



**PRESS RELEASE**  
**August 2, 2018**  
**TSX - PHX**

## **PHX Energy Announces its Second Quarter Results, Reporting the Highest Second Quarter Adjusted EBITDA in its History**

### **Financial Results**

For the three-month period ended June 30, 2018, the Corporation achieved its highest second quarter adjusted EBITDA (see “Non-GAAP Measures”) in PHX Energy’s history. For the three-month period ended June 30, 2018, the Corporation realized adjusted EBITDA of \$10.0 million and a net loss of \$0.1 million compared to negative adjusted EBITDA of \$14,000 and a net loss of \$10.4 million in the second quarter of 2017. The Corporation generated consolidated revenue of \$69.0 million, an increase of 28 percent over the \$53.8 million generated in the respective 2017-quarter. This is the second highest consolidated revenue achieved for a second quarter in the Corporation’s history, with the second quarter of 2014 being the highest. The noteworthy improvement in revenue and profitability was driven by the US division’s activity, with PHX Energy’s US operating days growing by 47 percent to 3,523 days in the second quarter of 2018 from 2,404 days in the 2017-quarter. Consolidated operating days in the second quarter of 2018 improved by 15 percent to 5,443 days as compared to 4,749 days in the 2017-quarter.

As 2018 has progressed, PHX Energy continued to capitalize on momentum in the US industry, specifically the Permian basin where approximately 64 percent of US division’s wells were drilled in the 2018-quarter, and the Corporation leveraged its high performance technology to gain greater volumes of work. As a result, the US operating segment also realized the largest improvement in revenue, which increased 47 percent from \$35.2 million in the 2017-quarter to \$51.6 million in the 2018-quarter. This growth outpaced the US industry’s activity gains, as measured by average rigs running per day, which increased by 20 percent to 981 rigs in the second quarter of 2018 from 818 rigs in the 2017-quarter (Source: Baker Hughes). The US segment represented 75 percent of the Corporation’s consolidated revenue for the period, with this higher percentage partially resulting from the second quarter being spring break-up period in Canada.

In contrast, the Canadian industry’s activity levels and PHX Energy’s Canadian operations were slower in the second quarter of 2018, partially because of weakness in natural gas prices and the spring break-up period experiencing wetter weather conditions than typical. The Canadian market’s activity contracted quarter-over-quarter with 9,181 horizontal and directional drilling days in the second quarter of the 2018 (2017 – 10,683 days) (Source: Daily Oil Bulletin). As a result, revenue generated by the Canadian segment decreased to \$12.7 million in the 2018-quarter compared to \$13.5 million in the 2017-quarter as activity slowed to 1,390 operating days versus 1,699 in the 2017-quarter.

As at June 30, 2018, PHX Energy exited the quarter with a low level of long-term debt of \$9.0 million and working capital of \$56.5 million.

## Capital Spending

During the second quarter of 2018, the Corporation incurred \$4.7 million in capital expenditures (2017 - \$6.7 million), which were primarily used to expand the fleet of Velocity Real-Time systems ("Velocity") and Atlas High Performance motors.

As at June 30, 2018, the Corporation had \$10.1 million of outstanding capital commitments to purchase drilling and other equipment. These commitments include \$7.6 million for motors primarily relating to Atlas High Performance motors, \$2.0 million for Velocity systems, and \$0.5 million for machinery and equipment. The Corporation expects the equipment to be delivered throughout the remainder of 2018 and fully delivered by the end of the first quarter in 2019.

On May 30, 2018 the Corporation announced an increase to its 2018 capital expenditure program from \$10.5 million to \$18.5 million, and subsequently on July 4, 2018, the Corporation announced a further increase to the 2018 capital expenditure program from \$18.5 million to \$33.5 million. The increases will primarily be dedicated to further expanding the Corporation's performance drilling motor fleet, mainly Atlas High Performance motors for activity in 2019.

## Normal Course Issuer Bid

The Corporation is pleased to announce that the Toronto Stock Exchange ("TSX") has accepted PHX Energy's notice of intention to commence a normal course issuer bid (the "NCIB"). Under the NCIB, PHX Energy may purchase for cancellation, from time to time, as PHX Energy considers advisable, up to a maximum of 2,915,311 common shares of the Corporation ("Common Shares"), which represents 5 percent of the 58,306,220 issued and outstanding Common Shares as at July 31, 2018. Purchases of Common Shares may be made on the open market through the facilities of the TSX and through other alternative Canadian trading platforms at the prevailing market price at the time of such transaction. The actual number of Common Shares that may be purchased for cancellation and the timing of any such purchases will be determined by PHX Energy, subject to a maximum daily purchase limitation of 12,915 Common Shares which equates to 25 percent of PHX Energy's average daily trading volume of 51,660 for the six months ended July 31, 2018. PHX Energy may make one block purchase per calendar week which exceeds the daily repurchase restrictions. Any Common Shares that are purchased by PHX Energy under the NCIB will be cancelled.

