PRESS RELEASE
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TSX - PHX

PHX Energy Announces All-time Record Quarterly Financial and Operating Results, and Increases its 2014 Capital Expenditures Budget

PHX Energy Services Corp. ("PHX Energy" or the "Corporation") achieved the highest level of quarterly revenue, operating days, EBITDA, funds from operations, and net earnings in its history. The record achievements on EBITDA and net earnings are based on excluding the gains on the re-measurement to fair value of pre-existing ownership interests in RMS Systems Inc. and RigManager International Inc. of $14.8 million, that is not operational in nature, from the 2013 fourth quarter results. This is also the third consecutive quarter this year and eleventh consecutive quarter since the first quarter of 2012 where quarter-over-quarter growth has been achieved in both revenue and operating days.

For the three-month period ended September 30, 2014, the Corporation generated consolidated revenue of $139.0 million as compared to $107.0 million in the 2013-period; a 30 percent increase. Excluding the gain on sale of land and operations centre and the write-down of technological assets in the 2013-quarter, EBITDA increased by 24 percent to $25.6 million in the third quarter of 2014 compared to $20.6 million in the 2013-period and net earnings increased by 33 percent from $9.8 million in the 2013-quarter to $13.0 million in 2014.

The strong operational growth in the third quarter was led by the US segment, which achieved new revenue and operating day milestones for any quarter and represented 55 percent of the 2014-quarter's consolidated revenue. The Canadian segment also reported record revenue and operating days for a third quarter. The international segment represented 9 percent of consolidated revenue in the third quarter of 2014 compared to 13 percent in the 2013-quarter.

PHX Energy's 2014 capital expenditure budget has been increased by $7.5 million to $83.9 million for the 2014-year. Additional amounts are predominantly to maintain the Corporation's current fleet of guidance systems, to build up the fleet of new technologies for field testing, including the Velocity Real-time guidance platform ("Velocity") and to purchase additional machinery and equipment. During the third quarter of 2014, $31.2 million in capital expenditures were incurred, and an additional $20.8 million is currently on order and is expected to be received within the remainder of 2014.

In the 2014-quarter, the Corporation paid dividends of $7.4 million or $0.21 per share. As at September 30, 2014, PHX Energy had long-term debt of $108.3 million and working capital of $78.8 million.

During the third quarter of 2014, PHX Energy's job capacity increased by 13 concurrent jobs to 225. Of these, 110 measurement while drilling ("MWD") systems were deployed in Canada, 100 in the US, 9 in Russia, and 6 in Albania. The Corporation has closed its Peruvian and Colombian operations.

During the remainder of the year, the Corporation expects to add one more MWD system. As a result, by the end of 2014 the Corporation expects to have a fleet of 226 MWD systems. The Corporation expects its worldwide resistivity while drilling ("RWD") job capacity of 17 at the end of the third quarter to remain unchanged by the end of 2014.

PHX Energy, in collaboration with leading edge engineering companies in North America, is in the process of developing new technologies. One of these technologies is a guidance platform, Velocity, which is in the latter phase of development and is expected to be commercial in 2015. As part of the development process PHX Energy has been field testing a fleet of Velocity systems for clients across North America. Velocity is designed to improve reliability and provide innovative mechanical, directional, and formation measurements to enhance the drilling process.

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,		
	2014	2013	% Change	2014	2013	% Change
Operating Results	*(unaudited)*	*(unaudited)*		*(unaudited)*	*(unaudited)*	
Revenue	138,971	106,971	30	368,586	265,120	39
Net earnings [3]	13,024	9,786	33	20,775	13,357	56
Earnings per share – diluted [3]	0.37	0.34	9	0.59	0.47	26
EBITDA [1] [3]	25,551	20,623	24	54,630	39,319	39
EBITDA per share – diluted [1] [3]	0.72	0.71	1	1.56	1.37	14
Cash Flow						
Cash flows from operating activities	(1,735)	(7,233)	76	17,664	18,011	(2)
Funds from operations [1]	26,702	20,393	31	53,720	37,999	41
Funds from operations per share – diluted [1]	0.75	0.70	7	1.53	1.33	15
Dividends paid	7,356	5,169	42	21,808	15,375	42
Dividends per share [2]	0.21	0.18	17	0.63	0.54	17
Capital expenditures	31,236	6,918	352	55,761	28,547	95
Financial Position (unaudited)				Sept. 30, '14	Dec 31, '13	
Working capital				78,777	66,580	18
Long-term debt				108,280	70,208	54
Shareholders' equity				207,206	198,477	4
Common shares outstanding				35,117,524	34,218,974	3

(1) Refer to non-GAAP measures section.

