



**PRESS RELEASE**  
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**TSX - PHX**

## **PHX ENERGY REPORTS FINANCIAL AND OPERATIONAL RESULTS FOR THE THREE-MONTH PERIOD AND YEAR ENDED DECEMBER 31, 2010**

PHX Energy Services Corp. ("PHX Energy" or the "Corporation") is pleased to report on its financial and operating results for the three-month period and year ended December 31, 2010.

In 2010, PHX Energy realized a record level of activity in Canada, the US and internationally due to high oil prices, strong customer demand and the provision of quality services. In order to meet the large increases in demand, a record level of capital expenditures of \$48.4 million were incurred in the year. These expenditures were financed by cash flow from operations and the issue of long-term debt. The Corporation continued its policy of paying dividends out to its shareholders, and in 2010 \$0.48 per share was paid out or \$12.2 million for the year.

PHX Energy also continued to diversify internationally by: expanding its Albanian operations which included adding a motor service facility in Fier, Albania; commencing full service operations in Nizhnevartovsk, Siberia, Russia late in the year; and continuing its marketing efforts in Peru. Colombia, which is seen as potentially strong growth region for the Corporation in South America, is expected to commence operations by the second quarter of 2011.

For the year ended December 31, 2010, the Corporation generated record consolidated revenue of \$197.3 million as compared to \$114.7 million; an increase of 72 percent. US and international revenue as a percentage of consolidated revenue was 43 and 7 percent, respectively, for the 2010-year as compared to 51 and 4 percent in 2009.

The trend towards utilizing new well completion techniques that require horizontal drilling services has continued. In 2010, industry horizontal and directional drilling activity represented approximately 66 and 68 percent of the total drilling activity in Canada and the US, respectively. This compared to 58 percent in Canada and 60 percent in the US for the 2009-year. (Sources: Daily Oil Bulletin and Baker Hughes)

The Corporation's funds from operations in the 2010-year increased to \$26.5 million as compared to \$19.6 million in the 2009-year; a 35 percent increase. Despite the record capital expenditure program the Corporation incurred significant third party equipment rentals, \$16.5 million in total for 2010. PHX Energy is expecting these rentals to reduce in future periods, as its 2011 capital expenditure program has been accelerated in the first quarter of 2011, and initiatives and alternatives with respect to reducing third party repair time of the Corporation's specialized equipment are currently being examined.

PHX Energy exited the 2010-year with net debt (long-term debt less cash on hand) of \$27.4 million and working capital of \$34.2 million.

During 2010, PHX Energy's job capacity increased by 33 percent to 150 concurrent jobs from 113 in 2009, through the addition of 36 positive pulse measurement while drilling ("MWD") systems and five resistivity while drilling ("RWD") systems. The Corporation sold four of its negative pulse MWD systems to a third party during the year. These MWD systems were underutilized and not seen as part of PHX Energy's strategic direction. As at December 31, 2010, the Corporation's MWD fleet consisted of 86 positive pulse MWD systems, 59 Current Loop Telemetry ("CLT") Electromagnetic ("EM")MWD systems, and five RWD systems. Of these, 82 MWD systems were deployed in Canada, 58 in the US, four in Peru, and three in both Russia and Albania.

Due to the current high level of forecasted customer demand, the Corporation has on order an additional 27 positive pulse MWD systems and two RWD systems. These systems are expected to be delivered during the end of the first quarter. At the end of 2011, the Corporation expects to have a fleet of 179 MWD systems, which would include seven RWD systems, majority of which will be deployed in the Russian market. The RWD tools have the ability to give the Corporation's clients comprehensive formation evaluation information that is more in-depth than that provided by standard gamma logging while drilling tools.

On December 31, 2010, Phoenix Technology Income Fund (the "Fund") completed its conversion from an income trust to a dividend paying corporation pursuant to a Plan of Arrangement (the "Arrangement") under section 193 of the Business Corporations Act (Alberta) involving; PHX Energy, the Fund, Phoenix Commercial Trust, Phoenix Technology Services Inc., Phoenix Technology Management Ltd., 1108287 Alberta Ltd., Phoenix Technology Services LP., Phoenix Technology Management Services LP and security holders of the Fund. Pursuant to the Arrangement, among other things, all of the issued and outstanding units of the Fund were exchanged for common shares of PHX Energy on a one for one basis, and all of the subsidiaries (whether directly or indirectly owned) and operating businesses of the Fund became subsidiaries and operating businesses of PHX Energy.

The common shares of PHX Energy trade on the Toronto Stock Exchange under the symbol PHX. Beginning with the record date of January 31, 2011, shareholders of PHX Energy begin receiving monthly payments in the form of dividends at the rate of \$0.04 per share. Prior to the conversion of the Fund to a Corporation at December 31, 2010, distributions were paid to unitholders of the Fund. Previous historical references to "unitholders", "cash distributions", "trust units" and "per unit" have been replaced by "shareholders", "dividends", "common shares" or "shares" and "per share" respectively where relevant.

