PRESS RELEASE
May 1, 2013
TSX - PHX

PHX Energy Services Corp. Reports Record Revenue, Operating Days and EBITDA, and Strong First Quarter Financial and Operational Results

PHX Energy Services Corp. ("PHX Energy") achieved an all-time quarterly record for revenue, operating days, and EBITDA.

For the three-month period ended March 31, 2013, the Corporation generated consolidated revenue of $92.7 million as compared to $79.8 million in the 2012-period; a 16 percent increase. EBITDA increased by 22 percent to $18.3 million in the first quarter of 2013 from $15.0 million in 2012. As a percentage of revenue, EBITDA was 20 percent in the 2013-quarter as compared to 19 percent in the corresponding 2012-quarter. Net earnings also increased by 5 percent from $7.9 million in the 2012-period to $8.3 million in 2013.

PHX Energy's momentum towards gaining greater market share in the US continued through the first quarter of 2013. US revenue, as a percentage of consolidated revenue, increased to 43 percent during the 2013-quarter as compared to 34 percent in the 2012-quarter.

Sturdy growth in international operations also continued with the segment representing 10 percent of consolidated revenue in the first quarter of 2013.

During the three-month period ended March 31, 2013, $13.5 million was incurred as part of the 2013 capital expenditure program. An additional $5.4 million is currently on order and is expected to be received within the next quarter.

In the 2013-quarter, the Corporation paid dividends of $5.1 million or $0.18 per share; this represented 30 percent of funds from operations.

PHX Energy ended the first quarter with long-term debt of $85.1 million and working capital of $50.8 million.

On April 23, 2013, the Corporation entered into a subscription agreement to subscribe for 20,000,000 common shares of RMS Systems Inc. ("RMS") at a price of $0.15 per common share or $3.0 million through a private placement ("offering"). Closing of the transaction is subject to the approval of the TSX Venture Exchange ("TSXV") and the shareholders of RMS. Upon closing, PHX Energy will hold approximately 39.8 percent interest in RMS. PHX Energy believes that given the prospective synergies that can be realized between RMS' electronic drilling recorder ("EDR") services and the Corporation's current service offering, these additional investments will strategically assist PHX Energy in gaining a position in a lucrative segment of the oil and natural gas industry and further expanding its markets.

In addition, RMS and PHX Energy agreed to enter into a bridge financing whereby PHX Energy shall loan $1.0 million ("bridge loan") to RMS upon receipt of TSXV's conditional approval of the offering, which occurred on April 29, 2013. Subsequent to this, the bridge loan was funded and the bridge loan will bear interest at an annual rate of 8 percent and shall be repaid upon the earlier of the closing of the offering or within 90 days upon demand by PHX Energy.

Financial Highlights

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

	Three-month periods ended March 31,		
	2013	2012	% Change
Operating Results	*(unaudited)*	*(unaudited)*	
Revenue	92,667	79,769	16
Net earnings	8,306	7,918	5
Earnings per share – diluted	0.29	0.28	4
EBITDA (1)	18,329	15,038	22
EBITDA per share – diluted (1)	0.65	0.53	23
Cash Flow			
Cash flows from operating activities	13,302	4,076	226
Funds from operations (1)	16,734	14,748	13
Funds from operations per share – diluted (1)	0.59	0.52	13
Dividends paid	5,085	3,372	51
Dividends per share (2)	0.18	0.12	50
Capital expenditures	13,495	17,560	(23)
Financial Position (unaudited)	Mar 31, '13	Dec 31, '12	
Working capital	50,835	45,480	12
Long-term debt	85,089	80,000	6
Shareholders' equity	121,152	115,095	5
Common shares outstanding	28,370,848	28,241,371	-

(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 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 references to, without limitation, prospective synergies that can be realized between RMS' EDR services and the Corporation's current service offering; additional investments in RMS will strategically assist PHX Energy in gaining a position in a lucrative segment of the oil and natural gas industry and further expanding its markets; the expected tax rate in Canada; Phoenix USA's growth in the Permian Basin; growth in Russia as a result of a new customer added and a marketing person hired; the award of 2 rigs in Colombia that are expected to start services in the second quarter; the Corporation exploring all options to provide future growth in Colombia; the growth of the Corporation's MWD and RWD fleet; projected capital expenditure budget and how this budget will be funded.