(2) Dividends paid by the Corporation on a per share basis in the period.

(3) Excludes the gain on sale of land and operations centre and the write-down of technological assets in the 2013-periods.

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, funds from operations per share and senior debt to EBITDA ratio. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation’s operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy’s performance. The Corporation’s method of calculating these measures may differ from that of other organizations, and accordingly, these may not be comparable. Please refer to the non-GAAP measures section.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

In particular, forward-looking information and statements contained in this document include, without limitation, the projected capital expenditure budget and how this budget will be funded, the anticipated equipment additions and their delivery, the commercialization of new technologies, the expected combined Canadian federal and provincial tax rate, and the impact of the new gyro surveying division on US growth.

The above are stated under the headings: “Overall Performance.”, “Operating Costs and Expenses”, “Segmented Information”, and “Capital Resources”. 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,		
	2014	2013	% Change	2014	2013	% Change
Revenue	138,971	106,971	30	368,586	265,120	39

PHX Energy generated the highest level of quarterly revenue that the Corporation has achieved in its history in the third-quarter of 2014. Consolidated revenue for the three-month period ended September 30, 2014 was $139.0 million compared to $107.0 million in the comparable 2013-quarter; an increase of 30 percent. US and international revenue as a percentage of total consolidated revenue were 55 and 9 percent, respectively, for the 2014-quarter as compared to 47 and 13 percent in 2013. Consolidated operating days increased by 17 percent to an all-time record of 10,462 days in 2014 as compared to 8,965 days in the 2013-quarter. Average consolidated day rates for the three-month period ended September 30, 2014, excluding the motor rental division in the US and the EDR business, increased to $12,701, which is 8 percent higher than the day rates of $11,710 in the third quarter of 2013.

During the 2014-quarter, the use of horizontal and directional drilling technologies remained dominant in the Canadian industry and represented approximately 95 percent of total industry drilling days in the third quarter of 2014 (2013 – 94 percent). In the US, horizontal and directional activity levels increased to represent 80 percent of the rigs running per day in the 2014-quarter (2013 – 75 percent). (Sources: Daily Oil Bulletin and Baker Hughes) In addition, the adoption of pad drilling is still on the rise in the North American market and this trend is favourable for the Corporation as it adds to the greater demand for horizontal and directional drilling services and improves utilization rates.

For the nine-month period ended September 30, 2014, consolidated revenue increased by 39 percent to $368.6 million from $265.1 million for the comparable 2013-period. There were 27,730 consolidated operating days in the nine-month period ended September 30, 2014, which is 25 percent higher than the 22,181 days reported in 2013.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Direct costs	107,927	81,370	33	294,904	214,387	38
Depreciation & amortization (included in direct costs)	8,207	6,187	33	23,138	18,041	28
Gross profit as percentage of revenue excluding depreciation & amortization	28	30		26	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 decreased to 28 percent for the three-month period ended September 30, 2014 as compared to 30 percent in the comparable 2013-period. Direct costs related to the EDR division were one of the factors that contributed to the slight decrease in margins, where in the 2013-quarter this business was not yet acquired. The decline in margins was also partly due to higher personnel and MWD repair costs in Canada. For the nine-month period ended September 30, 2014, gross profit as a percentage of revenue, excluding depreciation and amortization, was 26 percent, the same percentage as in the 2013-period.

For the three-month period ended September 30, 2014, the Corporation's third party equipment rentals were 4 percent of consolidated revenue, which is the same percentage as in the corresponding 2013-quarter.

Depreciation and amortization for the three-month period ended September 30, 2014 increased by 33 percent to $8.2 million as compared to $6.2 million in the 2013-quarter. The increase is the result of the Corporation's high level of capital expenditures in 2013 and 2014 and depreciation and amortization expenses associated with the EDR business.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Selling, general & administrative ("SG&A") costs	13,973	11,213	25	43,101	30,142	43
Equity-settled share-based payments (included in SG&A costs)	207	231	(10)	621	761	(18)
SG&A costs excluding equity-settled share-based payments as a percentage of revenue	10	10		12	11	

SG&A costs for the three-month period ended September 30, 2014 increased by 25 percent to $14.0 million as compared to $11.2 million in 2013. Included in SG&A costs for both the 2014 and 2013-quarter are equity-settled share-based payments of $0.2 million. Excluding these costs, SG&A costs as a percentage of consolidated revenue for the three-month periods ended September 30, 2014 and 2013 were both 10 percent.

For the nine-month period ended September 30, 2014, SG&A costs increased by 43 percent to $43.1 million as compared to $30.1 million in 2013. Excluding equity-settled share-based payments of $0.6 million in the 2014 nine-month period and $0.8 million in the corresponding 2013-period, SG&A costs as a percentage of consolidated revenue were 12 percent and 11 percent, respectively.

