PRESS RELEASE
February 28, 2012
TSX - PHX

PHX ENERGY SERVICES CORP. REPORTS RECORD FOURTH QUARTER AND YEAR END FINANCIAL AND OPERATIONAL RESULTS AND ANNOUNCES A 50 PERCENT INCREASE TO ITS MONTHLY DIVIDEND

PHX Energy achieved a record year end and fourth quarter level of revenue, operating days, EBITDA and funds from operations due to a robust drilling industry and the provision of superior customer service.

For the year ended December 31, 2011, the Corporation generated consolidated revenue of $260.1 million as compared to $197.3 million; an increase of 32 percent. US and international revenue, as a percentage of consolidated revenue, was 36 and 9 percent, respectively, for the 2011-year as compared to 43 and 7 percent in 2010. EBITDA increased by 79 percent to $45.0 million in 2011 as compared to $25.2 million in 2010. As a percentage of revenue, EBITDA was 17 percent in 2011 as compared to 13 percent in 2010.

The Corporation's funds from operations in the 2011-year increased to a record $43.0 million as compared to $27.2 million in the 2010-year; a 58 percent increase. Through Management's cost reduction initiatives and with the increase in the Corporation's measurement while drilling ("MWD") and down hole performance drilling motor fleet, some cost savings were realized in 2011, including a decrease in third party equipment rentals.

The 2012 capital expenditure budget has been approved by the Board of Directors and is projected to be $38.9 million. PHX Energy plans to expand its fleet with the addition of 28 MWD systems, down hole performance drilling motors and the required ancillary equipment. As a result, further reductions to the level of third party equipment rentals are anticipated.

Expansion in current international markets remained a focal point for PHX Energy in 2011 and growth is expected in these regions in 2012 with the addition of a fifth rig in Albania late in 2011, improvements to the reliability of the Resistivity While Drilling ("RWD") fleet deployed and work recently awarded in Russia, and the commencement of full service operations in Colombia expected in the middle of the year.

In addition, PHX Energy is concentrated on growing in all of its US operating regions. In North America, operators have continued to benefit from new well completion techniques that require horizontal drilling services and this furthered the positive trend for PHX Energy's services in 2011. Industry horizontal and directional drilling activity represented approximately 87 percent (as measured by drilling days) and 69 percent (as measured by rigs running per day) of the 2011 total drilling activity in Canada and the US, respectively. This compared to 81 percent in Canada and 68 percent in the US for the 2010-year. (Sources: Daily Oil Bulletin and Baker Hughes)

As a result of strong demand for services in 2011, a record level of capital expenditures, $49.3 million, was incurred in the year. These expenditures were financed by cash flow from operations and borrowing under the Corporation's extendible debt facility.

In light of the Corporation's increased requirements for capital expenditures, in 2011 PHX Energy increased its extendible debt facility with its bank by $40.0 million. As a result the total debt facility, including a $10.0 million demand overdraft revolving facility, was $90.0 million at the end of the 2011-year. The Corporation's objective is to maintain a strong balance sheet moving forward in 2012. PHX Energy exited the 2011-year with net debt (long-term debt less working capital) of $11.1 million.

The Corporation paid dividends to its shareholders in 2011 of $0.48 per share (2010 - $0.48 per share), or $12.5 million for the year (2010 - $12.2 million). PHX Energy ended 2011 with a conservative cash dividend payout ratio of 29 percent (cash dividends paid divided by funds from operations). In light of this and strong current and forecasted operational activity levels, the Board of Directors has approved a 50 percent increase in the monthly dividend to $0.06 per share, or $0.72 on an annualized basis, from $0.04 per share, or $0.48 on an annualized basis. This dividend increase will be effective for the Corporation's March 2012 dividend that will be payable on April 13, 2012 to shareholders of record on March 30, 2012.

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,		
	2011	2010	% Change	2011	2010	% Change
Operating Results	*(unaudited)*	*(unaudited)*				
Revenue	73,606	57,519	28	260,063	197,277	32
Net earnings	5,284	2,658	99	18,328	14,162	29
Earnings per share – diluted	0.19	0.10	90	0.65	0.52	25
EBITDA (1)	13,566	3,696	267	45,007	25,212	79
EBITDA per share – diluted (1)	0.48	0.13	269	1.59	0.93	71
Cash Flow						
Cash flows from operating activities	19,376	7,393	162	23,224	12,755	82
Funds from operations (1)	12,918	6,633	95	42,972	27,246	58
Funds from operations per share – diluted (1)	0.46	0.24	92	1.52	1.01	50
Dividends paid	3,165	3,096	2	12,474	12,169	3
Dividends per share (2)	0.12	0.12	-	0.48	0.48	-
Capital expenditures	15,012	15,609	(4)	49,280	48,354	2
Financial Position, December 31,						
Working capital				44,868	34,240	31
Long-term debt				56,000	36,000	56
Shareholders' equity				113,868	101,629	12
Common shares outstanding				28,091,062	27,539,373	2