The NCIB will commence on August 8, 2018 and will terminate on August 7, 2019 or such earlier time as the NCIB is completed or terminated at the option of PHX Energy. PHX Energy may enter into an automatic securities purchase plan in connection with the NCIB which would permit the Corporation to repurchase its Common Shares during periods of blackout or other periods in which the Corporation would not ordinarily be permitted to repurchase its Common Shares. Such automatic securities purchase plan would be subject to certain parameters set by the Corporation from time to time which would govern the automatic purchase of Common Shares.

PHX Energy believes that within a continued volatile market environment, at times, the prevailing market price does not reflect the underlying value of its Common Shares and the repurchase of its Common Shares for cancellation represents an attractive opportunity to enhance PHX Energy's per share metrics and thereby increase the underlying value to its shareholders. PHX Energy intends to use the NCIB as another tool to enhance total long-term shareholder returns in conjunction with management's disciplined capital allocation strategy. Pursuant to the Corporation's previous NCIB, which expired on June 25, 2018, the Corporation purchased and cancelled an aggregate of 317,000 Common Shares at an average price paid of \$2.09 per Common Shares.

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

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2018	2017	% Change	2018	2017	% Change
<b>Operating Results</b>	<i>(unaudited)</i>	<i>(unaudited)</i>		<i>(unaudited)</i>	<i>(unaudited)</i>	
Revenue	69,009	53,822	28	139,768	114,944	22
Net loss	(84)	(10,412)	n.m.	(4,335)	(17,555)	(75)
Loss per share – diluted	-	(0.18)	n.m.	(0.07)	(0.31)	(77)
Adjusted EBITDA <sup>(1)</sup>	10,013	(14)	n.m.	16,781	3,729	n.m.
Adjusted EBITDA per share – diluted <sup>(1)</sup>	0.17	-	n.m.	0.29	0.07	n.m.
Adjusted EBITDA as a percentage of revenue <sup>(1)</sup>	15%	-		12%	3%	
<b>Cash Flow</b>						
Cash flows from operating activities	8,909	13,671	(35)	9,844	3,774	n.m.
Funds from operations <sup>(1)</sup>	7,158	113	n.m.	12,914	4,096	n.m.
Funds from operations per share – diluted <sup>(1)</sup>	0.12	-	n.m.	0.22	0.07	n.m.
Capital expenditures	4,698	6,698	(30)	7,765	8,497	(9)
<b>Financial Position (unaudited)</b>				<b>Jun 30, '18</b>	<b>Dec 31, '17</b>	
Working capital				56,463	49,787	13
Long-term debt				9,000	14,000	(36)
Shareholders' equity				181,120	181,538	-
Common shares outstanding				58,272,887	58,397,887	-

n.m. – not meaningful

<sup>(1)</sup> Refer to non-GAAP measures section that follows the outlook section

## 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 adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted EBITDA per share, funds from operations, funds from operations per share, debt to covenant EBITDA ratio and working capital. 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 following the Outlook section for applicable definitions and reconciliations.

# 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 timeline for delivery of equipment on order, the projected capital expenditures budget and how this budget will be allocated and funded, and PHX Energy's intentions with respect to the NCIB and purchases thereunder and the effects of repurchases under the NCIB.

The above are stated under the headings: "Capital Spending", "Normal Course Issuer Bid" and "Capital Resources". Furthermore all statements in 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; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; 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](http://www.sedar.com)) or at the Corporation's website.

The forward-looking statements and information contained in this document are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

## Revenue

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Revenue	69,009	53,822	28	139,768	114,944	22

During the three-month period ended June 30, 2018, the Corporation generated consolidated revenue of \$69.0 million, a 28 percent increase from the \$53.8 million recognized in the 2017-quarter. Consolidated operating days in the second quarter of 2018 improved by 15 percent to 5,443 days as compared to 4,749 days in the 2017-quarter. The average consolidated day rate, excluding the motor rental division in the US and the Stream division, was \$12,447 in the 2018-quarter, a 13 percent improvement over the \$11,029 realized in the comparable 2017-quarter. Higher levels of drilling activity in the US, coupled with improved consolidated day rates, drove the increase to consolidated quarterly revenue in 2018. In the 2018-quarter the average day rate increased in the Canadian segment compared to the same period in 2017, while the average day rate in the US segment was flat due to the US dollar weakening by 4 percent relative to the 2017-quarter. US and international revenue were 75 percent and 7 percent of total consolidated revenue, respectively, for the 2018-quarter as compared to 65 percent and 10 percent in 2017.

During the 2018-quarter, the North American rig count increased by 13 percent as compared to the second quarter of 2017, however, this was led by US activity as the Canadian rig counts showed a slight decline quarter-over-quarter. The Permian basin remained the most active basin in North America representing 41 percent of all active rigs in the quarter (2017 – 35 percent). Horizontal wells remained the prominent well type throughout North America representing 95 percent of Canadian industry drilling days (2017 – 96 percent), and 88 percent of the US active rigs running per day (2017 – 84 percent) in the second quarter of 2018 (Sources: Daily Oil Bulletin and Baker Hughes).