The increase in SG&A costs, in dollar terms, in both 2014-periods was mainly due to higher personnel and marketing related costs associated with overall increased activity, particularly in the US, and SG&A costs associated with the EDR business. Furthermore in the 2014 nine-month period, the increase in SG&A costs was also affected by greater compensation expenses related to the higher number of cash-settled share-based retention awards granted in 2014 and in the second half of 2013.

Equity-settled share-based payments relate to the amortization of the fair values of issued options of the Corporation using the Black-Scholes model. In the three and nine-month periods ended September 30, 2014, equity-settled share-based payments decreased by 10 percent and 18 percent, respectively, as compared to the corresponding 2013-periods. The decrease is mainly due to the Corporation's increased utilization of retention awards in rewarding employees.

Cash-settled share-based retention awards, which are included in SG&A costs, are measured at fair value, and in the 2014-quarter, the related compensation expense recognized by PHX Energy is a recovery of $0.3 million as compared to an expense of $0.5 million in the 2013-quarter. The decrease is primarily due to the re-valuation of the retention awards based on the decrease in PHX Energy's stock price from $16.58 as at June 30, 2014 to $13.72 as at September 30, 2014. In the nine-month period ended September 30, 2014, the compensation expense related to cash-settled share-based retention awards increased to $2.6 million from $1.7 million in the comparable 2013-period, a 52 percent increase, mainly due to the greater number of retention awards granted in 2014 and in the second half of 2013.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Research & development expense	915	448	104	2,413	1,440	68

Research and development ("R&D") expenditures charged to net earnings during the three-month periods ended September 30, 2014 and 2013 were $0.9 million and $0.4 million, respectively. During both the 2014 and 2013-quarter, none of the R&D expenditures were capitalized as development costs.

For the nine-month period ended September 30, 2014 and 2013, R&D expenditures of $2.4 million and $1.4 million, respectively, were incurred. During both periods, no R&D expenditures were capitalized as development costs.

The increase in R&D expenditures in both 2014-periods is mainly attributable to increased personnel in the R&D department who are working on cost-saving and reliability initiatives to enhance PHX Energy's services.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Finance expense	1,033	1,384	(25)	2,925	3,659	(20)

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. Finance charges decreased to $1.0 million in the third quarter of 2014 from $1.4 million in the 2013-quarter, and in the nine-month period ended September 30, 2014 decreased to $2.9 million from $3.7 million in 2013. The decrease in both periods was primarily due to the lower amount of borrowings outstanding during the three and nine-month periods ended September 30, 2014 due in part to the equity financing in October, 2013.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Gains on disposition of drilling equipment	607	1,298	(53)	3,870	3,931	(2)
Foreign exchange gains (losses)	858	(193)	545	466	(529)	188
Recovery of (Provision for) bad debts	(278)	28	n.m.	(1,013)	28	n.m.
Gain on sale of land and operations centre	-	2,196	(100)	-	2,196	(100)
Write-down of technological assets	-	(1,245)	(100)	-	(1,245)	(100)
Other income	1,187	2,084		3,323	4,381	

n.m. - not meaningful

For the three and nine-month periods ended September 30, 2014, included in other income is gains on disposition of drilling equipment of $0.6 million (2013 - $1.3 million) and $3.9 million (2013 - $3.9 million), respectively. The dispositions of drilling equipment relate primarily to equipment lost in well bores that are uncontrollable in nature. The gain reported is net of any asset retirements that are made before the end of the equipment's useful life and self-insured down hole equipment losses, if any. Gains typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. During the 2014-quarter, the decrease in reported gain on disposition of drilling equipment is primarily due to a greater number of self-insured down hole equipment losses and a higher quantity of scrapped assets.

Offsetting other income for the three and nine-month periods ended September 30, 2014 is a provision for bad debts of $0.3 million (2013 - $28,000 recovery) and $1.0 million (2013 - $28,000 recovery), respectively, that relate primarily to Russian receivables. Foreign exchange gains of $0.9 million and $0.5 million in the three and nine-month periods ended September 30, 2014, respectively, resulted mainly from the settlement of Canadian-denominated payables in the US, offset by the impact of the de-valuation of Russian Ruble and strengthening of the US dollar on intercompany and trade payables.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2014	2013	2014	2013
Provision for income taxes	3,286	3,266	7,792	4,262
Effective tax rates	20	23	27	23

The provision for income taxes for the three-month period ended September 30, 2014 was $3.3 million which is relatively the same amount as in the 2013-quarter. For the nine-month period ended September 30, 2014, the provision for income taxes was $7.8 million as compared to $4.3 million in 2013. The expected combined Canadian federal and provincial tax rate for 2014 is 25 percent. The effective tax rate in the 2014-quarter is lower than the expected rates primarily due to the effect of lower tax rates in the foreign jurisdictions of Albania and Luxembourg. The effective tax rate in the 2014 nine-month period is higher than the expected rate mainly due to profitability in the US where the Corporation is subject to higher tax rates and non-recognition of deferred tax assets for foreign losses.