(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 Canadian generally accepted accounting principles ("GAAP"). These performance measures include earnings before interest, taxes, depreciation and amortization ("EBITDA"), EBITDA per share, funds from operations and funds from operations per share. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, these may not be comparable. Please refer to the non-GAAP measures section.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

In particular, forward-looking information and statements contained in this document include references to, without limitation, projected 2012 capital expenditure budget of $38.9 million; expected MWD system and performance drilling motor fleet expansion in 2012; the reduction in third party rentals; growth and greater profitability in international and US operating regions particularly in Albania, Russia, Colombia, Gulf Coast US region and Rocky Mountain US region; forecasted strong activity levels; the objective to maintain a strong balance sheet; the belief that the reliability issues with respect to the RWD tool are now resolved; cost reduction strategies that can be put in place to improve margins and profitability in 2012, specifically related to third party rental equipment and down hole performance motor servicing; the ability to generate EBITDA as a greater percent of revenue; expected slower activity in Northeastern US, despite being active in Marcellus shale and possibly the Utica shale; the possibility for growth in Eastern Europe and South America; the belief that international revenue will represent 20 percent of consolidated revenue; the belief that Canadian operations will continue to thrive; and the continuation of strong operational levels and a positive outlook.

The above references are stated under the headings: “Operating Costs and Expenses" "Segmented Information”, “Investing Activities”, "Cash Requirements for Capital Expenditures", and "Outlook".

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

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

Revenue

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Revenue	73,606	57,519	28	260,063	197,277	32

Consolidated revenue for the three-month period ended December 31, 2011 was the second highest quarter in the Corporation’s history, $73.6 million (2010 – $57.5 million), which is only 6 percent lower than the all-time record that was reached in the third quarter of 2011. As is typical in the fourth quarter of the year, activity tapered off near the end of December due to the Christmas holiday season and as a result, the fourth quarter’s activity levels were below those in the third quarter. US and international revenue, as a percentage of total consolidated revenue, were 32 and 9 percent, respectively, for the 2011-quarter as compared to 36 and 9 percent in 2010. Like revenue, consolidated operating days were a fourth quarter record and increased by 8 percent to 6,210 days in 2011 as compared to 5,747 in the 2010-quarter. Consolidated day rates on average for the three-month period ended December 31, 2011 increased to $11,853, which is approximately 18 percent higher than the day rates of $10,009 in the fourth quarter of 2010.

Industry activity continued to follow favorable trends for PHX Energy's sector. In the 2011-quarter, horizontal and directional drilling dominated activity in Canada, approximately representing a record 92 percent of total industry drilling days (2010 – 79 percent). US horizontal and directional activity has remained consistent with the record levels achieved in past quarters, representing approximately 69 percent of the rigs running per day in the fourth quarter of 2011 (2010 – 68 percent). (Sources: Daily Oil Bulletin and Baker Hughes)

With strong quarterly revenues throughout the 2011-year and growth in all of the Corporation's geographical segments, PHX Energy generated record consolidated revenue for the year ended December 31, 2011 of $260.1 million as compared to $197.3 million in the 2010-year; an increase of 32 percent. US and international revenue, as a percentage of total consolidated revenue, was 36 and 9 percent, respectively, for the 2011-year as compared to 43 and 7 percent in 2010. Consolidated operating days increased by 17 percent to a record 23,458 days compared to 20,115 in 2010. Average consolidated day rates for the year ended December 31, 2011 increased by 13 percent to $11,086 from $9,808 in the corresponding 2010-period. The 2011 rates are a result of stronger customer demand for services aided by higher international activity.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Direct costs	56,253	46,419	21	201,251	156,025	29
Depreciation & amortization (included in direct costs)	4,447	3,402	31	16,171	11,565	40
Gross profit as percentage of revenue excluding depreciation & amortization	30%	25%		29%	27%	

Direct costs are comprised of field and shop expenses, and under the new IFRS standards, include depreciation and amortization on the Corporation's equipment. Excluding depreciation and amortization, gross profit as a percentage of revenue was 30 percent for the three-month period ended December 31, 2011 as compared to 25 percent in the comparable 2010-period. For the year ended December 31, 2011, gross profit as a percentage of revenue (excluding depreciation and amortization) was 29 percent as compared to 27 percent in 2010.

PHX Energy's margins in the three-month period and year ended December 31, 2011 benefitted from higher average day rates achieved in its North American operations and from increased international activity, where day rates are at a premium. Furthermore, Management's cost reduction strategies have started to have an impact on profitability, including record capital equipment additions to both PHX Energy's MWD and down hole performance drilling motor fleet that have begun to reduce third party equipment rental costs.

