PHX ENERGY SERVICES CORP.

PRESS RELEASE
May 3, 2017
TSX - PHX

PHX Energy Announces its First Quarter Results, Reporting Increased Revenue and Activity Levels

Financial Results

For the three-month period ended March 31, 2017, PHX Energy generated consolidated revenue of $61.1 million. This is a positive contrast from the challenging 2016-year, representing a 51 percent improvement over the $40.4 million generated in the first quarter of 2016 and 31 percent improvement from the $46.6 million generated in the fourth quarter of 2016. The increase in consolidated revenue was primarily the result of greater activity levels in all the Corporation's operating segments. Consolidated operating days rose by 64 percent to 6,684 days in the first quarter of 2017 versus 4,069 days in the comparable 2016-quarter and rose 32 percent over the 5,074 days in the final quarter of the 2016-year.

For the three-month period ended March 31, 2017, adjusted EBITDA (see "Non-GAAP Measures") was $4.3 million (7 percent of revenue), a 5 percent increase from the $4.1 million (10 percent of revenue) reported in the comparable 2016-period. Included in adjusted EBITDA for the first quarter of 2017 is Stream Services' ("Stream") adjusted EBITDA of negative $0.2 million (2016 – negative $0.4 million).

In the first quarter of 2017, PHX Energy reported a net loss of $7.1 million compared to a net loss of $7.4 million in the comparable 2016-period. The Corporation's continued net losses are mainly due to ongoing pricing pressures lowering day rates in each of the Corporation's operating segments, fewer occurrences of gains on disposition of drilling equipment and lower recoveries of income taxes.

As at March 31, 2017, PHX Energy had long-term debt of $12.0 million, which is $17.0 million less than at December 31, 2016, and working capital (see "Non-GAAP Measures") of $58.9 million.

Equity Financing

On February 2, 2017, PHX Energy closed a bought deal financing for aggregate proceeds of $28.8 million. An aggregate of 7,187,500 common shares of the Corporation were issued at a price of $4.00 per common share. Concurrent with the closing of the public offering, certain directors, officers, employees and consultants of PHX Energy purchased a total of 500,000 common shares at a price of $4.00 per share on a private placement basis. The gross proceeds from the public offering and concurrent private placement totaled to approximately $30.8 million.

The proceeds from the equity financing were primarily used to reduce the outstanding loans and borrowings under the Corporation's credit facility from $35.0 million as at December 31, 2016 to $14.0 million as at March 31, 2017.

Capital Spending

The Corporation incurred $1.8 million in capital expenditures in the first quarter of 2017, which is double the $0.9 million spent in the comparable 2016-period. With the proceeds from the equity financing, the Corporation reduced its outstanding indebtedness under its credit facility, thereby freeing up borrowing capacity that may be redrawn, as required, to fund the Corporation's ongoing capital expenditure program. The Corporation continues to anticipate spending $25.0 million on capital expenditures in the 2017-year.

As at March 31, 2017, the Corporation had commitments to purchase drilling and other equipment for $14.4 million; including $11.4 million for Velocity Real-Time Systems ("Velocity"), $2.3 million for electronic drilling recorder ("EDR") equipment and $0.7 million for motors and machinery and equipment. This additional equipment is expected to be delivered by the end of the third quarter of 2017.

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

	Three-month periods ended March 31,		
	2017	2016	% Change
Operating Results	***(unaudited)***	*(unaudited)*	
Revenue	**61,122**	40,449	51
Net loss	**(7,143)**	(7,404)	(4)
Loss per share – diluted	**(0.13)**	(0.18)	(28)
Adjusted EBITDA [1]	**4,333**	4,115	5
Adjusted EBITDA per share – diluted [1]	**0.08**	0.10	(20)
Adjusted EBITDA as a percentage of revenue [1]	**7%**	10%	
Cash Flow			
Cash flows from (used in) operating activities	**(9,896)**	758	n.m.
Funds from operations [1]	**3,983**	3,584	11
Funds from operations per share – diluted [1]	**0.07**	0.09	(22)
Dividends paid	**-**	416	(100)
Dividends per share [2]	**-**	0.01	(100)
Capital expenditures	**1,799**	857	n.m.
Financial Position (unaudited)	**Mar. 31, '17**	Dec 31, '16	
Working capital [1]	**58,866**	44,230	33
Long-term debt	**11,995**	29,014	(59)
Shareholders' equity	**201,967**	178,387	13
Common shares outstanding	**58,589,887**	50,810,721	15

