher long-term loans outstanding in the first quarter of 2019 as compared to the 2018-quarter, resulting from larger capital expenditures in the fourth quarter of 2018 and the first quarter of 2019.

Finance expense lease liability relates to interest expenses incurred on lease liabilities, as a result of the adoption of IFRS 16 Leases in 2019.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2019	2018
Net gain on disposition of drilling equipment	**(1,280)**	(779)
Foreign exchange losses (gains)	**265**	(128)
Provision for (Recovery of) bad debts	**47**	(8)
Other income	**(968)**	(915)

For the three-month period ended March 31, 2019, the Corporation recognized other income of $1.0 million as compared to $0.9 million in the relevant 2018-quarter. Other income is primarily comprised of gains on disposition of drilling equipment that 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. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. In the 2019-quarter, more downhole equipment losses occurred as compared to the 2018-quarter, resulting in higher other income. Gains were partially offset by changes to realized and unrealized foreign exchange in the respective periods.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,	
	2019	2018
Provision for income taxes	**234**	14
Effective tax rates	**n.m.**	n.m.

n.m. – not meaningful

The provision for income taxes for the three-month period ended March 31, 2019 was $0.2 million as compared to $14 thousand in the 2018-quarter and was impacted by unrecognized deferred tax assets with respect to deductible temporary differences in the Canadian jurisdiction.

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 Russia and Albania.

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Revenue	**24,864**	**27,975**	(11)
Reportable segment profit before tax	**1,254**	**1,511**	(17)

For the three-month period ended March 31, 2019, PHX Energy's Canadian revenue was $24.9 million a decrease of 11 percent from $28.0 million in the corresponding 2018-period. The Canadian segment experienced decreases to drilling activity as market instability continued and production cuts were imposed by the Alberta government beginning January 1, 2019 as a response to weak WCS prices prior to the first quarter of 2019. The Canadian segment reported 2,737 operating days in the first quarter of 2019, a 19 percent decrease from the 3,382 days in the 2018-quarter. Due to the Corporation's strong position in this market, PHX Energy's activity levels did not decline as drastically as the overall industry, which saw 35 percent horizontal and direction operating days. There were 14,737 industry horizontal and directional drilling days in the 2019-quarter as compared to 22,509 days in the 2018-quarter (Source: Daily Oil Bulletin). Partially offsetting the negative volume impacts to revenue was PHX Energy's average revenue per day, which increased by 9 percent to $8,555 in the 2019-quarter as compared to $7,881 revenue per day in the same 2018-period (excluding Stream revenue of $1.5 million and $1.3 million, respectively).

During the 2019-quarter, 53 percent of the Canadian division's activity was oil well drilling and PHX Energy was active in the Montney, Wilrich, Bakken, Shaunavon, Duvernay, Cardium, Ellerslie, Glauconite and Viking areas.

Due to lower volumes of activity in the 2019-quarter, PHX Energy's Canadian division reportable segment profit before tax declined to $1.3 million in the 2019-quarter as compared to $1.5 million in the 2018-quarter. The impact of lower drilling activity to the reportable segment profit was softened by improved revenue per day in the 2019-quarter relative to the same corresponding 2018-quarter.

Stream Services

Included in the Canadian segment's revenue for the three-month period ended March 31, 2019 is $1.5 million of revenue generated by the Stream division compared to $1.3 million in the same 2018-period. Stream's operating days improved in the first quarter of 2019 and it generated 2,925 operating days relative to 1,919 days in the first quarter of 2018. The increase in EDR activity was partially offset by a decrease to Stream's average revenue per day, which was $497 in the 2019-quarter as compared to $689 in the 2018-quarter. The increase in operating days and decrease in the average revenue per day in the 2019-quarter was primarily due to a higher share of lower rate services being provided.