The Corporation's third party equipment rentals for the fourth quarter of 2011 were $2.8 million, or 4 percent of consolidated revenue, as compared to $5.1 million, or 9 percent of revenue, in the corresponding 2010-quarter. For the year ended December 31, 2011, third party equipment rentals were $15.1 million, or 6 percent of consolidated revenue, versus $16.5 million, or 8 percent of revenue, in 2010.

Adversely affecting PHX Energy's margins in the 2011-quarter and year were increased third party equipment rentals, down hole performance drilling motor repair costs in all regions and lower activity in Russia caused by equipment reliability issues with respect to the Corporation's RWD tool, which PHX Energy believes have been resolved. The Corporation is examining cost reduction efforts in these, and all areas, and Management believes that strategies can be put into place to improve margins and profitability in the upcoming year.

Depreciation and amortization for the three-month period ended December 31, 2011 increased by 31 percent to $4.4 million as compared to $3.4 million in the 2010-quarter. For the year ended December 31, 2011, depreciation and amortization increased by 40 percent to $16.2 million from $11.6 million in 2010. The increase in both periods is the result of the Corporation's record levels of capital expenditure programs in 2010 and 2011.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Selling, general and administrative ("SG&A") costs	8,512	10,526	(19)	31,618	27,045	17
Share-based payments (included in SG&A costs)	483	2,526	(81)	2,971	4,073	(27)
SG&A costs excluding share-based payments as a percentage of revenue	11%	14%		11%	12%	

SG&A costs for the three-month period ended December 31, 2011 decreased by 19 percent to $8.5 million as compared to $10.5 million in 2010. Included in SG&A costs under IFRS are share-based payments of $0.5 million in the 2011-quarter as compared to a $2.5 million in the 2010 comparable period. Excluding these costs, in both the 2011 and 2010-quarters SG&A costs were $8.0 million, despite activity in 2011 being greater. As a result, the SG&A cost excluding share-based payments represented 11 percent of consolidated revenue in the 2011 three-month period compared to 14 percent in the 2010-period.

For the year ended December 31, 2011, SG&A costs increased by 17 percent to $31.6 million as compared to $27.0 million in 2010. Excluding share-based payments of $3.0 million in the 2011-year and $4.1 million in the corresponding 2010-year, SG&A costs as a percentage of consolidated revenue were 11 and 12 percent, respectively.

SG&A costs, excluding share-based payments, generally increased in dollar terms during the 2011-year due to payroll related costs associated with the greater activity and additional expenses with respect to the growth and expansion of PHX Energy's international operations.

Share-based payments relate to the amortization of the fair values of issued options of the Corporation using the Black-Sholes model. In the three-month period and year ended December 31, 2011, share-based payments decreased by 81 percent and 27 percent, respectively. The decrease in the 2011-year is related predominantly to a re-statement made to the fair value of options previously reported in 2010 as a result of the transition to IFRS.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Research and development expense	503	360	40	2,124	1,809	17

Research and development ("R&D") expenditures charged to net earnings during each of the three-month periods ended December 31, 2011 and 2010 were $0.5 million and $0.4 million, respectively. In addition, during the same 2011-period, $0.1 million (2010 - $0.2 million) were capitalized as development costs on certain projects.

For the year ended December 31, 2011, R&D expenditures of $3.2 million were incurred, of which $1.1 million were capitalized as deferred development costs. R&D expenditures for the year ended December 31, 2010 were $2.5 million, of which $0.7 million were capitalized.

PHX Energy continues to focus on its mandate to provide leading edge technologies to its clients.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Finance expense	646	320	102	2,097	713	194

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. For the three-month period ended December 31, 2011, finance charges increased to $0.6 million from $0.3 million in the 2010-period. Finance charges increased to $2.1 million in the 2011-year from $0.7 million in 2010. In order to fund PHX Energy's extensive capital expenditure programs in 2010 and 2011, additional bank borrowings were incurred.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Other income	1,859	1,441	29	5,589	3,575	56

For the three-month period and year ended December 31, 2011, other income is represented by gains on disposition of drilling equipment of $1.9 million (2010 - $1.4 million) and $5.6 million (2010 - $3.6 million), respectively. The dispositions of drilling equipment relate primarily to equipment lost in well bores that are uncontrollable in nature. The gain reported is net of any asset retirements that are made before the end of the equipment's useful life and self-insured down hole equipment losses, if any. Gains typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. There was a higher occurrence of losses in both the 2011-quarter and year as compared to the corresponding 2010-periods.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Other expense	1,079	1,363	(21)	1,823	2,326	(22)

Other expense for the three-month period ended December 31, 2011 is represented by foreign exchange losses of $0.9 million (2010 - $1.4 million) and a bad debt provision of $0.2 million (2010 – recovery of $58,000). For the year ended December 31, 2011, other expense is represented by a foreign exchange loss of $1.4 million (2010 - $2.1 million) and bad debt provisions of $0.4 million (2010 - $0.2 million). The foreign exchange loss in the three-month 2011-period is due primarily to the revaluation of Canadian denominated inter-company loans held in foreign subsidiaries with a fluctuating US dollar and Russian ruble against the Canadian dollar. The bad debt provisions in the 2011-year relate primarily to a Russian and Canadian receivables.