(1) Refer to non-GAAP measures section that follows the Outlook section
(2) Dividends paid 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 press release that are not recognizable under Canadian generally accepted accounting principles ("GAAP"). These performance measures include adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted EBITDA per share, funds from operations, funds from operations per share, debt to covenant EBITDA ratio and working capital. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, these may not be comparable. Please refer to the non-GAAP measures section following the Outlook section for applicable definitions and reconciliations.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

In particular, forward-looking information and statements contained in this document include, without limitation, the delivery of capital expenditure items, the projected capital expenditures budget and how this budget will be funded, how R&D projects will enhance and expand PHX Energy's services, and projections related to Russia's future activity levels in Eastern Siberia.

The above are stated under the headings: "Capital Spending", "Operating Cost and Expenses", "Segmented Information" and "Capital Resources". Furthermore all statements in the Outlook section of this document contains forward-looking statements.

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

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

Revenue

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2017	2016	% Change
Revenue	**61,122**	40,449	51

For the three-month period ended March 31, 2017, consolidated revenue showed a strong improvement, increasing 51 percent to $61.1 million from $40.4 million in the comparable 2016-period. In the three-month period ended March 31, 2017, the Corporation achieved its highest quarterly drilling activity, as measured by operating days, since the first quarter of 2015. There were 6,684 consolidated operating days in the first quarter of 2017, which is 64 percent greater than the 4,069 days recorded in the first quarter of 2016. While the Corporation benefited from increased drilling activity, competition remained aggressive and day rates were lower relative to the comparable 2016-period. Average consolidated day rates for the three-month period ended March 31, 2017, excluding the motor rental division in the US and the Stream division, fell by 9 percent to $8,824 from $9,669 in the first quarter of 2016.

As a percentage of total consolidated revenue, US and international revenues were 44 and 8 percent, respectively, for the 2017-quarter as compared to 54 and 8 percent in 2016-quarter.

The industry continues to show signs of recovery in 2017, and rig counts across North America climbed upward as commodity prices remained relatively stable. The Canadian market improved considerably, with the average rig count being 71 percent greater than in the first quarter of 2016, while the US rig count rallied by 36 percent over the same period. Throughout North America the vast majority of wells continued to be horizontal and directional representing 94 percent of all wells drilled in Canada and 91 percent of the average number of rigs operating per day in the US (Sources: Daily Oil Bulletin and Baker Hughes).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2017	2016	% Change
Direct costs	**60,805**	46,011	32
Gross profit (loss) as a percentage of revenue	**1%**	(14%)	
Depreciation & amortization (included in direct costs)	**10,931**	14,003	(22)
Gross profit as percentage of revenue excluding depreciation & amortization	**18%**	21%	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment. In the first quarter of 2017, direct costs rose by 32 percent to $60.8 million from $46.0 million in the comparable 2016-period. The Corporation's gross profit as a percentage of revenue was 1 percent in the first quarter of 2017 compared to a gross loss percentage of 14 percent in the 2016-quarter. The change in direct costs and the improved gross profit as a percentage of revenue was primarily the result of the Corporation's increased operating days, albeit at lower day rates and lower depreciation and amortization.

