



PRESS RELEASE
May 18, 2011
TSX - PHX

PHX ENERGY SERVICES CORP. REPORTS FINANCIAL AND OPERATIONAL RESULTS FOR THE THREE-MONTH PERIOD ENDING MARCH 31, 2011 AND ANNOUNCES INCREASE TO 2011 CAPITAL EXPENDITURE BUDGET

As a result of PHX Energy Services Corp. ("PHX Energy") generating a record level of activity in Canada and internationally, the Corporation reported record revenue of \$63.1 million for the three-month period ended March 31, 2011 as compared to \$43.2 million in the 2010-period; a 46 percent increase. EBITDA increased by 79 percent to \$9.3 million in the 2011-period as compared to \$5.2 million in 2010.

In order to meet the large increases in customer demand, capital equipment totaling \$10.2 million was delivered in the first quarter, with a further \$20.7 million of equipment presently on order and expected to be delivered in the next few months. Activity levels are forecasted to continue to grow, and therefore, the Corporation has increased its capital expenditure budget by \$10 million to \$47.8 million, to finance an additional 21 positive pulse measurement while drilling ("MWD") systems and the related equipment. These expenditures are expected to be financed by cash flow from operations, and the issuance of long-term debt or equity if required. In light of these increased commitments, in May 2011 PHX Energy increased its extendible debt facility with its bank by \$20 million and as a result its total debt facility, including a \$10 million bank overdraft revolving facility, is \$70 million. The Corporation's objective will be to retain a strong balance sheet and working capital position moving forward.

International operations, led by growth in Albania and Peru, represented 9 percent of consolidated revenue (2010 – 5 percent). This is expected to increase in the current year with Russian operations experiencing its first full year of activity and Colombian operations commencing in the second quarter.

The Corporation continued its policy of paying dividends to its shareholders, and in the 2011-period \$0.12 per share was paid out, or \$3.1 million.

PHX Energy ended the first quarter with long-term debt of \$32.4 million and working capital of \$29.3 million.

The Corporation's consolidated financial statements presented herein are presented for the first time under International Financial Reporting Standards ("IFRS"). Effective January 1, 2011, PHX Energy commenced reporting its financial and operating results in accordance with IFRS which required the re-statement of its prior year results for comparative purposes.

Financial Highlights

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

Three-month periods ended March 31,	2011	2010	% Change
Operating Results	(unaudited)	(unaudited)	
Revenue	63,147	43,214	46
Net earnings	3,883	2,773	40
Earnings per share – diluted	0.14	0.10	40
EBITDA ⁽¹⁾	9,271	5,192	79
EBITDA per share – diluted ⁽¹⁾	0.33	0.19	74
Cash Flow			
Cash flows from operating activities	216	3,986	(95)
Funds from operations ⁽¹⁾	9,090	5,721	59
Funds from operation per share – diluted ⁽¹⁾	0.32	0.21	52
Dividends paid	3,112	2,996	4
Dividends per share ⁽²⁾	0.12	0.12	-
Capital Expenditures	10,166	5,620	81
Financial Position (unaudited)	March 31, 2011	December 31, 2010	
Working capital	29,316	34,240	(14)
Long-term debt	32,400	36,000	(10)
Shareholders' equity	103,773	101,814	2
Common shares outstanding	27,830,564	27,539,373	1

⁽¹⁾ Refer to non-GAAP measures section.

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

Non-GAAP Measures

PHX Energy uses certain performance measures throughout this document that are not recognizable under International Financial Reporting Standards ("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:

- A further \$20.7 million of equipment presently on order and expected to be delivered in the next few months.
- The Corporation has increased its capital expenditure budget by \$10 million to \$47.8 million and these expenditures are expected to be financed from a combination of one or more of the following, cash flow from operations, the Corporations unused credit facilities or equity, if necessary.
- International operations are expected to increase as a percent of consolidated revenue in the current year.
- It is expected that rentals as a percentage of activity will decline as the additional equipment included in the planned capital expenditure program is deployed throughout the remainder of 2011; thus improving overall profitability.
- It is anticipated that the Corporation has the potential for even further growth in Albania in upcoming periods.
- In the first quarter, revenues in Russia were not as high as expected due to some operational equipment issues that occurred with new the RWD tool, and activity in the next quarter likely will not be as high as originally forecasted due to this issue.
- The Corporation expects to commence horizontal and directional operations in Colombia in the second quarter of 2011, initially with a four concurrent job capacity. Equipment is expected to be sent to this region in May 2011.