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2011	2010	2011	2010
Provision for (Recovery of) income taxes	3,189	(2,685)	8,411	(1,228)

The provision for income taxes for the three-month period ended December 31, 2011 was $3.2 million as compared to a recovery of $2.7 million in the 2010-period. For the year ended December 31, 2011, the provision for income taxes was $8.4 million as compared to a recovery of $1.2 million in 2010. The expected combined Canadian federal and provincial tax rate for 2011 is 26.5 percent. The provisions are higher than the expected rate in both the 2011-quarter and year due to the non-recognition of deferred tax assets for foreign losses and the non-deductibility of share-based payments. 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 both 2010-quarter and year.

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

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Net earnings	5,284	2,658	99	18,328	14,162	29
Earnings per share – diluted	0.19	0.10	90	0.65	0.52	25
EBITDA	13,566	3,696	267	45,007	25,212	79
EBITDA per share – diluted	0.48	0.13	269	1.59	0.93	71
EBITDA as a percentage of revenue	18%	6%		17%	13%	

The Corporation's level of net earnings and EBITDA for the three-month period and year ended December 31, 2011 have both increased due to higher activity and overall profitability. EBITDA as a percentage of revenue for the three-month period ended December 31, 2011 was 18 percent (2010 – 6 percent) and for the 2011-year was 17 percent (2010 – 13 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, Russia and Colombia.

Canada

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Revenue	43,842	31,436	39	144,416	98,580	47
Reportable segment profit before tax	10,499	5,681	85	28,952	13,859	109

PHX Energy's Canadian operations had a record fourth quarter; revenue increased by 39 percent to $43.8 million (2010 - $31.4 million) and operating days increased by 23 percent to 3,739 days (2010 - 3,028 days). In the Corporation's history, these quarterly results are second only to those achieved in the third quarter of 2011. In light of the strong demand for the Corporation's quality services and due to the presence of a higher proportion of horizontal gamma jobs, average day rates increased by 13 percent to $11,725 in the 2011-quarter from $10,382 in the 2010-quarter.

Horizontal and directional drilling activity in the Canadian industry increased by 33 percent, as measured by drilling days, for the three-month period ended December 31, 2011 to 40,601 days as compared to 30,483 days in the 2010-period. (Source: Daily Oil Bulletin) The Corporation continued to actively drill in oil and liquids rich natural gas areas in western Canada and PHX Energy's horizontal oil well drilling activity (as measured by operating days) for the three-month period ended December 31, 2011 represented approximately 72 percent of its overall Canadian activity, which is down from 85 percent in the 2010-quarter. The most active areas for the Corporation in the 2011-quarter were in the Montney, Cardium, Swan Hills, Viking, Pekisko, Duvernay and Bakken.

Annual Canadian revenue for 2011 represented an all-time high, $144.4 million, and was 47 percent greater than the $98.6 million generated in the 2010-year. Contributing to this revenue level was a 14 percent increase in PHX Energy's average day rates from $9,970 in 2010 to $11,318 in the 2011-year.

The number of horizontal and directional operating days realized in the Canadian industry during the year ended December 31, 2011 increased by 36 percent to 139,359 days as compared to 102,293 days in 2010. (Source: Daily Oil Bulletin) In comparison, the Corporation's Canadian drilling days increased by 29 percent to 12,760 days in the 2011-year from 9,888 days in 2010. Oil well drilling activity (as measured by operating days) represented approximately 75 percent of PHX Energy's Canadian activity for the year ended December 31, 2011 (2010 – 76 percent) with the remainder of activity primarily related to liquids rich natural gas.

Reportable segment profit before tax for the three-month period ended December 31, 2011 increased by 85 percent to $10.5 million from $5.7 million in the 2010-quarter. For the year ended December 31, 2011, reportable segment profit before tax increased by 109 percent to $29.0 million from $13.9 million in 2010. The increases in both 2011-periods were primarily due to higher activity and resulting margins achieved.

