PRESS RELEASE
October 31, 2012
TSX - PHX

PHX Energy Services Corp. Reports Record Revenue & EBITDA, And Its Third Quarter Financial and Operational Results

As a result of strong activity growth in the US and international operations, PHX Energy Services Corp. ("PHX Energy") generated an all-time record level of revenue for any quarter. Consolidated revenue of $84.1 million for the three-month period ended September 30, 2012 was achieved as compared to $78.0 million in the 2011-period; an 8 percent increase. EBITDA increased by 4 percent to a quarterly record of $17.7 million for the three-month period ended September 30, 2012 from $17.0 million in the 2011-period. As a percentage of revenue, EBITDA was 21 percent in the 2012-quarter.

International operations continued to grow and operations in Albania and Russia are again the strongest contributors to this growth. In the 2012-quarter, this operating segment represented 12 percent of consolidated revenue as compared to 7 percent in the 2011-quarter. PHX Energy foresees its international operations representing a greater percentage of consolidated revenue as growth continues into future quarters.

The 2012 capital expenditure program has been reduced slightly, and is expected to be $49.5 million opposed to the previously announced $55.1 million. In the third quarter $9.7 million was incurred, with a further $2.0 million of equipment presently on order for delivery in the next few months.

On September 6, 2012, the Corporation entered into a new loan agreement with a bank syndicate. Under the terms of the agreement, the Corporation now has access to credit facilities aggregating to approximately $130.0 million for a term of three years.

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; this represented 26 percent of funds from operations.

PHX Energy ended the third quarter with long-term debt of $80.0 million and working capital of $43.5 million.

On October 11, 2012, the Corporation subscribed for 9,500,000 common shares of RMS Systems Inc. ("RMS") at a price of $0.18 per common share or approximately $1.7 million. Upon closing of the transaction on October 22, 2012, PHX Energy holds 19.5 percent interest in RMS. RMS is the Corporation's joint venture partner in its equity-accounted investee, RigManager International Inc. PHX Energy sees this additional investment in the RigManager technology as a strategic investment as it increases the Corporation's ability to participate in the information and data management sector of the oil and natural gas industry.

Financial Highlights

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

	Three-month periods ended September 30,			Nine-month periods ended September,30		
	2012	2011	% Change	**2012**	2011	% Change
Operating Results	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**84,054**	77,973	8	**222,247**	186,457	19
Net earnings	**7,836**	8,737	(10)	**13,170**	13,044	1
Earnings per share – diluted	**0.28**	0.31	(10)	**0.47**	0.46	2
EBITDA (1)	**17,703**	16,989	4	**35,263**	31,441	12
EBITDA per share – diluted (1)	**0.63**	0.61	3	**1.25**	1.12	12
Cash Flow						
Cash flows from operating activities	**(420)**	(3,805)	89	**19,322**	3,848	402
Funds from operations (1)	**19,815**	16,257	22	**35,361**	30,054	18
Funds from operations per share – diluted (1)	**0.70**	0.58	21	**1.25**	1.07	17
Dividends paid	**5,074**	3,098	64	**13,516**	9,308	45
Dividends per share (2)	**0.18**	0.12	50	**0.48**	0.36	33
Capital expenditures	**9,660**	12,860	(25)	**46,118**	34,267	35
Financial Position (unaudited)				**Sep 30, '12**	Dec 31, '11	
Working capital				**43,458**	44,868	(3)
Long-term debt				**80,000**	56,000	43
Shareholders' equity				**113,361**	113,868	-
Common shares outstanding				**28,209,074**	28,091,062	-

(1) Refer to non-GAAP measures section.
(2) Dividends paid 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, growth in PHX Energy’s international operations and this segment representing a greater percentage of revenue; projected capital expenditure budget and how this budget will be funded; the ability to participate in the information and data management sector of the industry due to the Corporation’s investment in RMS Systems Inc.; the ability to improve profitability; the expected tax rate in Canada; the start of resistivity work in Albania; pursuing further opportunities in Russia as invitations to tender have been received and additional marketing personnel are being recruited; anticipated future growth in Colombia in part due to the potential award of bids that have been tendered; and expected fleet expansion in 2012.