- At March 31, 2011, the Corporation had on order a remaining 20 positive pulse MWD systems which are expected to be delivered during the second quarter. In addition due to forecasted customer demand, an additional 21 positive pulse MWD systems will be ordered for deployment in the latter part of the fourth quarter. At the end of 2011, the Corporation expects to have a fleet of 200 MWD systems, which would include seven RWD systems, majority of which will be deployed in the Russian market.
- It is anticipated that higher margins will only be achieved once the first half of the fleet expansion is complete.
- PHX Energy believes that each operating division will show growth throughout the remainder of the year.
- New operational heights will be set by Canadian operations in the remainder of 2011 and when new performance levels and efficiencies take hold in the US gains will be experienced in the latter part of 2011.
- Profitability for all four of PHX Energy's international operations is foreseeable by the end of 2011.
- PHX Energy is presently undertaking a number of optimization initiatives with the intention of controlling costs, increasing operating margins and enhancing client satisfaction. Management is currently spending a considerable amount of time and effort to ensure targets are reached, and operating and financial results will be achieved in the quarters ahead.

The above are stated under the headings: "Financial Highlights", "Operating Costs and Expenses" "Revenue", "Cash Requirements for Capital Expenditures", and "Outlook".

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) 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

Led by exceptionally strong growth in oil well drilling in Canada and internationally, PHX Energy reported record consolidated revenue for a quarter. For the three-month period ended March 31, 2011, the Corporation generated revenue of \$63.1 million as compared to \$43.2 million in the corresponding 2010-period; an increase of 46 percent. US and international revenue as a percentage of total consolidated revenue was 31 and 9 percent, respectively, for the 2011-period as compared to 38 and 5 percent in 2010. Consolidated operating days increased by 33 percent to a quarterly record of 6,065 days in the 2011-period as compared to 4,558 in 2010. Consolidate day rates on average increased by approximately 10 percent to \$10,412 from \$9,481 in light of stronger customer demand, and also due to the Corporation providing a greater percentage of its services through horizontal well drilling including gamma logging services that provides for a higher day rate.

The trend towards increased horizontal and directional drilling activity has continued. In the 2011 quarter, industry horizontal and directional drilling activity represented approximately 70 percent of the total drilling activity in both Canada and the US. This compares to 62 percent in Canada and 66 percent in the US in the 2010-period. (Sources: Daily Oil Bulletin and Baker Hughes)

Operating Costs and Expenses

Direct costs are comprised of field and shop expenses, and under the new IFRS standards, include depreciation and amortization on the Corporation's equipment. For the three-month period ended March 31, 2011, direct costs increased by 45 percent to \$50 million as compared to \$34.4 million in 2010. Excluding depreciation and amortization, gross profit as a percentage of revenue was 27 percent for the three-month period ended March 31, 2011 as compared to 26 percent in the comparable 2010-period.

One of the key directives of the Corporation has been to enhance its profitability through the elimination of third party equipment rentals, wherever possible, with the deployment of a greater amount of owned down hole equipment. With this undertaking, in the first quarter the Corporation incurred capital expenditures of \$10.2 million, an 81 percent increase from the corresponding 2010-period. However, due to the long lead time for delivery of certain components and the all-time record quarterly activity that was experienced by PHX Energy in the first quarter of 2011, the Corporation still incurred significant rentals in the quarter; \$5.6 million (or 9 percent of consolidated revenue) as compared to \$4.2 million (or 10 percent of consolidated revenue) in the 2010-period. It is expected that rentals as a percentage of activity will decline as the additional equipment included in the planned capital expenditure program is deployed throughout the remainder of 2011; thus improving overall profitability.