The reduction in depreciation and amortization expenses in the three-month period ended March 31, 2017 was mainly the result of PHX Energy's lower level of capital spending in the 2016-year. Excluding depreciation and amortization, gross profit as a percentage of revenue fell slightly to 18 percent for the three-month period ended March 31, 2017 from 21 percent in the comparable 2016-period. The lower margin in the current year's quarter is primarily the result of declining client day rates, increased field and shop labor rates that were put in place to retain key and experienced personnel as industry activity increased and labour markets tightened, increased equipment repair costs and greater third party rental costs.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2017	2016	% Change
Selling, general & administrative ("SG&A") costs	**7,210**	6,679	8
Equity-settled share-based payments (included in SG&A costs)	**488**	286	71
Cash-settled share-based payments (recoveries) (included in SG&A costs)	**132**	(149)	n.m.
Onerous contracts lease payment	**(107)**	-	(100)
SG&A costs excluding equity and cash-settled share-based payments and provision for onerous contracts as a percentage of revenue	**11%**	16%	

n.m. – not meaningful

The Corporation incurred $7.2 million of SG&A costs for the three-month period ended March 31, 2017 as compared to $6.7 million in the 2016-period. Included in SG&A costs for the 2017-period were equity-settled and cash-settled share-based payments of $0.5 million (2016 - $0.3 million) and $0.1 million (2016 - $0.1 million recovery), respectively. Additionally, for the 2017 three-month period, SG&A costs were reduced by $0.1 million for actual lease payments made under the Corporation's onerous office lease contracts that were reclassified to reduce the provision for onerous contracts (2016 – nil). Excluding the share-based payment amounts and provision for onerous contracts, SG&A costs as a percentage of consolidated revenue were 11 percent in the 2017-quarter compared to 16 percent in the 2016-quarter.

For the three-month period ended March 31, 2017, SG&A costs were higher than the comparable period primarily due to the increase in activity and issuance of equity and cash-settled awards in March 2017. The Corporation remains focused on maintaining cost control initiatives to reduce SG&A costs across all regions and ensuring its cost structure is aligned with activity levels.

Equity-settled share-based payments relate to the amortization of the fair values of issued options of the Corporation using the Black-Scholes model. In the three-month period ended March 31, 2017, equity-settled share-based payments increased by 71 percent, as compared to the corresponding 2016-period, generally due to compensation expenses related to options granted in March 2017.

Cash-settled share-based retention awards, which are included in SG&A costs, are measured at fair value, and in the 2017-quarter, the related compensation expense recognized by PHX Energy was $0.1 million as compared to a recovery of $0.1 million in the 2016-quarter. The increased compensation expense is primarily due to the normal vesting of previously granted retention awards and issuance of new retention awards in March 2017 offset by the reduction in PHX Energy's share price from $4.22 as at December 31, 2016 to $3.66 as at March 31, 2017.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2017	2016	% Change
Research & development expense	**607**	525	16

Research and development ("R&D") expenditures charged to net earnings during the three-month period ended March 31, 2017 and 2016 were $0.6 million and $0.5 million, respectively. The increase in R&D expenditures in the 2017-quarter is mainly attributable to increased personnel in the R&D department who continue to focus on new technology development and cost-saving and reliability initiatives that will enhance and expand PHX Energy's services.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2017	2016	% Change
Finance expense	**585**	571	2

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. Finance charges of $0.6 million in the first quarter of 2017 were consistent with those in the comparable 2016-period. Although there was a lower amount of borrowings outstanding during the 2017-quarter, the Corporation incurred additional financing charges from the amendment of the credit facility in the fourth quarter of 2016. In addition, as a result of the amendment, the applicable pricing on borrowings was fixed at higher rates compared to the 2016-period.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2017	2016
Gain on disposition of drilling equipment	**(147)**	(1,205)
Foreign exchange losses (gains)	**172**	(351)
Provision for bad debts	**228**	30
Other expense (income)	**253**	(1,526)

For the three-month period ended March 31, 2017, other expense was comprised of a provision for bad debts of $0.2 million, foreign exchange losses of $0.2 million and a gain on disposition of drilling equipment of $0.1 million. During the period ended March 31, 2017, the Corporation recognized foreign exchange losses of $0.2 million (2016 – gain of $0.4 million), mainly from the settlement of Canadian-denominated intercompany payables in the Corporation's Russia operations. Provisions for the bad debt in the 2017-quarter relate mainly to US accounts receivable.