Consolidated revenue for the six-month period ended June 30, 2018 increased by 22 percent to \$139.8 million from \$114.9 million in the comparable 2017-period. The Corporation achieved 12,212 consolidated operating days in the six-month period ended June 30, 2018, which is 7 percent higher than the 11,432 days reported in 2017. The average consolidated day rate, excluding the motor rental division in the US and the Stream division, was \$11,192 in the 2018-period, a 15 percent improvement over the \$9,740 realized in the comparable 2017-period. Consistent with 2018-second quarter results, higher revenues for the six-month period ended June 30, 2018 were a result of improved drilling activity in the US in addition to improved day rates despite a weakened US dollar relative to the same period in 2017.

## Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Direct costs	<b>62,389</b>	56,776	10	<b>128,318</b>	117,581	9
Gross profit (loss) as a percentage of revenue	<b>10%</b>	(5%)		<b>8%</b>	(2%)	
Depreciation & amortization (included in direct costs)	<b>9,801</b>	10,514	(7)	<b>20,107</b>	21,445	(6)
Gross profit as percentage of revenue excluding depreciation & amortization	<b>24%</b>	14%		<b>23%</b>	16%	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization of the Corporation's equipment. For the three and six-month periods ended June 30, 2018, direct costs increased to \$62.4 million and \$128.3 million, respectively, from \$56.8 million and \$117.6 million in the comparable 2017-periods. The increase in direct costs in both 2018-periods is due to increased activity levels. For the three and six-month periods ended June 30, 2018, the Corporation's gross profit as a percentage of revenue increased to 10 percent and 8 percent, respectively, from a gross loss of 5 percent and 2 percent respectively in the same periods in 2017. The improvement to gross profit can be attributed to the continued success of strategic cost reduction initiatives implemented in past quarters.

The reduction in the depreciation and amortization expenses for the three and six-month periods ended June 30, 2018 was mainly the result of PHX Energy's lower level of capital spending relative to the years before the industry downturn and more assets being fully depreciated. For the three and six-month periods ended June 30, 2018, excluding depreciation and amortization, gross profit as a percent of revenue increased to 24 percent and 23 percent, respectively, from 14 percent and 16 percent in the same respective 2017-periods.

The improved profitability achieved in the three and six-month periods ended June 30, 2018 was primarily a result of the greater activity level, higher day rates and lower depreciation and amortization.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Selling, general & administrative ("SG&A") costs	9,012	7,776	16	17,782	14,985	19
Equity-settled share-based payments (included in SG&A costs)	399	1,030	(61)	859	1,518	(43)
Cash-settled share-based payments (recoveries) (included in SG&A costs)	1,105	(159)	n.m.	1,151	(27)	n.m.
Onerous contracts lease payment (included in SG&A costs)	(20)	(70)	(71)	(148)	(177)	(16)
SG&A costs excluding equity and cash-settled share-based payments and provision for onerous contracts as a percentage of revenue	11%	13%		11%	12%	

n.m. – not meaningful

For the three and six-month periods ended June 30, 2018, the Corporation incurred SG&A costs of \$9.0 million and \$17.8 million, respectively, compared to \$7.8 million and \$15.0 million in the comparable 2017-periods. The increase to SG&A costs was primarily due to higher personnel-related costs that resulted from increased activity in the US.

Included in SG&A costs for the three and six-month periods ended June 30, 2018 are equity-settled and cash-settled share-based payments of \$1.5 million and \$2.0 million, respectively, compared to \$0.9 million and \$1.5 million in the same 2017-periods. In addition, in the 2017 and 2018 periods, SG&A costs were reduced for actual lease payments made under the Corporation's onerous office lease contracts that were reclassified to reduce the related provision.

For the three and six-month periods ended June 30, 2018, excluding equity-settled and cash-settled share-based payments and the provision for onerous contracts, SG&A costs as a percentage of consolidated revenue were 11 percent in both 2018-periods compared to 13 percent and 12 percent in the comparable 2017-periods.

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 six-month periods ended June 30, 2018, equity-settled share-based payments decreased by 61 percent and 43 percent, respectively, as compared to the corresponding 2017-periods, mainly due to fewer options granted in the 2018-periods compared to the same periods in 2017.

Cash-settled share-based retention awards, which are included in SG&A costs, are measured at fair value. For the three and six-month periods ended June 30, 2018, the related compensation expense recognized by the Corporation was higher as compared to the corresponding 2017-periods primarily due to fluctuations in the Corporation's share price.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Research & development expense	799	764	5	1,670	1,371	22

Research and development ("R&D") expenditures during the three and six-month periods ended June 30, 2018 were \$0.8 million (2017 - \$0.8 million) and \$1.7 million (2017 - \$1.4 million), respectively. The greater R&D expenses for the first half of 2018 are primarily due to increased personnel costs in the R&D department. PHX Energy's R&D efforts are focused on

developing new technology, improving reliability of equipment and decreasing costs in order to enhance and expand PHX Energy's services.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Finance expense	325	428	(24)	665	1,013	(34)

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. For the three and six-month periods ended June 30, 2018, finance charges decreased to \$0.3 million (2017 - \$0.4 million) and \$0.7 million (2017 - \$1.0 million), respectively. The reductions in finance charges in both 2018-periods were mainly due to lower levels of borrowings and lower borrowing rates compared to the prior year periods.