For the three-month period ended March 31, 2019, the Stream division's reportable losses before tax was $0.4 million as compared to $1.1 million in the relevant 2018-quarter. Improved profitability was primarily due to increased operating days as well as disciplined cost management in the 2019-quarter.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Revenue	**62,996**	38,067	65
Reportable segment income (loss) before tax	**2,396**	(4,168)	n.m.

n.m. – not meaningful

The US industry continues to provide significant growth opportunities to PHX Energy. In the first quarter the US operations' momentum continued, achieving the second highest level of quarterly revenue since the fourth quarter of 2014. For the three-month period ended March 31, 2019, revenue grew 65 percent to $63.0 million from $38.1 million in the corresponding 2018-quarter. Operating days increased by 38 percent to 3,749 days in the 2019-quarter from 2,713 days in the 2018-quarter. PHX Energy's strong growth outpaced the industry where activity gains slowed slightly. In the first quarter of 2019 the number of horizontal and directional rigs running per day rose by 9 percent from an average of 903 horizontal and directional rigs running per day during the 2018-quarter to 982 in the 2019-quarter (Source: Baker Hughes). For the three-month period ended March 31, 2019, the average revenue per day, excluding the Corporation's US motor rental division, rose to $15,943 from $13,846 in the 2018-quarter, an increase of 15 percent. The US denominated average revenue per day increased by 8 percent in the 2019-quarter as compared to the same 2018-quarter. The increase in the average revenue per day primarily relates to the premium and surcharges for the Corporation's high performance technologies.

Horizontal and directional drilling represented 94 percent of the industry's average number of rigs running on a daily basis during the first quarter of 2019, which was consistent with the percentage in the 2018-quarter. For the three-month period ended March 31, 2019, all of the US operating division's activity was oil well drilling, as measured by wells drilled and excluding the motor rental and gyro surveying divisions. The Permian basin represents 45 percent of all active rigs operating in the US today and during the first quarter of 2019 approximately 79 percent of Phoenix USA's activity was focused in this area. In addition the Corporation was active in the Eagle Ford, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins (Source: Baker Hughes).

The Corporation realized reportable segment income before tax in the 2019-quarter of $2.4 million compared to losses of $4.2 million in the relevant 2018-quarter. The profitable operations in the US segment mainly resulted from increases to operating days and revenue per day in the 2019-quarter over those achieved in the 2018-quarter.

International

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,		
	2019	2018	% Change
Revenue	**4,261**	4,717	(10)
Reportable segment loss before tax	**(105)**	(360)	(71)

The Corporation's international segment revenue decreased by 10 percent to $4.3 million in the 2019-quarter from $4.7 million in the 2018-quarter primarily due to lower activity in Russia. For the three-month period ended March 31, 2019, operating days decreased by 20 percent to 539 days as compared to 675 days in the 2018-quarter. The international segment's reportable segment loss before tax improved by 71 percent to a loss of $0.1 million in the 2019-quarter compared to a loss of $0.4 million in the 2018-quarter. This improvement was primarily due to increased activity in Albania and greater measurement while drilling ("MWD") rental revenue in Russia. PHX Energy generated 5 percent of its consolidated revenue from its international operations in the 2019-quarter versus 7 percent in the same 2018-period.

PHX Energy's Russian operations saw a decline in revenue primarily due to lower operating days. For the three-month period ended March 31, 2019 operating days dropped 54 percent to 291 days from 634 days in the relevant 2018-quarter. PHX Energy's Russian division experienced a reduction to activity from some of its key clients, however, lower activity in the region was partially offset by higher MWD rental services, which is a higher margin business.

PHX Energy's Albania operations continued its momentum coming out of the 2018-year operating 3 rigs for the full 2019-quarter as compared to one rig in operation in the latter half of the comparable 2018-quarter. Operating days increased six-fold to 248 days from 41 days in the 2018-quarter.

Investing Activities

PHX Energy used net cash in investing activities of $10.5 million in the first quarter of 2019 compared to $2.4 million in the 2018-quarter. In the first quarter of 2019, the Corporation received proceeds of $2.5 million (2018 - $2.7 million) from the disposition of drilling equipment, primarily related to the involuntary disposal of drilling equipment in well bores. Additionally, the Corporation spent $11.3 million on capital expenditures in the first quarter of 2019 (2018 - $3.1 million). These expenditures included:

- $7.6 million downhole performance drilling motors,
- $2.5 million in MWD systems and spare components; and
- $1.2 million in collars, machining and equipment, vehicles and other assets.