The above references are stated under the headings: “Operating Costs and Expenses”, “Segmented Information”, “Investing Activities”, 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 September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Revenue	**84,054**	77,973	8	**222,247**	186,457	19

Despite weaknesses in the Canadian market, PHX Energy reported record quarterly consolidated revenue through strong growth realized in the US and in the Corporation's international regions. For the three-month period ended September 30, 2012, PHX Energy generated revenue of $84.1 million as compared to $78.0 million in the corresponding 2011-period; an increase of 8 percent. US and international revenue as a percentage of total consolidated revenue were 48 and 12 percent, respectively, for the 2012-quarter as compared to 35 and 7 percent in 2011. Consolidated operating days slightly decreased by 2 percent to 6,932 days in 2012 as compared to 7,078 in the 2011-quarter. Average consolidated day rates for the three-month period ended September 30, 2012, excluding the motor rental division in Midland, Texas, increased to $11,873, which is approximately 8 percent higher than the day rates of $11,016 in the third quarter of 2011. This increase is due to growth in international areas and greater utilization of the Corporation's resistivity while drilling ("RWD") technology.

Horizontal and directional drilling as a percentage of total drilling continues to increase in both Canada and the US. In the 2012-quarter, horizontal and directional drilling represented nearly the entire Canadian market at approximately 95 percent of total industry drilling days (2011 – 89 percent). In the US, horizontal and directional activity levels in the third quarter of 2012 remained consistent with prior quarters' levels, rising marginally to 72 percent of the rigs running per day (2011 – 70 percent). (Sources: Daily Oil Bulletin and Baker Hughes)

For the nine-month period ended September 30, 2012, consolidated revenue increased by 19 percent to $222.2 million from $186.5 million for the comparable 2011-period. Consolidated operating days for the nine-month period ended September 30, 2012 grew by 6 percent to 18,241 days as compared to 17,248 days in 2011.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Direct costs	**62,150**	57,187	9	**175,178**	144,998	21
Depreciation & amortization (included in direct costs)	**5,496**	4,149	32	**15,536**	11,724	33
Gross profit as percentage of revenue excluding depreciation & amortization	**33**	32		**28**	29	

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 33 percent for the three-month period ended September 30, 2012 as compared to 32 percent in the comparable 2011-period. For the nine-month period ended September 30, 2012, gross profit as a percentage of revenue, excluding depreciation and amortization, was 28 percent as compared to 29 percent in 2011.

The improvement in margins for the three-month period ended September 30, 2012 was fueled by higher average day rates realized in all of PHX Energy's operating segments as well as aided by the expansion of the motor rental division in Midland, Texas and greater utilization of the Corporation's RWD technology. In addition, the Corporation continued to lower its third party equipment rentals, which decreased to 2 percent of consolidated revenue for the three-month period ended September 30, 2012 compared to 5 percent in the corresponding 2011-quarter.

However, margins were adversely affected by increased performance drilling motor repair costs in Canada and the US and by lower staff utilization rates in Canada as a result of weaker activity levels. Management continues to review and evaluate different cost reduction initiatives to improve profitability.

Depreciation and amortization for the three-month period ended September 30, 2012 increased by 32 percent to $5.5 million as compared to $4.1 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 September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Selling, general & administrative ("SG&A") costs	**9,265**	8,603	8	**26,011**	23,106	13
Share-based payments (included in SG&A costs)	**444**	1,003	(56)	**1,855**	2,488	(25)
SG&A costs excluding share-based payments as a percentage of revenue	**10**	10		**11**	11	

SG&A costs for the three-month period ended September 30, 2012 increased by 8 percent to $9.3 million as compared to $8.6 million in 2011. Included in SG&A costs are share-based payments of $0.4 million for the 2012-quarter and $1.0 million for the 2011-quarter. Excluding these costs, SG&A costs as a percentage of consolidated revenue for the three-month period ended September 30, 2012 and 2011 were both 10 percent.

For the nine-month period ended September 30, 2012, SG&A costs increased by 13 percent to $26.0 million as compared to $23.1 million in 2011. Excluding share-based payments of $1.9 million in the 2012 nine-month period and $2.5 million in the corresponding 2011-period, SG&A costs as a percentage of consolidated revenue were 11 percent in both periods.

The increase in SG&A costs in both 2012-periods is due to greater payroll and marketing related costs, primarily associated with strong US and international activity. Additionally in the 2012-quarter there were greater payroll related expenses relating to retention awards granted.

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 nine-month periods ended September 30, 2012 as the Corporation has not made significant option issuances since December 2011.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Research & development expense	**564**	531	6	**1,665**	1,621	3

Research and development ("R&D") expenditures charged to net earnings during the three-month periods ended September 30, 2012 and 2011 were $0.6 million and $0.5 million respectively. During the same 2012-period, there were no capitalized development costs (2011 - $0.2 million).