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Net gain on disposition of drilling equipment	(3,073)	(94)	(3,851)	(241)
Foreign exchange losses (gains)	(88)	83	(217)	255
Provision for (Recovery of) bad debts	-	24	(8)	252
Other expense (income)	(3,161)	13	(4,076)	266

During the three and six-month periods ended June 30, 2018, other income is mainly comprised of gains on the disposition of drilling equipment of \$3.1 million (2017 - \$0.1 million) and \$3.9 million (2017 - \$0.2 million), respectively. Gains from the disposition of drilling equipment 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. The recognized gain is net of losses which typically result from any asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. For the three and six-month periods ended June 30, 2018, the increase to the gain on disposition of drilling equipment resulted primarily from a greater number of insured downhole equipment losses as a result of increased activity.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Recovery of income taxes	(271)	(1,521)	(257)	(2,716)
Effective tax rates	76%	13%	6%	13%

The recovery of income taxes for the three and six-month periods ended June 30, 2018 were both \$0.3 million, as compared to \$1.5 million and \$2.7 million in the comparable 2017-periods. The expected combined Canadian federal and provincial tax rate for 2018 is 27 percent. The effective tax rate for the three-month period ended June 30, 2018 was higher than the expected rate largely due to previously unrecognized deferred taxes that were recognized in the 2018-quarter. The effective tax rate for the six-month period ended June 30, 2018 was lower than the expected rate mainly as a result of the effect of tax rates in foreign jurisdictions and non-deductible expenses, such as equity-settled share-based payments.

## 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 Russia and Albania.

### Canada

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Revenue	12,687	13,450	(6)	40,662	42,892	(5)
Reportable segment loss before tax	(4,811)	(5,247)	(8)	(3,300)	(4,479)	(26)

The second quarter is spring break-up period in the Canadian industry and typically, activity levels decline as compared to the other quarters of the year. For the three-month period ended June 30, 2018, PHX Energy's Canadian revenue decreased by 6 percent to \$12.7 million from \$13.5 million in the same 2017-quarter. This lower revenue resulted from a decline in operating days with PHX Energy's Canadian segment reporting 18 percent fewer days in the second quarter of 2018, 1,390 operating days, as compared the 2017-quarter, 1,699 days. However, day rates positively offset volume changes and PHX Energy's average day rate rose by 15 percent to \$8,684 in the 2018-quarter from \$7,535 in the comparable 2017-quarter (excluding Stream revenue of \$0.6 million and \$0.7 million, respectively). For the three-month period ended June 30, 2018, reportable segment loss before tax was \$4.8 million compared to \$5.2 million in the same 2017-quarter.

The decline in the Canadian segment's activity is in line with slower industry activity, which resulted partially from a weakness in natural gas prices and wetter weather conditions across several regions in Canada (Source: Peter's & Co. Limited). The industry's horizontal and directional drilling activity contracted 14 percent as measured by drilling days shrinking from 10,683 days in the 2017-quarter to 9,181 days in the 2018-quarter (Source: Daily Oil Bulletin).

During the second quarter of 2018, oil drilling, as measured by drilling days, represented approximately 58 percent of PHX Energy's Canadian activity and the Corporation remained active in the Montney, Wilrich, Bakken, Shaunavon, Duvernay, Cardium, Provost and Viking areas.

For the six-month period ended June 30, 2018, the Corporation recognized revenue of \$40.7 million, a decrease of 5 percent from \$42.9 million in the corresponding 2017-period. PHX Energy's Canadian segment reported 4,772 operating days, down 16 percent from 5,703 days in the 2017-period. The Canadian industry activity was relatively flat, with 31,643 horizontal and directional drilling days reported in the first half of 2018 as compared to 32,724 horizontal and directional drilling days in 2017 (Sources: Daily Oil Bulletin). In the first half of 2018, PHX Energy saw its average day rate increase by 13 percent to \$8,115 from \$7,166 in the 2017-period (excluding Stream revenue of \$1.9 million and \$2.0 million, respectively). For the six-month period ended June 30, 2018, reportable segment loss before tax was \$3.3 million compared to \$4.5 million in the same 2017-quarter.

## Stream Services

Included in the Canadian segment's revenue for the three and six-month periods ended June 30, 2018 is \$0.6 million (2017-0.7 million) and \$1.9 million (2017 - \$2.0 million), respectively, of revenue generated by the Stream division. Lower revenue for the three-month period is primarily due to lower activity, as Stream's operating days declined by 4 percent in the second quarter to 822 operating days from 854 days in 2017-quarter. For the six-month period, activity increased by 6 percent to 2,741 operating days in the 2018-period (2017 - 2,593 operating days), while the average day rate was 10 percent lower; \$708 in the 2018-period (2017 - \$783). The decrease in the average day rate period-over-period was due to a higher share of lower rate services being provided in the first half of 2018.

For the three and six-month periods ended June 30, 2018, the Stream division incurred reportable losses before tax of \$1.2 million (2017 - \$1.3 million) and \$2.2 million (2017 - \$1.7 million). Stream's division losses for the three and six-month periods ended June 30, 2018 pertains mostly to depreciation expense of \$0.5 million and \$1.1 million, respectively.