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

During the three-month period ended March 31, 2019, the Corporation had no acquisitions in intangible assets (2018 - $3,696).

The change in non-cash working capital balances of $1.8 million (use of cash) for the three-month period ended March 31, 2019, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $2.0 million (use of cash) for the three-month period ended March 31, 2018.

Financing Activities

The Corporation reported cash flows generated from financing activities of $1.2 million in the three-month period ended March 31, 2019 as compared to $1.8 million in the comparable 2018-quarter. In the 2019-quarter:

- the Corporation drew net proceeds of $2.6 million from its operating and syndicated facilities,
- the Corporation made payments of $0.8 million towards lease liability in line with the newly adopted IFRS 16 Leases standard,
- under the Corporation's NCIB, $0.7 million was spent on repurchase of common shares; and
- 45,000 common shares were issued for proceeds of $0.1 million upon the exercise of share options.

Capital Resources

As of March 31, 2019, the Corporation had $19.0 million drawn on its syndicated facility, $8.8 million drawn on its operating facility, and a cash balance of $4.0 million. As at March 31, 2019, the Corporation had approximately CAD $39.2 million and USD $2.0 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at March 31, 2019, the Corporation was in compliance with all its financial covenants.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. On April 8, 2019, the Corporation announced an increase to its 2019 capital expenditure program from $15 million to $25 million. The increase to the capital expenditure program was primarily dedicated to increasing the capacity of the Velocity fleet for activity in early 2020, with the remainder of the increase anticipated to be allocated toward maintenance of the Velocity and performance motor drilling fleets, including Atlas motors.

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 2019, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Outlook

The first quarter results are a continuation of the positive momentum built in the 2018-year and were driven by the Corporation's strategic initiatives focused on the US market and building a fleet of disruptive technologies. PHX Energy's US division has consistently demonstrated its growth potential over the last 2 years and the Corporation's high performance technologies remain in high demand and are contributing to the improvements in revenue and profitability.

In the first quarter, the US remained the largest area of operation for the Corporation and the majority of PHX Energy's premium technologies, such as Velocity systems, Atlas motors and PowerDrive Orbit RSS, were deployed in the US. The US industry remains extremely favourable and with the Corporation's unique position, PHX Energy's growth strongly outpaced the industry. PHX Energy's US operating days increased 38 percent quarter-over-quarter as compared to the 9 percent increase in the US rig count. This increased activity combined with the premiums and surcharges related to the high performance technology has led the US division to consistently grow. PHX Energy remains optimistic that it can further build upon the strong growth and market share gains over the past few quarters as additional Atlas and Velocity capacity is deployed later this year and into 2020. Commodity prices appear to have recovered from the decline in the fourth quarter of 2018 and if these levels persist, industry activity may be greater than anticipated and this may further increase the potential opportunities for PHX Energy.

As expected, the Canadian industry remains challenged with limited market access and political uncertainty. Both the industry and PHX Energy saw activity levels decrease quarter-over-quarter, although the Corporation's strong position in this market sheltered it slightly. PHX Energy experienced a 19 percent decline in operating days as compared to the industry's decline of 35 percent. The Canadian industry has seen improvements in the price of Canadian crude oil and this provides some optimism that industry activity will not see steeper declines as the year progresses. In the first quarter, the spring break-up period began earlier than is typical and this slow period will continue through the second quarter. Rig counts are currently trending 30 percent below what they were last year and in spite of these activity levels, PHX Energy remains committed to the Canadian industry and protecting its strong market share for the future.

The first quarter was very similar to the fourth quarter of 2018 for PHX Energy's international operations. The Albania division continued to operate on 3 rigs while the Russian operations relied more on the MWD rental business as key clients decreased their drilling programs. The Russian division is focused on gaining more full service work and PHX Energy believes in upcoming quarters activity levels will begin to increase.