Gains from the disposition of drilling equipment 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. Losses typically result from any asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. In the 2017-period, the decrease in the gain on disposition of drilling equipment resulted mainly from fewer occurrences of insured downhole equipment losses and increased asset retirements.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,	
	2017	2016
Provision for (Recovery of) income taxes	**(1,195)**	(4,407)
Effective tax rates	**14%**	37%

The recovery of income taxes for the three-month period ended March 31, 2017 was $1.2 million as compared to $4.4 million in the 2016-quarter. The expected combined Canadian federal and provincial tax rate for 2017 is 27 percent (2016 – 27 percent). The effective tax rate in the 2017-period was lower than the expected rate mainly as a result of the effect of tax rates in foreign jurisdictions.

Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2017	2016	% Change
Revenue	**29,442**	15,620	88
Reportable segment loss before tax	**(2,395)**	(3,262)	(27)

PHX Energy's Canadian revenue for the three-month period ended March 31, 2017 increased by 88 percent to $29.4 million from $15.6 million in the corresponding 2016-period. The improvement was primarily the result of a significantly higher volume of activity during the 2017-quarter versus the comparable 2016-period. The Canadian segment reported 4,004 operating days in the first quarter of 2017, a large increase from the 1,951 days in the 2016-period. Similarly, total industry horizontal and directional drilling activity, as measured by drilling days, increased by 98 percent in the 2017-quarter to 22,186 days from 11,192 days in the 2016-quarter (Source: Daily Oil Bulletin). The Canadian market remained highly competitive even with the increased rig counts, and as such, market pricing did not adjust with the rebound in activity. PHX Energy's average day rates declined by 11 percent to $7,009 in the 2017-quarter from $7,870 in the comparable 2016-period (excluding Stream revenue of $1.4 million).

With a higher volume of active rigs operating in 2017, the Canadian division continued to be a prominent player in this market, maintaining its 25 percent market share and a well-diversified client base. During the 2017-quarter, 63 percent of the Canadian division's activity was oil well drilling and 37 percent was natural gas well drilling. PHX Energy was active in the Montney, Wilrich, Bakken, Shaunavon, Duvernay, Cardium and Viking areas.

The Canadian operations' reportable segment loss before tax for the first quarter of 2017 was $2.4 million as compared to losses of $3.3 million in the 2016-quarter. The improved profitability of the Canadian segment in the 2017-quarter was primarily the result of higher activity levels as compared to prior year's quarter offset by lower intercompany revenue generated from the lease of drilling and other equipment between the Canadian and US segments.

Stream Services

Included in the Canadian segment's revenue for the first quarter of 2017 is $1.4 million of revenue generated by the Stream division (2016 - $0.3 million). With the commercialization of a new product line and significant expansion of Stream's capacity in late-2016, this division achieved its highest quarterly activity in the 2017-quarter since the fourth quarter of 2014. During the three-month period ended March 31, 2017, Stream achieved 1,739 operating days, strong growth over the 385 days in the respective 2016-period. Along with increased volume, average day rates for the division also rose by 16 percent to $794 in the first quarter of 2017 from $687 in the 2016 three-month period.

For the three-month period ended March 31, 2017, the Stream division incurred reportable losses before tax of $0.5 million (2016 - $1.7 million). The Stream division's losses in the 2017-period pertain mostly to depreciation expenses of $0.6 million as well as to costs associated with the expansion of the division.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2017	2016	% Change
Revenue	**26,815**	21,739	23
Reportable segment loss before tax	**(3,007)**	(7,783)	(61)

In the first quarter of 2017, PHX Energy's US operations generated revenue of $26.8 million, an increase of 23 percent from $21.7 million in the 2016-quarter. This revenue growth was mainly the result of the higher industry rig count. In the first quarter of 2017, the number of horizontal and directional rigs running per day rose by 40 percent from an average of 487 horizontal and directional rigs running per day during the 2016-quarter to 681 in the 2017-quarter (Source: Baker Hughes). In comparison, the Corporation's US activity levels also rebounded as operating days increased by 27 percent to 1,990 days in the 2017-quarter from 1,564 days in the 2016-quarter. Average day rates, excluding the motor rental division in Midland, Texas and the Rocky Mountain region, slightly decreased from $13,361 in the 2016-quarter compared to $13,094 in the 2017-period.

