**PRESS RELEASE**
**August 1, 2012**
**TSX - PHX**

# PHX Energy Services Corp. Reports Record Activity, And Second Quarter Financial and Operational Results

PHX Energy Services Corp. ("PHX Energy") generated a record level of activity and revenue for a second quarter. Consolidated revenue of $58.4 million for the three-month period ended June 30, 2012 was achieved as compared to $45.3 million in the 2011-period; a 29 percent increase. Due to an extended spring break-up period in Canada and a general rise in operating costs, the level of profitability has decreased. Net earnings decreased to a loss of $2.6 million for the second quarter of 2012 from earnings of $0.4 million in the 2011-quarter while EBITDA decreased by 51 percent to $2.5 million for the three-month period ended June 30, 2012 from $5.2 million in the 2011-period.

International operations continued to demonstrate strong growth, particularly in Albania and Russia. In the 2012-quarter, this operating segment represented 17 percent of consolidated revenue as compared to 11 percent in the 2011-quarter. This momentum should continue in all international operating areas through the remainder of 2012 and beyond.

As part of its previously announced revised $55.1 million 2012 capital expenditure program, $18.9 million was incurred in the second quarter of 2012, with a further $6.6 million of equipment presently on order for delivery in the next few months.

On May 18, 2012, the Corporation entered into a joint venture agreement with RMS Systems Inc. ("RMS"), pursuant to which, the parties have incorporated RigManager International Inc. ("RMII") which is equally owned by the two parties. Pursuant to the joint venture, RMS transferred all of its interest in its wholly-owned US subsidiary, RigManager Inc., to RMII and granted RMII an exclusive perpetual license to market and distribute RMS' electronic drilling recorder ("EDR") technology worldwide outside Canada. The Corporation believes that the joint venture will strategically assist PHX Energy in achieving its long-term goals as it represents an opportunity to expand its international and US operating segments.

The Corporation continued its policy of rewarding its shareholders, and in the 2012-quarter, the Corporation paid dividends of $5.1 million or $0.18 per share.

PHX Energy ended the second quarter with long-term debt of $62.0 million and working capital of $21.3 million.

# Financial Highlights

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

| | Three-month periods ended June 30, | | | Six-month periods ended June, 30 | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| **Operating Results** | ***(unaudited)*** | *(unaudited)* | | ***(unaudited)*** | *(unaudited)* | |
| Revenue | **58,423** | 45,336 | 29 | **138,192** | 108,484 | 27 |
| Net earnings (loss) | **(2,584)** | 424 | n.m. | **5,335** | 4,307 | 24 |
| Earnings (Loss) per share – diluted | **(0.09)** | 0.01 | n.m. | **0.19** | 0.15 | 27 |
| EBITDA [1] | **2,521** | 5,182 | (51) | **17,560** | 14,452 | 22 |
| EBITDA per share – diluted [1] | **0.09** | 0.18 | (50) | **0.62** | 0.51 | 22 |
| **Cash Flow** | | | | | | |
| Cash flows from operating activities | **15,667** | 7,437 | 111 | **19,743** | 7,653 | 158 |
| Funds from operations [1] | **2,512** | 4,277 | (41) | **15,546** | 13,797 | 13 |
| Funds from operations per share – diluted [1] | **0.09** | 0.15 | (40) | **0.55** | 0.49 | 12 |
| Dividends paid | **5,069** | 3,099 | 64 | **8,442** | 6,211 | 36 |
| Dividends per share [2] | **0.18** | 0.12 | 50 | **0.30** | 0.24 | 25 |
| Capital expenditures | **18,897** | 11,242 | 68 | **36,457** | 21,408 | 70 |
| | | | | | | |
| **Financial Position (unaudited)** | | | | **June 30, '12** | Dec 31, '11 | |
| Working capital | | | | **21,322** | 44,868 | (52) |
| Long-term debt | | | | **62,000** | 56,000 | 11 |
| Shareholders' equity | | | | **112,443** | 113,868 | (1) |
| Common shares outstanding | | | | **28,179,292** | 28,091,062 | - |

[1] Refer to non-GAAP measures 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 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, growth and greater profitability in each of the Corporation’s international segments; projected capital expenditure budget and how this budget will be funded; expected fleet expansion in 2012; the opportunity to expand internationally and in the US with the joint venture with RMS Systems Inc.; ability to improve profitability, specifically related to employee utilization, labor rates and performance drilling motor costs; the implementation of strategies to mitigate the foreign exchange exposure related to the Russian rouble; PHX Energy achieving greater diversification and steady performance in the Canadian market; the installation of three additional RigManager EDR units in Albania; the ability to maintain current dividend rate; and the expected increase to the Corporation’s credit facilities.