United States

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Revenue	23,477	20,842	13	93,483	85,158	10
Reportable segment (loss) profit before tax	(579)	(1,346)	(57)	3,489	5,267	(34)

For the three-month period ended December 31, 2011, US revenue of $23.5 million was generated compared to $20.8 million in the 2010-period, a 13 percent increase. The Corporation's US operating days in the fourth quarter decreased by 14 percent to 2,015 days from 2,340 days in the 2010-quarter; however, this was offset by a 31 percent increase in overall day rates realized in the 2011-quarter, $11,651 compared to $8,907 in the 2010-quarter. Horizontal drilling typically demands a higher day rate than directional drilling due to extra personnel required, and horizontal oil well drilling represented approximately 39 percent of Phoenix USA's overall activity, as measured by drilling days, in the three-month period ended December 31, 2011 as compared to 26 percent in the 2010-period.

In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, increased by 20 percent to 1,384 rigs in the fourth quarter of 2011 from 1,155 rigs in 2010. (Source: Baker Hughes)

The Corporation's US revenue for the year ended December 31, 2011 increased by 10 percent to $93.5 million from $85.2 million in the comparable 2010-period. Phoenix USA achieved a 13 percent increase in its average day rates, $10,432 in 2011 as compared to $9,201 in 2010, and US operating days decreased slightly by 3 percent, 8,961 days in the 2011-year compared to 9,255 days in 2010-year. In addition, US revenue was adversely impacted in 2011 due to a strengthening Canadian dollar against the US dollar.

In 2011, Phoenix USA was active in oil and liquids rich natural gas drilling areas such as the Permian Basin, Barnett, Eagleford and Bakken. Additionally, the Lower Huron and Marcellus, where operators drill for dry gas, were active areas. US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, increased by 25 percent for the year ended December 31, 2011 to 1,305 rigs, 69 percent of total activity, as compared to 1,044 rigs, 68 percent of total activity in the 2010-year.

PHX Energy has been focused on expanding its core US markets as the US continues to be one of the largest markets in the world. The Corporation expanded its Gulf Coast operations in 2011 by opening two new Operations Centers, one in the Permian Basin in Midland, Texas and the other in the Mid-Continent region in Oklahoma City, Oklahoma. The Corporation also, late in the year, launched a new proprietary power section for its down hole performance drilling motor fleet that was designed specifically for drilling conditions in the Bakken region. It is expected that these areas will contribute to Phoenix USA's growth in 2012 along with activity within the Utica shale in Ohio.

Reportable segment loss before tax for the three-month period ended December 31, 2011 decreased by 57 percent to $0.6 million from $1.3 million in the 2010-period. For the year ended December 31, 2011, reportable segment profit before tax decreased by 34 percent to $3.5 million from $5.3 million in 2010. The decline was caused by lower activity levels in the fourth quarter, along with higher third party equipment rental charges and down hole performance drilling motor repair costs.

International

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2011	2010	% Change	2011	2010	% Change
Revenue	6,287	5,241	20	22,164	13,539	64
Reportable segment profit before tax	917	933	(2)	3,666	3,833	(4)

PHX Energy's international operations are gaining momentum and revenue and operating days set new quarterly and annual records for the Corporation. For the three-month period ended December 31, 2011, international revenue increased by 20 percent to $6.3 million from $5.2 million in the 2010-quarter and international operating days also increased 20 percent from 379 days in 2010 to 456 days in 2011. The Corporation generated 9 percent of its consolidated revenue from international operations in both three-month periods. Revenue increased by 64 percent to $22.2 million for the 2011-year as compared to $13.5 million in 2010 and operating days increased from 973 days in 2010 to 1,737 days in 2011; a 79 percent increase.

The Corporation's most active international area in 2011, as in the past, was Albania. PHX Energy commenced providing drilling services on a fifth rig in November 2011 and has successfully drilled in excess of 160 wells in Albania since 2008. The Corporation's presence in the Country grew with the addition of a permanent Operations Manager and the Corporation is continuing to hire, train, and develop local Albanian staff which is expected to create greater efficiencies and profitability. PHX Energy would like to leverage its infrastructure in Albania by expanding its Eastern European operations into other countries if the opportunity arises.

Despite challenges with relatively low industry activity in 2011, the Corporation's Peruvian operations, Phoenix TSP, realized an increase in operating days as compared to 2010. In the fourth quarter, Phoenix TSP was successful in securing a contract for both offshore and land drilling applications. The Corporation is also continuing to work with a number of operators, and currently, the Corporation has a job capacity of 4 full service jobs in Peru. To date PHX Energy has had an excellent performance record with existing clients due to the reliability of PHX Energy's technology deployed.

Even though Russian job activity in 2011 more than doubled that of the 2010-year, it did not reach the annual targets that the Corporation had set for its Russian operations, Phoenix TSR, primarily due to equipment issues encountered with the Corporation's RWD tool. However, with design improvements deployed, PHX Energy is optimistic towards 2012 growth potential for Russia. Phoenix TSR has developed the much needed visibility among key operators in the Nizhnevartovsk region and has secured work from a large exploration and development company within Russia. Presently there is a concurrent job capacity of 8 in Russia but with upcoming forecasted activity it is expected that additional job capacity could be added in 2012.