## United States

*(Stated in thousands of dollars)*

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Revenue	51,647	35,206	47	89,714	62,021	45
Reportable segment gain (loss) before tax	3,887	(4,011)	n.m.	(281)	(10,180)	(97)

n.m. – not meaningful

The US segment generated its highest second quarter revenue since 2014 when the highest second quarter revenue was achieved. For the three-month period ended June 30, 2018, US revenue totaled \$51.6 million, a 47 percent increase compared to the \$35.2 million generated in the 2017-quarter. Revenue gains in the quarter are mainly attributed to increased activity. US operating days grew by 47 percent to 3,523 days in the 2018-quarter from 2,404 days in the 2017-quarter. In comparison, the US industry rig count increased by 20 percent quarter-over-quarter, growing from an average of 818 active rigs per day in 2017 to an average of 981 active rigs per day (Source: Baker Hughes). PHX Energy's growth outpaced the industry, as Phoenix USA continued to increase its client base as a result of targeted marketing efforts, superior operational performance and the competitive advantages of its high performance technology, mainly Velocity and Atlas High Performance motors. The average day rate, excluding the Corporation's US motor rental division, was \$14,477 in the 2018-quarter which is relatively the same rate as in the prior year's quarter (2017 - \$14,315), as a result of the US dollar weakening by 4 percent versus the 2017-quarter. The US dollar denominated average day rate increased by 5 percent quarter-over-quarter.

Horizontal and directional rigs represented 94 percent of the average number of US rigs running per day (2017 – 91 percent) and the Permian basin continued to be the dominate play in the US industry, representing 45 percent of the average operating rigs per day in the 2018-quarter (Source: Baker Hughes). During the three-month period ended June 30, 2018, PHX Energy was focused on the Permian basin, which represented approximately 64 percent of the wells drilled by the Corporation. As a result of the strengthening oil prices and this focus on the Permian, oil well drilling represented 97 percent of PHX Energy's

US activity. In addition to the Permian basin, Phoenix USA continued to be active in the Eagle Ford, Granite Wash, SCOOP/STACK, Marcellus, Bakken and Niobrara basins.

For the six-month period ended June 30, 2018, US revenue grew by 45 percent to \$89.7 million from \$62.0 million in the comparable 2017-period. In the first half of 2018, the US segment recorded 6,235 operating days, a 42 percent improvement from the 4,393 days in the first half of 2017 and outpacing industry growth rates. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, rose by 26 percent period-over-period averaging 942 rigs in the first half of 2018 as compared to an average of 746 rigs in the comparable 2017-period. The US rig count grew by 13 percent from the beginning of 2018 to the end of the second quarter and the Permian basin rig count grew by 19 percent in the same time period (Source: Baker Hughes). Permian activity represented 60 percent of Phoenix USA's activity in the first half of 2018. The average day rate, excluding the Corporation's US motor rental division, was slightly higher than in the first half of 2017 at \$14,204 in the 2018-period (2017 - \$13,762).

For the three-month ended June 30, 2018, the reportable segment income before tax was \$3.9 million (2017 - \$4.0 million loss), and for the six-month period ended June 30, 2018, the reportable segment loss before tax was \$0.3 million (2017 - \$10.2 million). The improved margins in both 2018-periods are mainly attributable to the rise in activity levels and stabilization of day rates.

## International

*(Stated in thousands of dollars)*

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Revenue	4,675	5,166	(10)	9,392	10,031	(6)
Reportable segment loss before tax	(30)	(110)	(73)	(390)	(716)	(46)

For the three and six-month periods ended June 30, 2018, the Corporation's international revenue decreased to \$4.7 million (2017 - \$5.2 million) and \$9.4 million (2017 - \$10.0 million), respectively. PHX Energy generated 7 percent of its consolidated revenue from its international operations for the three and six-month periods ended June 30, 2018. In the second quarter of 2018, the international segment recorded 531 operating days, a decrease from the 646 operating days in the 2017-quarter. International operating days in the first half of 2018 were 1,206 days, as compared to 1,337 days generated in the 2017-period.

PHX Energy's Russian drilling activity weakened in the second quarter of 2018. Operating days decreased 23 percent from 554 days in the 2017-quarter to 428 days in the 2018-quarter. The division experienced a reduction in quarterly activity for some of its key operators in the region. This was partially offset by an improvement in the number of MWD rental days generated as the division is moving towards the provision of high margin MWD rental services.

PHX Energy's Albanian drilling activity was slightly higher in the second quarter of 2018 generating 103 operating days as compared to 92 operating days in the 2017-quarter. Operations in Albania were idle exiting 2017 and were re-commenced in

the latter half of the first quarter in 2018, where as in 2017 operations were active throughout the first half of 2017. Currently Phoenix Albania is operating on 2 rigs, as a second rig was added to the operation in the latter half of the second quarter.

The international segment incurred reportable segment losses for the three and six-month periods ended June 30, 2018 of \$30,000 (2017 - \$0.1 million) and \$0.4 million (2017 - \$0.7 million), respectively. The improved margins in both 2018-periods were mainly due to PHX Energy's Russian operations establishing new opportunities in the MWD rental market, which generates improved margins over the full service business.