Horizontal and directional drilling represented 91 percent of the industry's average number of rigs running on a daily basis during the first quarter of 2017, which was 3 percent greater than the percentage in the 2016-quarter. For the three-month period ended March 31, 2017, 93 percent of the US operating division's activity was oil well drilling, as measured by wells drilled and excluding the motor rental and gyro surveying divisions. During the first quarter of 2017, Phoenix USA remained active in the Permian, Eagle Ford, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins.

Reportable segment loss before tax for the three-month period ended March 31, 2017 was $3.0 million compared to losses of $7.8 million in the 2016-quarter. The reduction to the segment losses in 2017 was largely the result of improved activity levels, stabilization of average day rates and lower rates charged on the intercompany lease of drilling and other equipment between the Canadian and US segments.

International

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,		
	2017	2016	% Change
Revenue	**4,865**	3,090	57
Reportable segment loss before tax	**(605)**	(692)	(13)

For the three-month period ended March 31, 2017, the Corporation's international revenue increased by 57 percent to $4.9 million from the $3.1 million generated in the 2016-period. International operating days grew by 25 percent to 691 days in the 2017-quarter from 554 days in the 2016-quarter. The increase in international activity primarily resulted from the Albanian division recording 145 operating days in the 2017-quarter, whereas this division was idle for the first quarter of 2016. In both the 2016 and 2017-quarters, the Corporation generated 8 percent of its consolidated revenue from its international operations.

PHX Energy's Russian operations continued to benefit from its diversified client base during the first quarter of 2017. For the three-month period ended March 31, 2017, the Russian division achieved operating days of 546, slightly below the 554 days recorded in the 2016-period. During the quarter, the division continued to increase activity related to measurement while drilling ("MWD") system rentals in Eastern Siberia and this trend is expected to continue in the second quarter of 2017. The Corporation further continued efforts to expand its client base in Russia performing technical qualification trials for prospective clients.

Reportable segment loss from international operations for the three-month period March 31, 2017 was $0.6 million, which is $0.1 million less than the loss of $0.7 million reported in the comparable 2016-period. The improvement in the international operations' profitability in the 2017-quarter was mainly due to the recommencement of the Albanian operations.

Investing Activities

PHX Energy used net cash in investing activities of $2.4 million for the three-month period ended March 31, 2017 as compared to net cash generated of $1.4 million in the 2016-period. In the first quarter of 2017, the Corporation received proceeds of $1.4 million (2016 - $2.6 million) from the disposition of capital equipment, primarily related to the involuntary disposal of drilling equipment in well bores, and the recognition of a $0.1 million gain on disposition of drilling equipment (2016 - $1.2 million). Additionally, the Corporation spent $1.8 million on capital expenditures in the first quarter of 2017 (2016 - $0.9 million). These expenditures included:

- $0.8 million in MWD systems and spare components
- $0.5 million in computer hardware;
- $0.4 million in EDR systems and spare components; and
- $0.1 million in downhole performance drilling motors, machinery and equipment and furniture and fixtures.

The capital expenditure program undertaken in the period was financed generally from loans and borrowings.

During the three-month period ended March 31, 2017, the Corporation acquired intangible assets with a total cost of $0.5 million (2016 - $0.2 million), most of which related to development costs.

The change in non-cash working capital balances of $1.5 million use of cash for the three-month period ended March 31, 2017, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $0.1 million use of cash for the three-month period ended March 31, 2016.