The above references are stated under the headings: "Operating Costs and Expenses", "Segmented Information", "Investing Activities" 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 March 31,		
	2013	2012	% Change
Revenue	92,667	79,769	16

As a result of superior service delivery and strong customer focus, the demand for the Corporation's services was strong across all regions. PHX Energy generated an all-time record level of consolidated revenue and operating days for any quarter. For the three-month period ended March 31, 2013, PHX Energy generated revenue of $92.7 million as compared to $79.8 million in the corresponding 2012-period; an increase of 16 percent. US and international revenue as a percentage of total consolidated revenue were 43 and 10 percent, respectively, for the 2013-quarter as compared to 34 and 10 percent in 2012. Consolidated operating days grew by 16 percent to 7,746 days in 2013 as compared to 6,681 in the 2012-quarter. Average consolidated day rates for the three-month period ended March 31, 2013, excluding the motor rental division in the US, decreased slightly to $11,716, which is 1 percent lower than the day rates of $11,849 in the first quarter of 2012.

In comparison, horizontal and directional drilling as a percentage of total drilling remained steady in Canada while it increased in the US. In the 2013-quarter, horizontal and directional drilling continued to be a significant percentage of the Canadian market, approximately 90 percent of total industry drilling days (2012 – 90 percent). In the US, horizontal and directional activity levels grew to represent 75 percent of the rigs running per day (2012 – 70 percent). (Sources: Daily Oil Bulletin and Baker Hughes)

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2013	2012	% Change
Direct costs	70,966	61,663	15
Depreciation & amortization (included in direct costs)	5,830	4,834	21
Gross profit as percentage of revenue excluding depreciation & amortization	30%	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 30 percent for the three-month period ended March 31, 2013 as compared to 29 percent in the comparable 2012-period.

Increased margins for the three-month period ended March 31, 2013 were partly the result of robust activity levels experienced across all regions. In addition, greater demand for the Corporation's resistivity while drilling ("RWD") and other premium directional drilling technologies and lower third party equipment rentals made a positive impact on the margins. For the three-month period ended March 31, 2013, third party equipment rentals decreased to 2 percent of consolidated revenue compared to 3 percent in the corresponding 2012-quarter. Adversely affecting margins were slower than expected levels of activity in Colombia.

Depreciation and amortization for the three-month period ended March 31, 2013 increased by 21 percent to $5.8 million as compared to $4.8 million in the 2012-quarter. The increase is the result of the Corporation's record level capital expenditure program in 2012.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2013	2012	% Change
Selling, general & administrative ("SG&A") costs	10,485	8,504	23
Share-based payments (included in SG&A costs)	327	797	(59)
SG&A costs excluding share-based payments as a percentage of revenue	11%	10%	

SG&A costs for the three-month period ended March 31, 2013 increased by 23 percent to $10.5 million as compared to $8.5 million in 2012. Included in SG&A costs are share-based payments of $0.3 million for the 2013-quarter and $0.8 million for the 2012-quarter. Excluding these costs, SG&A costs as a percentage of consolidated revenue for the three-month period ended March 31, 2013 and 2012 were 11 and 10 percent, respectively.

During the first quarter of 2013, SG&A costs, excluding share-based payments, increased in dollar terms, due to higher payroll and marketing related costs incurred. These costs are primarily associated with the strong activity levels achieved in Canada and the US.

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-month period ending March 31, 2013, as the Corporation shifted to rewarding employees with retention awards rather than options. In the first quarter of 2013, the expense included in SG&A costs related to retention awards was $0.5 million (2012 – $0.1 million).