For the nine-month period ended September 30, 2012, R&D expenditures of $1.8 million were incurred, of which $0.1 million were capitalized as deferred development costs. R&D expenditures for the nine-month period ended September 30, 2011 were $2.6 million, of which $1.0 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 September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Finance expense	**875**	510	72	**2,142**	1,451	48

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. In the third quarter of 2012, finance charges increased to $0.9 million from $0.5 million in the 2011-quarter, and increased to $2.1 million in the nine-month period ended September 30, 2012 from $1.5 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 September 30,		Nine-month periods ended September 30,	
	2012	2011	**2012**	2011
Gains on disposition of drilling equipment	**(1,047)**	(2,183)	**(2,152)**	(3,729)
Foreign exchange losses	**542**	737	**1,178**	470
Losses from the change in fair value of investment in equity securities	**120**	-	**490**	-
Provision for (Recovery of) bad debts	**115**	259	**(93)**	274
Other income	**(270)**	(1,187)	**(577)**	(2,985)

In the third quarter of 2012, other income is generally represented by gains on disposition of drilling equipment of $1.0 million (2011 –$2.2 million), partially offset by foreign exchange losses of $0.5 million (2011 - $0.7 million). Other income for the nine-month period ended September 30, 2012 is mostly represented by gains on disposition of drilling equipment of $2.2 million (2011 - $3.7 million), partially offset by foreign exchange losses of $1.2 million (2011 - $0.5 million).

Foreign exchange losses resulted mainly from fluctuations in the LEK-CDN exchange rates. Albanian LEK devalued in both 2012-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.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Share of loss of equity-accounted investee	**138**	-	n.m.	**243**	-	n.m.

n.m. - not meaningful

The Corporation's share in the loss of the equity-accounted investee, RigManager International Inc., for the three and nine-month periods ended September 30, 2012 amounted to $0.1 million and $0.2 million respectively. The loss mainly pertains to RigManager International Inc.'s wholly-owned US subsidiary, RigManager Inc.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2012	2011	**2012**	2011
Provision for income taxes	**3,497**	3,593	**4,414**	5,222

The provision for income taxes for the third quarter of 2012 was $3.5 million as compared to $3.6 million in the 2011-quarter. For the nine-month period ended September 30, 2012, the provision for income taxes was $4.4 million as compared to $5.2 million in 2011. The expected combined Canadian federal and provincial tax rate for 2012 is 25 percent. The effective tax rate in the 2012 three-month period of 31 percent is higher than the expected rate due mainly to the profitability of US operations where tax rates are higher. The effective tax rate in the 2012 nine-month period was 25 percent.

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Net earnings	**7,836**	8,737	(10)	**13,170**	13,044	1
Earnings per share – diluted	**0.28**	0.31	(10)	**0.47**	0.46	2
EBITDA	**17,703**	16,989	4	**35,263**	31,441	12
EBITDA per share – diluted	**0.63**	0.61	3	**1.25**	1.12	12
EBITDA as a percentage of revenue	**21**	22		**16**	17	

The Corporation's level of net earnings in the third quarter of 2012 decreased due in part to higher depreciation and income taxes. For the three and nine-month periods ended September 30, 2012, EBITDA increased primarily due to improved margins and activity growth in the US and in international regions. EBITDA as a percentage of revenue for the three and nine-month periods ended September 30, 2012 were 21 and 16 percent, respectively (2011 – 22 percent and 17 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 September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Revenue	**33,756**	45,560	(26)	**94,367**	100,574	(6)
Reportable segment profit before tax	**5,484**	10,468	(48)	**11,984**	17,189	(30)

Canadian revenue for the three-month period ended September 30, 2012 decreased by 26 percent to $33.8 million (2011 - $45.6 million) as operating days decreased by 30 percent to 2,841 days (2011 – 4,082 days). In comparison, the overall average rigs running per day in the Canadian industry decreased approximately 26 percent, however as a result of horizontal and directional wells growing to represent a greater percentage of total industry activity, horizontal and directional drilling activity, as measured by drilling days, in the 2012-quarter was 9 percent lower, 36,884 days, than the 2011-quarter, 40,529 days. (Source: Baker Hughes and Daily Oil Bulletin) On the positive side, the average day rates increased by 6 percent to $11,882 in the 2012-quarter from $11,161 in the 2011-quarter.