## Financial Highlights

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

	Three-month periods ended December 31,			Years ended December 31,		
	2010	2009	% Change	2010	2009	% Change
<b>Operating Results</b>	<i>(unaudited)</i>	<i>(unaudited)</i>				
Revenue	<b>57,519</b>	34,934	65	<b>197,277</b>	114,692	72
Net earnings	<b>5,007</b>	3,675	36	<b>17,007</b>	11,407	49
Earnings per share – diluted	<b>0.18</b>	0.14	29	<b>0.63</b>	0.46	37
EBITDA <sup>(1)</sup>	<b>6,129</b>	6,407	(4)	<b>28,443</b>	18,955	50
EBITDA per share – diluted <sup>(1)</sup>	<b>0.22</b>	0.25	(12)	<b>1.05</b>	0.77	36
<b>Cash Flow</b>						
Cash flows from operating activities	<b>7,393</b>	5,222	42	<b>12,755</b>	12,946	(1)
Funds from operations <sup>(1)</sup>	<b>6,313</b>	7,527	(16)	<b>26,533</b>	19,637	35
Funds from operations per share – diluted <sup>(1)</sup>	<b>0.23</b>	0.30	(23)	<b>0.98</b>	0.80	23
Dividends paid	<b>3,096</b>	4,011	(23)	<b>12,169</b>	22,586	(46)
Dividends per share <sup>(2)</sup>	<b>0.12</b>	0.12	-	<b>0.48</b>	0.885	(46)
Capital expenditures	<b>15,609</b>	6,392	144	<b>48,354</b>	15,101	220
<b>Financial Position, December 31,</b>						
Working capital				<b>34,240</b>	21,013	63
Long-term debt				<b>36,000</b>	-	n.m.
Shareholders' equity				<b>102,443</b>	91,452	12
Common shares outstanding				<b>27,539,373</b>	26,505,110	4

<sup>(1)</sup> Refer to non-GAAP measures section.

<sup>(2)</sup> Dividends made by the corporation on a per share basis in the period.

n.m. – not meaningful

## Non-GAAP Measures

PHX Energy uses certain performance measures throughout this document that are not recognizable under Canadian generally accepted accounting principles (“GAAP”). These performance measures include 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. 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

Certain statements and information contained in this document and other continuous disclosure documents of the Corporation referenced herein, including statements related to the Corporation's capital expenditures, projected growth, view and outlook toward future oil and natural gas commodity prices and activity levels, cash dividends, customer pricing, future market opportunities, possible expansion of international operations and other statements and information that contain the words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions relating to matters that are not historical facts constitute "forward-looking information" within the meaning of applicable Canadian securities legislation.

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:

- Colombia, which is seen as potentially strong growth region for the Corporation in South America, is expected to commence operations by the second quarter of 2011;
- PHX Energy is expecting third party rentals to reduce in future periods, as its 2011 capital expenditure program has been accelerated in the first quarter of 2011, and initiatives and alternatives with respect to reducing third party repair time of the Corporation's specialized equipment are currently being examined;
- Due to the current high level of forecasted customer demand, the Corporation has on order an additional 27 positive pulse MWD systems and two RWD systems. These systems are expected to be delivered during the end of the first quarter;
- At the end of 2011, the Corporation expects to have a fleet of 179 MWD systems, which would include seven RWD systems, majority of which will be in deployed the Russian market;
- Phoenix USA added several marketing representatives in 2010 and had a change in senior management in the Gulf Coast late in the year. Both of these changes are expected to produce favourable results in upcoming periods;
- The Corporation's international expansion is on track and it is expected that these operations will represent 10 percent of revenue in 2011;
- It is anticipated that the Corporation has the potential for continued growth in Albania in upcoming periods as a fourth rig is expected to be added by June of 2011;
- PHX Energy established a full service shop and motor repair facility in Fier, Albania in 2010 and it is anticipated that this will enhance the profitability of the Corporation's Albanian operations in future quarters.
- Although revenue growth did not occur in the 2010-year, PHX Energy expects that its activity in Peru will grow as a result of its renewed focused marketing strategies in this region;
- The establishment of a full service motor repair facility at the operational facility in Nizhnevartovsk, Siberia is expected to be completed in the first quarter of 2011;
- Phoenix TSR expects to have a concurrent job capacity of six early in 2011, but this is expected to increase in future periods
- The Corporation expects to commence horizontal and directional operations in Colombia in the second quarter of 2011, initially with a four concurrent job capacity;