## Investing Activities

For the three-month period ended June 30, 2018, PHX Energy generated \$1.4 million of net cash from investing activities as compared to \$4.4 million of net cash used in investing activities in 2017. During the 2018-quarter, PHX Energy received proceeds of \$5.3 million (2017 - \$1.6 million) related primarily to the involuntary disposal of drilling equipment in well bores.

In the second quarter of 2018, the Corporation spent \$4.7 million on capital expenditures (2017 - \$6.7 million), comprised of:

- \$2.4 million in downhole performance drilling motors,
- \$1.9 million in MWD systems and spare components, and
- \$0.4 million in machining and equipment, vehicles, and other assets.

The capital expenditure program undertaken in the period was financed generally from cash flow from operating activities.

The change in non-cash working capital balance of \$0.8 million (source of cash) for the three-month period ended June 30, 2018, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a \$0.8 million source of cash for the three-month period ended June 30, 2017.

## Financing Activities

The Corporation reported cash flows used in financing activities of \$6.5 million in the three-month period ended June 30, 2018 as compared to \$7.8 million in the 2017-period. The Corporation made aggregate net repayments of \$6.5 million on its operating and syndicated facilities during the second quarter of 2018.

## Capital Resources

As of June 30, 2018, the Corporation had \$9.0 million drawn on its syndicated facility, \$6.2 million drawn on its operating facility, and nil drawn on its US operating facility. As at June 30, 2018, the Corporation had approximately CAD \$47.8 million and USD \$5.0 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at June 30, 2018, the Corporation was in compliance with all its financial 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. On May 30, 2018, the Corporation announced an increase to its 2018 capital expenditure program from \$10.5 million to \$18.5 million. Subsequently on July 4, 2018, the Corporation announced an additional increase to the 2018 capital expenditure program from \$18.5 million to \$33.5 million. The increase to the 2018 program is expected to be principally directed to the expansion of Atlas High Performance motors for 2019 activity. 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 2018, 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

PHX Energy achieved its highest level of adjusted EBITDA for any second quarter in its history. Revenue and operating days increased quarter-over-quarter and this growth was strongly led by PHX Energy's US operations.

The US industry's momentum continued as rig counts have steadily climbed since the second half of 2016 and in the second quarter of 2018, the market has gained 20 percent more rigs quarter-over-quarter. In this positive industry environment, the US segment generated the second highest level of second quarter revenue in its history, with the highest being the second quarter of 2014. The strong second quarter results were achieved with a US market share of approximately 4 percent, which illustrates the impact that future market share gains could have on this segment's results. The majority of the Corporation's high performance fleet of Velocity Real-Time MWD systems and Atlas High Performance motors have been deployed to the US, mainly to the Permian basin where the Corporation is further establishing a strong reputation. However, as US activity has increased it has placed constraints on the Corporation's fleet of equipment, inventory of repair components and manufacturing of new equipment. PHX Energy has increased its 2018 capital expenditure program and is diligently working with suppliers to alleviate these challenges. Growth in the remainder of 2018 may be tempered by the fleet's capacity as new orders of equipment are expected to arrive late in the fourth quarter and early 2019. Additionally, Phoenix USA's rate of growth may also be impacted by slower industry growth as Peters & Co Limited forecasts that US drilling activity will only modestly increase through the remainder of the year. The Permian basin may experience a slight decrease in rig counts until the second half of 2019, due to the take away constraints and the impact of wider oil and gas price differentials in this region. The Corporation continues to see the US as the biggest potential for future growth and anticipates current activity levels will be maintained in the second half of 2018.

In Canada, the macro-environment challenges continue to create hurdles for the entire industry. With rig counts slightly declining quarter-over-quarter, PHX Energy also saw a reduction in activity levels and revenue. However, the decline in the Canadian segment's activity was also partially the result of the Corporation's diligent focus on profitability and cost reduction initiatives, and as a result, margins improved quarter-over-quarter. The Corporation remains focused on leveraging its strong marketing team and excellent operational performance to maintain its healthy market share in Canada. As the industry recovers from spring break-up, activity levels are increasing to levels consistent with the third and fourth quarters of 2017.

Activity levels in PHX Energy's international operations were slightly weaker than anticipated, however, the Corporation expects activity levels to improve in the second half of the year. In Russia, the Corporation is shifting its focus toward the MWD rental side of the business, which offers higher margins. Phoenix Albania added a second rig in the second quarter, and the Corporation anticipates both rigs in Albania will be active for the remainder on the year.

## Technology Update

Recently, the Corporation announced increases to its capital expenditure program, which will primarily allow PHX Energy to expand its fleet of Atlas High Performance motors. This additional capacity will help grow both the full service division as well as the new rental division.

PHX Energy now has a fleet of premium technology that offers significant competitive advantages. These technologies, Atlas High Performance motors and Velocity Real-Time MWD system, are in high demand and create the opportunity to enter into a new segment of the market. Many operators rent technology from one supplier while contracting directional services to a different provider. The Corporation's high performance fleet is well-suited to this rental market. The advantages of the rental market include a greater opportunity to provide services to a larger segment of active rigs as the equipment can be rented for a specific section of each well whereas directional services are contracted for the entire well. Currently, PHX Energy is strategically pursuing this new opportunity, offering Atlas High Performance motors for rent in the Permian basin. As additional Atlas High Performance motor capacity comes online and new configurations are developed, PHX Energy will dedicate a portion of these assets toward expanding its rental business. Additionally, the Corporation is developing other new technologies, which it believes will further diversify the rental product line.