In addition to the third party rentals, Phoenix Technology Services USA Inc.'s ("Phoenix USA") labour costs were high in relation to the US level of activity generated in the quarter. This lower than expected activity was caused by an early break-up in the US Bakken, prolonged frost laws in the Northeast US and by the effects of some management and marketing re-structuring in the Gulf Coast region.

Depreciation and amortization increased by 48 percent to \$3.7 million as compared to \$2.5 million, as a result of the large capital expenditure programs of the Corporation in 2010 and 2011.

Selling, general and administrative ("SG&A") costs for the three-month period ended March 31, 2011 increased at a lower rate than revenue, growing by 32 percent to \$7.5 million as compared to \$5.7 million, in 2010. Included in SG&A costs under IFRS are stock-based compensation costs of \$0.8 million in the 2011-quarter as compared to \$1.1 million in the 2010-period related to the amortization on the fair values of PHX Energy's issued options. Excluding these costs, SG&A costs as a percent of revenue for both the 2011 and 2010-quarters was 11 percent. SG&A has increased generally due to the Corporation's activity growth, including the greater and planned activity in its international operations.

Research and development ("R&D") expenditures charged to net earnings during the three-month period ended March 31, 2011 were \$0.6 million (2010 - \$0.4 million). In addition, \$0.4 million (2010 - \$0.2 million) were capitalized as development costs on certain projects. PHX Energy continues to focus on its mandate to provide leading edge technologies to its clients.

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. For the three-month period ended March 31, 2011, finance charges increased by 584 percent to \$0.4 million from \$0.1 million in the 2010-period. In order to fund PHX Energy's extensive capital expenditure program in 2010 additional long-term debt was incurred and as a result interest has increased.

For the three-month period ended March 31, 2011, other income of \$482,000 is represented by gains on disposition of drilling equipment of \$247,000 and a foreign exchange gain of \$235,000. In the 2010-period, other income is represented entirely by gains of disposition of drilling equipment of \$426,000. The dispositions of drilling equipment relate primarily to equipment lost in well bores that are uncontrollable in nature. The gain reported is net of any asset retirements that are made before the end of the equipment's useful life and self-insured down hole equipment losses, if any. Gains typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. There was a higher occurrence of losses in the 2010-period as compared to 2011.

The foreign exchange gain in the 2011-period was due to the impact of a strengthening Canadian dollar and the re-valuation of Canadian denominated inter-company loans held in foreign subsidiaries.

Other expense for the three-month period ended March 31, 2011 of \$17,000 is represented entirely by a bad debt provision for a customer. For the 2010-period, \$369,000 relates to a foreign exchange loss that resulted from fluctuations in the US-CDN exchange rates in that period.

The provision for income taxes for the three-month period ended March 31, 2011 was \$1.3 million as compared to a recovery of income taxes of \$0.1 million in the 2010-period. Previously in 2010 as an income trust, the Corporation was entitled to deduct its distributions from its taxable income and that resulted in the recovery in that period. The expected combined federal and provincial tax rate for 2011 is 26.5 percent.

Due to higher levels of activity and profitability, EBITDA increased by 79 percent for the three-month period ended March 31, 2011 to \$9.3 million, \$0.33 per share diluted, from \$5.2 million, \$0.19 per share diluted, in 2010. The Corporation generated net earnings for the three-month period ended March 31, 2011 of \$3.9 million, \$0.14 per share diluted, as compared to \$2.8 million, \$0.10 per share diluted, in 2010; an increase of 40 percent.

Segmented Information:

The Corporation reports three operating segments 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.

Canada

For the three-month period ended March 31, 2011, Canadian revenue was a record \$37.9 million as compared to \$24.7 million in 2010, a 53 percent increase. Canadian drilling days increased by 35 percent to a record 3,529 days in the 2011-period as compared to 2,610 in the 2010-period. In light of the increased activity and due to the presence of a higher proportion of horizontal gamma jobs, day rates increased moderately in the 2011-period as compared to the corresponding 2010-period.