- With the continued expansion of Albania, Russia and Peru, and from the addition of operations in Colombia, PHX Energy expects that its international operations will continue to grow in upcoming quarters;
- PHX Energy's 2011 capital expenditures have been accelerated and a significant number of deliveries are expected during the first quarter of 2011;
- PHX Energy is currently looking for solutions to with regards to third party rentals and repair times which include, but are not limited to, seeking alternate suppliers and possibly obtaining in-house expertise for these specialized repairs;
- PHX Energy, in the later part of 2010 to the present day, has been focusing on strategic areas where efficiencies and operating process improvements can be made, ultimately, to improve profitability in the quarters ahead;
- PHX Energy is in the process of reviewing hedging strategies that may help to lessen the financial impact of foreign currency movements on the Corporation's financial results in future periods;
- The 2011 capital budget has been set at \$37.8 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 2011, 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;
- Actions have already been taken with the intention of ensuring that future robust activity has an equally positive effect on profitability;
- In early 2011, PHX Energy has placed orders for an additional 29 MWD systems and additional performance drilling motors, which should allow the corporation to return to the position of previous years where PHX Energy deploys its own superior equipment to each operating location;
- The Corporation projects that growth in Canada will continue in 2011 and greater market share will be gained;
- For 2011, PHX Energy anticipates that the US operation in the Rocky Mountain and Northeast regions, with the strong operational management in place, will benefit from the capital expenditures being made and outperform;
- The Gulf Coast region, based in Houston, Texas, also has the potential to capture more of its market with greater marketing efforts and changes have been initiated to create a path in the desired direction in 2011;
- It is anticipated that no further international locations will be explored while PHX Energy focuses on growth in the markets it has entered;
- In the upcoming year PHX Energy expects its start up international operations to be profitable;
- PHX Energy anticipates 2011 to be another strong activity year, driven by an industry capitalizing on robust oil commodity prices and the economics of drilling applications in shale and liquid rich natural gas plays;
- Both the oil and natural gas outlooks will offer PHX Energy an upside as drilling in these applications is predominantly horizontal wells; and
- PHX Energy's record performance and rapid expansion has lead the Corporation, in the later part of 2010, to focus on ramping up for further growth in 2011 and on initiatives that will ultimately produce more efficient fleet utilization and operating costs to ensure shareholder returns continues in the future.

In addition to other factors 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: 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 ability to obtain financing on acceptable terms, 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 assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

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](http://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.

## RESULTS OF OPERATIONS

### REVENUE

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

*(Stated in thousands of dollars except percentage amounts)*

	Three-month period ended December 31,			Years ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Canada	<b>31,437</b>	17,640	78	<b>98,580</b>	52,453	88
United States	<b>20,842</b>	15,233	37	<b>85,158</b>	58,085	47
International	<b>5,240</b>	2,061	154	<b>13,539</b>	4,154	226
	<b>57,519</b>	34,934	65	<b>197,277</b>	114,692	72
United States revenue as a % of consolidated revenue	<b>36%</b>	44%		<b>43%</b>	51%	
International revenue as a % of consolidated revenue	<b>9%</b>	6%		<b>7%</b>	4%	

### Canada

A record high \$98.6 million in revenue was generated in Canada for the year ended December 31, 2010 as compared to \$52.5 million in the 2009-year; an increase of 88 percent. For the 2010-year, Canadian drilling days increased by 83 percent to a record high 9,888 days from 5,412 in the 2009-year. In light of increases in activity within the industry, the Corporation realized moderate increases in day rates during 2010.

In the Canadian industry, horizontal and directional drilling activity, as measured by wells drilled, increased to 8,036, an increase of 65 percent in the 2010-year as compared to 4,868 wells in 2009. As a percentage of total wells drilled, horizontal and directional drilling activity within the Canadian industry in 2010 was 66 percent as compared to 58 percent in the 2009-year. (Source: Daily Oil Bulletin)

Aided by relatively strong oil commodity prices, PHX Energy's horizontal oil well drilling activity in Canada for the 2010-year represented approximately 76 percent of its overall Canadian activity, compared to 52 percent in 2009. The majority of the Corporation's Canadian oil well drilling was concentrated in the Cardium and Pekisko in south-central Alberta, the Bakken and Shaunavon in southeastern Saskatchewan and several areas within southern Manitoba. Although relative natural gas commodity prices were not high on a historic basis, the Corporation still realized increases in its drilling activity within the gas regions of the Montney in northeastern British Columbia and the Viking in central Alberta due in part to the production of natural gas liquids in these areas.

Canadian operating days increased by 66 percent to a record 3,028 days in the three-month period ended December 31, 2010 from 1,819 days in the comparable 2009-period. In comparison, during the fourth quarter of 2010 Canadian industry's horizontal and directional activity increased by 60 percent to 2,602 wells from 1,623 wells in the corresponding 2009-period. (Source: Daily Oil Bulletin) The Corporation's Canadian revenue for the three-month period ended December 31, 2010 increased by 78 percent to a record \$31.4 million versus \$17.6 million for 2009. Oil well drilling activity was very dominant in the fourth quarter of 2010 representing approximately 85 percent (2009 - 66 percent) of the Corporation's Canadian activity; the majority of which was in the Bakken and Shaunavon in southeastern Saskatchewan and the Cardium and Pekisko in south-central Alberta.

## United States

All of the three US regions of the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA") realized significant increases in activity in the 2010-year as compared to 2009. Operating days in the 2010-year for Phoenix USA increased by 59 percent to a record 9,255 days compared to 5,817 days in 2009. Revenue for the year ended December 31, 2010 increased by 47 percent to \$85.2 million from \$58.1 million in 2009. US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, increased significantly by 59 percent to 1,044 rigs in the 2010-year from 657 rigs in 2009. (Source: Baker Hughes)

With each year, Phoenix USA's activity is increasingly weighted towards the oil well drilling markets, due to the Corporation's continued success within the US Bakken and its entry into several other new oil based areas. Oil well drilling activity represented approximately 26 percent of Phoenix USA's overall activity in the 2010-year as compared to 19 percent in 2009. In 2010, Phoenix USA continued to be active in the economical Marcellus shale plays in Pennsylvania where gas wells are close to consumer markets, and the Barnett shale in Texas. The Division's growth in revenue was adversely affected by Canada-US exchange rates in the 2010-year whereby the average exchange rate declined from 1.14 in 2009 to 1.03 in 2010.