The above references are stated under the headings: “Operating Costs and Expenses”, “Segmented Information”, “Investing Activities”, “Capital Resources”, and “Cash Requirements for Capital Expenditures”. Furthermore, all information contained within 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; 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 June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Revenue | **58,423** | 45,336 | 29 | **138,192** | 108,484 | 27 |

Despite a prolonged spring break-up period in Canada, the Corporation reported record second quarter consolidated revenue and activity due to strong growth realized in the US and internationally. For the three-month period ended June 30, 2012, PHX Energy generated revenue of $58.4 million as compared to $45.3 million in the corresponding 2011-period; an increase of 29 percent. US and international revenue as a percentage of total consolidated revenue were 55 and 17 percent, respectively, for the 2012-quarter as compared to 51 and 11 percent in 2011. Consolidated operating days grew by 13 percent to a second quarter record of 4,622 days in 2012 as compared to 4,105 in the 2011-quarter. Average consolidated day rates for the three-month period ended June 30, 2012 increased to $12,640, which is approximately 14 percent higher than the day rates of $11,044 in the second quarter of 2011.

The industry trend toward horizontal and directional drilling is becoming the norm in both Canada and the US, and this continues to create positive industry fundamentals for PHX Energy's operations. In the 2012-quarter, horizontal and directional drilling dominated the Canadian market, representing approximately 95 percent of total industry drilling days (2011 – 89 percent). In the US, horizontal and directional activity levels in the second quarter of 2012 rose slightly to 71 percent of the rigs running per day (2011 – 69 percent). (Sources: Daily Oil Bulletin and Baker Hughes)

For the six-month period ended June 30, 2012, consolidated revenue increased by 27 percent to $138.2 million from $108.5 million for the comparable 2011-period. Consolidated operating days for the six-month period ended June 30, 2012 grew by 11 percent to 11,305 days as compared to 10,170 days in 2011.

# Operating Costs and Expenses

*(Stated in thousands of dollars except percentages)*

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Direct costs | **51,365** | 37,805 | 36 | **113,029** | 87,811 | 29 |
| Depreciation & amortization (included in direct costs) | **5,206** | 3,873 | 34 | **10,040** | 7,575 | 33 |
| Gross profit as percentage of revenue excluding depreciation & amortization | **21** | 25 | | **25** | 26 | |

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment. Excluding depreciation and amortization, gross profit as a percentage of revenue was 21 percent for the three-month period ended June 30, 2012 as compared to 25 percent in the comparable 2011-period. For the six-month period ended June 30, 2012, gross profit as a percentage of revenue, excluding depreciation and amortization, was 25 percent as compared to 26 percent in 2011.

The decline in margins in the three and six-month periods ended June 30, 2012 is due to the factors below.

- Slower Canadian activity caused by extended wet weather.
- Higher labor costs in Canada; as a result of record activity levels achieved in 2011 and in the prior quarter, field and shop personnel levels grew substantially.
- Increased performance drilling motor and measurements while drilling ("MWD") system repair costs in Canada and US.
- Greater third party equipment rentals in Russia and US. The Corporation's third party equipment rentals for the second quarter of 2012 were $2.3 million, or 4 percent of consolidated revenue, 50 percent higher compared to the corresponding 2011-quarter when third party rentals were $1.5 million, or 3 percent of revenue.

Management is monitoring and responding to these issues and is committed to evaluating different cost reduction initiatives to improve profitability, especially with its employee utilization, labor rates and performance drilling motor costs. In addition, the Corporation also expects Colombia to generate improved profitability in future months.

The overall negative impact of the areas above on margins was partially offset by higher average day rates realized in all of PHX Energy's operating segments.

Depreciation and amortization for the three-month period ended June 30, 2012 increased by 34 percent to $5.2 million as compared to $3.9 million in the 2011-quarter. The increase is the result of the Corporation's record levels of capital expenditure programs in 2011 and 2012.

*(Stated in thousands of dollars except percentages)*

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Selling, general and administrative ("SG&A") costs | **8,241** | 7,028 | 17 | **16,746** | 14,503 | 15 |
| Share-based payments (included in SG&A costs) | **614** | 689 | (11) | **1,411** | 1,484 | (5) |
| SG&A costs excluding share-based payments as a percentage of revenue | **13** | 14 | | **11** | 12 | |

SG&A costs for the three-month period ended June 30, 2012 increased by 17 percent to $8.2 million as compared to $7.0 million in 2011. Included in SG&A costs are share-based payments of $0.6 million for the 2012-quarter and $0.7 million for the 2011-quarter. Excluding these costs, SG&A costs as a percentage of consolidated revenue for the three-month period ended June 30, 2012 and 2011 were 13 percent and 14 percent, respectively.

For the six-month period ended June 30, 2012, SG&A costs increased by 15 percent to $16.7 million as compared to $14.5 million in 2011. Excluding share-based payments of $1.4 million in the 2012 six-month period and $1.5 million in the corresponding 2011-period, SG&A costs as a percentage of consolidated revenue were 11 percent and 12 percent, respectively.