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2013	2012	% Change
Research & development expense	536	553	(3)

Research and development ("R&D") expenditures charged to net earnings during the three-month periods ended March 31, 2013 and 2012 were $0.5 million and $0.6 million, respectively. During the 2013-quarter, there were no capitalized development costs (2012 - $0.1 million).

PHX Energy recently restructured its R&D department to better align with its mandate to continuously enhance the performance of the current fleet and provide leading edge technologies to its clients.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2013	2012	% Change
Finance expense	1,094	556	97

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. For the three-month period ended March 31, 2013, finance charges increased to $1.1 million from $0.6 million in the 2012-quarter. In order to fund PHX Energy's extensive capital expenditure program in 2012 and the construction of the new operations center that is held for sale, additional bank borrowings were made.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2013	2012	% Change
Gains on disposition of drilling equipment	2,341	995	135
Foreign exchange (losses) gains	(302)	351	(186)
Losses from the change in fair value of investment in equity securities	-	(190)	100
Other income	2,039	1,156	76

For the three-month period ended March 31, 2013, PHX Energy realized gains on disposition of drilling equipment of $2.3 million (2012 – $1.0 million). 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. In the 2013-quarter, there were higher occurrences of losses compared to the corresponding 2012-quarter.

Offsetting other income for the three-month period ended March 31, 2013 are foreign exchange losses of $0.3 million (2012 – foreign exchange gains of $0.4 million), which resulted mainly from fluctuations in the US-Canadian exchange rates. In the 2013 quarter, the CAD weakened against the USD thereby causing revaluation losses on Canadian-denominated receivables in the US.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2013	2012	% Change
Share of losses of equity-accounted investees	220	-	n.m.

n.m. - not meaningful

The Corporation's share in the losses of the equity-accounted investees, RigManager International Inc. ("RMII") and RMS, for the three-month period ended March 31, 2013 were $0.1 million for each investee.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2013	2012
Provision for income taxes	3,100	1,730

The provision for income taxes for the first quarter of 2013 was $3.1 million as compared to $1.7 million in the 2012-quarter. The expected combined Canadian federal and provincial tax rate for 2013 is 25 percent. The effective tax rate in the 2013 three-month period of 27 percent is higher than the expected rate mainly due to non-deductible expenses 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 March 31,		
	2013	2012	% Change
Net earnings	8,306	7,918	5
Earnings per share – diluted	0.29	0.28	4
EBITDA	18,329	15,038	22
EBITDA per share – diluted	0.65	0.53	23
EBITDA as a percentage of revenue	20%	19%	

The Corporation's level of net earnings and EBITDA for the three-month period ended March 31, 2013 have both increased due to strong activity levels achieved across all operating segments and overall profitability. EBITDA as a percentage of revenue for the three-month period ended March 31, 2013 was 20 percent (2012 – 19 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 March 31,		
	2013	2012	% Change
Revenue	44,348	44,490	-
Reportable segment profit before tax	9,621	11,011	(13)

Despite challenges in the Canadian market, PHX Energy's operations achieved revenues of $44.3 million for the three-month period ended March 31, 2013, which is the same level of revenue generated in the corresponding 2012-period (2012 - $44.5 million). The level of revenue achieved was the third highest quarterly result in the Corporation's history. During the 2013-quarter, Canadian operations increased market share through new customers gained, greater demand from existing customers, and by the introduction of PHX Energy's RWD technology in Canada. In the first quarter of 2013, operating days increased by 8 percent to 3,963 days (2012 – 3,678 days). In comparison, total industry horizontal and directional drilling activity, as measured by drilling days, was 3 percent lower in the 2013-quarter, 38,432 days, compared to the 2012-quarter's 39,784 days. (Source: Daily Oil Bulletin)

The positive impact of activity levels on revenues was offset by lower average day rates which decreased by 7 percent to $11,190 in the 2013-quarter from $12,096 in the 2012-quarter. The factors that negatively impacted 2013 day rates included day rate pressures from 2012 continuing through the first quarter of 2013 and PHX Energy experiencing a 10 percent increase in drilling days associated with directional wells, which require fewer personnel than horizontal wells.