In Colombia PHX Energy spent the majority of 2011 building up its infrastructure in the country. The Corporation's first Colombian job, a down hole performance drilling motor rental, was completed in the first part of 2012, and it is expected with the recent business development initiatives undertaken, full service drilling activity will commence mid-2012. The Corporation will use its resources from Peru to assist with the Colombian operations where viable. PHX Energy's operations in Colombia currently have a 4 job capacity.

For the three-month period ended December 31, 2011, reportable segment profit before tax is $0.9 million, which is the same level as in the corresponding 2010-period. Reportable segment profit for the year ended December 31, 2011 was $3.7 million as compared to $3.8 million in 2010; a 4 percent decrease. Despite the large pick-up in activity led by Albania, the increase in international profit was lower than expected as a result of the start-up of Colombia and the lower than expected activity levels in Peru and Russia.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2011 was $35.4 million as compared to $33.0 million in 2010. The Corporation added a record $49.3 million in capital equipment in 2011 as compared to $48.4 million in 2010. These 2011 expenditures included:

- $24.0 million in down hole performance drilling motors;
- $15.1 million in MWD systems and spare components;
- $7.0 million in non-magnetic drill collars and jars;
- $0.9 million in machinery and equipment for global service centres; and
- $2.3 million in other assets, including deferred development costs of $1.1 million.

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

The Corporation realized proceeds from the involuntary disposal of drilling equipment in well bores of $9.4 million in 2011, as compared to $8.7 million in 2010. The change in non-cash working capital balances of $4.4 million (source of cash) for the year ended December 31, 2011 relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $6.7 million (source of cash) for the year ended December 31, 2010.

During 2011, PHX Energy's job capacity increased by 27 percent to 190 concurrent jobs from 150 in 2010 through the addition of 38 positive pulse MWD systems and two RWD systems. As at December 31, 2011, the Corporation's MWD fleet consisted of 124 positive pulse MWD systems, 59 current loop telemetry electromagnetic ("CLT EM") MWD systems, and 7 RWD systems. Of these, 97 MWD systems were deployed in Canada, 72 in the US, 8 in Russia, 5 in Albania, and 4 in both Peru and Colombia.

At December 31, 2011, the Corporation had on order an additional 9 positive pulse MWD systems, all of which are expected to be delivered during the end of the first quarter, and the Corporation expects to add 14 positive pulse and 5 CLT-EM MWD systems by mid-year. As a result, by the end of 2012 the Corporation expects to have a fleet of 218 MWD systems, which would be comprised of 147 positive pulse MWD systems, 64 CLT EM-MWD systems and 7 RWD systems.

Financing Activities

The Corporation reported cash flows from financing activities of $11.9 million in 2011 as compared to $26.4 million in 2010. In the 2011-year:

- the Corporation paid dividends of $12.5 million to shareholders, or $0.48 per share;
- through its option program the Corporation received cash proceeds of $4.4 million from exercised options to acquire 462,570 common shares of the Corporation; and
- the Corporation drew on its extendible debt facility for $20.0 million to finance its capital expenditure program.

Capital Resources

As at December 31, 2011, the Corporation had access to a demand overdraft revolving facility of up to $10.0 million and PHX Energy also had access to an $80.0 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.

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 2012 capital budget has been set at $38.9 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 2012, 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

Through its history, PHX Energy has stayed focused on operational growth and superior performance, and with this focus, in the 2011-year generated results and profitability that are new milestones for the Corporation.

The industry in 2011 was favorable to PHX Energy's growth with improved horizontal drilling and completion techniques, and healthy oil commodity prices allowing producers to access capital and expand drilling projects. However, the ability to capitalize on these factors results from PHX Energy's drive to provide the most reliable and efficient services to its clients. It is this performance, and the resulting reputation, that has allowed the Corporation to develop a diverse universe of operating areas, which are focused on oil and liquids rich natural gas drilling, and a large client base in six countries.

Improved profitability and cost reduction were central themes in 2011, and the strategies and initiatives PHX Energy undertook in the year started to create the desired results and will continue to produce benefits into 2012. Overall activity and profitability is growing and past and current capital asset expansion has begun, and will continue, to reduce third party rental requirements. In 2012, PHX Energy will continue to focus on capturing greater market share in its US and international locations, and on increasing operating margins in all areas, with the ultimate goal of generating EBITDA that represents a greater percent of revenue.

PHX Energy's US operations are already gaining momentum, notably the Gulf Coast region where the new marketing and operational personnel brought on board are delivering the desired results. PHX Energy expects this region to continue to improve in the future, especially with the facility expansion in the Permian Basin and Mid-Continent areas already generating revenue. Additionally, PHX Energy's Rocky Mountain region is capitalizing on the increasing rig count in the North Dakota Bakken oil play. In contrast, the Northeast region's activity has slowed with lower natural gas prices, however, the Corporation expects to remain active in the Marcellus shale, albeit at lower activity levels than in past years, and enter the Utica shale.