The increase in SG&A costs in both 2012-periods is due to greater payroll-related costs associated with record 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-Scholes model. Share-based payments decreased in the three and six-month periods ended June 30, 2012 as the Corporation has not made significant option issuances since December 2011.

*(Stated in thousands of dollars)*

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Research and development expense | **548** | 527 | 4 | **1,101** | 1,090 | 1 |

Research and development ("R&D") expenditures charged to net earnings during each of the three-month periods ended June 30, 2012 and 2011 were both $0.5 million. During the same 2012-period, there were no capitalized development costs (2011 - $0.4 million).

For the six-month period ended June 30, 2012, R&D expenditures of $1.2 million were incurred of which $0.1 million were capitalized as deferred development costs. R&D expenditures for the six-month period ended June 30, 2011 were $1.9 million, of which $0.8 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 June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Finance expense | **711** | 510 | 39 | **1,267** | 941 | 35 |

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. In the second quarter of 2012, finance charges increased to $0.7 million from $0.5 million in the 2011-quarter, and increased to $1.3 million in the six-month period ended June 30, 2012 from $0.9 million in 2011. In order to fund PHX Energy's extensive capital expenditure programs in 2011 and 2012, additional bank borrowings were incurred.

*(Stated in thousands of dollars)*

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Foreign exchange losses (gains) | **988** | (33) | **636** | (267) |
| Losses from the change in fair value of investment in equity securities | **180** | - | **370** | - |
| Provision for (Recovery of) bad debts | **(208)** | (2) | **(208)** | 15 |
| Gains on disposition of drilling equipment | **(111)** | (1,298) | **(1,105)** | (1,546) |
| Other expense (income) | **849** | (1,333) | **(307)** | (1,798) |

In the second quarter of 2012, other expense is generally represented by foreign exchange losses of $1.0 million (2011 – gains on disposition of drilling equipment of $1.3 million). Other income for the six-month period ended June 30, 2012 is mostly represented by gains on disposition of drilling equipment of $1.1 million, partially offset by foreign exchange losses of $0.6 million, whereas in the 2011 six-month period it is represented by gains on disposition of drilling equipment of $1.5 million and a foreign exchange gain of $0.3 million.

Foreign exchange losses resulted mainly from fluctuations in the RUR-CDN exchange rates. Russian roubles devalued in both 2012-periods. Management has implemented some strategies to mitigate this foreign exchange exposure in upcoming periods.

The dispositions of drilling equipment relate primarily to equipment lost in well bores that are uncontrollable in nature. These gains are reported net of any asset retirements that are made before the end of the equipment's useful life and self-insured down hole equipment losses, if any. Gains typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. There were fewer occurrences of losses in the 2012-periods as compared to the corresponding 2011-periods. In addition there was a larger occurrence of scrapped assets in the second quarter of 2012.

*(Stated in thousands of dollars)*

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Share of loss of equity-accounted investee | **104** | - | n.m. | **104** | - | n.m. |

n.m. - not meaningful

The Corporation's share in the loss of the equity-accounted investee, RigManager International ("RMII") for the three and six-month period ended June 30, 2012 amounted to $0.1 million. The loss mainly pertains to RMII's wholly-owned US subsidiary, RigManager Inc.

*(Stated in thousands of dollars)*

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Provision for (Recovery of) income taxes | **(812)** | 374 | **918** | 1,629 |

The recovery of income taxes for the second quarter of 2012 was $0.8 million as compared to a provision for $0.4 million in the 2011-quarter. For the six-month period ended June 30, 2012, the provision for income taxes was $0.9 million as compared to $1.6 million in 2011. The expected combined Canadian federal and provincial tax rate for 2012 is 25 percent. The effective tax rates in the 2012 three and six-month periods of 24 and 15 percent, respectively, are lower than the expected rate due mainly to the effect of tax rates in foreign jurisdictions.

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

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Net earnings (loss) | **(2,584)** | 424 | n.m. | **5,335** | 4,307 | 24 |
| Earnings (Loss) per share – diluted | **(0.09)** | 0.01 | n.m. | **0.19** | 0.15 | 27 |
| EBITDA | **2,521** | 5,182 | (51) | **17,560** | 14,452 | 22 |
| EBITDA per share – diluted | **0.09** | 0.18 | (50) | **0.62** | 0.51 | 22 |
| EBITDA as a percentage of revenue | **4** | 11 | | **13** | 13 | |

n.m. - not meaningful

The Corporation's level of net earnings and EBITDA in the second quarter of 2012 have both decreased mainly due to higher operating costs and lower Canadian activity incurred in the quarter. However, for the six-month period ended June 30, 2012, net earnings and EBITDA have both increased due to higher activity and improved day rates realized from customers. EBITDA as a percentage of revenue for the three and six-month periods ended June 30, 2012 were 4 and 13 percent, respectively (2011 – 11 percent and 13 percent).