In the 2013-quarter, PHX Energy's oil well drilling activity (as measured by operating days) continued to increase representing approximately 82 percent of its overall Canadian activity as compared to 78 percent in the 2012-quarter. During the first quarter of 2013, PHX Energy was most active in Montney, Viking, Cardium, Shaunavon, Bakken, and Frobisher areas.

Reportable segment profit before tax for the first quarter of 2013 decreased to $9.6 million from $11.0 million in the 2012-quarter. Decreased profitability realized during the 2013-quarter was due to lower day rates and higher infrastructure costs.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2013	2012	% Change
Revenue	39,383	27,165	45
Reportable segment profit before tax	2,780	31	n.m.

n.m. - not meaningful

Phoenix's USA's operations remained strong and continued to grow in the first quarter of 2013. Segment revenue was $39.4 million, 45 percent higher than the $27.2 million in the 2012-quarter, and the second highest quarterly result in the Corporation's history. Phoenix's USA operating days grew by 30 percent to 3,131 days from 2,403 days in the 2012-quarter. Overall day rates realized, excluding the motor rental division in Midland, Texas, also increased by 8 percent in the 2013-quarter to $11,967 compared to $11,051 in the 2012-quarter. Improved day rates resulted primarily from the greater demand for PHX Energy's value added technologies.

In the three-month period ended March 31, 2013, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, decreased by 5 percent to 1,317 rigs compared to 1,389 rigs in the 2012-period. (Source: Baker Hughes) Despite lower levels of rig utilization, the US continues to be a viable and attractive region for horizontal and directional drilling service companies as oil-focused horizontal drilling continues to dominate the industry. In the first quarter of 2013, oil well drilling, as measured by drilling days, represented approximately 62 percent of Phoenix USA's overall activity compared to 55 percent in the 2012-period.

During the first quarter of 2013, Phoenix USA's growth strategy focused on the Permian, Eagle Ford, Mississippian, and the Bakken basins. Phoenix was also active in the Marcellus, Utica, Niobrara, Barnett, and Woodford plays. In the Gulf Coast region, due to the strength of the operations, marketing, and management team, record activity levels were achieved in the 2013-quarter. In addition, the motor rental and full service operations in the Permian Basin continued to gain momentum.

Reportable segment income before tax for the first quarter of 2013 increased exponentially to $2.8 million from $31,000 in the 2012-quarter. The increase in profitability in the 2013-quarter resulted primarily from strong activity growth and higher day rates.

International

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2013	2012	% Change
Revenue	8,936	8,114	10
Reportable segment profit before tax	1,644	2,025	(19)

For the three-month period ended March 31, 2013, international revenue increased by 10 percent to $8.9 million from $8.1 million in the 2012-period. International operating days increased by 9 percent from 601 days in the 2012-quarter to 653 days in the 2013-quarter. The Corporation generated 10 percent of its consolidated revenue from international operations in the 2013-quarter which is the same level as in the 2012-quarter.

Phoenix Albania continued to be the most active international area for the Corporation; however in the 2013-quarter, operating days decreased by 11 percent compared to the corresponding period in 2012, due to a rig being inactive as it required repair. Despite this, the level of regional revenue was sustained through the continued utilization of the Corporation's RWD technology. PHX Energy's joint venture, RigManager International Inc., continued to run its electronic drilling recorder systems on all active rigs. Since commencing operations in 2008, Phoenix Albania has successfully drilled in excess of 321 wells in the country and the Corporation presently has a 6 job capacity in Albania.

For the three-month period ended March 31, 2013, Phoenix Russia achieved 18 percent growth in operating days compared to the 2012-period. During the quarter, a new customer, who will likely further the utilization of the Corporation's RWD technology was added and a Moscow-based marketing person was hired. Both of which are expected to further the division's growth.