In the Canadian industry, horizontal and directional drilling activity, as measured by wells drilled, for the three-month period ended March 31, 2011 increased to 2,691 wells, an increase of 21 percent as compared to 2,220 wells in 2010. As a percentage of total wells drilled, horizontal and directional drilling activity within the Canadian industry in the first quarter of 2011 was 70 percent as compared to 62 percent in the 2010-quarter. (Source: Daily Oil Bulletin)

PHX Energy's horizontal oil well drilling activity in Canada for the 2011-period represented approximately 73 percent of its overall Canadian activity, compared to 64 percent in 2010. The Corporation remained very active in southeastern Saskatchewan in the Bakken and the Shaunavon areas as well as in the Spearfish area in Manitoba. The Cardium, Pekisko and most recently Slave Point in northern Alberta, along with the Montney in northeastern British Columbia have also provided solid levels of activity for the Corporation in the 2011-period.

Reportable segment profit for the three-month period ended March 31, 2011 increased by 298 percent to \$5.3 million as compared to \$1.3 million in the 2010-period due to higher margins achieved through activity growth.

United States

Phoenix USA reported revenue of \$19.8 million for the three-month period ended March 31, 2011 as compared to \$16.4 million in the 2010-period, an increase of 21 percent. An early spring break-up in the US Bakken, extended frost laws in the northeastern US and management and marketing re-structuring in the Gulf Coast region all adversely affected the US Division's

activity levels in the 2011-quarter. For the 2011-period, US operating days increased by 17 percent to 2,111 days as compared to 1,805 days in the 2010. Day rates on average increased by 15 percent in the 2011-quarter as compared to the corresponding 2010 quarter. The Division's revenue growth in the 2011-period was also adversely affected by Canada-US exchange rates whereby the average exchange rate declined from 1.04 in 2010 to 0.98 in 2011.

US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, increased significantly by 36 percent to 1,203 rigs in 2011 from 886 rigs in 2010. (Source: Baker Hughes) Approximately 70 percent of all wells drilled in the US in the first quarter of 2011 utilized horizontal or directional drilling technology compared to 66 percent in 2010.

Due to the increased presence of Phoenix USA in the Bakken area, oil well drilling activity represented approximately 31 percent of Phoenix USA's overall activity in the 2011-period as compared to 27 percent in 2010. In addition, Phoenix USA in the 2011-quarter continued to be active in the Barnett shale in Texas and the economical Marcellus shale play in Pennsylvania where natural gas wells are close to consumer markets.

Reportable segment profit before tax for the US decreased from \$0.5 million in 2010 to a loss of \$0.9 million in 2011 due to reduced margins caused by lower than expected activity levels, higher labour costs and third party equipment levels. Currently, the Corporation has seen an increase in activity levels in all US areas from first quarter levels.

International

Revenue generated from PHX Energy's international operations for the three-month period ended March 31, 2011 increased by 165 percent to a record \$5.4 million from \$2.0 million in the 2010-period. International operating days increased from 143 in 2010 to a record 425 in 2011, an increase of 197 percent. With the Corporation generating 9 percent of its consolidated revenue from international operations, PHX Energy is on track to achieve further increases in revenue in the 2011-year.

The Corporation's Albanian activity has increased substantially through the addition of a third rig in September 2010. Currently, PHX Energy operates on three "follow-me" rigs in that Country with a fourth expected to be operational in May 2011. It is anticipated that the Corporation has the potential for even further growth in Albania in upcoming periods.

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's activity has picked-up in Peru and the division reported record levels of drilling activity in the first quarter of 2011.

In Russia, the Corporation completed its first full service job in late September 2010 through its subsidiary Phoenix TSR LLC. Phoenix TSR currently has a concurrent job capacity of five. In the first quarter, revenues were not as high as expected due to some operational equipment issues that occurred with the resistivity while drilling ("RWD") tool, and activity in the next quarter likely will not be as high as originally forecasted due to this issue.