In the 2012-quarter, PHX Energy's horizontal oil well drilling activity (as measured by operating days) continued to increase representing approximately 87 percent of its overall Canadian activity as compared to 77 percent in the 2011-quarter. However, the Corporation's overall activity was impacted by lower drilling activity that was experienced generally throughout the industry and by reduced capital spending of several key clients due to poor equity markets. PHX Energy's activity in the third quarter picked up in the Bakken and Cardium and some heavy oil projects in Alberta were added. In addition, the Corporation remained active in the Montney, Viking, Spearfish, and Shaunavon, and maintained a diversified client base.

For the nine-month period ended September 30, 2012, PHX Energy's Canadian revenue decreased by 6 percent to $94.4 million from $100.6 million in the comparable 2011-period. The number of horizontal and directional drilling days realized in the Canadian industry during the nine-month period ended September 30, 2012 decreased by 4 percent to 94,411 days as compared to 98,758 days in 2011. (Source: Daily Oil Bulletin) In comparison, the Corporation's Canadian operating days decreased by 14 percent to 7,738 days in the nine-month period ended September 30, 2012 from 9,021 days in 2011. Oil well drilling activity represented 81 percent of PHX Energy's Canadian activity for the 2012 nine-month period as compared to 76 percent in 2011.

Reportable segment profit before tax for the third quarter of 2012 decreased to $5.5 million from $10.5 million in the 2011-quarter. For the nine-month period ended September 30, 2012, reportable segment profit before tax decreased by 30 percent to $12.0 million from $17.2 million in the 2011-period. Decreased profitability realized during both periods was due to lower levels of activity combined with higher infrastructure costs.

United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Revenue	**40,341**	27,003	49	**99,888**	70,006	43
Reportable segment profit before tax	**7,619**	4,091	86	**10,116**	5,332	90

Phoenix USA continued to grow for the second consecutive quarter, reporting a record level of activity and revenue during the third quarter of 2012. For the three-month period ended September 30, 2012, revenue of $40.3 million was generated compared to $27.0 million in the 2011-period; a 49 percent increase. The Corporation's US operating days grew by 30 percent to a record 3,314 days from 2,544 days in the 2011-quarter. Overall day rates realized, excluding the motor rental division in Midland, Texas, also increased by 10 percent in the 2012-quarter to $11,644 compared to $10,614 in the 2011-quarter. The increased utilization of the Corporation's RWD technology in the US contributed to the stronger day rates.

The Gulf Coast region and Rocky Mountain region in the US had record revenue in the quarter driven by higher activity in West Texas in the Permian Basin, South Texas in the Eagleford, East Texas in the Barnett, North Dakota in the Bakken and Wyoming in the Powder River and Niobrara.

PHX Energy continues to expand its marketing team in all US areas and these efforts are beginning to make a positive impact on activity levels. Horizontal oil well drilling represented approximately 58 percent of Phoenix USA's overall activity, as measured by drilling days, in the three-month period ended September 30, 2012 as compared to 36 percent in the 2011-period. US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, was 2 percent higher in the third quarter of 2012 with 1,375 rigs running as compared to 1,354 rigs in the 2011-quarter. This level of activity represented 72 percent of total US industry activity in the 2012-quarter compared to 70 percent in 2011. (Source: Baker Hughes)

US revenue for the nine-month period ended September 30, 2012 increased by 43 percent to $99.9 million from $70.0 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 9 percent for the nine-month period ended September 30, 2012 to 1,388 rigs as compared to 1,278 rigs in the comparable 2011-period. For the nine-month period ended September 30, 2012, horizontal and directional drilling activity in the US represented approximately 71 percent of total industry activity, compared to 70 percent in 2011. (Source: Baker Hughes) The Corporation's US operating days increased by approximately 21 percent to 8,383 days in the nine-month period ended September 30, 2012 from 6,946 days in 2011.

Reportable segment income before tax for the third quarter of 2012 increased by 86 percent to $7.6 million from $4.1 million in the 2011-quarter. For the nine-month period ended September 30, 2012, reportable segment profit before tax increased by 90 percent to $10.1 million from $5.3 million in 2011. The increase in profitability in the 2012-quarter is the continued result of activity growth and higher day rates. However, to some extent, this was negatively impacted by higher performance drilling motor repair costs incurred in the 2012-quarter.