Phoenix USA added several marketing representatives in 2010 and had a change in senior management in the Gulf Coast late in the year. Both of these changes are expected to produce favourable results in upcoming periods.

Phoenix USA's operations reported quarterly revenue of \$20.8 million for the three-month period ended December 31, 2010 as compared to \$15.2 million in 2009, equating to an increase of 37 percent. Operating days for the three-month period ended December 31, 2010-period increased by 39 percent to 2,340 days from 1,679 days in the corresponding 2009-period. The US-Canada exchange rates were slightly less favourable in the fourth quarter of 2010 compared to the 2009-period. The average number of active rigs in the US industry for the three-month period ended December 31, 2010-period increased by 64 percent to 1,155 rigs as compared to 706 rigs in 2009. (Source: Baker Hughes)

## International

Revenue generated from PHX Energy's international operations grew by 226 percent from \$4.2 million in the 2009-year to \$13.5 million in 2010. International operating days increased from 311 in the 2009-year to 973 in 2010, an increase of 213 percent. The Corporation's international expansion is on track and it is expected that these operations will represent 10 percent of revenue in 2011.

The Corporation has been providing horizontal drilling services for heavy oil wells on a continuous basis for a client in Albania since July 1, 2009. During the third quarter of 2010 horizontal services were added for an additional rig, and currently, PHX Energy operates on three "follow-me" rigs in that country. It is anticipated that the Corporation has the potential for continued growth in this region in upcoming periods as a fourth rig is expected to be added by June of 2011. PHX Energy established a full service shop and motor repair facility in Fier, Albania in 2010 and it is anticipated that this will enhance the profitability of the Corporation's Albanian operations in future quarters.

Peruvian operations began in late April 2009 and are conducted through Phoenix TSP S.A.C. Currently, the Corporation has a job capacity of four full service jobs. The Corporation has provided horizontal oil well drilling services for two to three "follow-me" rigs throughout 2010. Although revenue growth did not occur in the 2010-year, PHX Energy expects that its activity in this country will grow as a result of its renewed focused marketing strategies in this region.

In Russia, the Corporation completed its first full service job in late September 2010 through its subsidiary Phoenix TSR LLC. This first well was drilled utilizing RWD technology. Since that time, another five wells have been successfully drilled. The establishment of a full service motor repair facility at the operational facility in Nizhnevartovsk, Siberia is expected to be completed in the first quarter of 2011. Phoenix TSR expects to have a concurrent job capacity of six early in 2011, but this is expected to increase in future periods.

The Corporation expects to commence horizontal and directional operations in Colombia in the second quarter of 2011, initially with a four concurrent job capacity.

PHX Energy generated a record level of international operating days and revenue for the three-month period ended December 31, 2010, led by its operations in Albania. Operating days increased by 128 percent to 379 days in the three-month period ended December 31, 2010 as compared to 166 in 2009. Revenue for the three-month period ended December 31, 2010 increased to \$5.2 million from \$2.1 million in 2009.

With the continued expansion of Albania, Russia and Peru, and from the addition of operations in Colombia, PHX Energy expects that its international operations will continue to grow in upcoming quarters.

## OPERATING COSTS AND EXPENSES

Direct costs are comprised of field and shop expenses and include current period research and development ("R&D") expenditures. For the year ended December 31, 2010, gross profit as a percentage of revenue was 26 percent as compared to 29 percent in the comparable 2009-year. However, included in direct costs (and gross profit) in the first quarter of 2009 was a favorable adjustment of \$3.6 million that related to revised cost accrual estimates pertaining to the 2008-year. If the impact of this is excluded from the 2009-year end results, gross profit as a percentage of revenue would have been equivalent to that in 2010 (26 percent).



The key area that adversely affected the Corporation's margins in 2010 as compared to 2009 was third party rentals. Due to the strong Corporate activity levels and a busy sector, PHX Energy incurred over \$16.5 million in third party equipment rentals in the 2010-year as compared to only \$3.3 million in 2009. Although it is expected that the Corporation will always have some rentals present due to unique customer requirements, this level of rentals is excessive and the Corporation is dealing with this issue currently. PHX Energy's 2011 capital expenditures have been accelerated and a significant number of deliveries are expected during the first quarter of 2011. In addition, the busy sector has created challenges for the Corporation with respect to turnaround times on the repairs of specialized components from third parties. PHX Energy is currently looking for solutions to this issue which include, but are not limited to, seeking alternate suppliers and possibly obtaining in-house expertise for these specialized repairs.

Conversely the two areas below have had a significant positive impact on the Corporation's margins:

- the introduction of a new robust down hole performance drilling motor, which was incorporated into PHX Energy's fleet in 2010, has significantly decreased servicing costs; and
- with the expansion of the Corporation's international operations, the higher day rates achievable in certain international areas have started to make a greater impact on PHX Energy's consolidated margins.

R&D expenditures for the year ended December 31, 2010 were \$2.5 million (2009 - \$2.7 million), of which \$0.7 million (2009 - \$1.3 million) were capitalized as development costs and \$1.8 million (2009 - \$1.4 million) were expensed.