# 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 Albania, Peru, Russia and Colombia.

## Canada

*(Stated in thousands of dollars)*

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Revenue | **16,121** | 17,069 | (6) | **60,611** | 55,014 | 10 |
| Reportable segment profit (loss) before tax | **(4,512)** | 21 | n.m. | **6,499** | 6,721 | (3) |

n.m. - not meaningful

Due to a relatively early and prolonged spring break-up, Canadian revenue for the three-month period ended June 30, 2012 decreased by 6 percent to $16.1 million (2011 - $17.1 million) and operating days decreased by 14 percent to 1,219 days (2011 – 1,410 days). The demand for horizontal gamma jobs continued to strengthen, and as a result, average day rates increased by 9 percent to $13,225 in the 2012-quarter from $12,106 in the 2011-quarter.

In Canada, PHX Energy's horizontal oil well drilling activity (as measured by operating days) for the three-month period ended June 30, 2012 represented approximately 77 percent of its overall Canadian activity; a decrease from 82 percent in the 2011-quarter. The Corporation's activity was hampered in May and June by the impact of wet weather and lower activity, and drilling levels in the Bakken and Cardium areas were both below those in the 2011-quarter. The active areas for the Corporation in the 2012-quarter were in the Montney, Viking, Spearfish, and Shaunavon. PHX Energy is expecting greater diversification in the Canadian market in upcoming periods as a direct result of marketing personnel expansion.

Overall in the Canadian industry, horizontal and directional drilling activity, as measured by drilling days, in the 2012-quarter was 16,587 days, just 30 days higher compared to the 16,557 days in the 2011-quarter. (Source: Daily Oil Bulletin)

For the six-month period ended June 30, 2012, PHX Energy's Canadian revenue increased by 10 percent to $60.6 million from $55.0 million in the comparable 2011-period. The number of horizontal and directional drilling days realized in the Canadian industry during the six-month period ended June 30, 2012 decreased by 3 percent to 56,693 days as compared to 58,229 days in 2011. (Source: Daily Oil Bulletin) In comparison, the Corporation's Canadian operating days decreased by 1 percent to 4,897 days in the six-month period ended June 30, 2012 from 4,939 days in 2011. Oil well drilling activity represented 78 percent of PHX Energy's Canadian activity for the 2012 six-month period as compared to 76 percent in 2011.

Reportable segment profit before tax for the second quarter of 2012 decreased to a loss of $4.5 million from a profit of $21,000 in the 2011-quarter. Lower profitability during the 2012-quarter was due to increased labor and performance drilling motor and MWD system repair costs. Due to the seasonal nature of the Corporation's operations, these loss results are usually expected. For the six-month period ended June 30, 2012, reportable segment profit before tax decreased by 3 percent to $6.5 million from $6.7 million in 2011.

## United States

*(Stated in thousands of dollars)*

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Revenue | **32,381** | 23,205 | 40 | **59,546** | 43,003 | 38 |
| Reportable segment profit before tax | **2,466** | 1,530 | 61 | **2,497** | 1,242 | 101 |

Phoenix USA reported a record level of activity and revenue during the quarter. For the three-month period ended June 30, 2012, revenue of $32.4 million was generated compared to $23.2 million in the 2011-period; a 40 percent increase. The Corporation's US operating days grew by 16 percent to a record 2,666 days from 2,291 days in the 2011-quarter. Overall day rates realized also increased by 20 percent in the 2012-quarter to $12,146 compared to $10,129 in the 2011-quarter. The addition of a performance drilling motor rental division in the Gulf Coast in late 2011 continued to contribute to the stronger day rates.

The factors that contributed to Phoenix USA's growth in the first quarter of 2012 continued to have an impact in the second quarter, namely: increased activity in the Permian Basin in Midland, Texas and the mid-continent region in Oklahoma that occurred late in 2011, the recruitment of additional marketing personnel, and the deployment of a new proprietary power section that was utilized successfully in the Corporation's US performance drilling motor fleet. In the 2012-quarter, Phoenix USA was active in the Barnett, Eagle Ford, Marcellus, Utica, Niobrara and Bakken plays.

The factors above also contributed to horizontal oil well drilling increasing to approximately 33 percent of Phoenix USA's overall activity, as measured by drilling days, in the three-month period ended June 30, 2012 as compared to 27 percent in the 2011-period. US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, were 11 percent higher in the second quarter of 2012 with 1,401 rigs running as compared to 1,266 rigs in the 2011-quarter. This level of activity represented 71 percent of total US Industry activity in the 2012-quarter and 69 percent in 2011. (Source: Baker Hughes)

US revenue for the six-month period ended June 30, 2012 increased by 38 percent to $59.5 million from $43.0 million in the comparable 2011-period. US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, grew by 13 percent for the six-month period ended June 30, 2012 to 1,395 rigs as compared to 1,236 rigs in the comparable 2011-period. For the six-month period ended June 30, 2012, horizontal and directional drilling activity in the US represented approximately 70 percent of total industry activity, the same level as in 2011. (Source: Baker Hughes) The

Corporation's US operating days increased by approximately 15 percent to 5,068 days in the six-month period ended June 30, 2012 from 4,402 days in 2011.