Technology Update

As the industry continues to strive for efficiencies, core directional technologies have changed the time and economics for operators to drill long horizontal wells, making directional services the most impactful services for operators' performance and cost of drilling. As a directional provider who has successfully developed, manufactured and deployed these advanced technologies, PHX Energy continues to be recognized as an industry leader, which is positively contributing to its financial and operational results. As in the fourth quarter of 2018, the surcharges and premiums generated from PHX Energy's high performance technologies aided the strong revenue and profitability achieved and PHX Energy has dedicated its 2018 and 2019 capital expenditure programs to expanding the fleets of Velocity systems and Atlas motors. In the quarter, PHX Energy continued to operate its fleet of PowerDrive Orbit RSS and is leveraging its ability to rent this technology to meet demand when it exceeds its own fleet capacity.

As 2019 progresses, PHX Energy will continue to execute on its strategies for technology development, US growth and protecting its strong financial position.

Michael Buker, President
May 2, 2019

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before finance expense and finance expense lease liability, income taxes, depreciation and amortization, impairment losses on goodwill and intangible assets, equity share-based payments, and unrealized foreign exchange gains or losses, does not have a standardized meaning and is not a financial measure that is recognized under GAAP. However, Management believes that adjusted EBITDA provides supplemental information to net earnings that is useful in evaluating the results of the Corporation's principal business activities before considering certain charges, how it was financed and how it was taxed in various countries. Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA may differ from that of other organizations and, accordingly, its adjusted EBITDA may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2019	2018
Net Loss	**(1,067)**	(4,251)
Add:		
Depreciation and amortization drilling and other equipment	**10,167**	10,306
Depreciation and amortization right-of-use asset	**867**	-
Provision for income taxes	**234**	14
Finance expense	**384**	340
Finance expense lease liability	**646**	-
Equity-settled share-based payments	**184**	460
Unrealized foreign exchange (gain) loss	**16**	(101)
Adjusted EBITDA as reported	**11,431**	6,768

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

Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2019	2018
Net cash flows from operating activities	**9,699**	936
Add (deduct):		
Changes in non-cash working capital	**(17)**	5,088
Interest paid	**278**	228
Income taxes paid (received)	**140**	(495)
Funds from operations	**10,100**	5,757

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.

Debt to Covenant EBITDA Ratio

Debt is represented by loans and borrowings. Covenant EBITDA, for purposes of the calculation of this covenant ratio, is represented by net earnings for a rolling four quarter period, adjusted for finance expense and finance expense lease liability, provision for income taxes, depreciation and amortization, equity-settled share-based payments, impairment losses on goodwill and intangible assets, onerous contracts, inventory obsolescence, and IFRS 16 adjustment to restate cash payments to expense, subject to the restrictions provided in the amended credit agreement.

Working Capital

Working capital is defined as the Corporation's current assets less its current liabilities and is used to assess the Corporation's short-term liquidity. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses working capital to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating working capital may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Russia and Albania. PHX Energy also provides electronic drilling recorder ("EDR") technology and services.

PHX Energy's Canadian directional drilling operations are conducted through Phoenix Technology Services LP. The Corporation maintains its corporate head office, research and development, Canadian sales, service and operational centres in Calgary, Alberta. In addition, PHX Energy has a facility in Estevan, Saskatchewan. PHX Energy's US operations, conducted through the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), is headquartered in Houston, Texas. Phoenix USA has sales and service facilities in Houston, Texas; Denver, Colorado; Casper, Wyoming; Midland, Texas; Bellaire, Ohio; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania and Russia, and administrative offices in Nicosia, Cyprus; Dublin, Ireland; and Luxembourg City, Luxembourg.

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

As at December 31, 2018, PHX Energy had 828 full-time employees and the Corporation utilized over 150 additional field consultants in 2018.