The Corporation expects to commence horizontal and directional operations in Colombia in the second quarter of 2011, initially with a four concurrent job capacity. Equipment is expected to be sent to this region in May 2011.

For the three-month period ended March 31, 2011, reportable segment profit before tax increased by 6 percent to \$1.4 million from \$1.3 million in the corresponding 2010-period. Despite the large pick-up in activity led by Albania, international profit was adversely affected by the start-up of Colombia and the lower than expected activity levels in Russia.

Investing Activities

The Corporation added \$10.2 million in capital equipment as compared to \$5.6 million in 2010. These 2011 expenditures included:

- \$5.4 million in MWD systems and spare components;
- \$2.8 million in down hole performance drilling motors;
- \$0.9 million in non-magnetic drill collars;
- \$0.3 million in machinery and equipment for global service centres; and
- \$0.8 million in other assets, including deferred development costs of \$0.4 million.

The capital expenditure program undertaken in the 2011-period was financed from a combination of cash flow from operations, and working capital.

The Corporation realized proceeds from the involuntary disposal of drilling equipment in well bores of \$1.3 million in both three-month periods ended March 31, 2011 and 2010.

During the first quarter of 2011, PHX Energy's job capacity increased by nine concurrent jobs to 159, through the addition of seven positive pulse MWD systems and two RWD systems. As at March 31, 2011, the Corporation's MWD fleet consisted of 93 positive pulse MWD systems, 59 CLT EM-MWD systems, and seven RWD systems. Of these, 88 MWD systems were deployed in Canada, 58 in the US, five in Russia and four in both Peru and Albania.

At March 31, 2011, the Corporation had on order a remaining 20 positive pulse MWD systems which are expected to be delivered during the second quarter. In addition due to forecasted customer demand, an additional 21 positive pulse MWD systems will be ordered for deployment in the latter part of the fourth quarter. At the end of 2011, the Corporation expects to have a fleet of 200 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.

Financing Activities

The Corporation reported cash flows from financing activities of \$5.4 million for the three-month period ended March 31, 2011 as compared to \$2.8 million in 2010. In the 2011-period:

- the Corporation paid dividends of \$3.1 million to shareholders, or \$0.12 per share;
- through its option program the Corporation received cash proceeds of \$2.4 million from exercised options to acquire 274,712 common shares of the Corporation; and,
- the Corporation received proceeds from its Bank Overdraft Revolving facility of \$6.1 million.

Capital Resources

As at March 31, 2011, the Corporation had access to a bank overdraft revolving facility of up to \$10 million and PHX Energy also had access to a \$40 million, 364-day extendible revolving facility with its bank. This extendible 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.

In light of increased capital expenditure requirements foreseen for 2011, the Corporation in May 2011 increased its extendible revolving facility by \$20 million from \$40 million to \$60 million.

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 revised to \$47.8 million subject to further quarterly review of the Board of Directors. These planned expenditures are expected to be financed from a combination of one or more of the following, cash flow from operations, the Corporation's unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 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

The 2011 year has started strong; oil commodity prices continue to increase, the capital markets are robust, and the trend towards utilizing multi-stage fracturing is driving horizontal drilling activity in North America. PHX Energy, like others in the energy service sector, has capitalized on the opportunities created and once again has exceeded previous record quarterly revenue and operating days.

In order to reach these benchmarks, PHX Energy has gained new valuable client relationships, as well as continued to outperform to strengthen its existing relationships. With activity levels expected to remain at these levels into 2012, PHX Energy is pleased to announce that the Board of Directors has approved the addition of 21 further positive pulse MWD systems to be field ready by the end of the fourth quarter of 2011, as well as the required performance down hole performance drilling motors and ancillary equipment.

As discussed in past quarters, the resulting robust demand for services coupled with the necessity to repair and service our equipment at a greater frequency, has led to lower operating margins. PHX Energy has invested capital and implemented strategies with the objective to improve margin levels; however, with activity forecasted to persist, higher margins will only be achieved once the first half of the fleet expansion is complete. It is anticipated that the first MWD build program will be fulfilled at the end of the second quarter with PHX Energy's 179th MWD system being deployed. In addition, the down hole performance drilling motor fleet is currently being expanded to reduce the requirement for rentals, albeit in certain circumstances down hole performance drilling motor rentals will always be required.