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Net earnings	13,024	9,786	33	20,775	13,357	56
Earnings per share – diluted	0.37	0.34	9	0.59	0.47	26
EBITDA	25,551	20,623	24	54,630	39,319	39
EBITDA per share – diluted	0.72	0.71	1	1.56	1.37	14
EBITDA as a percentage of revenue	18	19		15	15	

Excluding the gain on sale of land and operations centre and the write-down of technological assets in the three and nine-month periods ended September 30, 2013, the Corporation's level of net earnings and EBITDA for the three and nine-month periods ended September 30, 2014 have both increased primarily as a result of continued activity growth. EBITDA as a percentage of revenue for the three and nine-month periods ended September 30, 2014 was 18 percent and 15 percent, respectively (2013 - 19 percent and 15 percent). Included in the earnings for the 2014-quarter and nine-month period were losses of $1.5 million and $3.4 million, respectively, from the EDR division (2013 - losses of $0.6 million and $1.3 million).

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, mainly in Albania and Russia.

Canada

(Stated in thousands of dollars, except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Revenue	51,111	42,699	20	131,359	99,374	32
Reportable segment profit before tax	11,432	10,159	13	14,537	19,133	(24)
Reportable segment profit before tax as a percentage of revenue	22	24		11	19	

PHX Energy's Canadian revenue increased 20 percent to a third quarter record of $51.1 million from $42.7 million in the 2013-quarter. This was driven by the highest third quarter activity levels for the Canadian operations, with the segment reporting 4,606 operating days in the 2014-quarter, a 12 percent increase compared to 4,125 days in the 2013-period. In comparison, total industry horizontal and directional drilling activity, as measured by drilling days, grew 13 percent in the 2014-quarter to 32,210 days from 28,621 days in the 2013-quarter. (Source: Daily Oil Bulletin) Average day rates, excluding EDR revenue of $1.8 million, also increased by 3 percent to $10,698 in the 2014-quarter from $10,351 in the 2013-quarter.

During the 2014-quarter, the shift toward liquids rich natural gas persisted and oil well drilling decreased to 56 percent of PHX Energy's Canadian activity from 63 percent in the 2013-quarter. This primarily is the result of a very strong presence in the Montney area. The Corporation was also active in the Shaunavon, Bakken, Lloydminster, Cardium and Viking areas.

For the nine-month period ended September 30, 2014, PHX Energy's Canadian revenue increased by 32 percent to $131.4 million from $99.4 million in the comparable 2013-period. The Corporation's operating days increased by 24 percent to 11,661 days in the 2014 nine-month period from 9,393 days in the 2013-period. In comparison, for the nine-month period ended September 30, 2014, the number of horizontal and directional drilling days realized in the Canadian industry increased 11 percent from 79,331 days in the 2013-period to 88,343 days in 2014.

Reportable segment profit before tax for the third quarter of 2014 increased by 13 percent to $11.4 million (22 percent of revenue) from $10.2 million (24 percent of revenue) in the 2013-quarter. Included in the Canadian segment's profits in the 2014-quarter was a loss of $1.9 million from the EDR division. For the nine-month period ended September 30, 2014, reportable segment profit before tax decreased by 24 percent to $14.5 million (11 percent of revenue) from $19.1 million (19 percent of revenue) in 2013. Included in the Canadian segment's profits in the 2014 nine-month period was a loss of $4.5 million from the EDR division. Lower profitability during the 2014 nine-month period was generally due to increased field personnel costs, higher MWD system repair costs, and greater third party equipment rentals experienced in the first quarter of 2014.

United States

(Stated in thousands of dollars, except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Revenue	75,985	49,924	52	199,294	129,602	54
Reportable segment profit before tax	5,319	2,902	83	16,930	341	n.m.
Reportable segment profit before tax as a percentage of revenue	7	6		8	n.m.	

n.m. - not meaningful

In the 2014-quarter, PHX Energy's US operations achieved the highest level of quarterly revenue and operating days in its history. For the three-month period ended September 30, 2014, the segment's revenue was $76.0 million, which is 52 percent higher than the revenue of $49.9 million in the 2013-period. PHX Energy's US operating days also increased by 31 percent from 3,770 days in the 2013-quarter to 4,955 days in the 2014-quarter. Average day rates, excluding the motor rental division in Midland, Texas and the Rocky Mountain region, increased by 14 percent in the 2014-quarter to $14,476 compared to $12,714 in the 2013-quarter. The movements in the US-Canadian currency exchange rates continued to be favourable for the Corporation and this partially contributed to the increase in average day rate.