International

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Revenue	**9,957**	5,410	84	**27,992**	15,877	76
Reportable segment profit before tax	**2,430**	514	373	**7,318**	2,749	166

PHX Energy's international operations once again generated record quarterly revenue and operating days in the third quarter of 2012. Revenue increased by 84 percent to a record $10.0 million from $5.4 million in the 2011-quarter and operating days grew by 72 percent from 452 days in the 2011-quarter to a record 777 days in the 2012-quarter. Albania and Russia, as in the past, led this growth. The Corporation generated 12 percent of its consolidated revenue from international operations in the 2012-quarter compared to 7 percent in the 2011-quarter.

For the nine-month period ended September 30, 2012, revenue increased by 76 percent to $28.0 million as compared to $15.9 million in 2011. Operating days for the same period grew from 1,281 days in 2011 to 2,121 days in 2012; a 66 percent increase.

Phoenix Albania continued to operate on 5 consecutives rigs for most of the 2012-quarter and it was the most active international area for the Corporation. RMS' electronic drilling recorder systems, which are being supplied by PHX Energy's joint venture RigManager International Inc., are now completely installed and currently running on all 5 rigs. Since commencing operations in 2008, PHX Energy has successfully drilled in excess of 258 wells in Albania. To satisfy client demand, an RWD tool has been added to Phoenix Albania's fleet and resistivity work will begin in the last quarter of 2012. The Corporation presently has a 5 job capacity in Albania.

Phoenix Russia has successively achieved a record level of revenue and activity in each quarter of 2012 and the Corporation continued to solidify its presence in the Russian market by delivering strong operational performance to its clients in the third quarter of 2012. Invitations to tender have been received from several new clients and Phoenix Russia has initiated the recruitment of additional marketing personnel to pursue further opportunities. To support the Russian business, local staff continue to be hired and trained.

In the third quarter of 2012, Phoenix Colombia saw growth in activity and has achieved its highest revenue quarter to date. During the quarter Colombia's activity reached 2 simultaneous jobs, however, one of the operator's drilling activities was forced to a halt for an unspecified period. It is anticipated that future growth will be realized in upcoming quarters from the potential award of bids that have been tendered. PHX Energy's operations in Colombia currently have a 5 job capacity.

Phoenix Peru's activity in the 2012-quarter fell short of expectation. Clients reduced or postponed their drilling activity due to delays in licensing and permits as well as poor weather conditions. As a result, some resources from Peru have been allocated to Colombia to support business development there. Phoenix Peru currently has a job capacity of 4 full service jobs.

For the three-month period ended September 30, 2012, reportable segment profit before tax was $2.4 million, an increase of 373 percent compared to $0.5 million in the corresponding 2011-period. Reportable segment profit before tax for the nine-month period ended September 30, 2012 was $7.3 million as compared to $2.7 million in 2011; a 166 percent increase. Greater profitability has resulted primarily due to activity levels in Albania and Russia.

Investing Activities

Net cash used in investing activities for the three-month period ended September 30, 2012 was $18.0 million as compared to $5.2 million in 2011. The Corporation made an additional $0.3 million investment in the joint venture company RigManager International Inc. in the form of preferred shares and added $9.7 million in capital equipment in the third quarter of 2012 as compared to $12.9 million in the 2011-quarter. These quarterly 2012 expenditures included:

- $7.1 million in down hole performance drilling motors;
- $1.8 million in measurement while drilling ("MWD") systems and spare components;
- $0.4 million in machinery and equipment for global service centers,
- $0.3 million in other assets, and;
- $0.1 million in non-magnetic drill collars and jars.

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 $2.4 million in the third quarter of 2012, as compared to $3.1 million in the 2011-quarter. The change in non-cash working capital balances of $10.4 million (use of cash) for the three-month period ended September 30, 2012 relates to $9.6 million of net change in the Corporation's trade payables that are associated with the acquisition of capital assets and $0.8 million of progress billings associated with a shop under construction that is currently being held for sale. This compares to $4.5 million (source of cash) for the three-month period ended September 30, 2011.

During the third quarter of 2012, PHX Energy's job capacity increased by 2 concurrent jobs to 206 through the addition of 1 E-360 electromagnetic ("EM") MWD system and 1 RWD system. As at September 30, 2012, the Corporation's MWD fleet consisted of 133 P-360 positive pulse MWD systems, 61 E-360 EM MWD systems, and 12 RWD systems. Of these, 81 MWD systems were deployed in Canada, 96 in the US, 15 in Russia, 5 in Albania, 4 in Peru, and 5 in Colombia.