Reportable segment income before tax for the second quarter of 2012 increased by 61 percent to $2.5 million from $1.5 million in the 2011-quarter. For the six-month period ended June 30, 2012, reportable segment profit before tax increased by 101 percent to $2.5 million from $1.2 million in 2011. The increase in profitability in the 2012-quarter is a result of activity growth and higher day rates. However, this was adversely impacted by higher performance drilling motor repair costs and third party equipment rentals incurred in the 2012-quarter.

## International

*(Stated in thousands of dollars)*

| | Three-month periods ended June 30, | | | Six-month periods ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | % Change | **2012** | 2011 | % Change |
| Revenue | **9,921** | 5,062 | 96 | **18,035** | 10,467 | 72 |
| Reportable segment profit before tax | **2,863** | 883 | 224 | **4,888** | 2,235 | 119 |

Revenue generated from PHX Energy's international operations in the second quarter of 2012 increased by 96 percent to a record $9.9 million from $5.1 million in the 2011-quarter, due to activity growth realized in Albania and Russia. International operating days also grew by 83 percent from 404 days in the 2011-quarter to a record 738 days in the 2012-quarter. The Corporation generated 17 percent of its consolidated revenue from international operations in the 2012-quarter compared to 11 percent in the 2011-quarter.

For the six-month period ended June 30, 2012, revenue increased by 72 percent to $18.0 million as compared to $10.5 million in 2011. Operating days for the same period grew from 829 days in 2011 to 1,340 days in 2012; a 62 percent increase.

Phoenix Albania continued to be the most active international area in the second quarter of 2012 and reported record revenue. This growth is due to the Corporation operating steadily on 5 rigs in 2012, and since commencing operations in 2008, PHX Energy has successfully drilled in excess of 226 wells in Albania. In the early part of the second quarter, RMS' electronic drilling recorder systems were installed and are now currently running on two of the rigs in Albania. Three additional units are expected to be installed on the three remaining rigs over the next few months. The Corporation is also continuing to hire, train, and develop local Albanian staff, which is expected to create greater efficiencies and profitability.

With Phoenix Russia again achieving record level of revenue and activity in the second quarter of 2012, the Corporation has increased the region's concurrent job capacity to 19 jobs from the previously announced 16 jobs in anticipation of the higher activity forecasted in the remainder of 2012. Phoenix Russia continues to build a strong team of regional field operators.

In the second quarter of 2012, Phoenix Colombia successfully commenced full service drilling activity with two full service jobs. Growth is anticipated to continue in future quarters, and therefore, the Corporation is also mobilizing to deploy its RWD tool in the Colombian market. PHX Energy's operations in Colombia currently have a 4 job capacity.

Phoenix Peru’s activity in the 2012-quarter was slightly higher than the level obtained in the second quarter of 2011. The Corporation is continuing to work with a number of operators and currently has a job capacity of 4 full service jobs in Peru.

For the three-month period ended June 30, 2012, reportable segment profit before tax was $2.9 million, an increase of 224 percent compared to $0.9 million in the corresponding 2011-period. Reportable segment profit for the six-month period ended June 30, 2012 was $4.9 million as compared to $2.2 million in 2011; a 119 percent increase. The increase is due to the higher levels of activity led by Albania and Russia.

# Investing Activities

Net cash used in investing activities for the three-month period ended June 30, 2012 was $13.8 million as compared to $8.1 million in 2011. The Corporation made a $2.9 million investment in the joint venture company RMII and added $18.9 million in capital equipment in the second quarter of 2012 as compared to $11.2 million in the 2011-quarter. These quarterly 2012 expenditures included:

- $13.3 million in down hole performance drilling motors;
- $4.1 million in MWD systems and spare components;
- $1.2 million in non-magnetic drill collars and jars;
- $0.2 million in machinery and equipment for global service centers, and;
- $0.1 million in other assets.

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 $1.3 million in the second quarter of 2012, as compared to $1.9 million in the 2011-quarter. The change in non-cash working capital balances of $6.7 million (source of cash) for the three-month period ended June 30, 2012 relates to the net change in the Corporation’s trade payables that are associated with the acquisition of capital assets. This compares to $1.2 million (source of cash) for the three-month period ended June 30, 2011.