The trend toward horizontal and directional applications has once again strengthened with a 15 percent increase in the average number of horizontal and directional rigs running on a daily basis. In the third-quarter of 2014 there were 1,531 rigs, which represented approximately 80 percent of overall industry activity. This compares to 1,334 horizontal and directional rigs running on a daily basis in the 2013-quarter, approximately 75 percent of overall industry activity. (Source: Baker Hughes). For the three-month period ended September 30, 2014, oil well drilling, as measured by wells drilled and excluding the motor rental division, increased to 57 percent of PHX Energy's US activity (2013 - 45 percent). During the third quarter of 2014, Phoenix USA remained active in the Permian, Eagle Ford, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins.

US revenue for the nine-month period ended September 30, 2014 increased by 54 percent to $199.3 million from $129.6 million in the comparable 2013-period. The Corporation's US operating days also increased by approximately 31 percent to 13,241 days in the nine-month period ended September 30, 2014 from 10,134 days in 2013. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, increased by 11 percent in the 2014 nine-month period to 1,458 rigs as compared to 1,319 rigs in the comparable 2013-period. (Source: Baker Hughes)

Reportable segment profit before tax for the third quarter of 2014 increased to $5.3 million (7 percent of revenue) from $2.9 million (6 percent of revenue) in the 2013-quarter. For the nine-month period ended September 30, 2014, reportable segment profit before tax increased to $16.9 million (8 percent of revenue) from $341,000 in 2013. Profitability in both 2014-

periods was largely the result of continued robust activity growth, improved overall day rates, and ongoing focus on cost control and operational efficiencies.

The US market remains a focal point in the Corporation's strategy and Management's efforts to continually build its customer base, support activity growth, and focus on reliability in all of its US regions are ongoing. The motor rental business continues to gain momentum in the Gulf Coast and Rocky Mountain regions and the Corporation has positioned itself to launch additional value-added technologies and services with the opening of its new operations centre in Houston. In addition, PHX Energy has expanded its service offering in the Permian basin and a new gyro surveying division became operational in October, 2014. In this market, gyro surveying is in high demand and having already received positive feedback from clients, it is expected this division will add to Phoenix USA's growth.

International

(Stated in thousands of dollars, except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Revenue	11,875	14,348	(17)	37,933	36,144	5
Reportable segment profit before tax	2,586	4,522	(43)	7,876	8,898	(11)
Reportable segment profit before tax as a percentage of revenue	22	32		21	25	

For the three-month period ended September 30, 2014, PHX Energy's international operations generated revenue of $11.9 million, 17 percent lower than the $14.3 million generated in the 2013-period. International operating days decreased by 16 percent from 1,070 days in the 2013-quarter to 901 days in the 2014-quarter. The decrease in revenue and activity is primarily the result of the closure of the Peruvian and Colombian operations, and to a lesser extent, weaker activity in Russia during the first half of the 2014-quarter. The Corporation generated 9 percent of its consolidated revenue from international operations in the 2014-quarter compared to 13 percent in the 2013-quarter.

For the nine-month period ended September 30, 2014, revenue increased by 5 percent to $37.9 million as compared to $36.1 million in 2013. Operating days for the same period increased by 7 percent from 2,655 days in 2013 to 2,828 days in 2014.

Phoenix Albania's operations achieved record activity levels, measured by operating days, during the 2014-quarter. For the three-month period ended September 30, 2014, Phoenix Albania's activity increased by 24 percent as compared to the corresponding 2013-period as activity growth from the second quarter of 2014 continued. The Corporation continues to develop the business in Albania with new clients, and in addition, sales and marketing efforts are ongoing to seek out opportunities throughout Eastern Europe.

In the third quarter of 2014, Phoenix Russia's operating days decreased by 23 percent as compared to the 2013-period. As experienced in the second quarter of 2014, the negative impact of a major client's re-organization carried through the third quarter of 2014, however, activity levels improved considerably in the latter half of the quarter. In addition, the Ruble de-valuation began to negatively affect Phoenix Russia's revenues as it translates to Canadian dollars. The Corporation continues to closely monitor the sanctions, and is committed to operating in full compliance with all European, Canadian and American restrictions geared toward the Russian Federation. The vast majority of wells drilled by the Corporation in Russia to date are in the Western Siberian plain, Khanty-Mansiysk region and are deemed to be conventional oil. PHX Energy continues to position itself as a Russian entity, employing a staff that is over 98 percent Russian, and is focused on improving the local content and sourcing local maintenance supplies and operational consumables, thereby also minimizing the cost impact of a de-valuing Ruble currency.