Phoenix Peru realized modest activity in the first quarter of 2013. Peru also gained a new customer during the 2013-period and the Corporation continues to share resources between this region and Colombia. Phoenix Peru currently has a job capacity of 4 full service jobs.

In Colombia, the Corporation continued to suffer lower than expected activity levels in the first quarter of 2013 and as a result, reorganized its management structure. However, current sales initiatives have led to the award of 2 rigs that are expected to start services in the second quarter of 2013 and the Corporation is exploring all options to provide future growth in this region. Phoenix Colombia currently has a 5 job capacity.

For the three-month period ended March 31, 2013, reportable segment profit before tax was $1.6 million, a decrease of 19 percent compared to $2.0 million in the corresponding 2012-period. Lower profitability has resulted primarily from slow activity in Colombia and a general increase in infrastructure costs for all international regions.

Investing Activities

Net cash used in investing activities for the three-month period ended March 31, 2013 was $14.1 million as compared to $22.7 million in 2012. The Corporation made an additional $0.2 million investment in the joint venture company RigManager International Inc. in the form of preferred shares, and added $9.9 million in capital equipment in the first quarter of 2013 as compared to $14.3 million in the 2012-quarter. The capital equipment amounts are net of proceeds from the involuntary disposal of drilling equipment in well bores of $3.6 million and $3.3 million, respectively. The quarterly 2013 expenditures included:

- $4.7 million in down hole performance drilling motors;
- $4.4 million in measurement while drilling ("MWD") systems and spare components;
- $2.4 million in non-magnetic drill collars and jars;
- $1.7 million in other assets, and;
- $0.3 million in machinery and equipment for global service centers.

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 change in non-cash working capital balances of $4.0 million (use of cash) for the three-month period ended March 31, 2013, relates to $2.0 million of net change in the Corporation's trade payables that are associated with the acquisition of capital assets and $2.0 million of progress billings associated with an operations center under construction that is currently being held for sale. This compares to $7.6 million (use of cash) for the three-month period ended March 31, 2012.

During the first quarter of 2013, PHX Energy's job capacity increased by 2 concurrent jobs to 212 through the addition of 2 RWD systems. As at March 31, 2013, the Corporation's MWD fleet consisted of 133 P-360 positive pulse MWD systems, 65 E-360 EM MWD systems, and 14 RWD systems. Of these, 101 MWD systems were deployed in Canada, 81 in the US, 15 in Russia, 6 in Albania, 4 in Peru, and 5 in Colombia.

At March 31, 2013, the Corporation had on order an additional 3 RWD systems, all of which are expected to be delivered by the end of the second quarter and an additional 6 P-360 positive pulse MWD systems to be delivered in the second half of the year. As a result, by the end of 2013 the Corporation expects to have a fleet of 221 MWD systems, which would be comprised of 139 P-360 positive pulse MWD systems, 65 E-360 EM MWD systems and 17 RWD systems.

Financing Activities

The Corporation reported cash flows from financing activities of $2.7 million in the three-month period ended March 31, 2013 as compared to $14.4 million in the 2012 period. In the 2013-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 $1.1 million from exercised options and reinvested dividends to acquire 129,477 common shares of the Corporation; and
- the Corporation received aggregate net proceeds of $6.8 million from its operating facility and US facility to finance its capital expenditure program.

Capital Resources

As at March 31, 2013, the Corporation has access to a $10 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 March 31, 2013, the Corporation had $7.7 million drawn on this facility.