At September 30, 2012, the Corporation had on order an additional 4 E-360 EM MWD systems, all of which are expected to be deployed by the end of the year. As a result, by the end of 2012 the Corporation expects to have a fleet of 210 MWD systems, which would be comprised of 133 P-360 positive pulse MWD systems, 65 E-360 EM MWD systems and 12 RWD systems.

Financing Activities

The Corporation reported cash flows from financing activities of $10.6 million in the three-month period ended September 30, 2012 as compared to $8.5 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 29,782 common shares of the Corporation; and
- the Corporation received net proceeds from its operating facility and syndicated facility an aggregate of $15.4 million to finance its capital expenditure program.

Capital Resources

On September 6, 2012, the Corporation entered into a new syndicated loan agreement with its bank. Under the new agreement, the Corporation has access to a $10.0 million operating facility. The facility bears interest based primarily on the Corporation's senior debt to EBITDA ratio, as defined in the agreement. At the Corporation's option, interest is at the bank's prime rate plus a margin that ranges from a minimum of 0.75 percent to a maximum of 2.00 percent, or the bank's bankers' acceptance rate plus a margin that ranges from a minimum of 1.75 percent to a maximum of 3.00 percent. The facility matures on September 6, 2015. The maturity date can be extended for another year at the option of the lender. As of September 30, 2012, the Corporation had $6.2 million drawn as bank overdraft on this facility.

As at September 30, 2012, the Corporation also had access to a $95.0 million syndicated facility. The facility bears interest at the same rate as the operating facility. The syndicated facility will permanently reduce to $80.0 million on September 30, 2013. The remaining $80.0 million facility matures on September 6, 2015. The maturity date can be extended for another year at the option of the lender. As at September 30, 2012, $93.0 million was drawn on this facility, of which $13.0 million was classified as current.

In addition, as at September 30, 2012, the Corporation had access to a US$25.0 million operating facility in the US. The facility bears interest at the same rate as the operating facility. The facility matures on September 6, 2015. The maturity date can be extended for another year at the option of the lender. As at September 30, 2012, the Corporation had nil drawn on this facility.

All the credit facilities are secured by a general security agreement over all assets of the Corporation located in Canada and the US. As at September 30, 2012, the Corporation was in compliance with all of its bank debt covenants.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. The 2012 capital budget is expected to be at $49.5 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 third quarter of 2012, PHX Energy achieved record revenue and other financial benchmarks, due to its strategy to grow in the US and in its international regions, despite slower Canadian activity. PHX Energy entered 2012 focused on core strategies to increase shareholder value by growing in areas where the Corporation's market share was lower and by improving margins; thus far there have been many strides in the right direction. There also have been challenges to overcome due to uncertainty around oil and natural gas prices, a volatile world economy and reduced rig utilization in Canada.

In Canada, the third quarter activity was adversely impacted as exploration and production companies cut drilling budgets to protect their balance sheets. Equity market financing was almost non-existent. PHX Energy anticipates that higher drilling utilization levels will only return to meaningful levels when these capital markets are available. Despite this, the industry is focused on oil well drilling and almost all wells in Canada now require directional or horizontal services. PHX Energy will continue to concentrate on providing superior service and on building relationships, albeit that the current and future industry outlook limits opportunities for strong growth.

PHX Energy's US operations achieved increases in operating days and profitability. Due to the greater demand in a number of areas in the US, additional assets were transferred from areas with lower forecasted activity, while at the same time, capital expenditures continue to keep pace with the growing demand. A strong marketing and operations team is now in place and the Corporation foresees continued growth in the US, although it may be at a slower pace than in the first part of the year.

Internationally, quarterly results have been at record levels in 2012, with higher profits being generated in the third quarter as compared to past quarters. The Corporation has hired and trained local personnel in all international areas, which has had a positive impact on margins. In addition, PHX Energy continues to deploy leading edge technologies that create a competitive advantage in most of these markets. In Albania, PHX Energy has worked to create further drilling efficiency, and as such deployed its RWD technology. Similarly, PHX Energy's reputation as a service provider has grown in Russia, and in efforts to gain increased exposure in this market additional assets have been deployed. In Colombia, the Corporation has encountered a few obstacles, however, these are expected when building a presence in a new market. PHX Energy foresees that there are opportunities for additional international growth.

PHX Energy's goal for improving profitability and margins has progressed and its core initiatives are creating the intended results. The Corporation continues to focus on cost saving programs, and opportunities to deploy technologies that generate additional revenue streams. In spite of this, there are certain challenges related to margins in areas were industry activity has slowed, like Canada and the northeastern US, such as downward pressures on day rates and the costs associated with an infrastructure that was built up to support larger operations. PHX Energy will continue to further examine cost saving opportunities throughout its operations.