Financing Activities

The Corporation reported cash flows generated from financing activities of $8.1 million in the three-month period ended March 31, 2017 as compared to cash used of $9.7 million in the comparable 2016-period. In the 2017-quarter:

- through a bought deal financing and a concurrent private placement, the Corporation issued 7,687,500 common shares for net proceeds of $29.1 million;
- the Corporation made aggregate repayments of $21.0 million on its operating facility and syndicated facility; and
- issued 91,666 common shares for proceeds of $0.1 million upon the exercise of share options.

Capital Resources

As of March 31, 2017, the Corporation had $10.0 million drawn on its syndicated facility, $2.0 million drawn on its Canadian operating facility and USD $1.5 million on its US operating facility. As at March 31, 2017, PHX Energy exceeded the minimum liquidity required under the amended credit agreement as the Corporation had $2.8 million in cash-on-hand and $44.9 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at March 31, 2017, the Corporation was in compliance with all its financial covenants.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. The 2017 capital budget remains at $25.0 million. 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 2017, 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 positive industry trends that began to materialize at the end of 2016 continued into the first quarter of 2017. Rig counts continued to increase across North America as commodity prices remained relatively stable. As a result, in all operating segments PHX Energy achieved higher revenue and activity levels during the first quarter of 2017.

The volume of active rigs in the Canadian market exceeded expectations, peaking at 350 rigs running per day. PHX Energy's Canadian division capitalized on this trend and was active on 25 percent of all horizontal and directional wells drilled in Canada during the first quarter. This accomplishment can be attributed to the strength of our marketing and operational teams. The Corporation anticipates this strong performance will continue throughout 2017, although as expected, the spring break-up in western Canada will affect second quarter activity levels.

The US market continues to see an increase in active rigs with over 850 rigs currently operating as compared to 410 rigs a year ago. In the first of quarter 2017, the US division experienced moderate growth and the Corporation is focused on increasing these gains in future quarters, specifically in the Permian basin which is the most active region in North America. PHX Energy believes that with the continued rollout of differentiating technology further opportunities will materialize for its US division.

Activity in PHX Energy's international operations remained steady in the 2017-quarter. The Russian division was impacted by the seasonal slowdown of activity due to cold weather. Today activity has already increased from the first quarter and the Corporation anticipates future growth in 2017 with the addition of new contracts. PHX Energy's Albanian division, which resumed operations late in 2016, remained active through the first quarter and activity is projected to continue through the remainder of the year.

The first quarter was also a promising start to the 2017-year for the Corporation's Stream division, as it operated at maximum capacity, propelling quarterly activity levels to the highest volumes since 2014. This success can be attributed to the launch of the new DataStream EDR product line and Stream differentiating itself by providing a higher level of service in line with PHX Energy's core business philosophy. The Corporation is encouraged by Stream's improved results as it continues to gain traction as a reputable competitor in the oilfield services EDR market. With the Corporation expanding Stream's capacity to 50 systems by the end of the second quarter, all indications are that the division will continue to capture Canadian market share as the industry picks up momentum after the spring break-up period. PHX Energy will continue to leverage existing resources and relationships to support the expansion of this division, including its entrance into the US market anticipated in the second quarter, to achieve greater margins.

Despite the positive momentum in North America rig counts, challenges remain related to the pricing environment. During the downturn that persisted over the past number of years, the directional drilling sector has been over supplied. This has intensified competition, which along with the falling commodity prices, drove pricing in 2016 to the lowest levels in the Corporation's 20-year history. The Corporation has begun to engage in pricing discussions with clients and is seeing improvements in certain drilling regions, however, a more material change is required to normalize operating margins and profitability. PHX Energy is cautiously optimistic that day rates will incrementally increase throughout 2017 and will continue to be disciplined in its approach to financial management and all spending.