During the second quarter of 2012, PHX Energy’s job capacity increased by 4 concurrent jobs to 204 through the addition of 2 P-360 positive pulse MWD systems, 1 E-360 electromagnetic (“EM”) MWD system, and 1 Resistivity While Drilling (“RWD”) system. As at June 30, 2012, the Corporation’s MWD fleet consisted of 133 P-360 positive pulse MWD systems, 60 E-360 EM MWD systems, and 11 RWD systems. Of these, 90 MWD systems were deployed in Canada, 82 in the US, 19 in Russia, 5 in Albania, and 4 in both Peru and Colombia.

At June 30, 2012, the Corporation had on order an additional 5 E-360 EM MWD systems, all of which are expected to be deployed during the end of the third quarter. As a result, by the end of 2012 the Corporation expects to have a fleet of 209 MWD systems, which would be comprised of 133 P-360 positive pulse MWD systems, 65 E-360 EM MWD systems and 11 RWD systems. The Corporation previously planned to add an additional 14 P-360 positive pulse MWD systems by year end, but this expansion will be dependent upon customer demand as the year progresses.

# Financing Activities

The Corporation reported cash flows from financing activities of $5.7 million in the three-month period ended June 30, 2012 as compared to $2.4 million in the 2011 period. In the 2012-quarter:

- the Corporation paid dividends of $5.1 million to shareholders, or $0.18 per share;
- through its option and DRIP program the Corporation received cash proceeds of $0.2 million from exercised options and reinvested dividends to acquire 25,612 common shares of the Corporation; and
- the Corporation received net proceeds from its bank overdraft revolving facility and extendible revolving facility of an aggregate of $10.6 million to finance its capital expenditure program.

# Capital Resources

As at June 30, 2012, 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. On July 16, 2012, the Corporation's bank provided a commitment letter to increase the credit facilities to an aggregate amount of $105.0 million and US$25.0 million for a term of three years. While the loan documents are being finalized, on July 17, 2012, the existing extendible revolving facility was temporarily increased to $90.0 million.

## Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. The 2012 capital budget remains at $55.1 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 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

In the second quarter, the foreseen lower natural gas price and oil differentials in Canada decreased industry activity levels, however, this was intensified by wetter than normal weather during the break-up period. In addition, what was not predicted was depressed oil prices and the general volatility of the economy which produced a strain on operator's cash flows and debt levels, and resulted in reduced capital budgets and cutbacks to drilling programs throughout the industry. Despite this, in 2012, record revenue for any second quarter in PHX Energy's history was attained and growth was achieved in a number of operating areas.

It is expected that a retraction will continue in the remainder of 2012, however, PHX Energy will remain focused on growth opportunities, albeit working towards a revised forecast to reflect this operating environment.

In Canada, PHX Energy expects slower operating activity going forward, however, believes the extent of this reduction will not be as dramatic as some sectors in the industry. The majority of PHX Energy's clients are focused on oil production over natural gas drilling; thus, the percent of wells drilled with horizontal technology will increase even though many analysts have reduced the predicted total number of wells drilled due to the many issues affecting the Canadian market. With the strong presence PHX Energy has built in Canada and a large diverse client base, steady performance and activity levels should be seen during future quarters of lower industry activity.

The United States market presents many opportunities for PHX Energy's growth, although there are still challenges present. By remaining focused on the strategies set forth, even with reduced drilling activity, PHX Energy believes its US division can capture a greater market share and increase operating days. Both the Rocky Mountain and Gulf Coast regions are focused on oil drilling and, with the addition of our newest operating area in the Permian Basin, ongoing growth is anticipated. As such, capital assets and personnel continue to be added in the Gulf Coast and in West Texas to service the Eagle Ford Shale, Permian Basin and Oklahoma region with the expectation that future performance will counterbalance past expansion costs.

Internationally, as another quarter has provided the time required to deploy resources and implement the intended strategy, all four geographical areas showed revenue growth and increased market penetration. With second quarter projections realized, the long-term goal remains focused on current diversification beyond North America and providing a footprint for the future.

The successes in the second quarter, and those that are anticipated in the future, are the result of growth initiatives implemented and infrastructure expansion, including personnel additions, however, this has led to a larger cost structure which has curtailed current operating margins and profitability in times of lower activity. PHX Energy continues to focus on improving earning levels, not only through growth, but also through cost reduction and value added initiatives.

PHX Energy remains aware that it is a business that operates in a volatile and competitive segment of the energy sector. Operators will continue to strive for leading edge technology that requires considerable investment from service providers, and PHX Energy will continue to put tremendous efforts in delivering on these requests.

The outlook for the remainder of 2012 remains cautiously optimistic, with opportunities for expansion being present in certain regions and with other areas foreseen to experience only modest reductions in a slower industry environment.