PHX Energy is optimistic about the opportunities for future growth that will materialize in the fourth quarter and first half of 2019. Equipment now on order is anticipated to be deployed in the US and will aid in further establishing the rental business. New technologies in development will add to PHX Energy's high performance fleet, which is disrupting the traditional market and setting new operational benchmarks. For the remainder of 2018, PHX Energy will continue to leverage internal efficiencies to maximize fleet utilization and its strong operations and marketing teams to maintain current activity levels and market share.

Michael Buker, President  
August 2, 2018

# Non-GAAP Measures

## 1) Adjusted EBITDA

Adjusted EBITDA, defined as earnings before finance expense, income taxes, depreciation and amortization, impairment losses on goodwill and intangible assets, equity-settled share-based payments, and unrealized foreign exchange gains or losses, is not a financial measure that is recognized under GAAP. However, Management believes that adjusted EBITDA provides supplemental information to net earnings that is useful in evaluating the results of the Corporation's principal business activities before considering certain charges, how it was financed and how it was taxed in various countries. Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA may differ from that of other organizations and, accordingly, its adjusted EBITDA may not be comparable to that of other companies.

The following is a reconciliation of net earnings to adjusted EBITDA:

*(Stated in thousands of dollars)*

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Net loss	(84)	(10,412)	(4,335)	(17,555)
Add (deduct):				
Depreciation and amortization	9,801	10,514	20,107	21,445
Provision for (Recovery of) income taxes	(271)	(1,521)	(257)	(2,716)
Finance expense	325	428	665	1,013
Equity-settled share-based payments	399	1,030	859	1,518
Unrealized foreign exchange (gain) loss	(157)	(53)	(258)	24
Adjusted EBITDA as reported	10,013	(14)	16,781	3,729

Adjusted 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 adjusted 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, interest paid, and income taxes paid. 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 June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Cash flows from operating activities	8,909	13,671	9,844	3,774
Add (deduct):				
Changes in non-cash working capital	(1,962)	(13,969)	3,126	(502)
Interest paid	120	192	348	495
Income taxes paid (received)	91	219	(404)	329
Funds from (used in) operations	7,158	113	12,914	4,096

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) Debt to Covenant EBITDA Ratio

Debt is represented by loans and borrowings. Covenant EBITDA, for purposes of the calculation of this covenant ratio, is represented by net earnings for a rolling four quarter period, adjusted for finance expense, provision for income taxes, depreciation and amortization, equity-settled share-based payments, impairment losses on goodwill and intangible assets, and onerous contracts, subject to the restrictions provided in the amended credit agreement.

## 4) Working Capital

Working capital is defined as the Corporation's current assets less its current liabilities and is used to assess the Corporation's short-term liquidity.

## About PHX Energy Services Corp.

The Corporation provides horizontal and directional drilling technology and services and electronic drilling recorder (“EDR”) technology and services to oil and natural gas producing companies in Canada, United States, Russia and Albania.

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’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; Denver, Colorado; Casper, Wyoming; Midland, Texas; Bellaire, Ohio; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Fier Albania; Moscow, Russia; and Nizhnevartovsk, Russia, and administrative offices in Nicosia, Cyprus; Dublin, Ireland; and Luxembourg City, Luxembourg.

PHX Energy markets its EDR technology and services in Canada through its division, Stream Services (“Stream”). In the US, EDR technology and services are marketed under the US entity, Stream EDR Services. EDR technology is marketed worldwide, in Albania and Russia, through Stream’s wholly-owned subsidiary Stream Services International Inc.

The common shares of PHX Energy trade on the Toronto Stock Exchange under the symbol PHX.

For further information please contact:

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# Consolidated Statements of Financial Position

(unaudited)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,354,932	\$ 4,122,539
Trade and other receivables	72,999,076	66,635,311
Inventories	22,779,505	22,009,483
Prepaid expenses	3,178,682	2,915,878
Current tax assets	-	1,353,622
<b>Total current assets</b>	<b>107,312,195</b>	<b>97,036,833</b>
Non-current assets:		
Drilling and other equipment	85,749,067	98,569,594
Goodwill	8,876,351	8,876,351
Intangible assets	25,312,106	26,925,046
Deferred tax assets	17,020,156	14,828,714
<b>Total non-current assets</b>	<b>136,957,680</b>	<b>149,199,705</b>
<b>Total assets</b>	<b>\$ 244,269,875</b>	<b>\$ 246,236,538</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Operating facility	\$ 6,248,629	\$ 5,620,464
Trade and other payables	43,419,137	41,629,783
Current tax liabilities	1,181,488	-
<b>Total current liabilities</b>	<b>50,849,254</b>	<b>47,250,247</b>
Non-current liabilities:		
Loans and borrowings	9,000,000	14,000,000
Provision for onerous contracts	1,934,000	2,015,000
Deferred income	1,366,673	1,433,339
<b>Total non-current liabilities</b>	<b>12,300,673</b>	<b>17,448,339</b>
Equity:		
Share capital	266,600,536	266,838,036
Contributed surplus	10,174,722	9,315,926
Retained earnings	(110,773,069)	(106,438,399)
Accumulated other comprehensive income	15,117,759	11,822,389
<b>Total equity</b>	<b>181,119,948</b>	<b>181,537,952</b>
<b>Total liabilities and equity</b>	<b>\$ 244,269,875</b>	<b>\$ 246,236,538</b>