Technology Update

PHX Energy remains focused on its strategy of bringing industry leading and differentiating technology to the market. PHX Energy's flagship MWD system, Velocity, continues to operate at maximum capacity as Velocity provides several advantages over the industry standard MWD technology, including unified telemetry, which is the ability to transmit downhole information to surface in two different modes. Due to the continued demand for this technology in the first quarter of the year, the Corporation is adding 30 Velocity systems to our existing capacity, for a total job capacity of 65 Velocity systems by the end of the third quarter of 2017.

During the first quarter of 2017, PHX Energy field tested its new performance drilling motor technology. The revolutionary design of this robust performance drilling motor is rated for a higher flow rate, pressure and torque output. The result is a performance drilling motor that the Corporation feels will be in a class of its own, exceeding the drilling capabilities of any competing product. The Corporation currently has a small fleet of these motors for testing purposes and will increase capacity once the design has been validated.

PHX Energy has been operating its Connect surface system in Canada since the fourth quarter of 2016. Connect is a web-based interface that allows personnel in remote drilling centers immediate access to pertinent directional drilling information from the rig site. The Corporation has multiple clients leveraging Connect in Canada and plans to launch this product to select US clients in the second quarter of 2017. The Corporation views Connect as a key piece of technology which is integral to its long-term strategy. When packaged together with the Velocity Real-Time System, the DataStream EDR platform and the Corporation's Prism drilling optimization center, PHX Energy will offer a unique solution that will create well site intelligence that drives drilling efficiencies and superior performance.

Michael Buker
President
May 3, 2017

Non-GAAP Measures

1) Adjusted EBITDA

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2017	2016
Net Loss	**(7,143)**	(7,404)
Add:		
Depreciation and amortization	**10,931**	14,003
Provision for (Recovery of) income taxes	**(1,195)**	(4,407)
Finance expense	**585**	571
Impairment losses on goodwill and intangible assets	**-**	-
Provision for settlement of litigations	**-**	-
Equity-settled share-based payments	**488**	286
Cash-settled share-based payments (recoveries)	**132**	(149)
Severance costs	**342**	915
Provision for inventory	**300**	300
Provision for onerous contracts	**(107)**	-
Adjusted EBITDA as reported	**4,333**	4,115

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

2) Funds from Operations

Funds from operations is defined as cash flows generated from operating activities before changes in non-cash working capital, interest paid, and income taxes paid. This 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 and interest and taxes paid. Investors should be cautioned, however, that this financial measure should not be construed as an alternative measure to cash flows from operating activities determined in accordance with GAAP. PHX Energy's method of calculating funds from operations may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2017	2016
Net cash flows from operating activities	**(9,896)**	758
Add (deduct):		
Changes in non-cash working capital	**13,466**	2,332
Interest paid	**303**	438
Income taxes paid	**110**	56
Funds from operations	**3,983**	3,584

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

3) Debt to covenant EBITDA Ratio

Debt is represented by loans and borrowings. Covenant EBITDA, for purposes of the calculation of this covenant ratio, is represented by net earnings for a rolling four quarter period, adjusted for finance expense, provision for income taxes, depreciation and amortization, equity-settled share-based payments, unrealized foreign exchange losses, impairment losses on goodwill and intangible assets, loss on disposition of drilling equipment, severance costs, provision for inventory obsolescence and provision for the settlement of litigations, subject to the restrictions provided in the amended credit agreement.

The debt to covenant EBITDA ratio was waived from the quarter ending December 31, 2016 to the quarter ending June 30, 2017, inclusive.

4) Working Capital

Working capital is defined as the Corporation's current assets less its current liabilities and is used to assess the Corporation's short-term liquidity.

About PHX Energy Services Corp.