For the three-month period ended December 31, 2010, direct costs increased by 77 percent to \$43.4 million compared to \$24.5 million in 2009. Gross profit as a percentage of revenue decreased from 30 percent in the 2009 three-month period to 25 percent in 2010. For the three-month period ended December 31, 2010, third party rentals were \$5.1 million as compared to \$1.7 million in 2009. In addition, due to shortages of field staff in the labour market, training programs were put in place in the 2010 quarter, and field labour costs increased in that period over 2009.

For the three-month period ended December 31, 2010, R&D expenditures were \$0.6 million, of which \$0.2 million were capitalized as development costs. In the 2009 three-month period, R&D expenditures were \$0.4 million, of which \$0.3 million were capitalized.

Selling, general and administrative ("SG&A") costs for the year ended December 31, 2010 increased at a lower rate than that of revenue, growing by 48 percent to \$23.0 million, or 12 percent of revenue, as compared to \$15.5 million, or 14 percent of revenue, in 2009. Despite this development, higher costs have been incurred in 2010 relating to the start up of operations in Russia and Colombia, additional stock-based expenses related to the Corporation's Deferred Share Unit and Retention Award plans (\$0.8 million) and a provision for employee severances of \$0.4 million.

For the three-month period ended December 31, 2010, SG&A costs increased by 116 percent to \$8.0 million as compared to \$3.7 million in 2009. As a percentage of revenue, SG&A was 14 percent in the 2010-period as compared to 11 percent in 2009. Higher SG&A costs were incurred in the 2010-period as compared to 2009 due to additional expenses related to the start up of operations in Russia and Colombia, additional stock-based expenses pertaining to the Corporation's Deferred Share Unit and Retention Award plans (\$0.6 million), a provision for employee severances of \$0.4 million, additional costs incurred with respect to the conversion of the Corporation from an income trust of \$0.4 million and general increases in advertising and promotional costs.

PHX Energy, in the later part of 2010 to the present day, has been focusing on strategic areas where efficiencies and operating process improvements can be made, ultimately, to improve profitability in the quarters ahead. These initiatives include the centralization of certain functions such as global purchasing, standardization of price lists and global training standardization.

The provision for bad debts increased from \$62,000 in the 2009-year to \$238,000 in 2010, due to the requirement to provide for two US customer accounts in the 2010-year. The Corporation realized a small bad debt recovery (\$58,000) from US clients during the three-month period ended December 31, 2010 as compared to no bad debt provision or recovery in the corresponding 2009-period.

In the 2010-year, depreciation and amortization has increased by 9 percent to \$12.1 million as compared to \$11.1 million in 2009, as a result of the large capital expenditure program of the Corporation. This increase was partially offset by the impact of a large group of assets that were acquired in prior years becoming fully depreciated early in 2010. For the three-month period ended December 31, 2010, depreciation and amortization increased by 29 percent to \$3.5 million as compared to \$2.7 million in the 2009-period.

Stock-based compensation increased by 12 percent to \$1.4 million for the year ended December 31, 2010 as compared to \$1.3 million in 2009. These costs related to the amortization of the fair values of issued options of the Corporation in previous periods using the Lattice-Binomial model. For the three-month period ended December 31, 2010, stock-based compensation increased by 5 percent to \$496,000 as compared to \$472,000 in 2009.

A foreign exchange loss of \$1.4 million was reported for the 2010-year as compared to a gain of \$0.1 million in 2009. The foreign exchange loss in 2010 was due to the impact of a strengthening Canadian dollar and the revaluation of Canadian dollar inter-company loans held in foreign subsidiaries, and the impact of a weakening Albanian (LEK) currency on Canadian denominated receivables. The majority of the financial impact of these two events occurred during the fourth quarter of 2010. For the three-month period ended December 31, 2010, a foreign exchange loss of \$0.9 million was reported as compared \$0.2 million in 2009. PHX Energy is in the process of reviewing hedging strategies that may help to lessen the financial impact of foreign currency movements on the Corporation's financial results in future periods.

Interest on long-term debt increased for the year ended December 31, 2010 to \$0.5 million as compared to \$0.2 million in the 2009-year because of higher debt levels carried by the Corporation in the latter half of the 2010-year. For the three-month period year ended December 31, 2010, interest on long-term debt increased to \$0.2 million as compared to \$0.1 million in the 2009-period.

Other interest for the year ended December 31, 2010 increased to \$0.2 million from \$15,000 in the 2009-year because of higher overdraft cash balances held during 2010.

Gains on disposal of drilling equipment increased to \$3.5 million in the 2010-year as compared to \$2.8 million in 2009. For the three-month-period ended December 31, 2010, gains on disposal of drilling equipment increased to \$1.3 million in the 2010-period as compared to \$0.3 million in the 2009-period. The disposals 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. There were a higher incident of insured lost equipment in the 2010-year and 2010-period as compared to 2009.