PHX Energy's four International operations are maturing. In Russia, there have been reaffirming indicators in the early part of 2012 which have suggested that growth in this area will be obtainable. There is also optimism towards the ability for operators in certain areas of South America to benefit from the technologies that have helped create the momentum in North American horizontal drilling activity, and the Corporation believes it is positioned to be at the forefront of this trend. As the 2012-year progresses PHX Energy will continue to examine its international operations; expanding where markets and revenues are promising and scrutinizing areas that are underperforming. The Corporation believes its international operations are heading in the right direction and in future anticipates that they will represent 20 percent of consolidated revenue.

Even though the US and international divisions have more room for growth, PHX Energy believes that its robust Canadian operations will also continue to thrive. Through a strong marketing and operations team, a large client base has been established with diverse operations in key oil and liquids rich natural gas plays.

As a direct result of 2011 financial performance, current strong operational levels and a positive outlook, and PHX Energy's continued commitment to rewarding shareholders, the Board of Directors has approved a 50 percent increase to the Corporation's monthly dividends to $0.06 per share ($0.72 per share on an annualized basis) from $0.04 per share ($0.48 per share on an annualized basis) effective for the March 2012 divided. PHX Energy remains focused on maintaining a strong balance sheet for future growth.

John Hooks
Chairman of the Board,
President and Chief Executive Officer
February 28, 2012

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 December 31,		Years ended December 31,	
	2011	2010	2011	2010
Net earnings	5,284	2,658	18,328	14,162
Add (deduct):				
Depreciation and amortization	4,447	3,402	16,171	11,565
Provision for (Recovery of) income taxes	3,189	(2,685)	8,411	(1,228)
Finance expense	646	321	2,097	713
EBITDA as reported	13,566	3,696	45,007	25,212

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 December 31,		Years ended December 31,	
	2011	2010	2011	2010
Cash flows from operating activities	19,376	7,393	23,224	12,755
Add (deduct):				
Changes in non-cash working capital	(7,197)	(1,110)	17,176	13,468
Interest paid	687	303	1,884	550
Income taxes paid	52	47	688	473
Funds from operations	12,918	6,633	42,972	27,246

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, Russia, and Colombia. PHX Energy develops and manufactures its current loop telemetry ("CLT") electromagnetic ("EM") and positive pulse measurement while drilling ("MWD") technology that is made available for internal operational use.

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

As at December 31, 2011, PHX Energy had approximately 645 full-time employees and the Corporation utilized over 200 additional field consultants in 2011.

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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Consolidated Statements of Financial Position

	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	$ 8,376,344	$ 8,625,532	$ 2,488,970
Trade and other receivables	63,209,860	50,314,306	28,660,353
Inventories	15,445,543	9,895,473	7,022,053
Prepaid expenses	3,720,607	4,046,408	2,085,643
Current tax assets	-	298,064	2,845,643
Total current assets	90,752,354	73,179,783	43,102,662
Non-current assets:			
Property, plant and equipment	120,452,022	91,864,042	60,976,088
Goodwill	8,876,351	8,876,351	8,876,351
Deferred tax assets	-	2,368,706	-
Intangible assets	120,208	280,486	-
Total non-current assets	129,448,581	103,389,585	69,852,439
Total assets	$ 220,200,935	$ 176,569,368	$ 112,955,101
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft	$ -	$ -	$ 4,241,058
Trade and other payables	44,538,854	37,886,506	16,846,978
Dividends payable	1,064,592	1,053,645	1,001,384
Current tax liabilities	280,981	-	-
Total current liabilities	45,884,427	38,940,151	22,089,420
Non-current liabilities:			
Loans and borrowings	56,000,000	36,000,000	-
Deferred tax liabilities	4,448,999	-	714,872
Total non-current liabilities	60,448,999	36,000,000	714,872
Equity:			
Share capital	97,583,055	90,876,458	82,433,639
Contributed surplus	5,827,955	5,156,078	2,701,048
Retained earnings	11,461,288	6,515,269	5,016,122
Accumulated other comprehensive income	(803,517)	(733,736)	-
Total equity attributable to equity holders of the Corporation	114,068,781	101,814,069	90,150,809
Non-controlling interests	(201,272)	(184,852)	-
Total equity	113,867,509	101,629,217	90,150,809
Total liabilities and equity	$ 220,200,935	$ 176,569,368	$ 112,955,101