John Hooks
Chairman of the Board,
President and Chief Executive Officer
August 1, 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 June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Net earnings (loss) | **(2,584)** | 424 | **5,335** | 4,307 |
| Add (deduct): | | | | |
| Depreciation and amortization | **5,206** | 3,873 | **10,040** | 7,575 |
| Provision for (Recovery of) income taxes | **(812)** | 375 | **918** | 1,629 |
| Finance expense | **711** | 510 | **1,267** | 941 |
| EBITDA as reported | **2,521** | 5,182 | **17,560** | 14,452 |

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 June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Cash flows from operating activities | **15,667** | 7,437 | **19,743** | 7,653 |
| Add (deduct): | | | | |
| Changes in non-cash working capital | **(14,238)** | (3,988) | **(6,490)** | 4,474 |
| Interest paid | **884** | 722 | **1,415** | 1,100 |
| Income taxes paid | **199** | 106 | **878** | 570 |
| Funds from operations | **2,512** | 4,277 | **15,546** | 13,797 |

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 E-360 electromagnetic ("EM") and P-360 positive pulse measurement while drilling ("MWD") technologies that are 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.

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

*(unaudited)*

| | | June 30, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | **$** | **11,731,364** | $ | 8,376,344 |
| Trade and other receivables | | **49,985,115** | | 63,209,860 |
| Inventories | | **21,029,445** | | 15,445,543 |
| Prepaid expenses | | **5,209,734** | | 3,720,607 |
| Investment in equity securities | | **540,270** | | - |
| Assets held for sale | | **3,132,482** | | - |
| Total current assets | | **91,628,410** | | 90,752,354 |
| Non-current assets: | | | | |
| Property, plant and equipment | | **143,626,869** | | 120,452,022 |
| Goodwill | | **8,876,351** | | 8,876,351 |
| Equity-accounted investee | | **2,747,687** | | - |
| Intangible assets | | **40,069** | | 120,208 |
| Total non-current assets | | **155,290,976** | | 129,448,581 |
| Total assets | **$** | **246,919,386** | $ | 220,200,935 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Bank overdraft | **$** | **6,268,277** | $ | - |
| Trade and other payables | | **44,699,941** | | 44,538,854 |
| Dividends payable | | **1,613,909** | | 1,064,592 |
| Current tax liabilities | | **2,224,004** | | 280,981 |
| Loans and borrowings | | **15,500,000** | | - |
| Total current liabilities | | **70,306,131** | | 45,884,427 |
| Non-current liabilities: | | | | |
| Loans and borrowings | | **62,000,000** | | 56,000,000 |
| Deferred tax liabilities | | **2,170,538** | | 4,448,999 |
| Total non-current liabilities | | **64,170,538** | | 60,448,999 |
| Equity: | | | | |
| Share capital | | **98,579,676** | | 97,583,055 |
| Contributed surplus | | **7,028,037** | | 5,827,955 |
| Retained earnings | | **7,558,335** | | 11,461,288 |
| Accumulated other comprehensive income | | **(723,331)** | | (803,517) |
| Total equity attributable to equity holders of the Corporation | | **112,442,717** | | 114,068,781 |
| Non-controlling interests | | **-** | | (201,272) |
| Total equity | | **112,442,717** | | 113,867,509 |
| Total liabilities and shareholders' equity | **$** | **246,919,386** | $ | 220,200,935 |

# Condensed Consolidated Statements of Comprehensive Income

*(unaudited)*

| | Three-month periods ended June 30, 2012 | Three-month periods ended June 30, 2011 | Six-month periods ended June 30, 2012 | Six-month periods ended June 30, 2011 |
|---|---|---|---|---|
| Revenue | **$ 58,423,429** | $ 45,336,295 | **$ 138,192,258** | $ 108,483,741 |
| Direct costs | **51,365,186** | 37,804,593 | **113,028,642** | 87,811,345 |
| Gross profit | **7,058,243** | 7,531,702 | **25,163,616** | 20,672,396 |
| Expenses: | | | | |
| Selling, general and administrative | **8,241,383** | 7,028,155 | **16,745,774** | 14,502,900 |
| Research and development expenses | **547,825** | 527,493 | **1,100,928** | 1,089,931 |
| Finance expense | **711,434** | 510,281 | **1,267,065** | 941,489 |
| Other expense (income) | **849,170** | (1,332,743) | **(306,807)** | (1,797,510) |
| | **10,349,812** | 6,733,186 | **18,806,960** | 14,736,810 |
| Share of loss of equity-accounted investee (net of tax) | **104,471** | - | **104,471** | - |
| Earnings (Loss) before income taxes | **(3,396,040)** | 798,516 | **6,252,185** | 5,935,586 |
| Provision for (Recovery of) income taxes | | | | |
| Current | **1,475,158** | 310,521 | **3,188,773** | 467,757 |
| Deferred | **(2,287,542)** | 63,765 | **(2,271,197)** | 1,160,871 |
| | **(812,384)** | 374,286 | **917,576** | 1,628,628 |
| Net earnings (loss) | **(2,583,656)** | 424,230 | **5,334,609** | 4,306,958 |
| Other comprehensive income | | | | |
| Foreign currency translation | **970,772** | (189,030) | **34,873** | (2,138,824) |
| Total comprehensive income (loss) for the period | **$ (1,612,884)** | $ 235,200 | **$ 5,369,482** | $ 2,168,134 |
| Earnings attributable to: | | | | |
| Equity holders of the Corporation | **$ (2,583,656)** | $ 517,562 | **$ 5,334,609** | $ 4,427,279 |
| Non-controlling interests | **-** | (93,332) | **-** | (120,321) |
| Net earnings (loss) | **$ (2,583,656)** | $ 424,230 | **$ 5,334,609** | $ 4,306,958 |
| Comprehensive income attributable to: | | | | |
| Equity holders of the Corporation | **$ (1,612,884)** | $ 272,276 | **$ 5,369,482** | $ 2,334,190 |
| Non-controlling interests | **-** | (37,076) | **-** | (166,056) |
| Total comprehensive income (loss) for the period | **$ (1,612,884)** | $ 235,200 | **$ 5,369,482** | $ 2,168,134 |
| Earnings (Loss) per share – basic | **$ (0.09)** | $ 0.01 | **$ 0.19** | $ 0.15 |
| Earnings (Loss) per share – diluted | **$ (0.09)** | $ 0.01 | **$ 0.19** | $ 0.15 |