The recovery of income taxes for the year ended December 31, 2010 was \$1.4 million as compared to \$3.8 million in 2009. The 2010 recovery differs from the amount that would be obtained by applying the expected combined federal and provincial tax rate of 28 percent to the Corporation's 2010 income before income taxes. The \$5.8 million tax reduction difference in 2010 resulted primarily from:

- a reduction of \$5.5 million due to the deductibility of declared cash dividends that was allowable in calculating taxable income of the Corporation as an income trust;
- a reduction of \$0.8 million due to the benefit received from lower international tax rates;
- an increase of \$1.1 million due to the non-deductibility of stock-based compensation and other expenses; and
- a reduction from other items of \$0.6 million.

For the three-month period ended December 31, 2010, the Corporation reported a recovery for income taxes of \$2.7 million as compared to \$0.1 million in 2009. The large recovery in the 2010-period was the result of cash dividends being deductible in calculating taxable income under the previous trust structure, and the first time recognition of a future tax asset that was previously not recognized due to the fact that it resided in the former income trust entity.

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

	Three-month period ended December 31,			Years ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Net earnings	<b>5,007</b>	3,675	36	<b>17,007</b>	11,407	49
Earnings per share – diluted	<b>0.18</b>	0.14	29	<b>0.63</b>	0.46	37
EBITDA	<b>6,129</b>	6,407	(4)	<b>28,443</b>	18,955	50
EBITDA per share – diluted	<b>0.22</b>	0.25	(12)	<b>1.05</b>	0.77	36
EBITDA as a percentage of revenue	<b>11%</b>	18%		<b>14%</b>	16.5%	

The Corporation's levels of net earnings and EBITDA in both the three-month and twelve-month periods were both impacted by higher direct and SG&A costs. Included in direct costs in the 2009-periods was a favorable adjustment of \$3.6 million that related to revised cost accrual estimates pertaining to the 2008-year. If the impact of this was excluded from the 2009 results, EBITDA for the 2009-year would have been \$15.4 million, or 13 percent of revenue.

## INVESTMENT

Net cash used in investing activities for the year ended December 31, 2010 was \$33.0 million as compared to \$14.6 million in 2009. The Corporation added \$48.4 million in capital equipment in the 2010-year compared to \$15.1 million in 2009. These 2010 expenditures included:

- \$25.6 million in MWD systems and spare components;
- \$11.7 million in down hole performance drilling motors;
- \$5.5 million in collars and tubulars;
- \$2.8 million in machinery and equipment for global service centres; and
- \$2.8 million in other assets, including land and building for the Corporation's Casper facility (\$1.2 million) and deferred development costs of \$0.7 million.

The capital expenditure program undertaken in the year was financed from a combination of cash flow from operations, an equity financing and a portion of working capital.

The Corporation realized proceeds from the involuntary disposal of drilling equipment in well bores of \$8.7 million in the 2010-year, compared to \$5.2 million in 2009. The change in non-cash working capital balances of \$6.7 million (source of cash) for the year ended December 31, 2010 relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to \$4.7 million (use of cash) for the year ended December 31, 2009.

## FINANCING

The Corporation had cash flows from financing activities of \$26.4 million in the 2010-year as compared to a use of cash of \$8.5 million in 2009. In the 2010-year:

- the Corporation made dividends of \$12.2 million to shareholders, or \$0.48 per share;
- through its option program the Corporation received cash proceeds of \$6.8 million from exercised options to acquire 957,241 common shares of the Corporation; and,
- the Corporation drew on its extendible debt facility for \$36.0 million to finance its capital expenditure program and repaid its overdraft facility of \$4.2 million.

As at December 31, 2010, the Corporation had access to a bank overdraft revolving facility of up to \$10.0 million. The facility bears interest at the Corporation's option at the bank's prime rate plus 0.625 percent or the bank's bankers' acceptance rate plus a stamping fee of 1.875 percent. As at December 31, 2010, the Corporation had nil (2009 - \$4.2 million) drawn on this facility.

The Corporation also has access to a \$40 million, 364-day extendible revolving facility with its bank. This bears interest at the Corporation's option at the bank's prime rate plus 0.75 percent or the bank's bankers' acceptance rate plus a stamping fee of 2.25 percent. The facility is renewable at the option of the lender. Should this facility not be extended, outstanding amounts will be transferred to a two-year term facility repayable at 1/10 of the amount outstanding for seven quarters with the remaining balance paid on the eighth quarter. At December 31, 2010, \$36.0 million (2009 - \$nil) was drawn on this facility.

The demand revolving loan facility and the extendible revolving facility are secured by a general security agreement over all assets of the Corporation.

As at December 31, 2010, the Corporation was in compliance with all of its bank debt covenants.

## CASH REQUIREMENTS FOR CAPITAL EXPENDITURES

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. The 2011 capital budget has been set at \$37.8 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 2011, 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

With 2010 being a record year on many fronts, PHX Energy is proud of the activity levels and resulting financial performance reported in its 15th year of operation. Overall demand for services was strong, and in fact pushed the Corporation's capacity beyond its maximum level. PHX Energy in 1995 was a Company with one location in Canada and at the end of 2010 had 15 facilities providing reliable directional and horizontal services to producer companies in five countries.