Consolidated Statements of Comprehensive Income

	Three-month periods ended December 31, 2011	Three-month periods ended December 31, 2010	Years ended December 31, 2011	Years ended December 31, 2010
Revenue	$ 73,606,432	$ 57,519,409	$ 260,063,371	$ 197,276,938
Direct costs	56,252,668	46,419,315	201,250,946	156,024,661
Gross profit	17,353,764	11,100,094	58,812,425	41,252,277
Expenses:				
Selling, general and administrative	8,512,364	10,525,529	31,618,058	27,044,772
Research and development expenses	502,699	359,626	2,123,544	1,809,090
Finance expense	645,694	320,375	2,096,702	712,831
Other income	(1,859,479)	(1,441,123)	(5,588,728)	(3,574,520)
Other expense	1,078,981	1,362,588	1,823,333	2,326,227
	8,880,259	11,126,995	32,072,909	28,318,400
Earnings before income taxes	8,473,505	(26,901)	26,739,516	12,933,877
Provision for (Recovery of) income taxes				
Current	263,985	(388,805)	1,260,940	708,645
Deferred	2,925,249	(2,296,208)	7,150,330	(1,937,016)
	3,189,234	(2,685,013)	8,411,270	(1,228,371)
Net earnings	5,284,271	2,658,112	18,328,246	14,162,248
Other comprehensive income				
Foreign currency translation	(721,114)	(336,317)	(93,020)	(665,186)
Total comprehensive income for the year	$ 4,563,157	$ 2,321,795	$ 18,235,226	$ 13,497,062
Earnings attributable to:				
Equity holders of the Corporation	$ 5,070,388	$ 2,721,834	$ 18,413,357	$ 14,415,653
Non-controlling interests	213,883	(63,722)	(85,111)	(253,405)
Net earnings	$ 5,284,271	$ 2,658,112	$ 18,328,246	$ 14,162,248
Comprehensive income attributable to:				
Equity holders of the Corporation	$ 4,262,697	$ 2,335,142	$ 18,297,167	$ 13,681,914
Non-controlling interests	300,460	(13,347)	(61,941)	(184,852)
Total comprehensive income for the year	$ 4,563,157	$ 2,321,795	$ 18,235,226	$ 13,497,062
Earnings per share – basic	$ 0.19	$ 0.10	$ 0.66	$ 0.53
Earnings per share – diluted	$ 0.19	$ 0.10	$ 0.65	$ 0.52

Consolidated Statements of Cash Flows

	Three-month periods ended December 31, 2011	Three-month periods ended December 31, 2010	Years ended December 31, 2011	Years ended December 31, 2010
Cash flows from operating activities:				
Net earnings	$ 5,284,271	$ 2,658,112	$ 18,328,246	$ 14,162,248
Adjustments for:				
Depreciation and amortization	4,446,840	3,402,406	16,171,041	11,564,931
Deferred income tax expense (recovery)	2,925,249	(2,296,208)	7,150,330	(1,937,016)
Unrealized foreign exchange loss	819,284	1,521,496	1,396,940	2,006,317
Gain on disposition of drilling equipment	(1,859,479)	(1,441,123)	(5,588,728)	(3,574,520)
Share-based payments	483,028	2,526,278	2,970,553	4,073,016
Finance expense	645,694	320,375	2,096,702	712,831
Provision for bad debts	172,756	(58,180)	446,521	238,011
Change in non-cash working capital	7,197,525	1,109,879	(17,176,147)	(13,468,457)
Cash generated from operating activities	20,115,168	7,743,035	25,795,458	13,777,361
Interest paid	(687,004)	(303,185)	(1,883,712)	(549,562)
Income taxes paid	(52,106)	(47,271)	(687,729)	(472,828)
Net cash from operating activities	19,376,058	7,392,579	23,224,017	12,754,971
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	3,057,671	2,831,002	9,445,520	8,652,491
Acquisition of drilling and other equipment	(15,012,314)	(15,608,863)	(49,279,614)	(48,353,814)
Change in non-cash working capital	(123,078)	2,096,001	4,426,676	6,668,373
Net cash used in investing activities	(12,077,721)	(10,681,860)	(35,407,418)	(33,032,950)
Cash flows from financing activities:				
Proceeds from issuance of share capital	1,137,840	3,625,237	4,407,921	6,824,833
Dividends paid to shareholders	(3,165,287)	(3,096,236)	(12,473,708)	(12,169,234)
Proceeds on loans and borrowings	3,500,000	14,000,000	20,000,000	36,000,000
Repayment of bank overdraft facility	(5,877,124)	(7,234,839)	-	(4,241,058)
Net cash (used in) from financing activities	(4,404,571)	7,294,162	11,934,213	26,414,541
Net increase (decrease) in cash and cash equivalents	2,893,766	4,004,881	(249,188)	6,136,562
Cash and cash equivalents, beginning of year	5,482,578	4,620,651	8,625,532	2,488,970
Cash and cash equivalents, end of year	$ 8,376,344	$ 8,625,532	$ 8,376,344	$ 8,625,532