As at March 31, 2013, the Corporation also has access to a $95 million syndicated facility and a US$25 million operating facility in the US. The facilities bear interest at the same rates disclosed above. The syndicated facility will permanently reduce to $80 million on September 30, 2013, which coincides with the expected closing of the sale and leaseback of the new operations center. The remaining $80 million syndicated facility and the US operating facility mature on September 6, 2015. The maturity date can be extended for another year at the option of the lender. As at March 31, 2013, $95 million was drawn on the syndicated facility, and $5.1 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 March 31, 2013, 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 2013 capital budget has been set at $30.4 million subject to quarterly review of the Board of Directors. These planned expenditures are expected to be financed from a combination of one or more of the following, cash flow from operations, the Corporation’s unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2013, 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 first quarter of the year, PHX Energy remained focused on delivering superior services and reported record quarterly consolidated results with each segment generating strong performance.

In Canada, as anticipated, there were numerous challenges throughout the industry and PHX Energy believes that these will persist in 2013. It is expected that drilling activity will be curtailed due to a number of issues, namely commodity price differentials and soft capital markets. Despite this, PHX Energy's Canadian operations achieved market share growth generating strong operational and financial results in the first quarter; however, the length of the spring break-up period in the second quarter could impact PHX Energy's future activity.

In the US, PHX Energy also outperformed the industry. In the quarter, rig counts decreased yet Phoenix USA's growth and achievements continued. The Corporation has focused on building a team of strong leaders and dedicated personnel, and with that in place has leveraged its asset base to expand its presence in areas where growth opportunities exist. There are many promising plays where demand for services and the adoption of horizontal drilling are expected to increase, such as the Permian Basin, the Eagle Ford shale and the Mid-Continent region. PHX Energy will continue to support its operations in these regions with the experienced personnel and equipment required to capture its share of these markets and believes that the ground work has already been laid.

Internationally, the Corporation's growth compared to the first quarter of 2012 was steady and continues to show progress toward achieving market recognition and gains. Albanian operations remained consistent with past activity levels, and like in the US, PHX Energy is focusing on areas where the industry presents growth opportunities, which at this time for PHX Energy is Russia. Personnel have been added to the Phoenix Russia team, which will assist in gaining a greater market share. Although South America at this time does not present the same opportunity, PHX Energy believes it has the strategies in place required to sustain profitable operations in both Colombia and Peru.

PHX Energy believes its culture is one of its greatest strengths as it has attracted and retained the excellent personnel that day in and day out remain focused on the quality of service provided to our customer and are constantly striving to take quality of service to the next level. This factored with the understanding of the key basins in North America and abroad, and having the infrastructure and assets to service these basins, will continue to generate positive results for the Corporation and its Shareholders in the future.

John Hooks
Chairman of the Board, President and Chief Executive Officer
May 1, 2013

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 March 31,	
	2013	2012
Net earnings	8,306	7,918
Add:		
Depreciation and amortization	5,830	4,834
Provision for income taxes	3,100	1,730
Finance expense	1,093	556
EBITDA as reported	18,329	15,038

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 March31,	
	2013	2012
Cash flows from operating activities	13,302	4,076
Add:		
Changes in non-cash working capital	1,979	9,462
Interest paid	1,272	531
Income taxes paid	181	679
Funds from operations	16,734	14,748

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 EM and P-360 positive pulse 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 centers 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, Peru, Russia, and Colombia, and an administrative office in Nicosia, Cyprus

For further information please contact:
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Consolidated Statements of Financial Position

(unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,263,644	$ 4,329,969
Trade and other receivables	72,543,463	67,189,884
Inventories	24,851,791	21,833,051
Prepaid expenses	4,019,848	3,476,559
Assets held for sale	11,449,144	9,436,462
Total current assets	119,127,890	106,265,925
Non-current assets:		
Drilling and other equipment	151,349,161	144,370,109
Goodwill	8,876,351	8,876,351
Equity-accounted investees	4,990,239	5,010,292
Total non-current assets	165,215,751	158,256,752
Total assets	$ 284,343,641	$ 264,522,677
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	$ 7,664,897	$ 5,897,711
Trade and other payables	42,296,869	38,165,118
Dividends payable	1,643,538	1,626,287
Current tax liabilities	1,687,555	97,020
Loans and borrowings	15,000,000	15,000,000
Total current liabilities	68,292,859	60,786,136
Non-current liabilities:		
Loans and borrowings	85,088,500	80,000,000
Deferred tax liabilities	9,810,761	8,641,858
Total non-current liabilities	94,899,261	88,641,858
Equity:		
Share capital	100,536,116	99,101,118
Contributed surplus	7,814,573	7,860,658
Retained earnings	12,967,903	9,764,748
Accumulated other comprehensive income	(167,071)	(1,631,841)
Total equity	121,151,521	115,094,683
Total liabilities and equity	$ 284,343,641	$ 264,522,677

Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended March 31, 2013	2012
Revenue	$ 92,666,815	$ 79,768,829
Direct costs	70,965,559	61,663,456
Gross profit	21,701,256	18,105,373
Expenses:		
Selling, general and administrative expenses	10,484,830	8,504,391
Research and development expenses	535,913	553,103
Finance expense	1,093,627	555,631
Other income	(2,038,836)	(1,155,977)
	10,075,534	8,457,148
Share of loss of equity-accounted investee (net of tax)	220,054	-
Earnings before income taxes	11,405,668	9,648,225
Provision for income taxes		
Current	1,794,991	1,713,615
Deferred	1,304,832	16,345
	3,099,823	1,729,960
Net earnings	8,305,845	7,918,265
Other comprehensive income		
Foreign currency translation	1,464,770	(935,899)
Total comprehensive income for the period	$ 9,770,615	$ 6,982,366
Earnings attributable to:		
Equity holders of the Corporation	$ 8,305,845	$ 7,972,780
Non-controlling interests	-	(54,515)
Net earnings	$ 8,305,845	$ 7,918,265
Comprehensive income attributable to:		
Equity holders of the Corporation	$ 9,770,615	$ 7,014,446
Non-controlling interests	-	(32,080)
Total comprehensive income for the period	$ 9,770,615	$ 6,982,366
Earnings per share – basic	$ 0.29	$ 0.28
Earnings per share – diluted	$ 0.29	$ 0.28

Consolidated Statements of Cash Flows

(unaudited)

		Three-month periods ended March 31,
	2013	2012
Cash flows from operating activities:		
Net earnings	$ 8,305,845	$ 7,918,265
Adjustments for:		
Depreciation and amortization	5,829,609	4,834,224
Provision for income taxes	3,099,823	1,729,960
Unrealized foreign exchange loss	198,453	(282,750)
Gain on disposition of drilling equipment	(2,340,535)	(994,638)
Share-based payments	327,037	797,092
Finance expense	1,093,627	555,631
Share of loss of equity-accounted investee	220,054	-
Change in fair value of investment in equity securities	-	190,095
Change in non-cash working capital	(1,979,158)	(9,462,278)
Cash generated from operating activities	14,754,755	5,285,601
Interest paid	(1,271,814)	(530,542)
Income taxes paid	(180,752)	(679,061)
Net cash from operating activities	13,302,189	4,075,998
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	3,596,968	3,344,445
Acquisition of drilling and other equipment	(13,495,246)	(17,559,785)
Investment in equity-accounted investee	(200,000)	(910,455)
Change in non-cash working capital	(4,000,360)	(7,602,858)
Net cash used in investing activities	(14,098,638)	(22,728,653)
Cash flows from financing activities:		
Proceeds from issuance of share capital	1,061,876	557,544
Dividends paid to shareholders	(5,085,438)	(3,372,476)
Proceeds on loans and borrowings	4,986,500	9,000,000
Proceeds on operating facility	1,767,186	8,185,605
Net cash from financing activities	2,730,124	14,370,673
Net decrease in cash and cash equivalents	1,933,675	(4,281,982)
Cash and cash equivalents, beginning of period	4,329,969	8,376,344
Cash and cash equivalents, end of period	$ 6,263,644	$ 4,094,362