In 2010, horizontal and directional well drilling reached new highs in the North American industry and PHX Energy capitalized on this trend, achieving record operating days. However in order to accomplish this, PHX Energy had to supplement its MWD and down hole performance drilling motor fleet with third party rentals while new additions were being manufactured. Increased industry activity also created greater demands for suppliers, and therefore, greater lead time for deliveries resulted and caused delays to the Corporation's build program that compounded the effect of the fleet shortages. Rentals totaled \$16.5 million in the year, however, were necessary to accommodate growth and to ensure client relationships were not sacrificed for delays in fleet expansion. Actions have already been taken with the intention of ensuring that future robust activity has an equally positive effect on profitability. In early 2011, PHX Energy has placed orders for an additional 29 MWD systems and additional performance drilling motors, which should allow the Corporation to return to the position of previous years where PHX Energy deploys its own superior equipment to each operating location.

In Canada, over 70 percent of the wells PHX Energy operated in 2010 were drilling for oil, and its customer base grew as the year progressed. Canadian operations are supported by a strong operational and marketing team, and the Corporation projects that growth in Canada will continue in 2011 and greater market share will be gained.

Overall the US operations' performance did produce positive gains. The Rocky Mountain and Northeast regions, which service the Bakken from the Casper, Wyoming facility and the Marcellus from the Traverse City, Michigan facility, respectively, exceeded their capacity and likely could have gained more market with a greater fleet. For 2011, PHX Energy anticipates that both these areas, with the strong operational management in place, will benefit from the capital expenditures being made and outperform. The Gulf Coast region, based in Houston, Texas, also has the potential to capture more of its market with greater marketing efforts and changes have been initiated to create a path in the desired direction in 2011.

In the past two-years, PHX Energy has invested large amounts of capital and deployed numerous assets to establish fully independent operations in Peru, Albania and Russia, costs which contributed to lower margins in 2010. In addition to these locations, Colombia will be operational in the first half of 2011, and it is anticipated that no further international locations will be explored while PHX Energy focuses on growth in the markets it has entered; all of which offer higher operating margins and have high percentages of horizontal and directional wells. As with any new venture, costs typically outweigh return at the beginning, and in the upcoming year PHX Energy expects its start up international operations to be profitable. Each location now possesses all the building blocks to gain a competitive advantage and offer the same reliable and customer oriented services that PHX Energy offers in North America.

PHX Energy anticipates 2011 to be another strong activity year, driven by an industry capitalizing on robust oil commodity prices and the economics of drilling applications in shale and liquid rich natural gas plays. Both the oil and natural gas outlooks will offer PHX Energy an upside as drilling in these applications is predominantly horizontal wells.

PHX Energy's strategy has always been focused on reliable performance and our clients' needs. This has led to expansion in areas that can service key resource plays and the Corporation has attracted and retained experienced personnel in each operating region. PHX Energy's record performance and rapid expansion has led the Corporation, in the later part of 2010, to focus on ramping up for further growth in 2011 and on initiatives that will ultimately produce more efficient fleet utilization and operating costs to ensure shareholder returns continue in the future.

A handwritten signature in blue ink, appearing to be 'J. Hooks', with a stylized loop at the end.

John Hooks  
Chairman of the Board,  
President and Chief Executive Officer  
March 7, 2011

## 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:

<i>(Stated in thousands of dollars)</i>	Three-month periods ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
Net earnings	5,007	3,675	17,007	11,407
Add (deduct):				
Depreciation and amortization	3,521	2,729	12,120	11,110
Recovery of income taxes	(2,719)	(77)	(1,396)	(3,778)
Interest on long-term debt	235	78	481	201
Other interest	85	2	231	15
EBITDA as reported	6,129	6,407	28,443	18,955

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:

<i>(Stated in thousands of dollars)</i>	Three-month periods ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
Cash flows from operating activities	7,393	5,222	12,755	12,946
Add (deduct):				
Changes in non-cash working capital	(1,080)	2,305	13,778	6,691
Funds from operations	6,313	7,527	26,533	19,637

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.

## OVERVIEW OF BUSINESS

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, Peru and Russia. PHX Energy manufactures its Current Loop Telemetry (“CLT”) electromagnetic (“EM”) measurement while drilling (“MWD”) technology that is made available for internal operational use.

In 2010, PHX Energy’s Canadian operations were 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. 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; and Casper, Wyoming. In addition, sales offices are located in Denver, Colorado; Fort Worth, Texas; Corpus Christi, Texas and Buckhannon, West Virginia. PHX Energy has sales offices and service facilities in Peru and Russia, and a service facility in Albania. The Corporation has also recently established a sales and service facility in Bogota, Colombia.

As at December 31, 2010, PHX Energy had approximately 511 full-time employees and the Corporation utilized over 200 additional field driller consultants in 2010.