# Consolidated Statements of Comprehensive Income/Loss

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 69,009,023	\$ 53,821,745	\$ 139,767,577	\$ 114,944,160
Direct costs	62,388,547	56,775,555	128,318,004	117,580,737
Gross profit (loss)	6,620,476	(2,953,810)	11,449,573	(2,636,577)
Expenses:				
Selling, general and administrative expenses	9,011,684	7,775,546	17,782,409	14,985,205
Research and development expenses	799,281	763,604	1,669,611	1,371,063
Finance expense	325,244	427,606	664,971	1,012,770
Other expenses (income)	(3,161,398)	12,392	(4,076,017)	265,590
	6,974,811	8,979,148	16,040,974	17,634,628
Loss before income taxes	(354,335)	(11,932,958)	(4,591,401)	(20,271,205)
Provision for (Recovery of) income taxes				
Current	2,071,290	247,402	1,926,457	298,402
Deferred	(2,341,955)	(1,768,112)	(2,183,188)	(3,014,199)
	(270,665)	(1,520,710)	(256,731)	(2,715,797)
Net loss	(83,670)	(10,412,248)	(4,334,670)	(17,555,408)
Other comprehensive income (loss)				
Foreign currency translation	649,403	(2,943,533)	3,295,370	(2,332,330)
Total comprehensive income (loss) for the period	\$ 565,733	\$ (13,355,781)	\$ (1,039,300)	\$ (19,887,738)
Loss per share – basic	\$ -	\$ (0.18)	\$ (0.07)	\$ (0.31)
Loss per share – diluted	\$ -	\$ (0.18)	\$ (0.07)	\$ (0.31)

# Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Cash flows from operating activities:				
Net loss	\$ (83,670)	\$ (10,412,248)	\$ (4,334,670)	\$ (17,555,408)
Adjustments for:				
Depreciation and amortization	9,801,024	10,514,381	20,107,270	21,445,399
Recovery of income taxes	(270,665)	(1,520,710)	(256,731)	(2,715,797)
Unrealized foreign exchange loss (gain)	(157,362)	(52,387)	(258,431)	24,433
Gain on disposition of drilling equipment	(3,072,595)	(93,904)	(3,851,254)	(241,166)
Equity-settled share-based payments	398,594	1,029,733	858,796	1,517,869
Finance expense	325,244	427,606	664,971	1,012,770
Provision for (Recovery of) bad debts	-	24,117	(7,888)	251,900
Provision for inventory obsolescence	271,846	300,000	207,108	600,000
Provision for onerous contracts	(20,000)	(70,000)	(148,000)	(177,000)
Amortization of deferred income	(33,333)	(33,333)	(66,666)	(66,666)
Interest paid	(120,348)	(191,838)	(347,891)	(495,316)
Income taxes received (paid)	(91,368)	(219,351)	404,123	(329,086)
Change in non-cash working capital	1,961,562	13,968,531	(3,126,281)	502,372
<b>Net cash from operating activities</b>	<b>8,908,929</b>	<b>13,670,597</b>	<b>9,844,456</b>	<b>3,774,304</b>
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	5,261,241	1,628,185	7,968,105	3,031,047
Acquisition of drilling and other equipment	(4,698,055)	(6,697,969)	(7,764,625)	(8,496,587)
Acquisition of intangible assets	(2,902)	(108,019)	(6,598)	(631,277)
Change in non-cash working capital	807,860	825,849	(1,199,610)	(673,453)
<b>Net cash from (used in) investing activities</b>	<b>1,368,144</b>	<b>(4,351,954)</b>	<b>(1,002,728)</b>	<b>(6,770,270)</b>
Cash flows from financing activities:				
Repayment of loans and borrowings	(3,000,000)	(6,994,850)	(5,000,000)	(24,014,050)
Proceeds from (Repayment of) operating facility	(3,453,314)	(849,420)	628,165	(4,873,646)
Repurchase of shares under the NCIB	-	-	(237,500)	-
Proceeds from issuance of share capital	-	-	-	29,154,582
<b>Net cash from (used in) financing activities</b>	<b>(6,453,314)</b>	<b>(7,844,270)</b>	<b>(4,609,335)</b>	<b>266,886</b>
Net increase (decrease) in cash and cash equivalents	3,823,759	1,474,373	4,232,393	(2,729,080)
Cash and cash equivalents, beginning of period	4,531,173	2,803,840	4,122,539	7,007,293
<b>Cash and cash equivalents, end of period</b>	<b>\$ 8,354,932</b>	<b>\$ 4,278,213</b>	<b>\$ 8,354,932</b>	<b>\$ 4,278,213</b>