For the three-month period ended September 30, 2014, reportable segment profit before tax was $2.6 million (22 percent of revenue), a decrease of 43 percent compared to $4.5 million (32 percent of revenue) in the corresponding 2013-period. Reportable segment profit for the nine-month period ended September 30, 2014 was $7.9 million (21 percent of revenue) as compared to $8.9 million (25 percent of revenue) in 2013; a 11 percent decrease. The decrease in the international operations' profitability in both 2014-periods is mainly due to weaker activity levels in Russia.

Investing Activities

Net cash used in investing activities for the three-month period ended September 30, 2014 was $16.0 million as compared to a source of cash of $16.4 million in 2013. In the third quarter of 2014, PHX Energy added $27.9 million, net, in capital equipment (2013 - $3.9 million). The capital equipment amounts are net of proceeds from the involuntary disposal of drilling equipment in well bores of $3.3 million (2013 - $3.0 million). The quarterly 2014 expenditures included:

- $14.8 million in MWD systems and spare components;
- $4.5 million in down hole performance drilling motors;
- $3.7 million in leasehold improvements and furniture and fixtures;
- $2.3 million in machinery and equipment;
- $1.7 million in non-magnetic drill collars;
- $1.4 million in gyro equipment; and
- $2.8 million in other assets, including $1.2 million in vehicles and $0.6 million in EDR systems and spare components.

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

During the 2014-quarter, the Corporation spent $0.6 million in development costs. The change in non-cash working capital balances of $12.5 million (source of cash) for the three-month period ended September 30, 2014, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $17.0 million (source of cash) for the three-month period ended September 30, 2013.

Financing Activities

The Corporation reported cash flows from financing activities of $18.1 million in the three-month period ended September 30, 2014 as compared to cash flows used in financing activities of $12.2 million in the 2013-period. In the 2014-quarter:

- the Corporation paid dividends of $7.4 million to shareholders, or $0.21 per share;
- through its option and DRIP program the Corporation received cash proceeds of $1.8 million from exercised options and reinvested dividends to acquire 138,878 common shares of the Corporation; and
- the Corporation received net proceeds from its operating facility and syndicated facility in an aggregate of $23.8 million to finance its capital expenditure program.

Capital Resources

As at September 30, 2014, 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 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 percent. As of September 30, 2014, the Corporation had $6.8 million drawn on this facility.

As at September 30, 2014, the Corporation also has access to a $95.0 million syndicated facility and a US$25.0 million operating facility in the US. The facilities bear interest at the same rates disclosed above. The syndicated facility and the US operating facility mature on September 5, 2016. As at September 30, 2014, $87.0 million was drawn on the syndicated facility and US$19.0 million was drawn on the US operating facility.

All 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, 2014, 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 2014 capital budget has increased from $76.4 million, as previously announced, to $83.9 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 2014, 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

With numerous milestones reached, the third quarter of 2014 is now the quarter to beat when it comes to record operational performance. PHX Energy has already set its sights on this goal with an unwavering focus on providing clients superior drilling solutions and shareholders future positive results.

As E&P operators relentlessly drive the industry to drill more productive wells at a lower cost with faster penetration rates, technical services, optimized performance and advanced technologies will be mandatory. PHX Energy has focused its strategy for a number of years around this trend and, despite any industry period of flux producing lower activity, is committed to the initiatives underway. It believes these projects will position the Corporation at the forefront of an industry that will embrace a dynamic service offering. The investments in resources and personnel required has added additional costs and impacted margins, however, PHX Energy expects the future gains in market share and profitability will outweigh these costs.

In Canada, PHX Energy grew its already strong market share, an accomplishment that is quite difficult to achieve. The Corporation's client base increased with the addition of numerous energy producers, including small-cap operators, mid-cap operators and many large multi-national firms who have stringent qualification requirements. The Canadian operations’ footprint remains diverse as horizontal services are provided in all key basins in the country, on shallow wells and deep wells and in both oil and natural gas plays.

Revenues and operating days in the United States in the past quarter were all-time records and growth occurred in all operating regions and basins. With a higher performance level than ever before, PHX Energy is an outright market leader in some of these basins and clients are benefitting from the efficiencies that come with in-depth drilling experience. The Corporation anticipates that Phoenix USA's momentum will continue to increase, and this segment is now equipped to offer more advanced services, like drilling optimization, with the new operations facility in Houston complete.