In addition to the anticipated impact of the aggressive fleet expansion, PHX Energy also believes that each operating division will show growth throughout the remainder of the year.

Canadian performance levels were outstanding in the first quarter, and PHX Energy believes that after the wetter than normal break-up period ends, new operational heights will be set.

Efforts and focus to increase operating activity, revenue and profit throughout PHX Energy's three distinct US operating areas are ongoing. Numerous changes have taken place and new personnel have joined PHX Energy's team, nevertheless, this process takes time and patience. When new performance levels and efficiencies take hold, gains will be experienced in the latter part of 2011.

PHX Energy's international operations are also forging ahead, each with a positive outlook for year end. Colombia is expected to perform its first job in the second quarter, and Russia, now fully equipped to operate independently, is striving toward surpassing the expenses related to being a new venture and capturing greater market share in the second largest world drilling market. Together with at least one additional rig in Albania expected in 2011, and two new operating contracts recently awarded in Peru, profitability for all four of PHX Energy's international operations is foreseeable by the end of 2011.

Escalating PHX Energy's job capacity will more effectively equip each operating region to maximize the potential in the key shale gas and oil plays in which they are located. Moreover, PHX Energy is presently undertaking a number of optimization initiatives with the intention of controlling costs, increasing operating margins and enhancing client satisfaction. Management is currently spending a considerable amount of time and effort to ensure targets are reached, and operating and financial results will be achieved in the quarters ahead.

A handwritten signature in blue ink, appearing to be 'J. Hooks', consisting of a large loop and a horizontal stroke.

John Hooks
Chairman of the Board,
President and Chief Executive Officer
May 18, 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:

(Stated in thousands of dollars)

Three-month periods ended March 31,	2011	2010
Net earnings	3,883	2,773
Add (deduct):		
Depreciation and amortization	3,703	2,499
Provision of (Recovery of) income taxes	1,254	(143)
Finance expense	431	63
EBITDA as reported	9,271	5,192

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

2) Funds from Operations

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

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

(Stated in thousands of dollars)

Three-month periods ended March 31,	2011	2010
Cash flows from operating activities	216	3,986
Add (deduct):		
Changes in non-cash working capital	8,032	1,443
Interest paid	378	34
Income taxes paid	464	258
Funds from operations	9,090	5,721

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

About PHX Energy Services Corp.

The Corporation, through its subsidiary entities, provides horizontal and directional technology and drilling services to oil and natural gas producing companies in Canada, the US, Albania, Peru and Russia. PHX Energy develops and manufactures its Current Loop Telemetry electromagnetic and positive pulse measurement while drilling technology that is made available for internal operational use.

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. 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; Buckhannon, West Virginia; Pittsburgh, Pennsylvania; and Oklahoma City, Oklahoma. 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.

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. 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.

For further information please contact:
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Condensed Consolidated Statements of Financial Position

(unaudited)

	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,319,850	\$ 8,625,532	\$ 2,488,970
Trade and other receivables	51,924,080	50,314,306	28,660,353
Inventories	11,938,212	9,895,473	7,022,053
Prepaid expenses	3,812,662	4,046,408	2,085,643
Current tax assets	560,958	298,064	2,845,643
Total current assets	72,555,762	73,179,783	43,102,662
Non-current assets:			
Property, plant and equipment	95,929,534	91,864,042	60,976,088
Goodwill	8,876,351	8,876,351	8,876,351
Deferred tax assets	1,496,444	2,368,706	-
Intangible assets	240,416	280,486	-
Total non-current assets	106,542,745	103,389,585	69,852,439
Total assets	\$ 179,098,507	\$ 176,569,368	\$ 112,955,101
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft	\$ 6,140,847	\$ -	\$ 4,241,058
Trade and other payables	32,448,525	37,886,506	16,846,978
Dividends payable	1,050,404	1,053,645	1,001,384
Loans and borrowings	3,600,000	-	-
Total current liabilities	43,239,776	38,940,151	22,089,420
Non-current liabilities:			
Loans and borrowings	32,400,000	36,000,000	-
Deferred tax liabilities	-	-	714,872
Total non-current liabilities	32,400,000	36,000,000	714,872
Equity:			
Share capital	94,618,812	90,876,458	82,433,639
Contributed surplus	4,629,869	5,156,078	2,701,048
Retained earnings	7,105,421	6,515,269	5,016,122
Accumulated other comprehensive income	(2,581,539)	(733,736)	-
Total equity attributable to equity holders of the Company	103,772,563	101,814,069	90,150,809
Non-controlling interests	(313,832)	(184,852)	-
Total equity	103,458,731	101,629,217	90,150,809
Total liabilities and equity	\$ 179,098,507	\$ 176,569,368	\$ 112,955,101