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

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

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

For further information please contact:
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Consolidated Statements of Financial Position

(unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,803,840**	$ 7,007,293
Trade and other receivables	**59,589,339**	41,552,796
Inventories	**24,904,245**	24,988,472
Prepaid expenses	**3,389,128**	2,613,716
Current tax assets	**5,445,378**	5,293,489
Total current assets	**96,131,930**	81,455,766
Non-current assets:		
Drilling and other equipment	**111,330,893**	121,172,229
Goodwill	**8,876,351**	8,876,351
Intangible assets	**26,255,645**	26,302,314
Deferred tax assets	**12,399,029**	10,687,684
Total non-current assets	**158,861,918**	167,038,578
Total assets	**$ 254,993,848**	$ 248,494,344
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	**$ 2,007,321**	$ 6,031,547
Trade and other payables	**35,259,006**	31,194,630
Total current liabilities	**37,266,327**	37,226,177
Non-current liabilities:		
Loans and borrowings	**11,994,850**	29,014,050
Provision for onerous contracts	**2,232,000**	2,300,000
Deferred income	**1,533,338**	1,566,671
Total non-current liabilities	**15,760,188**	32,880,721
Equity:		
Share capital	**267,264,497**	237,539,242
Contributed surplus	**7,204,047**	6,817,458
Retained earnings	**(90,053,064)**	(82,910,425)
Accumulated other comprehensive income	**17,551,853**	16,941,171
Total equity	**201,967,333**	178,387,446
Total liabilities and equity	**$ 254,993,848**	$ 248,494,344

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three-month periods ended March 31, 2017	2016
Revenue	**$ 61,122,415**	$ 40,449,234
Direct costs	**60,805,182**	46,010,788
Gross profit (loss)	**317,233**	(5,561,554)
Expenses:		
Selling, general and administrative expenses	**7,209,659**	6,678,977
Research and development expenses	**607,459**	525,311
Finance expense	**585,164**	571,410
Other expense (income)	**253,198**	(1,526,441)
	8,655,480	6,249,257
Loss before income taxes	**(8,338,247)**	(11,810,811)
Provision for (Recovery of) income taxes		
Current	**51,000**	(4,230,905)
Deferred	**(1,246,087)**	(175,928)
	(1,195,087)	(4,406,833)
Net loss	**(7,143,160)**	(7,403,978)
Other comprehensive income (loss)		
Foreign currency translation	**611,203**	(7,131,727)
Total comprehensive loss for the period	**$ (6,531,957)**	$ (14,535,705)
Loss per share – basic	**$ (0.13)**	$ (0.18)
Loss per share – diluted	**$ (0.13)**	$ (0.18)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	**$ (7,143,160)**	$ (7,403,978)
Adjustments for:		
Depreciation and amortization	**10,931,018**	14,002,745
Provision for (Recovery of) income taxes	**(1,195,087)**	(4,406,833)
Unrealized foreign exchange loss	**76,820**	1,442,188
Gain on disposition of drilling equipment	**(147,262)**	(1,205,107)
Equity-settled share-based payments	**488,136**	286,381
Finance expense	**585,164**	571,410
Other non-cash charges	**193,000**	300,000
Amortization of deferred income	**(33,333)**	(33,333)
Provision for bad debts	**227,783**	30,418
Interest paid	**(303,478)**	(438,245)
Income taxes paid	**(109,735)**	(56,396)
Change in non-cash working capital	**(13,466,159)**	(2,331,682)
Net cash generated from (used in) operating activities	**(9,896,293)**	757,568
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**1,402,862**	2,576,187
Acquisition of drilling and other equipment	**(1,798,618)**	(856,696)
Acquisition of intangible assets	**(523,258)**	(176,543)
Change in non-cash working capital	**(1,499,302)**	(116,669)
Net cash generated from (used in) investing activities	**(2,418,316)**	1,426,279
Cash flows from financing activities:		
Proceeds from issuance of share capital	**29,154,582**	10,935
Repayment of loans and borrowings	**(17,019,200)**	(10,000,000)
Repayment of operating facility	**(4,024,226)**	713,363
Dividends paid to shareholders	**-**	(415,670)
Net cash generated from (used in) financing activities	**8,111,156**	(9,691,372)
Net decrease in cash and cash equivalents	**(4,203,453)**	(7,507,525)
Cash and cash equivalents, beginning of period	**7,007,293**	9,007,808
Cash and cash equivalents, end of period	**$ 2,803,840**	$ 1,500,283