For further information please contact:

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Cameron Ritchie, Senior Vice President Finance and CFO

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## Consolidated Balance Sheets

December 31,	2010		2009
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 8,625,532	\$	2,488,970
Accounts receivable	50,314,306		28,660,353
Inventory	9,895,473		7,022,053
Prepaid expenses	4,046,408		2,085,643
Income tax receivable	298,064		2,845,643
	<b>73,179,783</b>		43,102,662
Drilling and other equipment	93,038,754		62,805,570
Goodwill	8,876,351		8,876,351
Future income taxes	2,008,256		-
Intangible assets	280,486		-
	<b>\$ 177,383,630</b>	<b>\$</b>	<b>114,784,583</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Bank indebtedness	\$ -	\$	4,241,058
Accounts payable and accrued liabilities	37,886,506		16,846,978
Dividends payable	1,053,645		1,001,384
	<b>38,940,151</b>		22,089,420
Long-term debt	36,000,000		-
Future income taxes	-		1,243,105
	<b>74,940,151</b>		23,332,525
Shareholders' equity:			
Share capital	91,845,758		82,433,639
Contributed surplus	2,712,727		3,872,850
Retained earnings	12,695,702		8,605,559
Accumulated other comprehensive loss	(4,810,708)		(3,459,990)
	<b>102,443,479</b>		91,452,058
	<b>\$ 177,383,630</b>	<b>\$</b>	<b>114,784,583</b>

## Consolidated Statements of Earnings

	Three month-periods ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
	<i>(unaudited)</i>	<i>(unaudited)</i>		
Revenue	\$ 57,519,409	\$ 34,934,259	\$ 197,276,938	\$ 114,692,180
Direct costs	43,376,535	24,461,849	146,268,820	81,796,156
Gross profit	14,142,874	10,472,410	51,008,118	32,896,024
Expenses:				
Selling, general and administrative	7,999,248	3,710,003	22,971,753	15,543,897
Provision for bad debts	(58,180)	619	238,011	61,968
Depreciation and amortization	3,521,201	2,728,850	12,119,505	11,110,237
Stock-based compensation	495,947	471,670	1,427,163	1,270,270
Foreign exchange loss (gain)	917,018	209,280	1,402,684	(108,712)
Interest on long-term debt	235,377	78,460	481,754	200,780
Other interest	84,998	1,572	231,077	14,872
Gain on disposition of drilling equipment	(1,340,928)	(326,028)	(3,474,325)	(2,825,918)
	11,854,681	6,874,426	35,397,622	25,267,394
Earnings before income taxes	2,288,193	3,597,984	15,610,496	7,628,630
Provision for (Recovery of) income taxes				
Current	(388,805)	(839,714)	708,645	(2,474,850)
Future	(2,329,702)	762,834	(2,104,798)	(1,303,976)
	(2,718,507)	(76,880)	(1,396,153)	(3,778,826)
Net earnings	\$ 5,006,700	\$ 3,674,864	\$ 17,006,649	\$ 11,407,456
Earnings per share - basic	\$ 0.18	\$ 0.14	\$ 0.63	\$ 0.46
Earnings per share - diluted	\$ 0.18	\$ 0.14	\$ 0.63	\$ 0.46

## Consolidated Statements of Comprehensive Income

	Three month-periods ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
	<i>(unaudited)</i>	<i>(unaudited)</i>		
Net earnings	\$ 5,006,700	\$ 3,674,864	\$ 17,006,649	\$ 11,407,456
Foreign currency adjustment	(840,067)	(505,083)	(1,350,718)	(4,611,900)
Comprehensive income	\$ 4,166,633	\$ 3,169,781	\$ 15,655,931	\$ 6,795,556

## Consolidated Statements of Cash Flows

	Three month-periods ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
	( <i>unaudited</i> )	( <i>unaudited</i> )		
Cash flows from operating activities:				
Net earnings	\$ 5,006,700	\$ 3,674,864	\$ 17,006,649	\$ 11,407,456
Add (deduct) items not affecting cash:				
Depreciation and amortization	3,521,201	2,728,850	12,119,505	11,110,237
Future income taxes	(2,329,702)	762,834	(2,104,798)	(1,303,976)
Unrealized foreign exchange loss (gain)	1,017,746	214,238	1,320,785	(82,678)
Gain on disposition of drilling equipment	(1,340,928)	(326,028)	(3,474,325)	(2,825,918)
Stock-based compensation	495,947	471,670	1,427,163	1,270,270
Provision for bad debts	(58,180)	619	238,011	61,968
Change in non-cash working capital	1,079,795	(2,304,824)	(13,778,019)	(6,691,236)
	7,392,579	5,222,223	12,754,971	12,946,123
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	2,831,002	(1,327,905)	8,652,491	5,200,651
Acquisition of drilling and other equipment	(15,608,863)	(6,391,738)	(48,353,814)	(15,100,830)
Change in non-cash working capital	2,096,001	2,050,771	6,668,373	(4,724,852)
	(10,681,860)	(5,668,872)	(33,032,950)	(14,625,031)
Cash flows from financing activities:				
Issuance of shares from stock option plan	3,625,237	240,154	6,824,833	809,526
Dividends paid to shareholders	(3,096,236)	(4,011,012)	(12,169,234)	(22,586,484)
Proceeds from / (Repayment of) long-term debt	14,000,000	(10,000,000)	36,000,000	(5,000,000)
Proceeds from / (Repayment of) bank overdraft facility	(7,234,839)	1,523,283	(4,241,058)	4,241,058
Issuance of shares from equity financing	-	14,081,967	-	14,081,967
	7,294,162	1,834,392	26,414,541	(8,453,933)
Increase (decrease) in cash and cash equivalents	4,004,881	1,387,743	6,136,562	(10,132,841)
Cash and cash equivalents, beginning of year	4,620,651	1,101,227	2,488,970	12,621,811
Cash and cash equivalents, end of year	\$ 8,625,532	\$ 2,488,970	\$ 8,625,532	\$ 2,488,970