Looking forward, PHX Energy is cautious about activity levels in many operating areas and this, coupled with the upcoming holiday season, will likely lead the fourth quarter results to be slightly lower than those achieved in the third quarter. However PHX Energy anticipates that its diversified operations and client base will assist with achieving its objectives in the upcoming months. The Corporation will strive for increases in operating days and market share as it continues to focus on the areas where its greatest opportunities exist.

As always, shareholder value remains at the forefront and through future dividends and growth, PHX Energy is committed to creating long-term benefits for its shareholders.

John Hooks
Chairman of the Board,
President and Chief Executive Officer
October 31, 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 September 30,		Nine-month periods ended September 30,	
	2012	2011	**2012**	2011
Net earnings	**7,836**	8,737	**13,170**	13,044
Add (deduct):				
Depreciation and amortization	**5,495**	4,149	**15,536**	11,724
Provision for income taxes	**3,497**	3,593	**4,414**	5,222
Finance expense	**875**	510	**2,143**	1,451
EBITDA as reported	**17,703**	16,989	**35,263**	31,441

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 September 30,		Nine-month periods ended September 30,	
	2012	2011	**2012**	2011
Cash flows from operating activities	**(420)**	(3,805)	**19,322**	3,848
Add (deduct):				
Changes in non-cash working capital	**19,458**	19,899	**12,968**	24,374
Interest paid	**582**	97	**1,997**	1,197
Income taxes paid	**195**	66	**1,074**	635
Funds from operations	**19,815**	16,257	**35,361**	30,054

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, and an administrative office in Nicosia, Cyprus.

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

(unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,879,785	$ 8,376,344
Trade and other receivables	71,339,637	63,209,860
Inventories	20,137,277	15,445,543
Prepaid expenses	4,134,162	3,720,607
Investment in equity securities	420,210	-
Assets held for sale	3,928,819	-
Total current assets	103,839,890	90,752,354
Non-current assets:		
Property, plant and equipment	145,281,981	120,452,022
Goodwill	8,876,351	8,876,351
Equity-accounted investee	2,940,409	-
Intangible assets	-	120,208
Total non-current assets	157,098,741	129,448,581
Total assets	$ 260,938,631	$ 220,200,935
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank overdraft	$ 6,196,458	$ -
Trade and other payables	39,107,394	44,538,854
Dividends payable	1,628,949	1,064,592
Current tax liabilities	448,683	280,981
Loans and borrowings	13,000,000	-
Total current liabilities	60,381,484	45,884,427
Non-current liabilities:		
Loans and borrowings	80,000,000	56,000,000
Deferred tax liabilities	7,195,938	4,448,999
Total non-current liabilities	87,195,938	60,448,999
Equity:		
Share capital	98,818,661	97,583,055
Contributed surplus	7,457,214	5,827,955
Retained earnings	10,304,943	11,461,288
Accumulated other comprehensive income	(3,219,609)	(803,517)
Total equity attributable to equity holders of the Corporation	113,361,209	114,068,781
Non-controlling interests	-	(201,272)
Total equity	113,361,209	113,867,509
Total liabilities and shareholders' equity	$ 260,938,631	$ 220,200,935