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

For further information please contact:
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Consolidated Statements of Financial Position

(unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,031,025	$ 3,643,418
Trade and other receivables	98,157,425	103,987,716
Inventories	27,629,379	27,558,003
Prepaid expenses	3,612,881	2,428,221
Current tax assets	419,260	625,964
Total current assets	133,849,970	138,243,322
Non-current assets:		
Drilling and other equipment	93,802,611	94,164,880
Right-of-use asset	33,209,280	-
Intangible assets	21,579,903	22,301,680
Goodwill	8,876,351	8,876,351
Deferred tax assets	654,100	594,049
Total non-current assets	158,122,245	125,936,960
Total assets	$ 291,972,215	$ 264,180,282
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	$ 8,754,798	$ 13,348,562
Lease Liability	2,778,533	-
Trade and other payables	59,035,644	64,578,428
Total current liabilities	70,568,975	77,926,990
Non-current liabilities:		
Lease liability	42,326,562	-
Loans and borrowings	19,008,900	11,821,000
Deferred tax liability	1,968,675	2,886,606
Provision for onerous contracts	-	1,832,000
Deferred income	-	1,300,007
Total non-current liabilities	63,304,137	17,839,613
Equity:		
Share capital	265,220,367	265,760,391
Contributed surplus	10,773,113	10,631,982
Retained earnings	(134,442,817)	(125,385,208)
Accumulated other comprehensive income	16,548,440	17,406,514
Total equity	158,099,103	168,413,679
Total liabilities and equity	$ 291,972,215	$ 264,180,282

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three-month periods ended March 31, 2019	2018
Revenue	**$ 92,120,704**	$ 70,758,554
Direct costs	**78,790,218**	65,929,457
Gross profit	**13,330,486**	4,829,097
Expenses:		
Selling, general and administrative expenses	**13,201,938**	8,770,725
Research and development expenses	**899,586**	870,330
Finance expense	**383,600**	339,727
Finance expense lease liability	**646,161**	-
Other expenses (income)	**(968,256)**	(914,619)
	14,163,029	9,066,163
Loss before income taxes	**(832,543)**	(4,237,066)
Provision for (Recovery of) income taxes		
Current	**348,472**	(144,833)
Deferred	**(114,050)**	158,767
	234,422	13,934
Net loss	**(1,066,965)**	(4,251,000)
Other comprehensive income (loss)		
Foreign currency translation	**(858,074)**	2,645,967
Total comprehensive loss for the period	**$ (1,925,039)**	$ (1,605,033)
Loss per share – basic	**$ (0.02)**	$ (0.07)
Loss per share – diluted	**$ (0.02)**	$ (0.07)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended March 31, 2019	2018
Cash flows from operating activities:		
Net loss	**$ (1,066,965)**	$ (4,251,000)
Adjustments for:		
Depreciation and amortization drilling and other equipment	**10,167,271**	10,306,246
Depreciation and amortization right-of-use asset	**867,203**	-
Provision for income taxes	**234,422**	13,934
Unrealized foreign exchange loss (gain)	**16,075**	(101,069)
Gain on disposition of drilling equipment	**(1,280,178)**	(778,659)
Equity-settled share-based payments	**183,957**	460,202
Finance expense	**383,600**	339,727
Provision for (Recovery of) bad debts	**46,571**	(7,888)
Provision for (Recovery of) inventory obsolescence	**547,401**	(64,738)
Provision for onerous contracts	**-**	(128,000)
Amortization of deferred income	**-**	(33,333)
Interest paid	**(277,538)**	(227,543)
Income taxes received (paid)	**(139,940)**	495,491
Change in non-cash working capital	**17,414**	(5,087,843)
Net cash from operating activities	**9,699,293**	935,527
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**2,533,773**	2,706,864
Acquisition of drilling and other equipment	**(11,306,546)**	(3,066,570)
Acquisition of intangible assets	**-**	(3,696)
Change in non-cash working capital	**(1,755,135)**	(2,007,470)
Net cash used in investing activities	**(10,527,908)**	(2,370,872)
Cash flows from financing activities:		
Proceeds from (Repayment of) loans and borrowings	**7,187,900**	(2,000,000)
Proceeds from (Repayment of) operating facility	**(4,593,765)**	4,081,479
Payments of lease liability	**(795,063)**	-
Repurchase of shares under the NCIB	**(670,600)**	(237,500)
Proceeds from issuance of share capital	**87,750**	-
Net cash from financing activities	**1,216,222**	1,843,979
Net increase in cash and cash equivalents	**387,607**	408,634
Cash and cash equivalents, beginning of period	**3,643,418**	4,122,539
Cash and cash equivalents, end of period	**$ 4,031,025**	$ 4,531,173