# Condensed Consolidated Statements of Cash Flows

*(unaudited)*

| | Three-month periods ended June 30, 2012 | Three-month periods ended June 30, 2011 | Six-month periods ended June 30, 2012 | Six-month periods ended June 30, 2011 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net earnings (loss) | **$ (2,583,656)** | $ 424,230 | **$ 5,334,609** | $ 4,306,958 |
| Adjustments for: | | | | |
| Depreciation and amortization | **5,206,082** | 3,872,753 | **10,040,306** | 7,575,293 |
| Deferred income tax expense (recovery) | **(2,287,542)** | 63,765 | **(2,271,197)** | 1,160,871 |
| Unrealized foreign exchange loss (gain) | **885,966** | 17,251 | **603,216** | (141,276) |
| Gain on disposition of drilling equipment | **(110,671)** | (1,298,316) | **(1,105,309)** | (1,545,804) |
| Share-based payments | **613,711** | 689,009 | **1,410,803** | 1,484,495 |
| Finance expense | **711,434** | 510,281 | **1,267,065** | 941,489 |
| Provision for (Recovery of) bad debts | **(207,714)** | (1,974) | **(207,714)** | 15,360 |
| Change in fair value of investment in equity securities | **180,090** | - | **370,185** | - |
| Share of profit of equity-accounted investee | **104,471** | - | **104,471** | - |
| Change in non-cash working capital | **14,238,126** | 3,988,435 | **6,489,463** | (4,474,348) |
| Cash generated from operating activities | **16,750,297** | 8,265,434 | **22,035,898** | 9,323,038 |
| Interest paid | **(884,753)** | (722,158) | **(1,415,295)** | (1,100,035) |
| Income taxes paid | **(198,983)** | (106,293) | **(878,044)** | (570,081) |
| Net cash from operating activities | **15,666,561** | 7,436,983 | **19,742,559** | 7,652,922 |
| Cash flows from investing activities: | | | | |
| Proceeds on disposition of drilling equipment | **1,293,084** | 1,933,544 | **4,637,529** | 3,257,465 |
| Acquisition of drilling and other equipment | **(18,897,365)** | (11,241,586) | **(36,457,150)** | (21,407,654) |
| Formation of equity-accounted investee | **(2,852,158)** | - | **(2,852,158)** | - |
| Investment in equity securities | **-** | - | **(910,455)** | - |
| Change in non-cash working capital | **6,685,034** | 1,169,336 | **(917,824)** | 40,051 |
| Net cash used in investing activities | **(13,771,405)** | (8,138,706) | **(36,500,058)** | (18,110,138) |
| Cash flows from financing activities: | | | | |
| Proceeds from issuance of share capital | **228,356** | 518,605 | **785,900** | 2,939,255 |
| Dividends paid to shareholders | **(5,069,182)** | (3,099,068) | **(8,441,658)** | (6,210,754) |
| Proceeds on loans and borrowings | **12,500,000** | 2,500,000 | **21,500,000** | 2,500,000 |
| Proceeds on (Repayment of) bank overdraft facility | **(1,917,328)** | 2,486,307 | **6,268,277** | 8,627,154 |
| Net cash from financing activities | **5,741,846** | 2,405,844 | **20,112,519** | 7,855,655 |
| Net increase (decrease) in cash and cash equivalents | **7,637,002** | 1,704,121 | **3,355,020** | (2,601,561) |
| Cash and cash equivalents, beginning of period | **4,094,362** | 4,319,850 | **8,376,344** | 8,625,532 |
| Cash and cash equivalents, end of period | **$ 11,731,364** | $ 6,023,971 | **$ 11,731,364** | $ 6,023,971 |