The international arena is never without challenges and in the third quarter this again proved true. While the operations in Albania once again produced positive results, the Russian operations have continued to underperform as compared to forecasts. In Russia, PHX Energy is focused on diversifying its client base and periodical swings in utilization are expected while this is underway.

PHX Energy's entry into the electronic data recorder business with the purchase of newly branded Stream Services has yet to produce the desired results; however, PHX Energy is fully committed to this division's success. The Corporation is currently modifying the product line and technologies offered by this division to meet the highest industry standards.

The robust activity levels from the third quarter have continued and presently the Corporation is experiencing high asset utilization and growth in operating days. However, recently the positive commodity price trends that persisted in most of the 2014-year have retracted and this may negatively impact operators cash flows for drilling expenditures, which in turn could reduce the Corporation's activity levels. Having operated in the oil and natural gas drilling market for nearly 20 years and with a senior management team that has mainly been with the Corporation during this time, PHX Energy has experienced a number of these downward cycles. With each cycle, the Corporation has focused on the decisions necessary to exit as a stronger competitor and has thrived when the upward trend takes hold.

It is important to note that to date PHX Energy has not experienced a slow-down in the demand for its services, and currently faces challenges related to a shortage of field personnel and assets as activity levels remain strong in most operating areas.

John Hooks,
Chairman of the Board
President and Chief Executive Officer
October 29, 2014

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,	
	2014	2013	2014	2013
Net earnings	13,024	10,737	20,775	14,308
Add:				
Depreciation and amortization	8,207	6,187	23,138	18,041
Provision for income taxes	3,287	3,266	7,792	4,262
Finance expense	1,033	1,384	2,925	3,659
Gain on sale of land and operations centre	-	(2,196)	-	(2,196)
Write-down of technological assets	-	1,245	-	1,245
EBITDA as reported	25,551	20,623	54,630	39,319

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2014	2013	2014	2013
Cash flows from operating activities	(1,735)	(7,233)	17,664	18,011
Add:				
Changes in non-cash working capital	26,759	26,462	31,877	16,226
Interest paid	1,152	854	2,780	2,732
Income taxes paid	526	310	1,399	1,030
Funds from operations	26,702	20,393	53,720	37,999

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

3) Senior Debt to EBITDA Ratio

Senior debt is represented by loans and borrowings. EBITDA, for purposes of the calculation of this covenant ratio, is represented by EBITDA as defined in Non-GAAP Measures above and adding share-based payments less interest and income taxes paid.

About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Albania, and Russia. PHX Energy manufactures its E-360 electromagnetic and P-360 positive pulse MWD technologies that are made available for internal operational use. As the result of an acquisition completed in November 2013, PHX Energy provides EDR technology and services, through Stream Services (formerly RigManager Services).

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

PHX Energy markets its EDR technology and services in Canada through its newly rebranded division, Stream Services which has an office and operations center in Calgary, Alberta. EDR technology is marketed worldwide outside Canada through its wholly-owned subsidiary Stream Services International Inc. (formerly RigManager International Inc.); mainly in Albania and Mexico.

For further information please contact:
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Consolidated Statements of Financial Position

(unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,444,680	$ 5,663,880
Trade and other receivables	130,071,610	97,660,559
Inventories	31,658,917	30,024,019
Prepaid expenses	4,226,385	2,913,514
Total current assets	175,401,592	136,261,972
Non-current assets:		
Drilling and other equipment	191,455,759	165,771,615
Goodwill	31,229,756	31,229,756
Intangible assets	24,733,104	17,113,924
Total non-current assets	247,418,619	214,115,295
Total assets	$ 422,820,211	$ 350,377,267
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	$ 6,783,087	$ -
Trade and other payables	77,497,709	64,815,732
Dividends payable	2,458,227	2,239,910
Current tax liabilities	9,603,234	2,410,198
Current portion of finance leases	282,076	215,697
Total current liabilities	96,624,333	69,681,537
Non-current liabilities:		
Loans and borrowings	108,280,000	70,208,400
Deferred tax liabilities	8,843,056	9,833,710
Deferred income	1,866,668	1,966,667
Finance leases	-	209,935
Total non-current liabilities	118,989,724	82,218,712
Equity:		
Share capital	177,447,215	165,451,599
Contributed surplus	4,438,985	6,361,710
Retained earnings	23,033,205	24,284,690
Accumulated other comprehensive income	2,286,749	2,379,019
Total equity	207,206,154	198,477,018
Total liabilities and equity	$ 422,820,211	$ 350,377,267

Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2014	2013	2014	2013
Revenue	$ 138,971,376	$ 106,970,562	$ 368,586,036	$ 265,120,352
Direct costs	107,926,830	81,369,871	294,903,700	214,386,894
Gross profit	31,044,546	25,600,691	73,682,336	50,733,458
Expenses:				
Selling, general and administrative expenses	13,972,945	11,213,353	43,100,832	30,141,952
Research and development expenses	915,228	447,520	2,412,698	1,439,501
Finance expense	1,032,864	1,383,727	2,924,905	3,658,641
Other income	(1,187,049)	(2,084,494)	(3,323,134)	(4,380,977)
	14,733,988	10,960,106	45,115,301	30,859,117
Share of loss of equity-accounted investee (net of tax)	-	637,856	-	1,304,424
Earnings before income taxes	16,310,558	14,002,729	28,567,035	18,569,917
Provision for income taxes				
Current	8,463,268	1,235,771	11,049,447	3,864,473
Deferred (Recovery)	(5,176,828)	2,029,919	(3,257,212)	397,703
	3,286,440	3,265,690	7,792,235	4,262,176
Net earnings	13,024,118	10,737,039	20,774,800	14,307,741
Other comprehensive income				
Foreign currency translation	585,625	(573,432)	(92,270)	1,722,201
Total comprehensive income for the period	$ 13,609,743	$ 10,163,607	$ 20,682,530	$ 16,029,942
Earnings per share – basic	$ 0.37	$ 0.37	$ 0.60	$ 0.50
Earnings per share – diluted	$ 0.37	$ 0.37	$ 0.59	$ 0.50

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net earnings	$ 13,024,118	$ 10,737,039	$ 20,774,800	$ 14,307,741
Adjustments for:				
Depreciation and amortization	8,207,226	6,187,406	23,138,397	18,041,225
Provision for income taxes	3,286,440	3,265,690	7,792,235	4,262,176
Unrealized foreign exchange loss	1,306,465	228,144	1,426,506	574,834
Gain on disposition of drilling equipment	(606,813)	(1,298,348)	(3,870,138)	(3,931,046)
Equity-settled share-based payments	207,002	230,769	621,086	760,536
Finance expense	1,032,864	1,383,727	2,924,905	3,658,641
Provision for (Recovery of) bad debts	277,608	(28,456)	1,012,706	(28,456)
Amortization of deferred income	(33,333)	-	(99,999)	-
Share of loss of equity-accounted investee	-	637,856	-	1,304,424
Write-down of technological assets	-	1,244,946	-	1,244,946
Gain on sale of land and operations centre	-	(2,195,886)	-	(2,195,886)
Change in non-cash working capital	(26,758,743)	(26,462,347)	(31,876,958)	(16,225,797)
Cash generated from (used in) operating activities	(57,166)	(6,069,460)	21,843,540	21,773,338
Interest paid	(1,152,572)	(854,121)	(2,780,046)	(2,731,853)
Income taxes paid	(525,625)	(309,668)	(1,399,058)	(1,030,527)
Net cash from (used in) operating activities	(1,735,363)	(7,233,249)	17,664,436	18,010,958
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	3,343,466	3,048,367	10,748,952	8,331,930
Acquisition of drilling and other equipment	(31,236,057)	(6,917,781)	(55,761,391)	(28,546,653)
Acquisition of intangible assets	(646,611)	-	(8,531,427)	(3,759,200)
Investment in equity-accounted investee	-	(1,000,000)	-	(4,200,000)
Proceeds from sale of land and operations centre	-	23,100,000	-	23,100,000
Payments relating to the land and operations centre	-	(18,904,114)	-	(18,904,114)
Change in non-cash working capital	12,539,486	17,045,321	8,376,881	6,119,018
Net cash from (used in) investing activities	(15,999,716)	16,371,793	(45,166,985)	(17,859,019)
Cash flows from financing activities:				
Proceeds from issuance of share capital	1,756,371	1,614,456	9,451,805	4,946,448
Dividends paid to shareholders	(7,355,760)	(5,168,786)	(21,807,987)	(15,374,504)
Proceeds on (Repayment of) loans and borrowings	17,000,000	(5,154,900)	37,000,000	10,053,100
Payments under finance leases	(42,477)	-	(143,556)	-
Proceeds on (Repayment of) operating facility	6,783,087	(3,449,008)	6,783,087	178,696
Net cash from (used in) financing activities	18,141,221	(12,158,238)	31,283,349	(196,260)
Net increase (decrease) in cash and cash equivalents	406,142	(3,019,694)	3,780,800	(44,321)
Cash and cash equivalents, beginning of period	9,038,538	7,305,342	5,663,880	4,329,969
Cash and cash equivalents, end of period	$ 9,444,680	$ 4,285,648	$ 9,444,680	$ 4,285,648