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

Three-month period ended March 31,	2011	2010
Revenue	\$ 63,147,446	\$ 43,214,355
Direct costs	50,006,752	34,446,105
Gross profit	13,140,694	8,768,250
Expenses:		
Selling, general and administrative	7,474,745	5,684,170
Research and development expenses	562,438	447,004
Finance expense	431,208	63,151
Other income	(482,101)	(425,940)
Other expense	17,334	369,423
	8,003,624	6,137,808
Earnings before income taxes	5,137,070	2,630,442
Provision for / (Recovery of) income taxes		
Current	157,236	397,370
Deferred	1,097,106	(540,329)
	1,254,342	(142,959)
Net earnings	\$ 3,882,728	\$ 2,773,401
Other comprehensive income		
Foreign currency translation	(1,949,794)	(574,441)
Total comprehensive income for the period	1,932,934	2,198,960
Earnings attributable to:		
Equity holders of the company	3,909,717	2,845,862
Non-controlling interests	(26,989)	(72,461)
Net earnings	3,882,728	2,773,401
Comprehensive income attributable to:		
Equity holders of the company	2,061,914	2,251,481
Non-controlling interests	(128,980)	(52,521)
Total comprehensive income for the period	1,932,934	2,198,960
Earnings per share – basic	\$ 0.14	\$ 0.10
Earnings per share- diluted	\$ 0.14	\$ 0.10

Condensed Consolidated Statements of Cash Flows

(unaudited)

Three-month period ended March 31,	2011	2010
Cash flows from operating activities:		
Net earnings	\$ 3,882,728	\$ 2,773,401
Adjustments for:		
Depreciation and amortization	3,702,540	2,498,798
Deferred income tax expense (recovery)	1,097,106	(540,329)
Unrealized foreign exchange loss (gain)	(158,527)	355,988
Gain on disposition of drilling equipment	(247,488)	(425,940)
Stock-based compensation	795,486	1,058,275
Provision for bad debts	17,334	-
Change in non-cash working capital	(8,031,575)	(1,442,686)
Cash generated from operating activities	1,057,604	4,277,507
Interest paid	(377,877)	(34,027)
Income taxes paid	(463,788)	(257,641)
Net cash from operating activities	215,939	3,985,839
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	1,323,921	1,324,776
Acquisition of drilling and other equipment	(10,166,068)	(5,619,902)
Change in non-cash working capital	(1,129,285)	656,672
Net cash used in investing activities	(9,971,432)	(3,638,454)
Cash flows from financing activities:		
Proceeds from issuance of share capital	2,420,650	1,030,539
Dividends paid to Shareholders	(3,111,686)	(2,996,145)
Proceeds on long-term debt	-	9,000,000
Proceeds on / (Repayment of) bank overdraft facility	6,140,847	(4,241,058)
Net cash from financing activities	5,449,811	2,793,336
Net increase / (decrease) in cash and cash equivalents	(4,305,682)	3,140,721
Cash and cash equivalents, beginning of period	8,625,532	2,488,970
Cash and cash equivalents, end of period	\$ 4,319,850	\$ 5,629,691