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2012	2011	**2012**	2011
Revenue	**$ 84,054,349**	$ 77,973,198	**$ 222,246,607**	$ 186,456,939
Direct costs	**62,149,600**	57,186,933	**175,178,242**	144,998,278
Gross profit	**21,904,749**	20,786,265	**47,068,365**	41,458,661
Expenses:				
Selling, general and administrative	**9,265,112**	8,602,794	**26,010,886**	23,105,694
Research and development expenses	**563,666**	530,914	**1,664,594**	1,620,845
Finance expense	**875,277**	509,519	**2,142,342**	1,451,008
Other income	**(269,794)**	(1,187,387)	**(576,601)**	(2,984,897)
	10,434,261	8,455,840	**29,241,221**	23,192,650
Share of loss of equity-accounted investee (net of tax)	**138,133**	-	**242,604**	-
Earnings before income taxes	**11,332,355**	12,330,425	**17,584,540**	18,266,011
Provision for (Recovery of) income taxes				
Current	**(1,818,352)**	529,198	**1,370,421**	996,955
Deferred	**5,315,067**	3,064,210	**3,043,870**	4,225,081
	3,496,715	3,593,408	**4,414,291**	5,222,036
Net earnings	**7,835,640**	8,737,017	**13,170,249**	13,043,975
Other comprehensive income				
Foreign currency translation	**(2,496,278)**	2,766,918	**(2,461,405)**	628,094
Total comprehensive income for the period	**$ 5,339,362**	$ 11,503,935	**$ 10,708,844**	$ 13,672,069
Earnings attributable to:				
Equity holders of the Corporation	**$ 7,835,640**	$ 8,915,690	**$ 13,170,249**	$ 13,342,969
Non-controlling interests	**-**	(178,673)	**-**	(298,994)
Net earnings	**$ 7,835,640**	$ 8,737,017	**$ 13,170,249**	$ 13,043,975
Comprehensive income attributable to:				
Equity holders of the Corporation	**$ 5,339,362**	$ 11,700,280	**$ 10,708,844**	$ 14,034,470
Non-controlling interests	**-**	(196,345)	**-**	(362,401)
Total comprehensive income for the period	**$ 5,339,362**	$ 11,503,935	**$ 10,708,844**	$ 13,672,069
Earnings per share – basic	**$ 0.28**	$ 0.31	**$ 0.47**	$ 0.47
Earnings per share – diluted	**$ 0.28**	$ 0.31	**$ 0.47**	$ 0.46

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2012	2011	**2012**	2011
Cash flows from operating activities:				
Net earnings	**$ 7,835,640**	$ 8,737,017	**$ 13,170,249**	$ 13,043,975
Adjustments for:				
Depreciation and amortization	**5,495,619**	4,148,908	**15,535,925**	11,724,201
Deferred income tax expense	**5,315,067**	3,064,210	**3,043,870**	4,225,081
Unrealized foreign exchange loss	**522,831**	718,932	**1,126,047**	577,656
Gain on disposition of drilling equipment	**(1,046,555)**	(2,183,445)	**(2,151,864)**	(3,729,249)
Share-based payments	**444,008**	1,003,030	**1,854,811**	2,487,525
Finance expense	**875,277**	509,519	**2,142,342**	1,451,008
Provision for (Recovery of) bad debts	**114,576**	258,405	**(93,138)**	273,765
Change in fair value of investment in equity securities	**120,060**	-	**490,245**	-
Share of loss of equity-accounted investee	**138,133**	-	**242,604**	-
Change in non-cash working capital	**(19,457,519)**	(19,899,324)	**(12,968,056)**	(24,373,672)
Cash generated from (used in) operating activities	**357,137**	(3,642,748)	**22,393,035**	5,680,290
Interest paid	**(581,962)**	(96,673)	**(1,997,257)**	(1,196,708)
Income taxes paid	**(195,258)**	(65,542)	**(1,073,302)**	(635,623)
Net cash from (used in) operating activities	**(420,083)**	(3,804,963)	**19,322,476**	3,847,959
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**2,356,642**	3,130,384	**6,994,171**	6,387,849
Acquisition of drilling and other equipment	**(9,660,475)**	(12,859,646)	**(46,117,625)**	(34,267,300)
Investment in equity-accounted investee	**(330,855)**	-	**(3,183,013)**	-
Investment in equity securities	**-**	-	**(910,455)**	-
Change in non-cash working capital	**(10,375,149)**	4,509,703	**(11,292,973)**	4,549,754
Net cash used in investing activities	**(18,009,837)**	(5,219,559)	**(54,509,895)**	(23,329,697)
Cash flows from financing activities:				
Proceeds from issuance of share capital	**224,154**	330,826	**1,010,054**	3,270,081
Dividends paid to shareholders	**(5,073,994)**	(3,097,667)	**(13,515,652)**	(9,308,421)
Proceeds on loans and borrowings	**15,500,000**	14,000,000	**37,000,000**	16,500,000
Proceeds on (Repayment of) bank overdraft facility	**(71,819)**	(2,750,030)	**6,196,458**	5,877,124
Net cash from financing activities	**10,578,341**	8,483,129	**30,690,860**	16,338,784
Net decrease in cash and cash equivalents	**(7,851,579)**	(541,393)	**(4,496,559)**	(3,142,954)
Cash and cash equivalents, beginning of period	**11,731,364**	6,023,971	**8,376,344**	8,625,532
Cash and cash equivalents, end of period	**$ 3,879,785**	$ 5,482,578	**$ 3,879,785**	$ 5,482,578